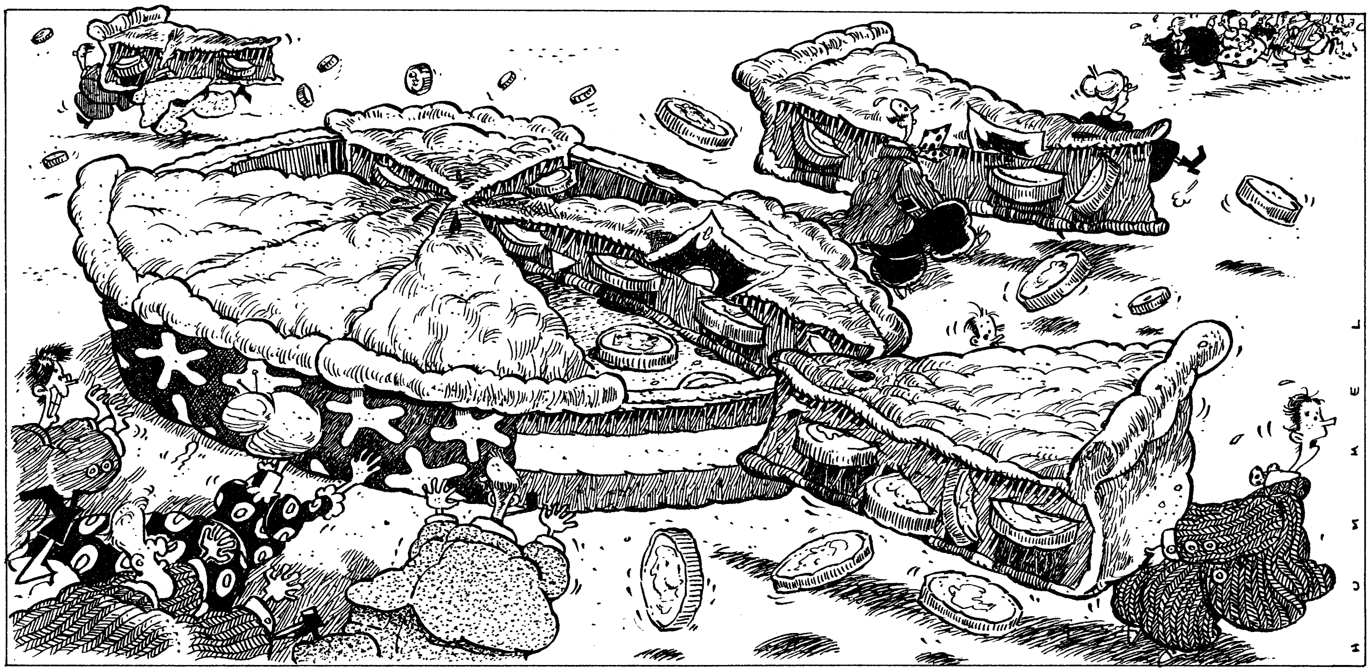
School Finance in the 1990s



Changes in the school finance menu for the 1990s require that we dramatically transform traditional notions of equity in school finance, Mr. Odden warns.

By Allan Odden

AFTER TAKING a back seat to education reform programs during the 1980s, school finance is again in the forefront. With the recent sweeping state supreme court decisions overturning school finance structures in Kentucky, New Jersey, and Texas and with active or planned cases in 23 additional states, education finance litigation, fiscal inequities, and school finance reform have rebounded to high places on state education policy agendas.

In this article I discuss the changing contours of school finance through the 1970s and 1980s and outline the key issues in school finance for the 1990s, including:

- the linkage between the basic structure of school finance and the state (or national) goals for education,
- site-based management and site-based budgeting,
- teacher compensation,
- accountability systems linked to student performance,
- public school choice, and
- such nontraditional issues as preschool education, extended-day kindergarten programs, and noneducational children's services.

