

# School Finance: Formula Revenue and Local Option Property Tax

Senate Interim Committee on Finance and Revenue

Presented by  
Legislative Revenue Office



# Operating Revenue of K-12 Public Education

- **The revenue for operating expenditures** of K-12 public education in Oregon has been primarily funded through a **combination of state and local resources**
- **The relative shares** between state and local revenue resources **have shifted over time**, primarily in response to Measure 5 (1990) and Measure 50 (1997)
- Combined revenues are often called the **formula revenue**
- This formula revenue is distributed using the **K-12 school funding equalization formula** that reflects the measure of “equity” adopted by the legislature





# Funding Equity

- The measure of equity adopted by the legislature is essentially **equal financial resources per student for similar groups of students**
- **Four principles** guided the development of the equalization formula
  - Share all school funding sources statewide
  - Let school districts decide how to spend their allocation
  - Create funding differences only for uncontrollable cost differences
  - Avoid incentives for school districts to increase their allocation





# Sources of Formula Revenue in \$ Figures: State and Local

- **State School Fund (SSF)** – State contribution/support (mostly GF)
- **Local Revenues** – Local contribution (over 95% property taxes)
- Roughly 2/3 of formula revenue come from SSF, and 1/3 from Local Revenues
- **For the 2023-25 school years**
  - SSF = \$10.2 billion
  - Local Revenues (estimate\*) = \$5.14 billion
  - Total Formula Revenue = SSF + Local Revenues = \$15.34 billion

\*As of March 2023. Since then, revised up. Property taxes came in slightly higher than forecast.





# Extra Revenue for Operating Expenditures Raised Locally

- Some school districts have used **local option property taxes** to raise additional money for operating expenditures
- The 1999 legislature allowed school districts to seek voter approval of a local option property tax for operational expenses (5-year limit)
- **Local option property taxes are excluded from local revenues in the school funding equalization formula:**
  - Revenues from local option property taxes are kept locally – they do not become part of the formula revenue (There are exceptions)
- In 2022-23 school year, 18 school districts imposed \$271.7 million in local option property taxes





# Formula Revenue and Local Option

- Both revenues are for operating expenditures
- The equalization formula distributes the **given** formula revenue
  - **If the formula revenue stays the same, any change in the formula** will, in general, lead to some school districts receiving more money than before the change, and others receiving less – it **has a zero-sum nature**
  - **The larger the formula revenue, the more money to every school district**
- If a school district successfully uses a **local option**, the **revenue stays with the district** if it is below the statutory cap – the statutory cap is district-specific
- Local option property taxes have no impact on the size of the formula revenue





# Imposed Property Taxes on School Districts (\$ mil)

FY	Permanent Rate	% ch	Local Option	% ch
2011-12	1,438.9	1.9%	94.8	11.2%
2012-13	1,457.7	1.3%	86.9	-8.3%
2013-14	1,504.1	3.2%	113.2	30.3%
2014-15	1,581.1	5.1%	134.1	18.5%
2015-16	1,658.0	4.9%	155.4	15.9%
1016-17	1,729.1	4.3%	170.4	9.7%
2017-18	1,809.8	4.7%	185.8	9.0%
2018-19	1,883.9	4.1%	200.1	7.7%
2019-20	1,969.1	4.5%	229.8	14.8%
2020-21	2,060.9	4.7%	239.7	4.3%
2021-22	2,150.9	4.4%	253.2	5.6%
2022-23	2,258.3	5.0%	271.7	7.3%
2023-24*	2,380.9	5.4%		

\*preliminary

## Note:

1. **Permanent rate based property taxes** on school districts **are** local revenues, so they become **part of the formula revenue**
2. The permanent rate for each taxing district was established with Measure 50
3. **The existence of a local option property tax of a school district does not change its formula revenue**
4. If a school district collects more than the allowed statutory cap in a given year, it has to send the money over the cap to the pool of the formula revenue
5. This statutory cap is district-specific and changes over time







