

K-12 SCHOOL DISTRICT FINANCING

AN UPDATE OF CHANGES IN THE 1990s



Prior to the 1990s, local school boards and the district voters determined the size of K-12 school district budgets. The majority of school funds were raised locally through property taxes, with the state providing less than 30% of operating funds. Operating expenditures per student varied widely, depending upon what each community considered appropriate funding for schools and that community's ability to raise revenue.

Today the state income tax and, to a lesser degree, the lottery provide about 70% of the operating revenue for K-12 schools with the local property tax providing the bulk of the rest. The legislature distributes state funds using formulas that have largely erased the differences in resources among districts. For some districts this has meant increases in budgets. For others it has meant belt-tightening and cuts in programs.

Oregon has 198 school districts enrolling about 541,350 students. Each district has its individual story of the impact of shifting demands and resources. This report relates

the history of the shift in school funding from local to state control and the consequences for schools. It also describes some of the resources that school districts and individual schools use to supplement the funding levels set by the state. Finally, this report looks at how demands on schools have changed during the 1990s, focusing on the mandates of school reform.

THE EFFECTS OF MEASURES 5, 47, AND 50 ON SCHOOL FINANCE

Measure 5. Voters passed Measure 5 in 1990, limiting the number of dollars per thousand that education districts (local K-12 school districts, education service districts, and community colleges) could assess on local property for operations only (not capital/bonded debt). That limit was set as a gradual reduction from a maximum of \$15/\$1,000 real market value in 1991 to \$5/\$1,000 real market value in 1995. During that period only, the measure required the state to replace those local property tax losses to the local districts. However, the state was already providing just under 30% of K-12 school funding. That 30% was NOT protected under Measure 5. The legislature did not fully fund this portion of the budget, thereby causing some school districts to experience reductions in their budgets.

School districts, seeing a reduction in their revenue, began using a strategy of requesting local voters to approve bond measures for "improvements" (which some districts interpreted as general maintenance items) and new technology needs. The law at that time allowed bond measures for items with a useful life of more than a year.

Measure 47. Voters passed Measure 47 in 1996. This further reduced property taxes placing pressure on the state legislature to fund schools more fully. It included requirements that property tax measures be passed with a majority of registered voters voting and with a majority of those approving the increase (the "double majority"). The measure also limited what school districts could finance with bond measures to items that were most likely to last for 20 years. This

prohibited using bonds for general maintenance and for supplies like computers and desks.

Measure 50, a modification of Measure 47, clarified that the property tax system was to shift from a tax base system to a tax rate system. Through a complicated formula, state revenue officers calculated the assessed values of all taxed property, implemented the statewide 17% reduction required under the measure, and established a permanent tax rate per \$1,000 assessed value (NOT real market value) for each taxing district and each property classification.

Prior to Measures 5, 47, and 50, voters approved a specific tax base (dollar amount) which local districts would receive. If the total value of all properties in the district increased but the levy amounts did not, then the amount assessed (tax rate per \$1,000 value) on each property decreased. With the new system, local districts may collect more total local property taxes as the property values increase, because the permanent tax rate is applied across the board on a per \$1,000 basis. There is no limit on the total amount of taxes collected. The limit is on the amount of assessed value which can be taxed; there can be no more than a 3% annual increase in that value except for new construction which is taxed initially at real market value.

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However, for K-12 school districts, the statewide school distribution formula requires that any increase in local property tax revenue be offset by a decrease in state funding. The amount that the state distributes to K-12 districts is determined by the amount the state legislature approves in its biennial K-12 budget. This allocation also includes the amount distributed to Education Service Districts (ESDs).

ESD Funding. ESDs provide school districts with services including instructional materials, teacher training, and special education support. The type and level of ESD services varies widely among the 21 ESDs. Measure 5 reduced ESD property tax funding as well as that of local schools. The legislature replaced only 71% of ESD property tax losses the first biennium, increasing that to 75% in the 1997 legislative session. A state formula was created to deal with state distribution of ESD funds, based on their previous funding levels. With Measures 47/50 ESDs received the same reduction in local property tax collections and were also switched to a tax rate system. Because their state funding formula was based on Measure 5, a new state funding formula will need to be developed during the 1999 legislative session.

