



DIGITAL LEARNING NOW!

FUNDING STUDENTS, OPTIONS, AND ACHIEVEMENT



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DIGITAL LEARNING NOW! SMART SERIES

This is the sixth paper in a series of interactive papers that provides specific guidance regarding the adoption of Common Core State Standards and the shift to personal digital learning.

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Today's school finance system was not created with the flexibility needed to support the wave of educational innovations spreading across the nation. Innovations such as online learning and competency-based education hold the potential to personalize and customize learning and extend equitable student access to high-quality learning options. Students are increasingly seeking alternatives to traditional, factory-model schooling by replacing or supplementing traditional courses with online and blended options. Teachers are increasingly harnessing the power of technology to offer students more personalized instruction that creates greater opportunities for deeper learning.

Unfortunately, today's school finance system has a chilling effect on educational innovation since the unit of funding is the instructional institution and not the individual student. Until a new funding system based on students replaces that which is currently based on institutions, even the most potentially revolutionary educational models will remain inaccessible to the student body at large.

PROBLEMS WITH THE CURRENT SYSTEM

Its suppressing effect on innovation is just one of the many problems with today's current finance system. Decades of layering on attempted fixes to a broken system have only created a funding structure that is fraught with a growing list of problems.

Today's broken school finance system:

- Stifles innovation;
- Locks in outdated delivery models;
- Restricts universal student access to diverse, high-quality learning opportunities; and
- Ignores the relationship between spending and student outcomes.

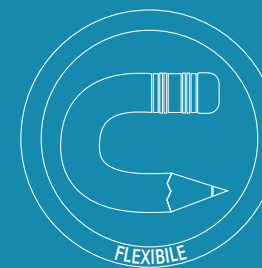
DESIGN PRINCIPLES OF A STUDENT-CENTERED FUNDING SYSTEM

Building on existing policy examples at the state and local level, the authors offer a set of design principles that will aid policymakers as they reorient the system around students. With these design principles at the core, a student-centered finance system will recognize diverse student needs, allow dollars to follow students to high-quality online and blended learning options, create mechanisms for ensuring quality, and foster educational innovation.



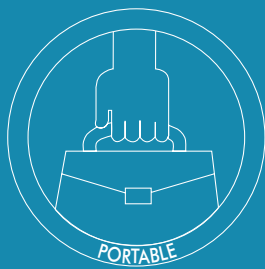
Weighted

Funding should reflect individual student needs by attaching "weights" to student funding amounts based on factors that affect the cost of educating certain students, such as poverty, special needs, ELL/LEP, or gifted.



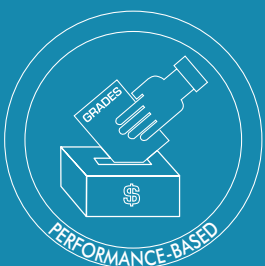
Flexible

A flexible finance system does not restrict funds or designate them for particular uses such as salaries, and thus creates greater school-level autonomy.



Portable

The principle of portability ensures that dollars can follow students to the school or course that best suits their individual needs – including fractional funding for full-time or part-time options.



Performance-Based

To ensure quality, a performance-based system creates incentives tied to student outcomes that reward performance and completion. Options include attaching a portion of provider payment and/or eligibility to student achievement data.

RECOMMENDATIONS

Of all the policy barriers that block student access to educational innovations which can personalize learning, improve outcomes, and prepare more college- and career-ready graduates, funding is the most problematic. The reason funding tops this list is the inherent disconnection between spending and learning that is built into the current system.

Beginning with the Fordham Institute's 10 recommendations in the landmark report [Fund the Child: Tackling Inequity and Antiquity in](#)

[School Finance](#), this paper offers additional recommendations for school finance redesign, including thoughts on state and district collaboration, as well as how to create space for innovation rather than imposing a centrally-mandated agenda.

The authors contend that a full system redesign is needed and suggest that policymaker priority should be to unlock dollars and attach them to students through a weighted, flexible, portable, and performance-based system.

CONCLUSION

The face of education is changing. Shifts in the nature of teaching and learning necessitate complementary shifts in the way education is funded. With the implementation of college- and career-ready standards and the shift to personal digital learning, policymakers have an unprecedented opportunity to redesign the current school finance system to set students free to explore the myriad of instructional opportunities available today.

In order to provide universal and equitable access to these options, students need to be supported by a funding system that empowers these choices.

The design principles in this paper have been tested in policy and in practice on both the state and district level. What's needed now is a commitment from leaders across federal, state, and local levels to commit to these principles in order to design a student-centered funding system.

States and districts today are facing the economic realities of "the new normal," and are looking for solutions. Fueled by a wave of educational innovation, school finance redesign matters now more than ever.

FUNDING STUDENTS, OPTIONS, AND ACHIEVEMENT

Like an outdated computer, no amount of tinkering, updating, or adding new applications will fix American school funding; it is “overloaded, can’t run all the programs we have attached to it, and was never designed for things we now most need done.”¹ That’s the conclusion of the most extensive study ever conducted of the patchwork way U.S. schools are funded. The 2008 report from Center for Reinventing Public Education (CRPE), *Facing the Future*, culminated from a six-year investigation. It outlines the problems plaguing the nation’s current school funding system and describes a detailed vision for a new system that places students at the center. The CRPE report provides policymakers and practitioners with a compelling case that justifies the need for a new system. Sadly, five years on, many states are still spending time and resources trying to find upgrades to a system that is quickly becoming even more outdated, given the dramatic innovations now made available to schools. The problem remains – the current system was simply not created with enough flexibility to support today’s educational possibilities.

PROBLEMS WITH THE CURRENT SYSTEM

Many elements of current funding structures assume that every child will attend the full-time traditional school in their neighborhood district. As traditional notions of schooling continue to evolve, policymakers have added on layer after layer of work-arounds which in many cases have only made matters worse. Decades of layering on attempted

upgrades to the current broken system have only created a funding structure that is fraught with a growing list of problems. While the list of key problems varies according to the unique perspective each state and district brings to the table, these are the over-arching problems with the existing system:

- It funds input and ignores the relationship between funds and student learning;
- Federal and state input-driven programs drive a large percentage of funding, and do not reward productivity or efficiency;
- Program-based allocations can have the effect of locking in outdated delivery models since current funding models often designate dollars for specific purchase inputs;
- Funding often reflects community wealth rather than the level of need;
- Innovation is not incentivized or supported under the current system;
- Student options are limited by outdated policies built around traditional notions of place-based schooling;
- The way money is currently applied in the system is in contradiction to stated missions of public education (e.g., in some cases more money per student spent on Advanced Placement than remediation);
- New models of digital learning will require a shift in allocation of resources in a way that current models may not permit; and
- Competency-based models of education are often restricted by seat-time-based allocations that make it difficult for students to move at their own pace.

