

THE BROOKINGS INSTITUTION

FACING THE FUTURE: FINANCING PUBLIC SCHOOLS

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P R O C E E D I N G S

MR. BERUBE: Thanks for being here. My name is Alan Berube. I'm the Research Director for the Metropolitan Policy Program here at Brookings.

So, on behalf of our program, the Brown Center on Education Policy, and everybody at Brookings, I want to welcome you to this briefing and discussion on a new report published by the Center for Reinventing Public Education at the University of Washington, entitled "Facing the Future: Financing Productive Schools."

And there are copies of the report on the front table, if you didn't receive one.

So, a little context: a few months ago, Paul Hill reached out to us at the Metro Program, and he said, "I got this interesting little report. It's based on a six-year, \$6 million research effort; and it's got a few things to say about the way we pay for public schools in America, so what do you think about that?"

And admittedly, we're not experts in public school finance at the Metro Program, but we do spend a good bit of our time talking with city, county, metro

leaders across the country about how to build healthy cities and healthy regions.

And time after time, as we do that, school quality surfaces as a key issue, if not the key issue, from their perspective for how to grow a stronger economy, for attracting and retaining workers and firms, for reducing inequality and building the middle-class, and for creating more vital places that limit sprawl and segregation.

So we tend to follow what the innovative cities in particular are doing to improve public school quality, experimenting with new models of schools and ways of managing them, opening up their systems to high-performance charter management organizations, offering new teacher pay incentives tied to student performance, and using data and metrics to improve decision-making by parents and administrators.

And frankly, it's great from our perspective to see so many mayors so invested in education as a key strategy for urban revitalization versus, say, other things they might focus on, like building stadiums and convention centers. Some cities do both.

But we're happy to see education rising up the municipal agenda.

But when I read Paul and Marguerite's report and when some of my colleagues did, it really became clear to us how much of the systems that even these best innovators run, how much is actually locked in, so to speak, and at odds with the culture that I think they're seeking to promote: funding what works, closing the achievement gap, and being accountable for results.

And for those uninitiated in and, frankly, somewhat intimidated by the subject of school finance, this report is really, I think, a revelation.

It shows that if you ask some pretty simple questions about how we spend our money, you get some strange and sometimes disturbing answers. And it suggests that if we can agree on some pretty basic goals for what we want out of our public education system, we might do things radically differently.

These are interesting times, of course, to be here wrestling with these questions. We're about 50 days away from a new administration taking office here in Washington.

So I hope that today will give us a chance to think about the implications of this report for policy at all levels of our federalist system.

So this afternoon we're going to hear first from Paul Hill and Marguerite Roza on what they found and what it means.

And so I'll briefly introduce all of the speakers and the panelists now. You'll find their full bios in their packets -- in your packets.

Paul and Marguerite will do a presentation and a panel discussion will follow.

So Paul Hill, as most of you know, he's the John and Marguerite Corbally Professor at the University of Washington; the Director of the Center for Reinventing Public Education there.

He's also a longtime non-resident Senior Fellow at Brookings. So welcome back, Paul. He's written a series of books published by Brookings Press for mayors and community leaders who are trying to transform urban public school systems.

And before he was at the University, he spent many productive years here in the other Washington at the RAND Corporation.

And his colleague, Marguerite Roza, is a Research Associate Professor at the University of Washington's College of Education, a co-author of this report. She focuses on quantitative policy analysis there, particularly in the area of education finance.

And then she'll describe -- she was really the forensic expert behind many of the results that are detailed in the report.

And prior to joining the University faculty, Marguerite was a lieutenant in the U.S. Navy, and as somebody with an undergraduate degree in chemical engineering, I had a little bit of a post-traumatic flashback when I saw that she taught thermodynamics at the Naval Nuclear Power School.

So we're happy to have Marguerite here today as well.

Following their presentation, Russ Whitehurst, who is Senior Fellow and incoming Director of Brookings' Brown Center on Education Policy, will moderate a discussion with our esteemed group of panelists.

Russ, until recently, was Director of the Institute of Education Sciences at the Department of

Education, where he spearheaded a move towards scientifically based rigorous research on the effectiveness of educational programs and practices.

He was formerly an Assistant Secretary at the Department, a university-based researcher, and himself a developer of innovative programs for school readiness and Internet-based college instruction.

And joining Russ on the panel will be Jane Hannaway, a principal research associate at the Urban Institute; Director of the Education Policy Center there.

She's the principal investigator for the CALDER Project, which focuses on longitudinal education research. And previously, she served on the faculty at Columbia, Princeton, and Harvard, and is by training an organizational sociologist, which, I think, will yield some helpful insights on the topic at hand today.

Susan Sclafani is Managing Director at the Chartwell Education Group, where she works on K through 12 improvement strategies at all levels of government and internationally.

And previously, she was Assistant Secretary for Vocational and Adult Education at the Department of Education and counselor to Secretary Rod Paige; and prior to that, was Chief Academic Officer of the Houston Independent School District, the largest in Texas. So she's seen these finance issues really from the inside.

And so, too, has our final panelist, Robert Gordon, a Senior Fellow at the Center for American Progress, where he focuses on education and domestic policy.

In 2006 and 2007, though, Robert was a Senior Advisor to Chancellor Joel Kline in the New York City Department of Education, where he led an overhaul of the city's multi-billion dollar budgeting system.

He's done several other impressive things that, in the interest of time, I'll leave you to read about in the packets. But we look forward to his comments and those of all of our panelists. And thank you all for being with us.

So with that, I'm going to hand it over to Marguerite, who will begin the presentation. Thanks.

DR. ROZA: Thanks, Alan. And thanks to you all for coming to talk about this, we think, exciting topic of financing productive schools.

And I'll tell you that early on, in our discussions with the Gates Foundation came around because of superintendents who were saying there's a lot of money in this system that I have, but we can't seem to unlock it. And that's exactly what spurred this five-year, \$5 million project, which included some 30 research projects, not all of which we did. We had a lot of researchers involved in those. We incorporated a lot of top scholars in several fields.

And this report here pulls all these findings together, and we hope charts out a course for an improved finance system.

So the five years centered on this particular question: how can states and localities spend money more effectively to promote high achievement for all students? A very focused question, but a very much an all encompassing question, too.

And here's what we found. Due to the mandates of multiple funding sources, there are four

major problems with education finance. It's haphazard and contradictory and centered around politics, not centered around students. So what drives money is the politics, not the students. It's opaque and under-examined, and we -- what we mean by that is it's not transparent. We're not using financial indicators on the things that really matter. It's over specified and inefficient. That means too many layers in the system are saying how the money should be used, and the result is this inefficiency.

And, in effect, what we have is a disconnect between the spending outcomes. And that's the problem, is how can we harness this money and drive it more toward the outcomes that we're seeking.

So because of these findings -- and I'm doing to go through and tell you a little bit more about those, so you don't have to completely commit those to memory just yet -- but because we have a system where the money is not connected to the outcomes, were not able to answer the question that so many people are posing, so many researchers and policy analysts are posing these days, which is how much should we be spending.

Well, in a system where the money is not connected to the outcomes, you can't answer how much should we be spending to get these outcomes, because they're not related.

So what we've done here is we've used all these findings to propose a system that's based on transparency and continuous improvement. Add, when I'm done talking about these four issues above, I'm going to turn it over to Paul Hill, who's going to sort of lay out that plan.

