Oregon's PreK-20
Education Enterprise

Rethinking The Budget Framework

June 2007

This draft white paper, which explores a new budget framework for Oregon education, has been developed as a resource to state policymakers who are now engaged in deciding how to improve the capacity and performance of Oregon's public education enterprise.

The purpose of this paper is to provoke conversation among education policymakers and stakeholders about education budgeting in Oregon and how it might be reshaped to support education across the continuum.

The paper makes the case for a new budget framework, proposes new budget tools, and suggests changes in budget processes. The analyses and recommendations are intended to serve as a basis for further discussion and design work.

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1. Oregon's Education Vision and the Critical Role of the Budget

Oregon must make it possible for more Oregonians than ever before to attain higher levels of education than ever before. This will place great demands on the capacity of our education systems to respond. Meeting this challenge will require smarter, more integrated operation of our education enterprise, in essence, system transformation. To achieve this transformation, Oregon must move to an integrated, transparent, student-centered budget framework which allows policymakers to understand existing and planned expenditures, to make informed choices, and to hold institutions accountable for results.

Education through and beyond high school is growing more central to the lives of more Oregonians than at any time in our history. As knowledge and innovation become the prime capital in global competition, education increasingly determines the fortunes of individuals, communities, and nations. The workforce in every competitive economy needs higher levels of knowledge and skills than ever before. Employers depend on a ready supply of well-educated talent. Where education cements shared values and expands the personal horizons of individuals, it also advances family life, civic stability, and democratic ideals.

This raises the bar for education attainment in Oregon. *Everyone* now needs some level of postsecondary education and certification.

In light of that transformation, the Governor, a bipartisan group of legislators, and other state policymakers are advancing a vision that calls for a highly educated population and accelerated learning opportunities for students. Oregon must ramp up educational achievement and workforce preparation to unprecedented levels. Oregon's graduates must be prepared to contribute positively to the economic, civic, and cultural life of communities in all regions of the state.

The vision is ambitious. It calls for 20 percent of Oregonians to achieve no less than a high school diploma as their highest level of attainment; 40 percent to obtain a postsecondary credential (associate's degree or certification in a skilled trade), and the remaining 40 percent to secure a bachelor's degree or higher. While educated newcomers may contribute to some attainment gains, Oregon will have to do a better job educating its own citizens to meet the high standard. This will tax the will and capacity of our education systems, which heretofore have not faced such expectations.

Three Keys to System Improvement

Meeting such ambitious new goals calls for substantial system change. To begin that process, Oregon policymakers advocate a three-part policy package including a rigorous and aligned curriculum across the continuum, an integrated student data system, and a unified, transparent, student-centered budget.

The work has already begun. In 2005, the State Board of Education met with members of the Board of Higher Education to discuss systems-related issues including a PK-20 vision for education, systems alignment, the high school diploma, integrated data systems, and a unified education enterprise budget. The Workforce Investment Board also developed a strategic plan to help integrate the education and workforce systems with state economic priorities.

The Joint Boards of Education, in collaboration with the Governor's Office, has developed a workplan focused on PK-20 redesign and related workforce initiatives with the following goals:

- Restore the value of the high school diploma and increase high school graduation requirements
- Strengthen PK-20 systems alignment and integration to facilitate smooth transition from K-12 to postsecondary education and training
- Develop a single unified vision for education through a PK-20 Budget and system performance measures
- Clearly communicate the information, decisions, and actions around a shared and common vision for education in Oregon and build a strong strategic stakeholder alliance to accommodate effective policy development.

The Governor's Vision of Seamless PreK-20 Education

"The old way of thinking about education is that each sector – pre-K, K through 12, community colleges and universities – has a separate budget, separately funded, separately managed, and separately lobbied for. And workforce training? It has lost its footprint as part of the education system. That's going to change.

My paradigm is that all of the sectors are viewed as part of one continuum that I call the Education Enterprise. That means education is budgeted and funded as one enterprise. Managed as one enterprise. And treated as one enterprise as students move from sector to sector. And we're going to add a skills development and worker retraining piece to education that has simply lost its role in providing opportunity for our young people."

Governor Ted Kulongoski
January 2006

This balance of this paper focuses on the third goal: the unified, PreK-20 budget framework. The problem around education budgeting is not a lack of budget and expenditure information. It is that the information is gathered, analyzed, and presented in so many different ways, and often in isolation from other education budgets. Policymakers frequently do not have the information they need to make critical funding decisions. In particular, they often cannot tell what assumptions, policy choices, and trade-offs are involved.

This paper unveils a new budget framework – a combination of tools, analyses, and process reforms – that complements the state's traditional budget process and also informs public policy. This framework looks at public education spending comprehensively and considers revenues from all sources (e.g., state, local, federal, and

individuals) and spending at all education levels from Head Start to doctoral programs. Drawing on existing data, analyses report spending across the continuum using a common per-student definition – a first for Oregon or probably any other state.

In addition to clarifying expenditure levels, this paper investigates and critiques the processes that state agencies use to build and implement budgets. Methods to determine funding needs vary considerably across the continuum. Some work better than others, but all could be improved.

The full vision for revamping Oregon's education budget framework is outlined in the following chapters:

2. Building the Case for a New Budget Framework highlights the shortcomings of existing budget materials and processes and makes the argument for the unified PreK-20 budget framework.

3. Designing Budget Tools that Inform the Policy Debate offers a blueprint for constructing an integrated, transparent, student-centered education budget that spans the PreK-20 continuum.

4. Putting the New Budget Framework to Work describes how state policymakers should reshape education hearings and use the tools in a legislative session.

2. Building the Case for a New Budget Framework

Oregon state government uses widely different methods of developing, debating, and implementing education program budgets. Although there are valid historical reasons for these differences based on the broader state budgeting framework, they pose a variety of obstacles to making informed spending decisions in a unified PreK-20 education enterprise. Inconsistencies across programs abound in budget rules, inclusion of revenue sources, allowances for enrollment and cost growth, methods of calculating cost growth, spending itemization, presentation format, and budget time frames. This fragmented budget development is inconsistent with the vision of a seamless, student-centered education system.

Oregon's state-level budget processes for funding public education investments have not evolved with changes in revenue sources and higher performance demands. As a result, there are important differences in who develops and approves the budget request, as well as how the state distributes the resources (see Table 1).

The existing budget framework segregates the continuum into eight areas:

- Department of Education (K-12 oversight and early childhood education)
- K-12 programs
- Department of Community Colleges and Workforce Development (community college and workforce program oversight)
- Community Colleges
- Oregon University System
- Oregon Health & Science University
- Oregon Student Assistance Commission
- Teachers Standards and Practices Commission

The budget type or method (either grant-in-aid, performance-based, or line item) differs by area and shapes the level of oversight, control, and understanding the state has about a sector's activities (see box).

Oregon's Three Methods Of Budgeting For Education

In planning education expenditures, the state uses one of three budget methods (listed here in order of the degree of state control – from least to most).

- **Grant-in-aid.** The state appropriates resources to institutions to support broad purposes and goals. Recipient agencies provide the state an overview of how the funds are used and report key indicators of education quality and efficiency. The system relies on publicity to push institutions to pursue state priorities and improve institutional performance.
- **Performance-based budgets**. The Legislature appropriates resources but does not specify how to use the funds. A state agency closely tracks the resulting expenditures and charts progress toward meeting related, high profile state goals. Policymakers explicitly consider performance indicators as one factor in determining allocations for institutions.
- **Line-item budgets**. The Legislature reviews and approves a large number of specific educational activities including instructional support at specific institutions, individual research and capital construction projects.

Budget development is a critical step through which departments and systems project the future needs of schools and institutions. Projection methods differ widely across the continuum even though the factors that drive system costs are similar – enrollment and staff labor costs. Who advises the development process also differs. K-12 budget development draws on participation from a broad group of stakeholders and includes budget analysts, employee representatives,

and legislators. A smaller group of administrators and analysts develop budgets for community colleges and universities.

