K-12 SCHOOL FINANCE

SHARING
STATE AND LOCAL
RESOURCES
K-12 Dollars Pay For

• Teaching 565,000 Students
• Employing 40,000 Teachers & Aids
• Employing 22,000 Support Staff
• Operating 1,300 School Sites
• Operating 197 School Districts
Three Levels of Equity

• Between all school districts and all ESDs
• Between 197 school districts
• Between 20 ESDs
SCHOOL AND ESD SHARES
Total $ Available

State School Fund

- Off-the-top Special Uses

= State School Fund Balance Available

+ School and ESD Local Revenue

= School and ESD Allocation Funds
K-12 SCHOOL AND ESD SHARES
Starting in 2006-07

School and ESD Allocation Funds

x 95.25%  x 4.75%

K-12 School Share

-  

School Local Rev.

=  

School SSF Share

ESD Share

-  

ESD Local Rev.

=  

ESD SSF Share
K-12 & ESD Revenue
2007-09 Biennium

State School Fund 68%

State and Local =$8.8 billion

Property Tax 30%

Other Local 2%

State and Local =$8.8 billion
K-12 SCHOOL EQUALIZATION FORMULA

State School Fund
What Funding Formula is Not About:

• General cost reimbursement
• Revenue entitlement per student
• Funding adequacy or stability
• Student outcomes or achievement
• District or school
  – Quantity of inputs
  – Program quality
  – Accountability
What Funding Formula is About:

• Defining school district “equity”
• Measuring the ‘relative need’ of districts for funding given certain student and district characteristics
• Reflecting the finance issues and court decisions in the 1980s
• Refining “equity” by legislative policy choices over time
Distribution Principles

- Share school funding sources statewide
  Method: Allocate all state and local operating revenue

- Let each district decide how to spend its allocation
  Method: Give state aid in lump sum, not categorical grants

- Adjust funding only for uncontrollable cost differences
  Method: Justify revenue differences in a rational manner

- Avoid incentives to increase district allocation
  Method: Minimize classifications and set limits
Equalization Formula

\[
\text{STATE REVENUE} + \text{LOCAL REVENUE} = \text{General Purpose Grant} + \text{Transportation Grant} + \text{High Cost Disability Grant} + \text{Facility Grant}
\]
STATE SCHOOL FUND
2007-09 Biennium

Lottery
11%

General Fund
89%

$5.98 billion
State School Fund
2007-09

Appropriation used for:

- Small High Schools ($5 million)
- State Special Education ($18.6 million)
- Virtual School ($1.8 million)
- Business Practices Audit ($0.8 million)
- YCEP/JCEP ($5.2 million)
- PE Grants ($0.9 million)
- Virtual School District ($1.8 million)
- Talented and Gifted ($0.35 million)
Local Formula Revenue

• Operating property taxes collected
• Common School Fund
• County School Fund
• Federal forest related revenue
• State managed county trust forests
• ESD excess local revenue
• Revenue *in lieu* of property taxes
Local Formula Revenue
2007-09 Biennium

- Property Tax 91.7%
- Federal Forest 2.4%
- Common School Fund 3.6%
- Other 2.3%

$2.7 billion
Equalization Formula

\[ \text{STATE REVENUE} + \text{LOCAL REVENUE} = \text{GENERIC PURPOSE GRANT} + \text{TRANSPORTATION GRANT} + \text{HIGH COST DISABILITY GRANT} + \text{FACILITY GRANT} \]
Equalization Formula
Cost Factors

• Student Cost Weights
• Teacher Experience Adjustment
• Transportation Costs
• High Cost Disability Students (03-04)
• New Facility Costs (99-00)
Facility Grant

Equals

Up to 8% of Construction Costs

- Prorated if biennial total exceeds $25 mil.
- Cannot be used for construction
- Paid in school year facility first used
Facility Costs

