

Oklahoma remains among the lowest five of the states nationally in terms of per-pupil education funding.

# Financing Statewide Education Reform in Oklahoma

Jeffrey Maiden

## Introduction

Oklahoma is not among the wealthiest of the 50 states. Historically reliant on the petroleum industry, the state economy suffered substantially with the financial decline of that industry beginning in the early 1980s. This, coupled with the initiation of massive statewide education reform in the late 1980s and early 1990s, has resulted in continuing struggles to provide adequate funding to support the education of children in Oklahoma common schools.

Typical of education systems in most of the other states, the state of Oklahoma includes a tripartite funding relationship among the federal, state and local levels of government. Federal dollars typically flow to schools through various entitlement programs, such as Title I of the Improving America's Schools Act and Part B of the Individuals with Disabilities Education Act. The state of Oklahoma provides funding to local school districts primarily through a two-tiered equalization system as well as through a variety of categorical programs. Local districts derive the remainder of the revenues used to support education through county and local district sources, the majority of the local funding derived through ad valorem taxation. A summary of the revenues raised to support education from each of the three levels of government over the past decade is provided Table 1.

Particularly noteworthy is the magnitude of the increase in public school funding from the state level beginning in fiscal year 1991, explained largely by the passage of extensive statewide reform. The Oklahoma Legislature passed HB 1017 into law in 1990, with most of the specific reform provisions implemented from fiscal years 1991 through 1995.<sup>1</sup> The reform initiated and implemented in Oklahoma through HB 1017 was arguably among the most broad, sweeping educational reform of any of the states in recent years. Included in the reform legislation were structural and organizational changes that potentially had tremendous impact on funding of education among Oklahoma school districts, including specific provisions for:

- the adoption of state accreditation standards applicable to all Oklahoma schools;<sup>2</sup>
- the development of statewide curricular standards to be

deployed in all Oklahoma school districts,<sup>3</sup> and the periodic evaluation of district curricula by the State Board of Education;<sup>4</sup>

- additional early childhood educational programs;<sup>5</sup>
- the option of local school districts to offer an extended school year to students, with accompanying state aid;<sup>6</sup>
- increased use of norm- and criterion-referenced tests among local districts, and the dissemination of test results to the public;<sup>7</sup>
- alternative teacher certification;<sup>8</sup>
- the required possession by local school board members of high school diploma or equivalent;<sup>9</sup>
- progressively smaller class sizes in primary grades through the years of the reform. Districts were penalized through withholding state aid for each student in grades one through three in average daily membership in a class exceeding, with some exceptions, the following sizes: 1990-91 through 1992-93, 21 students; 1993-94 and thereafter, 20 students. In grades four through six, these restrictions were 1990-91, 25 students; 1991-92, 23 students; 1992-92, 22 students; and 1993-94 and thereafter, 20 students;<sup>10</sup>
- progressively smaller student loads for secondary school teachers (with certain exceptions). By 1993-94, no teacher of grades 7-12 should be assigned as instructor for more than 140 students. By 1997-98, no teacher of grades 7-12 should be assigned as instructor for more than 120 students;<sup>11</sup>
- the encouragement of outreach between school personnel and parents;<sup>12</sup>
- progressively increased minimal salary schedules for teachers mandated of all Oklahoma school districts. During 1990-91, teachers at the bottom of the schedule, with a bachelor's degree and no previous experience, were paid a minimum \$17,000 annual salary. By 1994-95, teachers at the bottom of the schedule were paid a minimum \$24,060 annual salary. Annual minimum salary for teachers at the top of the schedule, with at least 15 years experience and a doctoral degree, progressed from \$24,244 in 1990-91 to \$31,304 in 1994-95;<sup>13</sup>
- incentive pay plans for teachers based on approval of 20 percent of teachers in a given district;<sup>14</sup>
- the periodic review by the State Board of Education of pupil and district weighting systems utilized in the state equalization formulae.<sup>15</sup>

These reforms were coupled with increases in the amount of public financial support for education, with a substantial portion of the increase coming from state appropriations. Given this impact that state revenue has on total financial support of education, what follows is a description of the primary mechanisms used in distributing financial aid from the state to local school districts.

