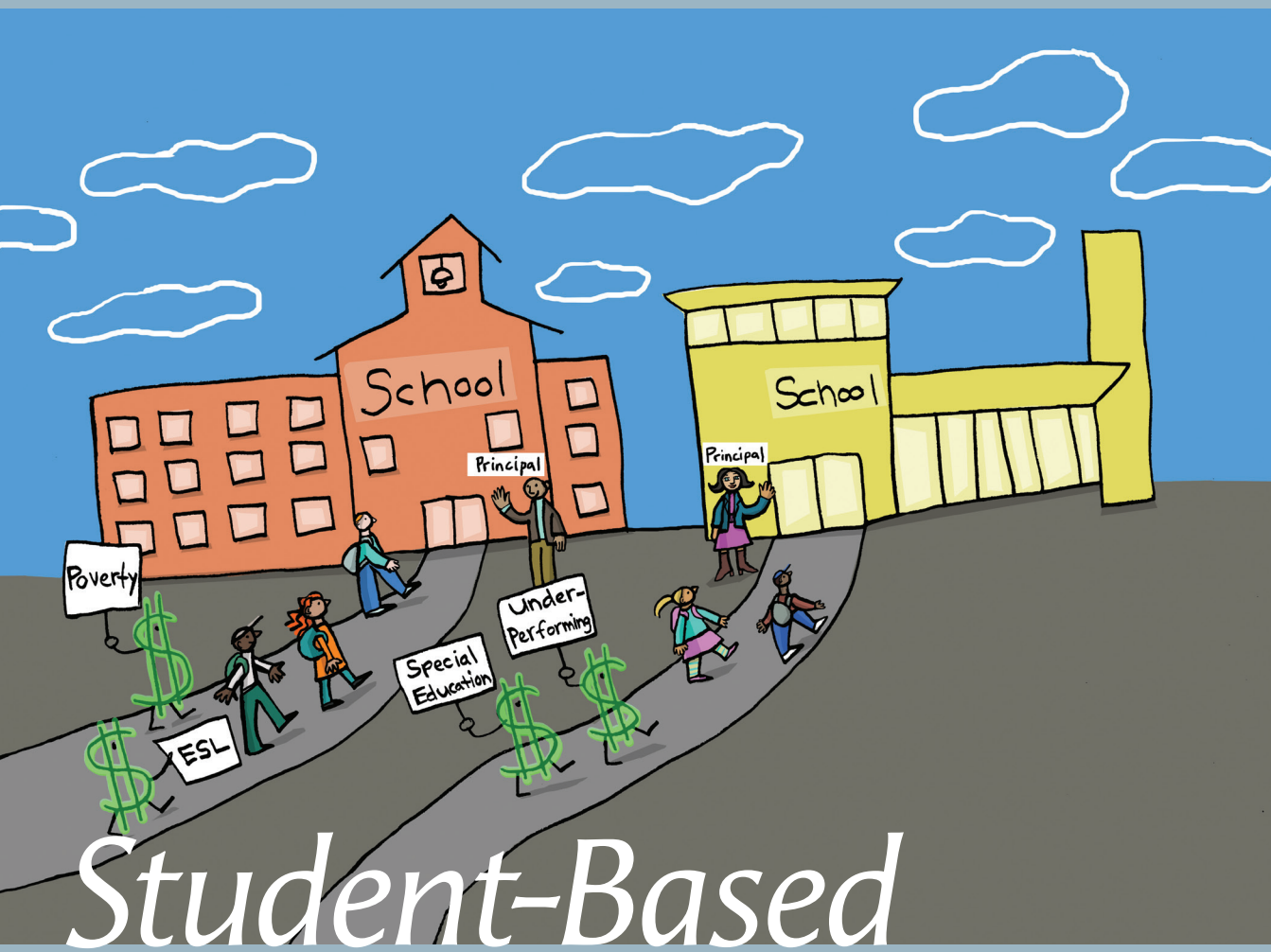
Annenberg Institute for School Reform | *Voices in Urban Education*

VUE

Fall 2010



Student-Based Budgeting

Equity and Student-Based Budgeting
Ellen Foley

Budgeting to Support Student Achievement: New Strategies for Central Office
Jason Willis and Matt Hill

A Principal's Perspective: Empowerment for Schools
Matthew Hornbeck

Student-Based Budgeting in Tough Times: The New York City Experience
Ellen Foley

Beyond Funding Formulas: District Transformation through Weighted Student Funding and Strategic Decentralization
Naomi Calvo and Karen Hawley Miles

Student-Based Budgeting
Number 29, Fall 2010

Publisher
Annenberg Institute for School Reform
at Brown University
Warren Simmons, Executive Director

Co-sponsors
Education Resource Strategies
Web: *http://erstrategies.org*

Executive Editor
Philip Gloudemans

Guest Editor
Ellen Foley

Managing Editor
Margaret Balch-Gonzalez

Copy Editor
O'rya Hyde-Keller

Production & Distribution
Mary Arkins Decasse

Design
Gilbert Design Associates, Inc.

Illustration
Carolina Arentsen

Voices in Urban Education (ISSN 1553-541X) is published quarterly at Brown University, Providence, Rhode Island. Articles may be reproduced with appropriate credit to the Annenberg Institute. Single copies are $12.50 each, including postage and handling. A discount is available on bulk orders. Call 401 863-2018 for further information.

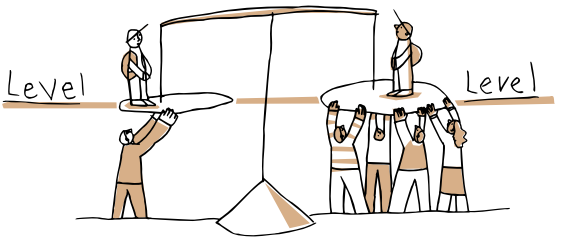
The Annenberg Institute for School Reform was established in 1993 at Brown University. Its mission is to develop, share, and act on knowledge that improves the conditions and outcomes of schooling in America, especially in urban communities and in schools serving disadvantaged children. For program information, contact:

Annenberg Institute for School Reform
Brown University, Box 1985
Providence, Rhode Island 02912
Tel: 401 863-7990
Fax: 401 863-1290
Web: *www.annenberginstitute.org*

© 2010 Annenberg Institute for School Reform

Annenberg Institute for School Reform | ***Voices in Urban Education***

VUE



Student-Based Budgeting

2 **Allocating Funds Based on Student and School Needs**
Philip Gloudemans

6 **Equity and Student-Based Budgeting**
Ellen Foley

Student-based budgeting can uncover hidden inequities in a district's allocation of funds among schools and serve as a catalyst for broader reforms to respond to student needs.

17 **Budgeting to Support Student Achievement: New Strategies for Central Office**
Jason Willis and Matt Hill

Oakland's experience shows that weighted student funding can help central offices shift their focus from compliance to giving principals the means to meet their students' needs.

26 **A Principal's Perspective: Empowerment for Schools**
Matthew Hornbeck

Student-based budgeting in Baltimore provides principals with a "bounded autonomy" that allows them to build their own budgets in support of the programming most needed by their schools.

31 **Student-Based Budgeting in Tough Times: The New York City Experience**
Ellen Foley

New York City's effort to shift to fair student funding reveals some of the challenges of school finance reform in an environment of economic crisis.

40 **Beyond Funding Formulas: District Transformation through Weighted Student Funding and Strategic Decentralization**
Naomi Calvo and Karen Hawley Miles

Weighted student funding within a "strategic decentralization" reform strategy provides principals with the flexibility to budget around their schools' needs, along with the capacity building and accountability to use that flexibility effectively.

VUE's Web site at <*www.annenberginstitute.org/VUE*> offers more information about *VUE*, including previous issues, audio and video clips, and ordering information.

Allocating Funds Based on Student and School Needs

Philip Gloudemans

School finance reform has emerged as a critical component for the transformation of public schools in the U.S. Over the last decade, a growing number of districts have turned to an approach known by different names – student-based budgeting, weighted student funding, and fair student funding, among others – in which budgets are allocated to schools in dollars, based on a school's particular mix of students, rather than in staff positions. Student-based budgeting allows for a more equitable and rational allocation of funds among students and schools with differing levels and types of needs and a better alignment of school budgets with instructional goals.

This issue of *Voices in Urban Education*, produced in partnership with Education Resource Strategies (ERS), which has been a leader in this field, shines a spotlight on student-based budgeting from a variety of perspectives. Last March, ERS convened more than sixty urban education leaders who gathered in Baltimore for the "Fair Student Funding Summit," a conference that brought together a total of fourteen school districts that utilize weighted student funding as an approach for allocating dollars to schools. The Summit's purpose was to provide a forum for districts to share ideas on school funding, discuss what is effective and what's not, and to spark new approaches. Participants included a mix of those who have well established student-based budgeting systems, those who recently adopted it, those who were in the planning stages of implementation, and those who have returned to a more centralized system.

Philip Gloudemans is director of strategic communications at the Annenberg Institute for School Reform.

Summit participants articulated a range of goals, philosophies, approaches, and concerns regarding student-based budgeting, but some important lessons emerged, including:

- Student-based budgeting must be built around academic strategies and goals, rather than driven by fiscal considerations.
- A potential benefit of student-based budgeting is that principals have the flexibility to tailor resources to their schools' needs.
- Student-based budgeting promotes district conversations on school resource equity.

The rich discussions from this conference provided the inspiration for this issue of *VU*E. Implementing student-based budgeting can be a difficult path, but the process can benefit from the experience of those districts which have implemented it and the research undertaken to better understand what works, what hasn't, and why.

The Annenberg Institute's Ellen Foley, who has been following this school-funding concept for the past ten years, opens this issue with a re-examination of student-based budgeting with a keen eye toward the "learnings" derived from a decade of experience and with an emphasis on how this approach can uncover hidden inequities and suggest more equitable allocations. Foley argues that equity actually requires *unequal* per student funding. As she notes, if equality is focused on leveling the playing field and providing all students the same opportunity, then "weighted student funding to achieve this goal can be considered fair, even when it means that some students receive more dollars than others." Karen Hawley Miles and Marguerite Roza provide additional perspectives.

Jason Willis and Matt Hill follow with their observations from the central office perspective, drawing on their experiences implementing results-based budgeting – a form of student-based budgeting – in Oakland. They describe how districts grapple

with the changing dynamic of the familiar top-down structure to a new, customer-driven and transparent organization that student-based budgeting requires to work effectively.

To obtain a school principal's point of view on student-based budgeting, we interviewed Matthew Hornbeck of Baltimore's Hampstead Hill Academy, whose school is now into its third year employing this school-financing model. Hornbeck emphasizes that it puts schools squarely in charge of the decisions that affect teaching and learning.

Ellen Foley returns with a review of what occurred in New York City schools over the last three years following the implementation of student-based budgeting and, specifically, what impact the recession – and the subsequent budget cuts – had on this funding formula.

We close the issue with an article by Naomi Calvo and Karen Hawley Miles of ERS, who underscore that changing the way schools are funded needs to be coupled with resource flexibility, accountability, and capacity building for principals – what they characterize as "strategic decentralization" – for student-based budgeting to be successful. They point out that the most significant lesson derived from the ERS Summit was that student-based budgeting is "really about how finances can be organized around the academic agenda, rather than about budgeting per se." They note that this requires principals "who know how to organize resources to effectively support instruction, but few principals currently receive this type of training." Clearly, without capacity building for "school CEOs," principals would have difficulty coping with the structural changes resulting from student-based budgeting.

For more information about the Education Resource Strategies Fair Student Funding Summit and to download the conference proceedings, please see <www.erstrategies.org/resources/details/fair_student_funding_summit1>.

Student-based budgeting is not a panacea. But fortified with critical supports such as capacity building for principals and implemented as part of a comprehensive district transformation, it can provide the foundation for dramatic and meaningful reforms that give all children in a district an equitable chance to meet and exceed the standards established for them.

Equity and Student-Based Budgeting

Ellen Foley

Student-based budgeting can uncover hidden inequities in a district's allocation of funds among schools and serve as a catalyst for broader reforms to respond to student needs.

Ellen Foley is associate director of district redesign and leadership at the Annenberg Institute for School Reform.

Ten years ago, the Annenberg Institute for School Reform led the initiative "School Communities That Work: A National Task Force on the Future of Urban Districts," whose charge was to examine the potential role for districts in creating and implementing urban school reform. The task force developed the new concept of a "smart district" – a high-performing community of schools that would ensure both equity of opportunity and high-level achievement across all groups of students. This concept grew from the recognition that the school district, with all its traditional faults, is still the only entity that has the public mandate to educate all a community's children, the power to mobilize public resources, and the accountability to the community that are needed to provide high-quality education *at scale*. The goal of educating *all* children in *all* schools – including the low-income, minority children who have historically been so under-served by our public education system – cannot be accomplished without a high-functioning district.[1]

The work of the task force culminated in the publication in 2002 of the *Portfolio for District Redesign*, a set of frameworks, tools, and other resources to help districts build the capacity to become smart districts. One important section of the *Portfolio* outlined what was, at the time, a relatively new concept: *student-based budgeting*, also referred to as *weighted student funding* or *fair student funding*. This concept served as a powerful tool to identify and remedy funding inequities *within* a district (as opposed to *between* districts) that were often hard to perceive among the multiple and confusing streams of funding that contribute to school budgets. Karen Hawley Miles of Education Resource Strategies and Marguerite Roza, then an assistant professor at the University of Washington, contributed

1 The concept of a smart district has evolved into our current vision of a "smart education system" – a high-functioning district in partnership with city agencies and community and civic organizations that provides a network of supports and opportunities to promote high-quality student learning and development wherever it occurs – at school, at home, and in the community. For more on smart education systems, see <www.annenberginstitute.org/Vision/index.php>.