HOW SCHOOL FUNDS ARE DISTRIBUTED

The primary sources for school funding are the general fund (primarily income taxes), local property taxes, and lottery funds. Shifts in the economy result in changes in the amount of general fund money available for all state-funded activities, including schools. Local property taxes, which are now a much smaller portion of school funding, are relatively stable. Voters approved use of the lottery funds for education in 1995. Since video poker has increased lottery revenues, other programs have also looked to the lottery for funding. Voters approved dedicating 15% of lottery revenues to parks and salmon in 1998, reducing the amount available for education.

Equalization. The legislature now determines the amount of state funds available to K-12 schools using the equalization formula at the bottom of the page. Equalization is the process used to attempt to distribute resources equitably among Oregon's K-12

school districts. This does not mean that all districts get the same funding per student. Districts face different costs that may justify different funding levels. Thus defining equity is to some extent a matter of policy about which reasonable people could, and do, disagree. Each district is allocated funds consisting of a general purpose grant, a transportation grant, and facility grant. (The facility grant is scheduled to begin in 1999-2000.)

Number of Students. Student count is measured by average daily attendance rather than enrollment on some given date. Extra weight is assigned to students in special categories such as special education or English as a second language. Extra weights are also assigned to small schools distant from other schools, and an adjustment is made based on the proportion of students in poverty as measured by the 1990 census.

General Purpose Grant. Once the student count is derived, each district begins with the same general purpose grant per student, from a combination of state and local revenues. The target amount of the grant was arbitrarily set at \$4,500 per student. The basic amount is adjusted to take into account the level of teacher experience (because most salary schedules recognize experience with higher pay) and the total funds budgeted for schools.

Transportation Grant. Next the formula adds a transportation grant equal to 70% of approved transportation costs. These costs vary with the geography of each school district. Urban districts where many students walk to school have much lower costs than most districts in rural Oregon. At the extremes in 1997-98, 23 larger districts and a few small ones had transportation costs of less than \$225 per student while nine small districts in Eastern Oregon had costs of over \$2,000 per student.

Facility Grant. A facility grant is scheduled to be added to the formula in the 1999-2000 school year. This grant, if funded, will help districts equip new schools by providing 6% of the district's costs, not including land, for new buildings, additions, and portable classrooms. Except for the new grant, capital costs remain the responsibility of local school districts. New buildings and additions are funded by bond measures approved by district voters.

STATE SCHOOL FUND EQUALIZATION FORMULA										
State School Fund Grant	+	Local Revenue	=	Students (ADMw)	X	\$4,500 Target adjusted by Teacher Experience and to Total Funds	+	Transportation Grant	+	Facility Grant
General Operating Revenue						General Purpose Grant		Transp. Grant		(Begins 1999-00)

Phasing in Equalization. The equalization formula was gradually phased in after the passage of Measure 5. If the 1991 Legislature had implemented the equalization formula immediately for all districts, those districts that have historically spent higher amounts per student would have experienced sharp reductions in revenue. Instead since 1995, the legislature has constrained the loss in revenue for these districts with flat funding or stop-loss formulas. Additional state revenue allocated to schools has been used to bring up the funding of districts that previously had low per pupil expenditures using the equalization formula. Over time, more and more districts have become equalization districts, that is, districts funded according to the equalization formula. In 1992-93 funding for 71% of Oregon's students was provided through the equalization formula. By 1998-99 that had increased to 92%.

WHAT DOES IT COST TO EDUCATE A CHILD?

Database Initiative Project. There is a considerable debate about what it costs to educate a child. To try to understand this issue, the 1997 legislature directed the Department of Education to develop a budget and accounting system so that costs and outcomes could be accurately compared across districts and between schools. The Department worked with 16 pilot districts and an outside accounting firm to develop standard definitions and reporting forms in a Database Initiative Project. This project measures spending per pupil, staffing levels, instruction time, class size, student performance, volunteer time, and a variety of other indicators at the school level. The data and reports are available to the public from the department's web site. A final report on the project and its results is scheduled for completion in January, 1999.

State and Federal Mandates. Some educational costs are the result of state and federal requirements that must be met by local districts. Three of the federally mandated programs are:

- ◆ The Asbestos Hazard Emergency Act of 1986, as amended.
- ◆ The Individuals with Disabilities Act, PL 101-476, which mandates that all children with disabilities receive a free and appropriate education.
- ◆ The Family Education Rights and Privacy Act, PL 93-380, as amended by PL 93-568, which imposes certain requirements and restrictions on the release of student records.

State statutes mandate approximately 30 programs that fall into the categories of instruction and support. They include a diverse range of requirements such as providing free textbooks, providing transportation,

properly maintaining buildings and grounds, and protecting trees and shrubs.

