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MAKING MONEY MATTER

Financing America's Schools

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PLEASE CITE AS A REPORT OF THE
NATIONAL RESEARCH COUNCIL

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EXECUTIVE SUMMARY

A national desire to ensure that all children learn and achieve to high standards now poses fundamental challenges to almost every facet of business as usual in American education. Policy makers and educators are searching for better ways to provide today's schoolchildren with the knowledge and skills they will need to function effectively as citizens and workers in a future society that promises to be increasingly complex and globally interconnected. A key component of this quest involves school finance and decisions about how the \$300 billion the United States spends annually on public elementary and secondary education can most effectively be raised and used.

A new emphasis on raising achievement for all students poses an important but daunting challenge for policy makers: how to harness the education finance system to this objective. This challenge is important because it aims to link finance directly to the purposes of education. It is daunting because making money matter in this way means that school finance decisions must become intertwined with an unprecedented ambition for the nation's schools: never before has the nation set for itself the goal of educating all children to high standards.

This report argues that money can and must be made to matter more than in the past if the nation is to reach its ambitious goal of improving achievement for all students. There are, however, no easy solutions to this challenge, because values are in conflict, conditions vary widely from place to place, and knowledge about the link between resources and learning is incomplete. Moreover, without societal attention to wider inequalities in social and economic opportunities, it is unrealistic to expect that schools alone, no matter how much money they

receive or how well they use it, will be able to overcome serious disadvantages that affect the capacity of many children to gain full benefit from what education has to offer.

Taking full account of conflicting values, wide variation in educational contexts, and strengths and limitations of existing knowledge, the Committee on Education Finance concludes that money can and should be used more effectively than it traditionally has been to make a difference in U.S. schools. To promote the achievement of a fair and productive educational system, finance decisions should be explicitly aligned with broad educational goals.

In the past, finance policy focused primarily on availability of revenues or disparities in spending, and decisions were made independently of efforts to improve the educational system's performance. Although school finance policy must not ignore the continuing facts of revenue needs and spending disparities, it also should be a key component of education strategies designed to foster high levels of learning for all students and to reduce the nexus between student achievement and family background.

To this end, the emerging concept of funding adequacy, which moves beyond the more traditional concepts of finance equity to focus attention on the sufficiency of funding for desired educational outcomes, is an important step.

The concept of adequacy is useful because it shifts the focus of finance policy from revenue inputs to spending and educational outcomes and forces discussion of how much money

is needed to achieve what ends. It also could drive the education system to become more productive by focusing attention on the relationship between resources and outcomes.

Applying an adequacy standard to school finance is at present an art, not a science. Misuse of the concept can be minimized if adequacy-based policies are implemented with appropriate recognition of the need for policy judgments and of the incomplete knowledge about the costs of an adequate education.

Efforts to define and measure adequate funding are in their infancy. A number of technical challenges remain, including the determination of how much more it costs to educate children from disadvantaged backgrounds than those from more privileged circumstances. Beyond these, some fundamental questions about educational adequacy (such as how broad and how high the standards should be) are ultimately value judgments and are not strictly technical or mechanical issues. A key danger is that political pressures may result in specifying adequacy at so low a level as to trivialize the concept as a meaningful criterion in setting finance policy, or at so high a level that it encourages unnecessary spending. Another is that policy makers will fail to account for the higher costs of educating disadvantaged students.

Making money matter more requires more than adequate funding. It also requires additional finance strategies, such as investing in the capacity of the education system, altering incentives to ensure that performance counts, and

empowering schools or parents or both to make decisions about the uses of public funds.

For money to matter more, it must be used in ways that ensure that schools will have the capacity to teach all students to high standards as well as the incentive to do so. Policy options involve choices among individual finance strategies and combinations of strategies; policy decisions will depend partially on philosophical outlook but can also be informed by careful attention to evidence from research and practice. Attention to context is important as well, as educational and political conditions diverge widely from place to place and individual policy options will often vary in effectiveness depending on local circumstances.

Educational challenges facing districts and schools serving concentrations of disadvantaged students are particularly intense, and social science research provides few definitive answers about how to improve educational outcomes for these youngsters.

While pockets of poverty and disadvantage can be found in all types of communities, the perceived crisis in urban education is especially worrisome. Ongoing reform efforts should be encouraged and evaluated for effectiveness. At the same time, systematic inquiry is needed into a range of more comprehensive and aggressive reforms in urban schools. Piecemeal reform efforts in the past have not generated clear gains in achievement, and generations of at-risk schoolchildren have remained poorly served by public education. Because the benefits of systematic inquiry will extend beyond any one district or state, the federal government should

bear primary responsibility for initiating and evaluating bold strategies for improving education for at-risk students.

