

**WORKGROUP ON FUNDING AND ACCOUNTABILITY  
FINAL REPORT: KEY FINDINGS**

An effective public K-12 education system is an integral component of a successful society. How and what each generation of students learns affects every aspect of a community's economic, social, and environmental health.

Oregonians as a whole recognize the important role education plays in the state's future, and the corresponding importance of establishing and maintaining an effective and high-quality public K-12 education system, as evidenced in recent surveys conducted on behalf of the Chalkboard Project. Oregonians generally support providing efficient and sufficient funding for every publicly funded K-12 student in Oregon. Where Oregonians differ is in their interpretation of the definition of "efficient and sufficient," and what steps are needed to improve the overall system.

This report, which addresses the findings and recommendations of the Workgroup on Funding and Accountability, considers "efficient and sufficient funding" to mean funding that is adequate, stable and equitable, and which is expended efficiently using accountable and transparent budgeting processes.

After reviewing Oregon's current K-12 funding system and budgeting processes, this Workgroup anticipates that significant systemic changes are required if Oregon is going to achieve the quality, accountability, and financing of Oregon's public schools that Oregonians have said they want to see. Systemic changes are necessary due to the significant interconnectedness among the five components of an efficient and sufficient funding structure – adequacy, stability, equity, efficiency, and accountability and transparency. It is impossible to discuss adequacy, for example, without also addressing stability and efficiency.

This Workgroup endorses a package of recommendations that takes both anticipated revenue and costs into consideration, as well as efficiency improvements. Efficiency savings are possible, but it will require commitment from the schools, standard setting, and assistance from the state.

The Workgroup recommends a guaranteed funding amount per student and a package of investments, described as Chalkboard Plus in the recommendations below. Based on the best available forecast, which assumes continued economic growth; the investments will require additional revenue. Even with this additional revenue, Oregon K-12 education spending as a share of income will remain below the national average.

In addition, if local revenues provide a significant portion of program revenues for a district, service levels would be impacted by expiration of the local funding source.

## CONTEXT AND INTRODUCTION

The Workgroup on Funding and Accountability was charged with developing and presenting clear, detailed policy recommendations for a range of funding options, revenue sources, and distribution formulas. These recommendations are intended to improve the stability and adequacy of Oregon's K-12 public school funding in order to achieve efficient and sufficient funding to enable every publicly funded schoolchild in Oregon to be a successful student.

Efficient and sufficient funding was defined as incorporating the following five components, which can be categorized under the groupings of revenues and expenditures:

### Revenues

- **Adequacy:** A set of benchmarks establishing adequate funding levels for Oregon schools, with variations that account for regional differences and complexities.
- **Stability:** A mechanism for stabilizing year-to-year funding that will make financial resources predictable enough for schools to make long-term expenditure decisions.
- **Equity:** A revised funding formula that equitably distributes available funds with the goal of promoting academic achievement.

### Expenditures

- **Efficiency:** An inventory of best business practices and system efficiencies, combined with a method to test for the implementation of these practices.
- **Accountability and transparency:** A structure to make it as clear as possible to the public how funds are being spent and what results are being obtained from that spending.

In addition, the Workgroup was asked to address three of the 15 actions identified as priorities by Oregonians – more effective use of transportation dollars, more cost-effective purchasing processes, and optimization of federal funds for special education. The Workgroup was also asked to consider existing research on educational practices and the public input already gathered by the Chalkboard Project, and to apply additional data and analyses in making its recommendations.

Finally, the Workgroup was asked to propose alternative policy packages that consist of one or more of the following features:

- A mechanism for stabilizing year-to-year funding that will make resources predictable enough for schools to make long-term expenditure decisions.
- A set of benchmarks establishing adequate funding levels for Oregon schools, with variations that account for regional complexities.
- A revised funding formula that distributes available funds equitably, ties them to academic achievement, and is flexible enough to withstand economic extremes.

- An inventory of best business practices and system efficiencies along with a proposed system to test for implementation of the practices.

To most efficiently produce a comprehensive report within a limited timeframe the Workgroup divided itself into five subgroups, each tasked with taking the lead on one of these five components.

## COMPOSITION OF WORKGROUP

The Workgroup was comprised of economists, school finance experts, and business experts representing a range of geographical and political interests within Oregon. The Workgroup was convened in July 2005 and met regularly through January 2006 to develop and review data for this report. The results reflect a significant amount of time and dedication on the part of the members.

## PROCESS AND LIMITATIONS

**Time and resources:** Recognizing that the Workgroup did not have unlimited time and resources to conduct its research, the members prioritized their efforts to focus on those areas that appeared to have the greatest potential for addressing public concerns about funding and accountability. The first priority was to summarize what was known about each topic and present it clearly. The second priority was to invest resources in gathering and analyzing new and updated data where the group identified the greatest need. This process allowed the group to dig deeper where needed to fully analyze key issues related to school funding and accountability. Some additional research was commissioned by Chalkboard at the Workgroup's request.

