

Issue Paper: Improving K-12 Business Practices and Maximizing Available Revenues

Introduction

THE RECENT ECONOMIC SLOWDOWN and associated budget shortfalls have caused local school districts across the state, and the nation, to do more with less. School officials are on a constant lookout for more efficient ways to do business. While tight fiscal times have forced superintendents, business managers, and principals to search for ways to reduce costs, some reforms implemented outside Oregon have not been tried here.

This issue paper addresses proposals to increase efficiencies in two areas:

- **Support services.** Oregon's spending per student in three non-instructional categories—school administration, student support services, and business and other support services—was the focus of a recent audit by the Oregon Secretary of State. The audit found Oregon's spending in the three accounting areas exceeded the US average.
- **Student transportation.** Oregon's spending per student is higher than its Western peers, and Oregon school officials point to the State's method of financing costs—a matching grant—as a key contributor to the higher than average spending.

A precise estimate of potential savings is difficult because 198 school districts and 21 education service districts implement practices in these areas in a variety of different ways—some efficient, some less so. However, if Oregon school districts

adopted a package of changes that, together, had the net effect of lowering per student spending in these two categories to levels reported in Washington State, schools would save \$270 million annually that could be allocated to other activities directly related to student instruction. Education officials might consider this amount an upper bound, or target, for potential savings. Achieving savings of this magnitude, without unduly harming the perceived quality of service, will not happen overnight and will require a systematic identification of inefficiencies and methods to eliminate them.

This issue paper identifies a number of areas in which the State and local districts could start. To assemble the list of proposals, ECONorthwest interviewed a number of current and former officials with the Oregon Department of Education, Department of Administrative Services, Legislative Revenue Office, and the Board of Education. In addition, ECO reviewed documents assembled by the National Conference of State Legislatures (NCSL), the American Legislative Exchange Council, and other organizations that

survey cost cutting efforts implemented by school districts throughout the country.

All of the proposed strategies outlined in this paper assume no major change to the fundamental structure of K-12 administration. A body of literature argues that alternative delivery and finance systems, with increased options for school choice, would offer more effective means to improve efficiency. Those methods are not discussed here, but interested readers can turn to Chapter 10 of Chalkboard's report entitled *Improving Quality and Strengthening Accountability: A Broad Review of Promising Practices and Policy Options*¹.

The balance of this paper outlines specific recommendations and implementation steps in the support services and transportation areas. The first section addresses proposed reforms in the supports services area and a subsequent section addresses transportation.

Support services

In a 2002 review of national school expenditure data, Oregon's Secretary of State highlighted Oregon's higher than average per student spending on non-instructional activities. Using school year 2000-01 data from the National Center for Education Statistics (NCES), the Secretary of State isolated three areas of particular concern:

- **School-level administration** (e.g., activities principals and department chairs),
- **Student support services** (attendance, counseling, health and psychological services), and
- **Business and other support services** (e.g., payroll, budgeting, inventory control, printing, publications, information dissemination, technology services, staff recruiting and transfers).

Since the Secretary of State released his analysis, NCES has distributed spending data for the subsequent school year. An ECONorthwest analysis data for the same three categories indicates Oregon's above average per student spending persisted into 2001-02. Not only did Oregon exceed the national average by 36 percent (\$1,483 vs. \$1,093), Oregon also had the highest per student spending in the Western region (see Table 1). While the differences are sizable, it is reasonable to assume they have narrowed somewhat since then. Since 2001-02, the most recent year cross-state comparisons are possible, Oregon's spending per student has fallen relative to levels in Washington and other states. The sharp spending declines in 2002-03 school year put additional pressure on administrators to find more efficient ways of doing business.

In response to its analysis of the national

Table 1: Spending per Student on School-Level Administration, Student Support Services, and Business and Other Support Services, School Year 2001-02, Western States and US Average

| State | Purchased | | | | | Total |
|-----------------------|-----------|----------|----------|----------|-------|-------|
| | Salaries | Benefits | Services | Supplies | Other | |
| Western States | | | | | | |
| Oregon | 866 | 382 | 160 | 62 | 13 | 1,483 |
| Colorado | 735 | 142 | 455 | 69 | 6 | 1,406 |
| Wyoming | 855 | 272 | 105 | 46 | 22 | 1,300 |
| California | 802 | 207 | 118 | 39 | 1 | 1,168 |
| Arizona | 694 | 152 | 147 | 51 | 48 | 1,091 |
| Washington | 753 | 177 | 91 | 28 | 3 | 1,052 |
| Nevada | 618 | 170 | 59 | 22 | 30 | 899 |
| Montana | 605 | 165 | 78 | 41 | 5 | 893 |
| Idaho | 569 | 167 | 47 | 17 | 24 | 823 |
| Utah | 395 | 136 | 32 | 11 | 1 | 575 |
| US Average | 733 | 190 | 108 | 33 | 27 | 1,091 |