Put simply, the current system funds input-driven programs that are managed by districts and implemented by schools. Such a system precludes many kinds of innovation, including technology, as well as redesigned staffing structures, student choice, and more. There's a new opportunity to align funding with objectives for improved achievement and completion as education is redefined as a "place" to a bundle of student-centered, outcome-driven services.

In this economic climate, a poor connection between spending and outcomes makes the system ripe for redesign. Even with focused attention on outcomes, the lack of attention to improve the relationship between outcomes and spending means these efforts are falling short of sustainable, systemic reform.

CHALLENGES & OPPORTUNITIES

A confluence of challenges and opportunities presents an unprecedented chance to finally make systemic and sustainable school finance changes.

The "new normal" economy of the last five years has put a strain on state revenue systems with long histories of maintaining the status quo. This adds to another existing problem related to financial sustainability, since costs are growing faster than revenue. Driven by desires to improve efficiency and boost productivity, state systems that tended to undergo major revisions only once or twice a generation suddenly have reason to consider new structures for behemoths like school finance. With mounting financial pressures, states will either slowly erode the system that they do have, or take bolder steps toward redesign. Given the once-in-a-long-while opportunity to rethink allocation formulas

in states, if not addressed now, states may end up locking in a new finance formula that isn't designed for the many advances in digital learning that will inevitably arise over the next two decades.

We stand at a "disruptive moment" in public education. For the first time in recent memory, the system is looking for solutions to problems that it is not used to facing. School districts are realizing that the model they've created is not sustainable and there's real interest at the school district leadership level to explore redesign.

While stakeholders advocate for finance redesign for different reasons, be they efficiency-driven or innovation-driven, everything is predicated on unlocking the money and attaching it to students. Framing the problem in this way keeps students at the center and builds in flexibility to allow the system to continue to evolve – regardless of the innovation.

The implementation of college and career-ready standards and the shift to personal digital learning create a historic opportunity to reshape education finance policy. Coupled with boosts in affordability and accessibility of Internet-access devices and technological innovations in teaching and learning, the time is right to explore how shifts in teaching and learning necessitate complementary shifts in the way public funds are deployed for schooling. There are more instructional options and environments available to students now than at any point in history. If we are going to provide universal access to these myriad options, students and their families need to be supported by a funding structure that enables exploration of these options. School finance expert Paul Hill explains that while today's funding arrangements might not wholly bar the emergence of innovation, they

Digital Learning Now! is a state policy framework designed to increase the percentage of young people that graduate college and are career-ready. The framework advises policymakers and state leaders on the core components of a system that extends high-quality educational opportunities to all learners. School funding is an essential element of the framework. DLN believes funding should fuel achievement while providing incentives for performance, options, and innovation. DLN recently released the [2012 State Report Cards](#) that evaluate each state on a set of metrics that include funding.

do limit the number of options students have to take courses from a range on international virtual school providers, enroll in hybrid or blended schools, and mix and match courses and other experiences from various providers.²

FUNDING THE FUTURE OF EDUCATION

The world is changing rapidly. We stand at a unique moment in time when educational innovations offer the potential for customizing educational experiences and extending access in ways that can serve students like never before. A growing number of schools, districts, networks, and states are rising up to meet the potential of new technologies by exploring new forms of teaching and learning that are increasingly online, blended, and competency-based.

It's an exciting time to be a stakeholder in this system. However, for every ground-breaking educational leader and school that is lighting the path to the future of learning, there are countless others who have desires to break free from the factory mold but find themselves limited by barriers constructed by our

outdated finance system. Educational innovations led by those who have found ways to work around the existing system are perpetually relegated to a life as a promising practice, unable to thrive and spread to serve all students at scale. Until a new funding system based on students replaces that which is currently based on staff, programs, and institutions, the most potentially revolutionary educational models will remain inaccessible to the student body at large.

When it comes to educational innovation, it's not enough just to create a promising new solution that has the potential to deliver better outcomes if added to the current educational model. Instead, it's about creating innovations that fit within existing budget constraints when applied at scale. The system can support innovation – but only if these innovations replace or eliminate the need for existing expenditures that have failed to produce results. It will require deep understanding of how money flows and how the overall school finance system works to create budgetary space for innovation. This is a necessary first step in creating a funding structure that supports all children in accessing their best learning options across multiple settings, modalities, and structures.

Paying for Innovation

In a recent presentation at the 2013 SXSWedu Conference, Marguerite Roza explained five ways that innovations in education can help pay for themselves:

- Enable basic efficiencies;
- Design reforms to expand the reach of staff;
- Design reforms to eliminate the need for some functions;
- Upgrade through substitution (innovation replaces something the district is doing); and
- Achieve your way into the black (less cost for remediation, repeated grades, etc.).

Computers have historically been considered an extra classroom feature, not something that should pay for itself. As a result, American schools have purchased almost 20 million computers with little benefit to show. However, blended learning is changing the way educators view technology – it is more frequently thought of as part of a school model that works better for students and extends the reach of effective teachers (as illustrated at [OpportunityCulture](#)). But these school models cost money to implement – computer purchases, training, and facilities updates all come before any savings are realized. These big investments can't be made without a source of funding and a plan to recoup some of the investment with schools that work better and cost no more (or even less where necessary) to operate. It's time to start thinking about investing in productivity.

In some cases it is possible, as noted above, to use savings to pay for innovations. In other cases, direct substitutions are possible – like open content on a tablet instead of a textbook. As we noted in [Funding the Shift](#), phasing in blended learning over three years reduces the capital requirements in each year (i.e., computers and training) to a level that may be covered by budget substitutions. The Mooreville, NC case study in [Funding the Shift](#) details this approach.

To plunge in all at once, leasing is a strategy to cover the cost of the Capital Expenditures. However, this approach will increase the total cost of ownership. Since districts can't easily borrow money or sell equity to pay for productivity seeking investments, grants (and operating surpluses) are really helpful but hard to come by. The opposite of pay-as-you-go substitution is using long-term bonds to pay for short-term assets – a really bad idea that dramatically increases the cost of ownership and burdens future generations with debt.

Innovation needs to pay its own way. By substituting or saving, innovations like blended learning should pay for themselves.

DESIGN PRINCIPLES OF A STUDENT-BASED FUNDING SYSTEM

The purpose of this paper is to issue a renewed call to action for state and district policymakers to take advantage of the economic opportunity for financial overhaul and make progress towards the creation of a student-centered school funding system. While most finance discussions to date have focused on state and district audiences as if they are two separate levels, key principles of allocation that make sense going forward would yield the same outcomes, and therefore this paper addresses these two audiences jointly.