**Scope:** The Workgroup's charge included making funding recommendations that will help lead to higher student achievement. Funding, however, is not the only determinant of student success. This created some difficult issues of scope.

Many ideas for improving schools have been floated and tried in recent years. Suggestions have been made that if schools were organized or funded in a different way – vouchers were offered, more charter schools were created, more site-based decisions were allowed, districts were broken up or merged to achieve an optimal size, or the tax structure and property tax value calculation were changed – achievement would be higher and costs would be lower. Regardless of their merits, these ideas extend beyond funding into other operational and philosophic areas. For that reason a full analysis of these proposals was beyond the scope of the Workgroup.

**Lack of professional consensus on appropriate inputs:** In addition, while there is general agreement among academic professionals on some of the key components of an effective school – high quality teachers, effective leaders, a culture of learning and parental involvement – there remains a lack of general agreement on the correct mix of inputs needed to achieve these results. The Workgroup believes that much of this

disagreement could be resolved through development of more rigorous research methods.

**Lack of social consensus on outcomes:** The Workgroup also acknowledged that society’s goals for education, beyond the five key priorities identified by Oregonians – parental involvement, a focus on early readers, educator and administrator quality, budget accountability, and stable funding – are not clearly articulated. While many Oregonians believe things should be “better,” there is no agreement on the definition of “better.” At the same time, other individuals may believe the current situation is fine because achievement as a whole has steadily increased or their personal experience with the K-12 system was a good one.

The results of Chalkboard’s April 2004 statewide survey and more recent opinion research in the public domain demonstrate this lack of consensus. When asked what concerns them about their local public schools, Oregonians cited a number of issues, none of which was mentioned by more than 29 percent of respondents. Issues included quality of education; class size and student-teacher ratio; and wasteful spending, mismanagement of funds and budget problems. Regarding the funding issue specifically, the same research found that Oregonians are split on the question of whether schools need more money.

The lack of consensus also makes it difficult to quantify and measure outcomes, since the desired outcomes are not clearly defined. For example, while most members of the public generally support “achievement” as a desired educational goal, there is a lack of consensus as to the definition of achievement. Among some groups, achievement is defined as graduating from high school being prepared to attend college and eventually graduate school. Other members of the public may consider it more important for a high school graduate to be prepared to take a job, join the family business, or simply become a productive and responsible community member.

This situation has led to many state and federal standards actually representing minimum standards of achievement that are evaluated by tests, rather than higher standards designed to move educational outcomes to some agreed-upon higher level of student achievement.

These concerns and areas of continued discussion and debate, although related to funding, incorporate many additional topics. Nonetheless, although these issues are not addressed in this report, they are worthy of additional consideration.

**WORKGROUP RECOMMENDATIONS: ADEQUACY**

1. Additional revenues are necessary to implement the Workgroup’s recommendations. Although the Workgroup is not recommending specific changes, it does recommend that any tax changes made reduce the tax system’s volatility.

2. Set state school funding at a guaranteed amount of spending per student, to be increased each biennium by inflation plus any new programs approved by the Legislature.
3. Base the guaranteed per-student amount on the costs associated with the “Chalkboard Plus” package of initiatives and efficiencies.
4. Implement the Chalkboard Plus package of initiatives, which includes funding to reduce kindergarten and first grade class sizes, provide elementary-level reading tutors, implement full-day kindergarten, and implement effective strategies to improve achievement in middle and high schools.
5. If revenues in any biennia are not sufficient to fund Oregon’s K-12 public education system at this level, allow automatic withdrawals from the stability fund to maintain the guaranteed level.
6. Fund the recommendations of the Educator and Administrator Quality Workgroup through targeted investment in professional development and a professional compensation model.

**WORKGROUP RECOMMENDATIONS: STABILITY**

7. Change Oregon’s tax system to make it more stable by reducing the state’s heavy reliance on the personal income tax to reduce the tax system’s volatility.
8. Convert the Education Stability Fund to a general Rainy Day Fund, rather than restricting it to only educational needs.
9. Until the tax structure is changed, increase the Rainy Day Fund (currently called the Education Stability Fund) cap to 10 percent of the state’s General Fund revenue. This would require a constitutional change.
10. Provide additional revenue sources for the fund so that the cap can be reached over a six-year economic cycle.
11. Obtain additional revenue for the Education Stability Fund by eliminating or modifying the surplus kicker. This would require a constitutional change.
12. Change the Legislative process to enable the Legislature to determine final school funding figures before districts make staffing decisions, ideally in March.

**WORKGROUP RECOMMENDATIONS: EQUITY**

13. Re-estimate the existing weights and construct new weights based on stated goals of improving educational outcomes for all students, and conduct research into expenditures relative to outcomes.
14. After weights are reconstructed, establish feedback loops to constantly review the weights and assess districts’ success in achieving the desired outcomes.
15. Eliminate the current local option system, which creates widely varying option authority between the Measure 50 and Measure 5 limits. Replace it with a local option based on Measure 50 assessed value. Cap the authority at 15 percent of each district’s State School Fund allocation. This would require a constitutional change.

