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Resource Management

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The history of school-finance reforms in the U.S. is discouraging. Too often, funding changes but patterns of spending, instruction, and school performance don't. However, when coupled with other policy innovations of the kind proposed in this volume, including greater freedom of action for school leaders and strict performance accountability, changes in spending can have huge consequences.

Florida, like states and localities throughout the country, is seeking ways to use the funding available for public education more effectively. At an earlier time, when nobody was asking hard questions about whether public schools were effective, it was possible to put some money behind any plausible demand, e.g. a central office unit for every purpose, more aides, extra pay for teachers' planning periods, special services for one group or another. At the state level, we saw class-size mandates, court orders, and small categorical programs for myriad purposes. After decades of letting public education spend-

ing be pulled hither and yon, leaders in most states and localities don't know where their money is or how well it is being used.

However, state standards and accountability schemes like Florida's and the federal No Child Left Behind program have now put the burden of proof on state, local, and school leaders to show that schools effectively educate all children. Faced with evidence that students in large numbers of schools can't meet state standards, and that despite some progress, too many of the low-income and minority children who enroll in big-city schools never graduate from high school, Florida's state and local education leaders are forced to admit that schools are not as effective as they need to be.

In some states, educators have claimed that they just don't have enough money to do the job. That tactic naturally invites questions about whether public school systems are using the money they do have to best effect. Many state and district leaders find it hard to answer such questions, in which case the natural first step is to establish uniform fiscal accounting structures that report expenditures down to the school level across all schools in the state.

Florida is far ahead of other states because it has a statewide comprehensive finance database that provides uniform financial information for each school and district in the state. The school-level program cost reporting system established in the mid-1970's provides transparent information on the level of resources allocated to each school. In addition, the state's per-pupil formula provides a solid model for states attempting to ensure that additional funds follow students with special needs. Floridians can know how much is spent at each school, and can ensure that gross fiscal inequities are not the source of uneven student performance.

The fiscal accounting data also serves as the basis of Florida's excellent Return on Investment (ROI) system that when linked with student performance at each school, yields an index of fiscal efficiency for each school. However, while the system was developed to increase accountability and provide information on most effective practices, the

ROI system also highlights the need for Florida's schools to focus money more effectively where it matters most.

Facing the twin pressures to perform better and justify the use of money, political leaders in Florida and many other states are trying to move a larger share of the money they now have into higher-yield inputs. States have tried different approaches, including:

- Increasing spending on teachers by mandating smaller class sizes;
- Increasing regulations on what must be purchased with state dollars—i.e. every elementary school must have a reading coach, etc.;
- Taking over the most inefficient districts and drastically cutting back the central offices;
- Mandating that specific fractions (e.g. 65%) of all spending be allocated directly to the instruction; and
- Encouraging greater school level differentiation in how money is spent.

Unfortunately, many of these initiatives have proven to be half-measures that either don't really change the way money is used or make spending even less efficient. Most of them further restrict school-level control over resources. Much of the problem is that each initiative is considered only in the context of a narrowly defined objective (i.e. "Reading scores are generally low," "Too much is spent on central departments" or "New monies must be visible at the ground level"). And so, when legislators worry about reading scores, they might mandate a reading coach in every elementary school. But from a criterion of *efficient* spending, a universal mandate doesn't make sense. While one school may not have access to any good reading coaches, and instead want to build a tutoring program or purchase the online interactive reading program "Headsprout," the mandate forces that school to make an inefficient investment in a not-so-good reading coach. And while reading is low statewide, there may be schools

where reading is a strength and math is the bigger weakness. Forcing a new investment in reading for these schools just doesn't make sense.

In general, state lawmakers need to look beyond their immediate objective and evaluate new initiatives according to five more broad-based criteria:

1. Does the initiative affect the way all funds are used or just allow use of marginal new resources?
2. Does the initiative promote experimentation and allow funds to shift from less- to more- productive uses?
3. Is a school's eligibility to receive future funding linked to performance, either through a state accountability system or a school choice program in which money moves with the students?
4. Will funds be readily moveable as student enrollments change, or failed schools and programs are closed so dollars can be used more effectively elsewhere?
5. Can the initiative be implemented equitably and at different funding levels, i.e. without massive increases in overall spending?