Source: ECONorthwest calculated using NCES data

data, the Secretary of State visited 44 districts that had unusually high or low spending per student on non-instructional activities and conducted an in-depth audit of business practices. Generally, the Secretary of State found that districts with below average spending:

- Used economies of scale to the cost of procuring supplies and services (e.g., participating in intra- and inter-district procurement cooperatives).
- Obtained community, contracted, and shared resources (e.g., recruited parents, retirees, community volunteers to assist with administrative duties)
- Used proactive management programs (e.g., collaborated with Education Service Districts (ESDs) to support special education programs,

The Secretary of State's audit was a valuable first step in characterizing the status quo and highlighting a number of promising changes. While the audit itself likely has already spurred changes in some districts, the momentum it created will fade over time if the State does not reinforce those findings with a more formal registry of best financial and management practices and explicit encourage or incentives for districts to use them.

Four specific initiatives would ensure a continued focus on business efficiencies and revenue optimization.

1. ODE should formally monitor the use of E-Procurement (or on-line procurement) practices.
2. State should move toward an integrated, statewide K-16 student tracking and business data system.
3. ODE and the Department of Human Services (DHS) should work jointly to ensure that districts are receiving federal Medicaid reimbursements for all appropriate expenditures

associated with special education students.

4. ODE should build on the Secretary of State's work by drawing on the expertise of school administrators and business leaders to identify, disseminate, and implement the use of commonly recognized best financial and management practices. Periodic third-party audits of local districts, to check for the implementation, would follow.

The following sections consider each of these initiatives in more detail.

Recommendation: School districts should expand the use of E-procurement strategies and ODE should formally monitor implementation.

In its audit of K-12 support expenditures, the Secretary of State found that districts that purchased in groups—with other districts or other government agencies—spend less on supplies than those that do not. A particularly promising practice—and one that should be increasingly easy to implement and track—is E-Procurement (or cooperative on-line purchasing).

E-Procurement streamlines the purchasing process through use of Internet technology. In theory, E-Procurement reduces administrative costs through increased efficiencies and provides school systems and other public entities greater purchasing power by leveraging the buying power of schools across the state. In a common E-Procurement system, a private company builds the site that hosts the process and attracts vendors to post their catalogs on the site. Government buyers can then access the site to buy office supplies, books, or other essentials. E-Procurement systems can be funded through one of two systems: self (or vendor) funded and pay-to-purchase. In a self-funded system, vendors pay either for advertising on the site or a percentage of each sale. In pay-to-purchase systems, buyers pay a service

charge for their purchases to distribute costs. Most states that have implemented E-Procurement systems choose self-funded support mechanisms.

Many states have implemented E-Procurement systems in one form or another. In most of these states, E-Procurement is implemented statewide, providing access to all state agencies, local governments, school districts, and other public entities.

- North Carolina has used E-Procurement throughout their state and local government, and estimates that, in 2002 and 2003, they gained savings of \$127 million through price reductions and \$35 million through purchase order creation efficiencies. North Carolina's Department of Administration, the Office of State Controller, and the Office of Information Technology have jointly undertaken the implementation of this venture, which operates like a business governed by a collaborative Inter-agency Management Committee. Vendors pay a 1.75 percent marketing fee when they receive an order from the state. Certified system users are required to make at least 30 percent of their purchases through the E-Procurement system.
- Virginia has a very similar system in place, but charge a flat fee for vendors of between \$25 and \$250 per year to participate in their E-Procurement site. They then split the revenue with the vendors.²
- The District of Columbia has a recently developed a system that they maintain themselves, rather than through a private E-Procurement company. They maintain a website with over 300 catalogs. As soon as a buyer submits a requisition for a purchase, the District's bookkeepers undertake a real-time query to assure that

the funds are available. If they are, those funds are held so that they cannot be used for another purchase. When the funds are approved, the purchase order is faxed, mailed, or e-mailed to suppliers to fill the order. The entire process takes less than 30 seconds.³

