SCHOOL FINANCE AND LEARNING: ARE WE LEVERAGING STATE AID TO GET ALL WE CAN OUT OF IT?

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After spending some twenty-five years working on school finance for the New York State Education Department, I had the opportunity to work on education reform for the State of Nevada. As Deputy Superintendent for Business and Support Services, I oversaw state aid to school districts, information technology, audit services, and child nutrition. I also served as Education Department liaison to the 77th session of the Nevada Legislature. Although my sojourn in Nevada, lasting little more than a year, was brief compared with my work in New York, the experience gave me perspective on how two states were implementing school finance and reform.

Recent reforms in both states were driven in large part by the federal Race to the Top competition, but the approaches to reform were quite different. Key features of the education environment in Nevada—basic student services and a strong inclination against raising taxes—worked to keep school spending low, the sixth lowest school spending in the nation at $8,419 per pupil. New York State, in contrast, is a large-enrollment, high-spending, and high-taxing state. Consequently, spending per pupil on education is among the highest in the nation, at $16,239 per pupil.[1] In 2011, the state reached the breaking point, however, and enacted laws to limit growth into the future for education revenues raised from the property tax and distributed as state aid to school districts.

1. Per pupil expenditures for Nevada and New York are adjusted for regional cost differences (2010). See *Education Week's* Quality Counts report at www.edweek.org/ew/toc/2013/01/10/index.html.

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It should be noted that educators in both states are working hard to improve education. In New York, they don't intentionally work to spend more and people in Nevada don't feel like they are *working* to spend less, but the contrast is remarkable. The contrast is of a culture of spending a lot and a culture of spending modestly. It is hard to put into words but it is a dramatic difference. Perhaps it would be like being in a wealthy versus a poor family. What each family does is taken for granted by the members but for someone who goes from one to the other the distinction is powerful.

In reflecting on the two states, one at the bottom of the nation's school spending and the other at the top, I asked myself: *What was missing?* What was missing in both states, and perhaps many others, is a focus on total school spending to increase student learning. Rather than focusing on whether states spend a lot or a little, shouldn't they be focused on making sure that *every dollar* adds to the goals of the enterprise: To produce young people who have a good chance of being successful in college and careers?

Why is this important? Globalization makes it crucial in two ways (Blinder 2013; Glassman 2013). Global markets affect our market economy, as seen in the recent global hiccup that occurred when European markets faltered (Glassman 2013). And although economists predict a restoration of jobs to prior levels (Glassman 2013), the United States faces a serious job crisis. High school and college graduates are not prepared for many highly technical jobs and machines are increasingly doing jobs that in the past were done by low-wage workers. American businesses have turned to other countries to fill the jobs. Some have estimated that we are educating up to 70 percent of our young people to a level that does not allow them to be self-sufficient, a number that is increasing at a rate of 1 percent a year (Daggett 2013). Thirty percent do not graduate from high school, 28 percent fail a basic literacy test required for entrance in the military, and another 12 percent are not eligible for the military as a result of obesity, drugs, or incarceration (Daggett 2013). Our markets are connected globally and our students are competing globally for jobs. It is time for elementary and secondary education to prepare young people for the jobs businesses need to fill, and this means making some dramatic changes.

I mentioned both Nevada and New York were working on Race to the Top reforms. New York received a $700 million grant and Nevada applied for but did not receive a grant. Despite this, both states have adopted the Common Core State Learning Standards and are participating in consortia to align their state testing to these standards. They are both working on developing their state longitudinal data systems, and are developing (Nevada) and implementing (New York) a system of teacher and leader evaluation and support. Why would two states that are so different be working on the same education reforms? Because of the powerful impact of the federal Race to the Top program, a program developed in response to research showing (1) that teachers matter and differ substantially from one another in ways not recognized by existing licensure and pay systems, and (2) that teacher performance evaluation systems appear to be broken. In fact, forty-six states have adopted the Common Core State Standards and numerous states are engaged in related reforms.