# School District Local Option Property Taxes for FY 2022-23 (\$ mil)

<b>District Name</b>	<b>Amount</b>	<b>District Name</b>	<b>Amount</b>
<b>Corvallis 509J</b>	<b>10.0</b>	<b>Crow-Applegate-Lorane 66</b>	<b>0.4</b>
<b>Philomath 17J</b>	<b>1.3</b>	<b>Eugene 4J</b>	<b>24.9</b>
<b>Lake Oswego 7J</b>	<b>15.8</b>	<b>Siuslaw 97J</b>	<b>1.7</b>
<b>North Clackamas 12</b>	<b>24.0</b>	<b>Sweet Home 55</b>	<b>0.3</b>
<b>West Linn 3J</b>	<b>13.0</b>	<b>Portland Public SD</b>	<b>114.4</b>
<b>Seaside 10</b>	<b>2.1</b>	<b>Riverdale 51J</b>	<b>1.0</b>
<b>Sisters 6J</b>	<b>1.9</b>	<b>Falls City 57</b>	<b>0.1</b>
<b>Hood River 1</b>	<b>3.2</b>	<b>Beaverton 48J</b>	<b>40.9</b>
<b>Ashland SD #5</b>	<b>4.8</b>	<b>Tigard 23J</b>	<b>11.8</b>







# What's Ahead

- Formula Revenue - Background Information and Distributions
- Sources of Formula Revenue and Data
- About **K-12 School Funding Equalization Formula**: Fundamentals of Formula Revenue Distribution – **commonly referred to as State School Fund Distribution** (We will skip technical details)
- An Introduction to Local Option Property Tax





# Operationally

- **Revenue Available** = State School Fund + Local Revenues of School Districts and Education Service Districts
- **Shares:** After carve-outs/set-asides from the top, School Districts (SD) receive 95.5%, Education Service Districts (ESD) 4.5%
- Within SD and ESD shares, there are **statutorily defined grants and distributions**





# The Distribution Chart (Example: 2023-25 Distribution\*)

## **HB 5015\*\* (2023)**

<https://olis.oregonlegislature.gov/liz/2023R1/Downloads/MeasureAnalysisDocument/80102>

\*Estimate as of May 31, 2023

\*\*Later in the biennium, there could be changes in the composition of the State School Fund (SSF), while keeping the amount of the fund intact. In fact, SB 5701 (2024) changed the composition of the fund.





# Formula Revenue and Carve-Outs

State School Fund + Local Revenue =

**Formula Revenue available for SDs and ESDs**

**(-) Carve-Outs/Set-Asides off the top**

- **2023-25 Carve-outs:** Small High School Grants, Educator Advancement Fund (EAF), Long Term Care and Treatment, Pediatric Nursing Facility, Office of School Facilities, School Safety, Healthy School, Feminine Hygiene Products , English Language Learner, Talented and Gifted, Speech Pathology, Digital Learning, Local Option Equalization Grant, Reserves\* and Others

**= Remaining Formula Revenue** to be distributed to SDs and ESDs (100%)

\* Reserves will be eventually distributed according to formula





# Remaining Formula Revenue (Net of Carve-Outs)

## **(1) School Districts (95.5%)**

- (-) School District Share of EAF
- (-) High Cost Disabilities Grant

**= General Purpose Grant + Transportation Grant to SDs**

- (-) Transportation Grant

**= General Purpose Grant** (*ADMw and teacher experience factor come into play*)

## **(2) Education Service Districts (4.5%)**

- (-) 10th Grade Assessment
- (-) ESD Share of EAF

**= Formula Revenue available for distribution to ESDs**





# Sources of Formula Revenue, Again

- **State School Fund (SSF)** – State contribution/support (mostly GF)
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- Roughly 2/3 of formula revenue come from SSF, and 1/3 from Local Revenues
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\*As of March 2023. Since then, revised up. Property taxes came in higher than forecast.