E-Procurement systems rely on the participation of both vendors and government agency purchasers for their success. Without buyers, the vendors have no incentive to continue to sell through E-Procurement sites. And without vendors, buyers won't have access to the full range of options to get the best available price. In essence, if supply and demand are imbalanced, the systems cannot function. Some states (including North Carolina) have focused on the demand side of the equation, requiring government entities to use the e-sites for a percentage of all purchases. Another option is to focus on the recruitment of a healthy supply of vendors and a wide range of products. This can lead to competition among the vendors, driving down costs and attracting users to the site.

In Oregon, E-procurement systems are still in their relative infancy. A recent report by the *Government Performance Project* indicated less than 10 percent of all state purchases are conducted electronically⁴.

School districts currently have at least three options to purchase supplies cooperatively on-line.

- **Oregon Cooperative Purchasing Program (ORCPP)**⁵. Operated by the State Procurement Office, the program allows qualified agencies and organizations access to state contracts to purchase goods and services along with procurement training opportunities. Access to hundreds of competitive State of Oregon price contracts for a wide variety of goods and services including vehicles, copiers, computers, software, telephones and

service, travel, procurement cards, office products, pharmaceuticals, tires, delivery services, printers, and fax machines. According to state officials, the program currently serves less than 90 Oregon school districts.

On March 1, 2005, the State Procurement Office, which operates ORCPP, unveiled Oregon “Smart Buy”. The project leverages the State’s volume purchasing power to obtain better value for goods and services. “Smart Buy” will also review current procurement processes and techniques used by different State agencies to identify and eliminate inefficient practices to better serve taxpayers. Table 2 reports the average savings percentage for key supply and service categories based on new prices and contract terms negotiated through the “Smart Buy” program.

- Umatilla-Morrow ESD’s Intermountain Cooperative Purchasing Program⁶** has joined with purchasing cooperatives in nine other states including—Arizona, Indiana, Kansas, Kentucky, Minnesota, Nebraska, New Mexico, Oregon, Pennsylvania

and Washington—to form the Association of Educational Purchasing Agencies (AEPA) (<http://www.aepacoop.org>). Intermountain Cooperative is headquartered in a 25,000- square-foot warehouse that stocks an estimated 15,000 products. The organization offers a surplus catalog with special discounts on excess office supplies, computer equipment, furniture and cafeteria supplies⁷.

- Salem-Keizer Purchasing Cooperative⁸** allows other Oregon school districts to purchase art supplies, audio visual equipment, computers, cleaning supplies, library resources, office and classroom furniture and equipment.

In Oregon, most textbook purchases currently do not go through competitive processes. Informal estimates suggest districts purchase more than 90 percent of textbooks without bid through the Northwest Textbook depository. ODE should explore the practice and determine whether Oregon school districts are paying an unusual premium for their textbooks.

Two factors serve as barriers to wider implementation of E-Procurement strategies. First, local businesses apply pressure on school boards and business managers to buy locally and stimulate their area economy. Second, local purchases are often more convenient than on-line purchasing districts will continue those purchases for items needed in a timely manner.

To stimulate wider use of E-Procurement among Oregon school districts, ODE should collect annually the amount of goods and services purchased *by each school district* through Oregon’s major E-Procurement sites. ODE would then compare E-Procurement purchases to total purchases for a specified set of goods and services. Through the data assembly, ODE could estimate a district-by-district

Table 2: Average Savings Percentage for Selected Supplies and Services Available through ORCPP, December 2004

| Service | Average savings percentage |
|------------------------------------|----------------------------|
| Cellular Phones & Services | 7.6% |
| Copiers | 4.6% |
| Express Mail | 7.7% |
| Office Supplies, Toner & Paper | 28.9% |
| PC Hardware | 22.0% |
| PC Peripherals | 16.7% |
| Software | 0.9% |
| Telecommunications - Long Distance | 24.7% |

Source: Oregon State Procurement Office

baseline of E-procurement practices and better understand variations in use of the practice across districts. Next, ODE would direct districts to develop benchmarked purchasing goals (expressed as the share of goods and services purchased on-line and cooperatively).

