

Oregon Department of Education -- State School Fund and Common School Fund

	2017-19 Actual	2019-21 Legislatively Adopted	2019-21 Legislatively Approved *	2021-23 Current Service Level	2021-23 Governor's Budget
State School Fund					
General Fund	7,566,833,307	7,718,687,417	7,568,496,644	7,880,635,408	7,627,559,406
Lottery Funds	535,719,907	530,146,857	730,467,530	370,466,870	702,094,815
Other Funds	83,242,395	751,165,726	701,035,826	746,359,000	770,345,779
Total Funds	8,185,795,609	9,000,000,000	9,000,000,000	8,997,461,278	9,100,000,000
Common School Fund					
Other Funds (NL)	118,494,696	116,260,269	116,260,269	133,059,086	133,259,086

* Includes Emergency Board and administrative actions through January 2021.

Program Description

The **State School Fund (SSF)** is the major source of funding for the general operations of School Districts and Educational Service Districts (ESDs) for grades K through 12. SSF resources and local school revenues (e.g., property taxes) are combined and represent the basis for the distribution of the combined school formula revenues based on a statutorily defined allocation formula. The SSF amount represents roughly 2/3s of the total school formula revenues. Allocations to school districts include a transportation grant and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific factors that affect education costs (e.g., poverty, special education, and remote schools), teacher experience, and local tax resources. This formula was designed to equalize allocations to schools based on need. Districts may also have local option levies, but only approximately 20 districts out of the 197 school districts take advantage of this option. If one of these districts qualifies, the state may provide further assistance through the Local Option Equalization Grant (six districts received grants in 2018-19). While the formula distribution provides the largest share of resources for school districts and ESDs, ODE distributes over \$3.5 billion (2021-23 CSL estimate) of federal and state funding through the grant-in-aid programs for purposes such as child nutrition, special education, various education initiatives, Student Investment grants, Ballot Measure 98, professional development, and compensatory education.

The **Common School Fund**, which is administered by the State Land Board, represents revenues including earnings, from state owned properties (e.g., Elliot Forest) and unclaimed property. The Fund's resources are to be used to the benefit of schools in the state. The State Land Board designates an amount each biennium for distribution. Funds are transferred to the Oregon Department of Education (ODE) and designated as Non-limited Other Funds. These funds then are recognized as local revenues for the purposes of the school funding formula.

CSL Summary and Issues

- The CSL calculation is based on adjustments for anticipated growth or changes in; school district employee salaries (2.16% growth in the 2021-23 school year and 2.15% in the 2022-23 school year); preliminary PERS rate (13.79% of payroll which is a decrease from the 17.79% used in the 2019-21 CSL; teacher longevity and turnover; and health benefits increases based (3.4% set in statute). Also factored into the calculation is a 2.1% annual adjustment for non-employee compensation spending, changes in the amount of property taxes and other local revenues as determined by LRO, and estimated changes in the ADMw estimates.
- The 2021-23 CSL estimate of \$8.997 billion total funds for the SSF represents a slight decrease from the 2019-21 Legislatively Approved Budget amount of \$9.000 billion. However, after factoring in the local revenues in the school funding formula, the total state and local formula revenue available to districts represents an increase of 2.1% or a total of \$13.354 billion.
- The primary factor in the slight decrease in the CSL is the over 20% decrease in the preliminary PERS rate based on the information provided by the PERS actuary.
- In the past other organizations (e.g., Oregon School Boards Association) have had their own estimates of the CSL for the SSF but are based on different assumptions from what the Executive and Legislative Branches have used for years. Major differences include the “jump-off” amount, different estimates for health benefits increases, and treatment of Pension Obligation Bonds. Their information has been based on a limited number of the largest districts, while the estimate above is based on statewide averages.
- The funding mix of the SSF has more funding related moving parts than in previous biennia. Instead of relying just on the mix of interchangeable General and Lottery funding, Other Fund revenues from marijuana related revenues and from the Corporate Activities Tax are playing a more important role. Variations in the forecasts of those revenues may contribute to some uncertainty of the final funding mix of the SSF.

Policy Issues

- For a selected number of school districts there is concern that the fires during 2020 will have an adverse effect on future distribution of revenues through the State School Fund and formula revenue. The focus has been on damage done to school facilities while the long-term impact may be greater as enrollment drops over many years as the housing stock is not replaced or delayed. While statute provides a short-term solution for two years as districts have the choice of using enrollment data from the current or previous school year, longer changes in enrollment could affect some districts. There is also concern about districts with significant enrollment decreases being able to continue to pay for outstanding district bonds.
- Various school related organizations believe that since the agency distributed the SSF resources for 2019-21 based on 49% for the first year and 51% for the second year, then the CSL calculation should be based on the same split. Since there was no direction provided in 2019-21 budget bill for the SSF as in past years, this CSL is assumed that funding is based on 50% for each year.

Other Significant Issues and Background

- The Quality Education Model (QEM) estimates the level of funding sufficient to meet Oregon’s educational goals. In its August 2020 report, the Quality Education Commission, using the QEM, estimated that the total 2021-23 CSL for the SSF was approximately \$834 million less than what the QEM generated as the amount necessary to meet the educational goals assumed in the QEM. The percentage gap between the QEM amount and the actual amount or estimated CSL has ranged from a high of 38% in 2011-13 to 9.1% for 2021-23. The primary reason for the significant improvement is the passage of the Student Success Act and the Corporate Activities Tax which provides an estimated \$1.5 billion in K-12 programs for 2021-23 (CSL estimate).
- The CSL for the State School Fund includes an adjustment for the growth in PERS and other costs for the biennium. Although the K-12 spending funded through the school revenue formula represents the largest share of district spending, other programs are funded through other state, local and federal sources. There is little or no increase in funding due to increased PERS and other costs beyond the standard inflation rate for these programs. Many of programs face the same cost structures that the programs funded under the SSF do.
- The Governor’s budget is approximately \$100 million more than the calculated CSL. This funding level depends on using \$215 million of additional Education Stability Fund freeing up General Fund for uses elsewhere in the Governor’s budget. The final funding mix for the Governor’s recommended SSF is \$7.6 billion General Fund, \$487.1 million Lottery Funds, \$659.5 million Other Funds from the Corporate Activities Tax, \$110.2 million Other Funds from Marijuana related revenue, and \$215.0 million Lottery Funds in Education Stability Fund resources.
- An indirect impact of using additional Education Stability Fund resources is that this will mean a decrease in the amount of investment earnings from the Fund that are dedicated for funding the Oregon Opportunity Grant (OOG). The \$215 million in the Governor’s budget is in addition to the \$400 million withdrawn during the August 2020 special session. To keep the OOG program at CSL, additional General Fund is required.