

## Chalkboard's K-12 Action Plan

### **#2: SCHOOL FUNDING AND BUDGET ACCOUNTABILITY**

**Funding and Accountability Workgroup Overall Charge:** *Chalkboard has formed a funding and accountability workgroup (including economists, school finance and business experts) to prepare recommendations for a range of funding options, revenue sources, and distribution formulas to improve the stability and adequacy of Oregon K-12 public school funding. This workgroup (to be known as the "Funding Workgroup") will also analyze how several other Chalkboard initiatives affect the state funding formula: expanded school choice, centralized online purchasing processes, and a revised funding structure for transportation. As the workgroup develops recommendations, Chalkboard will facilitate an evaluation process to determine the public and political viability of each proposal. Chalkboard intends to provide recommendations for stabilizing and funding Oregon's public schools by 2007.*

**Goal:** **Present clear, detailed policy recommendations to provide funding that is efficient and sufficient for every publicly funded child to be a successful student no matter where they are.**

By January 2006, the Funding Workgroup will propose alternative policy packages that consist of one or more of the following features:

- 1) A mechanism for stabilizing year-to-year funding, that will make resources predictable enough for schools to make long-term expenditure decisions.
- 2) A set of benchmarks establishing adequate funding levels for Oregon schools, with variations that account for regional complexities.
- 3) A revised funding formula, which should distribute available funds equitably, with a goal of promoting academic achievement. The formula should be flexible enough to withstand economic extremes.
- 4) An inventory of best business practices, and system efficiencies, along with a proposed system to test for implementation of the practices.

**Public Opinion:** *In Chalkboard's statewide public opinion poll, 49 percent of Oregonians felt that the "lack of stable and adequate funding" was a very big obstacle in the way of their local K-12 public schools being successful. An additional 33 percent said it was a big problem. However, this poll also illuminated a divide between those Oregonians who believe the schools do not have enough money (52 percent) and those who aren't sure funds are being spent efficiently (40 percent). Between the two funding stability concepts tested in Chalkboard's Citizen Feedback Guide survey, "Establishing a guaranteed annual reserve in the state general fund for budgetary shortfalls" received a higher rating and percent that strongly agreed (43 percent). The other concept, "Allowing school districts to ask voters to augment funds," was rated above average, but only half as many strongly agreed.*

**Grounding Concepts:** Public opinion places finance as a top concern to Oregonians about the current K-12 system. Stable funding with transparent budgets were identified as keys to the success of our public schools. Presenting education goals, strategies and funding in a clear and understandable way increases the support for public education. Furthermore, the way the state divides funds can produce sufficient funding for each child and, by creating incentives and disincentives, can also increase efficiency within the public education system.

#### Ideas on the Table:

There are many ways to achieve stable, adequate, efficient and equitable school funding. Good ideas have been proposed before, but need to be analyzed again in light of current and future public goals and values. The analysis brings a rational perspective to the discussion, but fundamentally, the "right" decisions will also be based on judgment about public attitudes. The Funding Workgroup must consider ideas and produce recommendations that can then be discussed by a group that represents Oregon's diversity. It will be up to the workgroup to create recommendations that are grounded in public finance theory and that will produce adequate and stable revenue, resource allocation efficiency, resource-based equity, and ease of administration.

The workgroup will consider any ideas that are relevant to its goals, including ideas listed in this draft, ideas that have surfaced in the Chalkboard process, and ideas being proposed in other forums. Here, we've listed starting ideas, confining them to the four specific goal areas listed above. However, the workgroup recognizes that a real-world proposal typically resides within several, if not all, of the goal areas; therefore, they will analyze each proposal against all of the goals.

While the Funding Workgroup will have full autonomy to define the range of topics it will evaluate, the Chalkboard Project is interested in the workgroup's views on the following ideas:

- **Establishing a guaranteed, per-pupil funding level with annual adjustments.** Oregon could establish annual expenditure targets for the K-12 budget as they have done in California (Proposition 98) and Colorado.