SCHOOL FINANCE IN THE 1970s

Inequities in school finance derive from the way states finance public elementary and secondary schools. A heavy reliance on local property taxes as a major source of school revenues produces fiscal inequities because the property tax base is not distributed equally across school districts. As a result, property-poor districts usually have low expenditures per pupil, even with high tax rates,

Illustration by Jim Hummel

while property-rich districts usually have high expenditures per pupil, even with low tax rates.

Using both the equal protection clause of the 14th Amendment to the U.S. Constitution and the education clauses of state constitutions, proponents of school finance reform filed court cases in several states arguing that it is unconstitutional for local property wealth to be linked with revenues per pupil. These suits accepted district revenues per pupil as a proxy for the quality of education. In about a third of the cases filed between

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1971 and 1985, state courts overturned school finance systems that created inequitable spending; in the other cases, state courts found that school finance systems that created similar fiscal disparities did not violate constitutional requirements.

Although they riveted attention on the fiscal inequities that derived from unequal property tax bases, school finance court cases and subsequent school finance policy reforms left a major policy question unresolved. If the policy issue is *variation in the tax base* – i.e., variation in ability to raise revenues – then the remedy is to enact a "guaranteed tax base" program in which all districts are guaranteed a minimum tax base by the state. Such programs allow spending differences if related to higher tax rates but not if related to local property wealth. If the school finance problem is defined as *differences in spending per pupil*, then the remedy is to mandate equal spending across all school districts.

Lack of clarity over the nature of the problem has plagued school finance for decades. State policy makers need to decide whether their definition of the school finance problem is unequal ability to raise local revenue or unequal expenditures per pupil. The strongest school finance trend during the 1970s was the change in sources of school revenues. Local revenues dropped from over 50% of total revenues in 1970 to 43% in 1980, while state revenues rose from about 40% to 47%. The expanded state role is not surprising, since only the state can equalize local tax bases or school spending across districts.

SCHOOL FINANCE IN THE 1980s

Despite the ferment in school finance reform that began in the 1970s, school finance did not change structurally during the 1980s, particularly with respect to sources of revenue and the typical fiscal inequities. Differences across the country in expenditures per pupil did not change much from the mid-1970s to the mid-1980s.

On the other hand, one of the surprises of the 1980s was the resurgence of – and the new directions taken by – school finance litigation, including sweeping state supreme court decisions in Arkansas, Kentucky, Montana, New Jersey, and Texas that declared school finance systems unconstitutional. Interestingly, courts were not averse to rendering "second decisions." The New Jersey and Texas decisions of the 1980s followed similar court decisions of the 1970s in those states. The Texas case in the late 1980s was noteworthy in two ways. First, it was the earlier Texas case – *Rodriguez* – that reached the U.S. Supreme Court and led to the ruling that the federal courts could not serve as a route for challenging school finance inequities. Second, several new, conservative justices had been elected to the supreme court in Texas prior to its 1989 ruling. Yet the court surprised the state – and the country – by unanimously finding the Texas school finance structure unconstitutional. Moreover, about 18 months later the court again unanimously overturned the reform enacted by the Texas legislature in mid-1990.

FOCUS ON SPENDING DISPARITIES

These new legal decisions suggest that school finance litigation is beginning to focus on spending differences per se, rather than on the relationship between spending and wealth. The Texas decision revolved around differences in spending between the bottom 50 and the top 50 districts in the state. The Kentucky court required a much higher per-pupil spending base across all districts. And the New Jersey decision required that spending in the bottom districts be equal to that in the top districts. It appears that the balance is tipping toward a requirement for equal expenditures per pupil (with adjustments for higher pupil need) and away from requiring equal access to local property tax bases. In both the Kentucky and Texas cases, the vast majority of districts spent close to the state average, and still the finance systems were overturned.

FOCUS ON CITIES

The New Jersey case raised an intriguing new issue. The court focused its decision on the poorest 28 districts, which were primarily big-city school districts, and it found the system unconstitutional only for those districts. A political reading of the New Jersey decision – and of the legislative response – suggests substantial movement toward equal spending for all districts, with specific attention to the special needs of urban districts.

