

## STRETCHING THE SCHOOL DOLLAR: *A Brief for State Policymakers*

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### 15 Ways that States Can Stretch the School Dollar

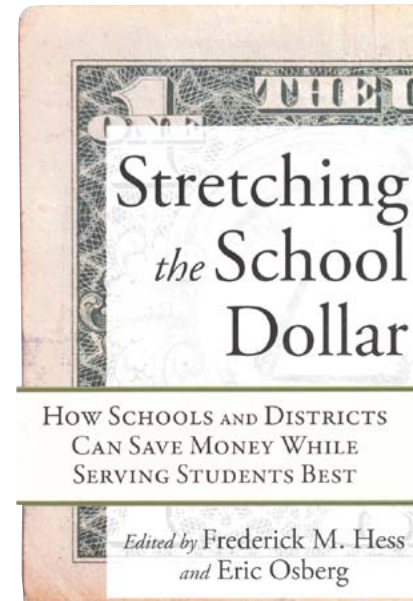
1. End “last hired, first fired” practices.
2. Remove class-size mandates.
3. Eliminate mandatory salary schedules.
4. Eliminate state mandates regarding work rules and terms of employment.
5. Remove “seat time” requirements.
6. Merge categorical programs and ease onerous reporting requirements.
7. Create a rigorous teacher-evaluation system.
8. Pool health-care benefits.
9. Tackle the fiscal viability of teacher pensions.
10. Move toward weighted student funding.
11. Eliminate excess spending on small schools and small districts.
12. Allocate spending for learning-disabled students as a percent of population.
13. Limit the length of time that students can be identified as English Language Learners.
14. Offer waivers of non-productive state requirements.
15. Create bankruptcy-like loan provisions.

If you’re a governor, legislator, budget director, or other state official, you don’t need to be told that education spending cuts are coming. After years of non-stop increases—national k-12 per-pupil spending is up by *one-third* in inflation-adjusted dollars since 1995—our schools now face the near-certainty of repeated annual budget cuts for the first time since the Great Depression. In some states and districts, reductions will be dramatic—well into the double digits. And these new revenue-trend levels are likely to be semi-permanent, what with increased pressure on the public purse from the retirement of Baby Boomers, Medicaid and Medicare costs, debt payments, and other demands.

The challenge for education policymakers is not only to cut carefully so as not to harm student learning, but, better yet, to transform these fiscal woes into reform opportunities: to cut smartly and thereby help our schools and students emerge stronger than ever. Here we offer some fifteen ideas on how to do that, mostly drawn from a recent Harvard Education Press book developed by the Thomas B. Fordham Institute and the American Enterprise Institute: *Stretching the School Dollar: How Schools and Districts Can Save Money While Serving Students Best*.

### Cutting Smart: Start With the End in Mind

First, accept the reality that **state officials like you don’t actually control the bulk of school budgets; districts do.** It will be local school boards, superintendents, and their staffs, as well as charter schools, intermediate agencies, and other sub-state consumers of education dollars that will decide, at the end of the day, what gets axed or repurposed. Do they simply lay off all the newest teachers? Get rid of art and music classes? Charge fees for extra-



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curricular activities or out-of-zone bus-ing? Or do they think big and restructure teacher compensation, rethink personnel assignments, exit ineffective staff, embrace more efficient delivery systems, push for union concessions around health-care benefits and pensions, and apply innovation to reduce reliance on some personnel?

They will decide. Yet you are far from powerless. You create the frameworks within which these choices get made. Funding formulas and myriad state laws and regulations have enormous impact on the spending decisions that districts and schools make. In some states, for example, policies that require extra pay for teachers who earn master's degrees or that mandate the number of sick days that districts must offer their employees can tie the hands of local leaders and drive up costs. These costs are often set to escalate each year at rates far beyond projected increases in revenues. In fact, much of the pickle districts are in is created by the automatic yearly increases built into district budgets through salary and benefit plans and is made worse by the fact that districts have surrendered many of the tools typically used to scale back spending (such as structured layoffs). Thus, your job isn't just to right-size revenues; it's also to prune harmful regulations that tie responsible superintendents in knots.