• Limited to cost of additional classrooms from
  –new construction
  –additions and
  –portables
• Construction costs exclude land cost
High Cost Disability Grant

Equals
Up to Sum of Eligible Costs above $30,000 per Disability Student

- Grant limited to $18 million per year
- Costs prorated if total above $18 million
- Passed in 2003 for two years at $25,000; made permanent in 2005 at $30,000
- Costs include ESD costs for student
Transportation Grant

Equals

70% to 90% of Approved Transportation Costs
Transportation Percent

Districts ranked by cost per student from high to low

<table>
<thead>
<tr>
<th>District Rank</th>
<th>% of Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 10%</td>
<td>90%</td>
</tr>
<tr>
<td>Next 10%</td>
<td>80%</td>
</tr>
<tr>
<td>Bottom 80%</td>
<td>70%</td>
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</tbody>
</table>
Transportation Costs

Approved costs:

- Elementary students more than 1 mile away
- Secondary students more than 1.5 miles away
- Between school sites
- Preschool handicapped students
- Students on field trips
- Room and board *in lieu* of transportation
General Purpose Grant

Equals

Weighted Students

X

$4,500 Adjusted by Teacher Experience and Balanced to Available Funds
Formula Student Counts

- ADM - Average daily membership with kindergarten at half-weight
- ADMw - ADM adjusted by student cost weights
- Extended ADMw - Higher of current or prior year ADMw
# Student Cost Weights

Special Education and at Risk

<table>
<thead>
<tr>
<th>Description</th>
<th>Total Weight</th>
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</thead>
<tbody>
<tr>
<td>Individual Education Program (IEP)</td>
<td>2.00</td>
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<tr>
<td>Students in poverty</td>
<td>1.25</td>
</tr>
<tr>
<td>English as Second Language (ESL)</td>
<td>1.50</td>
</tr>
<tr>
<td>Pregnant and parenting</td>
<td>2.00</td>
</tr>
<tr>
<td>Neglected and Delinquent</td>
<td>1.25</td>
</tr>
<tr>
<td>Students in Foster Homes</td>
<td>1.25</td>
</tr>
</tbody>
</table>
IEP 1 Extra Weight

• IEP students are 13.3% of ADM
• Limited to 11% of ADM without waiver
• 33 districts below 11%; 156 above 11%
• Waivers for about 4,600 IEP students
• About 89% of IEP students have a weight
• In 2004-05 about half of the districts report IEP costs less than IEP revenue (including federal and ESD $)

Note: Preliminary data for 2007-08
ESL Extra $\frac{1}{2}$ Weight

- 128 districts report ESL students
- ESL students are about 10% of ADM
- Report using 2003-04 data:
  - Only 12 districts reported costs more than weight revenue
  - Costs averaged about $1,500 per ESL student
  - Extra weight revenue was about $2,600 per ESL student (excludes federal funds)
Special Education And At Risk Students

- Special Education
- English 2nd Language
- Poverty
- Pregnant/Parenting
- Neglected/Delinquent

Counts:
- Special Education: 0, 30,000, 60,000
- English 2nd Language: 90,000
- Poverty: 90,000
- Pregnant/Parenting: Neglected/Delinquent: 0
Revenue By Student Weight
General Purpose Grant

- Regular Weight
- Special Education (IEP)
- English 2nd Language
- Poverty
- Pregnant/Parenting
- Neglected/Delinquent

$12,000
$6,000
$0

1 Weight
# Student Cost Weights

<table>
<thead>
<tr>
<th>Grades and School</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Kindergarten</td>
<td>.50</td>
</tr>
<tr>
<td>Elementary district students</td>
<td>.90</td>
</tr>
<tr>
<td>Union High district students</td>
<td>1.20</td>
</tr>
<tr>
<td>Remote small elementary schools</td>
<td>Varies</td>
</tr>
<tr>
<td>Small high schools</td>
<td>Varies</td>
</tr>
</tbody>
</table>
Small High School Qualification