# Sources of State School Fund (SSF)

- **General Fund**
- **Lottery Resources**
- **Marijuana Tax Revenue**
- **Transfer from the Fund for Student Success**







# Sources of Local Revenues

## ORS 327.011 explicitly lists local revenues for SDs for the purpose of SSF distributions

- **Permanent rate based property tax revenue - over 95% of total local revenue**
- **Other sources:** Common School Fund distribution, county school fund and state timber sales revenue from state managed forestlands, occasional federal funds without specific application and not deemed non-supplantable under federal law, moneys in lieu of property taxes, local option property taxes above statutorily allowed limits

Note: ORS 327.019 defines local revenues for an ESD – permanent rate based property tax revenue and state timber sales revenue, among other things





# A Closer Look into School District Property Taxes (Imposed, \$1,000): FY 2022-23

District Type	Permanent Authority			Local Option			Bonds			Total		
	FY 2021-22	FY 2022-23	% CH	FY 2021-22	FY 2022-23	% CH	FY 2021-22	FY 2022-23	% CH	FY 2021-22	FY 2022-23	% CH
County	1,148,164	1,208,153	5.2%	157,268	175,039	11.3%	70,390	72,290	2.7%	1,375,822	1,455,482	5.8%
City	1,274,138	1,337,696	5.0%	154,864	165,229	6.7%	101,804	103,970	2.1%	1,730,744	1,797,327	3.8%
<b>School</b>	<b>2,150,896</b>	<b>2,258,308</b>	<b>5.0%</b>	<b>253,193</b>	<b>271,712</b>	<b>7.3%</b>	<b>822,901</b>	<b>881,340</b>	<b>7.1%</b>	<b>3,226,991</b>	<b>3,411,361</b>	<b>5.7%</b>
<b>Education Service</b>	<b>151,981</b>	<b>159,766</b>	<b>5.1%</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>151,981</b>	<b>159,766</b>	<b>5.1%</b>
Community College	209,916	220,513	5.0%	0	0	0.0%	107,925	119,128	10.4%	317,840	339,642	6.9%
Cemetery	3,469	3,663	5.6%	65	69	7.6%	0	0	0.0%	3,534	3,733	5.6%
Fire	383,531	403,745	5.3%	66,965	74,537	11.3%	23,551	23,070	-2.0%	474,048	501,352	5.8%
Health	36,831	39,028	6.0%	5,197	5,718	10.0%	4,794	4,605	-3.9%	46,822	49,351	5.4%
Park	99,125	104,508	5.4%	1,558	1,680	7.8%	15,652	15,293	-2.3%	116,335	121,481	4.4%
Port	23,868	25,102	5.2%	0	0	0.0%	1,153	1,013	-12.1%	25,021	26,115	4.4%
Road	13,958	14,489	3.8%	158	222	40.3%	8	8	0.0%	14,124	14,719	4.2%
Sanitary	1,390	1,469	5.7%	0	0	0.0%	1,403	1,399	-0.3%	2,793	2,868	2.7%
Water Supply	3,148	3,266	3.8%	1,361	1,409	3.5%	1,403	2,040	45.4%	5,913	6,715	13.6%
Water Control	23,638	23,468	-0.7%	0	0	0.0%	300	328	9.2%	23,938	23,796	-0.6%
Vector Control	5,630	5,972	6.1%	2,063	2,252	9.2%	0	0	0.0%	7,693	8,225	6.9%
Service	48,340	50,586	4.6%	18,039	19,927	10.5%	75,465	78,343	3.8%	141,843	148,856	4.9%
Other	274,765	289,283	5.3%	19,741	20,578	4.2%	12,553	10,283	-18.1%	307,060	320,144	4.3%
<b>Statewide Total</b>	<b>5,852,788</b>	<b>6,149,016</b>	<b>5.1%</b>	<b>680,472</b>	<b>738,372</b>	<b>8.5%</b>	<b>1,239,303</b>	<b>1,313,111</b>	<b>6.0%</b>	<b>7,972,502</b>	<b>8,390,931</b>	<b>5.2%</b>