*The worst-case scenario is to make across-the-board cuts to your education formulae while leaving all manner of harmful laws, regulations, mandates, obsolete programs, and practices in place. You may reduce the state's spending but you surely won't improve its education and you may well worsen it.*

For instance:

➤ If you want local districts to consider new approaches to teacher pay—e.g., approaches that don't rely on seniority and raises tied to mostly meaningless master's degrees—you probably have to make changes at the state level. In Ohio and sixteen other states, the law *requires* districts to adopt salary schedules with “steps and lanes” predominantly based on years of service and college-credit-based credentials.

➤ If you want districts to stop the non-sensical practice of “last hired, first fired,” which peels off the newest and most energized (and least expensive) teachers and other staff, you'd better make sure that your own state doesn't mandate it.

➤ If you think that strategic increases in class size—and some new approaches to instructional delivery, such as adroit use of online learning—make both budgetary and educational sense, you have to ensure that state barriers don't preclude this.

It was no accident, of course, that such restrictions made it into the state books. For each policy that affects resource allocation, there is a stakeholder group ready to defend it. You have your work cut out for you.

Let's start by envisioning what “Smart Savings”—vs. “Harmful Cuts”—look like at the local level. Then we'll examine how state policymakers can make the smart, brave kind more likely—and free up money that can be used to invest in the kind of education that is most apt to secure a bright future for your state and its children.

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### **Harmful Cuts**

These aren't hard to list, because they're what we usually see when school budgets need to be trimmed. They nearly always put the interests of adults in the system—especially adults who have been there a long time—over the needs of kids and their families. Here are half a dozen of the most widespread—and why they are so bad.

**>> Shrinking the workforce by laying off the newest teachers damages the system in several ways.** Where districts must reduce staff, layoff decisions should be based primarily on teacher effectiveness. Recent research has illustrated that relying on seniority-based layoffs to close fiscal gaps has the effect of lowering student learning by 2.5 to 3 months when compared with layoffs driven by teacher effectiveness.<sup>1</sup> Using seniority as the basis of layoffs disproportionately hurts high-poverty schools since they typically have more junior teachers. Furthermore, “last hired, first fired” has pernicious budgetary implications. Younger teachers ordinarily earn lower salaries—meaning that schools have to lay off *more* young teachers to recoup the same savings as laying off ineffective teachers, regardless of age. Moreover, school pension and health-care systems are predicated (much like Social Security at the national level) on having young teachers pay into them while receiving few if any benefits from them. Without the young teachers on board, already-stressed pension systems will face even greater pressure and health-insurance premiums for schools will climb even higher.

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**>> Narrowing the curriculum means students learn less.** All children deserve a well-rounded education, yet in tough budget times some districts treat art and music, phys ed, foreign languages, and health as “extras.” They sometimes skimp on history and science, too—especially when states unwisely slash or defer student assessments in those areas. Where district leaders notice the high costs of providing some electives, they may assume that the only option is to cut those electives, instead of lowering their costs. That's foolish and counterproductive; if we want children to be college-ready and able to compete internationally, they need much more than just bare-bones basic skills.

**>> Furloughs have the effect of reducing learning time while raising the cost of schooling.** Rather than trying to “do more with less,” some schools simply do less with less. Adopting “Furlough Fridays,” shortening the school year, or trimming the school day will move the U.S. in the opposite direction from other developed countries, where teachers already enjoy fewer days off than the eighteen weeks of leave that are the norm for U.S. teachers.<sup>2</sup> Further, using furloughs to reduce spending is terrible fiscal policy. Rather than adjust escalating salaries, furloughs cut time to trim the budget, which leaves even higher salaries in place for the following year. With total benefits now loaded on fewer days, the total per-hour costs of staff actually jump.