- School in a district under 8,500 ADMw
- Location unchanged since 1995
- Existed as small high school in 1999
- ADM less than 350 for 4 grades
- ADM less than 267 for 3 grades
Small Elementary School Qualification

- Existed as remote small school in 1995
- Location unchanged since 1995
- ADM below 224 for 8 grades (limit varies with number of grades)
- More than 8 miles to nearest elementary (exception for physiographic conditions)
Student Counts
ADMr and ADMw Extended

Year: 92-93, 94-95, 96-97, 98-99, 00-01, 02-03, '04-05, '06-07

ADMr
ADMw Extended
Teacher Experience Adjustment

$25 \times \left( \text{District Average Experience} \ - \ \text{State Average Experience} \right)

EXAMPLES:

$25 \times (14.7 - 12.7) = + $50 per student

$25 \times (11.7 - 12.7) = - $25 per student
General Purpose Grant

Equals

$4,500 Target + Teacher Experience Adjustment \times \text{Balance Ratio}$

ADMw Extended
Equalization Formula

\[
\text{STATE REVENUE} + \text{LOCAL REVENUE} = \text{EQUALS}
\]

- **Student ADMw Extended**
- \( \times \) \$4,500 adjusted by teacher experience and balanced to total funds
- \( + \) 70%-90% of Transportation Costs
- \( + \) Up to sum of Costs above $30,000 per Disability Student
- \( + \) Up to 8% of Construction Costs
K-12 School Formula Revenue
2007-08

Total $4.1 billion

- General Purpose: 95.4%
- Transportation: 3.9%
- High Cost Disability: 0.4%
- Facility Grant: 0.3%

Total $4.1 billion
State School Fund
Payment Schedule

0% 5% 10% 15% 20%

K-12 FUNDING HISTORY
State School Fund and Local Revenue
Equalization Formula

STATE REVENUE + LOCAL REVENUE

EQUALS

General Purpose Grant + Transportation Grant + High Cost Disability Grant + Facility Grant
K-12 Formula Revenue

Billions

$0 $1 $2 $3 $4

90-91 92-93 94-95 96-97 98-99 00-01 02-03 04-05 06-07

Local State School Fund State Other
K-12 Equalization Results

Districts with More Than 500 ADM

- 1991-92 Revenue per ADM
- 2006-07 Revenue per ADM

Districts Ordered by 1991-92 Revenue per ADM
EDUCATION SERVICE DISTRICTS

(ESDs)
ESD Mergers

• Before 1993 merger legislation
  29 county-wide ESD districts
  6 counties without an ESD because of county-wide school district

• After 1995 merger legislation
  21 ESDs statewide

• Currently 20 ESDs
ESD Resolution Services

• At least 90% of State School Fund and tax dollars subject to resolution services

• Resolution services require component district approval

• Approval requires yes vote by 2/3rds of school districts with at least 50% of ADM in the ESD
ESD Equalization
General Logic

• ESDs provide services to school districts
• ESD costs are related to school district costs
• The school equalization formula weights students for cost differences
• ESD revenue should be proportional to the formula revenue of its school districts
Distribution Method
General Format

State Revenue + Local Revenue

EQUALS

Percent Of Component School District Formula Revenue
ESD Allocation
(Starting in 2006-07)

Base Revenue = 4.987% \times \text{Sum of Component School District Formula Revenue}
ESD Allocation
(Starting in 2006-07)

State Revenue + Local Revenue

Equals

Higher of:
(1) % to Balance X Base Revenue
(2) $1,000,000
ESD “Equity”

• “Equity” is a percent of component school district revenue
• Equity changes when the formula changes
• Definition is a policy choice
• Definition will likely change
LOCAL OPTION PROPERTY TAX

1999 HB2753
Exclusion From Formula Local Revenue

Excludes the lesser of:

• Property tax gap between M5 and M50
• 20% of formula revenue
• $1,000 per student \times \text{students}

Note: Students are weighted.
Exclusion Per Weighted Student Example

Gap $750
20% $1,000
$1,000

$1,000
$1,250
$1,500
## School Local Option Elections

<table>
<thead>
<tr>
<th>Year</th>
<th>Pass</th>
<th>Fail</th>
<th>Total</th>
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<tbody>
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<td>1999</td>
<td>1</td>
<td>0</td>
<td>1</td>
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<tr>
<td>2000</td>
<td>13</td>
<td>20</td>
<td>33</td>
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<td>2001</td>
<td>1</td>
<td>4</td>
<td>5</td>
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<td>2002</td>
<td>2</td>
<td>9</td>
<td>11</td>
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<td>2003</td>
<td>4</td>
<td>6</td>
<td>10</td>
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<td>2004</td>
<td>7</td>
<td>9</td>
<td>16</td>
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<td>2005</td>
<td>3</td>
<td>1</td>
<td>4</td>
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<td>2006</td>
<td>3</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>2007</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2008</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
</tbody>
</table>

| Percent | 41% | 59% | 100% |

The table above shows the results of School Local Option Elections from 1999 to 2008. The data includes the number of elections that passed, failed, and the total number of elections for each year. The last row represents the percentage of elections that passed, failed, and the total percentage.
Local Option Equalization

- Target is assessed value per student at 75th percentile
- Districts below target eligible for grant
- Grant first paid in biennium following voter approval
- Proportional reduction if insufficient funds
- Grant = ADM X Tax Rate X (Target - District AV per ADM)
Construction Tax

• May be imposed by school district resolution
• Use restricted to capital improvements
• Up to $1 per residential square foot
• Up to $0.50 per non-residential sq. ft. but not to exceed $25,000 per permit or structure
• Tax rates are indexed
• Exemptions for schools, hospitals, religious facilities, ag buildings, etc.
School Improvement Fund

- 95.25% to school districts; 4.75% to ESDs
- Distributed proportional to ADMw
- Limited to activities that increase student achievement
- Requires application and reporting
- Mandates ODE biennial report to legislature about results
- 2001-02 $108 million; 2007-08 $127 million
EDUCATION STABILITY FUND

2002

(Formerly Education Endowment Fund)
Education Stability Fund

• Constitutional
  Voters approve HJR 80 in Sept. 2002
• Revenue Source
  Funded by 18% of net lottery earnings
• Size
  Limited to 5% of the General Fund
• Use for public education
  Pre-k to college, continuing education and work force training
Education Stability Fund

• If under 5% cap, 10% of deposits to Oregon Growth Account

• If over 5% cap, 15% of lottery income to School Capital Matching Subaccount

• Core Investment
  Oregon Investment Council

• Earnings
  —75% for lottery bond debt service
  —25% for scholarships
Withdrawal Of Principal Trigger Combinations

3/5 yes vote by both chambers

AND (1) Governor declares emergency

OR (2) Drop in non-farm employment for two consecutive quarters

OR (3) Current GF revenue forecast 2% or more below adopted budget forecast

OR (4) Next biennium GF revenue forecast 3% or more below current GF budget appropriations
## Education Stability Fund

$ millions

<table>
<thead>
<tr>
<th>Biennium</th>
<th>Deposits</th>
<th>Earnings</th>
<th>Withdrawal</th>
<th>Ending Balance</th>
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</thead>
<tbody>
<tr>
<td>2002-03</td>
<td>$99.6</td>
<td>$8.1</td>
<td>$257.4</td>
<td>$2.7</td>
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<tr>
<td>2003-05</td>
<td>126.5</td>
<td>2.1</td>
<td>126.5</td>
<td>2.7</td>
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<tr>
<td>2005-07</td>
<td>176.2</td>
<td>8.5</td>
<td>0</td>
<td>178.9</td>
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<tr>
<td>2007-09</td>
<td>214.5</td>
<td>17.9</td>
<td>0</td>
<td>393.4</td>
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<tr>
<td>2009-11</td>
<td>157.1</td>
<td>35.9</td>
<td>0</td>
<td>550.5</td>
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Note: Excludes Oregon Growth Account. Earnings distributed to Oregon Education Fund (75%) and State Scholarship Commission (25%).
2009-11 BIENNium