So what did we do? We did these 30 studies, and what's different about this study, I think, than most school finance work is that we didn't focus on revenue generation -- who should be paying, is the taxes, is it lotteries, isn't property taxes, sales taxes; is it states, is it districts?

We did instead was look at how the money flows down through the system, how it goes with all the different levels of federal and the state and the districts and schools, all the way down to classrooms.

And we did that by looking deep into four states, both top-down and bottom-up. We went into schools and we looked at what was going on in schools,

what we were paying for, and then did what this forensic accounting to figure out how and why that happened. How is it that we're paying for this? And how is it that the money I used this way? Whose decisions were that? And what were the price tags attached to the things that we're paying for?

And, where possible, we looked at where we can -- where -- what we could learn from places where the structure is different, where schools have control of their money, and that kind of thing.

And what we did was asked a panel of experts to mull over these five years worth of findings and in the context of their own research and their own experiences.

And you may know that we called this the working group came out with a report not inconsistent with ours, but not quite as clearly mapped out as what we've done.

So we used their findings to incorporate into this larger final report.

And what we found? We found that spending is haphazard and contradictory. And I'm going to put up this chart here -- at first, you'll think no, it

isn't. This looks great. There's a federal program called Title I, where money is allocated on behalf of poor students. The money is intended to give poor students a leg up.

And what we've done here in this particular district is line up the schools based on poverty. So all the schools at the top have the most poor children, and the schools at the bottom have the least percentage of poor children.

And you can see that the federal money is concentrated on the most poor kids. It looks great, and that's wonderful.

But now, what we did was we layered on the state money -- this is a Texas district -- the state money that's targeted toward poor kids -- and you can see it reverses the effect of the federal money.

So what we have here are different allocations from different levels of government working at cross purposes. The state funds disproportionately go to students that -- to poor students that are in schools with fewer poor students.

So you can see these kinds of findings that we found were part of these conclusions. If we go on

to the next one, which was that spending is driven by politics and not by students.

We hear a lot of language about how we should be -- we're trying to use money to target poor and high-need students. And this is a study done by the Public Policy Institute of California, which we pulled in, because it so clearly shows the kind of patterns we're finding inside districts, which is that if you look at the flexible money that districts have -- I don't mean flexible; I mean non-targeted money.

So you take off money that's specifically earmarked for, like, Title I, the federal money for poor kids, and you just look at the non-targeted money, what you find out here in this first column is that the low-poverty students, or the wealthier students, have more teachers per thousand students. They have higher teacher salaries. They get a larger share of extras, the extra spending from other districts sources to result in a higher overall allocation from these flexible spending sources.

So the opposite is happening, if we say that we're looking for poor -- money to follow poor kids.

So here's another finding that we have, which is that spending is opaque and under-examined. One of the things -- and this falls under the category of our forensic accounting analysis -- which is that we went back into high schools, and we looked at every single classroom. And we attached a price tag to it. How much does this classroom cost per student, you know, this math class or this ceramics class or this -- we even did this with services like basketball and photography and cheerleading and that kind of thing.

And what we did was we took these prices, and we separated them out based on the class type, and what you can't see very well are the actual prices, but the remedial classes are all the way to the left; then there's a regular and then international baccalaureate, and on the right, you have honors and AP classes.

And so what does it cost districts to deliver these different courses? We're spending more per pupil per honors and AP classes, \$1,300 and \$1,600 per pupil, versus remedial and regular classes -- the exact opposite of what you normally hear about when

you hear about trying to drive more funds down to the students that are struggling.

So and here the problem is that if you don't go in and do this in a kind of a forensic accounting, you would never be able to get this data. It's not in any of our accounting systems. It's not in any of the compliance stuff that districts have to report to anybody. This is stuff that we went and dug up, because we thought it was relevant.

And if district leaders don't have this kind of information, they can't use it to guide their allocations.

Next and last we found that spending is over-specified; right. There's nothing on this slide just yet. It's for a reason. Paul is looking a little worried up there.

Spending is over- specified and inefficient, and before I put up a chart here, I wanted to tell you an example of what we meant by this. In Georgia, the state found some data that graduation coaches, which is a title they gave to a person who worked at high schools to try to get kids to stay in school and

actually graduate, that that was having a really great effect on a couple of schools.

So the state made an allocation to every high school for a graduation coach in the state. And it's this sort of over specified allocation that is part of the problem.

For one, in Georgia, that concentrates that allocation in per-pupil terms. It's a higher amount to smaller schools, where there are fewer students. And yet, the most poor schools are often the largest ones, the largest high schools.

So you've disproportionately allocated your money there. But also it's an inefficient allocation, because not every school in Georgia has a problem with graduation, nor is every school in Georgia able to capitalize on this idea of a graduation coach, which is maybe dependent on being able to hire this great graduation coach.

So it's those sort of problems that create this -- create these restrictions on districts when they go to use money.

And so what we did was we went and tried to figure out if schools had control over their money,

would they spend their money differently. And it turns out that yes, there's some evidence to suggest that schools would use the money differently.

Here we've lined up schools based on the amount of flexibility they have to spend their money. All the way to the left are the schools with the most freedom. And all the way to the right are centralized schools in centralized districts that have the least amount of freedom.

And what we found is a persistent trade-off between teacher salaries and the number of teachers that were hired, which suggests that if schools were able to control their money, there might be different spending patterns.

So and so what this tells us is that the state and district restrictions imposed on schools do have an effect, which is a question that's often asked about whether or not we should lift restrictions.

So what does all of this mean? All of this means is, as I said at the beginning, that there's a disconnect between this relationship between spending and outcomes. If you say on the left is here where we say what are our objectives for student outcomes, if

our objective is to close the achievement gap between whites and minorities, the reality evidence in school spending is that, on average, we are employing less expensive teachers to teach minority students than whites, sort of the opposite of what you would expect if that were your outcome.

On the second row, give poor students a leg up. Well, we're spending a greater share of our unrestricted funds on non-poor students than on poor, sort of the opposite again.

And the third, to get students up to speed in core subjects, here again I didn't put up a chart on this, but schools are spending more per-pupil per elective courses than in core subjects. This is another finding that we found, and it's in the report.

So divert resources to help the lower performers. Again, we're spending more on AP and honors students than we are on the remedial and regular students. So that's not true, either.

And if the idea was to prepare students for a changing economy -- and it's another chart I didn't put up -- but we're finding that were spending more per participation per pupil in classes like ceramics

and in participating in things like basketball and cheerleading than in math or science.

So our finance system, as you can see, is very much disconnected with what our objectives are for student outcomes.

And on that note, I'm going to turn it over to Paul, who's going to show you how we pulled this together to propose an alternative.

DR. HILL: I'll see if I can panic Marguerite about the way I do the slides.

So what we found is not that it's obvious what's to fix this problem. We found fundamental problems that get in the way of a rational solution. And people will remember that have paid any attention to school finance that there are a lot of brand name solutions around: just give more money.

The problem with that is that we've already seen the more money given leads to a more expensive system of the kind we've got. So it's not going to resolve the problems Marguerite just talked about.

For decades, there have been solutions proposed which are equity lawsuits to increase spending and low-income districts and that to reduce

inequities in spending between one district and another in a state. What we found is that that doesn't actually affect the patterns we talked about; that though districts have gotten different amounts of funding, still, districts still use their funding as haphazardly at higher levels as they did before.