**>> Shortchanging choice options can work to eliminate the most efficient schools.** Some education

<sup>1</sup> See, for example, the working paper *Assessing the Determinants and Implications of Teacher Layoffs*, by Dan Goldhaber and Roddy Theobald, published December 2010 by the Center for Education Data and Research and available at <http://cedr.us/publications.html>.

<sup>2</sup> Typical U.S. teacher contracts are for 36.5 weeks per year and include 2.5 weeks sick and personal days for a total work year of 34 weeks, or 18 weeks time off.

leaders find it tempting to close gaps by pulling funding for charter schools and other forms of choice, including within-district options. Some have tried to deny busing services, hold up required payments, eliminate parent-information efforts, etc. Especially because charter schools typically cost less than traditional public schools and have more nimble budgets, such efforts are not only bad for kids and families but also can squelch promising schooling innovations and make education more expensive for the taxpayer.

### **>> Passing the buck to families widens already-pernicious gaps between haves and have-nots.**

Increasingly, parents are asked to pony-up for sports, music, theater, and other extra-curriculars. This has obvious implications for low-income families but also for families who don't prioritize such extras, and it raises questions about the very nature of free "public" schools. For districts with lower-income students, charging fees is simply not an option. For others, closing gaps by raising new revenues from students doesn't address the basic misalignment between revenues and expenditures—a misalignment that is likely to continue if districts don't find a way to contain their expenditures.

### **Smart Savings**

These alternative approaches seek to turn the budgetary challenge into an education-improvement opportunity by unlocking resources so they can be used differently and by re-orienting the system around effectiveness and efficiency. And, most

importantly, they work to safeguard and even enhance the interests of children. Here are a dozen examples.

**>> Make layoff decisions based on effectiveness.** Many districts may need to let some teachers and other staff go. Though painful, the truth is that American public education has dramatically increased the number of adults employed to the point where there is now one adult for every eight students (and about one *teacher* for every fourteen pupils). Where districts make layoffs, the right way to proceed is to terminate the least effective instructors and other staff first, regardless of the number of years they have spent on the payroll. To be sure, that will include some first- or second-year teachers, who haven't yet gained critical on-the-job experience. But it should also include mid-career teachers and veterans who are no longer getting the job done. Of course, making this crucial change requires a rigorous teacher-evaluation system—something most districts do not have today, but that states could encourage—as well as a new statewide approach to teacher tenure. These changes are needed pronto and indeed are happening in some states (see below for examples).

**>> De-escalate salaries.** Teacher salaries are by far the biggest item in the school budget, so it's hard to imagine closing big budget holes without at least putting the brakes on further increases. And it's not enough to reduce or eliminate cost-of-living adjustments (COLAs), which are often 2 to 4 percent per year; the big cost drivers (amounting to another 3 percent

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per year) are “step increases”—the extra dollars that teachers earn for spending another year in the classroom or amassing a few more academic credits. With record-low teacher attrition, these automatic raises aren’t necessary to retain staff. Other options (which some districts are pursuing) are to freeze pay (versus freezing the schedule), to require “give-backs” (which return a portion one’s salary), or even to roll back the schedule by a few years (say, to the 2008 schedule). Some locales are capping or phasing out the master’s-degree bump and portions of longevity pay. With most contracts allowing either party to reopen negotiations during budget crises, such actions provide quick options to close even large gaps without overhauling programs.

