

Education Commentary

Pennywise and Pound Foolish In Education

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Other issues might come and go, but funding of schools is always on the agenda. States are either defending themselves against lawsuits alleging that they are distributing funds inequitably among school districts, or implementing court orders from past litigation. State legislatures and school boards are constantly considering proposals to spend more or less on something, whether teacher salaries, special programs, technology purchases, or new instructional models.

The lawyers who bring suits and the academics who formulate new legal theories constitute a virtual school finance reform industry. The industry's latest product is the "adequacy" lawsuit, where lawyers and judges wrangle over various permutations of resources in order to uncover the mythical dollar figure necessary to meet performance goals.

At the district level, school boards spend the bulk of their time debating incomprehensible budgets with thousands of line items. A typical middle-sized school district we studied manages more than 200,000 line items. As district leaders inevitably consider eliminating some program, organized groups of parents bombard the school board. With news coverage, impassioned student testimonials and elected officials weighing the political consequences of their choices, the process can and often does get ugly.

Though a lot of money is at stake in school finance disputes, the claimants virtually ignore the biggest pot of money available to support schools: current school funding. The \$400 billion already being spent per year are more than 10 times the amounts currently under contention in the courts. As has become evident in recent years, nobody knows exactly how this money is spent, who receives what, or how effective alternative uses of funds are.

School superintendents in Baltimore, Seattle, Oakland and Rochester were fired when their districts unexpectedly ran tens of millions into the red. Keeping track of public education money is extremely difficult. Money comes to school districts from many sources—appropriations for

basic school support and for dozens of special programs ranging from transportation and building maintenance to bilingual education, federal programs, local tax levies and foundation grants. Every donor has its own rules about how money must be used and accounted for.

In the year 2000, we set out to learn exactly where the money goes. We started at the school, counting up the dollars represented by teacher and administrator salaries. Later, we added in centrally controlled programs, using real dollar costs of services to individual schools based on the services they received. To varying degrees, we have now examined spending in ten urban districts.

Our findings demonstrate the pound-foolishness of ignoring current spending in favor of wrangling about small spending increments. For example:

There is little connection between how much money a district receives and how much a particular school gets. In district after district, we found multiple examples where one school received less than half the resources of another. And unlike the variations in spending across districts, these variations within districts have nothing to do with tax base or access to funds. The spending differences among schools within a district have to do with staffing patterns, choices about where particular programs are placed, special staff assignments and other oddities of funding formulas. Taken together, these factors can lead to huge differences in spending from one school to the next and it isn't usually the poor schools that win out. For instance, we found one school that receives over three times the per pupil expenditures of another in the same district, even after taking into account the added spending for the specific needs of students at each school.

Spending differences across schools fly under the radar screen of published district budgets. While most districts now report budgets for each school, these amounts neither represent nor explain the different levels of real-dollar spending at particular schools. This is so for three reasons: first, school budgets don't account for huge differences in teacher salaries between schools that senior teachers prefer and those they avoid;

second, some schools benefit disproportionately from the staff and resources controlled at the district central office; and third, districts don't distinguish between intended differences in school spending (e.g. to support programs for non-English speaking students) and unintended ones.

On teacher salaries, school budgets show the same salary figure for each teacher, despite the fact that some schools are staffed completely with teachers who are the high end of the salary scale and others can hire only rookies. So, where the budget documents in Seattle show one school spending \$3926 per pupil, the schools' perpetually green teachers result in expenditures that amount to \$1000 less per pupil. These real costs never make it into any school budget comparisons.

On centrally controlled expenditures, most districts manage many programs and services centrally, including some programs for gifted children, teacher professional development, psychotherapists and truancy programs. These are often allocated on a squeaky wheel basis, with knowledgeable parents and well-connected principals getting far more than their share. In our studies, allocation of these centrally controlled resources explained more inequality in school spending than any other factor.

On funding for special populations, districts can't now say whether spending differences among schools are caused by these factors, by teacher salaries, or something else. One thing is clear: the amount spent on an individual child, say a non-English speaking high poverty student—varies tremendously within a district depending on what school the child attends.

District officials make allocation decisions in the dark. In six different districts we have reassembled each school's spending figures using relative percents that take into account the needs of the students at each school. We then asked district officials which schools they thought received more than their share and which were shortchanged. Their answers show how little they know about where their own dollars are going. In one case, the school board was convinced they were under-funding middle schools when in fact, these schools received well over the district average.

And yet every day, district leaders make difficult decisions about where to place programs and which line items to add or cut. Even more energy is spent by other concerned stakeholders to influence these decisions. In a recent round of budget cuts in Seattle, the school board was mobbed with teachers, parents and students objecting to the proposed elimination of a \$300,000 program benefiting Latino students in several southeast schools. If only these critics knew that their southeast schools are shortchanged over \$400,000 each year from the use of the salary averaging, they might have changed their message.

As leaders at state and district levels wrestle over formulas for disseminating funds, they miss the one variable that

matters most in the current system. Every state has formulas for disseminating funds to districts and districts typically use staffing formulas to allocate teacher resources to schools. Yet, we have found that the most consistent driver of unintended variations in spending has nothing to do with the complicated mix of data feeding the formulas. Schools that receive more than their share of the funds are simply better at working the system. There are principals that know how to get the best teachers and those that skate through budget cuts. And there are vice principals that know how to get the most from the three psychologists working in the central office. There are parent teacher clubs that make sure that when a grant ends, the grant-funded specialist stays on the district budget. And there are even school board members that manipulate formulas so as to tip the balance to their schools.

With lofty goals to tackle the achievement gap, most districts are unlikely to ever get close under the current system of resource allocation. Other public sector areas have similar struggles, but the problems are particularly complicated in education where school boards are elected and the political forces run deep.

These findings have been big news in public education and are pressing at a time when legislation now holds the schools accountable for student performance. They are fueling a movement toward real-dollar funding for students, with weighting for the disadvantaged. A handful of districts and one state are considering, or have implemented such a system. These systems take a huge step in correcting some of the loopholes outlined here. Weighted student funding would show exactly where the money is going.

This movement could turn school financing on its head, from supporting district-managed programs, with schools kept as extensions of central office control, to direct support for students and schools and real pricing for centrally provided services. At the same time, this funding structure creates a model for public budgeting in other sectors where front line units that deliver services to clients are accountable for performance. A pupil- or client-based funding structure can make the flow of funds transparent and ensure that those responsible for performance also have the freedom to act effectively. The resulting gains in transparency might change the nature of the political discourse from debates about line item program options to a focus on how to weight the various needs of different clients. With this discussion comes the promise of closing the gaps in local public service quality between the privileged and the disadvantaged.

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