There are new proposal out that people heard about called adequacy, which is to calculate what is needed to educate a given class of children and then spend it, and there are two big problems with that.

One of them is in the absence of serious variation and serious experimentation with new ways of using money you can't know what the answer to that is.

And secondly, the calculations that have been done basically assume the system we have, which is so inefficient it will be left intact so that money will be added on. And that's led to estimates of how much money is needed for adequate expenditure that differ by factors of more than 10.

And finally, state legislators have got their own solution, which is they see money being wrapped up by the same interests, by the collective bargaining agreement, by bureaucracy. They don't want

that to happen anymore, and so they provide new funds with new strings, so they'll require a new program, a new use.

And what's happened over time is that that's created even a worse problem. It's made all the complexities and all the opaqueness and so on that much worse. In fact, we studied districts that have - - that have to keep as many as 200,000 separate accounts in their district offices, and nobody knows where the money is.

So this is -- we're trying to think about what are the options to get out of the situation that Marguerite has just described. And on this chart, basically the main observation of the chart is that in the public sector, funding always comes with some kind of rule. And today, it comes with particular rules. If you look at the upper left-hand quadrant, states and localities provide funds with mandates attached to them.

And furthermore, they regulate the use the funds and even the reporting of the funds so that they end up standardizing things like class size, administrative structures, teacher salaries.

So the status quote that Marguerite described is in the upper left-hand quadrant. You can imagine a sort of fix to some of this by requiring that money follow children, and so children get the same amount spent on them no matter where. That would be more transparent and possibly not so much at variance with the objectives of helping the least advantaged.

And so in the bottom left the possibility of equal funding, but the same system, which my proposition would be that it would not really change the situation we see in terms of creating variations so we can see what's possible.

On the upper right-hand quadrant is another possibility, which is to keep funding connected to particular purposes to teachers or administrative structures, but allow some experimentation at the district level by letting them to start particular kinds of variation -- experiment with school A versus school B, but use the money in defined ways.

And again, that may be an improvement over the current system. The problem is that where we are now, where we don't have enough variation in the way

we use money. We're not open enough to innovation to know how well it could be used. We will probably never get very far with planned variation.

The bottom right is the concept I want to talk to you about more in detail of continuous improvement, which is creating a funding system where funds are flexible enough and where the requirements for performance are strong enough to drive an effort toward continuous improvement. And I'll define that on the next chart.

Now my RAND training would tell me that this requires a cute graphic. We don't have one.

So basically the idea of continuous improvement is very straightforward. A system of finance based on continuous improvement would be one where performance of schools was constantly monitored, the results were analyzed to find high performers and low performers, that there'd be an effort at the district level or the state level to identify outliers, and to abandon low performers and replace them either with schools that were already performing well or with new models that had been generated by

R&D, and constantly search for promising options, and then repeat.

So a continuous improvement system in a simplest concept is a system that prunes the bottom all the time. It is always looking via R&D for better options to replace the bottom schools with, and never stops. So that a school that was once in the middle might end up someday in the bottom and be replaced.

Our recommendations are on this very busy chart. Basically, to go down the first column, we talk about for basic idea is to fuel a continuous improvement system of school finance.

First of all, make sure you can move money and people from less to more productive uses. And I'll talk to you more about what that means in policy.

Second, to make sure states and localities are in a position to make fair comparisons of existing and alternative schools.

Third, create very strong incentives for innovation so that people with new ideas about how to use money, how to use teachers, how to use technology, how to trade off between teachers and technology, all

that, that there's an open door to them, and they can come in and get a chance to prove themselves.

And finally, institute a system of accountability that's all based on performance; that is, schools are sustained, stopped, helped, started all on the basis of performance. And the report is more complete than this is, but what we have now is the opposite kind of accountability.

Everything is based on the requirement that certain uses of funds be demonstrated. It has nothing to do with performance.

So how would we get that? And the substance of that is in the last chapter. I guess the most important point about the first row, which is easy flow of money is to make sure you don't spend money on things whose value -- sorry -- you don't require spending money on things whose value needs to be demonstrated.

So the core problem we have in school finance is we allocate money for administrative structures -- so many people per school, so many people in the central office. We allocate money for teacher salaries, so much of a bump to get a masters

degree. We say class sizes should be a certain size, no smaller, no larger.

And actually there's no empirical warrant for any of those particular uses. There is a reason to think you want to have teachers; you want to have a curriculum. But exactly how to combine those and especially today with lots of technology delivery systems possible, why would you want to exclude uses of money for those things with no evidence.

So the idea is not to fund uses of money whose value needs to be proven, but to fund the one thing you're sure you have to put money on, which is students.

So fund students. Account for the use of funds all the way down to the school, all the way down to the classroom so that it's clear that the money allocated by the state or the locality for use by a student is actually spent on him or her.

And then, make sure that money can move. And in the report, we talk about it's possible that a choice system could do this as teachers and parents expressed preferences. It could also be done, at least in part, by an administrative system that

tracked performance and opened and closed schools and gave people new opportunities.

Second big point on the second row: states are now moving toward creating the data systems and analytical capacities they would need, but they're a long way from having it all -- longitudinal records on every student, knowing every student's test score every year, and knowing what teacher taught the student, what class they were in, what program they experienced. So all these things can be analyzed and find outliers.

And then do rigorous comparison of all factors of spending on the basis of cost effectiveness, test scores, other outcomes, like credit accumulation, graduation, success at the next level of education.

Then create incentives for innovation. States would be mainly in the position of encouraging unprecedented use of funds using technology. New mixes of teachers. New times of day experimentation with non-classroom-based approaches for kids who don't do well in classrooms and the like.

And basically, the key point is the accountability system and the whole system needs to be neutral between one use of funds and another.

So it's not a system that prefers existing schools over old. It prefers charter schools over existing schools. They're all on the same basis.

And then performance-based accountability basically redefines the roles of districts and states. The district role is to do nothing but maintain -- but run a continuous improvement system. And that's a whole -- we can talk about what that implies, but it's a profound change from what they do.

The same with the state -- that we talk about the ways -- alternately if you're serious about performance-based accountability controlled at the district level, districts have to be accountable for whether they do it. And we propose ways that the states could hold districts accountable as well.

So the conclusions are states have a fundamental choice. They can continue funding public education the way they do, but they will never answer the question that all governors and legislators claim

so desperately to want to have answered, which is how much can we spend, and how can we spend it.

Until it's possible to create basically a competitive situation where lots of different uses are tried and the best uses are found empirically, than never you will be able to answer that question.

Governors and legislatures can position their states effectively by doing things that are on the chart. Student-based funding is the core. Link data, which states are working toward, but there is political opposition to it, because the teachers don't want to be in the linked data system. They have to be.

Serious encouragement of innovation. Outside the box uses of time and people. And finally, a serious accountability system.

As we thought about it, it's clear that Title I money in particular needs to follow the child as well, and we will make some proposals about that. But it would not be difficult for districts -- for the feds to allocate money to states and districts, but require them to identify individual beneficiaries whom then the money would follow.

And finally, school districts need to manage for performance, not compliance, which is the whole point of the accountability conversation.

The last thing I want to say I'm very much grateful to the Metropolitan Policy Program for sponsoring this.

And we think this is metropolitan policy, just as Alan suggested; that interestingly we've cast this particularly for states, because states are the funding agency. They're the ones that created the mess we have, and they did it not because they were evil, but because they did it a little bit at a time.