Governor’s Budget
(if no Education Stability Fund $)
## State School Support
### 2009-11 Governor’s Budget

<table>
<thead>
<tr>
<th>Fund</th>
<th>2007-09 Legislation</th>
<th>2009-11 Governor</th>
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<tbody>
<tr>
<td>State School Fund</td>
<td>$5,984.7</td>
<td>$6,390.9</td>
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<tr>
<td>School Improvement Fund</td>
<td>260.0</td>
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<tr>
<td>State School Support</td>
<td>6,244.7</td>
<td>6,390.9</td>
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## State School Fund

### 2009-11 Governor's Budget

<table>
<thead>
<tr>
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<th>2009-10</th>
<th>2010-11</th>
<th>2009-11 Biennium</th>
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<tbody>
<tr>
<td>Categorical Grants</td>
<td>$ 19.6</td>
<td>$ 15.1</td>
<td>$ 34.7</td>
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<tr>
<td>K-12 Schools and ESDs</td>
<td>3,183.6</td>
<td>3,172.6</td>
<td>6,356.2</td>
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<tr>
<td>State School Fund</td>
<td>3,203.2</td>
<td>3,187.7</td>
<td>6,390.9</td>
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$ Millions
### K-12 School and ESD Equalization Revenue
#### 2009-11 Governor’s Budget

<table>
<thead>
<tr>
<th></th>
<th>2009-10</th>
<th>2010-11</th>
<th>2009-11 Biennium</th>
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</thead>
<tbody>
<tr>
<td><strong>State School Fund</strong></td>
<td>$3,183.6</td>
<td>$3,172.6</td>
<td>$6,356.2</td>
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<tr>
<td><strong>Local Revenue Estimate</strong></td>
<td>1,470.0</td>
<td>1,530.7</td>
<td>3,000.7</td>
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<tr>
<td><strong>K-12 and ESD Equalization Revenue</strong></td>
<td>4,653.6</td>
<td>4,703.3</td>
<td>9,356.9</td>
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*$\text{ Millions}$
### K-12 School Equalization Formula

#### 2009-11 Governor's Budget

<table>
<thead>
<tr>
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<th>2009-10</th>
<th>2010-11</th>
<th>2009-11 Biennium</th>
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</thead>
<tbody>
<tr>
<td>Local Formula Revenue</td>
<td>$1,377.4</td>
<td>$1,434.6</td>
<td>$2,812.0</td>
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<tr>
<td>State School Fund</td>
<td>3,055.2</td>
<td>3,045.3</td>
<td>6,100.5</td>
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<tr>
<td>K-12 Equalization Formula</td>
<td>4,432.6</td>
<td>4,479.9</td>
<td>8,912.5</td>
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$ Millions
## ESD Equalization Formula

### 2009-11 Governor’s Budget

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</thead>
<tbody>
<tr>
<td><strong>Local Formula Revenue</strong></td>
<td>$92.6</td>
<td>$96.1</td>
<td>$188.7</td>
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<tr>
<td><strong>State School Fund</strong></td>
<td>128.4</td>
<td>127.3</td>
<td>255.7</td>
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<td><strong>ESD Formula</strong></td>
<td>221.0</td>
<td>223.4</td>
<td>444.4</td>
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</table>

$ Millions
Formula Issues?

- Student weights
- Decline districts
- Growth districts
- Small schools
- Transportation
- High cost special education
- Facilities
- Local revenue
- Teacher experience