State and district allocation systems should allocate funds equitably on the basis of students, not existing delivery models; promote equitable outcomes and innovation; enable student-centered allocation; empower student choice; and avoid lurching change. In other words, create a funding system that revolves around students and evolves with emerging opportunities. These aims suggest four design principles:

1. **Weighted** (reflecting student needs);
2. **Flexible** (not restricted by programs or designated for particular uses, like salaries);
3. **Portable** (follows student to the best school or course); and
4. **Performance-based** (funding creates incentives for performance and completion).

The next four sections outline each of the design elements, provide examples, and identify policy considerations.

The focus of this paper is on the allocation of funds, not the collection. This does not intend to diminish the importance of the revenue side, however this paper focuses on the disconnection between spending and outcomes on the allocation side. Once the system is redesigned to distribute funds with a stronger connection between outcomes and dollars, there will be a greater return on investment on the revenue side. By focusing squarely on allocation, we can ensure increased returns on investment in terms of student outcomes when revenue increases.



WEIGHTED

At its core, a funding system should reflect student needs. Currently, spending across districts and states is highly variable and yields poor connections to data on student outcomes.

Roza and Simburg (2013) highlight Denver Public Schools (DPS) as an example of the current broken system in their recent brief on student-based allocation.³ In the DPS example, per-student spending levels at each elementary school within the district varied from \$3,500 to nearly \$6,000 with no sense as to whether the uneven spending reflected uneven student needs or conflicted with it. This raises a big question: are the high-spending schools the ones with the most challenging students, or is this not necessarily the case? This is not a situation isolated to Denver (and pending legislation in Colorado will address this problem there); it's a common occurrence in school districts across the country – from large and urban to small and rural.

A weighted system of funding recognizes that some students bring additional risk factors to school that may require more time and attention.

While the topic of equalization of funding revenue continues to be the center of debate in many states, much progress has been made in this area and policy efforts to address equalization continue.

Equalized funding makes up for local shortfalls caused by a small tax base. A system of weighting must be built on an equitable foundation that backfills low tax base districts. Some degree of equalization is also important as options proliferate and funding becomes more portable. For more than 20 years, states like Washington have made some effort to equalize funding for low tax base districts.⁴

Attaching “weights” to the basic student amount goes a long way toward addressing the problem since funding is based on student need under a weighted student funding (WSF) model. A weighted funding model works by adding funds based on identified student risk factors in order to reflect the higher costs of serving students with those needs.

Factors typically considered include poverty, identified special needs, English-language learner, transiency, at-risk behaviors, prior achievement (including gifted), and vulnerable student populations (homeless, migrant, etc.).

Examples

There are many applications of WSF (also called “fair student funding”) at both the district and state level to act as models for reform in this area.

[Hawaii implemented a WSF](#) formula beginning with the 2006-2007 school year.⁷ Their formula allocates a specific dollar amount for each student enrolled based on “characteristics that impact their learning and achievement.” These characteristics and their weights are determined annually by the Committee on Weights, a group made up of educators (including teachers and school administrators) and community members.

The Collection Side of the School Finance Problem

While some inequities result from uneven revenues, many others are a function of the allocation policies that drive delivery mechanisms. For more information on the collection side of the school finance problem, see [The Stealth Inequities of School Funding: How State and Local School Finance Systems Perpetuate Inequitable Student Spending](#) from the Center for American Progress.

Weighted Student Funding Example

CATEGORY		ENROLLMENT	WEIGHT	PER PUPIL RATE	BUDGET ALLOCATION (\$ X ENROLLMENT)
GRADE	K0 - K1	48	1.80	\$6,585	\$316,080
	K2	46	1.60	\$5,853	\$269,238
	1 - 2	93	1.40	\$5,121	\$476,253
	3 - 5	88	1.30	\$4,755	\$418,440
POVERTY	% of Free & Reduced Lunch	88.1%			
	# of Free & Reduced Lunch Students	243	0.10	\$366	\$88,938
	# Above the District Average	23	0.10	\$366	\$8,418
ENGLISH LANGUAGE LEARNERS	K0 - 5 ELL Students	153	0.05	\$183	\$27,999
STUDENTS WITH DISABILITIES	Low Severity	19	1.00	\$3,658	\$69,502
	Moderate Severity	10	1.40	\$5,121	\$51,210
	High Severity - Autism	21	4.30	\$15,730	\$330,330
SCHOOL FOUNDATION					\$200,000
TOTAL					\$2,256,408

Adapted from Adams Elementary, Boston Public Schools example featured in Education Week webinar on Weighted Student Funding, available at: <http://www.edweek.org/media/studentweightedfunding.pdf>.

Utah has made recent headlines for Senator Stephenson's [Weighted Student Funding Bill \(S.B. 110\)](#), which requires school districts to distribute certain revenues to schools in accordance with a WSF formula and gives principals more autonomy to make budgeting decisions at the building level.

In Colorado, a proposed bill seeks to equalize funding across the state's schools using a detailed formula that includes weighted funding.⁸ [The bill, developed by Senator Mike Johnston](#), includes changes to Colorado's current funding model such as enrollment-based funding using average daily counts collected four times per year, multi-year averaging of enrollment losses to soften funding cuts, and weighted funding based on numbers of at-risk students and students who are learning English as a non-native language. The proposal would retain district funding for programs such as special education, gifted and talented programs, and transportation. The bill will go into effect for the 2015-2016 school year, although it is dependent on a tax increase up for voter approval this November.

In Georgia, a WSF formula under the Quality Basic Education program funds public schools as well as locally approved and state approved charter schools.⁹ The formula takes into account the number of students enrolled (in "Full-Time Equivalent" units, or 1/6th of a school day), class sizes, the teacher/student ratio, and weights assigned to different FTE categories (such as special education students, gifted and talented students, etc.). Individual schools handle their own local funding.

In March 2010, ERS organized a two-day summit for urban education leaders to explore weighted, student-based funding – resulting in a useful set of resources

related to district size, budget, and scope of various weighted student funding systems based on each district's unique approach. The [case studies](#) provide a useful starting point for leaders interested in making the transition.¹⁰

[San Francisco's Unified School District](#) implemented a WSF formula in 2002.¹¹ Under this WSF model, the amount is based on the total funds available for the WSF, foundation allocations (equal to salary and benefits for the principal and a clerk), "floor plan funding" (to pay for basic staffing at each school), and a Base Funding Factor adjusted by weighted factors such as grade level, socio-economic status students, special education students, and students learning English as a non-native language. Each school is responsible for developing academic plans, staffing plans, and budgets tailored to their specific needs. The central office is responsible for training, assisting, and monitoring schools. Budget responsibilities, such as equipment, textbooks, and custodial and nutrition staff, are assigned to either individual schools or the central office.