But this is probably too big a bite for most states to take. And what's interesting is that districts are starting to take the bite. New York City has done it. Washington may be moving toward it. New Orleans may or not be, but there are lots of districts that have understood even to maintain themselves as competitors in a marketplace for children, they have to do something like this to become -- put in a continuous improvement program.

So ultimately, though this is targeted at the states, the message may be more immediately relevant to districts. Thank you.

(Applause)

MR. BERUBE: Yeah. Thanks to Paul, and I just want to invite the panelists up now, and, as I said, Russ Whitehurst is going to, I think, offer a few have his own comments, and then moderate a discussion with the other members of the panel, after which we'll move to some Q&A with the audience. Want to leave sufficient time for that.

DR. WHITEHURST: We're waiting for audio amplification. Well, thanks very much for being here this afternoon. We've just heard a very wide-ranging presentation. It touches on many issues.

I wanted to introduce a couple more in case there weren't enough for you to consider already.

One is the kind of absence of an international perspective in what we've heard. And there are a number of places where an international perspective, I think, would be useful. One is just on the expenditure side you've heard that we spend a lot.

You get a sense of how much if you look at the OECD data.

For the primary grades, the U.S. is an outlier. Only Luxembourg spends more than we do. And our outlier position has been going up every year.

So we're spending a lot. On international assessments, our results are mediocre at best. So we're spending a lot. We're getting mediocre results.

There are data in this country that suggest that maybe it would be problematic to get the results up based on what we know now, but it is possible to do what we're currently doing more efficiently.

I've recently been spending a fair amount of time on the research with respect to voucher -- vouchers for kids. In one take away from that research is there aren't -- there isn't much to show in the way of differential academic outcomes for kids who get vouchers to go to private schools -- low-income kids.

And that I think is generally true. The D.C. Choice evaluation here in Washington has, to date, not shown any differences in academic achievement.

But it is worth noting that there are dramatic differences in expenditure so that the average tuition charged by the private schools here in the District who accepted low-income students under the D.C. voucher program was about \$5,500 a year.

The average per-pupil expenditure in the D.C. Public Schools is about three times that.

And so, it is possible to deliver academic services that keep kids at least where they are now and spend less money.

What we need, of course, is we need to be effective and efficient, and were not either at this point in time. And the question is how are we going to get there. And I think the point made vividly by the paper that is the basis for the presentation today is we can't possibly get there unless we know what we're spending on what.

And without a system that tracks that, it's just murk, and we can't cut through it to find out anything.

So with that as a little background, I want to turn to our distinguished discussants today, starting with Jane Hannaway just to my left.

One of the points, Jane, that's made is that if we had linked data systems, we would be able to have a fair accounting of what works and what doesn't. My bias is it's a lot harder than just having the data systems. But you're an expert on this.

Jane runs a center that focuses on longitudinal state data to answer questions about effectiveness. So I just wondered what your thoughts were about the mechanisms proposed in the paper for collecting and using data to figure out what works in a system that's driven almost entirely by an accountability system and continuous improvement that must be derived from that data system.

DR. HANNAWAY: Yeah. This is, in part, a puff question, of course, for me, and Russ is talking about CALDER, the National Center for Analysis of Longitudinal Data in Education Research.

This was funded when Russ was Director of IES. So he's been following our work.

We just had a conference last week, and Susan is on our board, where we were confronting some of the technical issues associated with working with

these longitudinal data. And they are indeed hurdles to be cleared.

What we were focusing on in particular was value-added measures of teachers. Teachers, I think, are arguably, and there is evidence to show the most important in-school factor affecting student achievement, number one.

Number two, there's huge variability across teachers and how productive they are, a three to one ratio in terms of teachers who are at the low end of the distribution and teachers at the high-end of the distribution.

So ideally, you would want to link your finance systems to be more productive inputs, the more productive teachers. Determining which of those teachers are indeed the most productive ones is a difficult technical task that we're working on. I think the bottom line, where we are right now, is that we can estimate these differences fairly well, not perfectly. But the information that can be produced is new information that can be brought together to indeed improve the system.

DR. WHITEHURST: Well, I think we're getting part of the way there on teachers. I think one of the issues for me is if you have districts with linked data trying to decide which of their many innovations might be driving performance, that just is a technically difficult job, even when you bring to bear the highest level capacity.

And so where is the capacity to support the discovery process in terms of which of the innovations that are going to be encouraged by the system that Paul recommends? Which of those innovations are working? And how are you going to know that unless there's a capacity at the district level to derive that kind of information?

I'm not sure that it is.

DR. HANNAWAY: I think it's emerging. I don't think it's there yet, and again it's a difficult task, partly because a lot of innovations are not stable, so you have basically a treatment. But that treatment involves overtime.

And when you're working in real schools and in real time, you adapt the treatment to which you think is working best.

Then when you go back out to evaluate it and look for impact, you could be, you know, mixing together oranges and apples, because the nature of the treatment has changed over time.

So it's a very difficult task. But again, I think these data systems can provide information. They may not be definitive, but they can provide information about what appears to be working and what doesn't appear to be working.

DR. WHITEHURST: Thank you. I'm going to turn to Susan Sclafani. Susan has worn many hats. The one I want her to put on her head for the moment is the hat she wore as the Chief Academic Officer in the Houston Independent School District. It was a district that was known for using data and was committed to the process of continuous improvement.

I found there's often a gap between the kind of policy prescriptions that policy wonks put forward and the reality on the ground of running schools.

So I wondered if, Susan, you'd be willing to talk about the general processes that have been discussed and presented today in light of your own

practical experience in running a large urban district.

DR. SCLAFANI: I'd be happy to. I think that I'm in general agreement with the recommendations that Paul and Marguerite are making here, but with the caveat that practice is so much more complex than theory.

And so I would have to say that, you know, when we look at things like having funding go to areas that are effective, the first question I ask is, how do you identify what's effective?

We in Texas had a testing system that started with very minimal skills, moved to slightly less minimal skills, but frankly, you know, kids singled out very easily. So, yes, you could tell whether the very lowest performing children were moving up, but that's all you could tell.

So what was an effective practice for bringing up the lowest performing turned out to be an ineffective practice to try and get those children who were already at that level before they started the year up to a higher level.

So, you know, one of the questions I would ask is, do we have the kind of assessment systems that we need in order to determine what is effective practice? Because if we're going to link the data on outcomes, which unfortunately is almost entirely performance assessments, and those assessments, as was clearly stated in last week's conference, are so unstable, how in the world do we know whether, in fact, this is an appropriate practice, and effective practice or not?

So that's my first concern.

My second concern is that in looking at this, when we talk about making sure that all of the dollars go to the lowest performing students and worry about dollars going to the higher performing students -- I -- using one of my international comparisons with what I've seen in China, for example, is that we've got to have two strategies. We've got to have a mass strategy and an elite strategy.

So, while, yes, I'm concerned that \$1,660 is being spent on each student in AP versus less than \$800 for each student in a core course, we have to figure out how to ensure that the children who can

soar past the basic kinds of things that we're expecting kids to do can, in fact, get there.

And so, I don't want us to pit one against the other, and I see that's frankly one of the complaints people have made about No Child Left Behind, which, of course, is dear to my heart, had the right motives but ended up with unintended consequences that meant that we neglected our gifted kids in order to put more money to the lowest performing whose scores were going to be up on the scoreboard.

