

2025-27 Budget Review

State School Fund and Common School Fund

State School Fund	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	7,861,224,323	8,736,640,339	9,860,133,424	9,860,133,424
Lottery Funds	650,508,965	638,737,863	625,259,443	625,259,443
Other Funds	756,401,823	824,621,798	874,049,823	874,049,823
Total Funds	9,268,135,111	10,200,000,000	11,359,442,690	11,359,442,690

Common School Fund	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
Other Funds (NL)	136,400,682	159,996,772	159,996,772	159,996,772

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 12. 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 considering the availability of local revenues. State resources make up approximately two-thirds of total formula resources. School districts receive a general purpose 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”) in addition to 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 2023-24).

Additionally, though the State School Fund provides the largest share of resources for school districts and ESDs, the Department of Education distributes over \$4.5 billion (based on the 2023-25 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.

BUDGET ENVIRONMENT

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 (2.1%), 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.
- Caseload changes are not adjusted during the biennium, as is done for some other large caseload-driven state programs.

The methodology used to calculate the State School Fund current service level budget has received intense scrutiny as school districts have struggled with budget shortfalls due to expiring federal pandemic funding, inflation, and other issues. School advocates proposed changes to the method of calculating the current service level that would result in more resources for the State School Fund. In response to these concerns, the Governor's Office convened a work group that included the DAS Chief Financial Office, ODE, Legislative Fiscal Office, and education stakeholders to review the methodology and assumptions used to develop the State School Fund current service level. Three proposed changes were included in the 2025-27 current service level calculation, including assuming a 49/51% funding split between the first and second years of a biennium and basing future cost changes on the higher year of the split (\$217 million increase); using 10-years of historical data instead of 20-years to estimate school district salary increases (\$240 million increase); and annualizing local revenue estimates to recognize revenue fluctuations between the first and second years of a biennium (\$55 million increase).

After the funding amount for distribution to school districts and ESDs is calculated, funding for the 18 legislatively directed "carve-outs" is added to the calculation to produce the final SSF current service

level budget. The DAS 2025-27 Budget and Legislative Concepts Instructions identify the SSF as a mandated caseload for budgeting purposes and define mandated caseload as “caseload changes for programs required by the federal government (federal entitlement programs), the state constitution, or court actions.” Only one carve-out, the Early Intervention/Early Childhood Special Education, is budgeted as a mandated caseload. It is unclear why other carve-outs for education provided in specialized facilities are not budgeted in the same manner. This includes the carve-outs for Pediatric Nursing Facilities, Hospital and Residential Care, and the Oregon Youth Challenge Program.

As far back as 1973, federal courts have ruled children have a fundamental right to a basic minimum education. Many court cases have contested the ruling and attempted to redefine it and narrow the scope. None have been successful. The most recent ruling came in 2020 with the U.S. Court of Appeals ruling in *Gary B. v. Whitmer*. The ruling upheld that under the U.S. Constitution, there is a “fundamental right to basic minimum education.” This definition applies regardless of the setting or situation.

Education provided to students within juvenile detention and correctional facilities is not considered a carve-out. The State School Fund provides funding for educational services in county juvenile detention centers and Oregon Youth Authority close custody facilities on a weighted student basis as part of the distribution to school districts and ESDs. This modeling method often resulted in budget shortfalls needing to be addressed mid-biennium due to the volatility of the caseload. In the 2025-27 current service level budget, \$8.3 million General Fund supplements the SSF funding for the Juvenile Detention Education Program (JDEP) and the Youth Corrections Education Program (YCEP) to cover program costs.

In the 2024 legislative session, SB 1552 adopted a model for funding the JDEP and YCEP programs. It directed ODE to issue a report by August 31, 2024, and every even-numbered year after, with an identified Target Funding Level (TFL) for the programs. ODE's August 2024 Juvenile Correction Education Funding Report identified a model for calculating TFL based on estimated classroom counts. Using this model, the TFL for 2025-27 biennium is \$27.2 million, \$2.9 million more than the 2025-27 current service level budget for these programs.

The 2025 Legislature will need to address the report's findings and determine whether JDEP and YCEP are more appropriately funded as an SSF carve-out.

CURRENT SERVICE LEVEL

The 2025-27 current service level calculated for the State School Fund is \$11.4 billion, a 11.4% increase from the 2023-25 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:

- Blended compensation increases at the school district level of 8.24% in the first year of the biennium and 2.98% in the second year.
- Employer contributions to the Public Employees Retirement System (PERS) of 20.45% for both years of the biennium, and health benefit cost increases of 3.4% annually.
- The standard (statewide) inflation increases of 2.1% each year for services and supplies.
- Anticipated local revenues of \$5.6 billion, based on the estimate prepared by the Legislative Revenue Office.

- Weighted average daily student membership decreases of 0.37%, based on the four-year average rate of change between 2020-21 and 2024-25.

GOVERNOR’S BUDGET SUMMARY

The Governor’s Budget proposes no changes to the current service level budget and includes \$11.4 billion for the State School Fund, a 11.4% increase from the 2023-25 legislatively approved budget. The Common School Fund remains funded at \$160 million, no change from the 2023-25 legislatively approved budget.

OTHER SIGNIFICANT ISSUES

Using the Quality Education Model (QEM) of prototypical schools, the Quality Education Commission (QEC) 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 2023 JPEA report confirmed that the 2023-25 legislatively adopted budget of \$10.2 billion for the State School Fund was approximately \$1.5 billion, or 11.5% 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 a larger funding “gap” when compared to the 2021-23 budget, primarily due to changes in the QEM that resulted in increased costs. For 2023, the QEM was updated to include additional student supports such as librarians, school counselors, summer school, and reduced class sizes.

The 2024 QEM model projection for the 2025-27 biennium is \$13.5 billion. The 2025-27 CSL State School Fund investment plus the projected Student Success Act transfer of \$823.8 million equate to a total of \$12.2 billion State School Fund allocated dollars for K-12 education. At this investment level, the funding gap is reduced to 9.9%, the smallest in Oregon’s history.

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 December 2024 shows an average annual decline of 1.2% in the number of school aged children (ages 5-17) between 2020 and 2030, or a net decline from 650,823 in 2020 to 584,478 in 2030. Fall school membership reports collected by ODE between the 2020-21 school year and the 2024-25 school year show a 0.37% weighted average enrollment decrease. 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.

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:

- [2024 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](#)
- [Joint Committee on Public Education Appropriation - Final Report](#)
- [Legislative Revenue Office - School Local Option Property Tax Research Report #4-04](#)

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