
MEMORANDUM

Legislative Fiscal Office
900 Court St. NE, Room H-178
Salem, Oregon 97301
Phone 503-986-1828
FAX 503-373-7807

To: Members of the Education Subcommittee

From: Doug Wilson, Legislative Fiscal Office
(503) 986-1837

Date: May 29, 2013

Subject: State School Fund – SB 5519 Work Session Recommendations

State School Fund –Totals

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 LFO Recommended
General Fund	4,774,748,048	5,160,749,551	5,924,260,594	6,235,452,436
Lottery Funds	609,121,349	554,000,717	391,169,853	314,547,564
Other Funds	3,529,791	340,252	400,826	400,826
Federal Funds	323,893,772	61,000,000	0	0
Total Funds	\$5,711,292,960	\$5,776,090,520	\$6,315,831,273	\$6,550,400,826
Positions	0	0	0	0
FTE	0.00	0.00	0.00	0.00

Background Information

The State School Fund (SSF) provides the core or general operating funding for K-12 School Districts and Education Service Districts (ESDs) serving over 525,000 students. It is the largest single appropriation in the state budget. These state resources are combined with local revenues to be distributed to the various districts through a statutory formula which factors number of students, local revenue share, specific student characteristics where additional weights are provided (e.g. special education, poverty, remote schools), and teacher experience. The "local revenues" include local property taxes, distributions from the Common School Fund, federal timber related revenues, and revenues from state managed county trust forests. Local revenues representing both the School District and ESD shares total an estimated \$3,224 million for the 2013-15 biennium. The funds distributed through the formula pay for the general purpose expenses of the districts (of which over 75% represents employee compensation) and transportation costs.

In addition to the payments to School Districts and ESDs determined through the formula, there are a number of other distributions from the SSF, some of which have been

referred to as "carve-outs". Many of these have been in existence for years. These are listed in the table below. Please note that some of the amounts are estimated since they depend on student numbers that will likely change prior to the final distributions. These amounts are based on current law, and where appropriate on the LFO recommended amount of funding for the SSF.

Description	Estimated 2013-15 Amount
Local Option Equalization Grants – transfer to separate account for distribution – figure includes levies passed in May 2013	\$3,535,581
High Cost Disabilities Account – amount set in ORS	\$36,000,000
Facilities Grants – for certain capital and equipment costs, amount set in ORS – HB 2506 reduces this amount to \$20 million	\$25,000,000
Regional Education Services Account –established in 2011 – HB 2506 would repeal this account	\$24,360,000
ESD Testing/Assessment Contract – amount reduced from ESD share of formula distribution	\$968,000
District Best Business Practices – this bill does not provide this program with funding as in the current biennium	\$0
Talented and Gifted programs	\$350,000
Speech Language Pathologists	\$150,000
Small School District Supplement – requires passage of HB 2501 to continue these payments	\$5,000,000
Virtual School Districts	\$1,600,000
Youth Corrections and Juvenile Detention Programs	\$21,000,000
State Schools – Oregon School for the Deaf	\$1,500,000
Long Term Care Facilities and Hospitals	\$19,500,000

As noted above, the Co-Chairs' budget plan includes changing some of these separate distributions including repealing the Regional Education Services Account, the need to continue the Small School District Supplement, and a reduction of \$5 million in the Facilities Grants. The proposed language in HB 2506 would also create a new distribution for the Quality Teacher and Learning Network proposed in HB 3233.

Adjustments to Current Service Level:

There are four major adjustments to the Current Service Level (CSL) for the State School Funding proposed in the Co-Chairs' plan.

1. A shift between General Fund and Lottery Funds resources is made to reflect the available Lottery Funds available. This decreases the Lottery Funds amount from CSL levels by \$76,622,289 and increases the General Fund in CSL by the same amount. There may be a further adjustment made by the end of the session.
2. In the Governor's phase of the budget's development, a General Fund reduction of \$44,576,184 was made, most of it representing the updated assumptions on PERS and other items that were made available in late 2012.

3. The 2013 Legislature passed SB 822 which made changes to the PERS rate assumptions which also affect school districts across the state. The estimated impact for the State School Fund for this change is reflected by a \$209,219,610 General Fund reduction. These changes include eliminating the increased retirement benefits resulting from Oregon income taxation of payments if the person receiving payments does not pay Oregon income tax on those benefits and is not an Oregon resident. This change reduces state employer contribution rates by approximately 0.30%. Another change reflects the policy change in SB 822 that modifies the cost-of-living adjustment. This change reduces state employer contribution rates by approximately 2.2%. Finally, an administrative action by the PERS Board, as directed by a budget note in the SB 822 budget report, will reduce state employer contribution rates by up to an additional 1.9%. However, no employer rate is reduced below its 2011-13 biennium rate.

4. Finally, the Co-Chairs' added \$488,365,347 General Fund for the State School Fund to bring the combined General and Lottery Funds total to \$6.55 billion for 2013-15. When you factor in the impact the changes to PERS assumed in SB 822 should have on school districts and ESDs, the resulting amount is roughly equivalent to \$6.75 billion.

The LFO recommendation for the 2013-15 State School Fund budget is as follows:

General Fund Appropriation	\$ 6,235,452,436
Lottery Funds Expenditure Limitation	\$ 314,547,564
Other Funds Expenditure Limitation	<u>\$ 400,826</u>
Total Funds	\$ 6,550,400,826

LFO also recommends that the SSF be allocated between the two years of the biennium with 49% for the first year and 51% for the second year.

Accept LFO Recommendation

Sen. /Rep. _____ moves the LFO recommendation to SB 5519.

Budget Notes

There are no recommended Budget Notes.

Recommended Changes to Appropriation Bill:

The Legislative Fiscal Office recommends a budget of \$6,235,452,436 General Fund, \$314,547,564 Lottery Funds, and \$400,826 Other Funds and that Senate Bill 5519 be amended accordingly as in the attached amendment.

Please see the attached amendment for the LFO recommend changes to the bill.

Sen. /Rep. _____ moves the -2 amendment to SB 5519.

SB 5519 Final Subcommittee Action:

Final Motion:

Sen./Rep. _____ moves SB 5519 to the full committee as amended with a "do pass" recommendation.

**PROPOSED AMENDMENTS TO
SENATE BILL 5519**

1 On page 1 of the printed bill, line 7, delete “\$5,834,629,855” and insert
2 “\$6,235,452,436”.

3 Delete lines 17 through 19 and insert:

4 **“SECTION 4. Notwithstanding ORS 327.008 and 327.013, for the**
5 **biennium beginning July 1, 2013, the Department of Education:**

6 **“(1) May not expend any moneys from the State School Fund for**
7 **the administration of ORS 326.133 and 326.136.**

8 **“(2) May expend up to \$968,000 from the State School Fund for the**
9 **contract described in ORS 329.488.**

10 **“(3) May spend up to \$1,600,000 from the State School Fund for the**
11 **purposes of the Oregon Virtual School District.”.**

12 In line 20, delete “\$3,013,293,340” and insert “\$3,209,696,405”.

13 In line 22, delete “\$3,136,284,905” and insert “\$3,340,704,421”.

14 Delete lines 24 and 25 and insert:

15 **“SECTION 6. The amount of \$3,535,581 is transferred from the State**
16 **School Fund to the Local Option Equalization Grants Account estab-**
17 **lished by ORS 327.339.”.**

18 On page 2, delete line 1.

19
