



TO: House Rules Committee

FROM: Oregon Education Association, Oregon School Employees Association, Oregon Association of Education Service Districts, Coalition of Oregon School Administrators, Oregon School Boards Association

DATE: February 24, 2026

RE: HB 4075 and -5

Chair Bowman, Vice-Chairs Elmer and Pham, Members of the Committee:

We have great appreciation for the challenging situation facing the Bay Area Hospital and the impact that a change in service could have on the local community. Students, families, and staff in the region all benefit from the hospital and its current service array. We want the hospital to find a sustainable path forward.

That said, we have concerns about the solution currently proposed and want to make sure legislators have a clear understanding of the funding mechanisms as it relates to schools. As drafted, HB 4075 -5 would reduce the amount available for distribution from the Common School Fund, likely creating a need for the Legislature to increase General Fund investments in the State School Fund in order to hold schools harmless.

The -5 amendment of HB 4075 would direct the Treasury to guarantee a loan of up to \$45 million for a period of up to 20 years, using the Unclaimed Property and Estates Fund as the backstop. The Unclaimed Property and Estates Fund flows into the Common School Fund, which is the state's oldest pot of money for schools, intended to exist in perpetuity with good fiduciary management.

Distributions from the Common School Fund are considered Local Revenue for purposes of the State School Fund, and estimates for the CSF are included in the annual local revenue projections used when the state calculates the Current Service Level for the State School Fund.

Impact of HB 4075 -5 on Common School Fund

Annual loss of moneys available for distribution to school districts

Our understanding from the Treasurer's office is that in order to ensure moneys are available should they need to cover the hospital's note, an amount equivalent to the outstanding loan balance will be retained in the Oregon Short Term Fund rather than being transferred to the Common School Fund.

The State Land Board determines the rate at which the CSF is distributed to school districts, but it has been 3.5% in recent years. Assuming that holds, in each year of the note, school districts would be shorted in amount equal to 3.5% of the outstanding loan balance.

For instance, in year one, with an outstanding balance of \$45 million, school districts will receive \$1.58 million less from the CSF than they would otherwise. The Treasurer's office has shared that they believe

the impact on CSF distributions would be over \$1 million annually, through the first twelve years of the note.

Potential for less CSF growth over time

Once again, our understanding from the Treasurer's office is that in recent years the Common School Fund has returned higher earnings than the Oregon Short Term Fund. Last year, the CSF returned 9.4% earnings whereas the OSTF has peaked at closer to 6% in 2024.

By holding an equivalent amount to the loan balance out of the Common School Fund, that money will likely grow at a slower rate, so long as the CSF outperforms the Short-Term Fund. While a few percentage points on tens of millions of dollars may not be a great deal of money in a given year, this could be the situation for the 20 years of the loan. Further, given the nature of compounding interest, a gap in any year will grow over time.

Risk of outright loss in funds

We understand that current leadership at the Bay Area Hospital is working diligently to make improvements and is now seeing positive cashflow for the first time in months, which is promising. We also think it is important to be mindful that the hospital has indicated to the public over the past year that unless there are changes to the public insurance reimbursement rates, the hospital would likely continue to face financial hardship given the ratio of public-pay to private-pay insurance among community members. The -5 amendments do not address reimbursement rates, and as we understand it, the change proposed in the -2 amendments is not effective without approval from the Centers for Medicare & Medicaid Services (CMS) and would require the state to find funds to cover the additional reimbursement rate.

In the unfortunate event that a note guaranteed by the state were to get called, the amount used to pay the creditor would be money that would then never flow into the Common School Fund as it otherwise would have.

Concerns about precedent

We believe that the -5 amendment to HB 4075 is drafted tightly enough that Bay Area Hospital would likely be the only entity for which the terms apply. However, we are concerned that passage would set a precedent of the state using the Unclaimed Property and Estates Fund in such a manner, and the same impact to the CSF outlined above would apply to any future requests as well.

According to the Hospital Association of Oregon, [almost half the hospitals in the state operated at a loss in 2024](#). With a number of hospitals statewide struggling in recent years and likely to be further harmed by HR 1 and its impact on the Medicaid system, we think it is important for the Legislature to be very thoughtful about the tools it signals might be available to alleviate the financial strain on local health systems.

Implications for Schools and the Legislature

Districts statewide rely on a combination of state and local revenue, which gets equalized across districts. In order to maintain funding levels, a drop in local revenue represents a greater demand on the General Fund via investment in the State School Fund.

At a time when districts all across the state are facing cuts due to shifting enrollment and rising PERS costs, and the state has looming impacts of HR 1 to contend with, we need as much in local revenue as

we can get. If the Legislature were to pass HB 4075 -5 and not add back, via the General Fund share of the State School Fund, the amount shorted to districts over the term of the loan, it would effectively be taking money from schools to cover the needs of the Bay Area Hospital.

Request to hold schools harmless

We understand that the Legislature is searching for an acceptable solution to the shared goal of maintaining the current health care service level on the South Coast. Whether this body is comfortable with the proposal in the -5 and the broader risks we have laid out is in part a policy decision. But it is also a budgetary one.

HB 4075 and the -5 are not budget neutral. There will be an impact to the Common School Fund and therefore to the “total formula revenue” available for distribution to school districts via the State School Fund.

If HB 4075 -5 is the policy choice the Legislature wants to make, then we request that schools be held harmless. This would include:

1. Adding an amount equivalent to the portion of funds held back to cover the note (that would otherwise have been distributed via the Common School Fund) via a General Fund increase in the State School Fund.
 - a. Assuming 3.5% of the amount necessary to cover the loan, and earlier stated projections from Treasury, we anticipate needing \$2-3 million *per biennium* for the next 12 years, with the amount then decreasing in each of the eight remaining years of the note.
2. Accounting for the difference in interest-earned on funds held back.
 - a. We would request the Legislature work with Treasury to identify any gap in interest-earned by funds held back in the Short-Term Fund and the earnings those funds would have realized in the Common School Fund and for the Legislature to make an allocation to the Common School Fund to cover any lost earnings. This should be a very reasonable amount in a given year, but will have an impact on the CSF corpus (and therefore distributions) over time.
3. Protecting schools from a potential default.
 - a. We would request the Legislature include language to ensure that if the state does need to cover the note, an equivalent amount would be allocated directly to the Common School Fund by the Legislature at the next Emergency Board meeting or legislative session.

We understand the tough position legislators are in, in trying to help navigate this regional challenge. We believe there is some inherent risk with the current proposal and an assured impact on funding for schools. With the projections that Treasury has shared with us, we estimate it would take over half the amount of the \$45 million loan, at a minimum, to keep schools whole.

We believe it would be more straightforward and pose less risk to schools for the Legislature to either make a General Fund appropriation or seek Lottery funds to cover this endeavor. If you choose to continue down the path of using the UPEF in this manner, we ask you to build in protections for schools.

We too want to see health services protected on the South Coast, and we believe the Legislature has the authority to do so in a manner that doesn't pit funding for hospitals against funding for schools.

Thank you for your thoughtful consideration on this matter.