CHANGE THE ENTIRE SYSTEM

In Kentucky the court went far beyond a ruling on the school finance system. By holding the entire education system unconstitutional, the Kentucky court may

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have set a precedent for the direction of school finance litigation – as well as education policy – during the 1990s. The court essentially ruled that disparities in local tax bases and dollar inputs were only part of the problem. The court required the state to redesign the entire education system – structure, governance, programs, and finance.

NATIONAL EDUCATION GOALS

The emergence of bold new national goals for education has begun to focus the education system on outcomes, on what students know and can do. School policy making is concerned with the programs and strategies required to accomplish the national education goals, the costs of such programs and strategies, and the school finance structures required to fund and implement these programs and strategies. School finance policy in the 1990s will have to address directly issues related to student outcomes and educational productivity.

In fact, the new equity issues of the 1990s are likely to be disparities in student outcomes. To help the policy community deal with this equity issue, education policy analysts will need to find ways to restructure the education programs, the uses of fiscal resources, and the level of funding to produce less disparity in the level of what students know and are able to do. The issue may be less the variation in dollars per student and more the degree to which those dollars help districts and states meet new and ambitious national and state education goals.

SCHOOL FINANCE IN THE 1990s

History shows that, nationally, education has always received large increases in real resources over the decades. Looking back over the past several decades, inflation-adjusted education dollars per pupil increased 30% during the 1980s, 35% during the 1970s, and 67% during the 1960s. Assuming that historical patterns continue, a likely fiscal scenario for the 1990s is that funding will rise by at least a third in real terms. If funding rises by a third during this decade, education leaders need to decide now how to use these new funds productively. Thus the imperative for education in the 1990s is to craft a bold new vision for education and to allocate new dollars toward strategies that show high promise for implementing that vision.

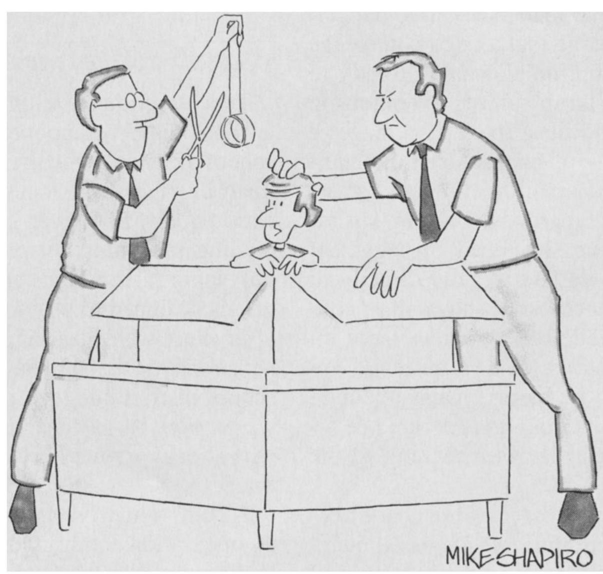
LINKING FINANCE TO GOALS

The first step for school finance in the 1990s will be to link the school finance structure to substantive educational objectives, specifically to programs needed to accomplish national or state goals for student performance. While state goals may ultimately differ from national goals, all states are moving toward increasing the high school graduation rate to at least 90%; having all students demonstrate competency in challenging subject matter in reading, writing, science, mathematics, and history; and improving student performance dramatically in mathematics and science.

If these goals are taken seriously, states will need to provide a funding base that will allow all local school districts to meet them. Since these goals include teaching all students how to think, solve problems, and communicate at levels much higher than most districts accomplish today, the cost of the basic program is likely to be high. This education agenda is more grandiose than most of those that have been tried previously.

