



# What is the difference between capital funds and operating funds?

Building a new school and making substantial improvements to an existing school building are examples of capital expenses. Paying the salary of teachers or principals is an example of an operating expense. Paying the electric bill for a school is an operating expense; replacing the wiring is a capital expense. Patching the roof is an operating expense; replacing the roof is a capital expense.

## Where do capital funds come from?

The main source of capital funding for schools in Oregon is voter-approved bonds. School districts typically borrow money to build or improve schools and repay the borrowing with special property tax money. In recent years, the federal government has provided limited capital funds to school districts for specific purposes as part of national economic stimulus efforts.

## Are there rules about the use of capital funds?

Oregon law dictates how school districts and other local governments manage their funds. The Oregon Revised Statutes and the Oregon Constitution make special provisions for “capital funds” for school districts that define how they can be raised and how they can be used.

One rule is that capital funds may be used only for capital expenses. They may not be used for operating expenses such as teacher salaries or a school’s electric bill. Another rule (from the Oregon Constitution) is that taxes to pay for capital expenses are not capped by property tax limitation measures that restrict taxes to pay for operating expenses.

## Can operating funds be used for capital expenses?

Yes. While capital funds may not be used for operations, operating funds may be used for capital expenses. Thus, it is legal to spend operating funds to build or improve school buildings. For example, a school district like PPS, without a capital bond in place, may choose to use operating budget dollars to pay for unavoidable capital needs. However, that reduces the amount of funding that is available to pay for teachers.

## Has there been a shortage of operating funds?

Yes. Since the passage of property tax measures in 1990 and 1997, funding for schools has not kept pace with inflation. As a result, in Portland Public Schools, class sizes have increased, course offerings in art, music and physical education (among others) have been reduced, and maintenance on buildings is at a minimum.

## Would increased capital funding make more money available for operations?

Yes. Currently, Portland Public Schools uses some of its operating money for urgent building needs that could be paid for with capital money if it was available. That could free operating funds for much-needed preventive maintenance.

## Does the state of Oregon provide capital funding to schools?

No. Most states assist with school district capital needs, but Oregon does not. Washington and California, for example, provide a dollar-for-dollar match of local capital funds.

## How can Portland Public Schools get more capital funds?

Because we are committed to using the majority of our operating funding in the classroom, additional capital funds would need to be voter-approved. The decision to refer a measure to voters lies solely with the Portland School Board. May and November of any year are the most logical election dates for ballot measures.