**WORKGROUP RECOMMENDATIONS: EFFICIENCY**

## **Performance audits**

16. Allocate funds and set targets for achieving efficiencies in business and other support services.
17. Delegate to the State Board of Education responsibility for ensuring a process is implemented to achieve these efficiencies.
18. Require the Board to direct the Superintendent to establish teams including members of Oregon Association of School Business Officials (OASBO) and the private sector to create a list of best practices that can be audited, with the goal of looking for key opportunities for system improvements.
19. Once the teams are developed, direct the State Board to establish standards for districts to strive toward and a system of providing escalated assistance and measured responses to help districts that fail to meet standards.
20. Direct the State Board to develop a method for certifying that a district is implementing the standards listed in the previous recommendation, and include them in the Standards for Public Elementary and Secondary Schools (Division 22) requirements.

## **Centralized data system**

21. Lower the statewide costs of data management and increase the overall efficiency of districts' data management by consolidating districts' data management systems into a more centralized, coordinated system.
22. Direct the State Board of Education to establish a team of data center managers and private sector participants along the lines recommended for performance audits above. Delegate to the team oversight of the project's second phase – setting the future vision and business requirements to help the Board ensure that efficiency criteria are embedded in the new system design.

## **Transportation**

23. Replace the current reimbursement formula with block grants for two years, and allow districts to keep the savings.
24. During the 2007-2009 biennium, direct the State Board of Education to organize a workgroup to develop an alternative reimbursement formula for passage by the 2009 Legislature using cost per mile, population density and/or student location.
25. Allow districts to charge transportation fees, with exemptions for students eligible for free and reduced lunches.
26. Allow districts to determine methods of increasing attendance. Develop a plan to eliminate the transportation mandate and move to attendance-based funding by 2009.

## **Health care**

27. Set a target of moving health care costs to the national average by 2014-2015. The Workgroup identified potential mechanisms for curbing health care costs – to encourage all districts to participate in existing school employee health insurance

pools, and creating an incentive pool of resources districts could access if they meet the state's health spending goal.

28. Reinvest savings from lower health spending in the K-12 system to increase student achievement.
29. Allow school districts to rate health care for retirees separately from current employees.
30. Revise the Oregon Department of Education's accounting manual and instructions to segregate health insurance costs from other contract benefits.

#### **Professional compensation model**

31. Move Oregon's teachers to a more professional compensation model.

#### **Retirement costs**

32. Require PERS to annually report system-wide employer rate forecasts (inclusive of PERS and OPSRP).
33. Require PERS to adopt accounting methods that smooth employer rates, but without pushing too much of the unfunded liability into future years.
34. Replace OPSRP with a fully portable defined contribution plan.
35. Require PERS to evaluate and implement policy options that show potential to reduce the PERS unfunded actuarial liability (UAL).
36. Require local districts to end early retirement programs.
37. Encourage school districts that have not created side accounts to consider doing so, but with careful consideration of the risk.
38. Eliminate the tax-compensating benefit increase for public retirees who have moved out of state and pay no Oregon tax, reduce the assumed rate of interest, and forbid future credits to Tier I regular accounts above the guaranteed rate.

#### **Medicaid reimbursement**

39. Require school districts to use the Multnomah Educational Service District's billing system for administrative claiming.
40. Reconstitute a Medicaid/Special Education Advisory Board consisting of educators and school-based medical staff.
41. Create a full-time, senior position within the Oregon Department of Education to oversee Medicaid reimbursement policy with respect to special education.

### **WORKGROUP RECOMMENDATIONS: ACCOUNTABILITY & TRANSPARENCY**

42. Implement the Oregon Business Council's recommendation to make policy discussions of school funding more transparent, including differentiating the per-student costs of different kinds of students, reporting trends in compensation and program costs, considering the costs funded by all sources, and comparing costs and revenues to national data.
43. Hold districts accountable for achievement and allow districts to use funds flexibly, rather than being restricted by arbitrary funding categories.
44. Change budget and data reporting systems to facilitate transparency. Split out the cost of health care expenditures from other contract expenditures. Better

integrate FTE and student enrollment data with budget and accounting data. Eliminate different calculations of similar concepts in accounting, budget, database initiatives and transparency systems.

45. In addition to having fiduciary responsibility for the PERS system, explicitly charge the PERS Board with a duty to make the operation of the PERS system transparent, to provide reports to help stakeholders and the public become more aware of how the entire public retirement system works in the state, and to advise the Governor and Legislature on public retirement matters.
46. Require the PERS Board to report annually, separately from any audit, the forecasted cost of the entire pension system including side accounts, district and state debt, and OPSRP.
47. Create a task force of local employers from each government type and the state to monitor and provide feedback to the PERS Board.
48. Implement Open Book\$ throughout all Oregon school districts.