Table 1: Current PreK-20 Education Budgeting

	Programs							
	Early Childhood	**K-12 Programs**	**Community College (Workforce Development)**	**Community College (Lower Div./Tech-Prep)**	**Public Universities**	**Oregon Health & Science University**	**Student Assistance**	**Teachers' Standards & Practices**
Administrative Agency	ODE	ODE, Local School Districts, ESD's	CCWD	CCWD, Community Colleges	Oregon University System Office	OHSU	OSAC	TSPC
Type of Budget	State Agency line item	Grant in aid State School Fund	State Agency line item	Grant in aid College Support Fund	State Agency line item	Grant in aid with line items	State Agency line item	State Agency line item
State Essential Budget Level Developed by	ODE, DAS	Revenue Forecast Committee, DAS	CCWD	CCWD, DAS	OUS, DAS	DAS	OSAC, DAS	TSPC, DAS
Policy Packages Developed by	ODE	Governor's Office	CCWD	CCWD	OUS	OHSU	Governor's Office	TSPC
Budget Request Approved by	State Board of Ed	State Board of Ed	State Board of Ed	State Board of Ed	State Board of Higher Ed	OHSU Bd	OSAC	TSPC
Distribution determined by	ODE	Legislature	CCWD	State Board of Ed	State Board of Higher Ed	OHSU Bd	OSAC	
Budget Implemented by	ODE	School Districts, ESD's	CCWD	Community Colleges	OUS, Universities	OHSU	OSAC	TSPC
Programs Included	Agency Administration Pre-K EI/ECSE Sp. Ed Grants Other Grants	K-12 Instruction and Related Programs	Agency Administration Workforce Development	Community College Instruction and Related Programs	Agency Administration Higher Ed Instruction, Research, and Public Service	Agency Administration, Healthcare Instruction and Related Programs Hospital	Agency Administration Financial Aid and Related Programs	Agency Administration, Teacher Licensure and Related Services
Financial Statements audited by	Secretary of State	Independent Auditors	Secretary of State, Independent Auditors	Independent Auditors	Independent Auditors/ Secretary of State	Independent Auditors	Secretary of State	Secretary of State

Once developed by staffs, budgets then undergo a variety of procedures. Three boards and two commissions approve budget requests. After budgets are approved and adopted by the Legislature, then two departments, three boards, two commissions, and a legislative committee determine how budget resources are distributed to non-profit agencies, school districts, colleges, and universities. Some budgets are implemented on an annual cycle, and others on a biennial cycle. Finally, with the budget spent, agencies and institutions are audited by the Secretary of State, private auditors, or both.

Here are thumbnail sketches of how the budgets of various education programs shown in Table 1 now come together:

- **Department of Education/Early Childhood Programs.** The Oregon Department of Education develops the budget for the Oregon Pre-Kindergarten and Early Intervention/Early Childhood Special Education (EI/ECSE) programs. ODE takes into account expected enrollment growth for the EI/ECSE program, which is considered a "mandatory" program but does not factor in enrollment changes for Oregon Pre-Kindergarten. ODE contracts with private providers and school districts to implement the programs and it manually collects information on the use of funds. Spending on the related federal Head Start program, which is frequently delivered side-by-side with Oregon Pre-Kindergarten, is not shown in the state budget. The federal government contracts directly with non-profit agencies to deliver Head Start services.

- **K-12 Programs.** The School Revenue Forecast Committee advises DAS on development of the K-12 State School Fund budget, a group chaired by the Department of Administrative Services (DAS) Budget and Management Division with membership from the Department of Education, Governor's Office, Legislative Fiscal Office, Legislative Revenue Office, Legislators, and education stakeholders. The committee projects revenues and the essential budget level cost of educating K-12 students for the next biennium. It forecasts costs based on K-12 data and estimates of actual cost increases for salaries, benefits, supplies and services, and on enrollment projections. The committee meets several times to review data and assumptions before making its recommendations to DAS. The process is transparent and the results are disseminated widely to school districts and stakeholders. The K-12 system operates through a quasi performance-based budget. The state appropriates resources through the State School Fund formula, maintains a robust database on school level expenditures, and tracks performance on a limited number of achievement outcomes.

- **Workforce Development.** The Department of Community College and Workforce Development (CCWD) builds the workforce development budget, which among other priorities distributes federal Workforce Investment Act (WIA) resources. The appropriations appear as a line-item in the state budget, and CCWD has direct oversight responsibility for spending.

- **Community Colleges Lower Division and Professional/Technical programs.** The Department of Administrative Services (DAS) provides the essential budget level for the College Support Fund within CCWD. To forecast needs from year to year, DAS applies an inflation factor for supplies and services, which grows at a rate below the Consumer Price Index (CPI). The forecast method does not explicitly consider growth in enrollment or staff compensation, which generally increases at a full percentage point above CPI. The state appropriates funds to community colleges through a grant-in-aid budget framework. Despite contributing

a sizable share of the colleges' operating revenues, the state lacks an automated method to collect data on spending, programs, and staffing from the colleges.

- **Oregon University System.** The entire OUS budget is developed as a state agency line-item budget. The process for developing the essential budget level is complicated and requires thousands of hours of staff time. The budget request factors in a portion of expected increases in salaries and benefits but does not consider enrollment growth. The budget that is allocated to the seven universities constitutes approximately 6,300 lines in the state budget compared to one line each for the State School Fund and the College Support Fund. The detailed state budget for OUS does not reflect the way that funds are actually allocated and spent.

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- **Oregon Health and Science University.** OHSU is a quasi-public agency, and the state contributes funding for instructional costs through a grant in aid that is listed by program in the Department of Administrative Services budget.

- **Oregon Student Assistance Commission.** The state uses a standard state line item budget for OSAC. The commission develops its budget with DAS and approves the resulting request.

- **Teachers Standards and Practices Commission.** Budgeting for TSPC is similar to the Oregon Student Assistance Commission, with a line item budget. The revenue sources differ in that OSAC is primarily funded with state general funds and TSPC is completely fee-based.

Uneven Budgeting

Varying methods of education budgeting create varying cost estimates for education services across the continuum. State budget instructions explicitly identify mandatory caseload programs which are identified in the Oregon Constitution. For those programs, the state must serve anyone who meets the program's eligibility standards. In the education area, the state identifies only two mandatory programs: Early Intervention /Early Childhood Special Education (EI/ECSE) and K-12.

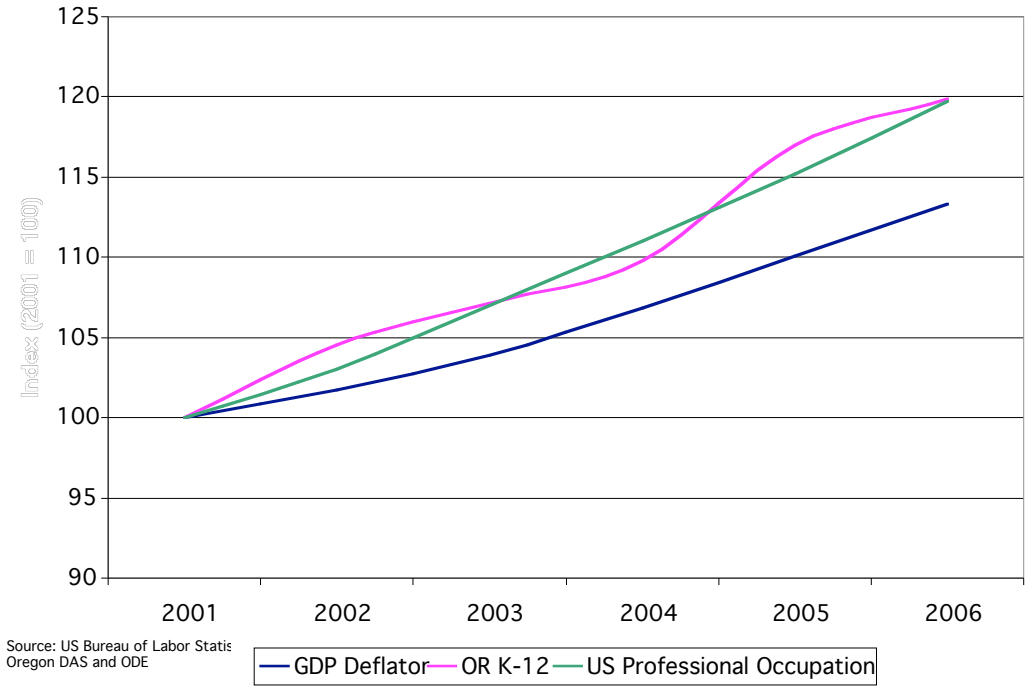
By contrast, for PreK, colleges, and universities, the state's budget building rules assume enrollment remains unchanged. So, during growth periods like the present, budget-building rules implicitly assume that colleges and universities will serve a gradually decreasing share of college-aged population. The result has been a decline in the rate of Oregon's high school students going on to college.

Setting enrollment aside, a second budget building difference relates varying assumptions about education-related inflation. At all levels of the continuum, education is a highly labor-intensive activity. About 80 percent of operational spending in education pays for salaries and benefits of teachers, professors, administrators, and classified staff. Given labor's dominance in education costs, an inflation index tied to the changing cost of compensation would make sense.

As discussed, K-12 essentially has such a *compensation index*, or more precisely, the School Revenue Forecast Committee creates one. Each biennium, the Committee incorporates detailed assumptions about trends in salaries, health insurance, and retirement benefits paid by school districts across the state.