"First Steps to a Level Playing Field: An Introduction to Student-Based Budgeting" to the *Portfolio*.

We've now taken a fresh look at that seminal article for this issue of *Voice in Urban Education*, updating it with lessons from nearly a decade of work studying intra-district finance and student-based budgeting. Miles and Roza, in the Perspectives sidebars on pages 8 and 14, also share their reflections on the evolution of student-based budgeting since the publication of the *Portfolio*.

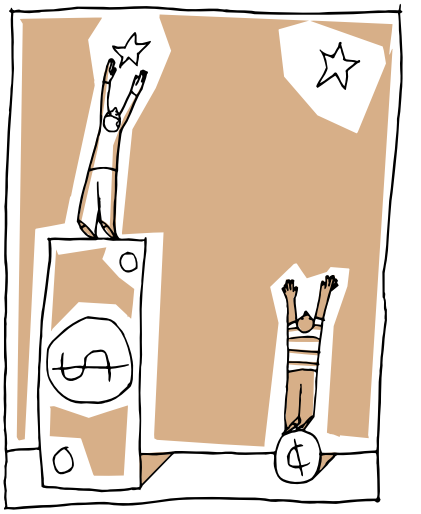
Of course, the education landscape has changed dramatically since 2002. Due in part to the work of our task force, more and more scholars, practitioners, and policy-makers are focusing on the role of central offices in supporting systemwide reform. Trends that were nascent a decade ago to diversify and empower schools – the charter school movement, small-schools initiatives, and portfolio-of-schools approaches, for example – are increasingly part of the standard operating procedures in school districts and communities. Many districts have also adopted more powerful information systems that give them the capability of examining data at a much finer grain, down to the responses of individual students on formative and summative assessments. These trends have pushed many districts to vary the traditional "one size fits all" approach and begin to deploy resources to serve students based on their specific needs.

The interest in student-based budgeting (SBB) is a natural outgrowth of these developments. While there are a number of reasons districts (or states, for that matter) might introduce a weighted student funding formula, we focus here on a central concern of the Annenberg Institute: equity.

Inequities Within Districts

Some of the hidden inequities in within-district funding arise from the way resources are allocated to schools. Many districts use a formula to apportion staff and other resources to schools based mainly on the number of pupils in the school, with other factors playing a lesser role (see sidebar, page 9).

These standard practices can result in very different per-pupil dollar amounts in different schools. While the intent is often to direct resources to higher-needs students and schools, a growing body of research shows that these practices shortchange schools



that serve low-income students and students of color. For instance, an Education Trust–West (2005) report noted that California's system of budgeting teacher salaries rendered invisible

> a massive transfer of funds from our less-advantaged to our most-advantaged schools. We may say that we are spending $6,659 per student in a typical California school district, but the per-student dollars that flow to that district for poor, Latino, and African American students are often

PERSPECTIVES: What has changed?

How has your perspective changed on student-based budgeting and its potential to improve equity since we published "First Steps to a Level Playing Field" in 2002? How have changes in the field of education reform affected SBB implementation?

SBB as part of a comprehensive reform strategy

KAREN HAWLEY MILES: I understand more deeply how much the details matter and that SBB must be part of a more comprehensive transformation strategy. Implemented as a strictly mathematical exercise – without attending to creating flexibility, capacity, and accountability, equity in funding won't have any impact on equity of outcomes, which, of course, is what we are after. The whole point of getting more resources to schools that have students with greater challenges and allocating dollars instead of staff is to empower school leaders to organize resources in new ways that better meet student needs. Too often, principals change nothing that impacts instruction because they have no vision of another way to do things and no help to use the new dollars in ways that matter most.

Supporting the increasingly critical need to allocate budgets fairly

MARGUERITE ROZA: More than ever, district leaders need to be thoughtful in how they deploy their dollars. Current projections suggest that districts will have more constrained resources going forward, and budget cuts often prompt changes in distributions of funds across schools. Where districts use student-based budgeting, leaders can be sure that their cuts have been deployed fairly across schools and student types. Where, however, cuts are made piecemeal – cutting a staff position here or there from different schools – the opposite might happen. Cuts that seem rational may leave schools operating with very different resources. Rather than deploy cuts in terms of staff FTEs*, SBB forces decisions to be made in terms of dollars, not just FTEs, which can then allow an honest consideration of tradeoffs.

KAREN HAWLEY MILES: When we began this work, the idea of districts managing portfolios of schools that included in-district charters and other kinds of school designs was in its infancy, and independent charters were just making a mark. Now, most districts have schools that have a variety of different levels of flexibility, and independent charters are serving large percentages of student in some districts. This trend makes revising funding systems to allocate dollars in ways that adjust fairly for differences in student need even more critical.

Taking advantage of greater flexibility to invest in technology

KAREN HAWLEY MILES: Few districts were talking about unbundling instruction within the school day to include online courses or technology as an aid to course delivery, as they are now. This trend makes converting from staff allocations to dollars very important, as schools might decide to spend some of their money on external providers or technology to offer certain courses or provide enrichment.

MARGUERITE ROZA: Looking forward, student-based budgeting makes even more sense because budgeting in terms of dollars (and not just FTEs) will allow schools and districts to take advantage of technological innovations that are increasingly available to schools. Where funds are delivered only in terms of FTEs, the funds can't readily be converted into promising technologies or services. Consider, for example, a device that uses an avatar to convert sound into sign language for hearing impaired students (thus eliminating the need for interpreters). As these kinds of innovations pop up, all schools will need to be able to use their funds appropriately for such options. Looking forward, equity will need to be measured in terms of dollars, not purchased and assigned staff, since school resources will involve so much more than just the staff.

**FTE: full-time equivalent, a way of measuring allocations of staff time – e.g., two half-time positions would add up to one FTE*

Karen Hawley Miles is president and executive director of Education Resource Strategies. Marguerite Roza is senior data and economic adviser at the Bill & Melinda Gates Foundation.

> spent not on them, but on their more affluent counterparts across town. … For a student in high schools serving mostly Latino and African American students, the estimated average teacher salary is $4,119 less per teacher than in a high school serving the fewest minority students. … If this student attended the schools serving the highest numbers of Latino and African American students from the time of kindergarten through high school, California will have spent a total of $172,626 less on all of his teachers (K–12) than on the K–12 teachers in schools with the fewest Latino and African American students. (pp. 8, 10)

More examples are presented in Podesta and Brown 2008; Miller 2010; Miles and Roza 2006; Berne, Rubenstein, and Stiefel 1998; and Roza and Hill 2004.

Many of the differences in traditionally allocated funding can be attributed to these five areas:

- *School size.* Most districts allocate certain staff positions to each school regardless of size. Therefore, staffing-based formulas tend to give more resources per pupil to small schools and fewer resources to large schools. For example, every elementary school might get a principal, a secretary, and a librarian regardless of how many students attend the school. If a school hits a certain enrollment threshold, it might receive additional support, such as an assistant principal. Mathematically, this means that a small school receives more dollar resources per pupil to cover its principal than the large school because the cost of the principal is divided among fewer students.
- *Magnet and other special programs.* Some schools receive additional staff to implement district programs that are not distributed equally on the basis of number or types of students. For example, in some urban districts, magnet schools – schools with an identifiable theme or approach to schooling – get more staff on top of the formula allocation to support its specific design. For example, Montessori schools use their staff differently and are thus funded separately, outside the standard formula. With different formulas,

How Districts Allocate Resources

There are usually three categories of resources included in a traditional funding formula:

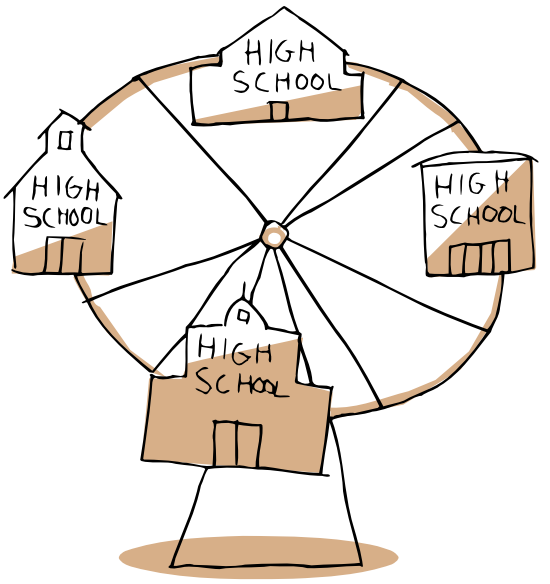
- staff and dollars that vary based on the number of students;
- staff every school gets, regardless of number of students (for example, every school gets one principal);
- resources that vary based on differences in the age, size, or efficiency of the school building.

On top of these formula-driven resources, the district then adds staff positions and dollars using other criteria. For example, an arts-focused school designed to attract students from all over the district might receive additional funding to support its program. Or a school attempting to integrate special education students into regular classrooms might receive extra staff to support its effort.

After determining the number of positions and other allocations calculated on the base and special criteria, the district then generates a dollar budget by multiplying the number of positions allocated by the districtwide average salary for that position. The school budget for teachers would total the number of allocated teachers multiplied by the average teacher salary in the district.

many of these magnet schools have been permitted to operate at much higher per pupil costs than the districts' regular schools.

- *District-controlled resources for special student populations.* In programs for special student populations, such as special education or bilingual programs, district-level departments often control a large portion of staff and funding that is not allocated to schools based on the number of pupils.
- *Physical plant differences.* Operating costs vary from school to school based on the size, age, layout, and design of the school facilities. These factors are not always related to the number of students, and they are largely outside the control of school leaders.
- *Accounting practices.* The common practice of allocating personnel costs on the basis of average salaries results in seniority-driven inequities. A school with more senior – and therefore more "expensive" – teachers would actually receive more teaching dollars per pupil than one with more junior teachers. But these numbers are hidden even more deeply, since only the average salary numbers show in budget allocations per school. As noted in the article "Student-Based Budgeting in Tough Times: The New York City Experience" in this issue of *Voices in Urban Education*, most districts, even those that have adopted weighted student funding, continue to use average teacher salary for budgeting purposes. The result in most locales is that spending on teacher salaries is inversely proportional to student poverty rates.



However, not all of the differences in intra-district school budgets can be explained by these five factors. Many are not as rational. For example, in a study of Texas school districts, only 33 percent of the variation in per pupil expenditure could be explained by school characteristics (Roza et. al 2007; Roza, Guin & Davis 2007).

Fair Doesn't Necessarily Mean Equal

Given the many sources of inequity – both explained and unexplained – inherent in traditional school funding formulas, what would be fair? This question is complex, even when we focus on financial equity. As Miles and Roza (2006) explain, there are many factors – some common sense and others that might be overlooked – to consider in order to address equity:

> Many studies have acknowledged that investigations of resource distributions within districts must take into account both horizontal equity (equal treatment of equal students) and vertical

> equity (requiring higher spending for students with greater needs). . . . However, some recent work suggests that investigations of resource equity should also consider two additional categories of questions: (a) teacher and leadership capacity, and (b) the composition or mix of the school's student population. Even with the same dollar resources, for various reasons schools might have different access to talented, high-performing teachers and principals. Second, schools with higher concentrations of high-needs students may face different challenges than schools with only a few such students. (p. 46)

"Even with the same dollar resources, for various reasons schools might have different access to talented, high-performing teachers and principals. Second, schools with higher concentrations of high-needs students may face different challenges than schools with only a few such students."

Student-based budgeting – formulas which allocate actual dollars directly to schools on the basis of both the number of students enrolled and weights assigned to various categories of students – addresses at least two of the types of equity issues that Miles and Roza identify. Since we first wrote about student-based budgeting in 2002, many districts have found that matching funding to the specific needs of students – such as low-income, disabled, gifted, vocational, or bilingual – provides greater flexibility and equity at the school level.

If equality is about leveling the playing field and providing all students the same opportunity, then weighting student funding to achieve this goal can be considered fair, even when it means that some students receive more dollars than others. Equity actually *requires* unequal per pupil spending.

The difference between the inequities in resource distribution that currently exist within many districts and inequities that result from implementing student-based budgeting is that the latter are driven by student needs and other rational factors, rather than by simple student enrollment, tradition, and politics. Researchers have shown that districts that moved from traditional staff-based budgeting to student-based budgeting models had greater resource equity among schools within the same districts (See, for example, Miles & Roza 2006; Chambers et. al 2008). Many disparate groups support student-based budgeting (Hoff 2006), including the National Education Association (Petko 2005), the Center for American Progress, and the Thomas B. Fordham Foundation (Thomas B. Fordham Institute 2006).

How Do You Weight Students Equitably?

The weights used in student-based budgeting are critical. How much more does it cost to educate that English language learner, or that student with special needs, or that gifted and talented student? How do districts determine the appropriate base amount?

When we discuss resource equity, we are talking about how existing funds are distributed among schools and students of varying characteristics. It is important to do that fairly. But just as important is assuring that there are adequate resources to educate all those students.