[New York City's public schools](#) phased in Fair Student Funding (FSF) during the 2007-2008 school year that uses a WSF formula to allocate school funds, but protects schools from receiving less money than they had under the old funding system.¹² Schools in NYC's Districts 75 and 79 are exempt from the FSF program "due to their highly differentiated instructional models." Schools use FSF dollars to cover basic instructional needs and are allocated based on the number of students enrolled at that school, weighted by factors such as low income. FSF funds are separate from the Capital Budget Plan that addresses building, maintaining, and equipping schools with "new assets."

The Equity and Adequacy Quagmire

What does it cost to educate a student? The answer is complicated and depends on local cost factors.

Hundreds of high-performing new schools, particularly in California, operate on a very low allocation despite relatively high labor and real estate costs. For example, Mike Kerr of KIPP Empower in Los Angeles receives one third of the public funding he received in New York City but produces the same results. KIPP and other charter networks may be able to supplement public funding with philanthropic donations, but they have illustrated that it is possible to organize schools in a way that produces better results with lower costs. In some cases, that may be partially a result of a lower level of challenge or higher level of parent commitment.

Equity implies sameness among equals. Equity studies typically include comparative analysis of schools and districts with similar levels of challenge. Cindy Stevenson, superintendent of Jefferson County Public Schools Colorado, said, "If we want equal outcomes... we're going to have some unequal funding – that's what equity is about."⁵

Adequacy implies sufficiency to the task. Adequacy studies usually build up budgets based on component costs of a traditional approach. Being input-based, these studies face all of the limitations of the systems they study (discussed above). Studies of this sort have been used to respond to equity lawsuits and have attempted to determine the cost of online learning.⁶

In 2009, the Reason Foundation published the [Weighted Student Funding Yearbook](#) which includes a list of best practices for WSF budgeting:

1. Redirect central office resources to schools;
2. Use school-level academic plans to align resources with achievement goals;
3. Publish detailed school-level budgets;
4. Use foundation grants to support small schools;
5. Charge schools actual salaries to increase equity;
6. Devolve district-restricted funds into the WSF;
7. Connect student weights to academic achievement rather than poverty;
8. Use hold-harmless strategies to phase in equitable school-level budgets;
9. Allow schools discretion over purchasing of central office services; and
10. Implement a WSF formula to help with enrollment fluctuations.

The Yearbook also details best practices for Accountability, School Choice, School-Level Management, and State Policies that align with WSF.

Since fiscal year 2009, Baltimore's public school principals have, under a FSF system, "controlled the majority of school budgets. In exchange for this flexibility and autonomy, schools are held responsible for student achievement."¹³ During the 2014 fiscal year, [Boston's public schools](#) will be in their third year of WSF (having completed a two-year phased rollout of their WSF system).¹⁴ Funds follow individual students to whatever school they choose to attend, and that school then decides how best to spend the money. Per-pupil funding is weighted based on grade level and class size (lower grades need smaller class sizes), poverty, English-language learners, disabilities, emotional impairment, and vocational students. Schools also receive \$200,000 each to pay for core administrative services.

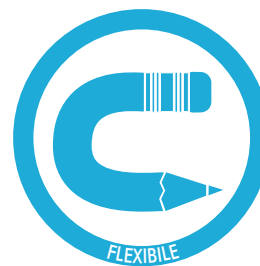
Policy Considerations

Providing funding that reflects the actual needs of each individual student makes sense, but implementation is complicated and can be controversial. Setting appropriate weights for each factor is challenging and may require annual adjustments (and negotiation).

How the weighted funding is allocated to schools is also important. A well-intentioned system collapsed under its own weight in Seattle when site-based decision-making became onerous and weakened accountability.¹⁵

Weighted funding must be provided with flexibility, as a block of funds and principals should have final authority over distribution.

"School budgets should be transparent and there should be hearings for parents to give their say," according to EdTrust-West.¹⁶



FLEXIBLE

Federal funding and portions of state funding come with programmatic restrictions and reporting requirements (e.g., Title I, ELL, Special Education). Districts often hire specialists to manage the programs, leaving schools responsible for implementing an array of disjointed, inflexible programs. The remainder of school budgets is typically distributed by district as a prescribed staffing model that all schools are required to follow. This combination of input-driven, prescriptive, federal, state, and local programmatic funding creates two problems: it creates systemic inequities and it leaves almost no school-level discretionary budget or flexibility.

Inequities arise from the combination of employment contracts (placement and compensation provisions) and prescriptive staffing models. Differences of 200-300% in the cost per class result from veteran teachers who make more than twice as much as new teachers moving to the suburbs, and taking on smaller, specialized classes like Advanced Placement (AP). A small AP class may cost much more per student than a large freshman algebra class and a low-income school may receive much less in real budget dollars than a school serving affluent families. Research from Marguerite Roza found that, in one example, AP courses came at a cost of \$1,660 per pupil, versus \$739 per pupil for

regular core courses.¹⁷ These differences are within a school, but it's not hard to imagine much bigger difference across schools and districts. These differences can swamp WSF mechanisms that attempt to differentiate funding by 10-20%.

An understanding of cost variables is key to flexible and equitable funding. As Roza notes, it is critical to compute actual costs using actual (not average) salaries for each class.¹⁸ This exercise points out differences within and between schools. The unit cost analysis makes the case for budgeting based on actual (not average) costs and ensures the intended impact of weighted funding. It allows schools to make informed decisions about priorities.

Programmatic average-cost funding, in addition to creating systemic inequities, reduces a principal's – or as they are often called, "building manager's" – ability to create a coherent instructional program around an intellectual mission. In addition to funding that reflects the needs of enrolled students, funding must be flexible enough for schools to make improvements and innovations in delivery – particularly important with the recent evolution of blended learning models.

As piloted in Edmonton, a decentralized district budget provides the maximum flexibility to schools.¹⁹ States could consider weighted school-based budgeting – directly funding schools rather than districts – modeled after the UK reform that shifted from Local Education Authority to schools a decade ago.

Beginning with the Education Reform Act of 1988 under the Thatcher government and then successive governments, especially the Blair administration, the UK devolved education budgets to schools. Former Blair aide Sir Michael Barber said,

"By 2004 we were delegating close to 90% of the total budget for schools to schools and delegating to each school a budget for three years (assuming constant student numbers), updated annually. Devolution was largely on a per-student basis with extra funding for schools whose students came from low-income backgrounds."