By contrast, in building the community college budget, rules call for the use of a *price* index, which is designed to capture the changing cost of a broad array of goods and services in the economy. Specifically, DAS uses an index called the Gross Domestic Product deflator. Generally, the cost of employee compensation grows faster than the cost of goods and services. For example, during 2001-2006, compensation cost for professional occupations across the United States increased about 20 percent. The School Revenue Forecast Committee—by coincidence only—measured the same growth for K-12 staff in Oregon. By contrast, the GDP deflator increased only 13 percent (see Figure 1).

Figure 1: Comparison of Selected Compensation and Price Indices, 2001-2006, (2001 = 100)



The state uses a method that essentially falls between these two examples in building the Oregon University System budget. The budget recognizes expected changes in benefits and some, but not all, increases in salaries. Specifically, budget rules recognize a portion of expected salary increases associated with classified staff but makes no adjustment for expected increases in faculty salaries (Table 2).

Table 2. Oregon's Budget Building Rules for Education

Program	Budget Development Considers Expected Enrollment Growth	Budget Development Incorporates an Inflation Index Related to Education Sector Compensation
Oregon PreK	No	No
IE/ECSE	Yes	No
K-12	Yes	Yes
Community Colleges	No	No
Oregon University System	No	No
Oregon Health & Science University	No	No

In short, the postsecondary budget building rules reflect an implicit state assumption that the compensation of faculty and staff will systematically disconnect with that of other professionals in the private sector. As that dynamic has played out, university and community college faculty salaries have lagged national averages, and the institutions have had increasing difficulty in recruiting and retaining top faculty.

Traditional Budget Presentations: Necessary But Insufficient

The lack of clarity in existing budget presentations obscures emerging trends in education spending and services. Table 3 reproduces the state's recommended education budget for the 2007-2009 biennium. Measured across a number of funding sources, the budget recommends that the state spend $13.6 billion for the biennium. Moreover, the table suggests that amount will support 13,327 positions[*]—only a fraction of the actual workforce that will deliver education services to Oregon students.

The recommended budget publishes a similarly structured table for each of five subcomponents of the education budget.

Table 3: Recommended State Budget for Education, 2007-09 Biennium

Revenue Source	2003-05 Actuals	2005-07 Legislatively Approved	2007-09 Recommended
General Fund	$5,921,015,867	$6,372,396,765	$7,386,748,402
Lottery Funds	515,356,295	516,714,546	631,554,417
Other Funds	1,526,091,260	1,735,023,182	2,099,675,760
Federal Funds	781,668,729	866,548,960	880,963,704
Other Funds (non-limited)	1,945,312,506	2,242,313,559	2,315,990,344
Federal Funds (non-limited)	237,451,634	239,855,675	241,525,471
Total Funds	$10,926,896,291	$11,972,852,687	$13,566,458,098
Positions	16,736	16,179	18,638
Full-time Equivalent	12,716.51	12,677.06	13,327.00

Source: Governor's 2007-09 Recommended Budget

- Department of Education (i.e., K-12, Pre-Kindergarten)
- Department of Community Colleges and Workforce Development
- Department of Higher Education
- Oregon Assistance Commission (i.e., need-based aid programs)
- Teacher Standards and Practices Commission (e.g., licensing and certification for K-12 teachers)

This traditional presentation is confusing in a number of ways. The shortcomings in the budget include a(n):

- **Incomplete accounting of revenues available to education institutions**. The budget accounts for state-level revenues available to education and separates them into general and lottery funds. The budget also accounts for *some*—but not all—of

[*] The amount includes only education staff employed directly by the state and, therefore, omits nearly all employees of local K-12 school districts.

available non-state revenue. For example, the budget reports the tuition and fees paid by students in the Oregon University System but omits tuition and fees paid by community college students because these funds are local government revenue.

- **Level of program aggregation that obscures sizable programs with distinct goals.** While the state-recommended budget does present major levels of education separately, it does not break out key programs within those levels of education. The presentation of the K-12 budget as a *single number* conveys to policymakers, stakeholders, and the public that K-12 is a single program with a uniform set of goals.

  In reality, K-12 offers a variety of services, often with very different goals or expectations. Advancing children through early grades poses different challenges than advancing them through high school. Special instructional programs for students with mental or physical disabilities or English language learners have a variety of expectations that complement—but nonetheless are distinct from—other education programs.

  Post-secondary education offers a similar diversity of programs. At the community college level, some programs are designed to move students into four-year institutions, others to train students for specific jobs, and yet others to offer remediation.

- **Lack of uniformity in presenting the number of staff employed or students served.** The presentation depicted in Table 1 shows a number of full-time equivalent staff positions associated with the budget, but the staff estimate is limited to staff who work directly for the state. The number does not include 54,000 or more K-12 teachers and staff who work for local school districts and require the majority of education resources.

  More importantly, the budget does not clearly illustrate the number of students anticipated in the variety of education programs funded by the state. The 1990s saw growth in the number of K-12 students as the children of baby boomers moved through the system. Today, the demographic bulge is moving through the postsecondary system. The 1990s also witnessed strong growth in the number of children identified with mental and physical disabilities, English-language learners, and other children with special needs. While most education stakeholders are aware of these past trends, the state budget offers no clear presentation of how these populations will change going forward and what demographic changes imply for Oregon's education system.

- **Presentation of biennial figures.** While presentations of biennial figures may have a useful role in legislative budget committees, they tend to confuse the debate anywhere else. Two-year numbers do not lend themselves to per-student spending analyses or growth rate analyses. All major sources of education finance data—the National Center for Education Statistics, Education Week, the National Education Association—report school spending on an annual basis.

While the preceding critique may appear excessive, one should not underestimate the importance of the form of the budget presentation. Table 1's incomplete, multi-year, and overly aggregated presentation shapes Oregon's public debate on education issues. While it may simplify the discussion to debate a single number for each of the education budgets, few policymakers have the information they

need to translate those numbers into meaningful per-student amounts or to understand how those resulting per-student amounts related to the past.

Conclusion

The methods used to build, debate, and implement education budgets evolved without coordination and, consequently, vary considerably across the PreK-20 continuum. At all levels, there is significant room to improve clarity and to ensure that budget processes support state goals.

Scanning across the continuum, there are some best practices to build on. The K-12 budget process, which was revamped in 2001, offers some appealing features. The School Revenue Forecast Committee biennially forecasts enrollment and other key cost drivers. The Committee has wide participation among stakeholders, and its resulting estimates are transparent and openly debated. The state distributes K-12 revenues through the State School Fund, which allows a high degree of local control over expenditures in return for demonstrated performance on state and federal benchmarks.

Budget processes for the community college system offer less to emulate. Because community colleges do not offer mandatory caseload programs, the state constructs budgets without recognition of changing enrollment demands—positive or negative—and is unable to systematically track other factors that drive the cost of providing education. The state's budget methods implicitly assume that the system either shrinks or becomes much more efficient over time (for example, by increasing class sizes). Put simply, the rules that govern budgets for community colleges are in direct conflict with a 20-40-40 vision of education attainment.

The Legislature does not have the clear, consistent information it needs to inform the education budget debate, given the dollars and consequences at stake. If state policymakers are to meet their goals for increasing the education attainment levels of Oregonians, a top to bottom overhaul of budgeting methods is the critical first step. The next two sections outline how policymakers could get started.

3. Designing Budget Tools that Inform the Policy Debate

Oregon should move beyond its practice of producing education budgets in separate silos. It needs tools to produce a cohesive education budget that is integrated, transparent, comprehensive, student-centered, and designed to measure results. State government's education budget process would be more cohesive and useful if it did just three things differently: 1) account for all revenues available to spend on public education, 2) determine which expenditures relate to instruction and which don't, and 3) identify what the state is spending or intends to spend in program categories on a per-student basis.

A budget presented in a multi-year, multi-billion-dollar, and multi-program format does little, if anything, to educate policymakers. While a handful of program experts may be fluent in the intricate trends and assumptions that underlie the recommended budget, too many observers are left in the dark. They know only that one appropriation level will maintain programs roughly as they exist while deviations from that amount will either expand or contract them. But policymakers and their constituents should ask for more.

State budget analyses should break out of the existing educational "silos," look across the entire PreK-20 continuum, and begin to understand how investments at one level affect another. To that end, revamped budget analyses would be:

- **Integrated**. Budget analyses should span public education from pre-Kindergarten programs to graduate school, consolidate education funding decisions and allow policymakers to weigh the tradeoffs of investments across the continuum.

- **Transparent.** Tools should be presented in clear, comparable, and consistent formats across the education continuum and over time and supported with analyses of per-student funding and spending, historical trends, performance, and key budget drivers, e.g., demographics and costs.