## Oklahoma Education Finance System

The ultimate responsibility for providing and funding public education rests with the state, according to the Oklahoma Constitution. Specifically, states that "[t]he Legislature shall establish and maintain a system of free public schools wherein all the children of the state may be educated,"<sup>16</sup> and provides the legislature the authority to establish appropriations for education.<sup>17</sup> Though equalization of funding among districts is not

Jeffrey Maiden is Assistant Professor, University of Oklahoma

**Table 1**  
**Oklahoma Public School Revenue by Source, 1985 to 1994**

FY	Local Revenue	Percent Local	State Revenue	Percent State	Federal Revenue	Percent Federal	TOTAL REVENUE
1985	\$450,847,993	30.80	\$915,328,056	62.52	\$97,795,572	6.68	\$1,463,971,621
1986	\$467,757,402	28.84	\$1,056,183,734	65.11	\$98,093,238	6.05	\$1,622,034,181
1987	\$485,846,910	31.76	\$948,112,588	61.97	\$95,973,238	6.27	\$1,529,932,736
1988	\$503,881,931	32.05	\$963,935,241	61.31	\$104,479,690	6.65	\$1,572,296,862
1989	\$509,804,315	30.68	\$1,034,000,674	62.22	\$117,938,690	7.10	\$1,661,743,679
1990	\$518,945,584	30.07	\$1,083,919,528	62.80	\$123,156,389	7.14	\$1,726,021,501
1991	\$516,219,483	26.92	\$1,282,255,116	66.87	\$119,176,242	6.21	\$1,917,650,841
1992	\$530,889,053	25.80	\$1,409,391,147	68.51	\$117,059,757	5.69	\$2,057,339,957
1993	\$504,450,974	23.50	\$1,492,920,350	69.54	\$149,327,280	6.96	\$2,146,698,604
1994	\$487,737,799	21.71	\$1,592,082,635	70.88	\$166,274,335	7.40	\$2,246,094,769

Source: Oklahoma State Department of Education, *Annual Report 1994-95* (Oklahoma City, OK: OSDE, 1996).

required by the Oklahoma Constitution, the Oklahoma legislature has established as a goal the maintenance of a degree of interdistrict funding equity, as specified in state statute.<sup>18</sup>

To this end, the state has utilized a two-tiered equalization system since 1981. The equalization components of the Oklahoma education funding system include a foundation formula, a transportation supplement to the foundation formula, and the second tier salary incentive aid (a modified guaranteed yield).

Similar to other state finance distribution systems, the Oklahoma system is enrollment driven. Both the foundation formula (not the entire foundation system, which includes the foundation formula and the transportation supplement) and salary incentive aid are based on weighted average daily membership (ADM). ADM for the foundation formula are weighted according to three criteria: grade level, special education, and district sparsity or isolation (the district calculation).<sup>19</sup> Grade level and special education weights are intended to reflect variant programmatic costs, typical of state weighting systems. The special education weights have remained unchanged since the inception of the funding system,<sup>20</sup> while the grade level weights have remained constant with a few exceptions.<sup>21</sup>

The weighted district calculation is designed to assist small and isolated districts facing relatively higher per-pupil costs due to diseconomies of scale. Basically, eligible districts are categorized into one of two weighting adjustments. The small school district weighting provides supplemental funding for any district that has an extremely low ADM, while sparsely populated districts are eligible for a supplemental weighting through the district sparsity/isolation factor.<sup>22</sup>

The foundation program for a given local district includes a legislatively determined statewide base support factor multiplied by the district's weighted ADM (the higher weighted ADA/ADM from the previous two fiscal years).<sup>23</sup> The foundation program income for the district, consisting of revenues derived from a variety of sources, is subtracted from this product. Two of these foundation program chargeables are derived from property taxation. The first of these consists of a local district 15 mill tax levy, based on an annual certification of need for each school district submitted to the respective county equalization board without a vote of the electorate. The millage rate is applied to net assessed valuation in the district from the preceding fiscal year. The second property tax component includes 75 percent of actual collections in the district from a 4 mill countywide levy received from the second preceding fis-

cal year (the revenues collected annually from the 4 mill county levy were apportioned to local districts based on unweighted average daily attendance (ADA)).

