



Understanding Oklahoma's School Funding Formula and Student-Centric Alternatives



Oklahoma Educated Workforce Initiative

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Funding Oklahoma's Schools

One of the central issues addressed in most education reform efforts is school funding. The topic raises many questions. Do schools have the funding that they need in order to perform? Where does the money come from to fund schools? How is the money allocated among school districts? How do other states disperse school funding? Is the current way to fund schools the best way? What are some alternatives? All of these questions are asked and debated every time there is a call for education reform in Oklahoma.

Studying a state's school funding formula is becoming trendy across the country. Within the last year, many states are forming commissions to study how their state funds schools and if it aligns with current and future needs. Some examples include:

- Pennsylvania formed the Basic Education Funding Commission in 2014, which is tasked with developing and recommending to the General Assembly a new formula for distributing state funding for basic education to Pennsylvania school districts. The new formula will take into account relative wealth, local tax effort, geographic price differences, enrollment levels, local support as well as other factors.
- Georgia Governor's Education Reform Commission was announced in Gov. Deal's State of the State address in January. The commission was formed to study the state's education system, including its funding formula, and provide recommendations to improve the system, increase access to early learning programs, recruit and retain high-quality instructors and expand school options.
- Maine's Report of the Commission to Study the Adequacy and Equity of Certain Cost Components of the School Funding Formula was issued by the Maine Education Policy Research Institute at the University of Southern Maine in January, 2015. Creation of the Commission is the latest step in a multi-year process undertaken to review the state's education funding formula, the Essential Programs and Services (EPS) funding formula.
- The Illinois Legislature created the Education Funding Advisory Committee in 2014 to study the development of a formula for state funding of schools based on local needs.
- Montana is also considering similar legislation that would create a School Funding Interim Commission and make the commission permanent, meeting every 10 years to assess the needs and cost of the state's education system.

As we approach the 25th anniversary of House Bill 1017, the landmark 1990 legislation that changed education and education funding in Oklahoma, it is fitting to review Oklahoma's current system for school funding to ensure it is meeting the needs of students today. We must also align our education system with the jobs of the future, and funding plays a role in that debate. It is important to know where we are now to know where we need to go. This paper will look at Oklahoma's school funding

formula, the revenue sources for education funding, and potential alternative ways to fund education in Oklahoma, with examples from other states.

Truths about Education Funding

Education funding in Oklahoma is a convoluted subject. Most Oklahoma citizens are unaware of how Oklahoma's school districts are funded and how much money is spent per student. For fiscal year (FY) 2013, the current expenditures per pupil in Oklahoma were \$7,743.¹ This figure is based on average daily attendance (ADA). The State Board of Education determines the legal average daily attendance (ADA) for each school district by dividing the aggregate days of pupils present in each school district during a year or other specified time period by the number of days taught in each school district.²

In a December 2013 survey of Oklahomans, only 19 percent of respondents were able to estimate the correct range of state spending per student, while even more survey respondents were off the mark in estimating total expenditures per student.³ Twenty-nine percent of survey respondents thought that per student state expenditures were \$4,000 or less, while 38 percent said they "don't know."⁴ Sixty-seven percent of respondents underestimated or could not give an answer or guess on per-student total expenditures.⁵ This section of the paper will explain where the money comes from to fund elementary and secondary schools in Oklahoma, as well as clarify any misconceptions that involve K-12 education funding.

Revenue Sources

Revenue for Oklahoma school districts comes from several sources. The largest source of revenue comes from the state. School districts also get money from local municipalities, counties, and the federal government.

State Revenue Sources

The state is the largest source of revenue for education funding. The main sources of state revenue are the following:

- State Aid Allocations
- Motor Vehicle Collections
- School Land Earnings

¹ "Oklahoma Cost Accounting System School District Financial Information," Oklahoma State Department of Education, accessed May 1, 2015, https://sdeweb01.sde.ok.gov/ocas_reporting/.

² 70 O.S. § 10-103.1

³ Paul DiPerna, "Oklahoma K-12 & School Choice Survey: What Do Voters Say About K-12 Education?" (Polling Paper No. 18, The Friedman Foundation for Educational Choice, 2014), 10, accessed May 9, 2014, <http://www.edchoice.org/Research/Reports/Oklahoma-K-12-and-School-Choice-Survey.aspx>; the survey included 606 telephone interviews from December 5 to 16, 2013.

⁴ Ibid.

⁵ Ibid.

- Gross Production Tax
- Rural Electrification Association Cooperative (R.E.A.) Tax

State Aid Allocations

The state aid allocations are the monies that are distributed among the school districts based upon the state funding formula calculations. This is the largest state revenue source for education funding. The formula by which the calculations are derived will be discussed in depth in a later section of this report. The FY 2014 state aid allocations were \$1.8 billion.⁶

Motor Vehicle Collections

Oklahoma school districts receive 36.2 percent of all revenue generated by motor vehicle taxes and fees.⁷ That portion of the motor vehicle collections is apportioned to the various school districts that are eligible to receive the funds. To be eligible, a school district must make an ad valorem tax levy of 15 mills and maintain nine years of instruction.⁸ The school district must also be authorized by the State Board of Education to maintain ten years of instruction.⁹ If eligible, each school district will receive the same amount of funds as such district received in the corresponding month of the preceding year.¹⁰ If any district was not eligible the preceding year, that district shall receive an amount equal to the average daily attendance of the applicable year multiplied by the average daily attendance apportionment within their county for each appropriate month.¹¹ For FY 2014, the revenue generated for schools from motor vehicle collections totaled \$260.7 million.¹²

School Land Earnings

The federal government gave a substantial amount of federal lands to the Oklahoma Territory when the United States Congress passed the Organic Act in 1890. One provision of the Organic Act created the School Land Trust and reserved Sections 16 and 36 of each township in the western half of the state for the use of public schools.¹³ The Commissioners of the Land Office administer those lands, and the revenue derived from them is allocated to school districts across the state on the basis of average daily attendance.¹⁴ That revenue was supplemented by an additional five million dollars

⁶ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report* (Oklahoma State Department of Education, 2014), 1, accessed February 3, 2015, https://sdweb01.sde.ok.gov/OCAS_Reporting/docs/RevenueReportFromOcasStatewide2014.pdf.

⁷ 47 O.S. § 1104

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

¹² Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

¹³ “History of the Trust,” The Commissioners of the Land Office, accessed May 6, 2014, <http://www.clo.ok.gov/Administration/CLOHistory.htm> [hereinafter “History of the Trust”].

¹⁴ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document* (Oklahoma City: Oklahoma State Department of Education, 2014), 8, accessed February 3, 2015, <http://ok.gov/sde/sites/ok.gov.sde/files/documents/files/FY2014%20TAD.pdf>.

given to the Trust Fund by the federal government to compensate the state for the lands in the eastern half of Oklahoma since they did not hold title to those lands.¹⁵ In FY 2012, the Commissioners of the Land Office distributed \$140.6 million for the benefit of public education.¹⁶ The FY 2014 distributions from the Commissioners of the Land Office were \$93.4 million.¹⁷

Gross Production Tax

A portion of each county's proceeds from the gross production tax, which is levied on oil, gas, and other minerals, is allocated back to each county for distribution to the county's school districts on the basis of average daily attendance. The school districts must make an ad valorem tax levy of 15 mills for the current year and maintain twelve years of instruction in order to receive gross production tax revenue.¹⁸ For FY 2014, the state allocated 9.3 percent of gross production tax revenues (\$79.7 million) to the public school districts.¹⁹ That is 2.9 percent of the total state revenue given to Oklahoma's school districts.

Rural Electrification Association Cooperative (R.E.A.) Tax

Ninety-five percent of all revenue generated by the R.E.A. tax is apportioned and paid each month by the Oklahoma Tax Commission to the school districts of the respective counties in which the remitting cooperative owns and operates property.²⁰ The apportionment of the monies collected is based upon the proportion of the number of miles of electrical distribution lines of a remitting cooperative in a school district to the total number of miles of such lines owned and operated by the cooperative within the state.²¹ The total R.E.A. tax revenue for FY 2014 was \$39 million.²²

Local and County Revenue Sources

The main local and county revenue sources are the following:

- Ad Valorem Tax Levies
- County Apportionment
- Miscellaneous Revenues
- Resale Property Fund

Ad Valorem Tax Levies

¹⁵ "History of the Trust"

¹⁶ "2012 Annual Report," The Commissioners of the Land Office, accessed June 30, 2014, <http://www.clo.ok.gov/2012CLOAnnualReport.pdf>

¹⁷ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

¹⁸ 68 O.S. § 1004

¹⁹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.; Oklahoma Tax Commission, *Annual Report of the Oklahoma Tax Commission – Fiscal Year Ended June 30, 2014* (Oklahoma City: Oklahoma Tax Commission, 2014), 5, accessed February 3, 2015, <http://www.tax.ok.gov/reports/AR2014.pdf>.

²⁰ 68 O.S. § 1806

²¹ Ibid.

²² Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

The ad valorem tax (property tax) is the most common source of local revenue for schools in Oklahoma and throughout the rest of the United States. This tax is levied in mills against real, personal, and public service property.²³ The Oklahoma Constitution provides for seven different ad valorem tax levies to help fund public schools at the local level.²⁴ They include four General Fund levies, a Building Fund levy, a County 4-mill levy, and a Sinking Fund levy. The four General Fund levies add up to a total of 35 mills and are together known as the 35-mill Ad Valorem tax. The levies that make up this particular ad valorem tax are:

- Certification of Need Levy – 15 mills
- County Levy – 5 mills (minimum)
- Emergency Levy – 5 mills (maximum)
- Local Support Levy – 10 mills (maximum)

The Certification of Need Levy allows for 15 mills on the dollar valuation of all taxable property in a district to be levied for the benefit of the schools of such district once the board of education of that district receives certification of need for the financial support of the schools.²⁵ The County Levy requires that at least five of the 15 mills levied be allocated to the schools by the County Excise Board.²⁶ Both the Emergency Levy and the Local Support Levy have to be approved by a majority of voters during an annual school district election.²⁷ The FY 2014 school revenues generated by the 35-mill Ad Valorem tax totaled \$1 billion.²⁸

The other three ad valorem tax levies that help fund public schools at the local level are the following:

- Building Fund Levy – 5 mills (maximum)
- County 4-mill Levy
- Sinking Fund Levy

Like the Emergency Levy and Local Support Levy, the Building Fund Levy has to be approved by a majority of voters in an annual school election. The Constitution provides that each school district may levy up to five mills for the purpose of erecting, remodeling or repairing school buildings, and for purchasing furniture.²⁹ The 4-mill Countywide Levy is a constitutional provision that allows counties to divide the 4 mill tax on all taxable property among the school districts in each county on the basis of each district's average daily attendance.³⁰ For FY 2014, \$116.5 million were allocated to education from the county 4-mill tax.³¹ The Sinking Fund Levy is determined through a bond issue

²³ 1 mill is 1/1000 of a dollar or .001

²⁴ Oklahoma Constitution art. X, sec. 9, 10, 26, 28

²⁵ Oklahoma Constitution, art. X, sec. 9(c).