The downside to decentralized, school-based budgeting is that low-performing schools may not have the leadership in place to use it effectively. A system of earned autonomy, common in [portfolio districts](#), is a strategy for providing strong supports to schools that need it and providing maximum flexibility to schools that have demonstrated the ability to make good use of it.

Examples

Capable leaders and high-capacity schools make good use of flexible budgets. In the late 1990s, Steve Adamowski piloted a differentiated approach in Cincinnati that awarded flexibility to high-performing schools. Tom Payzant made Boston the best-run urban district in the country with a similar approach.

Building on these lessons, three dozen urban districts joined the CRPE [Portfolio District Network](#). Flexibility is one of the seven design principles:

School leaders should be given as much authority as possible to make the right decisions for their school – choosing who is part of their teaching and administrative teams, and having control over their budget and freedom to buy the services their school needs. In exchange, school leaders must work within their budget and be held accountable for results.

A “Backpack” of Funding

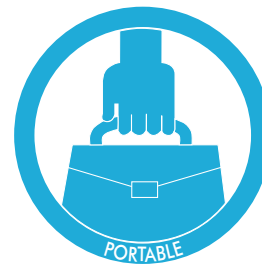
In [School Finance in the Digital-Learning Era](#), school finance expert Paul Hill describes a portable system where each student would have an account that held information about what educational funding sources were available to him/her and the schools or providers where it had been or could be distributed.²² He called this system a “backpack” of funding that would allow each student to carry their dollars to any eligible school or course provider where he/she enrolls, noting that the contents of the funding backpack would be flexible and not restricted to use with a particular course or service. The “backpack” idea is the ultimate in portability, because it would allow students and their families to “shop for the best combination of courses and experiences their backpack funds could cover.” Students could choose to rely on one school or provider for all of their schooling, or choose multiple sources, with funding distributed accordingly. As Hill explains, “This backpack-based funding would impact existing schools’ budgets immediately, creating incentives for schools to avoid losing students to other educational institutions or instructional providers.”

High-performing networks including KIPP and Green Dot schools share common design principles across their respective networks, but each school makes use of maximum budget flexibility. That allowed Mike Kerr, with very low funding at KIPP Empower in Los Angeles, to pioneer a classroom rotation blended learning model that produced impressive learning gains.

Policy Considerations

States and districts can promote equity and flexibility by promoting actual cost accounting and budgeting, and requiring transparent reporting.

A Fordham Institute-sponsored project suggests more significant changes to education governance. Like UK reforms, that could include weighted school-based flexible budgets.²⁰ Pushing budget responsibility to schools could be accompanied by a shift to performance contracting as the state’s primary accountability system. Each school and provider would operate under a performance contract with a three- to five-year term (depending on services), with funding based on the needs of enrolled students (see [7 Ways States & Districts Can Use Authorizing to Boost Quality & Innovation](#)).



PORTABLE

Students today are presented with a growing number of learning options – from full-time traditional, charter, and/or online schools to part-time, supplemental choices across the spectrum. Many assume that as students opt out of or choose to supplement learning from their traditional classrooms that dollars automatically follow them to the option of their choice. However, many states and districts currently lack a system that allows for portable funds to empower student access to the growing diversity of learning environments. Under a portable system, fractional funding follows the student to full- and part-time options and allows for customized learning pathways for each student according to his/her own needs. Paul Hill notes that portable funding is an essential part of an “innovation-friendly” funding system, since the free movement of dollars is allowed in a way that is currently prohibited, and therefore supporting more unconventional forms of instruction.²¹

Currently, both literal geographic barriers and structural policy barriers limit family educational options. As Digital Learning Now! recommends, every students should have access to high-quality full and

supplemental online learning with access to multiple providers. While this paper intends to create a new framework for all students in all kinds of schools, this is an even more pressing issue with the growing trend toward online and blended learning. With the increased range of online learning options cropping up across the country, there is no logistical or financial reason that every American student does not have access to a college-ready curriculum that includes a full range of AP, IB, STEM, and foreign-language courses.

Examples

There are examples from state policy that can help guide policymakers to liberate funds in order to make them more portable.

One of the most exciting recent examples is Louisiana – as highlighted in [Digital Learning Now!'s 2012 Digital Learning Report Cards. Louisiana's Course Choice](#) program will allow public school students to take classes from a variety of providers beginning with the 2013-2014 school year.²³ As the DLN Report Card notes, with the Course Choice program, “students can browse and enroll in courses using a state-managed catalog of more than 1,500 courses. It is hoped that this will grow into a ‘marketplace of course options’ that allows students to compare courses based on results, student surveys, and other data points.”²⁴ According to the program’s website, “Students can earn high school and college credits through Course Choice, obtain industry-based certifications, and gain relevant, real-life work experience.

Approved course providers include five public school districts, every public college and university in Louisiana, Louisiana-based course providers, and virtual schools.” Students can enroll in any Course Choice class at no cost if they attend a public school rated C, D, or F, or if their A- or B-rated school does not offer the class they want (such as AP courses or robotics). However, funding for Course Choice is currently uncertain. A State District Judge ruled that the program’s funding model (in which public education funding followed individual student by way of vouchers) was unconstitutional, and the case is being appealed.

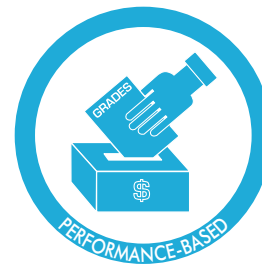
Utah established a Statewide Online Education Program in 2011, which allows public school students in grades 9-12 to earn credits towards their high school graduation through online courses.²⁵ Funding for the courses comes from the ordinary per-pupil funding that flows to a student’s school district. When that student completes portions of their coursework, corresponding portions of their per-pupil funding are diverted to the district of the online course provider (which may be another Utah school district or charter school). Final payment to the provider is based upon successful completion of the course, or credit earned as defined for all public schools by Utah State Board Rule. Prices for online courses are tiered, with core subjects costing more than non-core subjects. The program allows home-schooled and private-school students through an appropriation of the legislature to participate in the program in year three, being the fall of 2013.

Policy Considerations

Portability is a natural outgrowth of a student-centered funding system, since it is a necessary ingredient in a system that ties funds to student outcomes and not programs. To protect flexibility and portability, federal and state policies should not dictate particular uses of funds or prioritize some student options over others. Funding should not be restricted by programs or designated for particular uses, like salaries, that follow students to the best school or course. This is a core tenant of a system where dollars are unlocked and attached to students.

