

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

| State School Fund | 2019-21 Actual | 2021-23 Legislatively Adopted | 2021-23 Legislatively Approved * | 2023-25 Current Service Level | 2023-25 Governor's Budget |
|---------------------------|----------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| General Fund | 7,532,181,896 | 7,988,195,518 | 7,890,603,299 | 8,074,344,499 | 8,723,893,085 |
| Lottery Funds | 730,467,530 | 589,526,746 | 650,508,965 | 646,538,037 | 395,629,059 |
| Other Funds | 697,035,826 | 722,277,736 | 758,887,736 | 796,834,736 | 780,477,856 |
| Total Funds | 8,959,685,252 | 9,300,000,000 | 9,300,000,000 | 9,517,717,272 | 9,900,000,000 |
| | | | | | |
| Common School Fund | | | | | |
| Other Funds (NL) | 115,041,594 | 133,059,086 | 133,059,086 | 159,996,772 | 159,996,772 |

* Includes Emergency Board and administrative actions through December 2022.

Program Description

The **State School Fund (SSF)** is the primary funding source for the general operations of school districts and educational service districts (ESDs) that serve Oregon students from kindergarten through grade twelve. SSF resources include state General Fund, Lottery Funds, Marijuana Tax revenues, and corporate activity tax revenues from the Fund for Student Success. These state resources are combined with local school revenues (primarily property taxes; other revenues include Common School Fund resources as described below) and result in total school funding “formula” resources. The “formula” refers to the equalization formula (ORS 327.008 et seq) that equitably allocates school funding to districts and ESDs on a per-pupil basis, weighted for certain student and district characteristics, and taking into account the availability of local revenues. State resources make up approximately two-thirds of total formula resources. School districts receive a general purpose grant, a facilities grant, and a transportation grant from the SSF; ESDs receive a general services grant based partially on the weighted average daily membership of the school districts in each ESD’s territory. Certain programs are funded from the SSF (“carved out”) before the distribution to school districts and ESDs; these programs are identified in statute and include transfers into the High Cost Disabilities account, the Statewide English Language Learner Account, and the Educator Advancement Fund. All other school spending decisions are made at the local level by elected school boards.

While the purpose of the equalization formula is to provide for a roughly equivalent level of resources for students in Oregon, districts may also benefit from voter-approved local option levies under certain circumstances, although few take advantage of this option. If a district qualifies, the state may provide further assistance through the Local Option Equalization Grant (six districts received grants in 2021-22). Additionally, though the State School Fund provides the largest share of resources for school districts and ESDs, the Department of Education distributes over \$4.7 billion (based on the 2021-23 legislatively approved budget) of federal and state funding through the grant-in-aid programs for student supports including child nutrition, special education, various education initiatives, Student Investment Account grants, High School Success grants, professional development, and compensatory education.

The **Common School Fund**, which is administered by the State Land Board, accounts for revenues generated from state owned properties and unclaimed property. The fund's resources are Constitutionally dedicated for the benefit of primary and secondary schools in the state. The State Land Board designates an amount each biennium for distribution, and funds are transferred to the Oregon Department of Education (ODE) and budgeted as Nonlimited Other Funds. These funds are recognized as local revenues for the purposes of the school funding formula.

CSL Summary and Issues

The 2023-25 current service level calculated for the State School Fund is \$9,517,717,272, a 2.34% change from the 2021-23 legislatively approved budget. Current service level is a "point in time" estimate based on common assumptions about cost changes and estimated revenues for the upcoming two-year period. Anticipated cost changes for school funding include:

- Salary increases at the school district level of 2.53% in the first year of the biennium and 2.56% in the second year;
- Employer contributions to the Public Employees Retirement System (PERS) of 15.16% for both years of the biennium, and health benefit cost increases of 3.4%;
- The standard (statewide) inflation increase of 4.2% for services and supplies;
- Anticipated local revenues of \$5,031,012,343, based on the estimate prepared by the Legislative Revenue Office; and
- A weighted average daily student membership increase of 0.18%, based on the five-year average rate of change between 2015-16 - 2020-21.

Generally speaking, current service level for the State School Fund is calculated according to the Department of Administrative Services' (DAS) biennial budget instructions. Differences from statewide practices that affect the calculation include:

- An assumption that 85% of school district costs are for personnel. Rather than applying the general rate of inflation for pass-through payments (4.2%), ODE calculates the statewide average salary increase for school personnel - including changes to the PERS rate - and that inflation factor is used to inflate 85% of total estimated formula expenditures. On average, changes to the PERS rate have a very large effect on both the calculation of the State School Fund and on school district expenditures, although there also can be large cost differences between individual school districts due to the use of PERS side accounts.
- Inflation is calculated on each year of the biennium separately, and
- Caseload changes are not adjusted during the biennium, as is done for some other large caseload-driven state programs.