- **Comprehensive.** Analyses should account for spending from state, local, federal, and private sources. Trends would show how the funding shares have changed over time—or are expected to change in the future.

- **Student-centered.** The budget should be focused on student success and support policy choices that advance students' academic progress, and show how the *entire* education budget is invested in student outcomes. Budget tools should help policymakers identify leverage points along the education continuum to accelerate student progress.

- **Outcome-based.** The budget should be tied to clear, actionable performance expectations and drive conversations towards what produces better results. Refining existing performance expectations, and in some cases developing new ones, will take considerable time and effort. Before any indicator is adopted, it must be thoroughly vetted and measured over time. Most importantly, the indicator must have acceptance and relevance at the classroom, department, and school

levels. Policymakers would base performance expectations on rigorous data, research, and best practices that link investments with gains in achievement and attainment. The budget should be reviewed periodically for progress against milestones and goals.

Building Better Budget Tools

Policymakers, agency staff, and stakeholders are familiar with Oregon's existing budget presentations. Stepping away from a framework that's understood to some extent, and basically functional, is a challenge in any context. Consequently, proposed changes must be crafted and implemented carefully. The balance of this chapter outlines step-by-step methods for designing a robust per-student spending analysis that would complement existing budget documents and inform Oregon's education policy debate.

Step 1: Account for *all* operating revenues. Better budget analyses start with a full accounting of revenues available to operate Oregon's public education system. Traditional budget presentations issued by the Governor and reviewed by the legislature track some, but not all, of the revenue used to run pre-kindergarten programs, schools, colleges, and universities. For example (see box at right), traditional budget presentations count university tuition as revenue and ignore community college tuition. Lawmakers see the state revenue that funds the Oregon Pre-Kindergarten but do not see the federal revenue that funds the Head Start program, even though students funded by state and federal appropriations often sit side by side in classrooms.

Seeing the Big Revenue Picture

Traditional state budget analyses focus on only those revenues received, controlled, and distributed by state agencies. Put simply, the more control the state has over a system, the more complete is the accounting of revenues.

For example, Oregon's university system is considered a state agency. Professors and university staff are state employees. Consequently, almost all the revenue used to operate the system runs through the state budget, including the tuition and fees paid by students. By contrast, community colleges are not state-run. College staff are not state employees. So, the state budget reports only the state grants passed to colleges, and budget analyses ignore revenues from tuition and fees.

In a comprehensive revenue review, agencies would routinely provide analyses that document *all* the revenue available to the enterprise—regardless of who controls or distributes the resources. By tracking all the revenue in a consistent and transparent format, state policymakers could better monitor the positions of funding partners—the federal and local governments, as well as students.

While internal state budget analyses do not capture a complete picture of operating revenue, agencies and institutions are required to submit a more comprehensive analysis to the National Center for Education Statistics (NCES). Working with analysts from the education agencies, and building off of their NCES submissions, we developed a PreK-20 revenue analysis for the 2004–05 school year (see Table 4). The analysis considers revenues received by nine departments, agencies, or commissions:

- U.S. Department of Education, which provides Head Start through local providers.
- Oregon Department of Education, which oversees PreK-12 education and administers grants for Early Childhood Special Education/Early Intervention and operates the Oregon School for the Deaf and Oregon School for the Blind.

Table 4. Oregon's PreK-20 Education Enterprise
Budget Analysis
Actual Revenues (in thousands)

2004–05	USDOE	ODE	K-12 Schools	ESDS	Community Colleges	OUS	OHSU	OSAC	TSPC	Total
State										
Appropriations		$49,609	$2,170,253	$99,075	$204,182	$312,294	$42,830	$22,585		$2,900,828
Lottery						$2,178		$430		$2,608
State Transfers						$3,437		-		$3,437
Grants			$42,465	$63,701	$18,543	$31,360	$77,330	$100		$233,498
		$49,609	**$2,212,717**	**$162,775**	**$222,725**	**$349,269**	**$120,160**	**$23,115**		**$3,140,371**
Federal										
Appropriations		$16,833			$60	$8,862				$25,755
Grants	$50,198		$420,384	$53,726	$98,307	$298,964	$263,026	$2,120		$1,186,725
Other								$8,103		$8,103
	$50,198	**$16,833**	**$420,384**	**$53,726**	**$98,367**	**$307,826**	**$263,026**	**$10,223**		**$1,220,583**
Local										
Property Tax			$1,093,364	$74,668	$103,329	$4,834				$1,276,195
Other Local & Private			$134,532	$35,698	$56,395	$26,792	$86,023			$339,440
Other SSF			$122,034	$703						$122,737
			$1,349,930	**$111,069**	**$159,724**	**$31,626**	**$86,023**			**$1,738,372**
Tuition & Fees										
Instructional			$11,083	$9,109	$158,006	$420,965	$31,341		$1,637	$632,141
Other Student Fees						$84,108				$84,108
			$11,083	**$9,109**	**$158,006**	**$505,073**	**$31,341**		**$1,637**	**$716,249**
Other										
Auxiliary Sales			$137,678	$707	$50,680	$139,387		$167		$328,619
Gifts			$22,187	$1,614	$1,010	$69,426		$3,081		$97,318
Interest Earnings			$30,944	$2,908	$9,209	$15,357		$167		$58,585
Hospital							$635,204			$635,204
Other		$6,779	$88,784	$26,880	$35,296	$74,995	$14,841	$4,695		$252,230
		$6,779	**$279,593**	**$32,108**	**$96,195**	**$299,125**	**$650,045**	**$8,110**		**$1,371,956**
Total	**$50,198**	**$73,221**	**$4,273,707**	**$368,787**	**$735,017**	**$1,492,919**	**$1,150,595**	**$41,449**	**$1,637**	**$8,187,530**

= revenue included in state budget
Source: Gates Budget Project

- Local K-12 School Districts, which directly provide public K-12 education. Enrollment in Oregon's 198 school districts range from several students to more than 45,000.
- Education Service Districts, which provide special education, technology assistance, and other central administrative functions to K-12 school districts.
- Community colleges, which provide lower division, professional technical, and adult basic skills education through 17 regional campuses.
- Oregon University System, which provides lower and upper division baccalaureate coursework, as well as graduate and professional (e.g., law, pharmacy, veterinary medicine) training at seven universities.
- The Oregon Health and Science University, which operates Schools of Nursing, Medicine, and Dentistry.

- Oregon Student Assistance Commission, which administers a variety of State of Oregon, federal, and privately funded student financial aid programs for the benefit of Oregonians attending institutions of postsecondary education.
- Teacher Standards and Practices Commission maintains and improves performance in the K-12 education profession by approving teacher preparation programs offered by Oregon's colleges and universities and by licensing teachers, administrators and other personnel employed in Oregon schools.

In 2004–05, operating revenues of these nine entities totaled $8.2 billion. Local K-12 school districts received more than one-half of that total ($4.3 billion). The Oregon University System and Oregon Health & Science University are the next largest, each with operating revenues in excess of $1 billion annually.

A review of funding sources show the state was the single largest contributor of operating revenue at $3.1 billion. Local governments—key funders of K-12 and community colleges—rank second at $1.7 billion. Sales and other auxiliary revenues generated $1.4 billion in 2004–05 and primarily supported non-instructional activities including university housing, K-12 lunch programs, and OHSU's hospital. The federal government contributed $1.2 billion, with most of the support concentrated in K-12 schools (e.g., programs for children with special needs or from families with low incomes). Federal dollars also funded research at OUS and OHSU and workforce development programs at community colleges. Finally, students and their families contributed $716 million in tuition and fees in 2004–05—almost all at the post-secondary level.

Step 2: Tally operational expenditures and determine which are related to instruction. Oregon's schools, colleges, and universities provide a wide array of services. Student instruction is at the core of each sector's mission, but institutions are also engaged in research, auxiliary enterprises (e.g., lunches and housing), and public and community services. To clarify each sector's activities, we asked budget analysts to separate spending into major instructional and non-instructional categories. Again, analysts started with their agency's submissions to NCES and made modifications where necessary.

Instruction activities consist of the teaching components of every program from pre-Kindergarten to medical school but also include operation and maintenance of the physical plant, central support and administration, and student support services (e.g., health services for K-12 special education students).

Analysts estimated the sectors spent nearly $8 billion in 2004–05. They estimate about three-quarters of the total—or $5.8 billion—to be related to instruction (see Table 5). Looking across the continuum, we find almost all preK-12 spending is instruction-related, with a key exception being school lunch programs.