So I think that there are a number of areas where we've got a challenge.

And the third area I would say is the issue of capacity. I think that we don't realize how little capacity there is in the lower performing school districts. You know, these are not people who are bad people. These are people who don't know how to do it better.

And, in some cases, it's an attitudinal thing of teachers believing that low-income kids can't be high performers; in some cases, it's student attitudes that say I don't have the math gene or the

science gene, so I can't do this rather than understanding, as Asian kids do, that no, no, it's how hard you work. That's what's going to determine how well you are.

So I think that we've got some capacity issues throughout the system that have to be addressed if we're going to turn things around.

DR. WHITEHURST: I want to ask you to address another issue, and in light of your international experience, does the system that is being proposed here, which I would characterize as a system in which you've got 100,000 separate schools innovating. They get money. They're held accountable, but they can do what they want in the schools.

And so you've got kind of a bubble up process of increasing effectiveness. I mean, how does that compare with the systems with whom we compare ourselves? Does Singapore have such a system in place? Does Finland have such a system in place?

I think of these international systems as more top-down, more standardized, were run by the ministries of education.

DR. SCLAFANI: You're right in Singapore, but you're wrong in Finland.

DR. WHITEHURST: Okay.

DR. SCLAFANI: One of the fascinating things is that Finland says the most important thing is to have excellent teachers.

And so, you have to graduate from college and apply to get into their two-year teacher program, master's degree program. They take, like, 12 percent of the elementary school applicants. They take about 22 percent of the secondary school applicants.

They train them very well for two years. They send them out to the schools and the schools are indeed in total control of curriculum, of assessment, of their daily activities.

And the assumption is that really good people working together will create excellence. And, as we've seen on the PISA results, it seems to be the case. When they do only random selections of students in their national testing -- they never test all students in anything -- their assessments then help them make recommendations about curriculum, but there are no mandates.

Singapore, on the other hand, is much more focused on a process that ensures that all schools will work on continuous improvement. So, in that sense, it certainly is continuous improvement.

But, again, on this issue of capacity, they have an evaluation system for their teachers that is collegial, but rigorous. So they're always looking at teacher strengths, teacher weaknesses, how the teacher strengths can enable others at the school to get better, and how the weaknesses can be improved by working collaboratively or doing professional development.

So it's a cycle of continuous improvement that puts a lot of pressure on teachers psychologically in the sense that they know they have to get better, because the schools simply won't tolerate not getting better. But it certainly is much more systemic system than anything that we have.

DR. WHITEHURST: And I think one of the lessons from inspecting what goes on internationally is that there's not one way to get there. Singapore is very different from --

DR. SCLAFANI: Right.

DR. WHITEHURST: -- from Finland.

DR. SCLAFANI: Absolutely.

DR. WHITEHURST: Robert.

DR. ROZA: Both have highly selective teachers; right?

DR. SCLAFANI: Absolutely.

DR. WHITEHURST: That's right.

DR. SCLAFANI: That's right. That's the thing they have in common. You have to be in the top third of the graduating class to become a teacher in Singapore in the top 15, 13 to 25 percent in Finland. Yeah. It's something we could learn a lot from.

DR. WHITEHURST: Well, and then the question, though, is how his salary connected with that?

DR. SCLAFANI: And culture.

DR. WHITEHURST: We saw some graphs today suggesting that when schools have flexibility, they spend less money on teacher salaries than when requirements are imposed by the state. And yet, we know from work and labor markets that ultimately the quality of the teaching workforce overall is going to

be, in part, a function of what the salary rewards are for entering the profession.

So I think there are some conundrums here as we -- some trade-offs.

DR. SCLAFANI: But, you know, I think there's a level of salary, and it's, you know, part of "The Tough Choices or Tough Times." The Commission on the Skills of the American Workforce study interviewed students and said, you know, if we could make \$100,000, \$110,000, then you'd get the best and the brightest going into education. You're not going to get them for a top salary of \$65,000 because they can't offer their children what they could offer them if they went into the private sector.

DR. WHITEHURST: Thank you. Our third discussant, Robert Gordon, has also worn several hats. And I'm going to ask a two-part question that I see as relating to two very different roles. The first is your practical experience of New York City and trying to design a budget system. And how does that practical experience inform the discussion today in terms of ways to go for continuous improvement?

And the other is at the national policy level. Paul mentioned briefly Title I, but really the document, the paper, that we're looking at today is almost silent about federal policy. We've got the Elementary Education Act up for reauthorization, aka No Child Left Behind.

We have a new administration in town. The feds make policy in education. They have in the last eight years.

So what -- you know, if you were making policy recommendations on education, would you have any with respect to Title I in light of the issues that were raised in the paper today?

DR. GORDON: Yeah. Great. Thanks for asking. I should first say if you read blogs and such, I'm a member of the Obama, one of the Obama policy transition task forces, which I mention only for the purpose of saying that everything I'm about to say now is just me talking, and in no way, shape, or form representative of any official positions of anyone other than me with my personal hat on.

So I think when you think about federal policy, one of the tensions that you see right away is

the tension between sort of two sides of Marguerite's presentation -- one about equity, and one about flexibility.

Her first few slides made this very powerful case that not withstanding what Title I is supposed to be, we see lots of inequity at the local level.

And the second part of the presentation made the case that there's not much flexibility at the local level either.

I think one of the things you could say looking at Title I, and, for anyone who's interested, I have a little paper about this that you can find on the CAP Web site, but I think one of the things you can say about Title I today is that it does not do a great job on either the equity front or the flexibility front, which is to say there's a strong stated commitment to equity, but there's a lot of evidence that we're not doing a great job either when we look at an inter-district level within states -- and Marguerite has done work on this; lots of folks have done work just looking at inequities I should say at the inter-state level, at the inter-district level, or at the intra-district level.

There's language in Title I about requiring that districts provide comparable funding with their own dollars or that states provide comparable funding. But the language is loose enough that it's not tremendously meaningful.

And on the other side, if you think about flexibility, Title I imposes significant burdens on districts that fall on Title -- because of Title I, there are requirements to show that funding supplements but doesn't supplant state and local dollars, that there's some maintenance of effort.

And you have -- one of the things that was most striking to me when I worked in New York is just that you have in districts you have a lot of people whose job is to make sure that cities are complying with the requirements of Title I.

And it's important to give those their due. Those requirements exist because when Title I came into being, they said you should spend this money on poor kids. And districts just didn't. They spent it on whoever they wanted to spend it on, and you had lots of sort of sorry history around where the dollars got spent.

And, as a result, there were compliance requirements put in. What you -- what we have to ask ourselves now is just whether we couldn't do a better job in thinking about this balance, because it seems like what we have now is a statute that speaks formally to equity, but doesn't do a great job. And then, to the extent we're looking for flexibility, it actually tends to tie districts in knots.

My little bit of local experience on this was that when I worked in New York City, we worked on initiative that Marguerite was actually an adviser to us, but we -- I think we're moving in the direction that the presentation today talked about, which is to say trying to drive more dollars to the school level, trying to drive them in a more equitable way, and trying to give schools more flexibility and eliminate categorical requirements.

And one of the problems we had the perception that if we did this -- and to move away from a staffing model of funding and toward a student-based model.

One of the problems we had was the fear that, as we did this, we would somehow run afoul of

Title I, because the way that comparability gets calculated in Title I -- the way that most states do it, and the way New York does it is in terms of position. It doesn't actually do it in real dollars. It does it in positions.

