Creating Conditions for Policy Innovation in Education Finance

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Background

In autumn 2008, with funding from the Spencer Foundation, Professor Jacob Adams (Claremont Graduate University) and the National Conference of State Legislatures brought together veteran legislators who had been involved in state-level education finance reform legislation. The purpose of the gathering was to discuss the conditions precedent that allowed major education finance reforms to move forward through the legislative process. Below are some of the common themes and findings that came out of those discussions.

Main Findings

From the legislative vantage, the first finding of these forum discussions is that the views from the ***states are remarkably similar.*** Regardless of the particular policy or educational challenges that shaped these participants' experiences, the pressures and conditions of innovation were consistent across their experience.

> ***State example:*** One example of a common pressure and condition experienced in all states is the parochial, localized nature of politics. A veteran legislator from Colorado—whose leadership steered the way for passage of legislation redesigning the state's finance formula in 1994—remarked that legislative politics are local, and that the most parochial issue faced by state legislatures is funding for local schools. Regardless of the state, Spencer Forum participants agreed that innovation often occurs only after individual legislators feel pressure from constituents in their own districts.

In this regard, ***innovation requires an external stimulus***, an economic or educational crisis, for instance, or litigation that requires a legislative response. In short, the equilibrium of policy decisions, budgetary commitments, and interest group politics is sufficiently powerful that only unusual circumstances allow legislators to substantially alter these arrangements.

> ***State example:*** Occasionally, the absence of state court involvement in school finance issues may also operate as an external stimulus. For instance, operating under that assumption that courts in their state would refuse to involve themselves in school finance issues, school finance reform advocates in Pennsylvania—a state then operating on a defunct finance formula—took the initiative upon themselves to foment reform. In 2001, they established Good Schools Pennsylvania to push a grassroots school finance reform movement. Enjoying public and political support, advocates convinced the General Assembly to fund—with bipartisan support—a costing-out study. In 2007, the results of this study were released and later became the basis for Pennsylvania's new school finance formula.

Innovation requires legislative focus. By this our forum participants meant the organization of legislative structure, people, capacity, and political will. Marshaling these resources means working through the budget process, working with legislative champions who have the technical and political know-how to get results (not easy in term-limited settings), working in concert with the handful of members who control or substantially influence educational policy—including "the guy with the gavel"—and working with sufficient information to make the case for change.

> ***State example:*** In 2004, innovation was afoot in Hawaii. A band of legislators intimately familiar with the state's school funding formula, the budget process, and with the ear of legislative leadership, introduced innovative legislation that would change how Hawaii distributed state aid to schools (the "Reinventing Education Act of 2004"). Encouraged by the research of Professor William Ouchi, legislative veterans Rep. Roy Takumi and Sen. Norman Sakamoto crafted legislation that would become the nation's first statewide "weighted student formula." Legislators Takumi and Sakamoto met individually with their colleagues and legislative leadership to successfully marshal their legislation through committee votes, floor votes, and ultimately an override of the governor's veto. Rep. Takumi's and Sen. Sakamoto's knowledge of legislative procedure in tandem with their tenacity to navigate that procedure to their advantage personified legislative focus.

Innovation requires an external coalition. In some contexts, gubernatorial leadership is key. In all contexts, innovation is facilitated by consensus among administrators, school boards, and teacher unions. If taxes are on the table, business representatives must be there, too. In short, innovation is as much about creating the opportunity for change through coalition building as it is about generating specific reform proposals.

> ***State example:*** In Kentucky, the Prichard Committee represents one of the country's most successful external coalitions advocating for school finance innovations. A committee originally appointed in 1980 by the governor to explore improvements to the state's higher education system, the committee regrouped three years late as a private, non-profit coalition of education advocates, community and business leaders, and concerned parents. With its broad coalition of Kentuckians from diverse educational and business backgrounds, the Prichard Committee helped organize a groundbreaking

legal victory in 1989 when the state's supreme court ruled Kentucky's school finance system was constitutionally inadequate (*see Rose v. The Council for Better Education*, 790 S.W.2d 186 (Ky. 1989)). The "adequacy" theory upon which the Rose court based its decision heralded a new wave of school finance litigation nationwide that forms the heart of legal challenges still today. Twenty years after the Rose decision, the Prichard Committee retains a commanding presence in education policy discussions, a presence buoyed by its ability to attract broad based support from parents and from leaders in business, government, and education.

Innovation requires attention to the realpolitik of legislative change. The public interest in better educational results sometimes conflicts with the narrower interests of particular constituents or organized groups. The calculation of winners and losers, thus, becomes key, and, by extension, maximizing the former and minimizing the latter. Compromise is part of the process, though it alters the shape of innovations. And change frequently must be phased in, again altering the practical effect of what's accomplished. Such day-to-day legislative realities affect the timing and extent of what's possible and require a match between legislative strategy and context. Amidst these dynamics, dealing with a finance "system" creates new legislative opportunities; at the same time, there are few rewards for elected officials to take on an entrenched system.

State example: In January 2006, as nine school districts in North Dakota readied for a legal fight against the state over school funding, Governor John Hoeven proposed that the district leaders, state education stakeholders, and state legislators come together to formulate a new school finance formula. To get the sides to meet, the governor promised the plaintiffs he would seek an additional $60 million in state aid to public schools if they would drop their lawsuit against the state. Both sides agreed, and throughout 2006 the would-be court adversaries met at the same table to craft compromise legislation that increased state funding for public education while recalculating how the state distributes state aid. By August, both sides had unanimously created a compromise to send to the legislature for its approval. When the legislature met during the 2007 session, it passed the compromise legislation and increased the governor's initial promise of $60 million in new state aid to $90.7 million over two years. On May 3, 2007, Gov. Hoeven signed the compromise legislation into law and the school districts dropped their lawsuit.

