

Possible “Disappropriation” Costs To Education and Human Services

K-12 EDUCATION BUDGET DETAILS

In order to answer the question of the effect on Lane County schools if the graduated income tax assessment is referred and rejected by the voters, some details are necessary.

Under the legislative revenue package – House Bill 2152 – Oregon will raise \$1.25 billion for the 2003-05 biennium. The largest portion of the revenue package comes from an increase in personal income taxes. The income tax surcharge will apply the tax rate to an individual’s tax liability. This surcharge will generate \$545 million for the state. Other parts of the legislative package include:

- ✓ The diversion of various fund balances and agency reserves - \$202.2 million
- ✓ Increases in business taxes - \$146.3 million
- ✓ A reduction in the Education Stability Fund which provides funding for the Oregon Opportunity Grant - \$122 million
- ✓ A reduction of the discount for early property tax payments - \$42 million
- ✓ The removal of the income tax deduction for medical expenses for well-off seniors - \$42 million.

The Legislature also passed House Bill 2825 which sets a procedure for a February 3, 2004 statewide special election to vote on all or part of the revenue package if it is referred to the voters by petition.

If the voters overturn the entire revenue package, the state would lose \$792 million in expected revenue. As a result funding would be reduced by \$9.9 million for community colleges and \$414 million for K-12 schools.

The legislature allocated \$5.2 billion to the Oregon Department of Education (ODE) for the 2003-05 State School Fund (SSF), \$667.5 million for the Oregon University System, and \$406.8, plus an additional \$10.7 million by the Emergency Board, for Community Colleges.

The K-12 allocation is to be distributed as follows:

- ✓ \$2.5909 billion (49.5%) for the 2003-04 year – approximately \$5,253 per student weighted¹, and
- ✓ \$2.6156 billion (50.5%) for the 2004-05 year – approximately \$5,300 per student weighted.

An additional \$100 million may be allocated in 2004-05 if certain state General Fund and lottery revenue targets are reached as outlined in HB 5077.

Of the \$5.2 billion dollars allocated to the ODE, approximately \$18 million will be distributed to specific districts and will not be available to all districts. For example:

- ✓ \$400,000 will be dedicated to Local Option Equalization Grants – SB 5554.
- ✓ \$5 million will be dedicated to the Small School Districts Supplement Fund for grants to schools with less than 8,500 weighted students and with small high schools of less than 350 students – SB 550.
- ✓ \$12 million will be transferred to the High Cost Disabilities Grant for schools with special needs costs exceeding \$25,000 per student – SB 550.
- ✓ \$600,000 (approximately) will be used to increase 19 school districts to 90% reimbursement for approved transportation costs and 19 school districts to 80% reimbursement for approved transportation costs – SB 550

These specifically allocated funds total \$18 million of the \$5.2 billion, leaving approximately \$5.18 billion to be distributed equally via the State School Funding Formula.

Should the graduated income tax assessment component of HB 2152 be referred to voters and rejected, HB 5077 directs the reductions to schools as follows: the 2004-05 allocation of \$2.6156 billion will be reduced by \$285 million. If the entire revenue package for schools is referred and rejected by the voters, then \$414 million will be cut from the 2004-05 appropriation of \$2.6156 billion.

As you can see the actual reduction for local schools will depend on their size, the number of high cost special needs students and transportation costs.

BEST CASE For Education

Due to the 49.5% - 50.5% allocation between the 2 years of the 2003-05 biennium and

¹ The Average Daily Membership weighted (ADMw) is different from the number of students in a school district. As a result of legislative action during the passage of Ballot Measure 5 schools receive additional funds for special needs students. For example students on an Individual Education Plan (IEP) receive an additional 1.0 weight, non-English speaking students receive an additional .5 weight, there are seven categories of weights. Therefore a school district with an enrollment of 17,900 students Average Daily Membership (ADM) could have an ADMw of 20,600.

if the funding stays whole at \$5.2 billion, the average funding per Average Daily Membership weighted (ADMw) will increase from \$5,258 to \$5,300. In 2004-05, schools qualifying for High Cost Special Education students, Small High School, Facility Grants, and higher transportation reimbursements (90% for the highest 19 districts and 80% for the next 19 districts) could receive additional funding. Of course, there is one other best case – the tax increase stays in place and the state revenue picture improves such that \$100 million is added to the education funding picture.