Potential savings through the practice are commonly overestimated; however, the Manhattan Institute recently estimated that government agencies should anticipate 2 to 5 percent reductions in their procurement budgets.⁹ In 2001-02, Oregon school districts spent \$707 million procuring supplies and services. Applying the 2 to 5 percent savings expectation suggests wider use of e-procurement in that year would have saved districts between \$14 and \$35 million.

Recommendation: The Legislature should fully support the review of the feasibility of an integrated business and student-tracking system.

School districts and ESDs currently operate hundreds of different data systems to process their payrolls and track student attendance and achievement levels. A number of larger districts have selected common student tracking systems, and now, systems that contain data on more than half the students in the state are compatible. However, unique district payroll accounting, human resources, budget and purchasing systems and processes persist. No good reason exists to support the diversity hardware and software products used across the state. The State requires all districts to report accounting and budget data under a uniform chart of accounts. Moreover, districts report student and human resource data under a common format. Put simply, the required uniformity of data reporting lends itself to uniform data systems.

While full consolidation of business and student tracking systems into a single statewide system would require an upfront capital investment, if implemented

efficiently, it could generate long-run capital, operational, and maintenance savings for individual districts. During the past three years, districts have spent an average \$93 million annually in direct technology purchases—investments in the acquisition and maintenance of hardware and software¹⁰. However, the amount understates the full cost of an uncoordinated system. Districts also spend money to train staff on an array of disparate systems. Teachers and staff moving from one to district to another must learn the peculiarities of a new system. ODE provides technical assistance to local districts to ensure different systems essentially report student and business data in common format. The resulting expenditures associated with training, retraining, and technical assistance is not captured in the technology line item but rather is marbled throughout a number of administrative and staff support cost categories.

As envisioned by ODE, the integrated system would¹¹:

- Rely on a common technical infrastructure built on the needs of small, medium, and large districts;
- Eliminate statewide duplication of technology and decrease local costs
- Produce a range of data and reports on student learning—from individual student to classroom, school, district, and state performance in formats readily accessible to parents, students, educational practitioners, and policymakers;
- Track financial expenditures to the lowest feasible level (e.g., groups of students, school departments, schools)

ODE has contracted with a consulting firm to develop a “Business Case for Change” to assess the feasibility, costs, and potential returns of Pre-Kindergarten through Grade 16 Integrated Data System—known as the KIDS project. ODE expects to

create an inventory of current educational data systems used by school districts, identify best practices in educational data systems nationally, determine where efficiencies could be gained in Oregon, assess the feasibility of implementation, and estimate the return on the investment in an integrated system.

The project would move Oregon in the direction of a more efficient educational data system that would manage critical business and performance data at a significantly reduced cost. Simultaneously, the accuracy and utility of the reported data would improve.

Recommendation: Quantify and expand federal Medicaid reimbursements for services to special education students.

A range of the services provided by schools to special education students are medically related and qualify as expenditures under the federal Medicaid program. The National Conference of State Legislatures notes that state practices in identifying and requesting federal reimbursement for special education services varies considerably across states. An NCSL survey for the 1998-99 school year found Medicaid revenues for special education—expressed as a share of all state special education spending—varied from 1 percent in Idaho to 9 percent in New York. Oregon did not participate in the fiscal survey.

While the survey findings are somewhat dated, NCSL officials continue to observe a wide variance in practices across the states and urge states to implement more systematically methods of identifying services eligible for federal reimbursement¹².

As a preliminary step, the state should create, or update, its estimate of the share of total special education expenditures financed through the Medicaid program. If the share is below 5 percent, the state should consider a variety of methods to

overhaul the Medicaid reimbursement process. Specifically, NCSL recommends:

- **Ensure all eligible services are listed in the State's Medicaid Plan.** The Department of Human Services (DHS) and Department of Education should jointly review the state's Medicaid contract with the federal government to ensure that all Medicaid eligible special education services are listed.
- **Establish a means to systematically check for a student's Medicaid eligibility without violating student confidentiality.** The agencies should develop an easily accessible statewide database of Medicaid eligible students that could be accessed by local district personnel. DHS and ODE must follow carefully developed protocols when sharing personally identifying information about K-12 students. A number of laws and rules govern confidentiality of student records, including the Family Education Rights and Privacy Act (FERPA); the Health Information Portability and Accountability Act (HIPAA); the Individuals with Disabilities Education Act (IDEA); and Federal and State Medicaid laws and rules¹³.