Determining the actual dollar level of this base program is technically complex. To determine the price tag, programs and strategies will need to be specified in detail. Specific curricular changes have been described for mathematics, science, social studies, and language arts. Elementary programs that show great promise include Robert Slavin's Success for All, Henry Levin's accelerated schools, and James Comer's School Development Program schools. Middle school reforms have been proposed, and a variety of programs exist to reform high schools, including the Coalition of Essential Schools, the National Education Association's mastery learning schools, and the American Federation of Teachers' charter schools. While the effectiveness of these models has not yet been fully documented, research on most of them is currently under way. The costs of implementing these new initiatives can be substantial. Nevertheless, these programs represent the types of detailed schemes that can help students accomplish the ambitious new performance goals. The base financial program needs to fully fund such new elementary, middle, and high school programs.

In short, designing school finance formulas in the 1990s will entail a close working relationship between program analysts and finance analysts, with pro-



"Being sent to the principal was a lot less complicated when his office was still in the building."

gram analysts identifying the strategies that work to produce high levels of student achievement and finance analysts determining the dollar level for the state's base funding program. The new system, then, would link the education and fiscal systems. It would be driven by education goals and student achievement, with a finance structure designed to pay for the programs and strategies required to meet the goals.[1]

SITE-BASED MANAGEMENT

The second component of the new school finance of the 1990s derives from movements toward site-based management. Nearly all proposals for implementing the strategies required to meet our ambitious national goals for education recommend increased autonomy for schools – the service-providing units of the education system. While outcome goals are set at the top of the system – at the national, state, and district levels – schools need to be given responsibility for accomplishing these goals.

Taking a strategy of decentralization seriously in fiscal terms requires site-based budgeting, which allocates substantial portions of school district revenues in a lump sum to schools and allows the professionals at the school to make decisions about how to use those funds. State policy could take the lead in developing approaches that foster site-based budgeting by stipulating that a fixed percentage of base funding be allocated directly to schools as a lump sum or by requiring districts to allocate a fixed percentage – perhaps all – of instructional expenditures to schools. In other words, states could become aggressive players in stimulating serious site-based management by "forcing" dollars to flow directly to schools. New research shows that, contrary to past site-based management initiatives, district- and state-level approaches to site-based management in the 1990s will entail considerable devolution of fiscal decision making to the schools.[2]

Along with the issue of the cost-effectiveness of decentralized site-based budgeting, devolution of authority to school sites raises the governance issue of the role of school boards. School boards and district offices will lose power in site-based management. In the 1980s local school boards were not centrally involved in designing the spate of education reform programs. Proposals to encourage teacher professionalism – suggesting that teachers should be in charge of schools – ran counter to the tradition of lay control of American schools. The point is simply that school-based management, including school-based, lump-sum budgeting, may not be just another aspect of the new school finance of the 1990s. If taken seriously, school-based management raises issues related to traditional control of schools.

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TEACHER COMPENSATION

Teacher compensation is likely to be a third major component of the new school finance structure of the 1990s. Teacher pay was the focus of several education policy initiatives in the 1980s, including programs designed to increase beginning salaries and career ladder programs designed to provide a promotional structure within teaching. Teacher compensation is the largest component of school district budgets, and the emphasis on how to pay teachers to improve educational productivity is likely to continue.

A comprehensive approach to teacher compensation entails addressing the following six issues:

• recruitment into the profession, including recruitment into preservice training through fellowship or loan programs;

• beginning salaries, especially the establishment of a benchmark for beginning teacher salaries, such as the average beginning salary for all college graduates;

• base pay, including whether to pay for the job and provide annual increments for education and training or to link pay increments to teachers' knowledge and skills;

• pay for performance that avoids the flaws of incentive and merit pay programs of the past, which focused on individuals, and that draws on successful practices from the private sector that reward all individuals in service units and that foster teamwork and collegiality;

• benefits, including switching from a fixed schedule of benefits to a flexible one; and

• pensions, including the replacement of today's defined benefit programs with defined contributions programs that are fairer and less costly and still provide higher pensions.

Sharon Conley and I have proposed a new teacher compensation structure that is derived from a review of research on compensation strategies that work in the private sector (especially in organizations devoted to knowledge production) and from research on what has and has not worked in education.[3] We show how a redesigned system of teacher compensation could undergird an education system that is goal-oriented; that produces high levels of student achievement in higher-level thinking; that fosters teacher involvement in professional decision making; that spurs development of norms of collegiality and continuous improvement; that stimulates the ongoing development of teachers' professional knowledge and skills; that improves teachers' total compensation, including paying more to the most skilled and effective teachers; and that enhances the ability of education to recruit and retain larger numbers of able individuals in teaching.