²⁶ Oklahoma Constitution, art. X, sec. 9(a).

²⁷ Oklahoma Constitution, art. X, sec. 9(d), 9(d-1).

²⁸ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

²⁹ Oklahoma Constitution, art. X, sec. 10(a).

³⁰ Oklahoma Constitution, art. X, sec. 9(b).

³¹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

election with 60 percent majority vote. It allows each school district to borrow money as long as it does not exceed 10 percent of the school district's total assessed valuation.³²

County Apportionment

The mortgage tax provides revenue to each county that a county treasurer directs to the county's common school fund of the county. It is distributed among the school districts in that county, like all other common school funds, on an average daily attendance basis.³³ County apportionment provided \$21 million to elementary and secondary schools in FY 2014.³⁴

Miscellaneous Revenues

For FY 2014, \$86 million in miscellaneous local revenues were received by elementary and secondary schools.³⁵ Miscellaneous revenue sources include tuition and fees, rental disposals and commissions, earnings-investments and bond sales, and reimbursements.³⁶

Resale Property Fund

The Resale Property Fund contains monies from the proceeds of sales of property acquired by the county at resale and from penalties, interest, and forfeitures due to delinquent ad valorem taxes on real or personal, tangible or intangible properties.³⁷ Any balance that remains in the resale property fund after the necessary expenditures have been made will be apportioned to the county, city or town of such county, and to the school districts of the county. The funds must be applied by each entity to the payment of any delinquent warrants and then to its current general fund.³⁸ For FY 2014, the county allocated \$2.4 million from the Resale Property Fund to Oklahoma school districts, which is less than one percent of the total revenue collected from local and county sources for that year.³⁹ The resale property fund is not a significant source of revenue for funding Oklahoma's school districts.

Federal Revenue Sources

³² Oklahoma Constitution, art. X, sec. 26.

³³ 68 O.S. § 1910

³⁴ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

³⁵ *Ibid.*

³⁶ *Ibid.*

³⁷ 68 O.S. § 3137

³⁸ *Ibid.*

³⁹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

While state funding to Oklahoma’s elementary and secondary education slightly increased from 2011 to 2012, federal funds sharply declined by 17.2 percent in the same period.⁴⁰ That decline was not unique to Oklahoma. The total amount of federal funding for K-12 education in the United States dropped by 21.6 percent due to a loss in education funds under the American Recovery and Reinvestment Act of 2009 (ARRA).⁴¹ This loss occurred because the federal government allowed most of the emergency fiscal relief aid to expire at the end of FY 2011.⁴² In FY 2012, Oklahoma received \$755 million in federal funds to go towards elementary and secondary education.⁴³ The federal government distributed only \$682 million in federal aid to Oklahoma education in FY 2014.⁴⁴

The federal government distributes education funds through the state, as well as giving direct federal aid to elementary and secondary education in Oklahoma. Some of the targets of federal revenue are:

- Disadvantaged Students
- Individuals with Disabilities
- Federal Direct
- Child Nutrition Programs
- Title IV, V, VI, and X Programs
- Federal Vocational Education

Disadvantaged Students

Title I funding goes towards improving the academic achievement of the disadvantaged. The federal government allocates funds to Title I to make sure that all children have an equal opportunity to obtain a high-quality education while also scoring proficient on state academic assessments and standards.⁴⁵ The purpose of Title II funding is to help schools and districts improve teacher and principal quality in order to increase academic achievement of all students.⁴⁶ Like Title I and Title II, Title III funding goes towards increasing academic achievement. The purpose of Title III is to ensure that limited English proficient (LEP) students and immigrant children meet the same state academic content and student achievement standards as all other children.⁴⁷ In FY 2014, \$193.3 million in federal funds were allocated to Title I, Title II, and Title III in the state.⁴⁸

⁴⁰ National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending* (Washington, DC: National Association of State Budget Officers, 2013), 14, 16, accessed June 3, 2014, <http://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202011-2013%20Data%29.pdf>.

⁴¹ Ibid., 14.

⁴² Michael Leachman and Chris Mai, *Most States Funding Schools Less Than Before the Recession* (Washington, DC: Center on Budget and Policy Priorities, 2013), 6, accessed June 3, 2014, <http://www.cbpp.org/files/9-12-13sfp.pdf>.

⁴³ National Association of State Budget Officers, *State Expenditure Report: Examining Fiscal 2011-2013 State Spending*, 16.

⁴⁴ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 3.

⁴⁵ “Federal Programs,” Oklahoma State Department of Education, accessed May 20, 2014, <http://ok.gov/sde/federal-programs> [hereinafter “Federal Programs”].

⁴⁶ Ibid.

⁴⁷ “Federal Programs”

⁴⁸ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

Individuals with Disabilities

The federal government allocates funds every year to individuals with disabilities through the Individuals with Disabilities Education Act (IDEA).⁴⁹ The funds are awarded to the Oklahoma State Department of Education by the United States Department of Education to flow-through to the local educational agencies (LEA) based upon an LEA's application for funds.⁵⁰ The flow-through funds are awarded on a formula based on the number of children with disabilities who are between the ages of three and 21 served on December 1, 1999.⁵¹ The funds are also awarded based upon the total number of students residing in the district and the poverty level of students enrolled in the LEA.⁵² In FY 2014, the federal government allocated \$128.3 million to Oklahoma for children with disabilities.⁵³

Federal Direct Grants

Federal direct grants include programs like Rural and Low Income Schools (RLIS), Impact Aid, and Title VII - Indian Education. The RLIS program authorizes formula grant awards to states to make grants to eligible districts.⁵⁴ Those districts may use the RLIS funds to support an array of local activities that support student achievement.⁵⁵ The Impact Aid program disburses payments to local educational agencies that are financially burdened by federal activities.⁵⁶ The Impact Aid program also provides technical assistance and support services to staff.⁵⁷ Title VII funding goes towards supporting the efforts of local educational agencies, Indian tribes and organizations, and other entities to meet the educational and culturally related academic needs of American Indian and Alaska Native students while also ensuring that such students can meet the same State student academic achievement standards as all other students are expected to meet.⁵⁸ In FY 2014, the federal government directly allocated \$62.4 million to Oklahoma education.⁵⁹

Child Nutrition Programs

The federal government allocates funds every year towards Child Nutrition programs. Child Nutrition has seven separate programs that were created in order to make sure students have access

⁴⁹ Oklahoma State Department of Education, *FY 2014 Special Education Funding Manual for the Individuals with Disabilities Education Act (IDEA) Part B* (Oklahoma City: Oklahoma State Department of Education – Special Education Services, 2013), 1, accessed May 28, 2014, <http://ok.gov/sde/sites/ok.gov.sde/files/Funding%20Manual%20FY2014.pdf>.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

⁵³ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

⁵⁴ “Title VI,” Oklahoma State Department of Education, accessed May 30, 2014, <http://ok.gov/sde/title-vi>. [hereinafter “Title VI”].

⁵⁵ Ibid.

⁵⁶ “Impact Aid Programs,” U.S. Department of Education, accessed March 6, 2015, <http://www2.ed.gov/about/offices/list/oese/impactaid/index.html>. [hereinafter “Impact Aid Programs”].

⁵⁷ Ibid.

⁵⁸ “Title VII – Indian, Native Hawaiian, and Alaska Native Education,” U.S. Department of Education, accessed March 6, 2015, <http://www2.ed.gov/policy/elsec/leg/esea02/pg98.html>.

⁵⁹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

to nutritionally adequate meals during the school year as well as during summer vacation.⁶⁰ In FY 2014, Child Nutrition programs in Oklahoma were allocated \$38.6 million from the federal government.⁶¹

Title IV, V, VI, and X Programs

In FY 2014, the federal government allocated \$14 million to Oklahoma's common education fund for the purpose of Title IV, V, VI, and X programs.⁶²

Title IV. Title IV of the No Child Left Behind Act of 2001 is titled 21st Century Schools.⁶³ One purpose of this program is to provide opportunities for communities to establish and expand community learning centers.⁶⁴ States apply for grants through the U.S. Department of Education in order to distribute funds to the qualifying school districts that wish to participate.⁶⁵

Title V. Title V is the portion of the No Child Left Behind Act that allocates funds to states for the purpose of promoting informed parental choice and innovative programs.⁶⁶ One such program is the charter school program. The purpose of the charter school program is to provide financial assistance for the planning, design, and implementation of charter schools, evaluating the effects of charter schools, expanding the number of high-quality charter schools across the nation, and encouraging states to provide support for charter schools through financing that is commensurate to the amount that states provide for traditional public schools.⁶⁷ State educational agencies can apply for grants in order to conduct a charter school grant program.⁶⁸ This program is currently not funded.

Title VI. This title includes the Rural Education Achievement Program (REAP), which is designed to assist rural school districts in using federal resources more effectively in order to improve the quality of educational instruction and student academic achievement.⁶⁹ In 2012, this program received \$3.5 million in federal funding.⁷⁰

Title X. Title X contains the McKinney-Vento Homeless Education Assistance Program. The purpose of this program is to ensure that each homeless child has access to the same free and appropriate public education as other children.⁷¹

⁶⁰ "Federal Programs"

⁶¹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

⁶² Ibid.

⁶³ "Title IV – 21st Century Schools," U.S. Department of Education, accessed May 28, 2014, <http://www2.ed.gov/policy/elsec/leg/esea02/pg55.html> [hereinafter "Title IV – 21st Century Schools"].

⁶⁴ "Title IV – 21st Century Schools"

⁶⁵ Ibid.

⁶⁶ No Child Left Behind Act of 2001, Public Law 107-110, 107th Congress. (January 8, 2002), §§ 501 et seq.

⁶⁷ No Child Left Behind Act of 2001, Public Law 107-110, 107th Congress. (January 8, 2002), §§ 5201 et seq.

⁶⁸ No Child Left Behind Act of 2001, Public Law 107-110, 107th Congress. (January 8, 2002), §§ 5202 et seq.

⁶⁹ "Title VI"

⁷⁰ Ibid.

⁷¹ "Title X, Part C," Oklahoma State Department of Education, accessed May 30, 2014, <http://ok.gov/sde/title-x-part-c>.