Policies that support flexibility and portability are particularly important when considering trends toward online, blended, and competency-based learning. For students who are supplementing traditional courses with online learning, funding must follow them to the course level. The same is true for students who are moving at different rates through content and courses.

Currently, both literal geographic barriers and structural policy barriers limit family educational options. As Digital Learning Now! recommends, every students should have access to high-quality full and supplemental online learning with access to multiple providers. While this paper intends to create a new framework for all students in all kinds of schools, this is an even more pressing issue with the growing trend toward online and blended learning. With the increased range of online learning options cropping up across the country, there is no logistical or financial reason that every American student does not have access to a college-ready curriculum that includes a full range of AP, IB, STEM, and foreign-language courses.



PERFORMANCE-BASED

As the CPRE report suggests, today's finance system is oriented around compliance and institutional needs, rather than around outcomes and the needs of students. The innate disconnect between resources and results is perhaps the most troubling of the deep-seeded flaws in the current patchwork system. To ameliorate this problem, it's necessary to move to a performance-based system that provides incentives for completion and achievement, opens doors to innovation and new models of teaching and learning, and avoids unintended consequences common in current funding models. Stanford's Eric Hanushek recommends a "performance-based funding" system that includes strong accountability, local decision-making, and directly rewarding performance.²⁶

Tying performance to funding and eligibility for continued operation is an essential element in ensuring quality as the field of educational providers expands. This becomes even more important when students have choice down to the course level. The key principle of a performance-based system is that providers retain eligibility based on performance.

Examples

A few key states are making headway with funding structures that incentivize performance. Florida is a well-known example of a performance-based system. Florida Virtual School (FLVS) supports around 400,000 course enrollments annually. They receive half of the funding for each course enrollment up-front and the other half based on successful completion.²⁷ Similarly, Utah online learning providers receive half of their funding from the state upon successful course completion. Louisiana pays online providers 50% of the tuition when a student enrolls and the rest when the student completes the course. If the student finishes late, the provider is penalized 10% of the total.

It's important to note here that such a large amount withheld can create the unintended consequence of creating a barrier to entry for new providers and cash-strapped districts that cannot afford to float a semester of working capital. These 'half up-front, half on completion' policies may work for part-time online learning but are not generalizable to the entire K-12 system. However, making a small component, say 5%, contingent on successful completion may be enough to avoid push-out incentives and reward success. A small performance contingency is simply an extension of funding on daily attendance rather than a beginning-of-the-year count.

Governor Pence of Indiana has recommended performance-based funding in his 2014-2014 fiscal year budget.²⁸ Pence's proposal recommends a 1% funding increase for public K-12 schools over the next two years, with the 1%

increase during the second year based on performance-related factors such as "school quality, graduation rate, and third grade reading assessment." The proposal also recommends increasing pay for high-performing teachers by adding \$6 million to teacher excellence grants.

Under a proposed plan, Arizona school districts and charter schools would be eligible for performance funding based on achievement and improvement.²⁹ Each component would be measured on a 200-point scale based on the A-F letter grades used by districts and charter schools already. All schools and districts earning a letter grade of C or higher would qualify for achievement funding, while only those that improve on their previous year's score would receive improvement funding. The maximum amount of performance funding per student would be \$500 for achievement and \$500 for improvement. In the first year, the amount would be capped at 20% of the total minus reallocated funds, for a maximum of about \$180 per student. Craig Barrett, chairman of the Arizona Ready Education Council and former retired CEO/Chairman for Intel Corp, called the performance funding model "a pretty symbolic effort" as a start for reform.

A key component of Florida's formula for improve student achievement was a performance component under the state's A-F grading system.³⁰ The state gives cash awards to schools that earn an A grade or improve a letter grade, such as going from a C to a B. The state awards these bonuses, \$100 per student, directly to schools and the majority of funds are used to provide bonuses to teachers and staff.

There are also examples from higher education worth mentioning. In 2010, Tennessee implemented an aggressive performance-based funding model that controls 100% of state funding for higher education. Tennessee's formula allocates funds based on a series of outcomes related to student persistence and graduation, weighted for low-income and adult students. The formula also considers institutional mission, recognizing that outcomes will look different for a community college than a four-year research university.³¹

In 2012, Western Governors University and McGraw-Hill Education announced a "pay for performance" agreement that tied McGraw-Hill's payments for their educational content to the performance outcome of WGU students using that content. McGraw-Hill Education will provide WGU with e-books and adaptive learning tools for a significantly discounted flat fee, and will receive a premium for each student who uses the materials and earns a "B" or higher. The partnership is expected to reduce costs and improve accountability for student success.³²

Policy Considerations

Authorizing and contracting: states and districts should make more extensive use of performance contracting for services. They can, in effect, buy a set of desired outcomes for a stated price and set of terms.³³ Examples of services with specified outcome include:

- Speech therapy services and other special needs services;
- English-language learning and foreign-language instruction;
- Online AP courses in hard-to-staff subjects and limited-enrollment courses;
- Dropout recovery/prevention academies; and
- School turnaround services.

New America Foundation, in a 2012 report, [illustrated how six states](#) make extensive use of performance contracting in higher education.

Removal of current mechanisms:

Eliminate unintended consequences of October-count-day funding (Colorado & Ohio), which creates a perverse incentive to push out more challenging students.

Balance incentives and disincentives:

DLN recommends that a portion of funding can be withheld to incentivize completion, with as little as 5% contingent upon achievement and completion.

Accountability system ties: DLN also recommends performance-based accountability. Low-performing providers and districts should lose the right to ongoing state funding.

It's Time to Separate Facilities from Operations³⁴

In *School Finance in the Digital-Learning Era*, school finance expert Paul Hill describes a portable system.

The way we build, manage, and maintain public school buildings is inefficient and exacerbates some of the biggest challenges in public education. With the recent growth of the public charter school sector, the rise of tech-infused learning models, and the migration of student populations across options and geographies, it's time for us to rethink the relationship between learning programs and public facilities. It's time to decouple the delivery and the ownership of school buildings.

School districts are usually granted two special powers by their state constitution: the right to grant diplomas and the right to levy taxes. Most districts run an annual operating levy that (in most states) augments state funding. Districts periodically propose a tax to build and remodel schools.

There are some old problems with this way of provisioning facilities. Most high poverty communities have limited ability to adequately fund schools. Most districts can only occasionally raise long-term funds and have no reliable way to pay for maintenance and short-term assets like computers.