Improving the American system of education finance is complicated by deeply rooted differences in values about education, the role of parents in guiding the development of their children, and the role of individuals and governments in a democratic society. In addition, there are serious shortcomings in knowledge about exactly how to improve learning for all students. Education policy cannot ignore these facts. Instead, the challenges are to balance differing values in a thoughtful and informed manner and continuously to pursue bold, systematic, and rigorous inquiry to improve understanding about how to make money matter more in achieving educational goals.

The committee is convinced that these challenges can be met and that the nation can improve the way it raises and spends money so that finance decisions contribute more directly to making American education fair and effective.

THE COMMITTEE'S CHARGE AND APPROACH

The Committee on Education Finance was established under a congressional mandate to the U.S. Department of Education to contract with the National Academy of Sciences for a study of school finance. In fleshing out the brief mandate assigned from Congress, the department charged the committee to evaluate the theory and practice of financing elementary and secondary

education by federal, state, and local governments in the United States. The key question posed to the committee was: How can education finance systems be designed to ensure that all students achieve high levels of learning and that education funds are raised and used in the most efficient and effective manner possible? In carrying out its study, the committee was further charged to give particular attention to issues of educational equity, adequacy, and productivity.

The committee translated these key questions into three goals for education finance systems. This translation provided objectives against which to evaluate the performance of existing arrangements and the likely effects of proposed changes:

Goal 1: education finance systems should facilitate a substantially higher level of achievement for all students, while using resources in a cost-efficient manner.

Goal 2: education finance systems should facilitate efforts to break the nexus between student background characteristics and student achievement.

Goal 3: education finance systems should generate revenue in a fair and efficient manner.

Finance policy and practice, especially now that they are being linked to the nation's highest ambitions for schools, touch on virtually all facets of education. Inevitably, therefore, finance is controversial; education policy is one of the most contentious items on the public policy agenda because it is deeply enmeshed in competing public values. Widespread support for equality of educational opportunity masks disagreement over the extent to which high levels of fiscal equality among students or between school districts is required and over the extent to

which it is appropriate for parents to spend some of their resources to benefit their own children in preference to others. The division of powers in U.S. government and a traditional emphasis on local control make changes in the dispersion of responsibilities for raising and spending education dollars difficult and slow. Americans' deep belief in the value of efficiency becomes complicated to act on when it encounters limited knowledge about what efficient solutions are in education, disagreements about what the ends of education should be, and belief that the educational system should be democratically governed and responsive to a variety of local, state, and national needs and views. It is thus hard for schools to be both democratic institutions and to have the focused and durable goals that are viewed by some as necessary for an efficient system.

Education policy in general and finance policy more specifically raise difficult questions that require both moral wisdom and empirical research. Experts, such as the members of the Committee on Education Finance, can contribute to policy making by examining evidence and by rationally and objectively clarifying the values and objectives at stake. They cannot resolve all disagreements, but they can render some views more reasonable and others less so.

The committee's inquiry into education finance takes place against the backdrop of a highly decentralized and diverse system of U.S. education that makes description and generalization difficult. The existing finance system is broadly characterized by delegation of significant responsibility for education to the local level, by an average division of funding responsibilities roughly even between state and local governments (with the federal government providing only about 7 percent of education revenues available to schools), and by great variation from place to place in the funds available for education and the level of government that provides them. Education is not mentioned in the federal Constitution and therefore has

been viewed as a power reserved to the states, most of whose constitutions specify the provision of education as a key state obligation.

Another backdrop for the committee's deliberations is its assessment of the current condition of education as it relates to the three goals. Regarding goal 1--promoting high achievement for all students--and goal 2--reducing the nexus between student achievement and family background--the committee concluded that although schools are not failing as badly as some people charge, they are not sufficiently challenging all students to achieve high levels of learning and are poorly serving many of the nation's most disadvantaged children. The continuing correlation between measures of student achievement and student background characteristics, such as ethnic status and household income, looms ever more serious as global economic changes have increasingly tied the economic well-being of individuals to their educational attainment and achievement. Particularly troublesome is the perceived crisis in education in many big-city school systems, a condition that has concerned policy makers since the 1960s but has been too often stubbornly resistant to improvement.

Regarding goal 3--raising revenue fairly and efficiently--the United States is unique in its heavy reliance on revenue raising by local school districts, the extensive use of the local property tax, and the small federal role. Despite significant amounts of state financial assistance to local school districts, spending levels vary greatly among districts within states and also across states, a situation that many people believe is unfair. Moreover, the local property tax is not always administered equitably and may generate a greater burden on taxpayers with low income than on those with high income. Efforts to increase fairness, however, must be balanced by sensitivity to possible effects on the efficiency with which funds are raised.