These are not easy questions to answer, but now that many large urban districts – New York City, Houston, Los Angeles, Baltimore, and Philadelphia, to name a few – have transitioned to student-based budgeting, there are some examples that can be studied. Education Resource Strategies recently published the foundation amounts and weights used by five districts. Weights for poverty, for example, ranged from an additional 9 percent over the base amount to 24 percent over the base amount. The range in weights for English language learners was larger, from a low of 10 percent over the base funds to a high of 50 percent over base (Education Resource Strategies 2010). Are these weights too low, too high, or just right? We don't have solid data to answer that question.

Meanwhile, districts that use traditional budgeting methods do provide additional funding for students with particular characteristics. The difference is that the "weights" they use are implicit, rather than explicit.

When districts' implicit weights were calculated for different groups of students, researchers found ranges that were extreme and defied logic. In ten districts, vocational education was funded at 0.17 to 1.71 times the base, with a median of 0.43 (Roza, Guin & Davis 2007, p. 17). The range in weights was much higher among schools within a district than between districts:

> The range for bilingual education, for instance, was between 0.40 and 4.57 [times the base]. Implicit poverty weights in some schools were more than ten times the implicit weights in other schools. (Roza, Guin & Davis 2007, p. 20)

It is doubtful that this wide range in implicit weights actually reflects the priorities or plans of the leadership of those schools and districts. But truth be told, there is no conventional wisdom about the right set of weights to use in student-based budgeting either. However, the advantage to student-based budgeting is that it makes investments in students with various characteristics explicit, rather than implicit. We will only truly begin to understand what it takes to educate students with varying needs when we try to do it with funding methods that are transparent and clear. Providing examples of funding schemes that can be studied, and eventually related to student outcomes, is another way that student-based budgeting promotes equity.

Equity Is Just One among Many Reasons Districts Have Adopted Student-Based Budgeting

In urban districts that have adopted student-based budgeting, equity was only part of the rationale for moving away from the current funding formulas and toward more flexible student-based budgeting formulas. Though altering the mechanics of funding formulas may sound like a technicality better handled by finance departments, districts that have examined the details of their funding systems have discovered that it serves as a catalyst for far-reaching reforms that increase school accountability for student results as well as school and district financial flexibility. Two articles in this issue of *Voices in Urban Education* – one by Jason Willis and Matt Hill and the other by Naomi Calvo and Karen Hawley Miles – both touch on this topic.

Student-based budgeting and greater flexibility for schools need not be coupled (although usually they are). It is possible to restructure allocations using weighted student funding but still have decisions made centrally about how those funds get used.

But greater flexibility in resource allocation, when it works as it should, allows districts – and especially schools – to decide how best to improve their particular students' academic results. We know from some districts' experience with school-based decision making that moving the locus of control is no guarantee that the choices themselves will be better. Good decisions require a core of capable leaders and teachers at the building level. Developing those capabilities and dealing with schools' uneven skill in taking advantage of newfound freedoms is as important as implementing the equitable system itself. Otherwise, building more flexibility into resource allocation will simply reinforce existing inequities and set schools up for failure.

Equity Is Not Adequacy

When we discuss resource equity, we are talking about how existing funds are distributed among schools and students of varying characteristics. It is important to do that fairly. But just as important is assuring that there are adequate resources to educate all those students.

In a debate about the Thomas B. Fordham Institute (2006) report *Fund the Child: Tackling Inequity & Antiquity in School Finance*, Michael Rebell, then executive director of the Campaign for Fiscal Equity, noted that such formulas do not address the amount of funds coming into a school district (Center for American Progress 2006). "I'm all for equitable ways of distributing money once you've got a fair amount of money in the district," he said. "Then we can talk about equitable ways of distributing it." He noted that "most districts in this country are underfunded, especially when we're talking about the needs of poor and minority kids. So you're really talking about dividing up the scraps at the table." Rebell also raised questions about whether student-based budgeting was a "smokescreen" intended primarily to make it easier to use funding to support charters and voucher schools.

And while *within-district* inequities in the distribution of resources must be addressed, we should not forget about still-large *between-district* funding disparities. State funding reforms have

PERSPECTIVES:

Has student-based budgeting lived up to the expectations of a decade ago?

As more districts have implemented student-based budgeting, has it lived up to the task force's expectations for its potential to increase equity? What key issues or concerns didn't you anticipate a decade ago?

Far-below-grade-level students

KAREN HAWLEY MILES:

A big issue I hadn't fully understood was that the standard categories used for weighting dollars – poverty, special education or ELL status, gifted, and grade level – miss an important category of need: students who fall significantly behind grade level by the time they get to middle and high schools. A student living in poverty who is on or near grade level requires fewer resources to meet standards than one who is three grade levels behind. Without a weighting that somehow captures this, the only way that a school can get more resources to accelerate learning is to classify a student as requiring special education services – which, of course, has its own negative consequences.

Declining enrollment

MARGUERITE ROZA:

The handling of schools with declining enrollment has been a major problem. When an elementary school's enrollment drops under 250 students (or say, 400 for high schools), the total resources drop enough that there aren't enough funds for a typical mix of staff. At this point, a district should move forward with one of two options: either redesign the school staffing (perhaps using part-time staff, redefining or combining roles, etc.) or make plans to close the school.

The problem, however, is that districts are often unwilling to do either, often delaying a school closure for years, hoping that enrollment comes back. During the interim, the district funnels extra funds outside the SBB formula to the school to allow the school to continue on with a mix of staff it can't afford on SBB funds alone. These extra funds mean there are fewer funds to put into the SBB formula, leaving some district leaders with the impression that the SBB formula isn't working, when the real culprit might be the district's unwillingness to address their under-enrolled schools. For SBB to remain healthy, particularly in a district where choice drives enrollment patterns, district leaders need to proactively address schools with declining enrollment.

Rapidly declining budgets and shrinking shares of funds allocated to schools

KAREN HAWLEY MILES:

I didn't anticipate how challenging it would be to maintain SBB in the context of very low or rapidly declining budgets – especially in cities with small schools. When overall funding levels are so low that schools simply can't afford things that have traditionally been part of their budgets, like librarians, art, music, and physical education teachers, without raising homeroom class sizes above contracted maximums, this calls the whole system into question. Ironically, the response in Seattle and Cincinnati was to call a halt to SBB in the name of equity. The issue wasn't equity in dollars, but equity in program offerings.

Long-term, I hope these districts don't stop here. The idea of SBB is that it will surface these issues and spur districts and schools to take actions that use dollars deliberately and strategically. In this case, the requirement to fund small schools at a higher level could have led to the district deciding to reconfigure or close some small schools to take advantage of scale or to explore different ways of combining resources to accomplish the same goals – perhaps by contracting out for art, music, and physical education or by changing assumptions in other areas.

MARGUERITE ROZA:

One of the big concerns I've had in watching districts implement SBB is the portion of the total budget put in the formula. Districts tend to put a bit more than half of their funds in the formula, meaning that they are allocating some 50 to 60 percent of their total operating budget directly out to schools. A problem arises when a district's leaders choose to hold more funds back and allocate less out to schools. School leaders rightfully argue that they can't survive on their share of the funds, and some blame the SBB, not the share allocated. In a few districts, this problem has served to rally school leaders against SBB.

not fully addressed these inequities and must address the adequacy question raised by Rebell above. As we concluded when we first addressed this topic in 2002, equitable access to resources is one ingredient for promoting high student achievement and equity within urban districts, but it is not a panacea.

Of course, the equity, autonomy, and transparency that student-based budgeting can provide do not automatically make schools and districts better. The ultimate success or failure of urban districts is still inextricably connected to their ability to build and mobilize the capacity of teachers, principals, and other key adults to support students' learning and development.

However, with the necessary supports, student-based budgeting can be one building block of a powerful systemic reform initiative by equitably distributing resources so that all children in the entire district have a fair chance to meet the challenging standards they deserve to be held to.

Equitable access to resources is one ingredient for promoting high student achievement and equity within urban districts, but it is not a panacea.

References

Berne, R., R. Rubenstein, and L. Stiefel. 1998. "Intra-district Equity in Four Large Cities: Data, Methods, and Results," *Journal of Education Finance*, no. 23:447–467.

Center for American Progress. 2006."Fund the Child: A Debate on Weighted Student Formula – Will It Work and Can We Do It?" Panel at the Center for American Progress in Washington, DC. Downloadable PDF: <www.americanprogress.org /events/2006/9/fund_the_child_transcript.pdf>

Chambers, J., L. Shambaugh, J. Levin, M. Muraki, and L. Poland. 2008. *A Tale of Two Districts: A Comparative Study of Student-Based Funding and School-Based Decision Making in San Francisco and Oakland Unified School Districts*. Washington, DC: American Institutes for Research. Downloadable PDF: <www.air.org/files/A_Tale_of_Two_Districts _Final.pdf>

Education Resource Strategies. 2010. *Fair Student Funding Summit: Conference Proceedings and Recommendations for Action*. Watertown, MA: Education Resource Strategies.

Education Trust–West. 2005. *California's Hidden Teacher Spending Gap: How State and District Budgeting Practices Shortchange Poor and Minority Students and Their Schools*. Oakland, CA: Education Trust–West.

Hoff, D. J. 2006. "Call for 'Weighted' Student Funding Gets Bipartisan Stamp of Approval," *Education Week* (July 12).

Miles, K. H., and M. Roza. 2006. "Understanding Student-Weighted Allocation as a Means to Greater School Resource Equity," *Peabody Journal of Education* 81, no. 3:39–62.

Miller, R. 2010. *Comparable, Schmomparable: Evidence of Inequity in the Allocation of Funds for Teacher Salary Within California's Public School Districts*. Washington, DC: Center for American Progress.

Petko, M. 2005. *Weighted Student Formula (WSF): What Is It and How Does It Impact Large Urban Districts?* Washington, DC: National Education Foundation.

Podesta, J., and C. Brown. 2008. *Ensuring Equal Opportunity in Public Education: How Local School District Funding Practices Hurt Disadvantaged Students and What Federal Policy Can Do About It*. Washington, DC: Center for American Progress.

Rose, H., J. Sonstelie, and R. Reinhard. 2006. *School Resources and Academic Standards in California: Lessons from the Schoolhouse*. San Francisco, CA: Public Policy Institute of California.

Roza, M. 2008. *Allocation Anatomy: How District Policies that Deploy Resources Can Support (or Undermine) District Reform Strategies*. Seattle, WA: Center for Reinventing Public Education, University of Washington.

Roza, M., K. Guin, and T. Davis. 2007. *What is the Sum of the Parts? How Federal, State, and District Funding Streams Confound Efforts to Address Different Student Types*. Working Paper 9. Seattle, WA: Center on Reinventing Public Education, University of Washington.

Roza, M., K. Guin, B. Gross, and S. Deburgomaster. 2007. "Do Districts Fund Schools Fairly? In Texas, Differences Are Larger within Districts than Between," *Education Next* (Fall).

Roza, M., and P. Hill. 2004. "How Within District Spending Inequities Help Some Schools to Fail," pp. 201–208. *In Brookings Papers on Education Policy: 2004*, edited by D. Ravitch. Washington, DC: Brookings Institute Press.

Thomas B. Fordham Institute. 2006. *Fund the Child: Tackling Inequity and Antiquity in School Finance*. Washington, DC: Thomas B. Fordham Institute. Downloadable PDF: <www.edexcellence.net/doc/FundtheChild062706.pdf>

Budgeting to Support Student Achievement: New Strategies for Central Office

Jason Willis and Matt Hill

Oakland's experience shows that weighted student funding can help central offices shift their focus from compliance to giving principals the means to meet their students' needs.

Jason Willis is chief financial officer of the Stockton [California] Unified School District. Matt Hill is administrative officer in the Office of the Superintendent, Los Angeles Unified School District.

In 2007, Oakland Unified School District was in the middle of transforming itself to better meet the needs of its students, and both of us [the authors] were in the heart of it all. We each came to Oakland from organizations that were outside of urban education. One of us [Matt] had a background in process improvement, marketing, and strategy, and the other [Jason] had a background in research and product management. We were both trained to find out what the customer needs and to deliver that solution to him or her; the number one rule is the customer is always right. Unfortunately, in education, we often lose sight of who the customer is. We get bogged down in the complexity of the system, and we feel that we must meet the needs of everyone else before we meet the needs of the students and the schools.

Across decades of urban school reform, many researchers and observers have noted that despite the sheer number of reform agendas introduced and implemented into school systems, there has been little to no ability for the reforms to take hold and create meaningful gains in student achievement (Bryk et al. 1993; Hess 1997; Lee & Smith 1994). The typical organization of an urban school district, which includes top-down management, compliance-focused departments, and one-size-fits-all change efforts, are the backdrop for much of the change efforts initiated in urban school districts in the past that have been unable to produce sustainable results.

In contrast, a weighted student funding (WSF) system helps districts keep sight of the customer. It suggests that devolving resources, and thereby, authority, to school communties empowers better decisions and resource configurations for students. The allocation of resources therefore becomes potentially more sustainable and focused over time. This shift in resource allocation decisions introduces a new dynamic between the central office and schools and ultimately lays the groundwork for changes elsewhere in the organization (Chambers et al. 2008). Where a particular department may have been satisfied with ensuring that schools are complying with state or federal guidelines, this is no longer sufficient, as the demand from schools may call for additional clarity around planning for the use of resources.

