Listening, Not Telling:
The Need for Issues-Driven
School Funding Reform
About the Center

The Indiana Education Policy Center provides nonpartisan research, information, and communication on education issues to Indiana policymakers and educators to improve education in the state and nation.

The views expressed in the publication are those of the author(s) and do not necessarily represent the positions of the Indiana Education Policy Center or its funders.
Listening, Not Telling:
The Need for Issues-Driven
School Funding Reform

Neil D. Theobald
Indiana Education Policy Center

January 2003
Policy Research Report #03-03

An earlier version of this report was previously published for limited circulation by the North Central Regional Educational Laboratory.

This work is produced in whole or in part with funds from the Office of Educational Research and Improvement (OERI), U.S. Department of Education, under contract number RJ96006301. The content does not necessarily reflect the position or policy of OERI or the Department of Education, nor does mention of trade names, commercial products, or organizations imply endorsement by the federal government.
Listening, Not Telling:
The Need for Issues-Driven School Funding Reform

Introduction

A cost-effective school funding system allocates resources to the goals that are most important to the state. The purpose of this report is to assist state policymakers in tying their school funding systems more closely to the goals and aspirations they hold for their state’s schools. At the core of the school funding process described herein is the contention that policymakers must first clearly identify the goals they believe their state should seek. Only then can policymakers infuse more data-driven decisionmaking into their debates on the relative value of the available funding options. Currently, this process too often operates in the reverse direction. State policymakers are asked to weigh costly policy options (e.g., vouchers, systemic reform, pay-for-performance teacher compensation) before they have gone through the systematic analysis needed to answer the critical questions, “What are we trying to do here? What issues in our state do we most want a school funding solution to address? Do these proposals directly address our issues?” Goals must precede solutions.

The increasing need for such an issues-driven school funding process arises from the pervasiveness of two factors. First, states are continuing to play a greater role in the funding of public schools than they did traditionally. In the last quarter of the 20th century, school finance litigation struck down the school funding systems of 17 states. As we enter a new century, 12 states have school funding litigation pending at some level. The common thread in these 29 cases is a call for state government to provide a larger share of public school revenues. As states are impelled to supplant local taxation with state revenues, prudent state policymakers face a continual need to update and enhance their understanding of their states’ current systems for funding K-12 schools and to plan for improvements to these systems.

Second, in the last two decades, the number of national networks, coalitions, and advocacy groups that explicitly seek to exert agenda-setting influence on state
legislatures around school finance issues has increased dramatically.\textsuperscript{1} To the extent that these organizations are successful, state policymakers face the risk of being prematurely pushed to the “solution stage” of their state’s school funding process without ensuring that the proposed reform synchronizes with their state’s goals and aspirations. While the agenda put forward by a national organization may sometimes be applicable in a state, recent experiences suggest that one-size-fits-all solutions can easily provoke citizen backlash. As state legislatures are forced to respond to agendas set on the national stage, policymakers face a continual need to ensure that the solutions proposed target the highest priorities they hold for their states’ K-12 schools.

The Task

A number of ambitious national efforts have been launched to assist state policymakers in working with their state funding systems. Primary among these is the National Research Council’s recent report, *Making Money Matter: Financing America’s Schools* (National Research Council, 1999). The report lists three goals that state policymakers should pursue in their education finance systems (p. 17):

1. **Goal 1:** Education finance systems should facilitate a substantially higher level of achievement for all students, while using resources in a cost-effective manner.
2. **Goal 2:** Education finance systems should facilitate efforts to break the nexus between student background characteristics and student achievement.
3. **Goal 3:** Education finance systems should generate revenues in a fair and efficient manner.

It is very difficult to argue with the Council's choice of goals. However, in the real world of a state school funding formula, it is also inherently difficult to operationalize these noble, but rather abstract goals. Terms such as “cost-effective,” “fair,” and “efficient” provide slippery footing for allocating what is likely to be the largest share of a state's budget. Even when legislation is passed that targets these goals, public understanding of the meaning of such terminology can blunt the policy intent. For example, in devising school funding policies that seek to meet Goal 1, states are

\textsuperscript{1} For further discussion of this issue, see: Kaplan & Usdan (1992) and Mazzoni (2000).
introducing state-specified performance standards to improve student achievement. However, state policymakers report that “our greatest failure is engaging parents” who tend to value outcomes related to how caring and individualized their children’s school experiences are rather than those scholastic outcomes measured by state proficiency tests. As a result, policymakers are frustrated by the unwillingness of parents to “follow through at home” and emphasize higher levels of achievement on these tests (Theobald & Bull, 2000, p. 15).