And we funded in positions traditionally, and so it was very easy for us to go to the state regulators and say, hey, we are compliant with Title I, because we have all these positional formulas. We have the exact right number of teachers in every school. This all works.

And when we wanted to switch toward a dollar-based system and that would be included in a system where some schools might get fewer dollars, the regulators were all very anxious. This isn't what we're used to doing. Are you really sure you're going to comply? And we actually -- and we tried to take advantage of provisions in Title I that are meant to give more flexibility. The state really shut us down and said, you can try that if you want, but you'll be risking your billion dollars in Title I money that New York City gets. And we said, well, they liked this idea, but it's not worth risking all of our money.

And that was the end of it. So the question is, could we have a more -- a different system that actually pushed harder on the equity front, but pushed less hard on the compliance front? And I have a little paper that sketches out some thoughts about how you might do that.

But I think it's worth thinking about things in that direction, because for all the reasons that Paul and Marguerite gave.

DR. WHITEHURST: Can you give us a little more detail from your paper as to what would change?

DR. GORDON: Yeah, I mean, what I basically sketched out was that you could tighten up the comparability requirements to move in the direction of requiring comparability in real dollars rather than just in services.

But at the same time, you could loosen up the requirements around showing the dollar supplement and don't supplant local uses, basically the thought being that once you've done comparability, that's most of the work that supplements -- if you did a robust form of comparability analysis where you require comparable dollars, comparable state and local dollars

by school, you would have done most of the work of supplement, not supplant, but you might be able to do it in a less bureaucratic way.

And the other piece that I suggested is just less auditing. The requirements to follow literally under Title I and under various OMB circulars to follow this dollar was spent on these services and this many hours by this employee, and if you don't do that, you're subject to audit and rescission of dollars.

If we're serious about performance accountability and not compliance-style accountability, I think we have to move away from those requirements.

There's a funny situation now where districts are actually free to ditch a lot of that if they consolidate funds, but they often can't consolidate funds because the state won't let them, or they're in our situation. They're worried about running a (inaudible) doesn't actually happen very much. So you have this sort of theoretical permission to take advantage of less red tape that isn't used very much. And if we can move in the direction of

actually using that permission more, I think it would be a good thing.

DR. WHITEHURST: Thank you. One thought I had when I was reading the paper and listening to the presentation is whether there are any insights from our experience in higher education in this country, which I might if you think about the 6,000 or so post secondary institutions, they, in fact, operate in a model in which funding tends to follow the student. It can be a Federal Pell Grant, which the student can take wherever.

If it's a state university system, there's usually a kind of capitation rate, where they're paid based on the number of students who show up in the fall semester.

And yet, there are a number of policy commentators who think the post secondary system in this country is not in the best of shape. So I would invite, you know, anyone up here, including Paul or Marguerite, if she wants to contribute, to think about whether there are any interesting contrasts there, both in terms of how the two systems run and what we could hope from a system at the K-12 level that looks

more like our post-secondary system in terms of flexibility.

MR. HILL: As a card carrying faculty member.

So I think the similarities between the higher education system once the money hits the institution and the K-12 system are more profound than the differences because money is actually, once the university gets hold of it is allocated to faculty slots and basically things like teaching loads and course costs and so are driven entirely by the preferences of senior faculty.

So I'm afraid that except when you get to higher ed institutions that don't have those attributes, maybe the proprietary ones or some of the more entrepreneurial community colleges you don't see a good model. Marguerite and I were talking this morning that Washington State has a 20 percent cut to make in the next biennium in the university budgets, which is pretty hard to think about. We're sure that if you could eliminate academic self-governance you

could make up the difference.

But the community colleges are instructive and they're certainly the most innovative institutions in higher ed and the ones with that use money in the most flexible ways and are the most, despite all of their other problems, are the most in continuous improvement for the simple reason they have no choice.

And now that I have the floor I would like to say I think the comments about capability, capacity that everyone made are extremely important. My only retort to that, which is hardly a retort, is that you never get a capacity until you need it and we don't have that capacity now because the system doesn't run on it.

So I wouldn't be content in concluding that we should work on all of the parts before we try to make the whole operate. And yet it's obvious that states and the federal government, if they take these kind of recommendations seriously could do a tremendous amount to invest in what are good models for district databases, district analytical

capacities, even districts' method of drawing inferences about effective and ineffective schools and programs.

Susan and I were talking about Denver which has an accountability system now that looks like a series of *New York Times* industry charts where they show in four quadrants the high and low absolute performers and the gainers versus the faller-backers. And they have that on achievement, on graduation rates, course completion rates, student dropout, dozens of different things.

I mean you can find certain schools are in the lower left quadrant every time and that's not really hard for them to say well, there's some schools we have to do something about. That it's not like you've made a judgment about every school, but that capacity which is pretty advanced but on the other hand totally logical. It's something that is an example of what the Feds could maybe help districts learn how to do.

DR. HANNAWAY: Can I expand your question?

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MR. WHITEHURST: Please. Please.

DR. HANNAWAY: You referred to higher education and what we might learn for K through 12. There's also pre-school.

MR. WHITEHURST: Yes.

DR. HANNAWAY: In which there is a lot of choice and a lot of innovation, a lot of for-profit and well as not-for-profit as well as kinship care.

Are there lessons to be learned? Am I putting you on the spot Paul or Marguerite?

MR. HILL: Not because I have nothing to say so I'm not on the spot.

DR. HANNAWAY: Me either, but it's a good question.

MR. HILL: Yeah. I mean its clear there's a problem of quality and the lack of any kind of common outcome in pre-K is a serious issue. And so there may be a lesson on one side of the question and not on the other.

DR. SCLAFANI: May I add to Paul's comments too about capacity? Because I am in total agreement

that unless you start putting some innovation opportunities into the system you're not giving people an opportunity to see the need for capacity or to draw in those people who have the capacity and hadn't thought about working in the system.

one of the things that was fascinating in Houston was that the more we decentralized control to the school, the more wonderful candidates we had for principalships. Not just from within our own district, but from across the state and nearby states because they saw that at this district they had the autonomy to make some important decisions about how to spend those dollars and they could make the decision to say, you know what? We're going to get rid of an assistant principal and we're going to use that money in these ways. And they did it in collaboration with the staff so that everyone was in agreement that they would take on some of those duties or obviate the need for those duties by having better classroom management so that in fact they could do these things that would improve the culture, improve the achievement of the

students that they have.

I don't think we can have this conversation, however, without raising the issue of school boards. And I think that when we talk about systems that are run for the adults the school board is a major factor in that and too many cases decisions are made at the school board level that are antithetical to giving opportunities at the school level to make some of the important decisions.

If the right group of parents gets with their school board member and says, yes this weighted per student funding sounds great and actual teacher salaries is something that they are talking about next and do you realize that we would have to fire a third of our wonderful teachers at this great school that is one of the highest performing schools in the district because those terrible people are going to use actual salaries and at actual salaries we're too expensive for the money that our students generate. And before you know it, actual teacher salaries are a moot point. It just doesn't even come up back to the school board.

So I think we have to recognize that we are definitely as Marguerite pointed out, in a very political system that is focused on issues of collective bargaining. Of issues of parent wants and needs, of loud voices getting more traction than the people who say what's best for all of the children is what ought to be our concern on the school board.