Federal Vocational Education

The Carl D. Perkins Vocational and Technical Education Act provides for the federal government to appropriate money to each state in order to provide vocational-technical education programs and services to youth and adults.⁷² In FY 2014, the federal government allocated \$5.4 million to Oklahoma State Department of Education for the purpose of vocational education.⁷³

Dedicated vs. Appropriated Revenue

Dedicated revenues and appropriated revenues are the two major categories of state money used to fund Oklahoma's school districts. State-dedicated revenues are established in law and are rarely changed by the Legislature. The principal sources of state-dedicated revenues have been discussed at length in this report under "State Revenue Sources" and include the following:

- Gross Production Tax
- Motor Vehicle Collections
- Rural Electrification Association Cooperative (R.E.A.) Tax
- School Land Earnings

Appropriated revenues are the monies available to the state from taxes that the Legislature allocates from the general revenue fund. Common education has to compete with higher education, transportation, corrections, and other state agencies to receive their share of the available money. In FY 2012, the Legislature appropriated more than \$2.3 billion from the general fund (includes other sources like lottery fund, educational reform and educational technology funds) to common education, which was 16.5 percent of the state's total expenditures.⁷⁴ Twenty states had general fund expenditures for common education that were less than Oklahoma. Some of the main educational targets of appropriated revenues are the following:

- Foundation and Salary Incentive Aid
- Flexible Benefit Allowance – Certified/Support
- Purchase of Textbooks
- Alternative and High Challenge Education
- National Board Certified Bonus
- ACE Remediation
- ACE Technology
- School Lunch – State Matching
- Advanced Placement Incentives
- School Consolidation Assistance Fund

⁷² "Perkins Education Act," U.S. Department of Education, accessed May 21, 2014, <http://www2.ed.gov/offices/OVAE/CTE/perkins.html>.

⁷³ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

⁷⁴ National Association of State Budget Officers, 16.

- Oklahoma Parents as Teachers
- Driver Education

A few of these targets are described in detail below.

Foundation and Salary Incentive Aid

This revenue is distributed through the state aid formula and is the primary funding provided to Oklahoma school districts. It will be explained in greater depth in the next section.

Flexible Benefits Allowance – Certified/Support

Each year the State Department of Education must appropriate money for the benefits provided for certified teachers and the support staff of the schools. This is typically one of the largest targets of appropriated dollars. In FY 2014, the Flexible Benefits Allowance for certified staff was \$244.3 million and the appropriation for support staff benefits was \$123.4 million.⁷⁵

Purchase of Textbooks

Each year the Legislature allocates monies for the purchase of textbooks for school districts. The monies are sent directly to the school districts based upon the audited end-of-year average daily attendance of the preceding school year multiplied by \$55.⁷⁶ Each year the textbook allocation for each school district is calculated in July and adjusted in December. In order to make adjustments, the State Department of Education retains not less than one percent from the total amount appropriated for textbooks.⁷⁷ The Legislature appropriated \$33 million for textbooks for FY 2014.⁷⁸

Alternative and High Challenge Education

Appropriations for Alternative and High Challenge Education programs provide local school districts and multidistrict cooperatives the funding to create alternative education opportunities to at-risk students. In FY 2014 \$15 million were appropriated to provide education to students at-risk of not completing a high school education.⁷⁹

National Board Certified Bonus

In 1997, Senate Bill 202 created the “Education Leadership Oklahoma Act.” Originally the act offered scholarships for teachers to pursue National Board certification; however, the following

⁷⁵Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 1.

⁷⁶ 70 O.S. § 16-114a

⁷⁷ Ibid.

⁷⁸ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 14.

⁷⁹ Ibid., 10.

year, Senate Bill 770 added an annual bonus of \$5,000 for teachers completing the National Board certification process.⁸⁰ The appropriation for the Education Leadership Oklahoma Act in FY 2014 totaled \$14.9 million.⁸¹ This total also includes bonuses for Oklahoma school psychologists, speech-language pathologists, and audiologists.

ACE Remediation

The Achieving Classroom Excellence (ACE) Act of 2005 requires that students who do not score at least at the proficient level on the seventh-grade criterion-referenced tests in reading and mathematics be provided remediation for the purpose of reaching the proficient level on the eighth-grade criterion-referenced tests.⁸² The Legislature allocates a certain amount of money from the general fund to school districts for the purpose of ACE remediation. Based on the most current test results, a maximum of \$240 for each student scoring at the unsatisfactory level and a maximum of \$180 for each student scoring at the limited knowledge level shall be disbursed to each school district.⁸³ In FY 2014, \$8 million were allocated to school districts for the costs associated with ACE remediation.⁸⁴

ACE Technology

Schools with grades 8-12 are allocated monies based upon the audited end-of-year Average Daily Membership (ADM) in grades 8-12 of the preceding year in order to purchase technology equipment. The equipment they purchase is used to conduct on-line student testing required by the Achieving Classroom Excellence Act of 2005.⁸⁵ This money is allocated once the School Consolidation and Assistance Fund exceeds \$5 million.⁸⁶

School Lunch – State Matching

The State of Oklahoma must appropriate dollars each year to receive the federal matching dollars for the school lunch program. In FY 2014 the state matching dollars totaled \$4.6 million.⁸⁷

Advanced Placement Incentives

⁸⁰ 70 O.S. § 6-204 -204.5

⁸¹ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 14.

⁸² 70 O.S. § 1210.522

⁸³ 70 O.S. § 1210.526

⁸⁴ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 9.

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*

⁸⁷ *Ibid.*, 14.

Schools with Advanced Placement programs are allocated money every year for course materials, school incentives, and training.⁸⁸ In FY 2014, \$3.5 million were allocated to schools (grants), universities (for AP institutes), and to the College Board (for test fee assistance) in order to expand the Advanced Placement program.⁸⁹

School Consolidation Assistance Fund

School districts that consolidate or annex are provided additional funds from the School Consolidation Assistance Fund in order to create a smooth transition for an annexation of a school district or the newly-consolidated school district. The purpose of the appropriated funds is to provide a single one-year allocation of funds needed for the purchase of uniform textbooks, employment of certified personnel, employment assistance for personnel of the districts who are not employed by the consolidated or annexing district, furnishings and equipment for classrooms and laboratories, purchase of additional transportation equipment, and renovation of existing school buildings and construction or other acquisition of school buildings.⁹⁰ The funds are allocated to consolidated school districts on the basis of combined average daily membership (ADM) of the school year preceding the first year of operation of the consolidated school district.⁹¹ The combined ADM of the district formed by consolidation cannot count more than 200 ADM for any one school district.⁹² The allocations from the School Consolidation Assistance Fund are calculated by multiplying the combined ADM by \$2,500.⁹³ The funds are allocated to an annexed school district based on a maximum of 200 ADM of the annexed district for the school year preceding the first year of operation of the school district resulting from the annexation. The allocations from the School Consolidation Assistance fund are calculated by multiplying the allowed amount of ADM by \$5,000.⁹⁴ Once a capped amount of \$5 million is reached, the excess funds are allocated to ACE Technology.⁹⁵

One of the sources for monies in the School Consolidation Assistance Fund is the Oklahoma Lottery. Five percent of lottery earnings go into this fund.⁹⁶ As of November 2014, the Oklahoma Lottery has contributed more than \$65 million to the Teacher's Retirement System Dedicated Revenue Revolving Fund and the School Consolidation and Assistance Fund.⁹⁷

Oklahoma Parents as Teachers

⁸⁸ 70 O.S. § 1210.703

⁸⁹ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 10.

⁹⁰ 70 O.S. § 7-203(b)

⁹¹ 70 O.S. § 7-203(d)

⁹² *Ibid.*

⁹³ *Ibid.*

⁹⁴ 70 O.S. § 7-203 (d, e)

⁹⁵ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 11.

⁹⁶ "Oklahoma Lottery Benefits Oklahoma Education," Oklahoma Lottery Commission, accessed January 19, 2015, http://www.lottery.ok.gov/beneficiary_vhtml.asp.

⁹⁷ *Ibid.*

The Oklahoma Parents as Teachers program received \$1 million for FY 2014. This program reaches out to parents of children from birth to age three in order to improve early development through a parent school partnership.⁹⁸

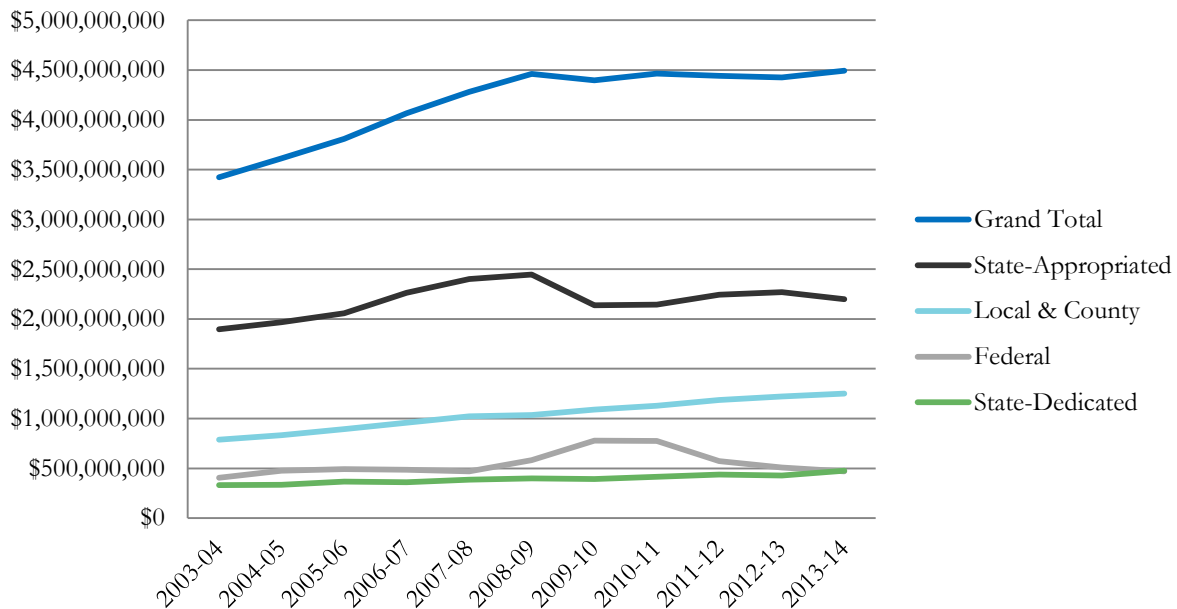
Driver Education

The Legislature often appropriates money to school districts as a reimbursement for providing Driver Education programs during the preceding fiscal year. School districts are reimbursed \$95 per pupil for courses offered before or after the regular school day and \$82.50 per pupil for courses offered during the regular school day, the summer, or on Saturday.⁹⁹ This money is allocated on a first-come first serve basis that is contingent upon the amount of funds being made available by the Legislature.¹⁰⁰ The FY 2014 appropriations for Driver Education were \$900,000.¹⁰¹

Revenue Totals

The following line graph represents the change in local and county revenue, state-dedicated revenue, state-appropriated revenue, federal revenue, and total revenue in the general fund over a period of 11 years ending with FY 2014.¹⁰²

General Fund Revenue Sources



⁹⁸ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 10.