New Strategies for Central Offices Supported by Weighted Student Funding

The current economic and fiscal climate in education provides an opportunity and incentive for school communities to consider how a WSF system may help respond to increased pressure to use dollars more wisely in order to support increased student achievement. For example, many communities have called for greater transparency about where school districts are investing their resources. Additionally, this new climate places more pressure on central offices, rather than school sites, to take reductions. The establishment of a WSF system in a school district helps to address many of these challenges and external pressures. Ultimately, this results in significant changes to the function, focus, and culture of central office departments.

In Oakland, we had more than one hundred different types of funding sources, each with its own system of regulation. . . . Imagine receiving your paycheck in the form of one hundred different gift cards. In addition to receiving one hundred different cards, you are restricted on where and how you can use them.

WSF Shifts Focus from Compliance to Educating Students

The current structure of school districts in the United States has primarily focused on a top-down, compliance-oriented approach to educating students. Further exacerbating this policy lever is the low level of achievement for many of our students that causes many of our policy makers at the federal, state, and district levels to impose additional rules and restrictions on how schools use funds.

For example, when both of us implemented results-based budgeting (RBB), a form of WSF, in Oakland, we had more than one hundred different types of funding sources, each with its own system of regulation. To better understand the complexity this brings to a school district, imagine receiving your paycheck in the form of one hundred different gift cards. In addition to receiving one hundred different cards, you are restricted on where and how you can use them. Finally, you must also write a plan before you purchase anything, have a committee sign off on the plan, track expenditures across the different funding categories, and then have someone audit those expenditures.

Not only is this frustrating, it also takes time, energy, and resources away from what matters most: quality instruction in the classroom. School district central offices have focused on the compliance demands laid upon them; therefore, less money goes to directly support students. Too much energy is spent on monitoring the inputs instead of the outcomes. For example, Los Angeles recently received a $6 million federal grant and spent two hours justifying a $10,000 budget line item to a federal compliance officer. In the end, the conversation had

nothing to do with student learning and did not change the proposed outcomes of the grant proposal.

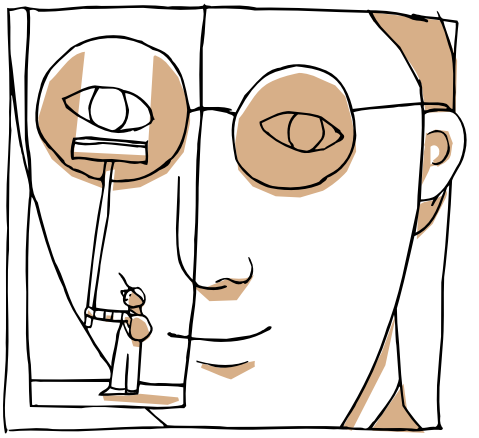
One of the primary changes that a WSF system enables is a shift from compliance orientation, since it allocates resources based on student needs and focuses on student outcomes instead of inputs. School districts are able to move to a more strategic and innovative culture. This does not mean the districts will abandon the requirements of complying with state and federal regulations, but it does mean they will place a priority on dedicating resources and people's time to strategy, innovation, and reinvention. This fundamental shift allows for schools to spend more time on developing their vision and mission, establishing long-term goals, and aligning resources – human or otherwise – to follow the needs of their students.

In Oakland, the central office provided additional support to schools so that our schools could establish a three-year strategic planning cycle. We transformed the existing compliance document – the Single Plan for Student Achievement (SPSA) – into a three-year strategic planning tool. In addition, we revamped the budget calendar to provide schools with more time for planning, implemented technology to give schools better access to data, and offered training to help school communities look at their data and identify strategies to meet the unique needs of their students.

WSF Creates Appropriate Principal Development and Support Systems

Another advantage that the WSF system affords central office is the attention given to appropriate principal development and support systems. Historically, school districts have supported principals through state-mandated trainings or other preparation programs that provide the necessary content but may not be tailored toward the specific growth needs of the principal. As authorities, responsibility, and autonomies are all devolved to the principal level, a plethora of new support systems are required to both build and maintain a core of principals who can effectively lead their schools to improve student outcomes.

For example, the Oakland central office redirected substantial resources during and after the establishment of the WSF system to build an effective pipeline for the recruitment, development, and retention of principals who could bring the vision and energy necessary to realign resources and school culture to substantially improve student outcomes. Further, we learned that data – both quantitative and qualitative – that had been standardized across the school district could serve as



a valuable tool to provide district-level intervention and support to schools. As Oakland implemented a mechanism to classify the growth and performance of schools, those that were lagging behind would be targeted to receive additional attention and resources from central office departments. This would primarily support the needs of the principal and leadership team.

WSF Radically Increases Transparency about Resource Use

School districts have tended to exercise little innovation in the reporting and transparency of financial information to the public and other external stakeholders. Implementation of a WSF system turns this common, past practice upside down.

A natural by-product of devolving resources to the school level raises questions from stakeholders about the amount, distribution, and direction of resources throughout the organization. In response to these questions, the school district can present this information in a clear, concise, and simple manner. This brings about an increased level of transparency for the organization. In addition, it forces the school district to simplify the explanation about how resources are expended. In Oakland, the budget department was continually improving its techniques to communicate with internal and external stakeholders about the allocation of resources. It became one of the department's areas that were reviewed periodically to identify how to further improve.

The initial clarity to stakeholders of how dollars are allocated can then be built upon to improve and advance systems within the organization. For example, Oakland worked to develop streamlined, easy-to-use budget reports for schools. A principal would then have a consistent and readable budget report to make decisions from. Another example is the identification of districtwide indicators that mark the significant and symbolic measures that emphasize the priority of schools. In Oakland, each year we identified the percentage of unrestricted General Fund resources that were allocated to schools. The reasons this was an important indicator is that it showed that the priority was to push additional resources to schools and that the central office had to continually work to create new efficiencies and better services for schools.

WSF Devolves Decision Making to Schools and Fosters a Support and Service Orientation

As large urban districts implement a WSF system, they are better able to recognize that a top-down management approach does not meet the individual needs of schools, let alone students.

The reality is, for many large urban school districts, the implementation of this management structure is impossible. For one, the logistical challenge alone of communicating, implementing, and then holding employees accountable to one direction is tremendous.

Second, the diversity of student populations between schools is vast and creates major obstacles to implementing a one-size-fits-all strategy for schools. When WSF districts begin to analyze spending on a per student basis and compare it to student outcomes, they clearly see the inequities that have been created over time.

Third, a WSF system highlights the remnants of programs from past administrations. Many superintendents implement a new reform or program when they enter the district, and typically bits and pieces of that program live on in perpetuity since many districts do not review the effectiveness of programs on an annual basis. This is especially problematic in urban districts where the average tenure of superintendents is only three and a half years; in member districts of the Council of Great City Schools, a full third of the superintendents have been in office for less than a year (CGCS 2008/2009). After many years a "school reform gumbo" is created, made from these past programs, that is not strategically aligned and pulls money away from classrooms.

As school communities receive more resources and become savvy about how to use them, the central office must shift toward a service-oriented culture. School communities no longer want to be told what to do; instead they want support and services that will help them implement their vision, direction, and priorities in a consistent manner. The emphasis on collaboration rather than directives ultimately changes the nature of the relationship between a school administrator and central office staff. For example, in Oakland carryover funding from the prior year was typically not distributed to schools until halfway through the fiscal year. When results-based budgeting was implemented, schools developed detailed plans that anticipated those carryover funds and provided resources as soon as possible. Demand from principals to use the additional resources to the benefit of their students was so great that the finance team was forced to allocate the funding to the schools four months earlier than prior years. Emphasis on student learning became the number one priority, rather than deadlines set by the finance office.

This shift to a service and support role will not come naturally for all central office employees. Districts need to be careful about not overlooking the professional development needs of the central office. It is easy to identify training opportunities for principals, but it is

School communities no longer want to be told what to do; instead they want support and services that will help them implement their vision, direction, and priorities in a consistent manner.

Go to any school in the country, and they will have a nickname for the central office: "the District," "downtown," the "death star," or a name that is inappropriate to include in this article. The reason is that the central office typically has all of the resources and all of the power, and schools do not feel that they are supported.

just as important to help central office employees become service providers. In Oakland, the chief operating officer was renamed the chief service officer to highlight the culture shift. The chief service office brought in customer service training for all central office employees. This training was called Achieving Service Excellence, and it was very useful in helping employees become service providers to schools.

WSF Allows School Discretion over Purchase of Services from Central Office

Go to any school in the country, and they will have a nickname for the central office: "the District," "downtown," the "death star," or a name that is inappropriate to include in this article. The reason is that the central office typically has all of the resources and all of the power, and schools do not feel that they are supported. There is not a supply and demand relationship between the schools and central office. The central office identifies "necessary" or perceived needed services and then provides them to schools. Oftentimes, there is little or no feedback from the schools.

Transitioning to the RBB system in Oakland required the central office to redefine its role. In addition to focusing on serving the schools, a menu of services was developed in which principals could purchase services. The service menu highlighted the activities and services of the central office, costs, and service standards associated with the services. Oakland then created a two-way accountability system where schools received scorecards based on student outcomes and the central office received scorecards based on how well they served schools. This performance management system greatly changed the conversations between central office and the schools.

While the initial vision of a "pure marketplace" where schools could pick and choose their service provider for all services was never realized, some successful services were created.[1] An example of this exchange was operations support coaches. Before RBB, schools could only request another office manager to help them with office duties. However, many schools could not afford an entire position. With the advent of RBB, the operations support coach was created – an optional service where schools could purchase a coach on a daily basis to assist with budget-

1 We were not able to move to a pure marketplace because the California State Education Code places restrictions on outsourcing current district services, and there were not many vendors available to provide the services we needed.

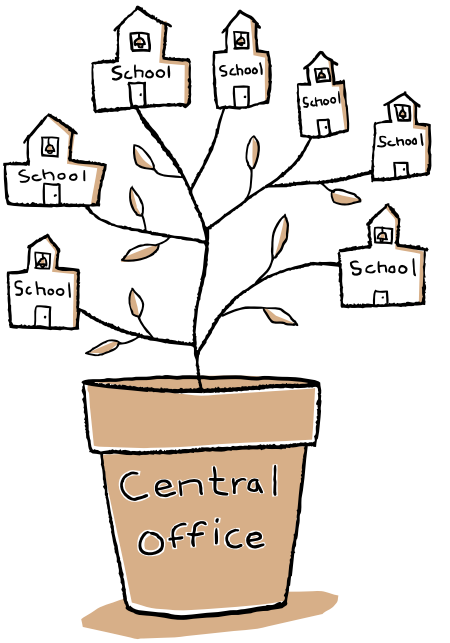
ing, procurement, human resource needs, etc. There was a high demand for this service since the schools had a significant say in how the service would be used to meet their unique needs.

Rethinking Core District Functions: Better Support for Student Achievement

A WSF system can shine a light on dysfunctional technical and logistical systems that, ultimately, impede student achievement.

Updating Technology

Information technology systems used by many public sector agencies are often out-of-date and inefficient. In California, there are only a handful of vendors that provide core human resource and finance systems to school districts. The system typically runs off of older and outdated versions of software, which stems from the lack of investment in and upgrade of these technologies over time. The impact to school districts and schools can be profound, as our reliance for information and data is tied to a system that is inadequately meeting the needs of principals and other school leaders.



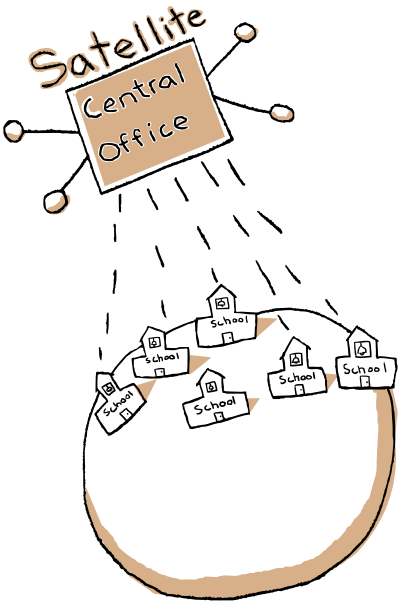
Linking Control and Procurement Systems to Student Achievement

The implementation of a WSF system pushes on these often-antiquated systems to respond appropriately to the demand for up-to-date, accurate, and easy to understand information. In absence of this, there may be better, alternative solutions that can be identified and scaled for a school district. Several examples grew out of the implementation of RBB in Oakland. Most immediately, we realized that our position control and procurement systems were not timely. Principals would often identify the lack of up-to-date

information as a hindrance to them making better-informed decisions at their school sites. We also realized that many of the processes that involved multiple departments were too slow and inaccurate. In one example, Oakland was experiencing chronic issues with expediting the processing of state and federal expenditure requests. As it was, the school district had difficulty identifying appropriate uses that drove student achievement.

Becoming Proactive about Staying on Budget

Another example of how Oakland was able to rethink its core district functions was centered on responding to potential financial challenges in a proactive manner rather than reactive. Central office administrators were forced to create systems that tackled these issues earlier on as a result of the change in how resources were allocated, based on data reviews. The school district established a "balancing pot" of resources to assist in preventing schools from exceeding their budgets and impacting the school district's overall financial position. More importantly, each principal contributed a portion of his or her funds to their pool. Therefore, other pressures – peer mostly – were put on anyone that was unable to stay within their budget because every other principal had a financial stake.