The remaining components of the foundation program income are derived from state dedicated revenues from several sources. A certain percentage of revenue derived annually from each of these sources was earmarked for the financial support of common education. These sources include motor vehicle collections, gross production tax revenues, rural electrification tax revenues, and school land earnings. Actual collections from these sources derived during the second preceding fiscal year constitute this element of the foundation program for each local school district in a given year. The subtraction of the foundation program income from the total foundation program results in state foundation aid to the district. State appropriated aid to school districts is therefore disbursed in inverse proportion to local ability to raise revenue.<sup>24</sup>

Districts are also provided a transportation supplement to the foundation program. The transportation supplement is calculated by multiplying average daily haul (ADH) by a per-capita transportation allowance and then multiplying this product by a transportation factor. ADH for a district represents the number of students legally transported who live at least one and a half miles from school.<sup>25</sup> The transportation supplement provides general aid intended to supplement local district transportation costs, though the dollars provided to districts constitute general rather than categorical aid.

The salary incentive aid component of the Oklahoma funding system, basically a guaranteed yield formula, constitutes a second tier resource equalization program. The local portion of the program are derived from an annual levy of a maximum 20 mills for each local district, from three property tax sources. The first of these is the local support levy of 10 mills, requiring annual approval of the electorate in a given district.<sup>26</sup> The second source, the emergency levy with a maximum 5 mills, also requires majority vote (50 percent plus one of the voting electorate).<sup>27</sup> The last of these is the county levy, levied annually by each County Excise Board.<sup>28</sup> Each county is required to allocate the levy from 5 of 15 total mills to school districts within the county based on ADA. The state annually guarantees a certain dollar amount per weighted ADM (the incentive aid guarantee) for every mill levied up to 20. ADM was weighted according to grade level, special education, and district size or sparsity, identical to the foundation formula. A teacher experience and degree calculation is used as an additional weighting

factor, giving districts the fiscal incentive to hire more experienced and educated teachers. The higher weighted ADM from the previous two fiscal years were used in calculating the salary incentive aid in a given year.<sup>29</sup>

The foundation and salary incentive aid constitute a two-tiered system of general equalization aid from the state to local school districts in Oklahoma. In terms of the equity of the system, in FY 1995, 540 Oklahoma's 551 districts had foundation program income equivalent to \$1149 per weighted ADM, with only 11 districts exceeding the minimal foundation level per pupil.<sup>30</sup> With all 551 districts levying the maximum 20 mills allowed in the local effort portion of the salary incentive aid, 547 districts received a total of \$1120.20 through the salary incentive aid program per weighted ADM (for all 20 mills), while only 4 exceeded this level of funding per pupil.<sup>31</sup>

The sources of general state aid, to summarize, are appropriated and dedicated revenues. Dedicated revenues (include motor vehicle collections, gross production tax, etc.) flow through the foundation formula. The legislature annually authorizes the remainder of the foundation and salary incentive aid as the largest single appropriation in the state budget. Finally, the Legislature annually provides categorical funding for local districts, with each categorical program provided through a separate budget appropriation. State aid is supplemented at the district level with locally generated revenue, derived primarily through property taxation.

### Local Property Taxation

Arguably the single source of taxation most closely linked to financial education is the property tax. Property tax proceeds constitute the largest portion of locally derived revenue used to financial support education in Oklahoma. As previously discussed property tax revenues constitute most of the local effort portion of both the foundation and salary incentive formulae. Two additional property tax sources are available to local school districts. The first of these is the building fund levy, with an annual maximum 5 mills for each school district approved annually by district electorate.<sup>32</sup> Revenues from this levy are limited to certain capital expenses. The revenues derived from the building fund levy are not part of any state equalization formula.

