



Governor Kotek Proposal - State School Fund Increase

Background

Across the country, school districts are facing budget shortages caused by the expiration of federal pandemic relief (ESSER) dollars, declining enrollment, increasing costs due to inflation, and many other factors. In response to the way these issues are impacting Oregon students, educators and administrators, Governor Tina Kotek committed to reviewing and updating the methods of how the State funds public schools.

The **State School Fund** (SSF) is the primary funding source for K-12 school districts in Oregon. The core component of this review is the calculation of **current service level** (CSL) for the SSF, which informs the Governor's Recommended Budget (GRB) due December 1, 2024, and the Legislatively Adopted Budget (LAB) due by June 30, 2025.

The Governor's Office worked this spring with the State Chief Financial Officer (CFO), Oregon Department of Education (ODE), and representatives of education partners including licensed teachers, classified staff, superintendents, school board members, and school business managers to determine methods for increasing education funding through the CSL development process.

Proposal

Following extensive conversation with education partners, the Governor's Office has developed a plan to increase the CSL for the SSF, the primary source of state funding for K-12 public education, by an estimated **\$515 million above the original CSL calculation** for the 2025-27 biennium.* Here are the three steps the Governor is directing agencies to take in order to increase funding:

1. Budget Distribution - 49/51 Split: For the last decade, the State of Oregon has budgeted SSF distributions to school districts on a 50/50 split over a two-year period (meaning districts received 50% of funds in year 1 and 50% of funds in year 2). This proposal changes the distribution to a 49/51 split.

This will increase the CSL calculation for the next biennium because CSL is built off the funding available in the second year, which increases when districts receive 51% in the second year, compared to 50% previously.

* This estimate will be updated prior to the 2025 legislative session with new information, such as PERS (pension) rates and school enrollment data. The \$515 million increase represents an estimate based on data as of June 2024.



The change will also support school districts in planning to cover rising costs that occur in the second year of the biennium after the SSF has already been set.

- **Preliminary Estimate:** \$217 million increase in the CSL for the 2025-27 biennium.

2. **Compensation Costs:** The State's method to account for compensation costs of teachers, administrators, and classified staff is based on a model that looks back at 20 years of historical data. This model has proven to be very accurate (more than 98%) in calculating actual compensation costs, based on the information school districts submit to ODE. That also means the State has historically been within 2 percentage points of being completely accurate.

This Governor's direction to close the gap between projected compensation costs and actual compensation costs over the last 10 years - instead of 20 years - will increase the SSF CSL. The 10-year period gives us more accurate and more recent data than 20 years. This one-time increase will reflect an even more precise compensation projection and leads to the largest funding increase in the proposal. It's also important to note that this change will roll forward into future two-year budget cycles.

- **Preliminary Estimate:** \$240 million increase in the CSL for the 2025-27 biennium.

3. **Local Property Tax Revenue:** SSF funding to districts represent a combination of local revenue (34%) and state revenue (66%). The State's historical practice doesn't include fluctuations in local property tax revenue in the second year of the biennium. This limits the State's ability to accurately account for the level of resources available for our schools.

Going forward, the Governor has directed State agencies to account for annual information for projected local revenue, with the goal of increasing accuracy and precision.

- **Preliminary Estimate:** \$55 million increase in the CSL for the 2025-27 biennium.

Result: Based on preliminary estimates, these three actions would result in a **\$515 million increase** to current service level for the State School Fund, compared to the previous method used for calculating CSL.