⁹⁹ 70 O.S. § 19-122

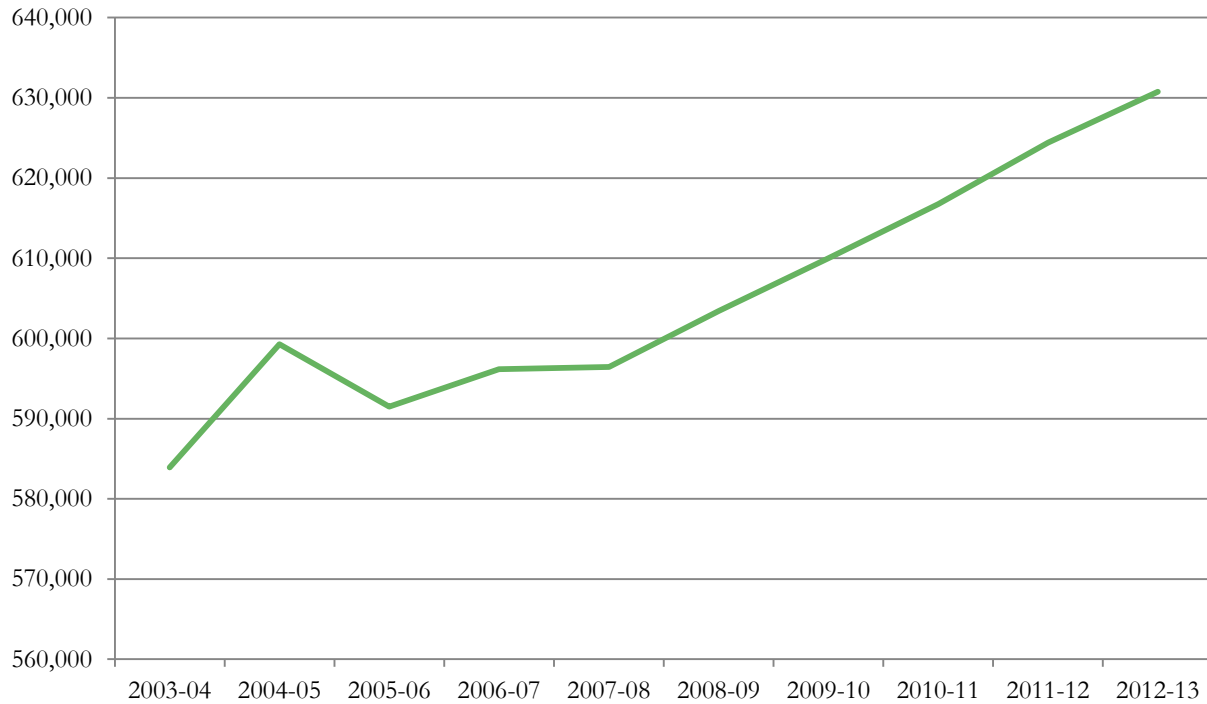
¹⁰⁰ *Ibid.*

¹⁰¹ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 1

¹⁰² Oklahoma State Department of Education, Annual Report, 2012-13; Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*

Fiscal year 2014 had the greatest amount of money in the general fund to distribute to Oklahoma’s public school districts. The graph below shows how average daily attendance has been increasing since 2006.¹⁰³ As average daily attendance increases, general fund revenue has not increased at the same rate.

Total Average Daily Attendance

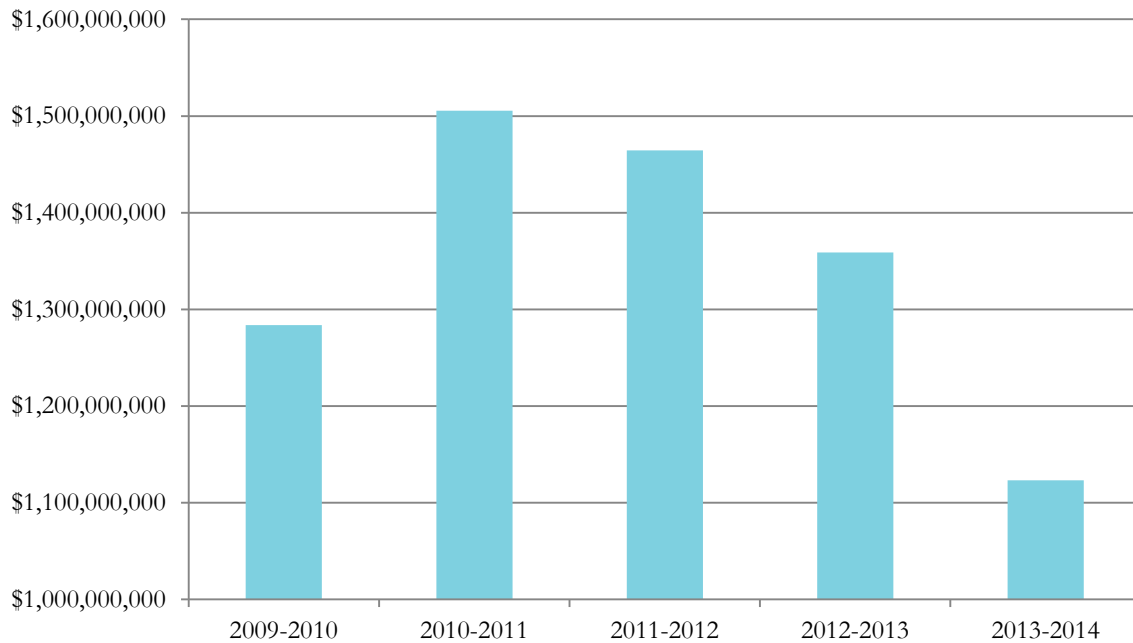


In looking at the last four fiscal years’ data that is available to the public, it is clear that there has been a large amount of money left over after each school year. The following bar graph shows the total expenditures subtracted from the total revenue available in all funds for the last five available fiscal years.¹⁰⁴

¹⁰³ Oklahoma State Department of Education, Annual Report, 2012-13

¹⁰⁴ Oklahoma State Department of Education, 2014 – OCAS – School District Revenue Report; Oklahoma State Department of Education, 2014 – OCAS – School District Expenditures

Total Revenue Available Minus Expenditures



The graph indicates that local school districts have had between \$1.1 and 1.5 billion in revenue left over in all funds after paying expenses each year.¹⁰⁵ While some of this money may be reserved for long term projects (i.e. capital improvements), the average carryover is about equal to 60 percent of the 2014 state appropriated dollars.

Understanding Oklahoma's School Funding Formula

In 1981, the Oklahoma Legislature passed House Bill 1236 creating the current school funding formula. The goal was to create a system that recognizes that the costs of providing education vary with students and with districts.¹⁰⁶ Total state aid is calculated by adding the Foundation Aid, Transportation Supplement, Salary Incentive Aid, and Legislative Supplement together. This formula is shown below.

$$\text{Total State Aid} = \text{Foundation Aid} + \text{Transportation Supplement} + \text{Salary Incentive Aid} + \text{Legislative Supplement}$$

In order to understand how Oklahoma's current school funding formula works, it is important to know what factors go into calculating the formula, what the alternative revenue sources are, and the reasons for disproportionate funds between school districts.

¹⁰⁵ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 3; Oklahoma State Department of Education, *2014 – OCAS – School District Expenditures* (Oklahoma State Department of Education, 2014), 13, accessed February 5, 2015, https://sdweb01.sde.ok.gov/OCAS_Reporting/docs/ExpenditureReportFromOcasStatewide2014.pdf. Same reports for 2010, 2011, 2012, and 2013.

¹⁰⁶ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 15.

Factors in Calculating Oklahoma’s School Funding Formula

Oklahoma’s school funding formula has three separate sections of calculations. They are the following:

- Foundation Aid
- Transportation Supplement
- Salary Incentive Aid

In order to calculate the three sections, the weighted average daily membership (ADM) for each school district must be calculated first. The weighted ADM is the backbone of Oklahoma’s school funding formula.

Weighted Average Daily Membership (ADM)

One of the main factors in the school funding formula is each school district’s weighted average daily membership (ADM). Weighted ADM is the sum of its four component calculations. Those components are:

- Weighted Pupil Grade Level Calculation
- Weighted Pupil Category Calculation
- Weighted District Calculation
- Weighted Teacher Experience and Degree Calculation

The weighted calculations for the components listed above are based on the highest weighted ADM of the first nine weeks of the current school year, the preceding school year, or the second preceding school year of a school district.¹⁰⁷

Weighted Pupil Grade Level Calculation

The weighted pupil grade level calculation is determined by taking the highest average daily membership and assigning weights to the pupils in each grade level as follows:

- Half-day early childhood programs .7
- Full-day early childhood programs 1.3
- Half-day kindergarten 1.3
- Full-day kindergarten 1.5
- First and second grade 1.351
- Third grade 1.051
- Fourth through sixth grade 1.0
- Seventh through twelfth grade 1.2
- Out-of-home placement 1.50

¹⁰⁷ 70 O.S. § 18-201.1(b)

The ADM of each grade is multiplied by its designated weight. The totals of each grade level are then added together to determine the weighted pupil grade level calculation for a school district.¹⁰⁸

Weighted Pupil Category Calculation

The weighted pupil category calculation is determined by assigning a weight to each of the following pupil categories:

• Vision Impaired	3.8
• Learning Disabilities	.4
• Deaf or Hard-of-Hearing	2.9
• Deaf and Blind	3.8
• Educable Mentally Handicapped	1.3
• Emotionally Disturbed	2.5
• Gifted	.34
• Multiple Handicapped	2.4
• Physically Handicapped	1.2
• Speech Impaired	.05
• Trainable Mentally Handicapped	1.3
• Bilingual	.25
• Special Education Summer Program	1.2
• Economically Disadvantaged	.25
• Optional Extended School Year Program	** ¹⁰⁹

With the exception of the gifted category, the number of pupils approved in the school year with the student count in each category is multiplied by the weight assigned to each category.¹¹⁰ The totals of the special education weights are then added together and then the Gifted, Bilingual, Economically Disadvantaged, and Special Education Summer Programs are listed separately. All of these determine the weighted pupil category calculation for a school district.

¹⁰⁸ 70 O.S. § 18-201.1(b-1); The pupils who are eligible for the out-of-home placement pupil weight are students who do not reside in the school district in which they are attending school. If a school district claims this weight, the out-of-home placement weight will replace the pupil grade level and any pupil category weights for those eligible students.

¹⁰⁹ As determined by the State Board of Education

¹¹⁰ 70 O.S. § 18-201.1(b-2); 70 O.S. § 1210.301(1); For the 1997-98 school year and subsequent school years, the number to be multiplied by the weight assigned to the gifted category shall be the lesser of (1) the sum of the number of students who scored in the top three percent (3%) on any national standardized test of intellectual ability plus the number of students identified as gifted by creative thinking ability, leadership ability, visual and performing arts ability, and/or specific academic ability, or (2) the sum of the number of students who scored in the top three percent (3%) on any national standardized test of intellectual ability plus eight percent (8%) of the total average daily membership of the school district for the first (9) weeks of the school year.

Weighted District Calculation

The weighted district calculation is determined by calculating the small school district formula and the district sparsity-isolation formula. Once the formulas are calculated, the greater of the calculations of the two formulas is used in the weighted ADM formula.