The Race to the Top grant in New York is a little more than 3 percent of state education revenues. Yet, it leveraged a flurry of education reforms in New York State and in Nevada, which did not even get a grant. Are we missing out on the potential of resources to motivate positive change for students and society by not better leveraging state aid to school districts? Are we leveraging the money to get all we can get from it?

How states can motivate positive changes in student learning has, of course, garnered much attention. Much of this was the subject of an Education Finance Research Consortium symposium sponsored by the New York State Education Department and Board of Regents on School Finance and Organizational Change. Although this work predates recent federal initiatives such as Race to the Top, many of those concepts help to frame the discussion. Wyckoff and Naples (2000) describe four ways state policy makers can influence the organization and outcomes of the entities they oversee: contracting, monitoring, reputation, and organizational change. State learning standards that are high and aligned to success in college and careers serve to establish formal or informal contracts between the state and school districts and as such are a critical tool in this process.

State school aid is a second potentially powerful tool, crucial to achieving standards. Wyckoff and Naples (2000, p. 307) sum it up:

> State aid can generally be employed to insure districts have the resources to potentially meet the standards, and also to provide incentives toward the standard. Equity demands that districts be provided with sufficient resources such that if the resources are effectively employed, students could be educated to meet the learning standard. This requires an ability to deploy resources to best enhance student learning and an ability to differentiate among the circumstances of districts (needs and ability to pay) in the distribution of aid. State aid can also be used to reward success and/or punish failure in meeting the goals. Care needs to be taken when financially punishing districts for weak performance.

In the excitement of implementing Race to the Top, much research presented at the annual conference of the Association of Education Finance and Policy (AEFP) has focused on aspects related to specific areas of change such as teacher compensation and evaluation, school turnaround (and choice), school accountability, and the progress states are making in implementing Race to the Top reforms. This has been relevant and timely because many of the Race to the Top reforms have been controversial and threatened the status quo, thus providing grist for analysis, discussion, and debate. But let's step back a moment and look at the bigger picture. If three cents on the education dollar can motivate so much activity, is it not time to look at the other 97 cents? What would this look like? Can incentives be incorporated in the distribution of state funding that motivate school districts to improve education?

First, connecting aid to student outcomes is an initial critical step in knowing how much money is needed and in beginning to create incentives to use the money more productively. New York's Foundation Aid formula enacted in 2007 (which was then defunded during the economic recession) was a case in point. The foundation amount, one of four moving parts in the formula, was based on a cost study of expenditures for meeting state learning standards in successful school districts. With New York leading the nation in economic recovery as measured by job growth (Glassman 2013), the state needs to fully fund the foundation formula and preserve the important link to student learning standards.

Second, the basic funding formula should include key features to ensure the sufficiency and equity of state aid. These include:

- A cost study such as mentioned above should be conducted at regular intervals and used to determine state aid. In between studies, states should increase basic funding by at least the increase in the cost of living.
- States should adjust basic funding by student need—including poverty, limited English proficiency, geographic sparsity and disability status—such that school districts have the resources to give all students the extra time and help they need to meet state learning standards.
- States should adjust funding for the ability of the school district to raise revenues locally and for regional cost differences, or the relative ability of the district to attract qualified teaching candidates.
- Save-harmless provisions should protect school districts against loss but care should be taken to limit this aid so as to not divert too much aid toward loss rather than student need.
- States should enact two-year budgets to help school districts predict their aid and sustain multiyear educational programs.

Third, rewards for success should be explored as incentives for increased student learning. Progress should be obtainable and take into account student need so as not to disadvantage school districts serving concentrations of students in poverty. The goal is to be able to reward success in every type of district and to not reward districts that do not change or fail. Issues include determining the amount of basic aid and the reward. Should the amount of basic aid be the minimum amount of aid necessary to meet state constitutional entitlements? The size of the reward is important too but as we have seen with Race to the Top, even small rewards (3 to 10 percent of basic aid) can be motivating. In addition, states need to pick carefully outcomes and targets that are used to determine whether a district has improved or not.