As part of the Medicaid application process, applicants sign a release to give DHS the authority to share enrollment information. DHS does not need further permission to share eligibility information with requesting agencies, including school districts¹⁴.

However, schools face restrictions in their sharing of information with the Medicaid agency. FERPA protects the privacy of a student's educational records. Generally, school districts would need parental permission to release educational

records. Districts can share so-called “directory information” with Medicaid without permission *if they have a formal directory information policy in place.*

Directory information consists of non-education specific identifiers including name, address, date of birth, and educational institution attended. The directory information policy must annually notify parents that the directory exists and provide an opportunity for parents have the right to “opt out” of directory. Moreover, districts *cannot* limit their directory lists to students with mental and physical disabilities¹⁵.

- **Consider centralization of Medicaid claims processing.** The state should consider consolidating Medicaid claims processing into a centralized state (or regional) office or outsourcing the activity to a private firm. If the state takes the latter approach, policymakers should first test the cost effectiveness of outsourcing on a demonstration basis.

In a April 2003, Steve Smith—the former manager of NCSL’s National Center on Education Finance suggested Oregon could be eligible for up to \$27 million in additional Medicaid funding annually if the state implemented more rigorous methods of identifying Medicaid-eligible children¹⁶.

Recommendation: Oregon’s Superintendent for Public Instruction should formally adopt a list a best practices in business operations and establish a timetable for periodic reviews of local districts to ensure their implementation.

Despite its limited study duration (March to August 2003), the Secretary of State’s audit uncovered a wide number and range of reforms that show promise to lower non-instructional costs. The

audit also alluded to processes by which State departments of education routinely disseminate lists of best management and business practices (e.g, New York’s *Sharing Success* program). While identification and dissemination of best practices is relatively common across the country, only a few states have adopted processes that formally identify best practices and periodically *check* for their implementation. Only through this additional step can policymakers and taxpayers be assured that good ideas translate into more efficiently run schools. William Eggers, Director of Deloitte Research and Senior Fellow of the Manhattan Institute for Policy and Research, points to performance review processes a key to achieving sizable cost savings:

“Tremendous cost savings are possible by taking a microscope to the business operations of school districts...”¹⁷

Texas has the longest-running school performance auditing system in the United States. Since 1991, the State Comptroller has run the Texas School Performance Review and conducted 60 audits of school districts serving 1.4 million students. The program claims \$600 million in savings through better business practices during its first decade¹⁸.

Pennsylvania recently implemented *The Keystone Educational Accountability* standards to assess administrative and operational tasks including bus maintenance, cafeteria pricing, building security, and hiring practices. Under the law, the State will review school district business practices in 11 areas every six years.

Should Oregon explore implementation, Florida’s award winning *Sharpening the Pencil Program* may serve as an appropriate starting point. Enacted in 2001, the program established a formal framework to improve school district management and resource use with the goal

of identifying cost savings. The program's goal is to:

- use performance and cost-efficiency measures to evaluate programs;
- use appropriate benchmarks based on comparable school districts, government agencies, and industry standards to assess their operations and performance;
- identify potential cost-savings through privatization and alternative service delivery; and
- link financial planning and budgeting to district priorities, including student performance.

The first step of the process called on Florida's Commissioner of Education to establish a list of best financial and management practices as statewide standards. A legislative office (Office of Program Policy Analysis and Government Accountability, or OPPAGA) and the state's Auditor General developed the best practices by conducting an extensive literature review and interviewing education finance experts, representatives of financial organizations, and educators in other states. In June 2002, Florida's Commissioner of Education formally adopted best practices in ten categories: management structures, performance accountability systems, education service delivery, administrative and instructional technology, personnel systems and benefits, facilities construction, facilities maintenance, transportation, food service operations, and cost control systems.

Florida's identification of best practices extends into instructional categories (e.g., education service delivery), which Oregon may or may not elect to adopt. Arriving at consensus on a statewide, unified list of best practices for instruction is a different and more subjective task than evaluating business office practices. Moreover,

The point here being that Oregon could focus on Florida's *framework* rather than the specific details of its program's *content*.