There are some new problems with the way we provision schools. There are more than 6,000 charter schools nationwide and most of them don't have access to local funding or public facilities. In most urban areas, charters are treated with hostility and can't even access unused or underutilized existing district facilities. The combination results in a huge waste of public facilities and resources. There is a new digital layer of opportunity with expanded full- and part-time online opportunity, and an emerging range of blended models requires a different kind of facility; one that has big, open, flexible spaces (see the [10 design principles of blended learning](#)).

It's time for a new solution. Districts should be required or encouraged to move facilities into a public trust or sell them to a Real Estate Investment Trust (REIT) and lease them back at attractive rates. The trust would ensure that facilities were upgraded, efficient, and available to all public providers. A more flexible provisioning mechanism would benefit the creation of new smaller schools – several of which may share athletic and extra-curricular facilities.

In addition to (weighted, portable, performance-based) operating funding, states should add about 10% for facilities and fixed assets (e.g., \$50 on top of \$500 for a semester credit). The additional funding would allow any authorized school or provider to lease facilities and buy equipment. A small increase in state tax (perhaps a blend of revenues) would be offset by the reduction in local facilities tax.

The basic inequity of locally provisioned facilities and the growing number and type of educational providers suggests that it's time for a new solution. It is time to separate service provision from facilities development and management.

In a [recent analysis of school finance reform in Ohio](#), Paul Hill identified four criteria for evaluating school finance systems.³⁵ The four-part schematic he described is a useful framework to guide policymakers and educational leaders as they redesign school finance around “the one element of the education system to which [states] should be unconditionally committed – students.”³⁶

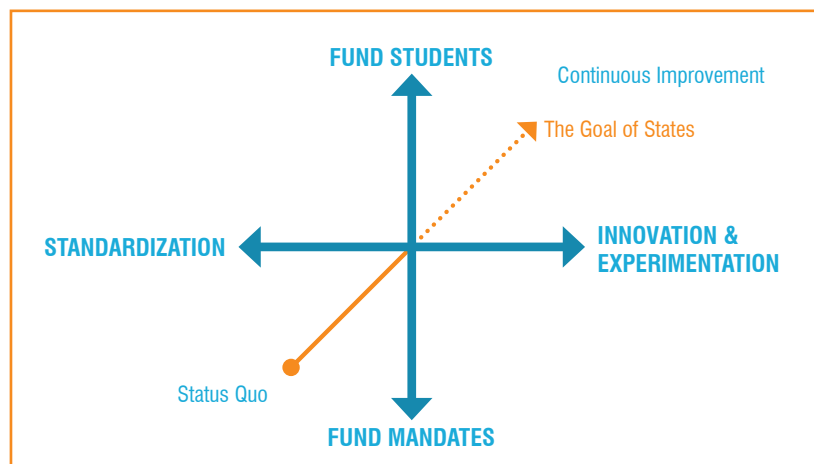
Along the vertical axis, each system can be evaluated – from a rigid system that funds mandates to a flexible system that funds students. The horizontal axis represents a continuum from a system that supports standardization to one that supports innovation and experimentation. Most school finance systems sit firmly in the quadrant marked by standardization and rigidity, whereas state systems need to get to the opposite quadrant where the system prizes flexibility and innovation.

Hill is wise to observe that funding is a great deterrent to innovation. In fact, of all the policy barriers that block student access to educational innovations which can personalize learning, improve outcomes, and prepare more college- and career-ready graduates, funding is the most problematic.

Unfortunately, the school finance structures that stifle access to these innovations often do not get the attention they deserve. It’s a messy and complicated problem, but one that needs an unprecedented investment of effort in order to reinvent the system. The opportunity now exists to tackle this problem head-on. The first step to eliminating the massive barrier that currently stands between students and equitable access to a diverse set of high-quality options is reorganizing funding around students, rather than institutions.

In 2006, the Fordham Institute released [Fund the Child: Tackling Inequity and Antiquity in School Finance](#). The landmark report ended with 10 recommendations that serve as a useful framework for guiding states, districts, and policymakers through school finance redesign.³⁷ We believe these recommendations serve as a great starting point for states that are considering ways to unlock dollars and attach them to students through a weighted, flexible and performance-based system. There are additional recommendations to consider.

Evaluating School Finance Systems



Graphic adapted from: Hill, P. [Steps in the Right Direction: Assessing 'Ohio Achievement Everywhere'—the Kasich Plan](#). Thomas B. Fordham Institute, March 2013."

State and district collaboration:

District leaders shouldn't wait for the state to get there; they can restructure funds around students and student types. In fact, in strained financial times, some states are already lumping together some grants and categorical funds to make more flexible, student-based allocations that provide the required flexibility to harness new delivery models, including digital learning. States also play an important role in helping to resolve district-to-school level issues. For example, states could encourage districts to post actual expenditures to schools by line item in order to ensure allocation of funds in the form of real dollars (in accordance with Fordham's recommendations).

Innovation vs. imposition:

Imposing a centrally-mandated, controversial agenda doesn't work well, e.g., IN and ID. Moving forward, states should find ways to unlock the system to allow those who are ready to go further, faster, to do so.

10 Recommendations to “Fund the Child” from the Fordham Institute

- 1** The vast bulk of funds should follow students based on a system of weights that takes into account the students' educational needs. States should retain centrally only those funds required for essential oversight and investments (such as research and development) that are best handled at the state level;
- 2** States should substantially increase their role in providing school funding to as high a level as possible, keeping in mind state constitutional and political circumstances;
- 3** Districts should allocate state and federal funds according to WSF principles and pass as much of this funding as possible to schools in the form of real dollars (rather than staff allocations or other program-based approaches). Districts should give schools wide budgetary autonomy, and agreements that hinder important areas of school autonomy - such as senior teacher “bumping rights” - should be amended to ensure that schools can direct funds as needed;
- 4** States should present districts with powerful incentives to allocate locally-generated funds according to WSF principles; for example, by using state funds as an incentive;
- 5** States should ensure that public charter schools and other comparable options receive full funding on par with traditional school districts; schools authorized by bodies other than districts should be financed by the state directly, with 100% of the operating dollars provided to districts as well as capital funding;
- 6** States and districts should develop systems that pump out copious, clear, and intelligible information about how funding is being distributed and spent at all levels of the system;
- 7** Districts should limit central spending to essential oversight, services, and research and development investments (such as curriculum design). Schools should be allowed to purchase services (such as food service) elsewhere unless benefits such as economies of scale clearly outweigh the loss of school-level control;
- 8** Federal law should require true equity, based on real salary cost (not average salaries), as a condition for federal funds eligibility. Federal policymakers should make funding contingent upon states and districts following basic principles of WSF;
- 9** Federal funding allocation formulas that favor wealthier states should be amended. The process of calculating per-student Title I allocations among states should be changed so states receive more money if they have low wealth, more money if they have high poverty, and more money for high spending “effort;” and
- 10** Federal policymakers should continue to streamline federal funding to allow school autonomy by minimizing strings attached to funding and allowing schools to combine dollar streams in ways that support their education programs. Schools should be held accountable primarily for outcomes.