The Impact on Student Outcomes of Transforming District Leaders' Practice

The change efforts that occurred in Oakland within the central office not only helped to improve the school system to better serve students, but it was also a transformative experience for us as central administrators. Among all the ways that implementing a WSF system changed our practice, there were several that made an indelible impression.

First and perhaps most important, principals and school leadership have the capability to operate effectively in an environment where they have more responsibility and autonomy over decisions at the school. The staying power behind a policy like this is adding elements of providing the support necessary for principals to make informed decisions and holding everyone accountable to stated goals and objectives.

Second, a stronger case needs to be made for investments in analytical solutions. School districts record, collect, and store an immense amount of data. There are vast opportunities to mine this data that provide insight to better instructional practice. However, we don't invest in either the systems or

design of training geared specifically to cull this data and lift out those insights. This is a critical aspect to make a WSF system successful.

Third, issues of equity within a school system cannot be addressed unless they are an active part of every conversation. Our opportunity to close the educational gap between our high- and low-performing students is embedded in the strategies and dialogues that we prioritize in a school system.

Finally, culture change in an urban school system is possible, but it takes consistent investments of resources and human capital over a consistent period of time. The changes to Oakland's approach to educating students are proven in their academic achievement over the past six years. Oakland has posted the largest academic gains of any major urban school district in California. But this did not happen in a year or even three years. These changes, if done correctly and inclusively, have the opportunity to have a dramatic effect on an urban school landscape. The opportunity is very real to move central office from a "death star" to a guiding light.

References

Bryk, A. S., J. Q. Easton, D. Kerbow, S. G. Rollow, and P. A. Sebring. 1993. *A View from the Elementary Schools: The State of Reform in Chicago.* A Report of the Steering Committee. Chicago: Consortium on Chicago School Research.

Chambers, J., L. Shambaugh, J. Levin, M. Muraki, and L. Poland. 2008. A *Tale of Two Districts: A Comparative Study of Student-Based Funding and School-Based Decision-Making in San Francisco & Oakland Unified School Districts*. Palo Alto, CA: American Institutes of Research. Available for download at <www.air.org/expertise/index/?fa=viewContent&content_id=522>

Council of the Great City Schools. 2008/2009. *Urban Indicator; Urban School Superintendents: Characteristics, Tenure, and Salary Sixth Survey and Report* (Winter). Washington, DC: CGCS.

Hess, F. M. 1997. "Initiation Without Implementation: Policy Churn and the Plight of Urban School Reform." Presented at the annual meetings of the American Political Science Association, Washington, D.C. (August).

Lee, V. E., and J. B. Smith. 1994. *Effects of High School Restructuring and Size on Gains in Achievement and Engagement for Early Secondary School Students*. Madison, WI: Wisconsin Center for Education Research.

A Principal's Perspective: Empowerment for Schools

Matthew Hornbeck

Student-based budgeting in Baltimore provides principals with a "bounded autonomy" that allows them to build their own budgets in support of the programming most needed by their schools.

Matthew Hornbeck is in his eighth year as the principal of Hampstead Hill Academy, a pre-K through eighth-grade public school in southeast Baltimore. Prior to his principalship in Baltimore, he spent five years as a consultant on school finance and professional development for principals in large urban districts, working very closely with Karen Hawley Miles and Education Resource Strategies. When Dr. Andres Alonso, the Baltimore superintendent, wanted to promote student-based budgeting to principals, Hornbeck was the natural choice to talk with other principals about what it would mean for them. He spoke to the Annenberg Institute about what principals need to know about student-based budgeting.

Matthew Hornbeck is principal of Hampstead Hill Academy in Baltimore.

What are the advantages of student-based budgeting?

MATTHEW HORNBECK: Schools have a sense that they're empowered to make decisions that make sense to classrooms, teachers, and kids. You are no longer in a position where somebody just shows up at your door and says, "I'm your new second-grade teacher." It's all about getting schools to the point where they are the ones in charge. There has been an infantilizing approach so that schools have not had the opportunity to make decisions on their own. That excuse has been taken away. Now, the work can be about rigor. Before, those conversations were hard to have when you were constantly unaware of how much money you had, where it was going to be located, or [when technology] systems couldn't talk to each other. I think it has been part of an overall comprehensive effort to provide schools with the power and control and autonomy to make decisions that are good for teaching and learning.

As a principal, you've experienced life with student-based budgeting and without. What has changed for you in the move to student-based budgeting?

MATTHEW HORNBECK: This year [2010-2011] is Baltimore's third year using student-based budgeting. It gives you a lot of freedom and control to build your own budget. [In the previous system], there were a lot of programs that were central office controlled and budgeted, whether it

was citywide chess programs or citywide urban debate programs or other kinds of initiatives that the board over the years thought were good for kids. In the previous paradigm, you would just sign up for them. In the current scenario, those programs have to come make a pitch at the school level, so we purchase participation in the debate program [or] we purchase participation in the chess program. When you unbundle all of the money and push it out to schools, it creates a lot more ownership and willingness to faithfully implement programs.

Another thing, traditionally, if you were a squeaky wheel, you would get more staff. There were haves and have-nots in the district. Now, they will look at the schools' projections for enrollment, and if the schools are wrong, they will make at least one or maybe two mid-year corrections. When principals overestimated their enrollment last year, they lost as much as $500,000, $800,000, or $1 million in the middle of the year and had to get rid of staff and redo their programming and planning. If they underestimated, they were the beneficiaries of huge windfalls in October or November – as much as $400,000 or $500,000. Principals are becoming far more adept at recruiting kids because they know that under the weighted formula individual kids matter to schools.

Your budget is all about your enrollment. It's not about who you can convince at central office that you might have enough kids to add another teacher. It's not who you can convince you ought to have a coach who is a friend or a colleague. It's about performance and making sure that your enrollment is not declining. If your enrollment declines, then your opportunity to provide supports for kids declines. I was projecting 606 kids [this year at my school], and today [just before the start of school] it looks like we are twenty over. That is $150,000 of additional funding that will come our way. In the past, if I got ten more kids, I didn't get more staff or more money. If I go bang on doors and get ten more kids, that means I get $80,000. Then that's a powerful financial incentive to go and make sure that your enrollment matches what you've got in mind for your programming and your schools.

What supports have been helpful to you in the transition to student-based budgeting?

MATTHEW HORNBECK: There were a lot of supports. The first year there was actually a team of people. The central office emptied out; teams of people came out to each individual school for three-to-six-hour meetings with individual principals to talk about what this meant for their schools and to get a better understanding of what kind of

programming needs were at the school. Now there is a principal's dashboard that includes the detailed guidance, the school-specific budget allocations, and the certification information for staff. All of these things are married together in an online setup. You can see what programs you can add and how much they cost. For example, I purchased a full-time registered nurse because we have a number of kids who have epilepsy and a kid with cerebral palsy and lots of kids with asthma. That costs $30,125, and so I can just put that in my budget and [with the dashboard] see that it's there. It's very empowering to have that information at your fingertips where you can see it, you can change it, you can submit it, and you can defend it. I think it's been a really good process and continually gotten better as the years have gone by.

The other piece of support they provide is through the school support networks. For every fifteen schools, there is a team lead, business manager, a student support staff, and an academic support person. They are a team who are not supervisory [of the school]. They are formative in their support. They can look at my budget online as well and see what is missing or what's not missing, what looks good or what they might have questions about, so it's sort of a check and balance on the principal. [They are] a group of people who can know in more detail about what [the school is] doing.

What have been the challenges in the transition to student-based budgeting?

MATTHEW HORNBECK: One thing that the district struggles with now is surplus staff, because with principals having control over our budget, if we don't want somebody, we're not willing to budget for them or pay for them. A teacher with benefits could easily cost $100,000. The district has contractual obligations and does not lay people off. I think we are getting better at evaluation, so we can identify our high-performing teachers as well as the teachers with significant challenges. We are learning how to counsel folks into different professions or make sure we are providing the support they need, and if the supports aren't ultimately enough, then figuring out how they need to be rated in terms of evaluation. That hasn't ever happened before, so over the last few years there are significant numbers of people – 100 to 200 people – who are surplus staff. That is hard on central to carry those people off of school budgets. If you're carrying $10 million in surplus staff and all the money's in the schools, then it's far more likely that you're going to have to freeze [school] budgets in April and make all the money come back to central that's not spent in April or May. It will be great when we get to a point where money can actually be rolled over from year to year so that there can be more financial planning as opposed to "Oh, my gosh, it's May. Let me order a bunch of computers or otherwise my money is going to expire."

Would you say there are any disadvantages to student-based budgeting?

MATTHEW HORNBECK: I don't see any disadvantages. I think in a district that was central office driven and central office focused, there would

be disadvantages because you would have a sense of paranoia or insecurity around, "What are principals going to do with this money? Are they going to go buy a bunch of plasma TVs for their office and then it will get in the newspaper and the district will be accused of mismanaging funds?" There's a certain sense of trust that comes along [with student-based budgeting], and I think that's when [Baltimore superintendent] Dr. Alonso talks about bounded autonomy. It's not just "Do anything." It's, "Here's the guidance, here's what you should be spending funds on." He's very clear about principals serving at the pleasure of the superintendent.

What do you think are the most important skills for principals in districts using student-based budgeting?

MATTHEW HORNBECK: They need to understand how budget priorities translate into programming. I think that knowing where you're going instructionally is key to building a good budget. If I wanted to hire a director of enrichment intervention, I should know how much that costs, what that person's going to do, and I've looked for the person, and it's me taking the risk that the investment I'm making is going to pay off for our kids. Lots of districts over the years have had models where they say, "We're going to put a reading and math coach in every building," and that person is in the building without the leadership at the building having thought about what exactly that means, what that person will do, and making sure they have the skill set to get it done.

You also need to have principals who are actually pushing the reform from below as well as central office setting it up from above. Having principals empowered to provide that kind of continuous feedback to central office is really important. You are not going to get it right the first time, and you need their voices in the mix.

What advice would you give to another principal whose district was about to transition to student-based budgeting?

MATTHEW HORNBECK: I think that this is the moment where I'm supposed to say, "Hold on to your hat. Change is coming, and it's so startling and wonderful, but it's so hard you're going to have sleepless nights." [But] it wasn't that hard. I think people don't need to get too worked up about it. You need to bring people along in terms of helping them understand why it's important. I don't think anybody should be scared about it or have any trepidation about taking it on. I think it's actually not a big deal. I don't know what

You also need to have principals who are actually pushing the reform from below as well as central office setting it up from above. Having principals empowered to provide that kind of continuous feedback to central office is really important. You are not going to get it right the first time, and you need their voices in the mix.

percent of the 15,000 districts in the nation do or don't use [student-based budgeting], but it certainly makes sense from a teaching and learning perspective. You have to invest a little time in the planning at the beginning as a principal, but I think it is ultimately a time saver for schools, because you're not running around trying to figure out who has your pot of money or constantly trying to figure out who has the programming that you want. In fact, it's just the opposite. When the money is in schools and principals have control over it, all of the people with programs and all of the teachers with their resumes find you because you're the one that makes the decisions. And that's a really good thing from the school perspective.

Is there anything else you'd like to add that we didn't get a chance to talk about?

MATTHEW HORNBECK: Student-based budgeting is a key element of a comprehensive approach to school reform. I think there are two approaches to turning around schools. One is to provide the kind of intense curriculum oversight that results in very little control being given to the school. I would be on the other side of that discussion. I would not only give higher-performing schools more autonomy. Even schools that are historically lower performing, maybe even *especially* those schools, need to be given the bounded autonomy that student-based budgeting represents to make the huge changes that are necessary.

Other districts look at Baltimore and see that you don't need to have the kind of high, centralized control over the lowest-performing schools in order to see some positive outcomes for students and families. Lots of times people think, "Let's do [student-based budgeting] as a pilot." But, Baltimore is a shining example: you don't have to wait; you can do it now; you can do it quickly; you can do it within a year. You can make a change that's as fundamental as a funding mechanism, and you can do it districtwide across 200 schools and 80,000 kids. Then you can refine it year after year. It's nice because we've hit a point where there is no going back now that schools have this control.

Student-Based Budgeting in Tough Times: The New York City Experience

Ellen Foley

New York City's effort to shift to fair student funding reveals some of the challenges of school finance reform in an environment of economic crisis.

Ellen Foley is associate director of district redesign and leadership at the Annenberg Institute for School Reform.

The New York City Department of Education (NYCDOE) instituted a student-based budgeting (SBB) formula beginning in the 2007-2008 school year, prior to the economic crisis. In early 2007, when Schools Chancellor Joel Klein first laid out the details of what they referred to as the "Fair Student Funding" (FSF) plan, New York City public schools were expecting a windfall of sorts: $900 million of new aid from the state, from city tax revenues, and from devolving central functions out to the schools (NYCDOE 2007b). But a financial picture that had looked promising in early 2007 quickly turned bleak.