**>> Redesign teacher compensation.** Even better than the quick salary fixes mentioned above would be a top-to-bottom makeover of teacher compensation with an eye toward aligning it with greater productivity and increased student achievement. This would scrap the steps-and-lanes model, which rewards seniority and paper credentials such as graduate degrees, and replace it with a focus on instructional effectiveness and workload. Components might include: a sharper curve to get teachers to maximum salary levels; differential pay for different subjects (e.g., higher pay in core subjects); and greater base pay for effectiveness in student learning and for taking on higher-leverage or more challenging roles (such as mentoring novice teachers, voluntarily tackling larger classes, and working in troubled schools).<sup>3</sup>

**>> Modify employee hours and roles.** An alternative to reducing teacher pay is to expand the work year for instructors, such that they take on longer hours or new duties. Lengthening school days and/or years could reduce costs associated with substitutes, specialist teachers, lunchroom supervisors, aides, tutors, and more—i.e., extra staff who tend to students before and after the regular day and while teachers have release/prep time or undergo professional development. Larger increases in time could even yield more learning hours for students, potentially increasing outcomes.

**>> Utilize technology and community resources thoughtfully.** “Hybrid” school models—where students spend part of the day learning online—are coming to k-12 education. These can be catalysts for greater pupil engagement, individualization, and achievement, and, if organized correctly, opportunities for cost-cutting. Why couldn’t students learn foreign languages via Rosetta Stone, for example, instead of in a traditional classroom? Why couldn’t students take certain electives, such as photography, through low-cost recreation centers or community colleges, instead of making high schools build these into their (more expensive) programs? Receive online tutoring from low-cost college students rather than pricey teachers or aides? Technology also allows schools to “differentiate instruction” in creative ways. For instance, classes can be divided in half, with some students learning online at any given time and the others receiving customized instruction from a first-rate teacher.

<sup>3</sup>For an excellent discussion of these issues, see *Restructuring Teacher Pay to Reward Excellence*, published December 2010 by the National Council on Teacher Quality and available at [www.nctq.org](http://www.nctq.org).

**>> Eliminate unneeded or ineffective aides.** Plenty of research shows that teacher aides—staff who often lack college degrees but are typically funded with federal Title I dollars—rarely add value in terms of student achievement. Many such positions could be cut without negatively impacting student learning—and the federal dollars could be used in more productive ways. Alternatively, some of these aides might be used to “cover” classrooms or computer labs where students are learning online, reducing the need for higher-cost teachers.

**>> Require greater employee contributions for health care.** During the recent health-care-reform debate, we were introduced to the existence of “Cadillac” health-care plans. These are common in public-education, where teachers, administrators, and staff often have access to wide-ranging choices for which they pay almost nothing and which often cover their families, too, both before and after retirement. With health-care costs taking an ever-larger bite out of the school dollar, employees may reasonably be asked to foot more of this cost. Even better would be strategies to rein in the growth in k-12 health-care spending by adopting less-costly and/or better-managed plans. Another possibility is moving to statewide health-insurance pools, which spread risks across a larger population and may also

be better managed and/or less generous, and thus cheaper. Yet another is to offer a cafeteria-style benefits plan, with district contributions capped at a set dollar amount and incentives for workers to use fewer benefits.<sup>4</sup>

**>> Redesign sick leave and stop spending on substitutes.** Creating incentives for teachers to use fewer sick days (say, \$50 for each day not taken) can both create savings while decreasing the number of days when students are taught by substitutes. Likewise, districts could eliminate the policy of “buying back” unused sick leave or vacation time from employees when they retire, or allowing this time to “carry-over” from year to year. Further, districts can eliminate spending on substitutes by assigning non-teaching staff to serve as substitutes some five or ten days a year.<sup>5</sup>

**>> Manage special-education expenses better.** Many districts spend more than one-quarter of their budgets on special education, and that’s quickly heading toward one-third. Yet this part of the budget is often (though inaccurately and unwisely) considered sacrosanct. There are few quick fixes here, but investing in early intervention efforts, strong reading programs, and a clearer focus on cost-effectiveness can yield big savings over time—and without making any changes to current federal law (though that should happen, too!).