Source: Oregon Dept of Revenue





# Imposed Property Taxes: School Districts

FY	Permanent Rate	% ch	Local Option	% ch
2011-12	1,438.9	1.9%	94.8	11.2%
2012-13	1,457.7	1.3%	86.9	-8.3%
2013-14	1,504.1	3.2%	113.2	30.3%
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2016-17	1,729.1	4.3%	170.4	9.7%
2017-18	1,809.8	4.7%	185.8	9.0%
2018-19	1,883.9	4.1%	200.1	7.7%
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2022-23	2,258.3	5.0%	271.7	7.3%
2023-24*	2,380.9	5.4%		

\*preliminary

Source: Oregon Dept of Revenue





# Back to Formula: What Formula Is and Is Not About

- Not about general cost reimbursement
- Not about revenue entitlement per student
- Not about funding adequacy or stability
- Not about outcomes or achievements
- Not about program quality or accountability
- **About Quantifying Relative Need of Districts for Funding, Given Student Demographics and School/District Characteristics**





# SSF Distribution: Principles

- **Share school funding sources statewide** - Allocate all state and local operating revenue combined
- **Let each district decide how to spend its allocation** - Give state aid in lump sum, not categorical grants
- **Adjust funding only for uncontrollable cost differences** - Justify revenue differences in a rational manner
- **Avoid incentives to increase district allocation** - Minimize classifications and set limits





# Some Terms in the Formula

- **ADM** - Average daily membership (ORS 327.006 and Rules by State Board of Education)
- **ADM<sub>w</sub>** - ADM adjusted by student demographics and/or district characteristics
- **Extended ADM<sub>w</sub>** - Higher of current or prior year ADM<sub>w</sub> to alleviate financial burden of a district in coping with sometimes abrupt change in ADM and associated ADM<sub>w</sub>





# Factors in the Formula

- **Student Demographics and School/District Characteristics**
  - Individualized Education Plan (or special education) and At Risk
  - Grades and School
  - Teacher Experience relative to the state average
- **Transportation Costs**
- **High Cost Disability Students**







Formula Revenue distributed to a school district  
= General Purpose Grant + Transportation Grant  
+ High Cost Disabilities Grant

- **Formula Grants based NOT on ADMw**
  - Transportation Grant
  - High Cost Disabilities Grant
- **General Purpose Grant**
  - \$4,500 (or Target Grant)
  - ADMw (Student Demographics and School/District Characteristics)
  - Teacher Experience





# Grants Not Dependent on ADMw

- **Transportation Grant** - 70% to 90% of approved transportation costs (depending on district's approved cost per ADM)
- **High Cost Disabilities Grant** – Up to district's sum of approved costs above \$30,000 per disability student; limited to \$55 million per year; prorated if statewide costs exceed the limit





# Student Demographics: IEP and At Risk

**Each student has One Weight** to begin with

	<b>Additional Weight</b>
Individualized education program (IEP)	1.00
English language learner (ELL)	0.50
Students in poverty	0.25
Neglected and delinquent	0.25
Students in foster homes	0.25
Pregnant and parenting	1.00





# School and District Characteristics:

## Grades and School

	<b>Weight</b>	<b>or Additional Weight</b>
Elementary district students	0.90	- 0.1
Union High district students	1.20	+ 0.2
Remote small elementary schools (K-8)	Varies	
Small high schools (9-12)	Varies	





# Summary: SSF Distribution to School Districts

Equals

**General Purpose Grant** (using extended ADMw)  
+ **Transportation Grant** (reimbursed at 70-90%)  
+ **High Cost Disabilities Grant** (up to district's sum of approved costs above \$30,000 per disability student)





# Now, Local Option Property Tax

- **Measure 50 and Measure 5**
- **Inception of Local Option Property Tax (1999)**
- **Local Option Property Taxes excluded from Formula – cap has changed over time**
- **Data**
- **Local Option Equalization Grants**