The final local property tax levy available to school districts in Oklahoma may be derived through the sinking fund levy.<sup>33</sup> The revenues raised through the sinking fund levy are limited to debt service. Sinking fund levies require the approval of 60 percent or more of voters participating in a bond issue election. Technically, no millage maximum is required, though no district in Oklahoma may not incur debt exceeding 10 percent of total net assessed property valuation within that district.

Three classes of property are subject to taxation in Oklahoma. These include public service, business/corporate, agricultural, and residential. Public service property is appraised by the Oklahoma Tax Commission, while appraisal of the remaining three classes are the responsibility of the respective county tax assessors. Historically assessment levels among Oklahoma taxing jurisdictions have been below 20 percent, and the state has been notorious for the existence of inequities among local jurisdictions.<sup>34</sup> Litigation and legislative reform during the 1980s was instrumental in increasing equities in the assessment of property for taxation.<sup>35</sup> In 1996, a the constitution was amended through statewide initiative requiring land to be assessed at between 11 and 13.5 percent and personal property between 10 and 15 percent of fair cash value, with a higher percent allowable for each type of property through voter approval.<sup>36</sup>

As part of the tax reduction and restriction mood of the nation during the mid 1990s, an unsuccessful attempt to amend the constitution to restrict property tax revenues was undertaken in 1996. The initiative proposed that residential real prop-

erty tax yields were to be rolled back and virtually frozen at December 31, 1993 levels. Property tax increases according to the initiative would be possible only under certain prespecified conditions. The most noteworthy of these conditions was that jurisdiction-wide increases were permissible only with a 60 percent vote of approval in special election called for that purpose. Even under this special circumstance property tax yields could then be raised no more than 3 percent than previous levels. The initiative caused a great deal of concern for many education policy makers in the state because of the potential effects of the amendment on education funding. Fortunately for the initiative opponents, it was soundly defeated in a statewide election.<sup>37</sup>

More modest property tax reform measures, however, passed in statewide initiative elections in November, 1996. In addition to the amendment restricting assessment levels discussed previously, two other initiatives passed. The first restricted increases in fair cash value of real property for tax purposes to no more than 5 percent per taxable year.<sup>38</sup> The second provided a circuit breaker provision, allowing generous homestead exemptions for property owners 65 years of age or older on limited incomes.<sup>39</sup>

### Capital outlay and Debt Service

Currently, the state provides no financial support to local school districts to defray capital outlay costs. Some of the dollars raised for capital outlay are derived from current revenues, though the bulk are derived through bonded indebtedness. Bond issues for local districts, typical of many states, are passed only after a laborious process delineated in statute,<sup>40</sup> and any bond issue must have the approval of at least 60 percent of the voting electorate for approval. With passage of a bond issue the sinking fund levy is instituted to service the debt.

### Conclusion

The struggle funding at least minimal educational programs for Oklahoma continues. State policy makers struggle to find sufficient levels of revenue to fund statewide education reform, while local district policy makers continue to stretch scarce local dollars in the face of the tax reduction mood of the nation. Unfortunately, despite well intentioned efforts to provide and fund a reformed educational program in the 1990s, Oklahoma remains among the lowest five of the states nationally in terms of per-pupil education funding.<sup>41</sup>