Within Florida's ten categories, the State identified 148 individual best practices. Examples include:

- Personnel Systems and Benefits, Practice 1: The district efficiently and effectively recruits and hires qualified instructional and non-instructional personnel
- Personnel Systems and Benefits, Practice 6: The district has efficient and cost-effective system for managing absenteeism and the use of substitute teachers and other substitute personnel.
- Facilities Maintenance, Practice 12: The district minimizes equipment costs through purchasing practices
- Facilities Maintenance, Practice 15: The maintenance and operations department identifies and implements strategies that contain energy costs
- Facilities Construction, Practice 22: The district conducts comprehensive building evaluations at the end of the first year of operation and regularly during the next three to five years to collect information about building operation and performance.

A list of three to six indicators accompanies each best practice.

Setting Florida apart from other states are its Best Financial Management Practices Reviews, which are periodic audits—once every five years—to ensure that local districts are using the State's adopted best practices. For example, an October 2003 audit of Florida's Alachua County School District found compliance with 106 of the 148 best practices. The auditor—a Tampa-based consulting firm working under the direction of a state legislative office and the Auditor General—identified a number of practices that if adopted would save the district \$3.6 million over five years. Upon completion of a review, the State allows a two-

year corrective action period to come into compliance with the best financial management standards. When a district meets the best financial management standards it is awarded a “Seal of Best Financial Management” by the State Board of Education.

The State’s program received two awards from the National Conference on State Legislatures and American Society for Public Administration Center for Accountability and Performance during FY 2000-01 for its work on the Best Financial Management Practices Reviews

Florida’s legislature funded the reviews through an appropriation from its general fund and indefinitely suspended the reviews in 2004-05 because of tight budget constraints. The framework remains in place and reviews could resume in subsequent budget years should the legislature resume appropriations.

Despite its current fiscal problems, Florida’s framework remains a highly respected model for systematically identifying and testing the implementation of best practices. Oregon adoption of a similar process would need to address the following issues:

- **Scope of practices considered.** Florida’s program covered both instructional and non-instructional best practices. A broad scope increases the cost of the initial development of best practices, as well as, subsequent reviews of district compliance. A more narrow audit scope, limited to *non-instructional* financial and management practices, would prove more cost effective and technically feasible for non-educators to execute.
- **Identification of best practices.** The Oregon Department of Education could draw on expertise from wide range of experts in the public, private, and non-profits sectors. Collaborators would include

representatives from the Oregon Association of School Business Officials, Oregon Association of Facilities Management Association, Oregon Food Service Association, and the Oregon Pupil Transportation Association, the Oregon Business Council, the Oregon Business Association, Confederation of Oregon School Administrators, Secretary of State’s Audit Division, the Oregon Society of Certified Public Accountants and other representatives of the private and non-profit sectors.

- **Review schedule.** Florida’s program called for reviews of school districts once every five years, which in Oregon would translate into roughly 40 districts per year. To mitigate costs, the auditor could select one or two business categories each year (e.g., energy efficiency, office supply procurement, etc). Selection of the category would be random and would not be announced to districts in advance. Consequently, without knowing which aspects of their operations would be reviewed, the district would work to improve efficiencies in all of them.
- **Agency or entity conducting reviews.** In Florida, private consulting firms, operating under contract to the Legislature’s Office of Policy Analysis and Government Accountability, conducted district audits. Policymakers would need to identify an appropriate agency to conduct or oversee the audits—a decision that would be driven—in part—by their scope and frequency. The Secretary of State’s Office is a leading candidate given its existing audit responsibilities. The Office could either expand its staff or contract with private firms to conduct the audits.

School site councils and citizen budget committees should collaborate in the local audits. Local community participation in audits could be modeled on Multnomah County's School Efficiency and Quality Advisory Council. The independent Council ensures that students benefit from revenues collected through a recently created County-level income tax.

- **Phasing-in audits.** Oregon faces a tight State budget for the upcoming biennium. During 2005-2007, the taskforce should develop the list of best practices and a recommended process for conducting district audits. Audits would begin in the 2007-08 school year; and therefore, require State funding during the 2007-09 biennium.

Student transportation

During *The Chalkboard Project's* initial research efforts, a number of state officials and education stakeholders pointed to the State's method of financing student transportation as a key area of inefficiency. Under current law, the State of Oregon reimburses local school districts for 70 to 90 percent of all approved transportation expenditures. Currently, the State approves districts' transportation expenditures if they are used to transport students from home to school, between schools, or on field trips. Districts can provide transportation for students who live more than one mile from an elementary school or more than 1.5 miles from a high school.