Table 5. Oregon's PreK-20 Education Enterprise, 2004–05
Budget Analysis
Actual Expenses (in thousands)

Expenses	USDOE	ODE	K-12 Schools	ESD's	Community Colleges	OUS	OHSU	OSAC	TSPC	Total
Instruction										
Pre-K Programs	$49,734	$23,496	$7,422							$80,651
EI/Early Childhood SpEd			$4,582	$53,691						$58,273
Primary			$549,392	$3,327						$552,719
Intermediate			$307,148	$1,916						$309,064
Middle School			$419,604	$2,464						$422,068
High School/GED			$682,045	$3,916						$685,961
Special Ed			$208,083	$14,029						$222,111
SpEd -Severe Disabilities		$5,079	$149,315	$49,667						$204,061
Alternative Ed			$69,919	$4,858						$74,777
ELL			$88,454	$19						$88,472
Adult ESL/ENNL					$9,579					$9,579
Adult Alternative Secondary					$22,682					$22,682
Adult K-8					$6,166					$6,166
Adult Continuing Ed. - Reimbursable by State					$29,536					$29,536
Postsecondary Instruction						$420,190				$420,190
Professional Technical					$98,280					$98,280
Lower Division Collegiate					$108,647					$108,647
School of Medicine							$54,372			$54,372
School of Nursing							$12,141			$12,141
School of Dentistry							$16,060			$16,060
	$49,734	**$28,574**	**$2,485,962**	**$133,887**	**$274,889**	**$420,190**	**$82,572**			**$3,475,809**
Student Support										
Student Support	$464	$2,075	$568,213	$76,908	$135,969	$157,563	$20,015			$961,207
Special Ed/Health Support		$334	$96,508	$27,748						$124,590
Transportation			$157,181	$2,739						$159,920
Special Ed Transportation			$48,615	$14						$48,628
	$464	**$2,409**	**$870,517**	**$107,408**	**$135,969**	**$157,563**	**$20,015**			**$1,294,345**
Operations & Maintenance		$2,165	$373,567	$6,525	$53,694	$36,953	$6,500			$479,405
Indirect Support		$40,073	$285,556	$62,021	$102,803	$78,948	$6,837			$576,238
Subtotal Instruction Related	**$50,198**	**$73,221**	**$4,015,603**	**$309,841**	**$567,355**	**$693,654**	**$115,924**			**$5,825,796**
Research					$448	$232,753	$169,680			$402,881
Public/Community Service			$19,238	$8,198	$23,432	$91,948	$41,016	$680		$184,512
Adult CE – Non-reimbursable			$1,309	$761	$6,475					$8,545
Continuing Education						$18,001				$18,001
Auxiliary Enterprises			$162,385	$687	$51,129	$221,149	$6,870			$442,220
Hospital							$566,000			$566,000
Scholarships/Loans					$62,752	$95,328		$39,885		$197,965
Indirect Support						$94,529	$50,822	$4,393	$1,823	$151,567
Other							$98,291			$98,291
Totals	**$50,198**	**$73,221**	**$4,198,535**	**$319,487**	**$711,591**	**$1,447,362**	**$1,048,603**	**$44,958**	**$1,823**	**$7,895,778**

Note: Education expenditures shown here above the red line are for instruction or instruction-related costs. Those below the line are for ancillary costs of state education institutions or programs.

Spending on non-instructional activities is considerably higher for post-secondary institutions. Community colleges offer public/community service programs, provide scholarships, and run continuing education programs. At OUS, research, student housing, and extension services are key non-instructional activities. And at OHSU, the hospital's expenditures, which totaled $566 million, are considered a non-instructional cost along with research and other community services.

Instruction-related expenditures, which have never been estimated in this way for Oregon institutions, provide a comparable numerator for each sector's per student expenditure calculation detailed below.

Step 3: Estimate instruction-related spending per student for programs with distinct goals. A third step in building the per-student budget tool involves breaking each sector's instruction-related expenditures into an appropriate number of discrete programs. A useful analysis would isolate programs that are sizeable in scale and have unique purposes. For children below five years old, budget analyses would track separately pre-kindergarten (e.g., Head Start and Oregon Pre-Kindergarten) and early intervention programs for those with special needs. Analyses would separate regular education in K-12 schools into programs delivered to elementary, middle, and high school students. They would isolate student growth and spending in English as a Second Language, alternative education, and two categories of special education (that is, programs targeted to students who remain in regular classrooms and programs for students in separate programs).

At the postsecondary education level, today's community college activities would be separated into adult basic skills programs and workforce development versus those that lead to a certificate, associates degree or, ultimately, a bachelors degree. Analyses would divide funding of the Oregon University System into separate amounts for lower division, upper division, graduate education, and professional schools. And the OHSU work would isolate its Schools of Nursing, Medicine, and Dentistry.

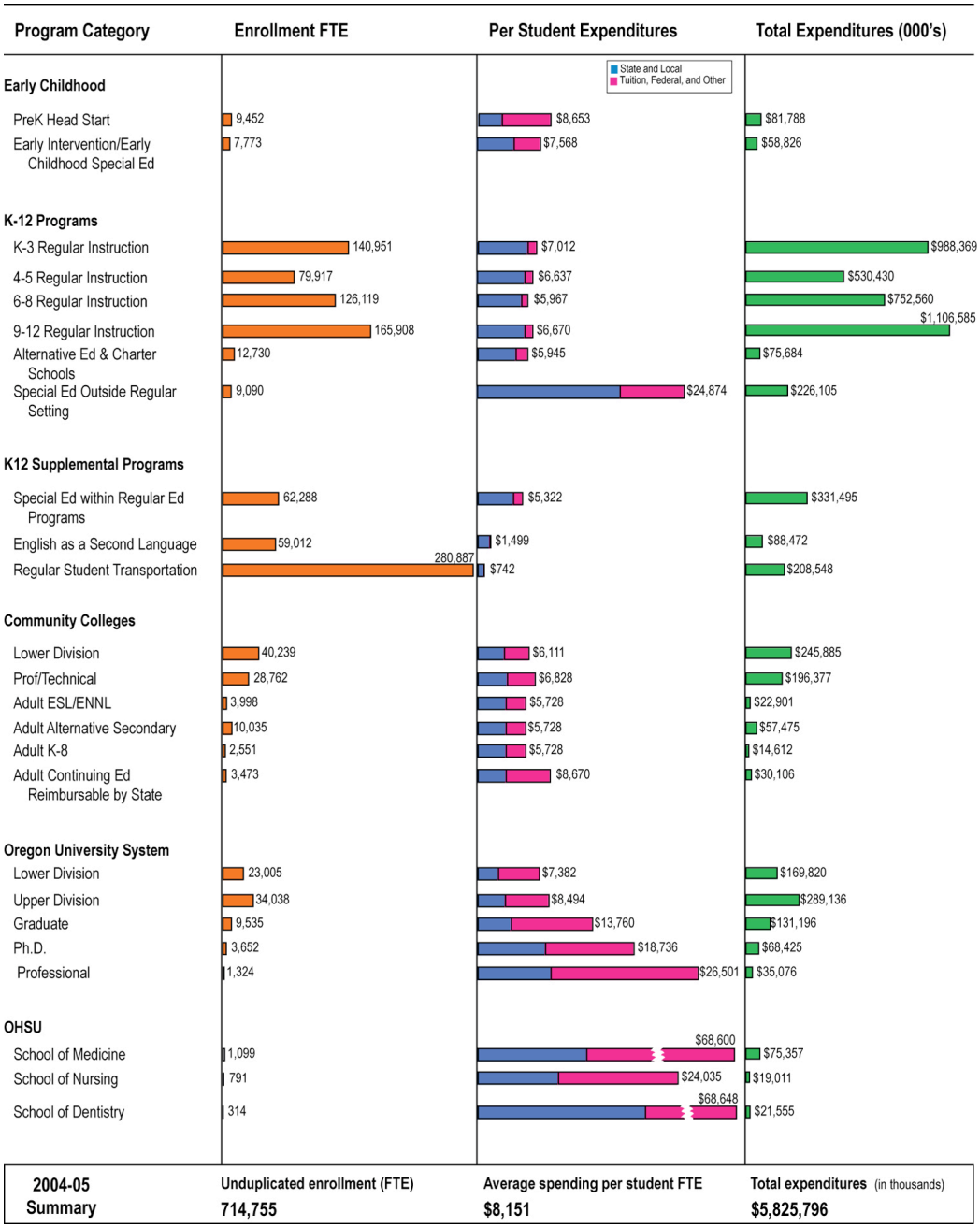
Once programs are defined and expenditures estimated along with corresponding enrollments, policymakers would have a transparent analysis of the cost of providing a variety of education services. Tracked over time, the per-student spending analyses would offer a powerful framework to detail recent trends and anticipate future needs.

Figure 2 illustrates the framework using 2004–05 education spending. Working with agency analysts, we identified 25 distinct educational programs across the continuum. Total instruction-related spending—measured across all programs—equals $5.8 billion. That is, the same level reported in the previous analysis.