Some advocates argue that SBB is more desirable in an economic recession because it is a more transparent system and allows more flexibility in how cuts are applied to schools. But tough economic times were one of the challenges noted by participants in the recent Fair Student Funding Summit, convened by Education Resources Strategies (ERS). In the conference proceedings and recommendations for Action, ERS notes: "When districts are almost at a bare minimum for covering basic needs, WSF is less relevant" (ERS 2010, p. 19). As one conference participant noted, "The schools had an illusion of discretion, but contracts and staffing obligations left principals debating over what amounted to pennies in the end" (ERS 2010, p. 19).

What has happened in New York City schools over the last three years under the FSF formula? In this article, we examine the NYCDOE's efforts to shift to FSF, the impact of severe budget cuts, and the future of the WSF formula.

How Did the Public React to the NYCDOE FSF Proposal?

In announcing the proposal for FSF, Schools Commissioner Joel Klein cited several reasons for adopting a weighted student formula. Klein told the *New York Times*, "I think it's important to the city that we can say that we are being equitable, we are being transparent, and we are treating kids who are in a similar situation the same." He also described it as part of his effort to empower principals and hold them accountable for student achievement:

> One of the things I hear from principals is, "Well, how can you hold me to the same standards as others, when the funding allocations are not equitable, are not transparent, and they are not fair." (Herszenhorn 2007)

As New York City's Independent Budget Office (IBO) reported in 2007, there have been wide disparities in classroom spending in New York City. In 2005, classroom spending averaged $4,642 per student but ranged from a low of $2,511 to a high of $8,569, a difference of up to $6,058 per pupil (New York City Independent Budget Office 2007a, p. 1). Many people assumed that these disparities stemmed from the level of teacher experience in each building – with generally wealthier schools having more experienced – and therefore more expensive – teaching staff than schools serving low-income and minority students. However, as IBO reported in the same report, "Per student spending is more closely related to the number of students per teacher than to average teacher salary" (p. 1).

Still, the initial FSF plan proposed by the NYCDOE would have not only allocated funding based on student characteristics, but would have also used actual teacher salary, rather than average teacher salary, to formulate school budgets. Most districts who adopt SBB formulas continue to budget using average teacher salary for a number of reasons, including because it is more predictable and does not create incentives to hire inexperienced teachers or let go of senior staff (ERS 2010). The advantage to using actual teacher salaries is that they "reflect the true cost of staff at a school and can expose inequities between schools" (ERS 2010, p. 16). As the NYCDOE explained in its FSF guide, the traditional, position-based formula funded schools

> based on the teachers they hire. This means that we give more money to schools for having more experienced, higher-paid teachers. The inevitable consequence is that we give less money to schools for having less experienced, lower-paid teachers. At two schools with 100 teachers each, one with teachers earning an average of $60,000 and one with teachers earning an average of $70,000, the funding difference can reach $1 million. That difference is especially troubling when we know that the school with lower-salary teachers likely has greater needs. (NYCDOE 2007a)

This switch from the traditional practice of using average teacher salary was the most controversial aspect of the NYCDOE plan. There was also a lively debate about what the specific weights for students with different characteristics would be. Organizing groups such as Advocates for Children of New York, The New York Immigration Coalition, and ACORN questioned whether proposed weights were adequate (New York Immigration Coalition 2007). In a press release on April 19, 2007, the NYCDOE announced it would "increase the weights for English Language Learners to reflect the specific challenges

This switch from the traditional practice of using average teacher salary was the most controversial aspect of the NYCDOE plan. There was also a lively debate about what the specific weights for students with different characteristics would be.

these students face" (New York City Government Press Room 2007). There was no reported increase in poverty or special education weights, however.

Some education advocates and organizing groups, such as the Metro Industrial Areas Foundation (Metro IAF), supported the change to student-based budgeting in New York City. But others questioned the move to WSF in general. *The New York Sun* published an opinion piece that questioned the premise that

> the quality of education is tied to the number of dollars spent [because] …it distills educational needs to a formula expressed in dollars and cents, not teachers and services… and is open to political pressure and manipulation. (Wolf 2007)

And the Educational Priorities Panel opposed the move to SBB, asserting that under a weighted student budgeting scheme, "per-pupil amounts can become an abstract dollar figure with no relationship to the real costs of teachers" (Educational Priorities Panel n.d.).

However, the proposal to charge schools the actual cost of their teacher salaries got the most attention in the press. During the NYCDOE outreach campaign on FSF, the United Federation of Teachers and middle-class parents raised concerns about the potentially perverse incentive of developing budgets based on actual teacher salary rather than average teacher salary. Press accounts described worries that it would destabilize schools and shift higher paid, more experienced teachers to lower-performing schools. Mark Diller, co-president of the parent-teacher association at Middle School 54 in Manhattan, told the *New York Times*, "We don't want decisions about who is teaching our children based on, 'Well, if I do this, I can buy copy paper'" (Melago 2007).

What Did the Formula Finally Look Like?

By May of 2007, Mayor Bloomberg announced a compromise. As *Education Week* reported:

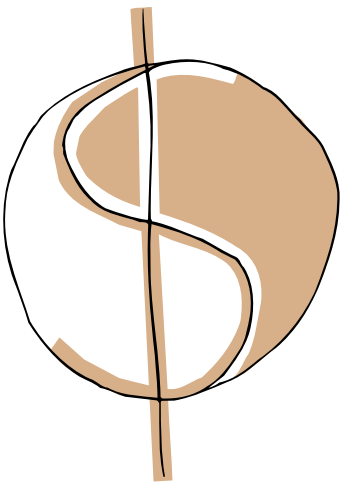
> The mayor struck a deal with the United Federation of Teachers, as well as other education advocacy and community organizations, that will essentially slow or halt any major shifting of veteran teachers from the middle-class neighborhoods where they tend to work to schools in poor neighborhoods for at least the next two years. (Maxwell 2007)

The agreement included a "gradual" implementation of FSF "with a focus on lifting schools up to parity, not bringing any down" (NYCDOE 2007a,

p. 8). In the June 2007 press release that launched the new funding system, Chancellor Klein described the level of funding for public schools in New York as "unprecedented." The tone was celebratory:

> This year, we're giving schools more spending power and greater discretion over how they spend their resources, and we're taking a major step toward making our school funding system equitable. Our new Fair Student Funding formula will help us level the financial playing field, making sure that all schools receive what they need to educate their students, so all schools can be held to the same high standards. (NYCDOE 2007b)

The NYCDOE developed a "hold harmless" provision, so that the salary of any teacher hired prior to April 2007 would be fully funded, regardless of the amount of money the FSF formula generated. This "legacy supplement" covers "increases in salary due to increments for steps, longevities, and differentials for these teachers, for as long as they remain in the same school" (NYCDOE 2008). The supplement is tied to specific teachers. As those teachers retire or move on to different schools, supplements for their increases will be eliminated.



The department also agreed to level up funding so that no school's budget would be reduced through FSF. Budgets would only change for schools whose allocation would increase if FSF were fully implemented. Those schools would receive approximately 55 percent of the difference between the old budgeting approach and the FSF approach, capped at $400,000. These provisions were put in place for two years, with the assumption that "overfunded" schools would start to see some reductions in their FSF allocation by 2009-2010 and "underfunded" schools' budgets would rise during the same year. Stephanie Lawkins, executive director of the NYCDOE Office of Data and Reporting, explained, "The expectation was that the pot was going to get bigger, and we would eventually, over two years, bring up the schools that were under, and then everyone would keep rising."

The FSF allocation was determined by four factors: a foundation amount of $200,000 per school[1] plus three types of weights – grade weights, needs weights, and weights for students in "portfolio" high schools. These are detailed in Figure 1.

The NYCDOE also pledged to consider in the future weights for gifted and talented students and students with an interrupted formal education, such as immigrants who enter the United States after the second grade with two years or less of schooling.

1 This amount has risen to $225,000 per school to adjust for rising costs.

TYPE OF WEIGHT	CHARACTERISTIC	ACTUAL WEIGHT	AMOUNT PER PUPIL
Grade-level allocation	K–5	1.00	$3,788
	6–8	1.08	$4,091
	9–12	1.03	$3,902
ACADEMIC INTERVENTION WEIGHTS			
Achievement	Poverty (K–5)	1.24	$4,697
	Below standards (6–8)	1.35	$5,114
	Below standards (9–12)	1.25	$4,735
	Well below standards (6–8)	1.50	$5,682
	Well below standards (9–12)	1.40	$5,303
English language learner	K–5	1.40	$5,303
	6–8	1.50	$5,682
	9–12	1.50	$5,682
Special education	Less than 20%	1.56	$5,909
	Between 20% and 60%	1.68	$6,364
	Greater than 60% self-contained, K–8	1.23	$4,659
	Greater than 60% self-contained, 9–12	1.73	$6,553
	Greater than 60% integrated, K–8	2.28	$8,637
	Greater than 60% integrated, 9–12	2.52	$9,546
NCLB transfer *(students who transfer out of schools designated as low-performing)*	NCLB transfer	1.53	$5,788
HIGH SCHOOL PORTFOLIO WEIGHTS			
High school portfolio	Career and technical education	1.15	$4,356
	Specialized academic	1.25	$4,735
	Specialized audition	1.35	$5,114
	Transfer	1.40	$5,303

Figure 1. New York City Department of Education Fair Student Funding allocation weights.
Source: NYCDOE 2007a

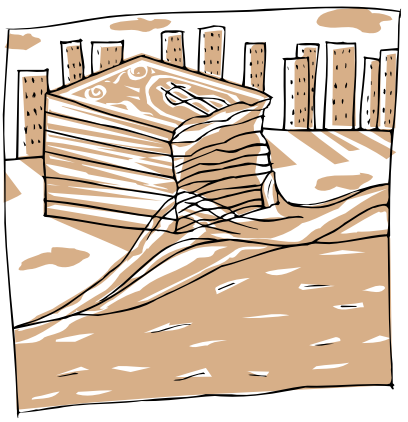
SBB in Tough Economic Times

IBO published a fiscal brief in October of 2007 and found that FSF combined "funding streams totaling $5.5 billion in annual allocations, representing 63 percent of the 2008 school budget allocations of $8.7 billion" (New York City Independent Budget Office 2007b, p. 3). In the same publication, IBO reported that "under the new formula, schools with higher-needs students were allocated more per student when school size and teacher costs were held constant" (p. 1).

But New York City had no sooner implemented its SBB system than the financial crisis began. The impact was immediately felt with mid-year cuts in the 2007-2008 school year totaling $180 million and ranging from $9,000 to $447,587 per school (Gootman & Medina 2008). Coupled with cuts made for the 2008-2009 school year, the schools' budget was cut by about 3 percent over a year and a half. With funding from the state and city

declining, the NYCDOE began to signal that full implementation of FSF in the 2009-2010 school year was unlikely.

The crisis continued to impact the schools in 2009 and 2010. Budgets were slashed by 5 percent for the 2009-2010 school year (Medina 2009); without stimulus funds the cuts would have been deeper. And the NYCDOE jumped through financial hoops to limit the impact of cuts for the 2010–2011 school year to a net loss of no more than 4.2 percent for any school



and to assure that no school fell below a minimum operating threshold (Smith 2010). Mayor Bloomberg told the *New York Times* that he regretted the cuts. "But the job is not just to make things better. The job is to make things better with the resources we have," he said (Otterman 2010).

The nature of the recession and the increased costs and dramatic cuts that ensued challenged NYCDOE's effort to "lift schools up to parity" (Cramer 2010). While the NYCDOE did reallocate some unrestricted funds in 2010 to address the needs of underfunded schools, the amount that could be reallocated was capped at 3 percent, thus allowing "overfunded schools (in FSF terms) to remain overfunded" (Smith 2010). Stephanie Lawkins noted, however, that the NYCDOE "changed nothing about FSF" this year. Rather the department used the formula as a way to assess whether all schools had the basic funds to operate. It was actually Children First and ARRA dollars that were reallocated to assure that every school had enough money to open its doors.

The Future of FSF in New York City

We interviewed some of the stakeholders involved, in a variety of roles, in the implementation of FSF in New York City. In the first year, FSF was a "big issue" for New York City public school principals, according to Ray Domanico, formerly the senior education advisor to the Metro Industrial Areas Foundation and currently the IBO's director of education research. "In the last two years the biggest concern from principals has been the budget cuts coming down, and their need to plan for that," he told us. Due to the budget cuts, the intricacies of the FSF – whether the weights are correct, and whether they meet the needs of schools in different locations, with different physical plants, and so forth – have not been subjects of conversation.

Philip Weinberg, the principal of the High School of Telecommunication Arts and Technology in Brooklyn, lamented that FSF had not been fully implemented: "We have a large special needs population in our building, and they require more support. The Fair

Student Funding system speaks directly to that in a very, very elegant way." He described how over the last few years, the only additional staff he has hired have been special needs teaching staff: "If the funding system works, it drives you in that direction. You almost have to do what the numbers tell you." He supports FSF and hopes that in better economic times the conversation will shift away from cuts and into the nuances: "Do we have the right weights? Are we measuring, valuing, and financing the right things?"

However, Weinberg questioned the idea that SBB might be more useful during a recession: "That's true only in a theoretician's mind." While he understood the premise, he asserted that it ignores the realities of the negotiated contracts, which define the chief costs in a school:

> The system makes sense only if I'm allowed to pick and choose who I hire and who I let go based upon my appraisal of their ability to work. But we're not allowed to do that. Until that changes, Fair Student Funding does not make cutting a budget easier or more efficient.