Thus, there is a real need in each state in the NCREL region to develop two sets of capacities. First, each state needs to be able to gather critical information about the definition and nature of the state’s school funding problems, as well as possible solutions. In this way, policymakers can begin to build a consensus across the education, government, and business communities about what the state wants to achieve through its school funding system and, how best to work together to achieve these goals. Second, each state needs to develop a process for monitoring the overall effects of changes it makes to the state's school funding system. This capacity enables legislatures in these states to modify continuously their funding systems in order to achieve the general goals for which they are enacted. In addition, states need information on the unintended side effects of legislative actions so that legislators can reassess the value of achieving those goals in light of other consequences.

This Process

To assist state policymakers in developing these two capacities, this report describes an issues-driven school funding process that has been used since 1994 to provide legislators with comprehensive analyses of past, present, and future funding formulas. The process has also been used to develop cost-effective alternatives to particular elements of the formula. Specifically, in response to requests from legislative staff, this process has been used to

- Develop recommendations that were incorporated in the state’s at-risk formula,
• Evaluate the effectiveness of the state’s class size legislation in meeting its policy goals as well as to project the costs and equity impacts of proposals for improving this legislation, and

• Respond to special information requests from legislative staff for analysis of a new special education funding formula, the impact of rolling categorical programs into the funding formula, how the state might estimate the number of students requiring remediation under the state’s testing system, the research basis for full-day kindergarten, and the equity of the vocational education funding formula.

The first three years of these activities underwent a rigorous external evaluation in 1996 that consisted of analysis of reports and anonymous interviews with legislators, legislative staff, other state officials, and other agency staff who were involved in or served by this work. The evaluation was extremely complimentary about the quality, timeliness, and the reception accorded these activities.

The process is firmly rooted in two critical assumptions:

1. Information and research provided to policymakers is most useful when it is seen as non-partisan. As such, the analysis should make no unbalanced judgements. Instead, it should focus on providing an objective set of standards that staff from all political parties and interest groups can use to monitor the effects of past — and potential — school finance legislation.

2. The analysis should avoid telling policymakers about off-the-shelf solutions that can be crafted to fit the specific problems faced by policymakers in that state. Instead, the focus should be on (a) listening as in-state stakeholders describe the extent and nature of each school funding issue, (b) systematically analyzing these issues in order to determine what the problems are, and (c) feeding this analysis back to these stakeholders in an iterative process to ensure that the analysis reflects accurately what a range of state policymakers see as the issues that need to be addressed.

Absent a focused issues-driven approach — in the current environment where states are increasingly being called upon to finance school funding “solutions” that are
part of a national education agenda — policymakers could find themselves allocating limited state dollars to school funding reforms that relate only tangentially to state needs. An issues-oriented approach instead encourages policymakers not to rush toward solutions until they have carefully answered the question, “What is this a solution for?” Then a “solution” can be crafted around the particular issues, concerns, and values of that state’s citizens. Again, goals must precede solutions.

**Getting Started**

The initial step in this process is gathering data from in-state stakeholders about the goals they hold for their state's school funding system. This information-gathering process is varied to fit the decision making culture of a particular state. As an example, in State A, which has a lengthy traditional of bipartisan efforts to improve school funding, the information-gathering involved a bipartisan working group of legislative staff that developed a set of school finance goals. In State B, where discussions of school finance have been particularly contentious, goals were developed from a series of anonymous individual interviews with stakeholders from government, education, and business. Interview questions asked these informants to (a) detail the goals they hold for K-12 education in the state, (b) identify areas of strength and weakness of the current school funding system, and (c) discuss the financial and political viability of potential school funding strategies. These interviews enabled the identification of seven finance goals that were then evaluated in individual interviews with the same stakeholders to ensure that they accurately reflected the issues that need to be addressed. In State B, the type of public, group discussions used in State A would have been likely to elicit the sort of “cost-effective,” “fair,” and “efficient” language that is seen in so many national reports.

Table 1 provides the goals identified by policymakers in each of these states.
Table 1: Goals for State School Finance Systems

State A

1. Increase school revenue per pupil.
2. Provide higher funding to school districts with more disadvantaged students.
3. Equalize school revenue per pupil across school districts.
4. Increase the share of school revenue provided by the state.
5. Eliminate the effect of a school district’s property wealth on its operating revenue.
6. Make a school district’s general fund property tax rate depend on the revenue it receives per pupil.
7. Limit increases in property tax rates.
8. Equalize property tax rates across school districts.