School advocates continue to propose changes to the method of calculating the current service level that would result in more money for the State School Fund. These changes include assuming a particular funding split between the first and second years of a biennium and basing future cost changes on the higher year of the split; assuming that inflation, health care, and school district salary increases will be higher than is currently assumed; and funding school districts for their PERS liabilities including repayment of any pension obligation bonds they may have chosen to issue.

Policy Issues

Using the Quality Education Model of prototypical schools, the Quality Education Commission calculates the level of funding sufficient to meet Oregon’s educational goals and provides a report to the Legislature on this amount before August 1st of each even-numbered year. The following year, the Joint Committee on Public Education Appropriation (JPEA) evaluates the biennial appropriation for K-12 education and determines its sufficiency, based on the estimate included in the QEC report. The 2021 JPEA report confirmed that the 2021-23 legislatively adopted budget of \$9,300,000,000 for the State School Fund was approximately \$557,400,000, or 6.0% less than what the QEM generated as the amount required from the State School Fund to meet the educational goals assumed in the QEM. This is the smallest funding “gap” since the first QEC report in 1999-2001, and is primarily due to full funding from the Student Success Act (HB 3427, 2019) in the 2021-23 biennium.

For 2022 the Quality Education Model was updated to include additional student supports such as librarians, school counselors, summer school, and reduced class sizes. The 2022 QEC report omitted cost estimates for these additions to the model and omitted other statutorily required elements, including an estimate of how increased investment will impact student outcomes. The Commission issued both a revised report and a clarification letter, which may provide adequate information to support the JPEA’s constitutional obligation to determine whether or not the legislature will have appropriated sufficient funds for education in the 2023-25 biennium.

Enrollment in public schools fell during the pandemic, both nationally and in Oregon. In Oregon, lower birthrates and slowing in-migration contribute to a projected ongoing decline in the total numbers of school-aged children in the state. The state population forecast prepared by DAS’ Office of Economic Analysis as of September 2022 shows an average annual decline of 0.57% in the number of school aged children (ages 5-17) between 2020 and 2030, or a net decline from 637,442 in 2020 to 601,694 in 2030. Fall school membership reports collected by ODE between the 2013-14 school year and the 2019-20 school year show a modest annual average enrollment increase of 0.45%; fall membership reports from the 2020-21 school year through the 2022-23 school year show an average enrollment decline of 1.75% per year. It is currently unknown whether or how student enrollment will recover from these pandemic-related declines. As the State School Fund is distributed on a per-pupil basis, weighted for certain student characteristics, school districts experiencing steeper enrollment declines are concerned about the associated loss of funding.

Governor’s Budget Summary

The Governor’s budget for the State School Fund is \$9,900,000,000, 4.0% or \$382,282,728 more than CSL. Investments in the State School Fund support the High School Success program and provide funding to school districts and education districts still working to recover from pandemic-related disruptions and associated learning loss.

Other Significant Issues and Background

HB 5006 (2021) contained a one-time \$500,000 General Fund appropriation for a study to determine whether State School Fund spending resulted in disparities between black, indigenous, and people of color (BIPOC) students and non-BIPOC students. The Department was directed to use the one-time funding to contract with a research firm experienced with education funding policy and practices, to appoint an advisory committee for the study, and to provide staff support. A report on findings was required by December 15, 2022. The Department has awarded a contract for this work to local economic consulting firm EcoNorthwest and has appointed an advisory committee. Research was not completed prior to the December 15th deadline; instead, a preliminary report was submitted in December, with the final report anticipated by June 2023.

Several recent Secretary of State audits have contained recommendations to monitor spending on K-12 education. In an atypical systemic risk assessment titled *K-12 Education — Systemic Risk Report. State Leaders and Policymakers Must Address Persistent System Risks to Improve K-12 Equity and Student Success*, published in May 2022, auditors identified six major risks in Oregon’s K-12 education system. While all risks included balancing state monitoring of school district performance with local school board control, risk #3 specifically identified “spending scrutiny and guidance” as a benefit that ODE could provide to school districts and the public alike. The audit’s suggested leadership actions include supporting ODE in providing more analysis and tools for school districts to use in benchmarking and evaluating their spending; monitoring the depth and effectiveness of ODE’s interactions with school districts on spending; ensuring that ODE works with districts to enhance transparency and analysis of district spending; and supporting ODE in developing academic return on investment models. Auditors also recommended increased financial training for district administrators.

For further reading, please follow the links below:

[Oregon Department of Education - Agency Request Budget 2023-25](#)

[Governor’s Recommended Budget 2023-25](#)

[Legislative Revenue Office - School Local Option Property Tax Research Report #4-04](#)

[Joint Committee on Public Education Appropriation - Final Report](#)

[2022 Quality Education Commission Report - Revised](#)

[2020 Quality Education Commission Report](#)

[K-12 Education — Systemic Risk Report. State Leaders and Policymakers Must Address Persistent System Risks to Improve K-12 Equity and Student Success](#)