



Legislative Fiscal Office
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Bill Title: Relating to hospital finance; declaring an emergency.

Government Unit(s) Affected: School Districts, Department of State Lands, State Treasurer, Department of Education, Oregon Health Authority

Summary of Fiscal Impact: Costs related to the measure are indeterminate at this time - see explanatory analysis.

Measure Description

The measure states that the Oregon State Treasurer (OST) is to guarantee an eligible rural hospital stabilization loan by April 1, 2027. The loan must only be used to address cash shortages or refinance existing debt and must have maturity date within 20 years after the closing date of the loan. The measure outlines other requirements for the loan, and requires a hospital with a loan guaranteed under the measure to provide annual reports to OST on the outstanding loan balance, repayment status of the loan, and financial standing of the hospital. The guarantee is only payable from moneys in the Unclaimed Property and Estates Fund and does not constitute a debt or obligation of the State of Oregon. OST is to spend up to \$44 million of moneys in the Unclaimed Property and Estates Fund to fulfill contractual obligations on a guarantee.

Fiscal Analysis

The fiscal impact to implement the measure is anticipated to be minimal, but is projected to decrease the amount of Common School Fund (CSF) revenue from investment earnings and transfers to school districts from the CSF. However, the amount of decrease is indeterminate at this time.

The CSF, 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.

The CSF includes revenues from the Unclaimed Property and Estates Fund. By July 1 of every year, OST transfers to the CSF all moneys and properties of escheated estates for which any claim has elapsed, and also transfers to the Unclaimed Property School Fund, within the CSF, all remaining moneys and properties in the Unclaimed Property and Estates Fund that OST does not anticipate needing to meet all expenses and liabilities of the Unclaimed Property and Estate Fund until the end of the following fiscal year.

Under this measure, OST could hold up to \$44 million from the Unclaimed Property and Estates Fund in reserve in the fund, instead of transferring these funds to the Unclaimed Property School Fund, in order to guarantee any loan under the measure. However, the actual amount held in reserve to guarantee the loan is not known at this time and could be less than the \$44 million maximum guarantee amount required under the measure. The amount held in reserve would be determined by the debt covenants of the refinancing. Additionally, as of July 1 each year, OST must have in the Unclaimed Property and Estates Fund the funding that is necessary to meet all expenses and liabilities of the fund until the end of the following fiscal year; however, over the course of the

fiscal year, additional funding is received in the Unclaimed Property and Estates Fund, meaning that available funds are likely to exceed expenses and liabilities. It is not clear if OST would actually need to hold the entire amount of the loan guarantee in reserve, given that the available funds in the Unclaimed Property and Estates Fund will generally exceed reasonably expected expenditures from the fund.

However, assuming that the maximum \$44 million amount was held in the Unclaimed Property and Estates Fund instead of being transferred to the CSF, and assuming that the amount held in reserve decreases as the loan is paid off, rather than having the \$44 million held in reserve for the entire life of the loan, there would be decreased revenue distributions to school districts from the CSF of approximately of \$1.5 million annually for each of the first two years that the loan guarantee funds are held in reserve, and \$1.4 million annually for the two years after that. Over the assumed 20-year life of the loan, as additional funding is transferred from the Unclaimed Property and Estates Fund to the CSF instead of being held in reserve, the amount distributed to school districts will increase. By the 20-year mark, the annual transfer to school districts is projected to be \$244,657 less than it would have been, had funding not been held in reserve to guarantee a loan under this measure. In total, the amount transferred to school districts would decrease by \$19 million over the 20-year period, assuming the full \$44 million was held in reserve at inception of the loan guarantee.

Any moneys held in reserve would be invested in the Oregon Short Term Fund, which has a return of approximately 4%, rather than the CSF, which has a return of approximately 7.4%. This would result in a decrease in investment returns that is estimated to total \$3.5 million over the 20-year life of the loan. However, this number assumes that investment return rates remain at current levels, so this number is subject to change.

Oregon State Treasurer

Costs for OST to implement the measure are anticipated to be minimal. OST will use existing staff to evaluate the loan and review annual reports. The agency may incur legal costs that are estimated to total approximately \$25,000 Other Funds for review of loan documentation, with legal costs paid for using existing Administrative Services revenues. In the event of a default of a loan guaranteed through provisions of this measure OST would incur additional costs related to legal review and additional workload for agency staff; however, costs associated with a default are indeterminate at this time.

School Districts

The amount of CSF distributed to schools is considered local revenue in the total formula funding for school districts and education service districts (ESD). The "formula" refers to the total amount of State School Fund (SSF) and local revenues distributed through 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 General Fund and Lottery Funds are the primary source of funding for the SSF. In recent biennia, the SSF made up approximately two-thirds of the total formula resources, while local revenues - mainly property tax and CSF - contributed the remaining one-third. Implementation of this measure would reduce the amount of CSF moneys considered as local revenue in the school funding formula, which could result in a state General Fund increase in the SSF during the current service level budget development process, which takes place in even-numbered years.

Other entities

There is no fiscal impact for the Oregon Department of Education, Oregon Health Authority, or Department of State Lands.

Relevant Dates

The measure declares an emergency and takes effect on passage.

Section 4, which states that that OST is to expend up to \$44 million to fulfill contractual obligations, does not become operative unless a loan is guaranteed by April 1, 2027. This section is repealed January 2, 2048.