For each of the 25 programs, the figure reports the number of full-time-equivalent students, per-student expenditures, the revenue source that supports expenditures, and the total investment (that is, the number of full-time equivalent students multiplied by the sum of the state and local per-student spending amounts).

This analysis distinguishes between "stand-alone" and "supplemental" programs. A student can participate in a stand-alone program (e.g., elementary regular education) without participating in any other program. By contrast, students enrolled or participating in the supplemental programs are simultaneously enrolled in a stand-alone program. For example, many English learning students participate in forms of mainstream, regular K-12 education in concert with their ESL coursework.

Figure 2. PreK-20 Unified Budget Analysis, 2005-05 School Year
With Estimated Spending Per Student



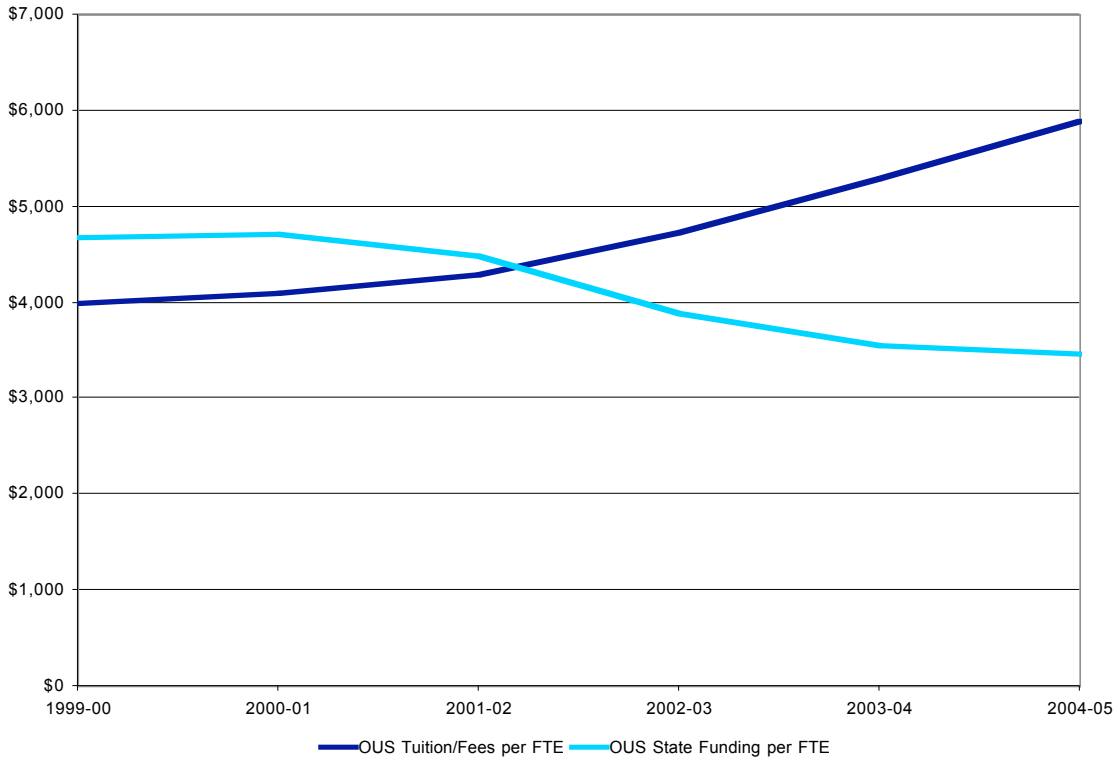
Scanning across the continuum, program spending ranges from $14.6 million (adult K-8 programs at community colleges) to $1.1 billion (regular high school instruction). Annual spending per student for stand-alone programs varies from $5,728 for alternative secondary schools at community colleges to more than $68,000 for OHSU's medicine and dentistry programs.

These proposed categories should initiate the debate rather than end it. Policymakers, administrators, citizens, and other stakeholders should be involved in developing the

list of programs. Once selected, the list may change over time as new programs gain importance and others decline. Notable exceptions from the current list include programs targeted to K-12 low-income students, pregnant and parenting teens, and the talented and gifted.

Step 4: Evaluate key trends over time. Most agencies were able to provide per student expenditures and revenue estimates for as early as the 1999-2000 school year. The rich detail supports an array of analyses that provide state and local policymakers a much clearer picture of important fiscal trends. For example, Figure 3 illustrates a clear relationship between state and tuition/fee revenue per student at Oregon universities. During 2000–2005, state revenue per student FTE fell from $4,686 to $3,469 while tuition/fee revenue per FTE increased from $3,995 to $5,883.

Figure 3. State Revenue v. Tuition/Fee Revenue Per Full-Time Equivalent (FTE) Student for Oregon Universities, 2000-2005



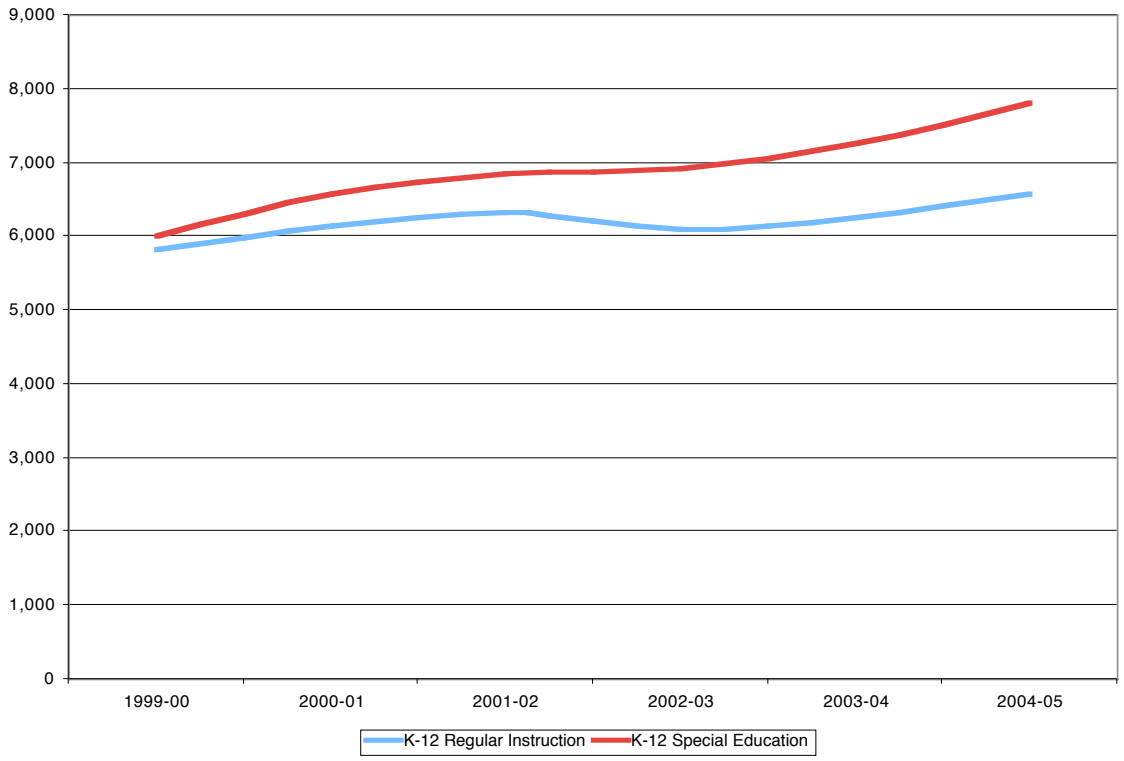
Source: Gates Budget Project

At the K-12 level, a comparison of per-student spending for regular instruction (all grades) and special education brings into focus the increasing cost of providing appropriate services to students with physical and mental disabilities. In 1999–2000, spending per student on regular instruction ($5,815) was roughly equal to per student spending for special education ($5,998)[1], which—perhaps coincidently—supports the double weighting of special education in the state school formula. In subsequent years, however, growth in per-student spending on special education has outpaced per-student

[1] The amount is average between two programs: those that serve students in a regular classroom setting and those programs that serve students with severe disabilities outside the regular classroom.

spending on regular instruction. By 2004–05, the special education supplement per student served is $1,226 more than per-student spending on regular instruction.

Figure 4. K-12 Regular Instruction and Special Education Spending per (FTE) Student



Source: Gates Budget Project

These two analyses simply illustrate the potential, and a host of other similarly instructive presentations can be developed across the continuum.