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<sup>4</sup>See *The Promise of Cafeteria-Style Benefits for Districts and Teachers*, by Noah Wepman, Marguerite Roza, and Cristina Sepe, published December 2010 by the Center on Reinventing Public Education and available at [www.crpe.org](http://www.crpe.org).

<sup>5</sup>Districts requiring non-teaching staff to serve as substitutes argue that it is good practice to have all staff in classrooms at least a few days a year.

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### **The Role for State Policy: Be Courageous**

The challenge for state policymakers, then, is to make the courageous, education-enhancing changes more feasible and thus more likely, while also explaining the need for these changes to the public. Toward that end, you have two primary tools in your box: getting rid of harmful state policies and adopting proactive ones instead.

#### **Untie the Strings**

Which state policies get in the way of reform-minded districts? Here's a punch list:

##### ***Human-Capital Policies***

**1. End “last hired, first fired” practices.** In many places, layoffs will be unavoidable; it makes no sense for states to force districts to let go of their most junior teachers regardless of effectiveness. “Reduction in force” policies should give superintendents explicit authority to consider individual effectiveness when making termination decisions. In Arizona, for instance, state action prevents districts from using seniority alone as the basis of layoffs.

**2. Remove class-size mandates.** It will be nearly impossible to close large budget gaps without raising class sizes, at least in some situations. States should provide the maximum amount of flexibility here, especially so districts can experiment with targeted and outside-the-box approaches.

**3. Eliminate mandatory salary schedules.** Many states require local districts to adopt salary schedules with certain numbers of “steps and lanes” and to award higher pay for seniority, graduate credit-hours, and other paper credentials. These requisites should be scrapped.

**4. Eliminate state mandates regarding work rules and terms of employment.** Many states specify work rules such as the number of work days in the year and the number of sick days that teachers must receive. Besides being costly, these state-wide policies preclude districts from adopting cost-efficient alternatives, including those that apply to innovative schooling arrangements. This is a clear place to cut.

##### ***Other Regulatory Changes***

**5. Remove “seat time” requirements.** Online learning opens myriad possibilities for innovative instructional models. But to harness its full potential, we need to move to a competency-based approach, whereby students demonstrate that they've mastered standards, and then move on. Seat time metrics, like “Carnegie Units,” are yesterday's poor proxy for actual learning. Other constraints to on-line learning—such as mandated student-teacher ratios—should be curtailed, too.

**6. Merge categorical programs and ease onerous reporting requirements.** These necessitate additional staff

in central and school offices and generally add little value. Policymakers might comb through state laws and regulations to identify outdated reporting requirements that are no longer needed or that can be streamlined and automated or curtailed. States should also seek to combine categorical programs into block grants, as disparate funding streams create administrative costs and tie the hands of local leaders.

### Go on Offense

What state policies could encourage reform-minded districts to make courageous changes?

### *Human-Capital Policies*

**7. Create a rigorous teacher-evaluation system.** If we want to restructure teacher pay or redefine tenure and retention with a strong focus on effectiveness, we need a defensible method of differentiating among individual instructors. States such as Colorado and Tennessee have demonstrated what’s possible on this front, and their approaches should be emulated. Part of the solution must involve redefining tenure so that ineffective teachers can be removed from the classroom.

**8. Pool health-care benefits.** Moving educators to a statewide health-insurance plan might create economies of scale and dramatically lower costs, especially if employees are asked to contribute a fair share to their premiums and co-pays.

**9. Tackle the fiscal viability of teacher pensions.** The first order of business is to accurately project liabilities to help communicate trade-offs for stakeholders. As has been widely documented, school-employee pension systems often have state constitutional protections.<sup>6</sup> Most states can, however, move quickly to eliminate automatic cost escalators, such as COLAs for retiree health plans and pensions. Also open to modification is the magnitude of employee contributions to their pension plans. Lastly, policymakers can allow employees who opt to leave early to take their pension benefits with them. What appears to be a new perk works to eliminate the “golden handcuffs” that keep many teachers in the classroom long after they have burned out, ultimately saving the system money, too. Where more aggressive overhaul of the pension system is an option, policymakers should consider a “cash balance” system.<sup>7</sup>