ACCOUNTABILITY

The fourth component of the new school finance of the 1990s is a sharp-edged accountability system, with real incentives and sanctions driven by school outcomes. The general idea is to reward schools that succeed in accomplishing their educational objectives and to sanction schools that consistently do not.

While many aspects of designing a

comprehensive accountability system need to be addressed, one issue specifically related to school finance is whether the system should focus on dollar inputs, the common practice in the past, or provide dollar incentives for producing student outcomes, a practice that states are increasingly adopting. Indeed, nearly all new incentive programs are outcomes-based and focus on the school – not on the individual teacher. Thus they avoid the pitfalls of merit pay or other plans that seek to reward individual performance. School-based incentive plans foster cooperation and collegiality among staff members to accomplish schoolwide student performance objectives. School-based performance incentives could also become important elements of a dramatically revised teacher compensation structure. While there are numerous design issues to be resolved in creating equitable and effective school-based performance incentives, such programs are being steadily enacted by state legislatures.[4]

Most traditional school finance structures focus on accountability for dollars and processes. Furthermore, many states either require that a minimum percentage of the general fund must be spent on instruction or stipulate the maximum percentage that can be spent on administration. Few of these requirements have "real teeth," and none are related to outcomes. More recent proposals have suggested what the National Governors' Association has characterized as "horse trading": schools will be given greater flexibility in spending funds if they accomplish certain outcomes.

"It's a note from my parents, my former parents, my step-grandmother, and my dad's live-in."

A full-fledged accountability system not only distributes rewards for accomplishing goals but also imposes sanctions for not doing so. States have begun to implement several versions of sanctions, but these rarely have a financial dimension. It would be shortsighted to remove dollars from schools and districts not achieving student outcomes, but it would be equally shortsighted to do nothing. Sanctions currently used entail a phased-in takeover of consistently underperforming schools (or school districts). The first step is usually to provide technical assistance for planning, staff development, curriculum change, and so on. In several states, the final step can be a complete state takeover of a district, as happened when New Jersey assumed control of the schools in Jersey City. In Kentucky, end-of-the-process sanctions for schools that consistently fail to perform include teacher dismissal, loss of tenure, and even loss of a teaching (and perhaps an administrative) credential.

There is no lack of controversy surrounding these new directions in educational accountability. Nevertheless, the rewards in the form of school-based fiscal incentives and regulatory flexibility, and the sanctions, in the form of phased-in takeovers or staff dismissals, seem likely to remain part of the school finance and education policy agendas for the 1990s.

CHOICE

A fifth component of the new school finance of the 1990s is likely to be school choice, mainly restricted to public school choice. Originally rejected during the 1970s, when it was proposed in the form of vouchers or tuition tax credits, the idea of choice emerged in the late 1980s as a new education reform, supported by governors of both parties. One issue related to school choice is the connection of choice to site-based management and teachers' professional control of schools. Many proponents of choice argue that, if wide discretion in the choice of strategies to accomplish student performance goals is given to teachers and building-level administrators, then parents need to be able to select schools that best suit their own educational philosophies or the learning styles of their children. Whatever one's views on school choice, the issue could well be linked to other key dimensions of school finance in the 1990s.

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Several aspects of school finance are involved in public school choice programs. While "only state aid" followed students to their chosen schools in the earliest public school choice programs, states have recently begun to count each transferring child as a student in the chosen district for the purposes of calculating state general and categorical aid. The effect of this stipulation is that the total base funding is shifted from the resident district to the attending district. This is probably the most equitable and simplest way to structure revenue shifts for students who move out of their district of residence in a public school choice program.