The next section of this paper examines currently proposed alternatives and assesses them against the four criteria.

Mandating Smaller Class Sizes

Another chapter in this volume (by Herb Walberg) critiques Florida's class-size reduction program, concluding that it is not likely to improve instruction in Florida schools. We focus on its implications for effective use of public funds.

Because it can increase the number of teachers in a district by 10% or more, class-size reduction generally requires major new expenditures. Moreover, since the teachers hired are normally young and move rapidly up the pay scale, class-size reduction can cost a great deal more after a few years than when it is enacted.

Though class-size reduction can increase school-level spending it can also reduce principals' and teachers' ability to manage funds and adapt instruction to the needs of children. To afford smaller class sizes districts often cut other classes of personnel and services that at least some schools would rather have. Moreover, schools are often forced to hire teachers they do not want and to standardize class sizes even when varied class sizes—very small for some subjects and much larger for others—would use resources better. Lastly, this initiative can further increase teacher quality disparities among schools in ways that hurt the lowest performing schools. As more experienced teachers transfer out of low-performing schools to fill openings in high-performing schools, the lower-performing schools are left to fill their new spots (and those created by the transfers) with very junior applicants.[1]

Increase State Spending Prescriptions

Delaware recently funded a science coach for every school in the state. Colorado funds summer remedial programs in its districts. A variant on the class-size reduction mandate, these kinds of mandates are common among states trying to make sure their funds will be used by districts as intended. The problem with overly prescriptive spending mandates is that while they fit the conditions in some districts, in others they prevent more appropriate spending choices. A district with lower-performing students from farming communities might not be able to get students to show up in the summer, but could get more bang for the buck with an online remedial program administered in the off-season.

But even more importantly, layers of spending mandates force districts to separate and compartmentalize their spending such that the

1. While some Florida legislation (House Bill 7087) is intended to protect the neediest schools from having the most junior teachers, a quick scan of teacher salaries across schools shows that in some districts, higher poverty schools do have lower salaried teachers.

funds for each allocation are never co-mingled with other funds, often necessitating a separate administrator and separate staff for each. This compartmentalization of spending is not only expensive (as each allocation has its own administrative structure) but also prevents a more coherent, and efficient use of resources to tackle the unique challenges in each locale.

Furthermore, "per-school" allocations can be inherently uneven when converted into per pupil allocations. The per-pupil cost of a science coach is half as great in a school with 1000 students as in a school with 500 students. These restrictions make it difficult for districts to maintain an allocation system that can adapt to fluctuations in student enrollment.

State Takeover of Districts and Drastic Reallocation of Funds

Though states have taken over troubled school districts from time to time for years, they have only recently started to restructure them fundamentally. In the recent past, state takeover has amounted to changing the superintendent but leaving in place the district financial structure, central office, and teacher union contract. California's takeover of the Oakland district has set a new pattern. Former state administrator Randy Ward dramatically cut central office staffing, reallocating the funds saved to schools that then used them to hire staff or contract for services. He also made school budgets more transparent by eliminating the practice of "salary cost averaging," which hides the differences in real-dollar spending between schools in wealthy neighborhoods with stable and highly experienced teaching staffs, and schools in poor neighborhoods with rapidly changing and much younger groups of teachers. A strong accountability system that can identify and replace low value-added schools also gives school leaders a strong incentive to seek the most effective use of their funds.

These measures have dramatically reallocated funds and are start-

ing to give schools in poor Oakland neighborhoods infusions of funds that allow them to purchase needed materials and assistance, bid for excellent teachers, and keep good teachers who might have gone elsewhere. They definitely make the school, not the district or individual classrooms, the accountable unit. In a system where school leaders have the authority to reallocate funds in meaningful ways, the hope is that the change will result in more bang for the buck, or a closer relationship between resources and performance.

Oakland's takeover plan has set off local conflict, which the state administrator could handle only because of his virtually unlimited power during the limited (5-year) takeover period. A blanket state mandate requiring all districts to make similar changes probably wouldn't lead to as thorough a reallocation of dollars to the school level.

Mandating that 65% (or Any Other Fraction) of Funds Be Spent on the Classroom

The "65 percent solution," was recently rejected by the Florida legislature, but it is likely to arise again in another form. The national group promoting it also sponsors citizens' initiatives and is determined to make it public policy in at least 18 states.