FAIRNESS AND PRODUCTIVITY IN SCHOOL FINANCE

Fairness in the distribution of education dollars has long been an objective of school finance reformers, but one that has frequently been thwarted by the political realities of an education system that allocates much of the responsibility for funding and operating schools to local governments. Concern about how funding policies and practices affect the performance of schools is a more recent development, but one that is becoming ever more central to school finance decision making.

In the aftermath of *Brown v. Board of Education*, 347 U.S. 483 (1954), the United States awoke from its historical indifference to the problem of unequal educational opportunities and began to address them. Beginning about 1970, the nation entered a notably vigorous period of school finance reform aimed at making the distribution of education dollars more fair. Litigants in a number of states succeeded in having state finance systems overturned in court on the grounds that they violated state constitutional equal protection provisions or education clauses. In the wake of these court decisions, virtually all states, whether under court order or not, substantially changed their finance systems. State and federal governments also created a number of categorical programs directing resources to students with special education needs and to some extent compensating for funding inequities at the local level.

Despite these changes, U.S. education continues to be characterized by large disparities in educational spending. While within-state funding disparities decreased in some states, especially those subject to court-mandated reform, large disparities persist. Moreover, disparities continue to mirror the economic circumstances of district residents; districts with lower-income residents spend less than districts whose residents have higher incomes. In some districts, this pattern is repeated in school-to-school spending differences. Nationwide, over half of the

disparity in district per-pupil spending is the result of differences in spending between states rather than within states.

Particularly in the last decade, the concept of fairness as it applies to school finance has taken on a new emphasis, spawning another round of litigation and reform. The pursuit of fairness has moved beyond a focus on the relative distribution of educational inputs to embrace the idea of educational adequacy as the standard to which school finance systems should be held.

Despite the success of adequacy arguments in several prominent school finance court decisions, there is as yet no consensus on its meaning and only limited understanding about what would be required to achieve it. Adequacy is an evolving concept, and major conceptual and technical challenges remain to be overcome if school finance is to be held to an adequacy standard. Earlier concepts of equity posed similar challenges in their infancy, although over time much progress was made in defining and measuring them. Similar progress may be expected here. In the meantime, awareness of the shortcomings in current understanding of adequacy is important for all who would use the concept in either policy making or in research.

In part, efforts to use finance policies to achieve educational adequacy depend centrally on understanding how to translate dollars into student achievement. In fact, however, knowledge about improving productivity in education is weak and contested. The concept itself is elusive and difficult to measure. There is as yet no generally accepted theory to guide finance reforms. Instead multiple theories, each of which is incomplete, compete for attention. Empirical studies seeking to determine the best ways to direct resources to improve school performance have produced inconsistent findings.

Equality of Educational Opportunity, the famous study of the mid-1960s known as the Coleman Report, found that, after family background factors were statistically controlled, school

resource variation did not explain differences in student achievement. The Coleman report ushered in decades of productivity research attempting to understand (and perhaps discredit) that counterintuitive result. For many years, the inability of researchers to speak consistently on how to improve schools has frustrated scientists and policy makers alike. While there is still a great deal of uncertainty about how to make schools better or how to deploy resources effectively, the committee's review of the last several decades of research and policy development on educational productivity makes us more optimistic than our predecessors regarding the prospects for making informed school finance choices. Thirty years' worth of insights have generated a host of ideas about how to use school finance to improve school performance, and researchers have learned to ask better questions and to use improved research designs that yield more trustworthy findings. Knowledge is growing and will continue to grow. One major implication of this fact for school finance is that good policy will reflect both the best knowledge available to date and the need to continue experimenting and evolving as new knowledge emerges.

Even while understanding is becoming more sophisticated, knowledge about how to improve educational productivity will always be contingent and tentative, in part because the characteristics and needs of key actors—the students—differ greatly from place to place. Therefore, solutions to the challenge of improving school performance are unlikely ever to apply to all schools and students in all times and places. Policy makers and the public will have to consider evidence and analysis about the strengths and weaknesses of strategies for change as they also weigh differing values about what Americans want their schools to be and to do.

STRATEGIES FOR MEETING THE GOALS

Four generic strategies can be used to make money matter more for U.S. schools and to propel the education system in desirable directions:

- Reduce funding inequities and inadequacies;
- Invest more resources (either new or reallocated from other uses) in developing capacity;
- Alter incentives to make performance count (within the existing governance structure); and
- Empower schools and parents to make decisions about the use of public funds (thereby altering governance and management relationships).