# Measure 50 and Measure 5

- In 1997, Ballot Measure 50 (revision to Measure 47 in 1996) amended the constitution to add a new limit to Oregon's local property tax system
- Measure 50 property tax limit is usually lower than the 1990 Measure 5 limit (Let's define the **difference** as M5 limit – M50 limit)
- Measure 50 allowed use of this difference with various restrictions
- School districts – needed legislative approval to use the difference







# Inception of Local Option Taxes for Schools: HB 2753 (1999)

- Allowed school districts to seek voter approval of a local option property tax for operational expenses (5-year limit)
- **Excluded local option property tax from local revenue in the school funding equalization formula**
- Made taxes excluded equal to the least of
  - (1) Actual collections of local option tax,
  - (2) 10% of formula revenue, or
  - (3) \$500 per weighted student (or per extended ADMw)
- Allowed districts to collect less than the full tax approved by voters
- **Excess collections over-the-cap flow into the pool of formula revenue**





# Excluded local option revenue from formula

- **SB 550 (2003)** increased the limits on the amount of local option revenue that are excluded from the definition of local revenues in the formula revenue to the lesser of (1) 15% of the district's formula revenue or (2) \$750 per extended ADMw
- **HB 2641 (2007)** increased limits (1) to \$1,000 per weighted student or (2) to 20% of formula revenue; still the lesser of the two
- **HB 2641 (2007)** also escalated the \$1,000 limit by 3% per year beginning in 2008-09
- **HB 4117 (2018)** increased limits (1) to \$2,000 per weighted student with 3% annual escalation beginning in 2019-20, or (2) to 25% of formula revenue received by the district; still the lesser of the two





# School District Local Option Property Taxes for FY 2022-23 (\$ mil)

<b>District Name</b>	<b>Amount</b>	<b>District Name</b>	<b>Amount</b>
<b>Corvallis 509J</b>	<b>10.0</b>	<b>Crow-Applegate-Lorane 66</b>	<b>0.4</b>
<b>Philomath 17J</b>	<b>1.3</b>	<b>Eugene 4J</b>	<b>24.9</b>
<b>Lake Oswego 7J</b>	<b>15.8</b>	<b>Siuslaw 97J</b>	<b>1.7</b>
<b>North Clackamas 12</b>	<b>24.0</b>	<b>Sweet Home 55</b>	<b>0.3</b>
<b>West Linn 3J</b>	<b>13.0</b>	<b>Portland Public SD</b>	<b>114.4</b>
<b>Seaside 10</b>	<b>2.1</b>	<b>Riverdale 51J</b>	<b>1.0</b>
<b>Sisters 6J</b>	<b>1.9</b>	<b>Falls City 57</b>	<b>0.1</b>
<b>Hood River 1</b>	<b>3.2</b>	<b>Beaverton 48J</b>	<b>40.9</b>
<b>Ashland SD #5</b>	<b>4.8</b>	<b>Tigard 23J</b>	<b>11.8</b>





# Local Option Equalization Grants (ORS 327.333)

- To provide substantial equity in opportunity among school districts in which electors support local option taxes for primary and secondary education
- Provide grant supplements to those districts that enact local option taxes and that have lower property wealth per student

School District	FY 2022-23
Beaverton 48J	\$1,966,282
Crow-Applegate-Lorane 66	\$26,088
Hood River 1	\$727,046
Philomath 17J	\$691,894
Sweet Home 55	\$244,934
Falls City 57	\$192,211
<b>State Total</b>	<b>\$3,848,455</b>

Source: Oregon Department of Education

# For More Information

- LEGISLATIVE REVENUE OFFICE
- 900 Court St. NE, Room 160
- Temporary location - 255 Capitol St NE (5h floor)
- Salem, OR 97310
- 503-986-1266
- <https://www.oregonlegislature.gov/lro>