

STATE SCHOOL FUND & OTHER K-12 GRANTS

The State School Fund (SSF) provides the core or general operating funding for K-12 school districts and Education Service Districts (ESDs) across the state for over 525,000 students. It is the largest single appropriation in the state budget and is distributed to the districts base on a statutory formula which factors number of students, specific student characteristics where additional weight is provided (e.g., special education, poverty, remote school districts), teacher experience, and local property tax revenues for each district. Under current law, school districts receive 95.5% of this funding and the remaining 4.5% is distributed to ESDs.

STATE SCHOOL FUND AND OTHER K-12 GRANTS	2009-11 Actuals	2011-13 Leg. Approved	2013-15 Current Service Level	2013-15 Governor's Budget	2013-15 Co-Chairs' Budget (1.0)	% Change 2011-13 LAB to 2013-15 CSL
General Fund	4,774,748,048	5,160,749,551	5,887,114,810	5,836,852,436	0	14.1%
Lottery Fund	609,121,349	554,000,717	391,169,853	314,547,564	0	-29.4%
Other Funds	3,529,791	340,252	400,826	400,826	0	17.8%
Federal Funds	323,893,772	61,000,000	0	0	0	-100.0%
TOTAL FUNDS	5,711,292,960	5,776,090,520	6,278,685,489	6,151,800,826	0	8.7%
Positions	-	-	-	-	-	N/A
FTE	-	-	-	-	-	N/A

Note: The 2013-15 Current Service Level has been adjusted downward by \$37.1 million GF to reflect the latest PERS actuarial assumptions under current law. This adjustment has been taken in other budgets.

Major Revenues	Budget Environment	Comparison by Fund Type																				
<ul style="list-style-type: none"> Total revenues for the general operation of school districts and ESDs is generally a mixture of General Fund, Lottery Funds, and a variety of “local” revenues including property taxes, timber related revenues, Common School Fund, and County School Fund. The figures above only represent that portion that flows through the state budget, roughly two thirds of the total amount. School districts and ESDs receive additional grant-in-aid revenues for programs such as special education. These are not included in the figures above. In both 2009-11 (\$96 million) and 2011-13 (\$182 million) the SSF received funding through the Education Stability Fund (included as Lottery). The Federal Funds above are stimulus or ARRA Funds which were used to offset General Fund. 	<ul style="list-style-type: none"> Lottery Funds have been declining so there may need to be an adjustment made to the budget to account for less Lottery Funds. Employee compensation represents approximately 85% of a district’s budget and therefore changes to PERS rates and health care costs have a significant impact on local budgets. The 2013-15 CSL reflect the expected large increase in the PERS budget as well as 5% annual growth in health care costs. State School Fund is distributed through the distribution formula, but there are also set-asides from this budget separately distributed including funding for children in long-term care and correctional settings, high cost disability payments, facility grants, TAG, 10th grade assessments, and for the Oregon Virtual School District program. 	<p>STATE SCHOOL FUND AND OTHER K-12 GRANTS</p> <table border="1"> <caption>STATE SCHOOL FUND AND OTHER K-12 GRANTS - Funding Components (Millions of Dollars)</caption> <thead> <tr> <th>Year</th> <th>General Fund/Lottery</th> <th>Other Funds</th> <th>Federal Funds</th> </tr> </thead> <tbody> <tr> <td>2011-13</td> <td>\$5,715</td> <td>\$0.3</td> <td>\$61.0</td> </tr> <tr> <td>2013-15 CSL</td> <td>\$6,278</td> <td>\$0.4</td> <td>\$0.0</td> </tr> <tr> <td>2013-15 GB</td> <td>\$6,151</td> <td>\$0.4</td> <td>\$0.0</td> </tr> <tr> <td>2013-15</td> <td>\$0.0</td> <td>\$0.0</td> <td>\$0.0</td> </tr> </tbody> </table>	Year	General Fund/Lottery	Other Funds	Federal Funds	2011-13	\$5,715	\$0.3	\$61.0	2013-15 CSL	\$6,278	\$0.4	\$0.0	2013-15 GB	\$6,151	\$0.4	\$0.0	2013-15	\$0.0	\$0.0	\$0.0
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MAJOR CHALLENGES AND DECISION POINTS