Conclusions

The budget tools presented in this chapter break out of the existing education "silos," look across the entire PreK-20 continuum, and offer a framework to support rigorous policy analysis. Rather than debating education investments at the billion-dollar level per sector, policymakers and stakeholders would ask:

- What different types of programs does Oregon deliver through the continuum? What are their goals and are we meeting them?
- How much do we spend *per student* at various levels of PK-20 education? How has it changed over time and where is it headed in the future?
- What are the major cost drivers? What can we predict about future costs?
- Where do we ask students and parents to share in the cost of education? Where don't we and why?

- How does a change in spending in higher education affect enrollments at Oregon public colleges and universities? What is the impact of increases in tuition levels and the Oregon Opportunity Grant?
- Across the postsecondary education system, do different institutions provide some comparable programs at different costs?
- How does an increase in funding at the PreK-12 level affect student success throughout the education continuum?

This short list of questions begins to illustrate the type of information that unified, transparent analyses could provide education stakeholders. Routine per-student analyses, conducted year after year, would call attention to important cost drivers and revenue trends well before existing presentations could. They could highlight disinvestments by governments, track reliance on tuition, and identify opportunities for improvements in service delivery. In addition, the analyses would shed light on some programs that have not been reviewed on a consistent basis. Executed well, the new budget tools should positively alter Oregon's biennial budget debates. Clear, concise presentations will inspire sharper questions and improve policymaking.

Finally, the assembly of these budget tools exposed a critical need to strengthen program accounting and data collection in some areas. The lack of automation for centrally collection of data on community college revenues and expenditures is the most glaring deficiency. Today, detailed accounting of community college spending resides at the 17 individual schools, and no infrastructure exists for automated collection of the data and for routine analysis of program expenditures. Existing proposals to develop a statewide database on community college revenues and expenditures should be adopted immediately.

By contrast, K-12's data infrastructure is reasonably solid; however, some inconsistencies in district-level accounting still exist. For example, some districts separately report the costs of transportation for special education students, others don't. The absence of consistent reporting makes it impossible to compare the efficiency of transportation programs across the state. ODE should also standardize accounting for ESL and low-income programs. Education Service Districts combine the expenditures for Early Intervention/ Early Childhood Programs with K-12 special education programs and should report separately for these programs.

OUS and OHSU have standardized accounting systems and central data warehouses; however, higher education accounting practice focuses on identifying expenses for instruction by academic unit and discipline. It does not provide separate accounting by student level. For this project, those costs were estimated based on existing allocation methodologies and cost analysis.

4. Recommendations to Overhaul Education Budgeting

Oregon should adopt education budget tools that span the PreK-20 continuum, include all revenue and spending, budget by enrollment and student groups, account for demographic growth, use a uniform index of cost increases, and establish a high-level budget forecast committee. The K-12 State School Fund budget structure should be adopted for all of education. Comprehensive education spending and performance should be paired for legislative review each session. The Legislature's ways and means process should be organized around student cohorts and their needs rather than institutions.

Oregon's education budget process needs a fundamentally different focus. Rather than *funding institutions*, the process should *invest in education services on behalf of students*. Instead of focusing on 198 school districts, 17 colleges, and 8 universities, the budget should consider the needs of 715,000 students – and many more in the future.

Today's process asks: How much did institutions receive last time and what would their budgets look like with a state-approved inflation adjustment?

A new process would ask: How many students need education services and what is the cost to provide programs that will result in the desired level of performance?

Today the budget process asks what institutions received last time and what adjustments they need for inflation. A reformed process would look at how many students need services and what is the cost to provide programs that will result in a desired level of performance.

While the change in focus may appear subtle, it would foster a much deeper understanding of the dynamics of education budgets. With a student-centered focus, legislators of the 1990s would have seen the surge in enrollments in special education and English language learners and better understood why superintendents struggled to maintain arts, music, and physical education. And they would have better anticipated the effects of big demographic cohorts—like the children of the baby boom generation—and their demands on K-12 and ultimately postsecondary education. Finally, budgets tied to students and per-student costs would have kept policy debates at a human scale, which would have been easier for policymakers and—more importantly—the public to understand.

The recommendations here affect all the key players in the budget process and could be implemented at relatively low expense. Moreover, if serious design work commenced during the summer of 2007, the state could use the new process to build the 2009–11 education budget. The order of the recommendations follows the order of the budget process, beginning with the way agencies build and organize

budgets, then moving on to the way the Legislature considers and debates the budget.

Budget Development

Recommendation 1: Strengthen the collection and accounting of education revenues and expenditures, particularly at the community college level. Oregon's K-12 Database Initiative (DBI) paid dividends in this project by providing six years of detailed, consistent information on revenues and expenditures for more than 200 school and education service districts across the state. The state should expand the DBI concept to community colleges and require each college to report spending information. With rigorous, inter-college analyses of revenues and expenditures, the system would be in a stronger position to identify needed resources in the future.

At the K-12 level, ODE should continue to refine the DBI and ensure consistency in its use. Specifically, ODE should require districts to report health insurance costs separately from other contract benefits and tie staff counts to expenditure categories. In addition, ODE should enforce consistency in accounting on expenditures for targeted programs, including ESL, special education, and interventions targeted to students from low-income households.

Recommendation 2: Direct State agencies with education budget responsibility to maintain and update the PreK-20 budget database introduced in this paper. The recommendations start with providing policymakers better information to make education investments. In its biennial budget instructions, DAS spells out, in detail, the scope and format of information that agencies provide in developing the Governor's Budget. Those instructions could explicitly call for the PreK-20 analyses illustrated in Section 3—or something substantially similar to them. At a minimum, the analyses should span the continuum, report spending from all sources of revenue, and separate enrollment and spending into a manageable number of student groups. Agencies should create performance measures where they do not currently exist and fine tune current measures.

Recommendation 3: Establish a PreK-20 Education Forecast Committee. The PreK-20 Education Forecast Committee would draw from the existing members of the K-12's School Revenue Forecast Committee and would add staff from Community Colleges and Workforce Development, the Oregon University System, and the Oregon Health and Science University. The Governor could create the committee by executive order.

The Committee would project available revenues, enrollments, costs, demographic changes, and emerging trends for *individual student groups* (e.g., PreK, K-3, Lower Division) across the continuum over six years. The Committee would use consistent methods in forecasting enrollment and compensation growth. Having estimated trends for *student groups*, the Committee would combine student groups and describe the revenue needs of major sectors: early childhood, K-12, community colleges, the Oregon University System, and OHSU.

Recommendation 4: Recognize changes in population growth among student cohorts in building Pre-K and postsecondary education budgets. Technical budget rules explicitly separate state programs into two groups: those the state intends to fund for all who qualify and those where the budget ignores the pressure of population growth among student cohorts. K-12, prisons, and Medicaid belong to the first group; Pre-Kindergarten and postsecondary education programs belong to the second. If Oregon is committed to a 20-40-40 vision of education attainment, the practice of ignoring enrollment growth in the budget development process will have to end. The Legislature could implement the change by calling on DAS to classify pre-Kindergarten, community college, and university programs as "mandatory caseload" programs in their biennial budget instructions.

Recommendation 5: Develop appropriate and uniform budget rules for indexing the cost of staff compensation and other education services over time. Section 2 discussed the varying methods agencies use to forecast the cost of serving a student. Methods used by the School Revenue Forecast Committee come the closest to estimating and implementing budgets that recognize the cost pressures faced by institutions. Committee technical work recognizes that education is a labor-intensive activity and it factors in detailed trends in salary, pension, and health insurance costs. By contrast, the state ties community college budgets to a goods and services price index that has historically grown at a slower rate than wages, or compensation generally.

Incorporating an objective external index for forecasting future compensation costs would be an improvement over all the existing methods. The Consumer Price Index is the most widely recognized inflation indicator; however, it does not necessarily capture the full costs of compensation increases, particularly health benefits. Another possibility would be choosing a labor cost index. For example, the U.S. Bureau of Labor Statistics (BLS) develops total compensation indices for a variety of private and public sector occupations. The proxy for education services is the index for the compensation of professional and related occupations. The category includes public and private sector educators but also extends to engineers, architects, scientists, and social workers. During 2001-2006, BLS's professional compensation index increased 3.7 percent annually – more than a full percentage point higher than the index used by DAS to develop the community college budget.

Once the state selects an appropriate index, DAS could build budgets assuming that *labor spending per student* grows with the index. DAS could use its GDP deflator to forecast costs for purchased services and supplies, which together compose about 20 percent of per student spending.

Adoption of an appropriate compensation index brings at least two advantages. First, going forward, Oregon schools, colleges, and universities would offer the same relative increases in compensation as comparable employers.

Second, if a particular aspect of Oregon's compensation accelerates at an extraordinary rate—as PERS has in recent years—an external compensation index would likely illuminate the issue early and help to frame the policy question. That is, if policymakers did not curb the growth of a particular aspect of compensation, institutions would have to reduce spending in another area. So, a compensation

index essentially establishes an external benchmark for wage and benefit growth. That said, policymakers would always have the option to appropriate funds above current services if they deemed certain cost drivers outside their ability to control.