State B

1. The formula should ensure that (a) K-12 education is not shortchanged, and (b) spending for other needed state programs is not “crowded out.”
2. The formula should provide (a) local option for school districts to spend more than the state deems adequate, and (b) local decisionmaking (some of which is non-financial).
3. Local property taxes should remain an integral part of K-12 funding, but the formula must address the difficulty that low-wealth districts face in generating revenue.
4. The state should provide increased school facility funding.
5. The revised formula provides greater flexibility in how school districts use special education funds, but it should do a better job of ensuring that special education revenue is used to provide services for special education students.
6. Schooling outcomes are the best measure of the state's success in meeting its constitutional obligation to provide a “thorough and efficient system of common schools.”
7. The key to improving student outcomes is ensuring access to qualified teachers, primarily in urban and rural areas, but also in academic subjects with perceived shortages of qualified teachers.
Clearly, these goals reflect very different political contexts in these two NCREL states. For example, while Goal 1 in State A places a focus on K-12 needs, Goal 1 in State B emphasizes the need to place K-12 needs within a larger budgetary picture. Goals 2-4 in State A reflect a more activist state agenda in school finance, while Goal 2 in State B reflects the desire of policymakers to balance state responsibilities with local control. Goals 6-8 in State A reflect the primacy of controlling local property taxes in that state while Goals 4-7 in State B reflect broader policy concerns such as the state of school facilities, special education, accountability, and teacher quality. Neither of these states’ goals is the “correct” approach. The path a state chooses depends on the destination it most wants to reach.

Despite the elements of disagreement—or more accurately, because of the elements of disagreement—policymakers in both states found the process described in this report very helpful. The divergence in the destinations sought by these two Midwestern states underscores the difficulty of responding to local hopes, dreams, and realities with a one-size-fits-all agenda put forward by parties outside the state. Instead, policymakers in these two states emphasize the critical importance of driving school finance reform by focusing on the issues of greatest importance in their own states. The wide differences in the school funding issues facing these two Midwestern states reinforce the necessity of goals preceding solutions.

Other observers in these two states may well differ with the goals these states’ policymakers hold for primary and secondary schools in their states or may disagree with the reasoning policymakers use to reach these conclusions. For the purposes of the issues-driven school funding process, these disagreements are beside the point. Mass politics necessarily involve those issues that compete most successfully for attention on the public’s agenda. Thus, the success of any attempt to improve the quality of decisions made about these states’ systems for funding public schools must be driven by these widely-shared goals and problem formulations.

**Developing Appropriate Measures**

As mentioned previously, the intent of this issue-driven process is to ensure that state policymakers are not prematurely pushed into the “solution stage” of this process.
without going through the systematic analysis and deliberation needed to answer the critical question, “What is this a solution for — what are we trying to do here?” To infuse more data-driven decisionmaking into the school funding process, this section provides an example of a common set of measures that are used to inform decision makers about progress made towards the goals identified in that state. As important as is providing policymakers with a set of standards for monitoring progress, these measures also provide a common vocabulary for discussing issues such as the adequacy of school funding per pupil and taxpayer equity. The goal is to allow leaders to focus on attaining policy objectives rather than being mired in technical issues related to the formula.

School finance researchers have developed a rich set of measures that can be used to quantify the adequacy and equity of state school finance systems. With such a solid base, it is not difficult to develop specific calculations that can inform debate and action around a state’s issues and goals. In identifying such a common set of objective measures, the focus should be on developing calculations that:

1. Measure a policy object rather than using traditional statistical procedures that may have no clear policy meaning, and
2. Complement each other in providing different types of information on a number of major aspects of adequacy and equity. For example, while some measures take all children into account, others focus on particular types of children (e.g., those in low-wealth school districts, minority students, children living in poverty).

What follows is an outline of the seven major goals identified in State B. Each goal is followed by one or more objective indicators that are designed to inform debate and action in ongoing and future assessments of the issue.

**Goal 1: The formula should ensure that (a) K-12 education is not shortchanged, and (b) spending for other needed state programs is not “crowded out.”**

**Objective Indicator:** One way to determine whether education is shortchanged is to compare the state’s basic aid level as a percentage of wealth (e.g., income per capita) and that of several peer states with successful K-12
education programs — as indicated by NAEP scores or other measures. This indicator, which should be plotted over time, will show if the state is making an equivalent effort to fund K-12 schools as peer states.

Goal 2: The formula should provide (a) local option for school districts to spend more than the state deems adequate, and (b) local decision making (some of which is non-financial).

Objective Indicator: To determine the adequacy of the foundation amount, the state can identify an adequate level of student performance on state proficiency tests. For each district whose basic aid funding is derived solely from the state foundation amount, the state can then calculate the percentage of students at or above these scores.

Goal 3: Local property taxes should remain an integral part of K-12 funding, but the formula must address the difficulty that low-wealth districts face in generating revenue.