Fourth, what strings should be placed on the reward? Should the prize be additional unrestricted operating aid, or should there be conditions, as with grants? Or should there be an unrestricted reward along with grants for specific purposes, such as management efficiency, early learning programs, or school–college collaboration? A state would set aside a pool of money for school districts that improve, as measured by specific learning targets, such as making annual yearly progress in reading and math for all student subgroups. Any district that improves would get additional funds. The funds can be awarded unconditionally or conditionally. Unconditionally could mean for any education purpose including tax relief. Conditionally could mean to invest in a specific program that the state could specify (management efficiency, early learning programs, and school–college collaboration are examples). The district would only get the funds if the money was spent as prescribed.

Fifth, what planning should be required to introduce and implement such a system? It may be important to allow the field time—say, two to five years—to align curriculum and supports with the measures and targets the state intends to use. In addition, school districts need to see that resources and meeting standards go hand in hand, and should be required to prepare and make available to the public five-year, long-range financial plans that lay out the targets and specific instructional areas (including student achievement goals) the district is working to strengthen. Strategic school district teams including instructional, financial, and information technology leadership should collaborate to prepare the plans. Extensive community involvement and participation will be necessary to ensure parents and businesses understand and support what the district is trying to accomplish.

Sixth, cautions are always to be heeded. States need to carefully monitor and adjust requirements for rewards so that school districts are not working on impossible tasks, such as the unrealistic targets of the original No Child Left Behind Act.

Seventh, research needs to continue to develop the basis for measuring educational productivity. School districts can engage in their own research by sharing data on their use of resources and student outcomes compared with groups of similar districts.[2] In addition, school districts can make important strides forward by developing the school leadership team to build budgets that focus resources on improving student achievement and realizing efficiencies in school operation (see Odden 2012 for strategies and guidance on resource reallocation).

Researchers from institutions of higher education and research organizations can validate measures of educational productivity and assess the value added of different approaches to increase productivity. For example,

- Dramatically improving preparatory programs that select, prepare, and train school teachers and administrators;
- Measuring the value added that teachers bring to student learning and the impact of accountability systems that have consequences for teacher performance;
- Improving connections between high school and college;
- Strengthening curriculum and assessment in reading and mathematics (the “Common Core”) and student preparation in science, technology, and engineering in preparation for jobs the United States is currently outsourcing to other countries;
- Strengthening early childhood education to engage students early in the process of meeting higher standards;
- Strengthening the use of data in support of student achievement growth and resolving issues related to the protection of individual privacy; and
- Understanding where computer-assisted instructional programs can add to student learning and contain costs.

Research can also assess the adequacy of school finance formulas and systems to maximize states’ return on investment of their tax dollars supporting education.

In 1984, *A Nation at Risk* was published and shocked educators and the public alike to think that the United States had somehow failed in elementary and secondary education. Thirty years later, we know so much more and have benefited from a dramatic increase in the capacity to measure and share information, but we are arguably not much further along than we were back in 1984 in terms of meeting the nation’s education goals. The world has changed dramatically and education has made only incremental improvements. A system that fails 70 percent of its young people in 2013 (and 80 percent in 2023?) is

2. They may be aided in this task by using tools such as Forecast 5 and Cornell University’s Budget Playground. (See www.forecast5analytics.com and www.nyruralschools.org/w/data-tools/budget-playground/#.Up88p6U8Z-c for more information.)

not a pathway to prosperity. It is time for states to look seriously at the potential of incentives tied to basic school aid which they provide to school districts, and create a culture that embraces a strategic approach to using every education dollar. The AEFP membership, consisting of researchers, practitioners, and policy makers, can facilitate this process through quality research, analysis, and informed debates that raise awareness and develop methods and measures to help states implement reforms and understand the cost of inaction.

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