From the NYCDOE perspective, Lawkins did feel that the FSF formula was useful in tough economic times because it provided a common metric for the cuts and a rationale for applying them to schools. Prior to FSF, she said,

> school budgets were legacies of the days where you sat down with the superintendent and made your budget depending on which way the wind was blowing and what was done in the past. It really was incredibly hard to understand where the allocations were coming from and why. We had a chart with arrows all over the place, which looked like a keystone cop diagram. In the era of transparency, accountability, and empowerment, that wouldn't cut it.

With Fair Student Funding, she feels "the conversation is so much more focused." When the NYCDOE announced the reallocation for this school year they didn't hear an outcry from principals. They didn't like the cuts, but "all the principals got it." Lawkins attributed that to FSF: "They were judged against the same yardstick."

Asked about the future of FSF in New York City, Domanico predicted that a new emphasis on teacher quality potentially might impact the next contract between the United Federation of Teachers and the NYCDOE, as well as FSF:

> One thing that has changed in the last two years – the battleground has really changed. When we started looking at this in the early part of this decade, we were talking about the allocation of senior teachers. Now we're talking about seniority and merit pay. That will have a big impact on the future of this.

"We have a large special needs population in our building, and they require more support. The Fair Student Funding system speaks directly to that in a very, very elegant way."

However, Domanico noted:

> [It's] hard to imagine that the true spirit of Fair Student Funding will be realized until the financial conditions of the school district improve significantly. It is a lot easier to work towards equity when everyone is on the rise. It's harder to do that when people are cutting back.

Helaine Doran, the deputy director of the Campaign for Fiscal Equity, which sued to reform the state's school funding systems, is also looking to better economic times to assess the true impact of FSF. She distinguished between the equitable distribution of an inadequate sum of money and true equity, which also requires adequate funds:

> Although our name [Campaign for Fiscal Equity] reflects our mission, we didn't win on equity. We won on adequacy because the state's constitution is silent on equity. Part of what is problematic is that the folks who talk about weighted student funding, they aren't asking for more resources. They want student needs not just to drive the money, but also to contain it.

Lawkins acknowledged that the funding cuts have been dire and that dividing up an inadequate pie equitably was not what the NYCDOE first envisioned when they adopted this formula in 2007. She predicts that the NYCDOE will continue to do FSF in the future but will have to re-examine the formula, the weights, and what is weighted as well as all the sources of revenue. "We have to fundamentally question everything," she said. "We can't just continue with the status quo."

References

Cramer, P. 2010. "City Says Strapped Schools Can Go without Parent Coordinators," Gotham Schools blog (May 24), <http://gothamschools.org/2010/05/24/city-says-strapped-schools-can-go-without-parent-coordinators/>.

Educational Priorities Panel. n.d. "EPP'S Four Major Concerns about the Proposed New System for Funding Teachers," Educational Priorities Panel, <www.edpriorities.org/Info/CityBudget/info_ChildrenFirst_Funding.html>.

Education Resource Strategies. 2010. *Fair Student Funding Summit: Conference Proceedings and Recommendations for Action*. Watertown, MA: Education Resource Strategies.

Gootman, E., and J. Medina. 2008. "Principals Angrily Try to Cut Budget," *New York Times* (February 1).

Herszenhorn, D. M. 2007. "Plan Seeks to Change New York School Financing," *New York Times* (January 24).

Katz, N. L. 1998. "City Schools Spend More on Students; Bigger Bucks than Last Year," *Daily News* (June 4).

Maxwell, L. A. 2007. "Mayor Backs Off Plan for School Funding Method in N.Y.C.," *Education Week* (May 2).

Medina, J. 2009. "School Budgets to Be Cut by 5 Percent Next Year," *New York Times* (May 19).

Melago, C. 2007. "Fears on School Funding," *New York Times* (April 8).

New York City Department of Education. 2007a. *Fair Student Funding: Making It Work for You and Your Students*. New York: New York City Department of Education. Downloadable PDF: <http://schools.nyc.gov/NR/rdonlyres/49E192E9-02A7-452D-B0A3-C3CDBEF14845/0/FSFGuide_05080707092007.pdf>

New York City Department of Education. 2007b. "Chancellor Klein Announces Substantially Larger, More Equitable, and More Flexible School Budgets, Giving Educators Greater Spending and Decision-Making Authority." Press release. New York: New York City Department of Education, <http://schools.nyc.gov/Offices/mediarelations/NewsandSpeeches/2006-2007/20070508_fsf.htm>.

New York City Department of Education. 2008. *Allocation Memorandum No. 03, FY09* (May 22). New York: New York City Department of Education. Downloadable PDF: <http://schools.nyc.gov/offices/d_chanc_oper/budget/dbor/allocationmemo/fy08_09/FY09_PDF/sam03.pdf>

New York City Government Press Room. 2007. "Mayor Bloomberg, Chancellor Klein, UFT President Weingarten, the New York Immigration Coalition, ACORN and Other Parent and Stakeholder Groups Announce Renewed Commitment to Work Together to Improve the City's Schools" (April 19). Press Release. PR 117-07. New York: NYC Government Press Room.

New York City Independent Budget Office. 2007a. *Contributing Factors: Disparities In 2005 Classroom Spending*. Background Paper. New York: New York City Independent Budget Office. Downloadable PDF: <www.ibo.nyc.ny.us /iboreports/FairStudentFunding1.pdf>

New York City Independent Budget Office. 2007b. *New Funding Formula Seeks to Alter School Budget Disparities*. Fiscal Brief. New York: New York City Independent Budget Office. Downloadable PDF: <www.ibo.nyc.ny.us /iboreports/FairStudentFunding2.pdf>

New York Immigration Coalition. 2007. "Mayor's New Education Plan Raises Concern," *NYIC Immigration News* (February 26).

Otterman, S. 2010. "Schools Open With New Challenges and Tight Budgets," *New York Times* City Room blog (September 8), <http://cityroom.blogs.nytimes.com/2010/09/08/schools-open-with-new-challenges-and-tight-budgets/>.

Phillips, A. 2010. "Q&A: The Independent Budget Office's New Education Watchdog." Gotham Schools blog (September 10), <http://gothamschools.org/2010/09/10/qa-the-independent-budget-offices-new-education-watchdog/>.

Smith, Y. 2010. "As the School Year Begins, School Budgets are Up and Down," New York City Independent Budget Office blog (September 21), <http://ibo.nyc.ny.us/cgi-park/?p=222>.

Wolf, A. 2007. "The Unfairest of Them All," *New York Sun* (May 11). Available online at <www.nysun.com/opinion/unfairest-of-them-all/54306>

Beyond Funding Formulas: District Transformation through Weighted Student Funding and Strategic Decentralization

Naomi Calvo and
Karen Hawley Miles

Weighted student funding within a "strategic decentralization" reform strategy provides principals with the flexibility to budget around their schools' needs, along with the capacity building and accountability to use that flexibility effectively.

Walk down the hall with a dedicated urban principal, and you'll see her greet every child by name; she'll point out one who just went to live with his grandmother because his mother was incarcerated, another who arrived recently from a refugee camp, and a third who dances up to show off new bright pink sneakers, courtesy of the recent clothing drive. The students in her school are not test scores. Talk to the area superintendent, who oversees twenty schools but can tell you about the different needs of each: this one has a thirty percent student mobility rate, that one has fifty percent new teachers this year, another just had an influx of Haitian earthquake victims who don't speak English.

Districts are very much aware that different students and different schools have radically different characteristics, histories, and needs. But in our work consulting for large urban districts we often find significant misalignments in how they allocate resources to schools. Our analyses typically show that schools and students with similar needs receive different levels and types of resources that don't match their circumstances. This is in large part because districts generally distribute resources by applying identical staffing formulas to schools regardless of their needs, and a web of district, state, and federal policies restrict how principals can then tailor the resources they've been given. All too often, the result is a system that is unintentionally inequitable and inflexible and doesn't serve school needs.

We've come to see weighted student funding (WSF) as a promising solution to these challenges because it can create transparency, flexibility, equity, and the conditions necessary for schools to organize themselves effectively around the particular needs of their students and staff.

Can changing how we allocate dollars to schools really have a profound impact on instruction? By itself, probably not. But perhaps the biggest takeaway from the recent conference on WSF convened in March 2010 by Education Resource Strategies[1] is that it's really about how finances can be strategically organized around the academic agenda, rather than being

Naomi Calvo is manager of consulting and Karen Hawley Miles is president and executive director at Education Resource Strategies.

1 This conference, which provided the inspiration for this issue of *Voices in Urban Education*, is described in more detail in the preface.

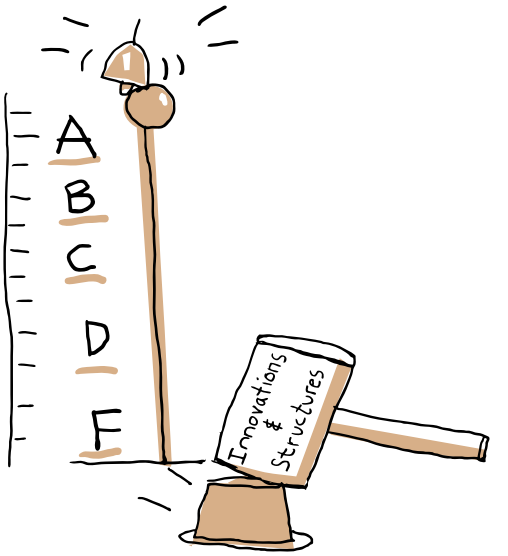
about budgeting per se. Combined with a system that gives principals real flexibility in how they use resources, principals who have the knowledge and skills to use resources strategically, and a strong accountability system that provides oversight and support, a WSF approach can lay the groundwork for district transformation. We refer to this combination of WSF with elements of site-based management as *strategic decentralization* because when implemented deliberately to include all of these elements, it enables strong principals and teachers to organize resources strategically to best match student and school needs.

In this article, we begin by describing why strategic decentralization has the potential to be transformative and then discuss the three key elements that must go along with changes in the funding formula to make it so. Throughout, we draw on our experiences in working with districts to implement WSF and the rich discussions that occurred at the Fair Student Funding Summit convened by Education Resource Strategies.

The Potential for Transformation

In our work with high-performing schools over the last decade, one of the core characteristics we've observed is a particular type of strategic nimbleness. These schools have a sense of urgency about reform, they believe passionately in a continuous cycle of improvement, and if something is not working, they figure out why – in real time – and change it. They deliberately organize their talent, time, and technology to match their instructional design and student needs. They don't wait for the next school year or the next round of official test scores to adapt.

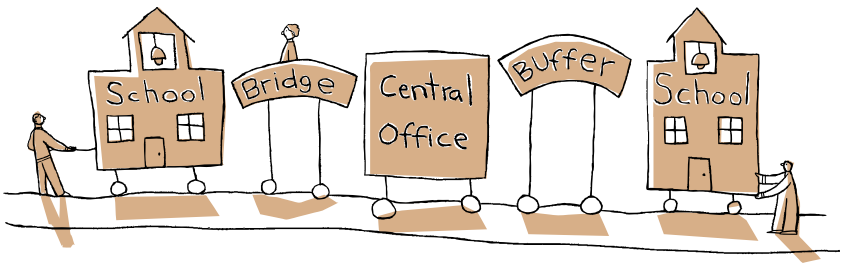
In contrast, typical schools are very slow to change when things aren't working. High-performing schools, or nimble schools, notice right away when a child isn't mastering a concept and provide tutoring, more time, or differentiated instruction. Typical schools only notice when the child fails a test or a course and respond after the fact by having the child repeat the course or go to summer school. Nimble schools react promptly when a teacher isn't making the grade or a schedule isn't working by intensive coaching, moving staff around, or shifting schedules mid-year. Typical schools wait until the new school year to make staffing or scheduling changes and are much less deliberate about how they think through changes. They tend to be bound by the "what is" and take existing resource patterns as a given, rather than as a key tool for improving student and teacher performance.



Nimbleness is rare in schools in part because existing district structures typically impede it. Resource patterns generally are a given in most schools, rather than something under principal control. Schools don't make adaptive changes in real time because to a large extent they can't. The potential of WSF to be transformative comes from the fact that it can create conditions that support school nimbleness rather than inhibit it.

But the impact of WSF depends very much on how it is implemented. Simply allocating dollars to schools based on a weighted student formula won't help unless principals have flexibility in how they use resources.[2] Increased flexibility won't help unless principals have the knowledge and skill to use resources strategically in ways that will improve teaching and learning. And a strong accountability system must be in place to provide oversight, support, financial safeguards, direction, and urgency. Together, these three elements of a WSF system – *real flexibility* in how resources can be used, *principal capacity*, and *accountability* – can potentially cohere to create a whole system of strategically nimble, effective schools that provide high-quality instruction and support to their students. In the rest of the article, we lay out the key considerations for each of these three key features.

Before we look more closely at each of these elements, it's important to note that the details of the WSF formula are also an essential piece of the puzzle. There is no single right way to design a formula, and different approaches have been discussed elsewhere (ERS 2010; Miles, Ware & Roza 2003; ERS, forthcoming), but the process of developing a WSF formula can itself be part of the transformative process. It forces districts to confront key questions such as: How much does it cost to educate different types of students, and what are the best ways of doing so? How do we know when a student will require extra resources? How much extra do specialty schools and small schools cost? Are these schools working to produce strong student outcomes, and are they worth the extra cost? The process of developing a WSF formula often brings to light funding differences across schools and helps district leaders be deliberate about when differences make sense and when they don't.