Small School District Formula:

$$\left(\frac{529 - ADM}{529} \times .2 \right) \times Total ADM = Small School District Weight$$

The small school district formula can only apply to school districts whose highest average daily membership is less than 529 pupils.¹¹¹

District Sparsity – Isolation Formula:

The district sparsity – isolation formula calculation can only apply to school districts whose total area in square miles is greater than the average number of square miles for all school districts in Oklahoma and whose areal density is less than one-fourth (1/4) of the state average areal density. Areal density is determined by dividing the school district's average daily membership by the school district's total area in square miles.¹¹²

$$\frac{School District ADM}{School District's Total Area in Square Miles} = Areal Density$$

District Sparsity - Isolation Formula:

$$(School Dist. Student Cost Factor \times School Dist. Area Factor) \times School Dist. ADM = Isolation Weight$$

The resulting number of the formula above will be counted as additional students for the purpose of calculating State Aid. The school district student cost factor and school district area factor formulas are explained below.

School District Student Cost Factor:

The school district's average daily membership is categorized into the following grade level groups (EC-5, 6-8, 9-12) and applied to the appropriate formulas below:

$$\text{Grades EC-5 Cost Factor: } \left(\left(\frac{74}{EC-5 ADM + 23} \right) + .85 \right) \times EC - 5 ADM$$

$$\text{Grades 6-8 Cost Factor: } \left(\left(\frac{122}{6-8 ADM + 133} \right) + .85 \right) \times 6 - 8 ADM$$

¹¹¹ 70 O.S. § 18-201.1(B-3a)

¹¹² 70 O.S. § 18-201.1(B-3b)

Grades 9-12 Cost Factor: $\left(\left(\frac{292}{9-12 ADM+128} \right) + .78 \right) \times 9 - 12 ADM$

The school district student cost factor is calculated by adding each grade level group’s ADM together, then dividing by the school district’s ADM. The number (1.0) is then subtracted from the resulting quotient.

$$\frac{EC - 5 CF + 6 - 8 CF + 9 - 12 CF}{School District ADM} - 1.0 = School Dist. Student Cost Factor$$

School District Area Cost Factor:

The school district area cost factor formula is calculated by subtracting the state average district area from the district area, then dividing the remainder by the state average district area.

$$\frac{District Area - 134}{134} = School Dist. Area Cost Factor$$

Note: The district area cost factor shall not exceed one (1.0).

Weighted Teacher Experience and Degree Calculation

The weighted teacher experience and degree calculation is determined by the teacher experience and degree index that is decided by the State Department of Education for each state teacher by using data supplied in the school district’s teacher personnel reports of the preceding year.¹¹³ The teacher experience and degree index is below.

Teacher Experience – Degree Index:

Experience	Bachelor’s Degree	Master’s Degree	Doctor’s Degree
0 – 2	.7	.9	1.1
3 – 5	.8	1.0	1.2
6 – 8	.9	1.1	1.3
9 – 11	1.0	1.2	1.4
12 – 15	1.1	1.3	1.5
Over 15	1.2	1.4	1.6

The school district teacher index for each school district is determined by subtracting the weighted average state teacher from the weighted average district teacher. If the school district teacher index is

¹¹³ 70 O.S. § 18-201.1(B-4)

greater than zero, the school district teacher index is multiplied by .7. That product is then multiplied by the sum of the district's weighted pupil grade level calculation and the economic disability calculation to determine the weighted teacher experience and degree calculation.¹¹⁴

Foundation Aid

The Foundation Aid is the first part of the Oklahoma school funding formula. The amount of Foundation Aid is calculated by subtracting the amount of the Foundation Program Income from the cost of the Foundation Program (Weighted ADM x Foundation Aid Factor) and adding to this difference the Transportation Supplement.

Foundation Program (Weighted ADM x Foundation Aid Factor)

The Foundation Program is the district's highest weighted average daily membership based on the first nine (9) weeks of the current school year, the preceding school year or the second preceding school year of a school district multiplied by the Base Foundation Support Level.¹¹⁵

Foundation Program Income

The Foundation Program Income shall be the sum of the following:

Adjusted Valuation x 15 Mills (0.015). The adjusted assessed valuation of the current school year of the school district, minus the previous year protested ad valorem tax revenues held as prescribed in Section 2884 of Title 68 of the Oklahoma Statutes, multiplied by the mills levied pursuant to subsection (c) of Section 9 of Article X of the Oklahoma Constitution, if applicable, as adjusted in subsection (c) of Section 8A of Article X of the Oklahoma Constitution. The "adjusted assessed valuation of the current school year" is to be the adjusted assessed valuation on which tax revenues are collected during the current school year.

75% of County 4 Mill. Seventy-five percent (75%) of the amount received by the school district from the proceeds of the county levy during the preceding fiscal year, as levied pursuant to subsection (b) of Section 9 of Article X of the Oklahoma Constitution.

School Land. School land earnings collected during the preceding fiscal year calculated on a per capita basis on the unit provided for by law for the distribution of such revenue.

Gross Production Tax. Gross production tax revenues collected during the preceding fiscal year calculated on a per capita basis on the unit provided for by law for the distribution of such revenue.

Motor Vehicle Collections. Motor vehicle collections from the preceding fiscal year calculated on a per capita basis on the unit provided for by law for the distribution of such revenue.

¹¹⁴ 70 O.S. § 18-201.1(B-4)

¹¹⁵ 70 O.S. § 18-200.1; The Base Foundation Support Level changes from year to year and sometimes mid-year based on adjusted allocations.

R.E.A. Tax. R.E.A. tax collections from the preceding fiscal year calculated on a per capita basis on the unit provided for by law for the distribution of such revenue.

Transportation Supplement

The second factor in the State Aid Formula is the transportation supplement. The transportation supplement is equal to the average daily haul (ADH) times the per capita allowance times the appropriate transportation factor.

$$ADH \times Per\ Capita\ Allowance \times 1.39 = Transportation\ Supplement$$

Average Daily Haul

The average daily haul is the number of children in a district who are legally transported and who live one and one-half (1 ½) miles or more from school.¹¹⁶

Per Capita Allowance

The Area Served is required for calculating the transportation supplement. Area Served is the total square miles in each school district. The district ADH of the preceding year, divided by the district Area Served will provide a Density Figure that is to be used in the following chart to determine the Per Capita Allowance.¹¹⁷

¹¹⁶ 70 O.S. § 18-200.1(D-2)

¹¹⁷ Oklahoma State Department of Education, *Oklahoma School Finance Technical Assistance Document*, 21.

Density Figure	Per Capita Allowance	Density Figure	Per Capita Allowance
.3000 - .3083	\$167.00	.9334 - .9599	\$99.00
.3084 - .3249	\$165.00	.9600 - .9866	\$97.00
.3250 - .3416	\$163.00	.9867 - 1.1071	\$95.00
.3417 - .3583	\$161.00	1.1072 - 1.3214	\$92.00
.3584 - .3749	\$158.00	1.3215 - 1.5357	\$90.00
.3750 - .3916	\$156.00	1.5358 - 1.7499	\$88.00
.3917 - .4083	\$154.00	1.7500 - 1.9642	\$86.00
.4084 - .4249	\$152.00	1.9643 - 2.1785	\$84.00
.4250 - .4416	\$150.00	2.1786 - 2.3928	\$81.00
.4417 - .4583	\$147.00	2.3929 - 2.6249	\$79.00
.4584 - .4749	\$145.00	2.6250 - 2.8749	\$77.00
.4750 - .4916	\$143.00	2.8750 - 3.1249	\$75.00
.4917 - .5083	\$141.00	3.1250 - 3.3749	\$73.00
.5084 - .5249	\$139.00	3.3750 - 3.6666	\$70.00
.5250 - .5416	\$136.00	3.6667 - 3.9999	\$68.00
.5417 - .5583	\$134.00	4.0000 - 4.3333	\$66.00
.5584 - .5749	\$132.00	4.3334 - 4.6666	\$64.00
.5750 - .5916	\$130.00	4.6667 - 4.9999	\$62.00
.5917 - .6133	\$128.00	5.0000 - 5.5000	\$59.00
.6134 - .6399	\$125.00	5.5001 - 6.0000	\$57.00
.6400 - .6666	\$123.00	6.0001 - 6.5000	\$55.00
.6667 - .6933	\$121.00	6.5001 - 7.0000	\$53.00
.6934 - .7199	\$119.00	7.0001 - 7.3333	\$51.00
.7200 - .7466	\$117.00	7.3334 - 7.6667	\$48.00
.7467 - .7733	\$114.00	7.6668 - 8.0000	\$46.00
.7734 - .7999	\$112.00	8.0001 - 8.3333	\$44.00
.8000 - .8266	\$110.00	8.3334 - 8.6667	\$42.00
.8267 - .8533	\$108.00	8.6668 - 9.0000	\$40.00
.8534 - .8799	\$106.00	9.0001 - 9.3333	\$37.00
.8800 - .9066	\$103.00	9.3334 - 9.6667	\$35.00
.9067 - .9333	\$101.00	9.6668 or more	\$33.00

Transportation Factor

The transportation factor is an appropriation level set by the Legislature. The current formula transportation factor is 1.39.¹¹⁸

Salary Incentive Aid

The third factor in the State Aid Formula is the Salary Incentive Aid. There are three steps involved in the calculation of the Salary Incentive Aid. They are the following:

Step 1:

Multiply the Incentive Aid guarantee by the district's highest weighted average daily membership based on the first nine (9) weeks of the current school year, the preceding school year, or the second preceding school year of a school district.¹¹⁹

Step 2:

Divide the district's adjusted assessed valuation of the current school year minus the previous year's protested ad valorem tax revenues held by one thousand (1,000) and subtract the quotient from the product of Step 1. The remainder shall not be less than zero (0).¹²⁰

Step 3:

Multiply the number of mills levied for general fund purposes above the fifteen (15) mills required to support Foundation Aid, not including the county four-mill levy, by the remainder of Step 2. The product will be the Salary Incentive Aid of the district.¹²¹

Local School District Funds

The state, municipalities, counties, and the federal government all have sources of revenue that go straight into the general fund. Local school district general funds are the main destination for monies allocated by the state funding formula, and they can be used by local school districts for general operations. There are also many lesser known funds that school districts have access to, however, which include the following:

- Cooperative Fund
- Building Fund
- Child Nutrition Fund
- MAPS Fund
- Municipal Levy Fund

¹¹⁸ 70 O.S. § 18-200.1

¹¹⁹ The Incentive Aid guarantee is a factor that changes from year to year and sometimes midyear due to allocation adjustments.

¹²⁰ 70 O.S. § 18-200.1

¹²¹ Ibid.