Table 6. Oregon's PreK-20 Education Enterprise
Current State Budgeting Methods

Type of Budgeting	PK-12	CCWD	OUS	OHSU	OSAC	TSPC
State Agency line item budget	ODE	CCWD	University System Office	OHSU	OSAC	TSPC
State Agency line item budget	Early Childhood, State Special Ed Grants		Universities SWPs			
State School Fund	K-12 Schools & ESDs					
College Support Fund		Community Colleges				
Grant in Aid				OHSU		
Budget Request Approved by	State Board of Ed	State Board of Ed	State Bd of Higher Ed	OHSU Board	OSAC	TSPC
Proposed New Budgeting Method						
State Agency Line Item Budgets	**ODE**	**CCWD**	**University System Office**	**OHSU**	**OSAC**	**TSPC**
State Education Fund	Early Childhood Programs K-12 Schools and ESD's	Community Colleges	Universities SWPS	OHSU Public Service		
Budget Request Approved by	**Joint Boards of Education** Review education outcomes, system performance, investment opportunities, and approve the education budget request					

Budget Structure

Recommendation 6: Extend the K-12 State School Fund concept to the rest of the education budget. As discussed previously, K-12, community colleges, universities, and Oregon Health & Science University each operate under unique budgeting methods (e.g., grant-in-aid, quasi-performance based, line item). Among the competing methods, the State School Fund approach comes the closest to striking the balance between sometimes competing goals of flexibility and accountability. Under the State School Fund approach, school districts have traditionally received a broad appropriation but few mandates about how to spend the resources. The state implicitly distributes monies based on a number of special education, ESL, and low-income populations, but districts can redirect those resources—or add to them—if they see a need. In exchange for the relatively high degree of spending discretion, the state holds districts accountable by tracking student-, school-, and district-level performance on reading, math, and science benchmarks. The state could strengthen accountability by developing performance goals for programs that do not already have them (e.g., ESL, special education) and fine-tuning existing measures.

Under this recommendation, the legislature could extend the State School Fund concept to the rest of the PreK-20 enterprise. The Legislature would establish a *State Education Fund* to facilitate budget development for PK-20 education programs with six separate appropriations:

- Early Childhood Programs,
- K-12 Schools and Education Service Districts,
- Community Colleges,
- Universities,
- Statewide Public Service Programs,
- Oregon Health Sciences grant.

The PreK-20 Revenue Forecast Committee would develop the *State Education Fund,* and the Joint Boards of Education would approve the final PK-20 Education budget request. The Joint Boards of Education would receive data from the education agencies on enterprise performance; review policy packages developed by the education sectors; identify leverage points across the continuum to advance student progress; and make recommendations for investments, policy changes, or infrastructure support to meet state goals.

The new State Education Fund would provide all sectors similar treatment in budget development and implementation and begin to support a more cohesive education system. Finally, appropriations to the state agencies that oversee the sectors (ODE, CCWD, University System Office, and OHSU) would remain as line items in the budget.

Legislative Review

Recommendation 7: Build a common understanding of PreK-20 education performance and spending at the outset of each legislative session. Under current practice, legislative leaders request and receive education information in separate committees and agency presentations. A reformed process would convene the key education committees of the House and Senate during the first month of legislative session for a broad review of PreK-20 goals, performance, spending, and initiatives proposed by departments and key stakeholders. Using the budget tools described in the previous chapter, legislative analysts would highlight trends in number of students served, per-student spending, and program performance over a five to ten-year period. Analyses would highlight key shifts in how state, local, and federal governments fund education. Where schools, colleges and universities ask students and parents to share in the cost of education, analyses will track changes in tuition and fees.

Joint legislative presentations would also be prospective and clarify the near-term direction of the current system. Forecasts would anticipate the key demographic trends expected during the next decade, assess the availability of state, local, and federal resources, and anticipate the key drivers of institutional costs (e.g., salaries, retirement, and health benefits).

Finally, the hearings would convene department leaders, education experts, and stakeholders to identify the key leverage points across the continuum with the greatest potential to advance the 20-40-40 vision. Presentations would highlight best practices and potential changes in design or program delivery to promote progress.

Recommendation 8: Organize the ways and means process around students rather than systems or institutions. The existing process of reviewing and approving education budgets is focused on institutions and systems rather than on students. Agencies come forward separately and highlight gains, threats, opportunities, and challenges from their institutions' own perspectives.

A revamped Ways and Means review process would fundamentally change the perspective of the review process. Rather than move through *sectors,* the Committee would organize its budget reviews primarily around *groups of students*. The student groups could include K-3, intermediate/ middle grades, high school, lower and upper division collegiate, professional/technical, and professional schools. By organizing presentations by student groups, the reviews would focus hearings on the ultimate customer (the student) and would require agencies to develop joint presentations in areas in which they share common students and/or offer comparable programs. For example, both OUS and CCWD offer lower division collegiate courses, face similar enrollment pressures, and are jointly responsible for advancing one of Oregon's critical education goals (i.e., share of adults with a bachelor's degree). A joint presentation would allow policymakers to compare missions and goals, programs, costs, and performance. Similar cross-agency presentations would be appropriate for English language learners, special education, professional technical training, workforce development, and professional/graduate students. In addition to the student groups, the Committee would conduct cross-agency reviews of financial aid, research, and public service activities.

Revamping the Ways and Means Review Process: Focusing on Students Rather than Institutions

Rather than move through *sectors,* the Committee would organize budget reviews primarily around *groups of students*. The following review structure reports the agency(ies) involved in each hearing..

- Ages 0-5 – All students enter school ready-to- learn – ODE Pre-K and EI/ECSE
- Grades K-3 – ODE
- Intermediate Grades - ODE
- High School – ODE, Community Colleges, OUS
- Special Education – ODE, Community Colleges, OUS
- English Language Learners– ODE, Community Colleges
- Developmental Education– Community Colleges
- Professional Technical– Community Colleges, ODE
- Lower Division Students- Community Colleges, OUS
- Upper Division Students – OUS
- Graduate Students - OUS, OHSU
- Professional Students - OUS, OHSU
- Workforce Development- Community Colleges, ODE
- Financial Aid – OSAC, Community Colleges, OUS, OHSU
- Research- OUS, OHSU
- Public Service- OUS, OHSU,
- Community Colleges

The Committee would structure the reviews similarly across the student groups. Reviews would start with an assessment of performance expectations and compare system performance against goals. Agencies would forecast performance assuming existing service levels.

The Committee would adopt the budget tools outlined in the previous chapter which, when maintained over time, would highlight key demographic trends, cost drivers, and spending per student.

After having worked through the student groups in a consistent and thorough way, the Committee would then scan the continuum and identify the leverage points with the highest likelihood of advancing state education goals. Agencies would identify the policy support, infrastructure, and funding needed.

Substance of the Ways and Means Reviews

For each student group, the Committee would proceed through a similarly structured list of analyses. Key topics would include:

- **Performance Expectations.** Agencies would review system performance against established goals—past, present, and projected future results with status quo funding and systems
- **Best Practices in Oregon**. Controlling for demographics, agencies would identify programs and institutions performing at higher levels than expected.
- **Demographics Trends**. Agencies would highlight past, present, and projected growth in the population served by their program
- **Cost Drivers**. Agencies would highlight factors—in addition to demographics—that drive the cost of providing educational services in Oregon and how they compare to similar measures nationally.
- **Spending per Student.** Using methods outlined in the previous section, agencies would report past, present, and projected levels of spending per student under current service levels.
- **Investment Opportunities.** Agencies would identify funding required, program description, expected results, milestones, and timelines.

Conclusions

Taken as a package, the budget recommendations would:

- Introduce a unified and comprehensive picture of education budgets at the beginning of the legislative process
- Link student progress and system performance to budget development
- Create a common understanding of emerging trends, budget drivers, and assumptions underlying the budget
- Streamline, simplify, and standardize budget building methods across the education continuum
- Increase budget transparency and communication among the stakeholders.

Despite the clear advantages, changing the budget and distribution processes is challenging work. To achieve transformation of vision, mission, and infrastructure will require the focus of policymakers in education, government, business, and philanthropy, the assistance of experts, and the engagement of educators, parents, and students. And, as with any sizable reform, all the stakeholders in education will be eager to know the trade-offs in building an integrated budget environment. The process will produce answers to such questions. Clear, concise budget information could drive the debates and shape resource allocations in ways that cannot be predicted, but there is little doubt that the new budget tools would facilitate more effective decision-making. A new education budget framework would change the nature of the policy discussions and support Oregon's vision for reaching unprecedented levels of educational achievement and workforce preparation.