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- **Establishing a larger reserve fund that stabilizes spending across all General Fund programs.** Oregon's existing Education Stability Fund has all the features of a general rainy day fund, but is limited in scope. In the short-run it is too small to protect education programs from potential instability.
- **Changing the mix of revenue sources:** Oregon is highly dependent the state income tax—and because the state's income tax revenue can be very volatile, Oregon's general fund budget is extremely unstable. The state could craft any number of alternative revenue packages that would improve the system's stability. Recent revenue forecasts and pending legislation in the Oregon legislature to enhance a rainy day fund for education, along with other savings from Chalkboard's proposals, could make this alternative less important for funding K-12 education.
- **Reviewing funding adequacy, equity and the role of local resources.** Adequacy, more than any other funding question, depends on Oregonians' values. As Oregon has shifted education funding to the state level, the pool of taxpayers has broadened dramatically, also broadening the number of people who must decide together what "adequate" means. The old, local-level finance model depended on modest-sized electorates who mostly thought alike. Today, by contrast, a philosophically and politically diverse statewide electorate jointly makes funding decisions. There is great tension, because there is such a wide range of perceptions and expectations of the K-12 system. In its review of adequacy, the workgroup will develop alternative measures of adequacy, such as comparisons to other states, districts or the past. The workgroup may also look at how well our schools can meet achievement goals. To do this, the workgroup could ask the Quality Education Commission to rank the 29 reforms in its Quality Education Model in priority order, looking at the degree to which rigorous research has demonstrated a link between the reform and a measurable change in student achievement, as well as the cost-effectiveness of implementing each reform.

The workgroup could additionally examine reform of Oregon's local option provisions, which could support the goals of adequacy and would likely result in an overall increase in spending per student. However, an expanded local option would quickly run into conflicts with equity goals. Finally, Chalkboard's research has identified retirement benefits as a key cost driver for K-12 education. Any discussion about adequacy must include a look at retirement costs (PERS) and the impact of Oregon's Supreme Court decision this year on long-term education budgets.

- **Overhauling the state school fund's distribution formula.** The Legislature created the current funding formula in the early 1990s. The formula recognizes that districts face different costs. For example, Oregon's weighting scheme for students with special needs (funding by Averaged Daily Membership-Weighted) is an explicit recognition that students face different challenges in reaching benchmarks, and require different levels of resources. The formula also recognizes that districts should be accountable for educational results and therefore, should have freedom to spend resources to achieve these results. The goal of this formula is to distribute funds based on each district's unique challenges, and to do it in a way that creates incentives to spend money efficiently.

The formula has had mixed success. It has made school funding much more equal across the state, and there is broad support for many of the concepts contained in the formula. However, there are also concerns. The state developed the per-student weights in the early 1990s with little analysis of the specific weights and little updating or re-analysis has been done since then. For example, without a reliable alternative, the current formula simply pays 70 percent or more of transportation costs, which creates a disincentive to control transportation costs. (See Chalkboard's Issue 5 for options to remove that disincentive.)

Furthermore, in the surge of interest in accountability, new proposals to create positive incentives have surfaced. Two of these are contained in these recommendations: Chalkboard's Issue #12 suggests that Oregon base school funding on attendance rather than enrollment. Chalkboard's Issue #15 recommends increasing open enrollment opportunities.

- **Improving K-12 business practices.** The Secretary of State's March to August 2003 audit uncovered many wide-ranging reforms that show promise to lower non-instructional costs. While identifying and disseminating best practices is relatively common across the country, only a few states have adopted processes that formally identify best practices and periodically *check* for their implementation. This additional step can assure policymakers and taxpayers that good ideas translate into more efficient schools. Florida's award winning *Sharpening the Pencil Program* may serve as a model for Oregon's audit process. The program established a formal framework to improve school district management and resource use with the goal of identifying cost savings.

***(Please visit the "Download Center" section of [www.chalkboardproject.org](http://www.chalkboardproject.org) to see source data: Citizen Public Opinion Statewide Poll: Highlights of Key Findings; Citizen Feedback Guide Survey Results; and ECONW Report: Condition of K-12 Education in Oregon, pp. viii to x, 4-1 to 4-15; Finance Full Report; K-12 Business Practices: Issue Paper pp. 1-13, ECONW Local Option Process: Issue Paper.)***