2 For a principal's perspective on this type of flexibility, see Matt Hornbeck's interview in this issue of *Voices in Urban Education*.

Nimbleness is rare in schools in part because existing district structures typically impede it. Resource patterns generally are a given in most schools, rather than something under principal control. The potential of WSF to be transformative comes from the fact that it can create conditions that support school nimbleness rather than inhibit it.

Creating Real Flexibility

There are two things at play in creating real flexibility in how principals can use resources. The first is removing constraints such as rigid district policies and union regulations that might sound good in theory but are limiting in practice. The second is making sure that principals have control over the budget items that matter most without overburdening them with operational functions that might masquerade as flexibility but in fact end up needlessly distracting them from their main focus as instructional leaders. We will discuss each of these issues in turn.

PRINCIPAL FLEXIBILITY

Moving to WSF allocates dollars differently, but it doesn't automatically translate into flexibility in how schools can use resources. The district can "unlock" certain line items but still dictate how the dollars are spent. For example, if schools are required to have a specific number of custodians at set salary levels, then devolving this line item to schools would be meaningless in terms of flexibility.

Advanced Placement (AP) course mandates are another example. In order to ensure equitable access to college-level courses, some districts require that all high schools offer specific AP classes. If some of these classes are under-enrolled, however, this can result in an AP physics class with five students while thirty-five students are crammed into the required biology class. The principal might have preferred two biology classes and no AP physics but doesn't have the choice.

Likewise, districts with high mobility rates may reasonably decide to mandate that all high schools use the same schedule so that students who change schools mid-year aren't caught between one school that is on a semester system and another that has year-long classes. But principals then lack the flexibility to adapt their school schedule to the specific needs of their students and school focus (for instance, a performing arts school might want large blocks of time in the afternoon

for rehearsals, while STEM schools might want double-period lab sessions several times per week).

District policies such as those described above often make sense when considered independently or in theory. Equal access to advanced classes and structures that address student mobility are laudable goals. It is the interpretation and combination of these requirements that ends up curbing innovation and forcing unintentional tradeoffs that do not make sense for students or teachers. District leaders need to examine each policy that intentionally or unintentionally constrains school resource use and look at the combined effect on the amount of control that principals have over school resources. For each policy, it is important to ask: What problem does this solve? What do we lose by doing it? What tradeoffs are we forcing, and are they worth it?

The lesson here is that too much control can impede nimbleness almost as much as too little control, since principals can get bogged down in non-strategic things. Therefore, a core part of creating a strategic decentralization system is deciding on the right balance between school and central control.

Typically, principals face constraints on resource use from a combination of state and federal requirements, district policies, and union contract obligations and are limited in their ability to make fundamental decisions, such as:

- select staff;
- determine salary levels, job structure and responsibilities, and career progression for building staff;
- define the length and schedule of the teacher day;
- opt out of district services and instead purchase services from outside vendors or use the dollars for other purposes;
- transfer funds freely among line items.

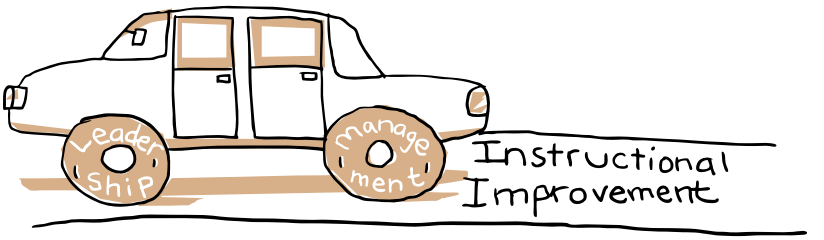
Loosening these constraints can be a challenge, but it is imperative in order for strategic decentralization to succeed.

> Principals have to be creative and have flexibility in how to fund their priorities. They figured out how to do it, whereas if we'd tried to do it centrally we'd never have gotten there.
> — ERS Fair Student Funding Summit participant

STRIKING THE BALANCE BETWEEN SCHOOL AND CENTRAL CONTROL

> We tried to figure out how to support principals by taking the managerial stuff off their hands without tying their hands. That was a constant balance we had to strike.
> — ERS Fair Student Funding Summit participant

In a strategically decentralized district, how much should principals have control over? In one district that moved to WSF, district leaders began by assuming that they would "unlock" funding for everything unless they had a compelling reason not to, such as legal requirements or economies of scale. They ultimately shifted control of $70 million from the central office to



the schools. Such discussions get to the heart of a district's beliefs about who does what in a school system and what the principal role is in relationship to the district.

However, the district ran into an unexpected dialogue with its principals over what they did and didn't want control over. For instance, the district initially decided to devolve control of custodians and maintenance to schools, but a number of principals balked when faced with things like trying to figure out how much toilet paper to order. Many of them wanted the central office to be responsible for custodians and maintenance, though they wanted control over who was in their building – in other words, if a particular custodian wasn't working out, they wanted to be able to get a different one.

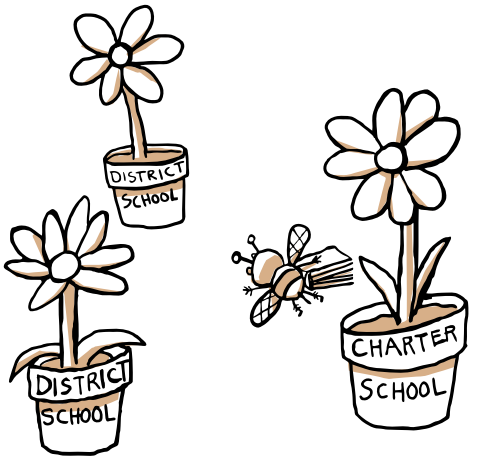
The lesson here is that too much control can impede nimbleness almost as much as too little control, since principals can get bogged down in non-strategic things. Therefore, a core part of creating a strategic decentralization system is deciding on the right balance between school and central control, shifting the balance over time when needs change and potentially creating a tiered system where some principals have more control than others depending on their interests and abilities.

Principals' ability to use resources well is a key factor to success; we turn to that next.

Ensuring Capacity of School and System Leaders

> It's one thing to expect principals to be instructional leaders, and it's another thing to expect them to be really savvy in terms of how to allocate resources. Principals need to learn how to use resources to drive priorities and set the academic fabric of the schools.
>
> — ERS Fair Student Funding Summit participant

Participants in the Fair Student Funding Summit underscored that putting finances at the service of the academic agenda of the school requires principals who know how to organize resources to effectively support instruction – but few principals currently receive this type of training. It is not part of the standard principal toolkit because in most districts principals are handed inflexible school structures and asked to function within them, not adapt them. Districts that are attempting to create whole systems of nimble schools through strategic decentralization need to retrain current principals



One of the key pieces of work that needs to be done when building a WSF system is devising a cycle of information that merges the financial and the academic components so that school budgeting is linked to the school planning process and academic needs drive the budget, rather than vice versa.

or find new principals willing and able to take on the newly empowered job (or a combination of both: one district replaced nearly half of its principals during the first two years of implementing WSF).

Summit participants agreed that getting the right school leaders in place is a huge challenge. As one stated, "There is a lack of preparation of principals in resource management and in understanding how resources drive instruction and meet goals." Districts often lack the expertise to create meaningful training programs for principals, some current principals resist the additional responsibility that comes with WSF, and pre-service principal training programs do not include the relevant components. The success of strategic decentralization rests on principal capacity more than on anything else – nimble schools require strategic leaders – so this is an area where districts moving toward WSF should focus their energies. It is also an area where WSF districts could fruitfully collaborate to create joint principal training approaches.

Strategic decentralization also requires a different central office mindset and new organizational structures and tools to bolster principal capacity.[3] As one summit participant remarked:

> There has been a philosophical change: the principal is the CEO of the school. The central office is there to support them. We've inverted the pyramid so that the principal is on top, telling the central office what they need, rather than on the bottom. That's required a cultural change and huge structural changes in the district.

3 For a more thorough discussion of the central office changes necessary to support strategic decentralization, see Jason Willis and Matt Hill's article in this issue of *Voices in Urban Education*.

Creating Clear Accountability

> It's not just a budgeting process. It has to be coupled with accountability, clear performance standards, and empowerment.
> — ERS Fair Student Funding Summit participant

The increased flexibility that comes with decentralization necessitates a two-pronged accountability system to monitor both fiscal and academic outcomes. On the fiscal side, the district needs to ensure that schools are meeting the law, not going over budget, and using dollars appropriately. On the academic side, the district needs to hold schools responsible for student results, which means setting clear and rigorous-but-realistic achievement goals, establishing meaningful consequences, and creating a support system to help schools when they need it. There are three issues that districts need to think through carefully as they build WSF systems: the difficulty of creating evaluation and support functions that complement each other; the use of tiered approaches to principal autonomy; and the necessity of having the right tools and the right data.

EVALUATION VERSUS SUPPORT

As noted above, monitoring success and providing support are essential components of an accountability system, but districts find it challenging to create structures where these functions work in tandem. Principals who are struggling may be reluctant to reach out for support when the office that supports them also evaluates them. A number of districts have tried to deal with this problem by creating a wall between support and evaluation functions. These WSF districts have moved to a "network support" approach that is entirely separate from the principal supervision and evaluation structure. The network consists of up to fifteen schools supported by a team of four central office staff who organize district services in response to the school needs.

TIERED AUTONOMY

> One of the main things you have to decide is: Is autonomy the de facto starting point? Or is it something to be earned?
> — ERS Fair Student Funding Summit participant

In a WSF system, not every principal needs to have the same degree of flexibility or control over resources. Some districts take the stance that all schools have full autonomy unless they prove unsuccessful, in which case the central office may step in to provide more direction or, in extreme cases, replace the principal. Other districts use a system of earned autonomy, where schools gain increasing autonomy as they prove successful and show they can operate effectively with limited oversight. Either of these approaches can work well, as long as districts are deliberate about what strategies they are using and why – that is, the strategy should fit the district's distribution of principal capacity.

TOOLS AND DATA

Both the fiscal and academic accountability systems require new tools and new ways of thinking about data. All too often in current systems, districts collect information for compliance and reporting purposes rather than focusing on creating the right data at the right time for school improvement. One of the key pieces of work that needs to be done when building a WSF system is devising a cycle of information that

merges the financial and the academic components so that school budgeting is linked to the school planning process and academic needs drive the budget, rather than vice versa.

This is harder than it sounds. Principals often complain that they spend a lot of time filling out data forms for the district but don't have access to the synthesized information that would actually help them assess their schools and make good decisions. And most districts do not currently have ways of assessing how schools are using resources. Districts need to develop new ways of measuring resource use to better understand how schools are organizing talent, time, and money, as well as having benchmarks and principles for what good resource use looks like.

Creating the Conditions for a Districtwide Transformation

Schools reside at the center of a network of multiple connections between the district, the state, the union, and federal, city, and community entities. Each of these stakeholders is well intentioned and doing its best to help schools succeed. But too often, the network ends up constraining rather than supporting schools. We believe that strategic decentralization holds promise for restructuring the network by highlighting where the connections support schools and where they constrict schools and by starting a districtwide conversation around how to best address the individual needs of each and every school. If all the key decisions are made at the district level or above, it becomes impossible to tailor resources in a particular school, with its unique mix of students, staff, history, dynamics, and principal leadership style.

The charter school movement is an interesting example here because it originated specifically to create schools free from typical district constraints and bureaucracy. In many cases, it has succeeded in creating nimble schools with empowered school leaders. But these are single schools or small networks of schools serving a relatively small number of mostly self-selected students. They may be putting competitive pressure on school districts and providing important arenas for innovation and proof of concept, but they are not creating systemwide transformation, and they are not accountable for educating all children. We need to develop ways of creating whole systems of effective schools, as opposed to individual successes. Strategic decentralization offers a promising catalyst for the necessary district-level transformation. But we caution that the details of the design matter, and the key structural elements must be in place in order for it to succeed.

References

Education Resource Strategies. 2010. *Fair Student Funding Summit: Conference Proceedings and Recommendations for Action*. Watertown, MA: Education Resource Strategies. Available for download at: <www.erstrategies.org/resources/details/fair_student_funding_summit1>

Education Resource Strategies. Forthcoming. *ERS Guide to Implementing Weighted Student Funding*. Watertown, MA: ERS.

Miles, K. H., K. Ware, and M. Roza. 2003. "Leveling the Playing Field: Creating Funding Equity Through Student-Based Budgeting," *Phi Delta Kappan* 85, no. 2:114–119.

Annenberg Institute for School Reform
AT BROWN UNIVERSITY

Annenberg Institute for School Reform
Brown University
Box 1985
Providence, Rhode Island 02912

Non Profit Org.
US Postage
PAID
Providence, RI
Permit #202

This book is printed on Environment® Paper. This 100 percent recycled paper reduces solid waste disposal and lessens landfill dependency. By utilizing this paper,

- 4 trees were preserved for the future.
- 2,876,400 BTUs of energy were conserved.
- 12 pounds of waterborne waste were not created.
- 191 pounds of solid waste were not generated.
- 1,725 gallons of wastewater flow were saved.
- 376 pounds of greenhouse gases were prevented from forming.