Objective Indicator: (a) To determine how integral a role property taxes play, determine what percentage of school funding is derived from property taxes. Because most respondents felt that the current percentage was adequate, identify trends over time toward or away from this percentage as well as the overall stability of this percentage. (b) To identify when low-wealth districts are struggling to generate adequate revenue, calculate the correlation coefficient between each district’s regular education revenue per student in a particular year and the district’s property valuation per pupil in that year.\(^2\) If changes in the school funding formula weaken the relationship between a district’s regular education revenue per pupil and valuation per pupil, the correlation coefficient should move closer to zero.

\(^2\) The correlation coefficient between a district's regular education revenue per pupil and valuation per pupil answers the following question: “Are school districts with higher valuation per pupil able to generate higher regular education revenue per pupil?” As a measure of equal opportunity, a correlation coefficient of 0 is indicative of perfect equity, and a value of 1 signifies the most inequitable case.
Goal 4: The state should provide increased school facility funding.

**Objective Indicator:** Determine the inflation-adjusted total state facility funding per pupil over several years. This amount is projected to increase over time, though how much it should increase requires a judgment from policymakers.

Goal 5: The revised formula provides greater flexibility in how school districts use special education funds, but it should do a better job of ensuring that special education revenue is used to provide services for special education students.

**Objective Indicator:** Calculate a correlation coefficient, for each of the baseline years, between districts’ actual expenditures for all education services per special education student and the district’s total state-provided revenue per special education student (i.e., the sum of the state foundation amount per student and the special education funding amount per special education student). If changes in the special education funding formula encourage districts to use special education revenue for services that are not provided to special education students, the correlation coefficient should move closer to zero.

Goal 6: Schooling outcomes are the best measure of the state's success in meeting its constitutional obligation to provide a “thorough and efficient system of common schools.”

**Objective Indicator:** The state could use a variety of indicators that go beyond proficiency tests, including indicators of: academic achievement, participation and completion, attitudes and aspirations, health and personal-social development, and school readiness.

Goal 7: The key to improving student outcomes is ensuring access to qualified teachers, primarily in urban and rural areas, but also in academic subjects with perceived shortages of qualified teachers.

**Objective Indicator:** One indicator of access to qualified teachers is the percentage of out-of-field teachers employed in each district (e.g., an undergraduate major in physical education who is teaching math). In addition,
each district’s percentage of “national board certified” teachers, the average years of experience of its teaching staff, and the education level of the staff also provide an indication of teacher qualifications. Calculating correlation coefficients between these indicators and district poverty level, demographic classification, and percentage of minority students will further help identify who is having difficulty accessing qualified teachers.

Conclusions

By identifying a consensus about goals for a state’s system of school funding, the issues-driven process described in this report is intended to provide an objective, non-partisan basis for the logical next step, which is to determine specific funding proposals that lead to the achievement of the goals that make up the consensus agenda. The objective indicators suggested should provide both a measure of progress toward these goals and a common vocabulary for discussing the broader issues of adequate school funding and equitable taxation.

This process is designed to shield decision makers from being rushed prematurely towards crafting solutions. Instead, it allows policymakers to undertake the systematic analysis and deliberation needed to understand the nature of the challenges facing them and to reach agreement about what would constitute satisfactory progress in overcoming these challenges. Moreover, this approach provides the basis for an ongoing process. A funding strategy that meets state objectives adequately at a particular point in time is likely to be inadequate at some future time.

At least two caveats must be considered. First, it must be recognized that the information generated by an issues-driven process will be used in the larger political context of a state legislature. A dominant view in policy research is that policymakers fasten upon information that affirms their convictions and use it to advance their goals and preferences. The process described in this report does not attempt to substitute information for politics. Instead, it attempts to integrate politics into the information-

---

3 This phenomenon is not unique to policymakers. For a readable account, see Gilovich (1991). For a scholarly review, see MacCoun (1998).
generating process by seeking to ascertain points of consensus among policymakers and interest groups regarding key pieces of the debate over how best to finance the schools. These points of consensus are then used to develop objective indicators that can be used to inform debate and action.

Second, it is possible for individual points of consensus to be inconsistent with one another. Experience suggests that so long as the debate is highly abstract, it is relatively easy to “paper-over” differences in points of view with lofty rhetoric. However, when attention turns to the design and implementation of real world policy, the ability to finesse underlying differences in the point of view can decline, and disagreements can become quite sharp.

The process outlined in this paper has evolved since 1994 to recognize and attempt to address these realities. Central to our evolving understanding of state school funding is that no definitive solution exists for the funding questions in any state. The lack of a definitive answer, though, does not preclude deducing on principled grounds a viable direction in which to proceed. Once a direction has been set, this process has been very useful in monitoring the results carefully. This approach is necessarily an iterative process with the results of the monitoring being used to further inform the various parties as they undertake further debate and further action.
References