- Childcare Fund
- Bond Funds
- Sinking Fund
- Endowment Fund
- School Activity Fund
- Trust & Agency Funds

Cooperative Fund

The cooperative fund is a current expense fund used for operating expenses when two or more school districts enter into any interlocal cooperative agreements for the purpose of jointly performing any of the services, duties, functions, activities, obligations, or responsibilities required by law to be performed by school districts in Oklahoma.¹²² In FY 2014, \$31.8 million of revenue were allocated to the cooperative fund.¹²³

Building Fund

The building fund consists of all monies from the proceeds of a building fund levy as voted on by voters in a local election.¹²⁴ Monies that schools receive as gifts, donations, or state-appropriated funds for the purpose of capital expenditures or projects go into the building fund and not the general fund.¹²⁵ The amount of new revenue in the building fund for FY 2014 was \$200 million.¹²⁶

Child Nutrition Fund

Child nutrition funds can be deposited into the general fund or this separate Child Nutrition Fund.¹²⁷ The Child Nutrition fund is reserved only for child nutrition program revenue and can only be used for the food service program.¹²⁸ In FY 2014, \$243 million in revenue went into the Child Nutrition fund.¹²⁹

MAPS Fund

The MAPS fund is the Oklahoma City Metropolitan Area Public Schools Trust. This money is kept in a separate fund as required by the Resolution of the Oklahoma City Metropolitan Area Public

¹²² 70 O.S. § 5-117b

¹²³ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

¹²⁴ 70 O.S. § 1-118

¹²⁵ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year* (Oklahoma City: Oklahoma State Board of Education, 2013), B-1, accessed May 29, 2014, <http://www.ok.gov/sde/sites/ok.gov.sde/files/documents/files/Compiled%20OCAS%20Manual.pdf>.

¹²⁶ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

¹²⁷ Oklahoma State Board of Education, *Coded: Coding Obstacles Districts Encounter Daily, 2013-2014*, (Oklahoma City: Oklahoma State Department of Education, 2013), 19, accessed May 29, 2014, <http://www.ok.gov/sde/sites/ok.gov.sde/files/documents/files/CODED%20Combined%20Handbook.pdf>.

¹²⁸ *Ibid.*

¹²⁹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

Schools Trust.¹³⁰ The MAPS fund is only applicable to school districts in the Oklahoma City metropolitan area. In FY 2014, \$59.8 million of new revenue went into the MAPS fund.¹³¹

Municipal Levy Fund

The municipal levy fund contains money collected from special sales taxes on behalf of a school district that can only be used for certain items addressed in the tax levy agreement.¹³² The amount of new revenue in the municipal levy fund in FY 2014 was \$4.9 million.¹³³

Childcare Fund

This fund contains money collected from community lunch and childcare services that are contracted through the Department of Human Services.¹³⁴ Being one of the small funds, the amount of new revenue put into it in FY 2014 was \$120,162.¹³⁵

Bond Funds

Bond funds are accounts for financial resources used to attain or construct major capital facilities.¹³⁶ Separate funds are used for separate projects. Each bond fund holds proceeds from the sale of bonds that are completely paid for.¹³⁷ In FY 2014, \$1.6 million of new revenue went into bond funds.¹³⁸

Sinking Fund

The sinking fund of each district contains all money derived from ad valorem taxes or otherwise as provided by law for the payment of bonds and judgments and interest thereon.¹³⁹ The total amount of new revenue in sinking funds in FY 2014 was \$548.2 million.¹⁴⁰

Endowment Fund

Endowment funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district's programs.¹⁴¹ In FY 2014, this was the smallest of all the funds consisting of \$61,852 in new revenue.¹⁴²

¹³⁰ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-1.

¹³¹ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 1.

¹³² Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-1.

¹³³ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 2.

¹³⁴ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-1.

¹³⁵ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 2.

¹³⁶ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-2.

¹³⁷ Ibid.

¹³⁸ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 2.

¹³⁹ 70 O.S. § 1-119

¹⁴⁰ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 2.

¹⁴¹ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-2.

¹⁴² Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 2.

School Activity Fund

The board of education for each school district can deposit funds that are received or collected from students or other extracurricular activities conducted in the school district into a school activity account.¹⁴³ In FY 2014, \$219.9 million in new revenue went into school activity funds.¹⁴⁴

Trust & Agency Funds

Trust and agency funds are self-insured funds (except for the casualty/flood insurance fund) that hold assets held by an LEA in a trustee capacity or an agent for individuals, private organizations, other governmental units, and/or other funds.¹⁴⁵ There are eight trust and agency funds. They are the following:

- Gift Fund
- Medical Insurance Fund
- Workers' Compensation Fund
- Tort Liability Fund
- Cafeteria Plans Fund
- Casualty/Flood Insurance Fund
- Unemployment Compensation Fund
- Arbitrage Rebate Liability

The State Board of Education reported that there was \$53.3 million in revenue in these funds for FY 2014.¹⁴⁶

Reasons for Disproportionate Funding

Disproportionate funding between school districts exists due to a variety of factors that include the State Board of Education operating with a weighted school funding formula, a variance in local and county tax revenues between school districts, and the size of each school district. School districts operating in more affluent municipalities and counties will have a larger assessed valuation than those in poorer areas of the state because they are receiving more revenue from ad valorem taxes. The size of each school district also plays a part in determining how funds are allocated. For example, denser school districts receive less funding per capita as part of the transportation supplement than school districts that have less students per square mile. Both of these factors are products of the weighted school funding formula.

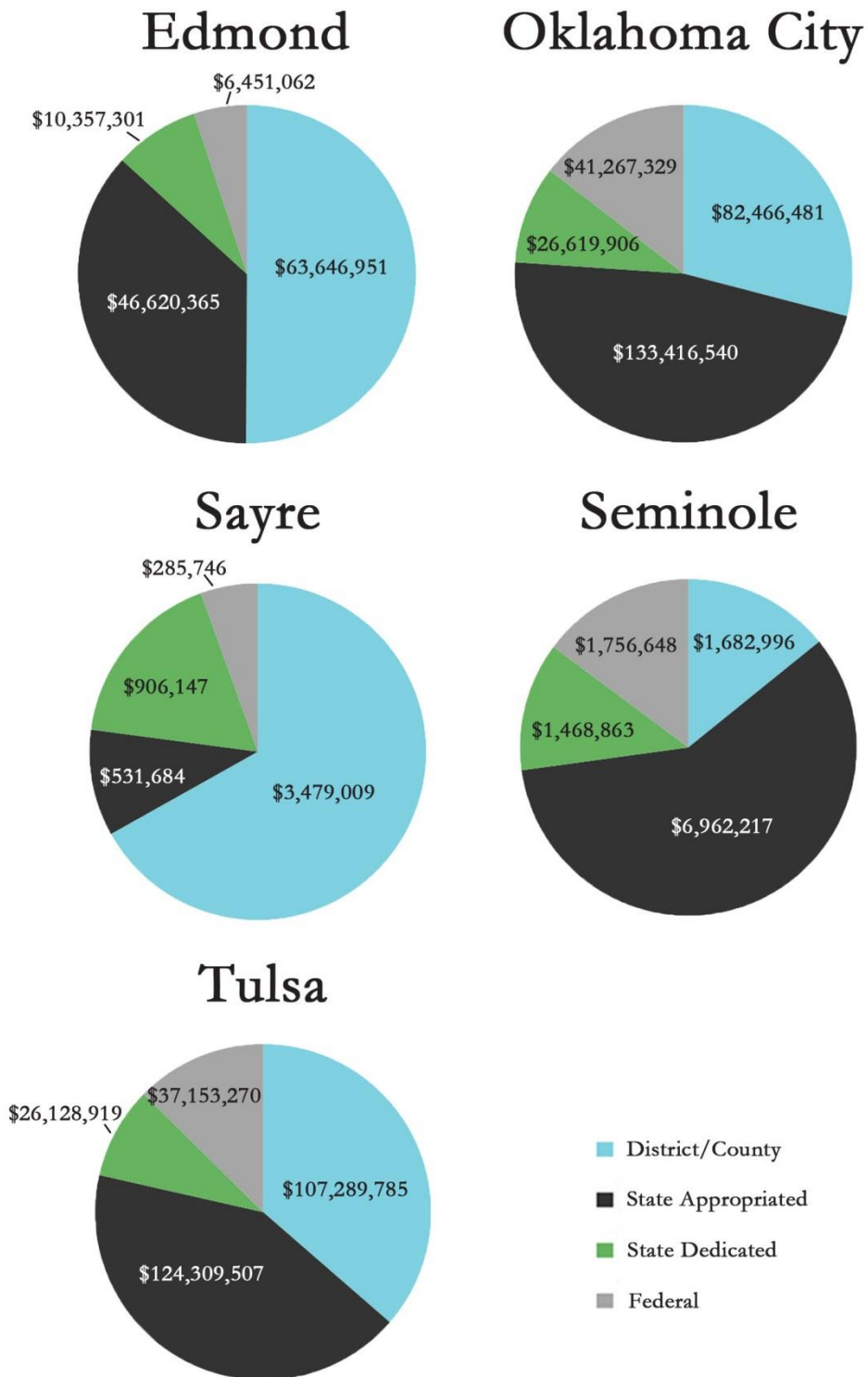
¹⁴³ 70 O.S. § 5-129

¹⁴⁴ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 3.

¹⁴⁵ Oklahoma State Board of Education, *Oklahoma Cost Accounting System Manual, 2013-2014 Fiscal Year*, B-3.

¹⁴⁶ Oklahoma State Department of Education, *2014 – OCAS – School District Revenue Report*, 3.

The following FY 2014 school district revenue pie charts illustrate how school districts in Oklahoma are disproportionately funded:



Alternative Options for Funding Education in Oklahoma

There are alternative ways to fund education that do not solely rely on weighted school funding formulas. They include the following:

- Strict Student-Based Allocation Model
- Education Savings Accounts (ESAs)
- Vouchers
- Individual Tax Credits
- Individual Tax Deductions
- Tax-Credit Scholarships

These alternative ways are considered to be school choice centric and will give parents greater ability to choose where their children go to school. Twenty-three states and the District of Columbia have already implemented one or more of these measures.¹⁴⁷

Strict Student-Based Allocation Model

When reviewed nationally, education reform is truly a non-partisan affair. In Colorado, a Democratic state senator and representative teamed up to create a student-based allocation school funding formula that greatly simplifies the school funding process, getting more funding directly into classrooms. Under this model, education dollars are allocated not on staff positions or other considerations, but purely on the basis of students, which are weighted according to varying needs.¹⁴⁸ This system allows for better comparison from school to school.

Oklahoma uses student-based allocations for a portion of its school funding, but districts also receive funds based on density and transportation subsidies and salary incentives, to name a few. The SBA model in Colorado allows money to more easily follow the child, regardless of their school, encouraging competition for students and greater educational choice.

Education Savings Accounts (ESAs)

An education savings account (ESA) is a parent-managed, private savings account that holds a government deposit to be used for a child's education expenses.¹⁴⁹ Currently, Arizona and Florida both utilize ESAs as an option for funding education, with Arizona having the oldest and most robust program.¹⁵⁰ Additionally, this year Mississippi, Tennessee, Nevada and Montana passed ESA bills.

¹⁴⁷ "School Choice Programs," Friedman Foundation for Educational Choice, accessed May 1, 2014,

<http://www.edchoice.org/School-Choice/School-Choice-Programs>. [hereinafter "School Choice Programs"].

¹⁴⁸ "Student-Based Allocation to Enable School Choice," Center on Reinventing Public Education, accessed on July 7, 2014, <http://www.crpe.org/publications/student-based-allocation-enable-school-choice>.

¹⁴⁹ Emily Workman, *Vouchers, Scholarship Tax Credits, and Individual Tax Credits and Deductions* (Denver: Education Commission of the States, 2012), 1, accessed May 12, 2014, <http://www.ecs.org/clearinghouse/01/05/28/10528.pdf>.