On the surface, it seems a plausible idea—set a high minimum for the amount of money that must be spent on classroom instruction and thereby drive down the amount spent on administrative services that benefit adults, not students.

However, it is not clear what difference the proposed 65% policy could make. In its general form under discussion in most states, it does not define instructionally related expenses sharply enough to prevent districts from complying simply by re-coding their existing expenditures.[2] District central offices can inflate school-level budgets

2. The Florida proposal had relied on the National Center for Education Statistics somewhat broad definitions of "classroom expenditures."

simply by re-naming accounts held in the central office as if they were assigned to schools (Miller, Roza & Swartz, 2005). With subjective decisions involved in coding centrally managed programs and their budgets, it is no surprise that districts can distort their spending reports to comply with top down mandates on spending percentages.

Further, it is impossible to know whether 65% is the right share of all funds to assign to instruction. It might be too low. Private and parochial schools, as well as publicly funded private schools, control all their funds and some spend much more than 65% on what most people would consider instructional expenses. Moreover, as Jane Hannaway (2004) has shown, for-profit Education Management Organizations spend their money very differently than school districts--much more on teacher recruiting, mentoring, evaluation, and on-the-job advice but less on teacher salaries and benefits. These are arguably instructionally related expenditures when focused on the improvement of a particular school, but more like a central office function when schools have no say about who is hired or how they are trained, evaluated, or mentored.

Florida's strict accounting formats have the advantage of providing more uniform spending comparisons, yet initiatives like the 65% solution's definition of "classroom expenditures" would not have matched well with school-level spending as Florida defines it. Central office functions like maintenance of substitute teacher pools, professional development, curriculum and instruction offices, and even some union functions can be dubbed "instructional" and allocated on paper to classrooms. And yet, at the school level there would have been no recognizable change in resource levels.

School boards and central offices could still make the hiring and purchasing decisions that would determine what materials and teacher-training programs were available to schools. Thus, the 65% solution, like class-size reduction, could increase the share of all resources spent on instruction (and maybe even increase expenditures on classrooms),

yet possibly decrease principals' and teachers' ability to adapt instruction to student needs.

The conflict between focusing resources on "classroom instruction" versus increasing spending discretion within schools is particularly problematic in Florida, where legislation already exists that requires that 90 percent of the funds generated by student enrollment be allocated to schools. Additionally, nothing in the 65% solution proposal makes any link with schools' FCAT scores—funds would not be pulled away from ineffective schools or central office units and transferred to more effective ones.

Encouraging Greater School Level Differentiation in How Money Is Spent

Florida's largest education finance program (FEFP) allocates funds on the basis of enrollment. Students with special needs are funded at higher levels than other students. FEPF also requires districts to account for funds in ways that demonstrate that 90% of spending is focused on the school level.

Districts can, however, decide how schools use their resources and what spending to attribute to particular schools. So, for example, districts can dictate the mix of staff at each school. Districts can even fund centrally controlled programs that deliver services in schools, and allocate the costs of those services among the schools that receive them. Because schools differ in their student needs and staff capabilities, productivity of a given mix of resources varies. A centrally controlled program could look unproductive even if it worked extremely well in some schools. A generally productive program could also be a bad match for a particular school.

Florida's cost accounting and ROI systems facilitate comparisons of per pupil expenditures across schools, and can distinguish schools with high versus low overall "return on investment." But these systems cannot tell whether a school is intrinsically unproductive or

whether the mix of spending decisions made by the district is just wrong for it. Nor can these systems tell whether a different mix of programs and expenditures might be more productive in a particular school.

Because school funding is constant but ROI varies, some might conclude that spending doesn't matter. However, an alternative proposition is that in addition to equalized dollars, *how dollars are used* matters. In other words, for schools with a low return on investment, it might be the case that they need to use the funds that they do have differently.

In fact, Florida's data reveal evidence of some (albeit small) differences in what is available at the school level. Schools within the same district differ in the qualifications of their teachers, average teacher salaries paid, and portion of funds earmarked for at-risk students. It's quite possible that these differences (or others not detectable in the current accounting data) may indeed be in part responsible for current differences in ROI scores. It follows that if state leaders want to improve efficiency (or ROI), they need policies that enable differentiation and experimentation in use of funds.