The most problematic aspect of the financing of public school choice programs, however, concerns decisions by individual districts to spend above the base funding level. Parents of students who do not live within the district attended cannot vote for or against rate increases in local property taxes, nor do they pay more taxes if a rate increase passes. This is a problem caused by a district-based funding structure, which has become overlaid with a school-based attendance structure. To remedy this structural bind, districts should be prohibited from spending above the base, and individual schools should be given a fiscal option to elect to spend above the base.[5]

An additional financial dimension of school choice programs involves the cost and availability of transportation. Meaningful access to school choice requires that transportation to the school of choice be available. Most within-district choice programs include transportation, but many cross-district choice programs do not. While having the state provide transportation to all schools would be prohibitively expensive and a logistical challenge, we will need to come up with innovative local transportation options if school choice is to be a real option for average-income and below-average-income families. And these options will add to the cost of public school choice.

> Integrating social and educational services at the school site is very likely to add a new dimension to school finance during the 1990s.

COMPLEMENTARY STRATEGIES

The sixth component of school finance in the 1990s concerns financing several nonschool programs (or nontraditional school programs). These programs largely relate to the goal of having all students come to school ready to learn.

Preschool. Nearly all studies show that early childhood education programs for poor children yield better student performance in the basic skills in elementary through high school, lower failure rates and less below-grade-level performance at all grade levels, fewer discipline problems, and improved high school graduation rates. Early childhood education programs can provide long-term returns of $4 for every $1 invested.

Extended-day kindergarten. Kindergarten was a full-day program until World War II, when teacher shortages cut it to half a day. Syntheses of research suggest that students from low-income backgrounds who take part in a full-day kindergarten program perform better in basic skills in the early elementary grades than those who do not. Both expanded early childhood education *and* extended-day kindergarten give students from low-income backgrounds a substantial boost in learning basic skills in the early elementary grades.

Child care for working parents. As women enter the full-time workforce in increasing numbers, the need for before- and after-school child care grows. While research on the effects of variations in level and quality of child care on educational achievement is scanty, the fact remains that growing numbers of children are not under the supervision of an adult each afternoon when school ends. Whether from public or private sources, child-care services will consume expanding percentages of the nation's personal income in the future, unless the work behavior of women and men changes dramatically.

Integrated services for children. A child's ability to experience success in school depends to a substantial degree on such nonschool conditions as health, mental health, the home environment, and so on. Furthermore, students deemed "at risk" are usually at risk on several dimensions. Yet a growing body of research shows that the ways of delivering noneducational services to children – health, family, psychological, and so on – are fragmented and increasingly ineffective.

The integration of the services provided to children is a policy proposal that is being recommended across the country, so that all (or at least many) noneducational services can be provided at one location. The school is a prime candidate because nearly all children spend large portions of each day at a school. Integrating social and educational services at the school site is very likely to add a new dimension to school finance during the 1990s. The key issue is how to create such a program without further burdening schools financially. The policy trick will be to direct the flow of resources for children's noneducational services to some central locality, such as the school.[6]

Poverty and health programs. The persistent link between low student performance and poverty suggests that reducing children's poverty, a laudable objective in itself, will help accomplish the nation's and each state's education goals during the 1990s. Reducing poverty and expanding health and nutrition programs will help schools to accomplish their tasks once children begin formal schooling.

COMPLEMENTARY ROLES FOR POLICY

In addition to the specific policies outlined above, there are several smaller but nevertheless important and complementary state policies that are needed to accomplish the education goals of the 1990s and to make systemic reform possible. Moreover, each of these complementary policies has financial dimensions.

Curriculum standards and staff development. The first complementary policy is the development of ambitious state curriculum standards. These standards not only outline the school curriculum but delineate learning outcomes for children. Several national professional organizations have developed such new standards. The financial dimension of these new curriculum directions has to do with implementation. Research suggests that teachers, schools, and districts are responding positively to these initiatives, but a thinking-oriented curriculum requires substantial change in classroom practice that will take years to accomplish. A critical ingredient to successful implementation over time will be consistent and high-quality staff development. States need to consider seriously the need to develop and fund effective staff development programs.