¹⁵⁰ "School Choice Programs"

Enacted in 2011, Arizona's Empowerment Scholarship Accounts (ESA) program allows parents of eligible students to remove their child from public or charter schools and still receive a portion of public funding.¹⁵¹ Those monies are deposited into an account with multiple defined purposes, including private school tuition, online education, or future educational expenses.¹⁵² The eligibility for the program is limited to students with disabilities, students who attend a school or school district that has been assigned a letter grade of D or F, previous recipients of scholarships, a child with a parent or guardian who is a member of the United States armed forces and on active duty, and students who are in foster care or who have been adopted.¹⁵³ Since 2011, enrollment in the program has more than doubled each year with 731 students participating in the 2013-14 school year.¹⁵⁴

The Arizona ESA program has had some legal issues regarding the Blaine Amendment. Thirty-seven states, including Arizona and Oklahoma, have a version of the Blaine Amendment in their state constitutions that prevents public monies from being appropriated to any church, or private or sectarian school.¹⁵⁵ This puts ESAs in jeopardy since public funds are given to parents to choose where their child attends school, which could potentially be a private or sectarian school. The Blaine Amendments can present legal issues for voucher programs as well.¹⁵⁶

Some Oklahoma legislators have attempted to create an ESA program, but no piece of legislation has made it far in the legislative process. The most recent attempt during the 2015 legislative session stalled in the House Common Education Committee and was held over by the author for consideration in the 2016 legislative session.

Vouchers

Vouchers are the most common form of school choice funding. Currently, there are 23 voucher programs in the United States that have different eligibility requirements.¹⁵⁷ Some are just for students with special needs, while other voucher programs are available to a larger group of students. Some of the voucher programs can serve as models for other states, while others need vast improvement. This section will highlight five different voucher programs in the United States, paying particular attention to their eligibility requirements, the value of each voucher, and the potential and real savings for taxpayers under the voucher system.

Oklahoma

¹⁵¹ The Friedman Foundation for Educational Choice, *The ABCs of School Choice* (Indianapolis: The Friedman Foundation for Educational Choice, 2014), 17, accessed May 15, 2014, <http://www.edchoice.org/School-Choice/The-ABCs-of-School-Choice/ABCs-Blue/2014-The-ABCs-of-School-Choice-Blue>.

¹⁵² Ibid.

¹⁵³ *Arizona Revised Statutes*, title 15, sec. 2401 (2013).

¹⁵⁴ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 17-18.

¹⁵⁵ Matthew Ladner, *The Way of the Future: Education Savings Accounts for Every American Family* (Indianapolis: The Friedman Foundation for Educational Choice, 2012), 14, accessed June 4, 2014, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/925/The-Way-of-the-Future--Education-Savings-Accounts-for-Every-American-Family.pdf>.

¹⁵⁶ Ibid.

¹⁵⁷ "School Choice Programs"

Oklahoma's voucher program is the Lindsey Nicole Henry Scholarships for Students with Disabilities. The eligibility requirements for receiving a voucher to attend a private school through this program are limited to students with special needs who either spent the prior year in a public school or who have a parent who is an active-duty member of the armed forces who has been stationed in Oklahoma.¹⁵⁸ The value of the voucher is the lesser of the state and local dollars spent on the child in his or her resident public school or the tuition and fees for the chosen private school.¹⁵⁹

Indiana

While Oklahoma's voucher program is for students with special needs, there are voucher programs that include students who come from low and middle-income families. Indiana's Choice Scholarship Program is one such voucher program. Enacted and launched in 2011, Indiana's voucher program currently has 19,809 students participating.¹⁶⁰ According to the Friedman Foundation for Educational Choice, "Indiana's Choice Scholarship Program is the fastest growing voucher program in the country."¹⁶¹ This growth could be attributed to the variety of eligibility requirements, of which only one has to be met. These student eligibility requirements include the following:

1. Students who attended a public or charter school for the preceding two semesters and who are from families earning up to 150 percent of federal free and reduced-price lunch (FRL) program.
2. Students with disabilities who have an Individualized Education Plan and who are from families earning up to 200 percent of FRL.
3. Students who attended or would attend a public school designated "F" and who are from families earning up to 150 percent of FRL.
4. Students or siblings of students who received a minimum of an \$800 tax-credit scholarship in the previous school year from a Scholarship Granting Organization.
5. Students who received a voucher in the previous school year under this program and are from families earning up to 200 percent of FRL.¹⁶²

By opening up the voucher program to a larger group of students, Indiana's Choice Scholarship Program can continue to grow and thereby serve as a model for other states' voucher programs.

Louisiana

Louisiana's Scholarship Program was enacted and launched in 2008 and now currently has 6,775 students participating.¹⁶³ This statewide voucher program is available to low-income students in low-

¹⁵⁸ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 79.

¹⁵⁹ *Ibid.*

¹⁶⁰ *Ibid.*, 37.

¹⁶¹ *Ibid.*

¹⁶² *Ibid.*

¹⁶³ *Ibid.*, 45.

performing public schools.¹⁶⁴ Students are eligible if their family income is no more than 250 percent of the federal poverty line and if they meet one of the following conditions:

1. They attended a public school designated as “C,” “D,” or “F” in the previous school year, or they attended a turnaround or unscored school;
2. They are entering kindergarten; or
3. They were enrolled at a public school in the Recovery School District.¹⁶⁵

The estimated average voucher value was \$5,311 for the 2013-14 school year.¹⁶⁶

Colorado

The voucher program in Colorado is not statewide. Launched in 2011, the Douglas County School District created the Douglas County Colorado Choice Scholarship Pilot Program that provides 500 tuition vouchers to any public school students who are residents in the district and have been enrolled for at least one year.¹⁶⁷ The vouchers cannot be used for online schools or homeschooling, but they can be used for private schools outside Douglas County.¹⁶⁸ The voucher is worth the lesser of 75% of the per-pupil public revenue or the cost of the private school tuition.¹⁶⁹ Due to a legal challenge, the voucher program is not currently operating.¹⁷⁰

Wisconsin

Wisconsin has three different voucher programs, with only one being a statewide program.¹⁷¹ The oldest of the three programs is the Milwaukee Parental Choice Program. Enacted and launched in 1990, Milwaukee’s voucher program allows families earning up to 300% of the federal poverty guidelines to qualify to receive vouchers.¹⁷² In 2013-14, the vouchers were worth the lesser of \$6,442 or the school’s operating and debt service cost per pupil.¹⁷³ The maximum voucher amount will increase for the 2014-15 school year to \$7,210 for grades K-8 and \$7,856 for grades 9-12.¹⁷⁴ Even though the maximum voucher amount is set to increase, the vouchers are still worth much less than what Milwaukee public school pupils get.¹⁷⁵ While the Milwaukee voucher program has its flaws, it does save Wisconsin taxpayers money. As of 2009, the Milwaukee vouchers were saving \$37 million

¹⁶⁴ Ibid.

¹⁶⁵ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 45.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid., 21.

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

¹⁷¹ “School Choice Programs”

¹⁷² The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 97.

¹⁷³ Ibid.

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

per year.¹⁷⁶ Not only has the program saved money, it has reduced taxes for property taxpayers outside Milwaukee by \$52 million.¹⁷⁷

Individual Tax Credits

Individual tax credits are an option for parents to recoup some of the costs of funding their child's education. Unlike vouchers, most tax credits do not apply to tuition expenses. There are currently four states that offer individual tax credits for education.¹⁷⁸ They are summarized below.

Alabama

Launched in 2013, the Alabama Accountability Act of 2013 Parent-Taxpayer Refundable Tax Credit program provides a tax credit or rebate to parents who transfer their children who are enrolled in or assigned to a failing public school to a non-failing public or private school.¹⁷⁹ These individual tax credits are worth the lesser of 80 percent of the average annual state cost of attending a K-12 public school during the applicable tax year or the actual cost of a child attending school.¹⁸⁰ Parents who owe taxes that are less than the total credit allowed will receive a rebate equal to the balance of the unused credit.¹⁸¹ The Friedman Foundation for Educational Choice argues that “the most glaring weakness of Alabama’s individual tax-credit program is its eligibility restrictions” because only four percent of families are eligible to take advantage of the tax credit.¹⁸²

Illinois

Illinois’ individual tax credit program was launched in 2000 in order to allow individuals with dependent students enrolled in a public or private school or being homeschooled to claim a credit for educational expenses that include tuition, books, and lab or activity fees.¹⁸³ All Illinois taxpayers with children enrolled in grades K-12 are eligible for the tax credit that is worth a maximum of \$500.¹⁸⁴ In 2011, 293,509 taxpayers claimed the tax credit.¹⁸⁵

Iowa

The oldest individual tax credit program is Iowa’s tuition and textbook tax credit. Launched in 1987, Iowa’s individual tax credit covers educational expenses, including books, tuition, and lab or activity

¹⁷⁶ Greg Forster, *A Win-Win Solution: The Empirical Evidence on School Choice* (Indianapolis: The Friedman Foundation for Educational Choice, 2013), 17, accessed June 11, 2014, <http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/994/A-Win-Win-Solution--The-Empirical-Evidence-on-School-Choice.pdf>.

¹⁷⁷ Ibid.

¹⁷⁸ “School Choice Programs”

¹⁷⁹ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 7.

¹⁸⁰ Ibid.

¹⁸¹ Ibid.

¹⁸² Ibid.

¹⁸³ Ibid., 33.

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

fees for all students enrolled in nonprofit, public, or private elementary or secondary schools.¹⁸⁶ The credit is worth 25% of parents' expenditures up to a maximum credit of \$250 per dependent child in school.¹⁸⁷ Parents who claim this tax credit must have a tax liability of at least \$250 because the credit is nonrefundable and cannot reduce an individual's tax burden to less than zero.¹⁸⁸ In 2011, 145,792 taxpayers took advantage of this tax credit.¹⁸⁹

Minnesota

Minnesota's individual tax credit has the most confusing income restrictions of the four states' programs. The tax credit is phased out for taxpayers earning more than \$33,500, which means that for every certain amount of dollars of a family's income above \$33,500, the maximum allowable credit is reduced by a certain amount of dollars.¹⁹⁰ For example, a family with one child has their maximum allowable credit reduced by one dollar for every four dollars of income over \$33,500.¹⁹¹ Like the Alabama and Illinois tax credits, Minnesota's individual tax credit does not cover tuition expenses.¹⁹² It covers most non-tuition educational expenses and is worth 75% of the amount spent on those expenses.¹⁹³ A family cannot claim more than \$1,000 per child.¹⁹⁴ In 2011, the average tax credit value was \$273.¹⁹⁵

Overall, individual tax credits can provide some financial help to qualifying families, but they are a far less helpful way to pay for a child's education in comparison to ESAs and vouchers. In order for tax credits to make more of an impact on low-income families, states will have to increase the maximum allowable credits as well as open up eligibility to more families.