The keys to differentiation in schools' use of resources are policies by which school leaders are granted spending authority, especially to trade off between higher salaried vs. more numerous teachers and between teacher salaries and other instructional resources. Several urban districts—Cincinnati, Milwaukee, Houston, Seattle, and most recently Oakland—have adopted a form of student based budgeting (SBB) at the district level, which allocates funds—in the form of dollars whose use is determined at the school level—directly to the school in which a student enrolls. Other districts, like Boston, New York City, and Chicago, have granted school-level spending authority more selectively, by giving some "pilot schools" increased discretion over spending. Districts that decide to charter some schools put the money available to educate each student into the school in which he or she

enrolls, and let the people directly in charge of the student's education decide how to spend it.

Currently, Florida's school leaders have little room for making decisions about resource use, particularly in the area of tailoring staffing to student needs or hiring the right set of teachers for a particular group of students. With mandated class-size reduction dictating so much of school-level resource use, schools have few opportunities to tailor their programs and staff to student needs. A school with superb second-grade teachers who can handle larger classes doesn't have the option of moving one extra teacher to first grade to focus more heavily on individualized instruction at that level. Similarly, schools that only have access to mediocre teachers can't trade some of those resources in for tutoring programs.

Florida's state level student-based allocation system positions the state well to experiment with possible ways of decentralizing spending decisions to the school level. In the conclusion we suggest ways the state could experiment with greater school level control of key spending decisions.

How the Different Proposals Stack Up

Table 1 compares the four proposals according to the five criteria listed on page 258. It shows that smaller class sizes are unlikely to both increase school level spending and facilitate more experimentation toward more productive uses of resources. The 65% solution and district takeover are so ill-defined and their consequences so contingent on implementation that it is impossible to rate them clearly. Only experimenting with greater differentiation of resource use at the school level gets positive ratings on all counts.

Implications for Florida

Florida has achieved the transparency about funding that is an indispensable first step toward making spending more effective. Its effects

Table 1. Comparing Proposed Ways of Increasing School-based Instructional Expenditures On Five Criteria

	Smaller class sizes	*State spending prescrip-tions*	*District takeover and redesign*	*65% solution*	*Increase school level spending Differen-tiation*
Affects use of all funds, not just new funding	—	?	+	?	+
Promotes experimentation with new and adaptive uses of funds	—	—	?	?	+
School funding contingent on performance	—	—	?	?	+
Funds can move as enrollments change	+	—	?	?	+
Useful without big spending changes	—	+	+	?	+

Key: O = no effect likely
? = Positive effect possible but not likely
+ = Positive effect likely
— = Negative effect likely

are constrained by policies like class-size reduction that limit flexibility in resource use, and by school district habits of deciding how to spend money and then assigning the costs to schools.

Full adoption of the funding mechanisms implicit in charter and voucher programs—money follows children to the schools in which they enroll and schools decide how best to use money to keep promises made to parents and meet the needs of students—is not likely in the near future. Moreover, even if such practices were adopted, school freedom of action would need to be coupled with aggressive accountability for results, including closure and replacement of schools that, despite controlling their resources, could not perform.

However, the state could experiment with more radical decentralization of spending decisions in three ways:

- By providing blanket waivers of state regulations, including those governing class size, for districts that wanted to experiment with school-based spending;
- By initiating a pilot schools program similar to Massachusetts', that allows individual schools to petition for charter-like control over their hiring and spending decisions;
- By requiring school-based decisions on portions of state funds (as is now done with some federal funds in the Title I program).

These experiments could be closely monitored via Florida's ROI system, both to test whether schools with greater control of funds were becoming more productive and to identify spending patterns that prove especially productive.

With more differentiation in school spending decisions, Florida's ROI system could reach its full potential, allowing analysis of the true cost-effectiveness of different schools, instructional methods, and even of teachers.

If coupled with an accountability system that closes the most unproductive schools and creates alternatives for the children in them, experiments in school-based spending decisions could fuel a serious and well-informed search for the best methods to apply in each situation.

It is, of course, possible to allocate money in what look like sensible ways and still not benefit students. However, greater decision-making authority at the school level, coupled with other policies that Florida is promoting, like careful measurement of results and strong accountability for performance, can lead to innovative and more effective schools.

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