School Reform. In 1991, the Oregon legislature passed the Oregon Educational Act for the 21st Century (amended in 1995) which established a content standards-based education. These content standards specify what students must know and be able to do to be considered proficient in specific academic areas. This act requires that school districts award Certificates of Initial Mastery (CIM) to eligible 10th graders beginning in the school year 1998-99, and Certificates of Advanced Mastery (CAM) to eligible 12th graders beginning in the year 2004-2005. The act calls for state testing in the 3rd, 5th, 8th, and 10th grade levels to measure students' progress toward attainment of state-established academic content standards for the CIM. The CAM will be awarded to students who meet the 12th grade standards on state tests, classroom assignments, and career-related learning standards.

To meet these standards school district staff must align curriculum with statewide student performance standards, become proficient with the scoring guides, and define the process for collecting student work samples. Local districts must also develop performance standards and assessments for the arts and second languages, because the state has given these responsibilities to the districts. The state is responsible for standards and assessments in English, mathematics, science, and social sciences.

OTHER RESOURCES AVAILABLE TO K-12 SCHOOLS

Local school districts use a wide range of other resources to support special programs and to enrich curriculum. Booster clubs, PTAs and other parent teacher groups, businesses, and individuals give time and money. Their efforts support Artists in the Schools, special assemblies, extracurricular activities, sports, and classroom activities. Scholarship programs contribute to school enrichment by funding band camps or other special summer programs. These options are limited only by the creativity and dedication of interested parents and patrons.

The infusion of private money into public K-12 education is a small but growing source of off-budget funds for some schools. Such money, which schools may receive from one of the many forms of corporate partnerships or from locally organized education foundations, is being put to many uses. Some school repairs are privately funded as are some teachers' salaries. Private donations have funded the implementation of reform plans and the acquisition of computers and lab equipment. This money is being used to replace, in part, lost public funds, and the benefits to recipients are apparent.

Where there are broad-based local contributions, such funding may be seen as an alternative to the local option taxing authority. In communities once willing and able to fund public schools generously such funding may help to stem student flight to private schools. On the other hand increased reliance on private rather than public funding sources may have effects detrimental to the public interest. Without public oversight and regulation, local and regional inequities among schools could grow. There is concern that some private donors will attempt to influence what is taught, and to whom.

Business Partnerships. Businesses contribute materials, volunteers, and funds to schools. They provide work experiences and help schools with other career-related activities. Corporate reasons for involvement include attracting employees to the area, enhancing public relations and profitability, and insuring an educated future work force.

Inequities in corporate support exist within the state, since schools closer to corporate centers benefit more. When corporate decision-makers also happen to be parents of students there is much more incentive to instigate partnership programs. However, it is difficult to quantify the contributions to school districts from a monetary standpoint, since for the most part contributions are in the form of enrichment materials and experiences which are not reflected in a school district's budgetary needs.

Education Foundations. The number of K-12 education foundations has grown from just a few in the early 1980s to over 2,000 nationwide today. These foundations are largely a response to various state ballot measures that have constrained school funding. Consistent with this trend, the number of foundations has grown in Oregon's more populous regions since the passage of Measure 5. Large geographical areas of Oregon, however, are not served by any established foundation.

Private, non-profit, tax-exempt and accountable primarily to their boards of directors, the foundations pursue different goals and have diverse relationships with the schools they support. Some are staffed and housed by local school districts; some are linked to local school boards through foundation membership; some are wholly independent of the local school management structure.

Gifts and other revenues currently administered by foundations in Oregon range from less than \$100,000 for small, start-up foundations to well over \$1 million annually. The approach a foundation may select to achieve equity in the distribution of funds—if that is one of its goals—is necessarily limited to the geographic area the foundation is established to serve. Some foundations have implemented guidelines requiring funds be distributed proportionately to the

schools served. Others require that some fixed percentage of donations to individual schools be redistributed by the umbrella foundation to ensure a measure of equity among recipients. Still others rely on a belief that balance will be achieved over time without mandated equity provisions.

While most foundations view themselves as filling a few of the painful gaps in operating budgets today, many hope in the long term to establish endowments not unlike those at public universities and at private schools at all levels. It seems possible that the endowment approach may, over time, succeed in creating pockets of significant, stable (but privately administered) funds for some public schools.