Policy Development FAQs

How do we avoid creating disincentives for student acceleration?

Pay for units of learning, not for periods of time.

How do we promote attendance and persistence?

Reimburse schools on actual daily attendance rather than beginning-of-the-year counts.

How do we promote achievement and completion?

Withhold 5% of funding and make it contingent on achieving standards.

What about students who take more time?

Weighted funding should provide enough additional resources that it supports additional time for students with multiple risk factors.

How can we afford students taking on more than what is considered a full load?

States should contribute funding for students who request more than what is typically considered a full load if the student is on an accelerated diploma pathway because the state will save money when the student graduates early.

How can schools make annual commitments if enrollment could fluctuate?

Options are usually phased in, allowing schools and districts some time to adjust to fluctuating enrollments.

Schools and districts will need to be proactive about developing and marketing options to students and families.

Districts may need to keep slightly higher reserve funds.

What about students and families that make bad and late choices?

Parents and students should attend an in-person meeting before enrolling in a school or program.

Parents and students should pick a school/provider to provide transcript management, guidance, student supports, and access to extra-curricular activities. These services could be allocated about 10% of the total student funding.

Rolling enrollments, featured by Florida Virtual Schools, would help reduce late enrollments.

What about students who transfer in the middle of courses?

Some funding should be provided to schools/providers up-front based on initial enrollment. Monthly progress payments (based on reported progress) would match revenue with instructional cost.

Today's school finance system is fraught with problems that create barriers between students and universal access to high-quality, diverse learning opportunities. Chief among them is the disconnection between spending and learning that is built into our current finance system. In order to break this connection and reorient the system around student needs, the system needs a full reset; not simply another tweak.

Many of the solutions laid out in this paper are not new. The design principles have been tested in policy and in practice on both the state and district level. What's needed now is a commitment from leaders across federal, state, and local levels to commit to these principles in designing new systems with students at the core.

States and districts today are facing an acute financial problem and they are looking for solutions. Those previously content with layering on patches are now

ready to engage in full system redesign as they face the economic realities of today's "new normal."

Fueled by a wave of educational innovation, evidenced by a growing pool of students who are choosing from a diverse slate of learning options and schools that are shifting to new forms of teaching and learning to better address college and career-ready standards, school finance redesign matters now more than ever.

Paul Hill notes that, "A funding system can't cause innovation: It can only interfere with it or let it happen."³⁸ However, if states and districts followed the design principles contained herein, this might cease to be the case. A student-centered system – founded on principles of weighed, portable, flexible, and performance-based funding – would go a long way towards ensuring universal student access to innovations in teaching and learning that we are only just beginning to discover.

APPENDIX: SCHOOL FUNDING RESOURCES

Center for American Progress: The Stealth Inequities of School Funding

<http://www.americanprogress.org/wp-content/uploads/2012/09/StealthInequities.pdf>

Center for Reinventing Public Education (CRPE) Publications

<http://www.crpe.org/publications>

CRPE: Funding Student Learning: How to Align Education Resources with Student Learning Goals

<http://www.crpe.org/publications/funding-student-learning-how-align-education-resources-student-learning-goals>

CRPE: Now Is a Great Time to Consider the Per Unit Cost of Everything in Education

<http://www.crpe.org/publications/now-great-time-consider-unit-cost-everything-education>

CRPE: Student-Based Allocation to Enable School Choice http://www.crpe.org/sites/default/files/rr_10_sba_2013_jan13.pdf

CRPE: Facing the Future

<http://crpe.org/publications/facing-future-financing-productive-schools>

CRPE: Breaking Down School Budgets

<http://www.crpe.org/publications/breaking-down-school-budgets-following-dollars-classroom>

CRPE: Getting Down to Dollars and Cents

<http://www.crpe.org/publications/getting-down-dollars-and-cents-what-do-school-districts-spend-deliver-student-centered>

CRPE: Educational Economics: Where Do School Funds Go? <http://www.crpe.org/publications/educational-economics-where-do-school-funds-go>

Education Sector: Articles on Education Finance

<http://www.educationsector.org/issues/education-finance>

ERS Case Studies of Weighted Student Funding

http://erstrategies.org/resources/details/wsf_district_summaries

Fordham Institute Publications on Funding <http://www.edexcellence.net/publications/?issuestopics=school-finance>

The Fordham Institute: Fund the Child: Tackling Inequity and Antiquity in School Finance

http://www.schoolfunding.info/resource_center/media/Fordham_FundtheChild.pdf

The Fordham Institute: School Finance in the Digital-Learning Era <http://www.edexcellencemedia.net/publications/2011/2011>

[edexcellencemedia.net/publications/2011/2011](http://www.edexcellencemedia.net/publications/2011/2011)

The Fordham Institute: Creating Sound Policy for Digital Learning

[CreatingSoundPolicyforDigitalLearning/20111116_SchoolFinanceintheDigitalLearningEraHill.pdf](http://www.edexcellencemedia.net/publications/2011/20111116_SchoolFinanceintheDigitalLearningEraHill.pdf)

The Fordham Institute: Education Reform for the Digital Era

<http://www.edexcellence.net/publications/education-reform-for-the-digital-era.html>

The Reason Foundation's Weighted Student Formula Best Practices Report

<http://reason.org/files/wsf/bestpractices.pdf>

The Reason Foundation: Student Based Budgeting Handbook

http://reason.org/files/student_based_budgeting_handbook.pdf

SETDA Policy Database on Funding

<http://sepc.setda.org/topic/list/>

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John serves as the Executive Director of Digital Learning Now!, a national initiative of the Foundation for Excellence in Education that works with policymakers and innovators to accelerate the adoption of new models of education. John previously served at the White House as Special Assistant to the President for Domestic Policy during the Bush administration and was the Deputy Policy Director for the U.S. Secretary of Commerce, where he worked on innovation policy. John's experience also includes working at the Bill and Melinda Gates Foundation, where he built a portfolio of advocacy grants to advance college- and career-ready policies. He served as the nation's second Director of Educational Technology and has been a formal or informal advisor to three presidential campaigns. He is on the board of directors for the Data Quality Campaign and serves on the regional board for the social innovation fund Indego Africa. He also serves as a senior advisor to Whiteboard Advisors, which provides strategic consulting for investors, philanthropies, and entrepreneurs.

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