North Dakota's experience demonstrates that innovations to a state's finance formula can occur when potential "winners" and "losers" sit at the same table to rethink an entrenched system of funding public schools. Through compromise, not through judicial mandate, legislators and their constituents hashed out legislation that both sides could support.

From the practitioner vantage, the major finding is the ***need to align policy initiatives with local improvement efforts***, so that policy creates a more supportive context for accomplishing student learning goals. As it is, according to participants, policy presents substantial impediments to success. In this regard, ***innovation requires more coordinated state-local attention to effective resource use***. Local leaders say they spend too much time and effort complying with state mandates and not enough time thinking creatively about big-picture improvements. In other words, a compliance orientation drives out strategic thinking.

> ***State example:*** To provide a pressure valve to schools struggling to meet state student academic achievement goals in conjunction with other state mandates, Colorado State Senator Peter Groff introduced the Innovation Schools Act of 2008. As passed by the Colorado General Assembly and signed into law, the Innovation Schools Act—a first in the nation—permits the State Board of Education to suspend certain statutes and administrative rules to allow struggling local schools greater autonomy over curriculum, personnel, and school schedules in an effort to foster on-the-ground innovations needed to meet the individual needs of the school. Along with this greater autonomy, the Act also allows local schools greater autonomy over its budget. Observers often refer to these local schools as "Innovation Zones." Innovation Zone legislation has now been passed in Maine and West Virginia and has been implemented on a district basis in a handful of cities from New York City to New Orleans.
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> While Innovation Zone legislation may not necessarily align local needs with state policy, it allows local schools to experiment with directing their financial resources toward effective uses, not just state-mandated uses. Innovation Zones mark the first step toward discovering innovative resource practices.

Innovation requires greater administrator knowledge and skill regarding resource use. One superintendent recounted how the alignment of resources with student learning is now a mantra, but many principals do not know how to do this. The resource choices and tradeoffs that underlie better performance thus depend on greater capacity to make these judgments.

> ***State example:*** Innovation Zones (as mentioned above) allow local schools greater autonomy over budget decisions. Local, school-based budgeting presupposes that local school officials, usually principals, have expertise in aligning purchases of educational services and products with students' learning needs. Because the development of Innovation Zones is in its nascent stages, most principals have yet to be tasked with acquiring the expertise needed to effectively manage a budget or to make purchasing decisions that align with student needs. Innovation Zone states have begun to recognize this vacuum in local expertise. For example, when enacting its Reinventing Education Act of 2004, which would ostensibly endow principals with greater budget authority, the Hawaii legislature also included a $1 million one-time appropriation in the Act to fund training for school leaders and principals for training that would include budget management skills. Across the nation, state legislatures appropriated at least $22.4 million in FY 2009 for programs directly targeting school leadership academies and professional development programs. More often, these academies and programs provide training on budget management. (*See* Childress, Stacey. "Investing in Improvement: Strategy and Resource Allocation in Public School Districts." Working Paper 10-057, Harvard Business School, 2010.)

Innovation requires new policy tools that simultaneously serve fiduciary and student performance goals. Examples include flexibility in categorical funding and restructured collective bargaining—such as the interest-based bargaining in Montgomery County, Maryland—that would allow resources to be better allocated according to student need. Other tools include new metrics that link resource use with student outcomes, budgeting systems that make it possible to see what's spent on professional development and similar strategic choices, and new accounting and auditing systems that stress student learning rather than fidelity to spending rules.

In sum, though these legislator and local-leader discussions were quite different—grappling with coalitions and policy opportunities on one hand, and teacher recruitment, curriculum, reporting requirements, and the like on the other—together they ***highlighted the need for better state-local relations***. A closer relationship could mean more informed policy making and more sustained attention to the local adaptations and practical consequences of policy in practice.

Significance of These Findings

Insofar as these findings represent broader legislator and local-leader perspectives, they are significant in their consequences for future work. For instance, the similarity of views regarding conditions that support innovation creates a remarkable opportunity to learn across states and to apply those lessons likewise. The key is to invest in a ***knowledge infrastructure*** that can cull and disseminate these lessons.

Similarly, the novelty of the student performance challenge and the need to redesign finance systems to fit it heightens the demand for ***development work on learning-oriented finance mechanisms***. Policymakers and educational practitioners both operate in demanding environments, more geared to enacting and implementing innovative ideas than generating them. Whether innovations come from research or practice, the field needs immediate attention to their generic development and subsequent attention to their local adaptation.

Realistically, a systems approach to education finance redesign introduces problems of scale for policy makers and practitioners alike—the too-much-at-once issue. The solution lies in ***sequencing innovations*** so as to match the long-run utility of "system" redesign with the shorter-term realities of legislative and local budgets and coalitions.

Finally, ***innovations have to be available when policy opportunities open***. This means pursuing the development work of finance system redesign regardless of the short-term prospects for change. Pushing the redesign agenda now sets up states and school districts to take advantage of future crisis-based opportunities.

Investing in knowledge infrastructure, developing operational models of change, fixing a logical sequence of innovations, and preparing for the next crisis-born opportunity all offer next steps in creating conditions for policy innovation in education finance.