WORST CASE For Education

If the entire tax increase is repealed, the disappropriation for education is \$414 million. The Education Service District (ESD) share of this money is 4.85% and K-12 is 95.15%. This results in a statewide average 2004-05 K-12 funding of \$4,714/ADMw. Again, some districts would receive extra money for High Cost Special Education students, Small High School, Facility Grants and higher transportation reimbursements for 38 small, rural districts.

Summary of Impact for K-12 Education

If the tax increase is repealed, statewide K-12 funding average per student weighted is reduced from 2003-04 average of \$5,258 per student to \$4,714 – a loss of \$544 per student weighted.

The loss for 2004-05 is anticipated to be a change from \$5,300 to \$4,714 – a loss of \$586 per student weighted.

ESD's will lose approximately \$30/ADMw.

COMMUNITY COLLEGE BUDGET DETAILS

Community colleges saw their Legislative Approved Budget of \$462 million for the 2001-2003 biennium reduced by 10.7% to \$417.5 million for the 2003-2005 biennium. In an effort to resolve outstanding issues surrounding the distribution formula, the Emergency Board provided an additional \$10.7 million General Fund appropriation to community colleges for distribution after Jan. 1, 2004 and after the proposed distribution formula has been acted upon by the State Board of Education.

Summary of Impact for Lane Community College

The result of this legislatively approved budget is a reduction to LCC. However, since their budget was built on a lesser amount than the final approved appropriation, LCC will not have to make further reductions in the 2004-2005 school year should the Tax Surcharge measure be rejected by the voters. The net reduction to LCC over the biennium totals \$900,000 or \$450,000 per year. Statewide HB 5077, the Omnibus and Disappropriation Bill, will reduce community college funding by \$9.9 million should

voters repeal HB 2152.

HUMAN SERVICE BUDGET DETAILS

Human Services in Lane County, including Senior and Disabled Services, will experience a reduction of approximately \$6-8 million for 2003-05.

The remainder of the Human Services reduction for Lane County will include the following:

- **Community Corrections** (including P&P) – \$1.8 million cut
- **Children/Adults/Families** – Some share of \$17.4 million statewide cut, including reduced funding for Employment Related Day Care (ERDC), reduction in foster care/adoption rates, reduction in TANF cash grants, and elimination of post-secondary day care assistance.
- **Health Services** – Some share of \$224.1 million statewide cut, including eliminating coverage to about 20 percent of the current OHP enrollees, eliminating the medically needy program, reduce Crisis Mental Health programs for adults and children, reduce A&D treatment capacity, and eliminate tobacco user prevention funding.
- **Lottery Funds** – Some share of \$5.5 million statewide and all but eliminating the gambling addiction programs
- **Healthy Start** – 65% reduction in service level
- **Seniors and People with Disabilities** – LCOG's Senior and Disabled Services portion of this reduction is estimated to be \$826,000 as follows: Medicaid Long Term Care Levels 12 and 13 (\$205,000), General Assistance Lite Program (\$216,000), and Oregon Project Independence program (\$405,000).
- **Crisis Relief Nurseries** – 57% reduction in service level
- **Oregon Youth Authority** – Some share of a reduction of 60-75 close custody beds statewide plus some share of a reduction of 50-60 residential and foster care beds statewide plus 10% cut in parole-probation funds for youth

Attached are two documents that outline the Legislative Approved Budget for the 2003-2005 biennium and a table which summarizes reductions to local schools, Lane Community College, and Senior and Disabled Services if the Tax Surcharge is referred to the voters and rejected.

*LCOG: C:\WINNT\PROFILES\CLWP039\LOCAL SETTINGS\TEMPORARY INTERNET FILES\OLK1C\GRADUATED INCOME TAX LOSS TO SCHOOLS SS2.DOC
Last Saved: December 2, 2003*