To determine how much of the costs will be included in the grant; the state calculates the average transportation cost per student for each school district. ODE then ranks districts from highest to lowest cost per student. The top 10 percent of districts (highest cost districts) qualify for 90 percent State match of their approved transportation costs. The next 10 percent qualify for an 80 percent State match, and

the bottom 80 percent qualify for 70 percent State match of their costs covered in the grant.¹⁹ Again, as long as ODE approves the costs, the State match is open-ended (that is, theoretically no limit exists to the amount of the State's share of the costs).

This system does little to encourage more efficient use of funds at the local level. The requirement that districts cover 10 – 30 percent of approved costs is a weak incentive at best. National statistics for the 2001-02 school year show Oregon outspends its regional peers on transportation. Oregon's \$326 per student on student transportation ranked second among Western states and stood \$15 per student above the US average. More relevant, Oregon spent \$57 per student more than Washington State on transportation.

Recommendation: ODE should eliminate the current transportation-matching program and replace it with an incentive-based system that contains costs.

Overhaul of the Oregon's transportation grant process would lead to greater efficiency in student transportation in Oregon. The existing matching grant provides little incentive to operate an efficient system or otherwise contain costs. ODE should develop a new funding mechanism with the following characteristics:

- A fixed annual appropriation
- A formula that rewards districts for cost efficiency

Several states have implemented funding models for student transportation that encourage local districts to use state funds efficiently. North Carolina uses an innovative approach²⁰, which could serve as a model for Oregon. North Carolina's program:

- A transportation funding formula that provides incentives for districts to be efficient when designing routes and using state transportation dollars

- A fleet management system that assists school districts with the inspection and preventive maintenance of buses
- An information system for routing and scheduling buses that increases the efficiency of trip planning

The State of North Carolina funds 95 percent of operational costs for student transportation in the state’s 117 Local Education Agencies (LEAs); the State manages all transportation functions (including maintenance, repair, and driver training) in house. In 1980, the State Legislature directed the Department of Public Instruction (the DPI) to implement measures to increase efficiency. In response, the DPI replaced line item funding for school buses with a block grant funding formula. The State appropriates local funding using a formula based, in part, on measures of local LEA efficiency. These measures weigh total expenditures and the number of buses operated against variables that impact costs at a local level to arrive at a “budget rating.” This rating is the basis for determining the percentage of local expenses that will be covered by the state. High efficiency districts have a higher share of their expenses covered. In general terms, if a district’s budget rating is 95 percent, then the State covers 95 percent of the transportation costs. To make the comparison between districts equitable, the State hired a consultant to develop a statistical model to determine appropriations. The model adjusts each district’s budget rating for the following variables that can impact efficiency:

- Average distance students must travel to school

- Number of students transported per mile of road (pupil density)
- Elevation
- Complexity of the street network
- Percent of students with special needs who require transportation

The final budget allotment is generated based on the previous year’s actual transportation expenditures, adjusted for increases in ridership, driver salary, and projections of increased diesel costs, multiplied by the district’s budget rating.

The State also maintains a contingency fund to cover any unexpected expenses (such as those caused by severe weather or urgent major equipment repairs or replacements). Districts can apply to receive contingency funds. Applications for equipment repairs and replacements in small counties are prioritized over other applications.

Several other changes at the state level have supported local communities seeking to increase efficiencies in the LEAs. The state has begun purchasing replacement buses each year and issuing them to local districts; the buying power

Table 3: Spending per Fall Enrollee on Student Transportation, Selected States, 2001-02

| State | Salaries | Benefits | Purchased Services | Supplies | Other | Total |
|-----------------------|----------|----------|--------------------|----------|-------|-------|
| Western States | | | | | | |
| Wyoming | 205 | 67 | 37 | 53 | 1 | 361 |
| Oregon | 106 | 53 | 146 | 17 | 5 | 326 |
| Montana | 89 | 23 | 173 | 19 | 2 | 306 |
| Idaho | 109 | 40 | 98 | 23 | 4 | 273 |
| Washington | 137 | 43 | 63 | 27 | 1 | 269 |
| Nevada | 152 | 47 | 14 | 19 | 6 | 238 |
| Colorado | 130 | 26 | 29 | 24 | 0 | 208 |
| Arizona | 115 | 26 | 36 | 24 | 1 | 201 |
| California | 81 | 21 | 63 | 14 | 0 | 178 |
| Utah | 87 | 31 | 11 | 16 | 1 | 146 |
| US Average | 120 | 36 | 129 | 21 | 4 | 311 |

