
MEMORANDUM

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To: Members of the Education Subcommittee

From: Doug Wilson, Legislative Fiscal Office
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Date: March 24, 2015

Subject: State School Fund – HB 5017 Work Session Recommendations

State School Fund –Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 LFO Recommended
General Fund	5,129,904,792	6,322,625,891	6,445,322,634	6,912,858,941
Lottery Funds	545,904,513	327,374,109	327,374,109	342,141,059
<i>Combined General & Lottery Funds</i>	<i>5,675,819,305</i>	<i>6,650,000,000</i>	<i>6,772,696,743</i>	<i>7,255,000,000</i>
Other Funds	340,252	3,936,407	3,936,407	3,260,692
Federal Funds	22,449,100	0	0	0
Total Funds	\$5,698,598,657	\$6,653,936,407	\$6,776,633,150	\$7,258,260,692
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 roughly 567,000 students. It is the largest single appropriation in the state budget, accounting for almost 40% of the combined General Fund and Lottery Funds resources. These state resources are combined with local revenues and total over \$10.3 billion that are distributed to the various School Districts and Education Service Districts (ESDs) 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 combined number of students (ADM_r) and the additional weights result in the ADM_w on which the distribution of formula revenues is based. The total ADM_w for 2015-17 is estimated at approximately 700,000. 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 are estimated to total over \$3.6 billion for the 2015-17 biennium. The funds distributed through the

formula pay for the general purpose expenses of the districts (of which roughly 80% 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. Some of them 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 estimated amounts are generally based on current law; changes are proposed for two existing distributions and identified below.

Description	Estimated 15-17 Amount
*Local Option Equalization Grants – transfer to separate account for distribution – updated figure based on levies currently in place	\$2,859,866
*High Cost Disabilities Account – amount set in ORS – assumed increase of \$34 million for 2015-17 and requires law change	\$70,000,000
*Facilities Grants – for certain capital and equipment costs, amount set in ORS – assumed decrease of \$5 million and requires law change	\$15,000,000
Virtual School District	\$1,600,000
ESD Testing/Assessment Contract – amount reduced from ESD share of formula distribution	\$968,000
Network for Quality Teaching and Learning -- \$5 million is taken before SD/ESD split, and the remainder is taken in equal amounts from the SD share and ESD share	\$35,400,000
Talented and Gifted programs	\$350,000
Speech Language Pathologists	\$150,000
Long Term Care Facilities, Pediatric facilities, and Oregon School for the Deaf	\$30,000,000
*Small High School/District Supplement – requires passage of a bill to delay or remove sunset.	5,000,000

Those items above indicated by a “” are subtracted from the general distribution to School Districts and ESDs but still flow to districts based on the criteria unique to the item.*

Two new distributions are established in HB 5014.

- The first relates to English Language Learners (ELL) and totals \$12.5 million. Up to \$10 million may be used to support low performing school districts in ELL based on criteria developed by an advisory group. Funding will be used to support schools (estimated to be approximately 30 to 35 schools) for school improvement coaches, resources for implementing strategies to improve ELL performance according to a school’s improvement plan, and quarterly reviews on a school’s progress by the Oregon Department of Education (ODE). Another \$2.5 million will be used to implement a statewide ELL plan and for ODE to provide technical assistance, best practice support, and assist in implementing the Plan’s recommendations.

- The second new distribution is for a nutritional program which distributes \$2,395,593 for the purpose of providing a school lunch at no charge to those students who are currently eligible for a reduced priced lunch.

Adjustments to Current Service Level:

The Current Service Level (CSL) is \$6.777 billion (Executive Branch) and includes adjustments to the 2013-15 budget for increases in district compensation, the reduction in PERs rate for districts, health insurance cost increases, growth in student enrollment, changes in the overall ADMw, and estimated local revenue changes.

There are ten major adjustments to the CSL for the State School Fund and important features proposed in the Co-Chairs' plan and in the bill.

1. The amount allocated for full-day kindergarten is included at \$220 million, which is based on information provided by the Oregon Department of Education.
2. The \$100 million added during the 2013 Special Legislative Session is included and rolled-up for two years.
3. The amount allocated for the High Cost Disabilities account is increased by \$34 million bringing the total available for the biennium to \$70 million. This change will require a change in permanent law in another bill.
4. The amount allocated for the Facilities grants is reduced from \$20 million a biennium to \$15 million. The net change of \$5 million is distributed to School Districts and ESDs under the general school funding formula.
5. Two new distributions or carve-outs are added as described above. The Co-Chairs added \$15 million General Fund for the costs of the ELL and Nutrition related items.
6. The amount for the Local Option Equalization Grants Account has been updated to reflect the latest estimate by ODE for the current levies. The amount included in this bill is \$2,859,866.
7. The total amount of State School Fund is split evenly (50%/50%) between the two years of the biennium (also reflects school years).
8. This bill includes a trigger that would add General Fund resources to the State School Fund under certain conditions. If the May 2015 forecast for 2015-17 General Fund resources is above the corresponding amount from the March 2015 forecast, 40% of the increase would be dedicated to the State School Fund.
9. The initial Co-Chairs budget for the State School Fund was a combined \$7.235 billion General Fund and Lottery Funds. After the \$15 million added for the ELL and Nutrition related distributions and an additional \$5 million, the LFO recommendation is a combined \$7.255 billion. This amount represents a \$605 million or a 9.1% increase over the 2013-15 Legislatively Approved Budget and an approximately 5.0% increase over the amount included in the Governor's Recommend budget. If one factors in the growth in local revenues, the amount

distributed through the school funding formula assuming the recommended amount is \$956 million (9.6%) more than 2013-15 estimated level.

10. A shift between General Fund and Lottery Funds resources will likely be made at the end of Session to reflect the amount of Lottery Funds available based on the new Lottery Funds forecast and the use of Lottery Funds across the entire state budget.

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

General Fund Appropriation	\$ 6,912,858,941
Lottery Funds Expenditure Limitation	\$ 342,141,059
Other Funds Expenditure Limitation*	<u>\$ 3,260,692</u>
Total Funds	\$ 7,258,260,692

**The Other Funds limitation includes \$2,859,866 associated with the Local Option Equalization Grants Account and \$400,826 is state related timber revenues available to the State School Fund.*

LFO also recommends that the SSF be allocated between the two years of the biennium with 50% for the first year and 50% for the second year.

Accept LFO Recommendation

Sen. /Rep. _____ moves the LFO recommendation to HB 5017.

Budget Notes

There are no recommended Budget Notes.

Recommended Changes to Appropriation Bill:

The Legislative Fiscal Office recommends a budget of \$6,912,858,941 General Fund, \$342,141,059 Lottery Funds, and \$3,260,692 Other Funds and that House Bill 5017 be amended accordingly as in the attached amendment.

Please see the attached amendment (-2) for the LFO recommend changes to the bill.

Sen. /Rep. _____ moves the -2 amendment to HB 5017.

HB 5017 Final Subcommittee Action:

Final Motion:

Sen./Rep. _____ moves HB 5017 to the full committee as amended with a "do pass" recommendation.