### Endnotes

- 1 The reform discussed herein was passed by during an extraordinary session of the 1989 Oklahoma Legislature, Ok. Laws 1989, 1st Ex. Sess., c. 2. The official title was the Oklahoma Educational Reform Act, though it is more commonly known as HB 1017. Most of the provisions, with some slight modifications, have been incorporated into Oklahoma Statutes. The exception were some of the provisions for increased funding for education, primarily through state dedicated sources. These increases failed a statewide vote for constitutional amendment on June 26, 1990 (H.J.R. No. 1005, State Questions 634, 635, and 636).
- 2 Ok. Laws 1989, 1st Ex. Sess., c. 2, sec. 2.
- 3 Ibid., sec. 6.
- 4 Ibid., sec. 3.
- 5 Ibid., sec. 15.
- 6 Ibid., sec. 18.
- 7 Ibid., sec. 19.
- 8 Ibid., sec. 23.
- 9 Ibid., sec. 25.
- 10 Ibid., sec. 28.
- 11 Ibid., sec. 28.
- 12 Ibid., sec. 34.

- 13 Ibid., sec. 44-49.
- 14 Ibid., sec. 50.
- 15 Ibid., sec. 60.
- 16 Ok Const. art. XIII sec. 1.
- 17 Ok Const. art. XIII sec. 2a.
- 18 70 O.S. sec. 18-101.
- 19 Beginning in Fiscal Year 1997, ADM for the foundation formula is additionally weighted utilizing the teacher degree and experience index.
- 20 70 O.S. sec. 18-201(B)(1,2).
- 21 The exceptions were first/second grade weights, changed from 1.351 to 1.317 in FY 1991; and third grade weight, changed from 1.017 to 1.051 in FY 1991. Additionally, beginning in FY 1997 the early childhood weights were changed from .5 to 1.3.
- 22 See 70 O.S. sec. 18-201(B)(3).
- 23 Beginning in FY 1997, districts may choose the higher weighted ADM from the previous two fiscal years or the current year weighted ADM.
- 24 70 O.S. sec. 18-200(B)(1).
- 25 70 O.S. sec. 18-200(B)(2)(a).
- 26 Ok. Const. art. X sec. 9(d-1).
- 27 Ok. Const. art. X sec. 9(d).
- 28 Ok. Const. art. X sec. 9(a).
- 29 70 O.S. sec. 18-200(B)(3).
- 30 The exceptional districts were Laverne at \$1200.58 per weighted ADM; Beaver at \$1211.42; Optima at \$1213.77; Reydon at \$1315.23; Leedey at \$1404.72; Straight at \$1428.55; Hammon at \$1484.31; Frontier at \$1585.53; Cheyenne at \$1607.42; Sweetwater at \$2162.25; and Garrett at \$2424.96.
- 31 The exceptional districts were Optima, which received a total of \$1384.89 per weighted ADM; Straight at \$1594.65; Frontier at \$1698.81; and Garrett at \$2662.95.
- 32 Ok. Const. art. X sec. 10.
- 33 Ok. Const. art. X sec. 26, 28.
- 34 See Alexander Holmes, "Property Tax Reform: Fair at Last?" in *Property Tax in Oklahoma: Current Issues and Recent Reforms* (Oklahoma City, OK: Oklahoma 2000, 1990).
- 35 State ex. rel. Poulos v. State Bd of Equalization, 646 P.2d 1269 (1982); Ok. Laws Chap. 162 (HB 1750), 1988; Ok. Laws Chap. 321 (HB 1388), 1989.
- 36 Enrolled House Bill 2198, State Question 675. Article 10 section 8 of the Oklahoma Constitution was amended effective January 1, 1997.
- 37 See Jeffrey Maiden, "In Re Initiative Petition 362 State Question 669: State Supreme Court Refuses to Render an Ex Ante Ruling of Unconstitutionality of a Statewide Property Tax Initiative," *NOLPE Notes* vol 31 no. 6.
- 38 Enrolled House Bill 2198, State Question 676. Section 8B was added to Article 10 of the Oklahoma Constitution effective January 1, 1997.
- 39 Enrolled House Bill 2198, State Question 677. Section 8C was added to Article 10 of the Oklahoma Constitution effective January 1, 1997.
- 40 62 O.S. et. seq.
- 41 National Center for Education Statistics, *National Public Education Financial Survey* (Washington, D.C.: U.S. Department of Education NCES, 1996).