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| <ol style="list-style-type: none"> 1. *The “official” CSL for the State School Fund is \$6.315 billion for General Fund/Lottery Funds which is slightly higher than the most recent adjusted estimate of \$6.278 billion which has been updated with the most recent actuarial estimates for the PERS rate based on current law. The adjusted CSL is based on an overall state and local school funding estimate of \$9.574 billion of which \$3.295 billion represents the assumed local revenue. This is an 8.7% increase over the 2011-13 LAB but after factoring out the federal limitation related to AARA, the increase is 9.8%. This increase is driven primarily by estimated increases in employee compensation (salary increases, PERS rates and health insurance increases) and a small increase in enrollment. 2. Even though nominal total revenues have increased for K-12 on a per student basis; when adjusted for inflation, total revenue per student fell 9% from 1990-91 to 2010-11. 3. Enrollment growth for K-12 in recent years has been minimal, usually less than 0.1% per year and in some cases negative. There has been a larger increase in the number of special ADM weights (e.g., special education, ELL or low income). For determining 2013-15 CSL, an annual increase of 0.4% is used as the assumed growth in weighted ADM. 4. The Quality Education Model (QEM) estimates that the 2013-15 CSL for the State School Fund is approximately \$2.4 billion short of the amount the QEM generates to fund Oregon’s educational goals currently in law. This is slightly higher than the estimated \$2.2 billion gap for 2011-13. 5. The 2011 Legislature voted to withdraw over \$180 million from the Education Stability Fund (ESF) to supplement funding for the State School Fund. A similar amount would be available in the ESF for education spending in 2013-15 if specific statutory criteria are met and with the approval of 60% of each legislative chamber’s members. | <ol style="list-style-type: none"> 6. Ballot Measure 85 re-directs any future corporate kicker refunds to the K-12 budget instead of being paid to corporate taxpayers. The first impact will be based on the forecast at the end of the 2013 session. Since the total revenues for the 2013-15 biennium will not be known until the end of the biennium (June 2015), there is not a fiscal impact until the next biennium (2015-17). 7. The School Year Subaccount program that was in effect during 2011-13 sunsets and is not continued into future biennium. That program was primarily funded with Education Stability Funds and was provided to districts with the intent to minimize the increase of class size or to enhance learning opportunities. While the program is not continued, the funding for the program is built into the 2013-15 CSL. 8. The Small School Supplement program, which provided additional funding to districts with small high schools, sunsets at the end of the 2011-13 biennium. In 2011-13, this program received \$2.5 million for each school year. At least one bill has been introduced to extend it for another year. 9. The Governor’s budget reduces the 2013-15 State School Fund (SSF) budget with three changes related to PERS – two of which are major policy changes which would reduce the PERS cost to school districts: <ul style="list-style-type: none"> • The first change is not a policy change but a decision to extend the current law adjustments to the PERS rate charged school districts that were made to the SSF to all estimated personal services of school districts. This generates \$7.4 million in General Fund savings to the SSF. • The second proposed change is a policy change to eliminate tax relief to PERS recipients who do not live in Oregon. This generates an estimated \$12.9 million General Fund in SSF savings. • The final proposed PERS related change is to limit the inflation adjustment to only the first \$24,000 of the annual benefit paid retirees. This is estimated to save \$196.3 million General Fund for the SSF. |
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The savings from the final two items above also includes the estimated savings from school district costs funded with non-SSF sources.

10. The Governor’s budget also includes an increase of \$89.8 million General Fund to the State School Fund (SSF). According to the budget document, this amount will provide resources to fund an additional 500 teachers statewide for 2013-15. The Governor’s final SSF budget after the PERS related changes and additional investment is \$6.152 billion. If none of these PERS related changes are implemented, the Governor’s budget will be almost \$127 million below the adjusted CSL.
11. The set-aside for the District Best Business Practices program and advisory committee was repealed in 2012 and not funded in the Governor’s budget. In 2011-13, there was a set-aside funding amount from the State School Fund of \$1.6 million for the Oregon Virtual School District, but there is no funding assumed in the Governor’s budget for this program in 2013-15.
12. Current law requires that 4.5% of the SSF (after set-asides or “carve-outs have been factored out) be distributed to Educational Service Districts (ESDs). The Governor proposes using up to \$120 million of the ESD share to fund one of his education initiatives – to develop a representative corps of professional educators. These funds would be used to develop four to six regional Student Achievement Centers designed to “promote excellence in teaching and learning for teachers, faculty, child care and other early educational professionals, administrators, and instructional support personnel.” His budget also allocates \$6 million in General Obligation bonding for these centers. There is no description in the Governor’s budget on how these funds would be used and distributed as well as what services ESDs would be reduced or eliminated to accommodate a reduction of this size in their budgets. If the full \$120 million is reduced from the anticipated total formula funding (state and local revenues), the ESD funding could be reduced to \$300 million for 2013-15 – a 30% reduction.

There is a work group developing a proposal for this, but no details have been released at this time. One area of concern is how this proposal of using \$120 million of ESD funding affects maintenance of effort requirements for special education.

* See attachment for additional information on this item.