### *Funding Reform*

**10. Move toward weighted student funding.** These education-finance systems provide per-pupil amounts to local school districts (and ideally to individual schools), with greater levels of funding following students with greater challenges. This allows for greater equity, but also simplifies a state’s funding system and eliminates formulae that provide extra resources for tiny districts, those with declining enrollments, or those that have lost students to charter schools. As a result, weighted student funding can create financial incentives

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<sup>6</sup> See, for example, *The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform*, published February 2010 by the PEW Center for the States and available at <http://www.pewcenteronthestates.org/>; and *Underfunded Teacher Pension Plans: It’s Worse Than You Think*, by Josh Barro and Stuart Buck, published April 2010 by the Manhattan Institute for Policy Research and available at <http://www.manhattan-institute.org/>.

<sup>7</sup> See, for example, *Better Benefits: Reforming Teacher Pensions for a Changing Work Force*, by Chad Aldeman and Andrew J. Rotherham, published August 2010 by Education Sector and available at <http://www.educationsector.org/>.



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for consolidation or at least the sharing of personnel and services across districts, perhaps including superintendents.

**11. Eliminate excess spending on small schools or small districts.** With digital technology reducing the incremental costs of specialized courses, shared back office services, etc., incentives for smaller districts should be such that they either merge or find ways to operate on the same per-student rates. Using the same weighted student formula for small district and their eliminating subsidies creates these appropriate incentives.

**12. Allocate spending for learning-disabled students as a percent of population (vs. on the basis of student identification).** Students identified as having a “learning disability” represent some 5 percent of all pupils (and are most often identified as having difficulty reading). Newer approaches to reading instruction show great promise for decreasing the incidence of learning disabilities, yet current funding streams create a disincentive for adopting such reforms. The problem is that districts currently receive extra funds for each student they identify as learning disabled; they receive no extra funds for intervening early to keep these students from being “learning disabled” in the first place. States should switch this equation.

**13. Limit the length of time that students can be identified as English Language Learners.** Here again, districts often face mixed incentives for serving students with limited English proficiency. Where feasible, states should fund ELL for a limited period after first-time identification, so as not to encourage systems to keep students in ELL programs for many years, with attendant costs to the state.

### *Structural Reforms*

**14. Offer waivers of non-productive state requirements.** Districts routinely complain about state requirements, many of which were put in place long before data on student outcomes were available. Districts should be encouraged to apply for waivers from state requirements, and waivers should be granted as long as student performance doesn’t drop.

**15. Create bankruptcy-like loan provisions.** States with particularly large budget holes might make it more attractive for districts, via loan pools and/or regulatory relief, to declare bankruptcy, or some sort of “financial emergency,” in order to renegotiate collective bargaining agreements, vendor contracts, and all the rest.

### Conclusion

Many states now face budget challenges of historic proportions. Decisions made in the coming months will carry big repercussions for years to come. The simplest course of action is to slash budgets in ways that erode schooling. In this scenario, important reforms are left behind, overall services are diminished, innovations are scrapped, and the system simply does less with less. Worse still, cuts are made in ways that make the system unsustainable for years to come, virtually guaranteeing a multi-year cycle of educational erosion and decay. A more proactive and thoughtful approach has the potential of not only protecting the existing quality of schools, but also setting the stage for the kinds of

reforms not possible in previous years. In this far-reaching scenario, closing budget gaps also has the effect of unlocking commitments, policies, practices, and habits such that available education dollars can be used differently to better serve students.

Such an outcome requires coordination of policy actors at multiple levels, including state and local leaders and organized labor. For state policymakers, the charge is not only to implement the kinds of policy changes listed here, but also to serve as leaders in the dialogue to pave a more productive path for public education.

Are you up to the challenge?