Reducing funding inequities and inadequacies includes options such as reducing disparities in funding across schools, districts, or states; ensuring that all schools or districts have funding sufficient to provide an adequate level of education to the students they serve; and raising revenue more fairly without neglecting efficiency. Investing more resources in developing capacity refers not only to the capacity of the formal education system to provide services but also to the capacity of students to learn. Hence, it includes investments in inputs, such as teacher quality and technology, and in programs, such as preschool for disadvantaged students. Altering incentives embraces changes in incentives designed to operate primarily within the existing system of school governance and includes policies such as restructuring teacher salaries, use of school-based incentive programs, and changes to the incentives built into financing formulas for students with special needs. Empowering schools and parents refers to policies that would decentralize significant authority over the use of public funds, to schools in

the form of site-based management or charter schools, and to parents in the form of significant additional parental choice over which schools (public and perhaps private as well) their children will attend.

In reality, policy makers do not and should not consider strategies in isolation. Finance policies ought to reflect the interrelatedness of the various facets of the finance system and the possibility that complementary changes may be required for reform to be successful. Indeed, some visions of overall education reform explicitly call for a set of intertwined finance strategies. Our decision to examine the strategies separately is useful for analytical purposes, but it also reflects the important fact that strategies can be combined in different ways. It is important to emphasize, however, that not all strategies are compatible. For example, a centrally (i.e., state or school district) managed program of investment in capacity would not fit naturally with a program that empowers parents and schools to make decisions about the kind of capacity in which they wish to invest.

For each of the three goals for an education finance system, we evaluate a variety of policy options employing these strategies and weigh the evidence on how effective they are likely to be in helping meet the objectives.

Achieving goal 1: Promoting high achievement for all students in a cost-efficient way.

- Adequate funding (sufficient funding for efficiently operating schools to generate high achievement levels) is clearly essential for meeting goal 1. Although we do not know how to identify this level with precision, it is important to try. But providing adequate funding by itself may do little to foster significant improvements in overall student

achievement. Thus, while funding adequacy may be a necessary part of any education reform effort--and is likely to be especially crucial for districts or schools serving disproportionate numbers of disadvantaged students--it is at most part of an overall program for increasing student achievement in a cost-efficient way.

- Teaching all students to high standards makes unprecedented demands on teachers and requires changes in traditional approaches to teacher training and retraining. In addition to nonfinance policies for investing in the capacity of teachers (e.g., reforming teacher preparation and licensing), finance options might include raising teacher salaries and investing in the professional development of teachers once they are on the job. Given schools' need to hire 2 million new teachers over the coming decade, raising salaries--especially for new hires--may be needed to ensure sufficient numbers of qualified people in classrooms. Professional development that is aligned with curriculum reform and teaching objectives offers the promise of changing teaching practice in ways likely to improve student performance. But neither approach is likely to be effective in achieving goal 1 unless it is aligned with appropriate incentives throughout the education system to make performance count.
- Altering incentives responds to the fact that the school finance system historically has operated almost in isolation from educational performance, in that educational goals and desired outcomes have seldom been reflected in pay for teachers and budgets for schools. Traditional teacher salary schedules provide higher pay for experience and postgraduate degrees, neither of which appears to be systematically linked with student achievement.

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Skill and knowledge-based pay shows greater promise for making teachers more effective in the classroom but remains to be tested. School-based accountability and incentive systems are increasingly popular and seem to contribute to desired student outcomes. To be fully effective, however, they require adequate funding for schools and attention to capacity building.

- Empowering schools or parents to make decisions about public funds (via enhanced site-based management, charter schools or contract schools, or vouchers, for example) has been justified as a strategy for improving student achievement in a cost-efficient way based on a variety of different arguments: some contend that local control will enhance innovation at the school level; some believe that schools with a strong sense of community perform better; and some believe that the introduction of competition and the possibility of losing students (and their associated funding) will encourage schools to be more productive than under the current monopoly situation. Although positive effects for children using vouchers have been reported from several sites where vouchers have been tried, the small scale of current programs leaves many important questions unanswered.

Achieving goal 2: Reducing the nexus between student achievement and family background characteristics.

- As money is made to matter more in education, funding disparities will become increasingly worrisome, because their effects on achievement will be magnified to the detriment of children in underfunded schools, many of whom are likely to be from disadvantaged backgrounds. The new focus on funding adequacy has the potential to

buildings in many older urban areas suggests that reform of facilities financing must also be attended to. Again, the effectiveness of any individual policy change may depend on how it is linked to an interconnected set of strategies for improving school performance, and some critics question whether these most troubled of U.S. schools can be reformed through strategic investments and related strategies, or whether they require much more fundamental structural change, such as might be brought about by a voucher program.