And so we've got to take these issues into account and figure out how to keep the best of local control without its worst abuses. And I think that's, you know, Robert maybe you saw less of that in New York City because it was mayoral control? But of course, we remember Mayor Bloomberg simply changed the school board when they didn't agree with him. That's, I guess, one way of doing it, but I'm not sure that most communities would accept that.

MR. HILL: We do have deus ex machina in the report, which is the state could decommission a school board that wasn't using the improvement process which would be well within the power of the state.

DR. HANNAWAY: In some states.

MR. HILL: In some states. Although I think almost anytime you get a constitutional argument on it, you know, they are creatures the state. But we do have these convenient options exemplars like New York and Chicago where you do get a democratically elected official overseeing the district, but it's not a board. And that, I don't think you have to go all that way to do what we've talked about but we do have to think really hard about how much political constraint you want to put on the process.

MR. WHITEHURST: I think that is one of the important follow through issues here. Where are the political levers for introducing the sorts of change, the changes that have been suggested? I mentioned Title I because I think the Feds have a role to play here.

But where else can the changes - are there legal strategies that haven't been tried yet? Yes, yes.

MR. GORDON: I guess, just one thought. This is not a particularly optimistic thought, but in

New York when we tried to move in the direction of weighted funding and actual salaries we made at some way and not the whole way and it was very contentious, and that was in a period when the state was pouring tons of money into New York City schools and that money, whatever the opposite of pouring is, that money is all being drained out now because of the fiscal crisis, the economic crisis.

So you tend to think about moving in the direction that we're talking about in periods of plenty and we're not in a period of plenty now, which I think makes this conversation that much harder. And I sort of think, I mean one thing I will say as having gone a lot the rounds in conversations about charging actual salaries for teachers at the school level, I think it makes - it certainly made a lot of sense to me and I think it is worth, we need places that are doing it and seeing what happens.

I would be, you know, when people say what is the evidence that that is the answer? I'm not sure and when people say in particular well, it's going to

be destabilizing, it's going to put pressures on principals. It seems to me it's worth getting, consistent with the emphasis on experimentation, I wonder if we shouldn't treat this as another hypothesis with which to experiment as opposed to treating it as something that we know is the answer because I'm not sure we know it's the answer.

MR. WHITEHURST: That's an excellent point on which to turn to the audience and ask you if you have any questions to address to the panel. If you would raise your hand I will call on you, you'll get a microphone and if you don't mind identifying yourself and then asking the question. I would be appreciative.

AUDIENCE MEMBER: Good afternoon. This is a very good panel, I'm Barry Stern. I'm a workforce development consultant affiliated with the Haberman Education Foundation.

Several years ago, I guess as 1991 Lamar Alexander advocated having federal Title I money follow the students to the school they attended went

nowhere politically, but one superintendent did that. In fact, it was in Seattle. His name was John Stanford and he came up with a weighted student average. I haven't followed the stuff in recent years, but he made a very transparent accounting system so every school had the same one which is very tough to do because most superintendents worth their salt figured out ways of having their own accounting systems so they can bury stuff, so they can have more flexibility to do what they want to do.

But nonetheless, he made it transparent and made it work and had lots of people following. He died, of course, in 1999 but I'm wondering, what's the history of places where they have had federal funds follow students to the places they attended?

DR. ROZA: Yeah, I'll respond to that because I have studied and over studied Seattle and then studied it some more because Paul and I live there.

But so they are a bunch of different districts now that have implemented some sort of

student-based allocation. Not all of them, actually none of them really in the most pure sense and Seattle also being one that wasn't in the most pure sense. They never allocated the real salaries.

I mean, they always said here is your money to the school but I will charge you \$50,000 per teacher whether or not the teacher is actually paid \$60,000 or \$30,000 or whatever. So in that sense if you are familiar with Seattle the most expensive teachers still are all on the North side and the less expensive teachers are still all on the South side.

And Susan can comment on Houston, which is slightly a more pure model in the sense that they put more money in their formula that they allocated out to schools. And so a lot of these places are doing this and I think it's complicated if you are looking for connection between the decentralizing the money and student results. Because, you know, these are sort of necessary precursors to a bunch of other things that would then have to happen for student improvement to then go up.

It's not like my fourth grader says, oh my gosh, thank god they implemented a weighted student formula now I can finally learn in this classroom. It doesn't really - the connections aren't so clear and logical in that. They are just sort of a sequence of events and I think we don't have yet to a full set of experiments that we could then follow along.

A lot of places that have implemented some of these parts have done parts of it and boards have taken parts of it back. Seattle is an example where they have now taken back the weighted student formula. And while they did have it after John Stanford died, they sort of starved the formula. Every school got \$3,000.00 per kid but that was it and then barely paid for anything and the rest of the money was held central.

So I think, you know, we don't have an answer to that question yet but I would let Susan respond.

DR. SCLAFANI: Yeah, I think one of the things that I have to say is the difference between

actual teacher salary and average teacher salary is a huge issue.

We had two high schools in Houston, one that was in a highly Hispanic area, lots of recent immigrant kids from Mexico. Another school that was kind of the Bellwether school, the most National Merit Scholars, 51, 52 every year. The difference between those two salaries, same number of kids, was over \$1 million a year.

Now if that other school had had \$1 million more with which it could attract teachers, with which it could dramatically reduce class size, with which it could bring in specialists. That school could have improved student achievement, I believe dramatically.

But again, it never, you know, we even said phase it in over seven years. We weren't going to do it immediately. We weren't going to have the kind of instability of making them lose teachers, but use attrition as a way in order to move to this. But the closer that got to implementation the more of a problem it was for the school board. So I think that

the weighted student funding enabled a lot of decision-making at the school level that hadn't been possible before and as I said it brought in people from other school districts who want it to be part of this because they saw that there really was an opportunity to ensure that the dollars matched what it was that they were trying to do. And they really did have their educational goals and the money to do that.

We moved to zero-based budgeting as part of that to say you couldn't just keep all of the programs you've had for the last 20 years. You've got to figure out how you are going to use these dollars now, this year in order to improve student achievement. And we saw real progress, but it kind of dwindled after Secretary Paige became Secretary Paige.

MR. WHITEHURST: Yes?

AUDIENCE MEMBER: My name is Lauren Gibbs. I am with the Johns Hopkins Center for Research and Reform in Education. And there is so much talk about the economic crisis that's facing schools now and I was wondering how we could use this as an opportunity

for schools to rethink their funding structures? How can we encourage schools to make more efficient decisions and just look at the recommendations that you are making? Looking at this as an opportunity rather than a crisis the schools are facing?

MR. HILL: I should be having Marguerite say this, but one of the big problems the districts face now with cuts of ten and twenty percent in some cases is that they have so many fixed costs that it is very hard to find a way to make cuts and so they make cuts in ways that seem irrational that, you know, they cut whole programs and the like. We would like to start helping people think about how to cut their fixed costs and to put themselves in a position of having more flexibility so they can optimize the use of the resources they have.

But that basically means that the decision to spend a certain amount of the district budget, 57 percent on teacher salaries with a given group of people, to spend so much money on buildings or whatever that these are the kind of backbones to the

district budget. These have to be relaxed otherwise the districts will basically come apart under these financial restrictions. That may be something we come back to Brookings to talk about.

DR. ROZA: I'm going to add a little bit to that. Having been studying districts that have done any sort of more bolder finance reforms, most are actually done in the midst of fiscal decline. And during that time they will say, gee, I wish we were in a time of plenty but we're not. This would be easier in a time and plenty.