Source: National Center for Education Statistics

associated with purchasing many buses (500 to 1,000) at once has resulted in lower prices for the state and its districts. Additionally, the state has pursued an aggressive maintenance schedule for its buses. Technicians inspect each bus every 30 days, and preventive maintenance tasks are performed every 6,000 miles. As a result, the amount of money spent to maintain the North Carolina's oldest buses is not significantly higher than the amount required for new buses. These changes ensure that districts will get maximum usage from each new bus, allowing the state to decrease its budget request by approximately \$10 million dollars.

Overall, North Carolina's actions have resulted in markedly reduced state budgets for student transportation. Within two years of the implementation of the new funding formula, the statewide fleet decreased by 500 buses. By 2000, the fleet was down a total of 900 buses. Costs per student per mile, which had been steadily climbing before implementation, plateaued once the State implemented the new finance framework. The accumulated difference between the previous upward trends and the miles per student with the incentive

in place represents 224 million miles, or a savings of \$329 million per year.

In early stages of implementation, the State experienced some resistance to the program from the LEAs; many LEA's saw sudden declines in the amount of their transportation funds that were covered by the State. However, over time many LEAs saw the proportion of their funds that were covered by the state increase. As they became accustomed to the new system, the resistance declined.

Other considerations for implementation include:

- Because the program encourages a reduction in the number of buses operated in each LEA, some students are spending more time on the bus.
- The budget for each year is based on the previous year's spending; this makes it difficult for LEA's to fund and implement new programs.
- The funding formula needs to be re-evaluated on a regular basis to make sure that it remains relevant to the situation in the local districts and can continue to fairly allocate transportation funds. §

ENDNOTES

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- ³ Perlman, Ellen. "E-purchasing hits its stride." Congressional Quarterly, Inc. 2004.
- ⁴ Government Performance Project. *Grading the States 2005*. Accessed on February 1, 2005 at <http://results.gpponline.org/StateOverview.aspx?id=129>
- ⁵ <http://www.oregon.gov/DAS/PFSS/SPO/index.shtml>
- ⁶ <http://www.umesd.k12.or.us/depts/admin/purchasing/index.html>
- ⁷ Description of the program is drawn from Smith, Stephen. Undated Working Paper entitled *Alternative School District Purchasing Methods for Reduced Education Costs*.
- ⁸ <http://skstore.salkeiz.k12.or.us/>
- ⁹ Eggers, William, November, 2002. *Show Me the Money. Budget Cutting Strategies for Cash Strapped States*. The Manhattan Institute. New York, NY.
- ¹⁰ Correspondence with Doug Kosty. Assistant Superintendent of Education.
- ¹¹ Adapted from the Oregon Department of Education's Request for Proposals for Pre-Kindergarten through Grade 16 Integrated Data System (KIDS) Project; RFP # ED5810149 Issued December 15, 2004.
- ¹² Telephone conversation with Stephen Smith of the National Conference of State Legislatures, August 13, 2004.
- ¹³ Oregon Parents United's September 24, 2004 letter to the Oregon Department of Education. Accessed on March 4, 2005 at http://www.oregonparentsunited.org/articles_release_of_educational_records_for_the_purpose_of_medicaid.htm
- ¹⁴ Ibid.
- ¹⁵ Ibid.
- ¹⁶ Smith, Steve. *Supporting Education Initiatives: Legislative Perspective*. Presentation at NGA's Annual Institute for Governors' Education Policy Advisors. Powerpoint presentation accessed on March 3, 2005 at www.nga.org/cda/files/041603GEPA_Smith.PPT
- ¹⁷ Eggers, page 15
- ¹⁸ Ibid
- ¹⁹ Legislative Revenue Office. "K-12 and ESD school finance, state school fund distribution." Research Report #3-04, July 2004.
- ²⁰ Summary of North Carolina's system based on: Braham, Derek, NCDPI Transportation Services. "The funding of pupil transportation in North Carolina" March 14, 2001, and an interview with Derek Graham, Section Chief, Transportation Services, North Carolina Department of Public Instruction, 1/18/2005.