PTAs, Booster Clubs and Other School Organizations often provide both volunteers and funds for activities at local schools. The data collected from 16 pilot districts in the state's Database Initiative Project indicates that volunteer hours vary widely between districts and among the schools within a district. For example, in the Bend-LaPine schools, annual volunteer hours in elementary schools ranged from 2.1 to 18.5 per student. In middle schools the number ranged from 0.2 to 1.1 hours per student and in high schools from 0.05 to 5.8. The National Association of Partners in Education has estimated that each volunteer hour is worth \$14.58, but volunteers can't be counted on to provide the day-to-day necessities of instruction.

Other Public Funding. In a few districts, a city or special (recreational) district has levied property taxes to fund school athletic and activities programs. For example, the Heppner Recreational District in Morrow County was formed to fund school sports, extracurricular activities, and community cultural programs. In these cases, the property tax levied is inside the \$10/\$1,000 limit for "other government" (cities, counties, and special districts) rather than inside the \$5/\$1000 school limit. This option is available only where a city agrees to fund the programs or a special district can be formed and funded within the "other government" property tax limitations.

STUDIES OF FUNDING OPTIONS

The Governor's Local Option Task Force met throughout 1996 and presented its report to the Governor in November of that year. The Task Force's stated mission was "to strengthen Oregon's primary and secondary school system by reconnecting it with local communities through a local funding option." It found that communities use a variety of alternative resources to aid their schools while continuing to achieve statewide equity. The task force recommended that general fiscal authority be given to school boards or that there be a local income tax

option. They also recommended that the "kicker" be dedicated to equity funding for school districts and that the current distribution formula be reexamined. They did not, however, recommend a local property tax option.

The Oregon Association of School Executives School Funding Coalition published a report in June, 1998 that identified five areas for potential improvement in funding related to the implementation of the Oregon Education Act for the 21st Century. They also attached related costs to help with the budget process.

Their recommendations to help assure that schools can meet the requirements of the 21st Century Act include:

- ◆ The state must establish a school improvement fund of not less than \$400 million. Additionally, the state must create a separate \$250 million capital improvement fund for construction, renovation, and repair.
- ◆ Each district must select its own local improvement effort from a "menu" of school improvement options. Each district and each school will establish measurable outcomes for their improvement plan.
- ◆ Each district must report to the state on the outcomes from its improvement plan.

The Governor's Tax Review Technical Advisory Committee was established to review Oregon's tax structure. This committee concluded that the substitution of state sources of revenue for local revenues changed "spending incentives in two fundamental ways: 1) local officials are spending state money rather than taxes from local taxpayers; and 2) the amount of revenue and services available in each local area reflect the state's idea of a fair distribution of funds rather than local choices to pay for a self-selected level of service."

The Tax Review Technical Advisory Committee also concluded that "The education funding base is more unstable than it was in 1980. Measure 5 and Measure 50 have made K-12 school budgets far more dependent on unstable income taxes. This means that school funding is more exposed to revenue shortfalls." In addition, the committee posed the following questions in its June, 1998 report:

- ◆ Should there be a more stable system for funding education overall?
- ◆ Should local revenue options be developed for schools?
- ◆ In order to foster greater local control and commitment to school districts, should communities be given flexibility in financing their local schools?

General Issues. There is a continuing discussion about the adequacy of K-12 school funding.

A variety of school interest groups have raised the issues of class size, teacher quality and training, learning time (length of day and year, summer school, etc.), school safety, and infrastructure needs.

SUMMARY AND CONCLUSION

During the 1990s Oregon's voters have approved a series of property tax limitation measures which have shifted the major responsibility for funding schools from local school boards and district voters to the state legislature. This shift has created winners and losers.

Currently, Oregon law does not allow K-12 school districts to ask local voters to approve levies to supplement the funding they receive from the state. Schools do supplement their state-allocated budgets with volunteers, fundraising through school foundations, business partnerships, and supplementary funding from cities, counties, and park districts that agree to pick up some of the costs of educating students. These efforts, plus the unequal resources that ESDs provide, distort the legislature's efforts to equalize the resources available to each student.

During this same period, schools have faced new requirements from the state and federal government. Every district must alter its curriculum and retrain teachers to meet the requirements of the state's reform plan.

There continues to be considerable debate about whether the current school funding system provides an equal and adequate education for each student, which Oregonians consider the ultimate goal of K-12 education.

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League of Women Voters of Oregon Education Fund
2659 Commercial St. SE, Suite 220
Salem, OR 97302
lwvor@open.org



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