- Most federal and some state aid flows to schools via categorical programs tied to the special needs of certain groups of disadvantaged students. Title I compensatory education grants and special education funding are the chief examples. Questions have been raised about the extent to which the incentives deliberately or inadvertently created by categorical programs serve educationally desirable purposes and whether and to what extent it continues to be appropriate to treat children with special needs separately in an educational system increasingly oriented toward fostering high levels of learning for all students. Our findings suggest that previously defined sharp distinctions between students with special educational needs and other students have compromised educational effectiveness and that current efforts to move toward more integrated school programs should be facilitated by the finance system.
- Arguments for dramatic changes in school governance (by empowering schools or parents to make decisions about public funds) may be more compelling in urban areas with large numbers of disadvantaged students than in the educational system in general for a number of reasons. The size of many urban districts and the continuing fact of racial and economic segregation offer many urban residents much less choice

help disadvantaged students, but it will do so only to the extent that school funding formulas are appropriately adjusted for the additional costs of educating youngsters from disadvantaged backgrounds.

- Achieving goal 2 will also require attention to increasing both the capacity of children to learn and of schools to teach. Children raised in economically and socially impoverished environments or suffering from physical disabilities often come to school less ready to learn than their more advantaged counterparts. Schools must deal with these problems, even though they alone will not be able to solve them. A strong consensus has emerged among policy makers, practitioners, and researchers about the importance of increasing investments in the capacity of at-risk children to learn, by focusing on the school-readiness of very young children and by linking education to other social services, so that the broad range of educational, social, and physical needs that affect learning are addressed. Programs providing early childhood interventions and school-community linkages give evidence of both promise and problems, suggesting that there is still much to learn about making these investments effectively.
- That more investment is needed in the capacity of schools to educate concentrations of disadvantaged students would seem to be obvious given the dismal academic performance of many of these students, but as yet we have only incomplete answers to the question of which types of investments are likely to be the most productive and how to structure them to make them effective. The quality of teachers is likely to be a key component; reducing class size might help under certain conditions; whole-school restructuring may have significant potential; and the dilapidated state of school

over where and how to educate their children than suburban residents have. Moreover, urban residents have arguably benefited least from prior school reforms. Both theory and empirical evidence suggest that, among choice options, charter schools and vouchers, rather than interdistrict and intradistrict choice programs, the approaches most worthy of further exploration as vehicles for improving poor-performing schools. At present, however, little is known about the effects of either. Extensive evaluation is needed of the many charter efforts currently under way. Vouchers, both publicly and privately funded, are being tried in a number of cities, but the existing small-scale efforts are unlikely to provide adequate information to assuage the concerns of those who question the need for so dramatic a break with traditional school finance policies.

Achieving goal 3: Raising revenue fairly and efficiently.

- Shifting away from local revenue raising to greater reliance on state revenues and/or increasing significantly the federal role in revenue provision for elementary and secondary education would foster the goal of raising revenues fairly. Both, however, have to be considered in light of trade-offs and complementarities with the other two goals of a good financing system and with attention to maintaining some local control over managerial decisions.
- A larger federal role in providing education revenues could be justified either on the grounds that is fair and appropriate for the federal government to take responsibility for disproportionate needs of students who are poor, who have disabilities, or are otherwise educationally disadvantaged, or on the grounds of ensuring that all states

can provide adequate education funding. Fully funding federal compensatory education programs would be consistent with past federal policy and is likely to be the more politically viable of the two approaches. The alternative of a new federal foundation aid program based on an adequacy justification would entail a significant change in federal policy and would raise many of the same analytical, conceptual, and political issues that arise in the formulation of adequacy programs at the state level.

Finally, the report draws attention to the nation's need for better and more focused education research to help strengthen schools and bring about substantial improvements in student learning. Acknowledging the especially challenging conditions facing many big-city educators, the committee proposes three new substantial research initiatives in urban areas (without specifying the priority among them): (1) an experiment on capacity-building that would tackle the challenges of developing and retaining well-prepared teachers; (2) systematic experimentation with incentives designed to motivate higher performance by teachers and schools; and (3) a large and ambitious school voucher experiment, including the participation of private schools. Meeting the nation's education goals will depend in part on continuously and systematically seeking better knowledge about how to improve educational outcomes, through new research initiatives such as these along with more extensive evaluation of the many reform efforts already underway.