Individual Tax Deductions

Unlike most individual tax credits, individual tax deductions for education can be used for tuition. They also carry a larger value than the tax credits. There are currently four states that offer individual tax deductions for common education.¹⁹⁶ Their eligibility requirements and values are summarized below.

Indiana

Indiana offers an individual tax deduction to individuals who have children enrolled in private schools or who are homeschooled.¹⁹⁷ The tax deduction is worth up to \$1,000 per child and can be

¹⁸⁶ Ibid., 41.

¹⁸⁷ Ibid.

¹⁸⁸ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 41.

¹⁸⁹ Ibid., 42.

¹⁹⁰ Ibid., 57.

¹⁹¹ Ibid.

¹⁹² Ibid.

¹⁹³ Ibid.

¹⁹⁴ Ibid.

¹⁹⁵ Ibid.

¹⁹⁶ "School Choice Programs"

¹⁹⁷ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 39.

used for private school tuition, textbooks, fees, software, supplies, tutoring, or other approved educational expenses.¹⁹⁸ In 2012, 51,018 taxpayers claimed the tax deduction with an average value of \$1,732.¹⁹⁹

Louisiana

Like Indiana, Louisiana offers an individual tax deduction to taxpayers that pay for their children to attend private schools.²⁰⁰ The deductions are worth 100 percent of the total amount spent on private school expenses, including tuition and fees, up to \$5,000 per child.²⁰¹ Since its enactment in 2008, the number of Louisiana tax returns claiming the tax deduction grew by almost 15% to a total of 106,549 in 2012.²⁰² The average tax deduction value that year was \$4,060.²⁰³

Minnesota

Minnesota's individual tax deduction was enacted and launched in 1955 in order to give financial help to parents with students in any private or public school, including homeschooling.²⁰⁴ This tax deduction covers books, tutors, academic after-school programs, private school tuition, and any other educational expenses parents might incur.²⁰⁵ It is worth up to \$1,625 per child in grades K-6 and \$2,500 per child in grades 7-12.²⁰⁶ In 2011, the average tax deduction value was \$1,157.²⁰⁷

Wisconsin

Wisconsin just launched their individual tax deduction in 2014.²⁰⁸ It is available to any taxpayer who pays private school tuition for their dependents and is worth up to \$4,000 per child in grades K-8 and up to \$10,000 per child in grades 9-12.²⁰⁹ Since it is so new, there are not any current statistics on the success of this tax deduction.

Even though the four individual tax deductions highlighted above hold a greater value than the individual tax credits, they may not be the best form of alternative school choice funding. The tax deductions are only beneficial to people with a state income tax liability.

Tax-Credit Scholarships

¹⁹⁸ Ibid.

¹⁹⁹ Ibid., 39-40.

²⁰⁰ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 47.

²⁰¹ Ibid.

²⁰² Ibid., 48.

²⁰³ Ibid., 47.

²⁰⁴ Ibid., 55.

²⁰⁵ Ibid.

²⁰⁶ Ibid.

²⁰⁷ Ibid.

²⁰⁸ Ibid., 103.

²⁰⁹ Ibid.

Scholarship tax credits are granted to corporations or individuals that make donations to a Scholarship Granting Organization (SGO) that distributes scholarships to eligible students.²¹⁰ There are currently 17 tax-credit scholarship programs operating in the United States, including one in Oklahoma.²¹¹ The eligibility requirements and student funding allowances for three of the 17 programs are summarized below.

Oklahoma

Enacted in 2011 and launched in 2013, Oklahoma's Equal Opportunity Education Scholarship program provides tax credits to individuals and corporations for donations to SGOs that must spend a portion of their expenditures on private school scholarships for low-income students.²¹² The program is capped at \$5 million, with \$3.5 million being dedicated to private school scholarships and a separate \$1.5 million in tax credits set aside for donations made to organizations that distribute "educational improvement grants" to public schools.²¹³ For students to be eligible for this tax-credit scholarship, they must either live in a family with an income up to 300% of the free and reduced-price lunch program or attend or live in the attendance zone of a public school that has been labeled as "in need of improvement."²¹⁴ Students remain eligible until high school graduation or age 21 once they have received a scholarship.²¹⁵ Scholarships are worth the greater of \$5,000 or 80% of the average per-pupil expenditures, as determined by the National Center for Education Statistics, U.S. Department of Education, for students without an Individualized Education Plan (IEP).²¹⁶ The scholarship is worth up to \$25,000 for students with special needs who attended a public school with an IEP.²¹⁷ The Friedman Foundation for Educational Choice describes Oklahoma's tax credit scholarship program as "one of the most generous in the nation because of the high income limit for eligibility and per-student funding."²¹⁸ As of the 2013-14 school year, 80% of Oklahoma families met the income requirement that makes them eligible to receive the tax-credit scholarship.²¹⁹

According to a 2011 report that analyzed the legislative proposal for tax-credit scholarships in Oklahoma, data shows that every dollar of increased state aid to schools only results in 32 cents of additional school spending.²²⁰ That compares to the 90 cents that goes directly to a child's education for every dollar spent on a tax-credit scholarship program.²²¹ This further proves that alternative

²¹⁰ Workman, 1.

²¹¹ "School Choice Programs"

²¹² The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 81.

²¹³ Ibid.

²¹⁴ Ibid.

²¹⁵ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 81; Oklahoma H.B. 2643 (2014)

²¹⁶ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 81.

²¹⁷ Ibid.

²¹⁸ Ibid.

²¹⁹ Ibid.

²²⁰ Brian Gottlob, *The Fiscal Impact of Tax-Credit Scholarships in Oklahoma* (Indianapolis: The Friedman Foundation for Educational Choice, 2011), 2, accessed June 3, 2014,

<http://www.edchoice.org/CMSModules/EdChoice/FileLibrary/696/The-Fiscal-Impact-of-Tax-Credit-Scholarships-in-Oklahoma.pdf>.

²²¹ Ibid.

ways to fund education, like tax-credit scholarships, may result in more educational opportunities for Oklahoma's students.

Arizona

Arizona's tax-credit scholarship program is Lexie's Law for Disabled and Displaced Students.²²² The law allows corporations to receive tax credits for donating to School Tuition Organizations (STOs) for the purpose of providing private school scholarships to students.²²³ The program has a cap of \$5 million for total credits claimed.²²⁴ The only students who are eligible are those that have been identified as having a disability under the Individuals with Disabilities Education Act, or if they are currently or have ever been in the Arizona foster care system.²²⁵ The students must also fall under one of the following categories:

1. They are an enrollee in a kindergarten or prekindergarten private school program for students with disabilities;
2. A public school student for the prior semester of the current school year or at least 90 days in the previous year; or
3. A dependent of an active-duty member of the military.²²⁶

If eligible, students may be awarded scholarship amounts up to the lesser of 90% of the state public school per-pupil funding or the total private school tuition.²²⁷ As of the 2011-12 school year, there were 119 students participating in the program, with an average scholarship value of \$4,921.²²⁸

Florida

The largest tax-credit scholarship program in terms of enrollees is Florida's program.²²⁹ It provides a dollar-for-dollar tax credit for businesses on their corporate income taxes and insurance premium taxes if they donate to Scholarship Funding Organizations (SFOs).²³⁰ The SFOs provide scholarships to low-income students and children in foster care, while also offering transportation grants to children who attend a public school outside their district.²³¹ The tax credit program is capped at \$286.25 million and is allowed to increase by 25% if 90% of the cap is reached.²³²

To qualify for one of Florida's tax credit scholarships, students must qualify for free and reduced-price lunch and be enrolled in a public school or about to enter kindergarten through fifth grade, or

²²² The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 15.

²²³ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 15.

²²⁴ *Ibid.*

²²⁵ *Ibid.*

²²⁶ *Ibid.*

²²⁷ *Ibid.*

²²⁸ *Ibid.*, 15-16.

²²⁹ *Ibid.*, 27.

²³⁰ *Ibid.*

²³¹ *Ibid.*

²³² *Ibid.*

be in foster care.²³³ The scholarships can be worth up to \$4,800 without exceeding private school tuition and fees, and the transportation grants for public schools are worth up to \$500.²³⁴

Florida's tax-credit scholarship program can serve as a model to other states in many ways. First, it allows unused credits to be carried forward to the next fiscal year.²³⁵ This gives businesses more of an incentive to donate to SFOs because it allows them to get back each dollar that they donate, whether it is in the current fiscal year or the next. Many states do not allow the carryover. Second, Florida has a much larger cap on their tax credits than many other states, including Oklahoma and Arizona. This not only allows more students to participate, but it also increases the average scholarship value. Finally, Florida's program allows students to stay in the program under full scholarship even if their household income rises to no more than 230 percent of the poverty level.²³⁶ Without that allowance, students might not be able to keep their scholarships for more than one year.

Overall, tax-credit scholarships are a good alternative form of education funding. They not only give eligible students access to multiple educational opportunities, they may also save taxpayers money. If a student leaves his or her public school for a private school due to being granted a tax-credit scholarship, they are not taking the public education funds with them. Those funds are staying with the public schools since the tax-credit scholarships are funded through donations. While Oklahoma's tax-credit scholarship program has room for improvement, it is an alternative way to fund education without increasing state aid.

Conclusion

The Oklahoma school funding formulas are a complex series of calculations meant to direct state appropriations in a manner accounting for district differences in size, location and additional funding sources. The formulas provide some uniformity; however, the formulas themselves are an often misunderstood policy issue.

The amount of state appropriations for Oklahoma schools is a hot topic of political discourse every year and yet few people understand the amount of money being spent on educating Oklahoma school children and the manner in which it is allocated. Often times, the discourse is limited to the amount of money appropriated by the state, and additional local, county and federal revenue sources are ignored.

The benefits of the alternative education funding mechanisms discussed in this paper are that they create simplified means of funding a student's education. Student-based allocation of resources allow for money to follow students and therefore disperse limited resources based on where the students are attending school. The Oklahoma school formula takes account of daily attendance and weights

²³³ Ibid.

²³⁴ Ibid.

²³⁵ Ibid.

²³⁶ The Friedman Foundation for Educational Choice, *The ABCs of School Choice*, 27.

the number based upon specific needs of the students, but other aspects of the formula are based on the physical nature of the school district and the attributes of the staff of the district.

The student-based allocation systems described in this paper offer a transparent and traceable means of providing tax dollars directly for a child's education. The money follows the child and then the school district must make the determination of how to spend that money. Two out of the three factors in Oklahoma's funding formula are based on student attendance, but the salary incentive aid is not.

While there will be ongoing political debate about the use of tax dollars to fund education choice, an understanding of the Oklahoma school funding formula sheds light on the geographic and financial disparities Oklahoma policy makers attempted to address in its adoption. It can also assist in the development of funding mechanisms that allow state dollars to flow more directly to the education of Oklahoma students.

It is critical that Oklahoma business leaders, as a large source of tax revenue, are educated on how our state's schools are funded and how that formula plays into education reform discussions and decisions, both in Oklahoma and in other states.

We hope that Oklahoma will join several other states who are taking a hard look at their school funding formulas to determine if it best fits the needs of a modern education system.