But I am starting to wonder if really the bolder reforms, especially ones that are loosening up the reins of control are more likely to happen in fiscal decline in large part because that's a time when the sort of higher ups in the system are less likely wanting to have their name on all of these sort of cuts that they're making. So if they are going to make cuts they are not going to say I am the one who cut the librarians or I am the one who cut the music program. They are going to say, here is how much

money you have, now we're going to loosen it up and you guys can decide where you want to make your cuts.

But I think it is an opportunity for sure.

DR. SCLAFANI: I agree with that. I think that, well, I mean Seattle started it's weighted per pupil funding in a time of economic crisis. And as you say they didn't have very much money with which to do it, but everyone understood they had to tighten their belt.

I think that it is in one sense it's easy to whack a whole program, but because that's staffing and everybody can say okay, those people have to go because those are usually ancillary programs, as you say librarians or reading specialists or coaches or whatever and you get rid of a whole bunch of those and the save in lot of money. The problem is that many of those people have contracts and so you are going to have to fit them in some place anyway.

You know, our tenure system is one of the challenges actually that we face in education. And it is something that I think we need to have some

opportunities to renegotiate in ways that are fair to the people who said I am willing to take a lower salary for 30 years because I've got tenure, at the same time saying that we've got to figure out what's going to be the best way to help individual children and individual schools. So I am in favor of letting the schools make the decisions because they know what's going to most impact the children that they serve and often it's not that district-wide program that Central Office thinks is the savior of the district.

It's more often making sure that there are opportunities for the people at the school to continue having some time to plan together for example. And so they would rather say let's not fill one or two vacancies and have slightly larger classes, but I have the time to work together. And if we allow schools to make those decisions the professionals sitting there can do that in where there are vacancies without the trauma of having to lay off people in the district. They simply won't hire new people and take on those

responsibilities.

So I think it is an opportunity, but I think it has to be done at the school level and not the district level.

DR. HANNAWAY: One of the areas that I think many of us will be watching over the next X years is teacher labor markets. That the baby boomers who are basically the high cost teachers will be retiring, I think the terms of employment that Susan mentioned, collective bargaining, I think the terms of employment are shifting partly as a consequence of having more information available about teacher productivity.

Another factor is, especially among many young people, education has become the civil rights movement of this up and coming generation. So I think that, you know, the flows of people in and the flows of people out and the terms under which employment will happen I think is going to shift in a way that may very well lead to a more efficient system.

MR. HILL: Just to elaborate on that just a tiny bit. We are studying human resource strategies

in charter schools and one thing that is evident is because they have fixed amounts of money they can't just hire senior teachers until they've got their slots are filled. They have to manage a budget.

They end up with the human resource strategy that's more like private schools where they will have a number of long-term career highly expert teachers who are there kind of as the soul of the place but also the mentors to younger people. And then they will expect younger people, pre-graduate school, post-TFA, that kind of thing to come in a couple, three years. Most of them will go and be replaced by somebody like them. Every now and then somebody will stay permanently, but the idea that every teacher is expected to be a permanent teacher and become more expensive overtime doesn't really work in this situation.

Some people are paid a lot because they play school-wide roles. Others are brought in because of high abilities to teach particular subjects, but are not really permanent.

DR. SCLAFANI: You now, are Arthur Anderson probably 15 years ago recommended this model, that we have a couple of master teachers who then have some kind of journeyman teachers and some brand new people and that you kind of develop the profession.

And I think it's going to be more appropriate with the young people today who say 30 years? No, not me. I'm not going to do anything for 30 years. So they might come into teaching for the three to five to eight years. They might go out and do something else, they may come back later. But we're not going to have people will commit to 30 years the way I did when actually there were fewer options for women and for people of color. You were a nurse, a social worker, or a teacher. That was it.

So you've got a whole generation of people who looked at this as a permanent lifelong profession versus what you have now with young people saying I'm going to do a little bit of this, and a little bit of that and I will figure out, you know, the kind of serial career that I am going to create for myself.

DR. HANNAWAY: And part of what that is going to require is thinking about school finance in different ways too, especially retirement benefits.

DR. SCLAFANI: Absolutely.

DR. HANNAWAY: And how they are structured.

MR. WHITEHURST: And what Jane is referring to is sort of the current single salary schedule for teachers is tied to benefit package that produces very, very strong rewards relative to what else is available for teachers. If you are hired at and work continuously in one spot for 30 years, but if you move around, if you go in and out of teaching or you teach in one state and teach in another your pension, accrued pension is embarrassingly low. And yet we're dealing with a new generation of people who are used to changing jobs and in fact, want to do that.

So we have a compensation system that's heavily weighted towards pensions for lifers and a workforce that doesn't want to do that anymore that needs to change.

One question I'll put to the panel is the

word charter has been used a couple of times. Why aren't charters the answer? They have flexibility. They can innovate. If you were coming up with a design feature that would follow through on these recommendations, why wouldn't charter school and charter districts be at the center of that design strategy? Just a question.

DR. SCLAFANI: I've been surprised that charter districts haven't been more popular. I tried to convince Houston to become a charter district back when the state law allowed. I think that there are a couple in Georgia that are now charter districts. But I think that gives you the flexibility, that gives you the freedom to do many of the things that we're talking about.

Charter schools have the same capacity issue that other public schools have and so you get some that do well, you get others that, you know, want to do the right thing but simply can't figure out how to manage it. And more of them go out of business for not being able to manage it than because of academics.

But then there is another group that's there for the opportunity to make it a business and achievement is not really their end. So they are there for three to five years, however long the charter is allowed in that state and then they disappear.

So I think capacity is -

MR. WHITEHURST: But isn't the whole notion of performance-based accountability wrapped around the premise that there's going to be real variation in the effectiveness of the individual units and some will die and others will thrive.

DR. SCLAFANI: What I like is Paul's notion that you don't have to wait until they die. You see that there are some that are struggling and you have lots of options for how to help them improve. And that's what charter schools have missed in states that didn't set up some kind of a mechanism to help them.

DR. HANNAWAY: I think part of it is the supply problem. It's hard enough to run an existing school. To run a new school, to run and develop a new school, and put it all in place is exceedingly

difficult and one of the solutions may be something that Paul is studying, which is charter management organizations that would pick up part of the burden of getting a school going and managing the school and still retain a lot of the flexibility that comes with charter status.

Paul, your cue.

MR. HILL: So my cue is just to waffle on that study, but chartering as a mechanism for providing a public warrant for running a school that's conditional on performance and so on fits this model very well and you can imagine every school, including existing schools, having a charter.

One of the problems with comparing that notion to the exiting set of charter schools we have is there's no kind of level playing field of the kind we've described about their access to teachers, their access to money, their access to facilities. So that if you look at all the disadvantages charter schools are born with today, they are pretty severe. If they weren't born with those disadvantages, had access to

all of the money the districts have, were guaranteed facilities and the deep pockets of the district for insurance and the like, I think is not a bad idea, but I think what we have right now is examples of a set of schools that have been given extraordinarily high handicaps at birth and we're asking whether they're doing as well as others. The answer is probably, but not better.

MR. WHITEHURST: Well, thank you. I thank the presenters, Paul and Marguerite for a provocative presentation.

MR. HILL: Thank you.

MR. WHITEHURST: The discussants and the audience for coming. Thank you very much.

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