While states could create a series of categorical staff development programs and while some programs can be powerful agents in stimulating bottom-up professional networks, a more straightforward approach might be to use the state's general aid formula and simply stipulate that 1% must be spent on staff development. While there could be disagreements about whether the funds should be retained at the district or lump-sum budgeted to the school site, such a requirement could permanently build staff development into the ongoing activities of districts and schools. Furthermore, these small sums could support the most critical programs for pushing classroom practice toward a thinking-oriented curriculum.

Student assessment. The states must develop new and comprehensive student-assessment structures that avoid the emphasis on basic skills and fragmented testing. These new assessments need to be based on student performance, calibrated to world-class standards, and capable of providing results for individual students. While the policy interest in performance testing of all students is high, such new approaches will require substantial funding.

Instructional materials development. Developing new instructional materials, including microchip-based technologies, which are essential for increasing educational productivity and student achievement during the 1990s, is another area critical to improving students' thinking skills and to meeting national and state education goals. At one level this strategy entails using funds to purchase existing materials wisely. At another level, it means exerting pressure to see that better materials are created. If states continue to adopt bold new curriculum frameworks and to pressure publishers to revise their materials to reflect new emphases on thinking and problem solving for all children, then commercially available instructional materials should improve incrementally over time. In either case, the development of better instructional materials will be an important focus of state policy for the 1990s.

Front-loaded, site-based improvement grants. Very few schools have substantial amounts of discretionary funding. Even though site-based budgeting might provide more, states could "front-load" the process by creating a site-based improvement program so that each school could plan and implement an educational improvement program. While phasing in a site-based management program over a period of several years, front-loaded dollars could help schools develop programs to meet ambitious new state and national goals in a shorter time. Moreover, if a state subsequently implemented lump-sum, site-based budgeting, the school improvement dollars could be "rolled into" the amount budgeted to each school.

Controlled restructuring experiments. Implementing a thinking skills curriculum that actually teaches all students to think and solve problems might entail dramatic changes in the ways schools are organized, staffed, and managed. States could spur efforts to restructure schools by providing both development funds for schools to create and implement different kinds of restructured programs and assessment funds for analysts to document the process and measure the impact of different designs. The purpose of such an approach would be to gather information and to share knowledge about what works and what does not.

States could easily set aside a "pot" of dollars – say, $30 for each child in the state. Then 10% of all schools could receive a total of $250 per student for development activities and $50 per student for formative assessment. Such a plan would cost relatively little, but it could be highly productive by consciously stimulating local attempts to design new schools and to develop strategies that work in teaching thinking and problem solving to all students

These changes in the school finance menu for the 1990s require that we dramatically transform traditional notions of equity in school finance, expressed as dollar inputs at the district level. First, analyses of equity in school finance need to link indicators of school finance equity to the ongoing development of educational indicators generally. Second, frameworks for equity in school finance need to move beyond the use of expenditures and revenues as the only indicators of educational resources and look at the curriculum and instructional resources into which dollars are transformed. Third, data on school finance and on curriculum and instruction need to be developed at the school level, not solely at the district level (as is common practice today). Finally, our goal should be to assess variations in student achievement and to link those variations to differences in the level and use of both fiscal and programmatic resources.

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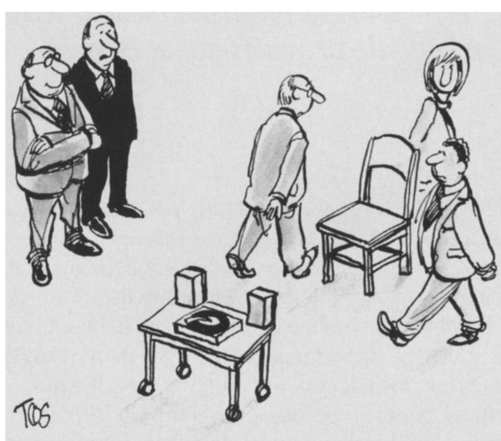

"There must be a better way to fill the endowed chair."