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POLICY BRIEF

An Overview of Public School Funding in Washington

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Executive Summary

Operating expenditures for Washington's K-12 public schools have increased almost 92 percent in real terms since 1982, even though student population has increased by only 36 percent. In 2005, Washington taxpayers spent about $9,500 per public school student. In contrast, private schools typically spend around $6,000 per student. Even taking the differences in their missions into account, public schools still spend over 50 percent more per student than private schools, and generally achieve poorer academic results.

Despite a consistently high level of expenditure, less than half of Washington's public school students pass all sections of the WASL test. Since 1990, Washington has spent over $1.7 billion in targeted appropriations on various education reform initiatives. All these special initiatives were aimed at increasing student achievement, and have at best led to only limited academic improvement.

Washington public schools are well funded, so simply spending more tax money is not the answer. Instead, there are proven reforms that can improve student learning in public schools. Studies show that schools where students consistently perform best operate in districts with the most decentralized administrative systems. Yet, in nearly all of Washington's 296 school districts, local principals control less than six percent of the budget; 94 percent of education funding is controlled by central administrators. Rigid, top-down budgeting is very much the norm in Washington state.

For the last ten years, the Seattle School District has used a method that shows how districts can shift effective budget control to local principals. Seattle uses a "weighted student formula," which allocates funds so that money follows the students, depending on their particular needs. In 2003, this method gave local principals control over 79 percent of their schools' budgets. While this approach is an improvement, it is just a start in the right direction. The central bureaucracy of Seattle Public Schools still controls almost half of the money allocated by the state, and it determines the hiring and terms of employment for almost all the professional staff in the district.

I. Public School Funding Basics

A little over one million students attend Washington public schools, kindergarten through 12th grade (K-12). Across the state, 2,251 K-12 public schools are organized into 296 school districts. In addition, about 73,000 students attend private schools and a further 19,000 students are home-schooled.[1]

In 2005, there were 53,117 certificated public school teachers, 3,925 administrators, 36,502 classified staff (food services, transportation, building and plant care, and administration employees), and 6,906 support services personnel, for a total public school workforce of a little over 100,000.[2]

The state's total population, however, has grown at a much faster pace than the number of students, creating a larger tax base to pay for educating a proportionately smaller number of students. Between 1971 and 2006, the state population increased by almost three million people (82 percent),[3] while K-12 public school enrollment increased by only little over 200,000 students (25 percent).[4]

Yet, while K-12 student enrollment in public schools has increased by only a quarter, the number of teachers on the public payroll has risen more than twice as fast, growing 68 percent over the last 30 years.

State funding and district management

Local school districts are generally responsible for providing instructional programs for elementary and secondary school children. Locally elected school boards are responsible for financial management of each school district. The state, through the Office of the Superintendent of Public Instruction (OSPI), supervises school district budgeting, accounting, and financial reporting, which provides a consistent standard for financial management and accountability.

OSPI administers 15 formula-driven state programs funded through an apportionment process, 16 state grant programs, 28 federal grant programs, and numerous programs funded under contracts between OSPI and school districts. (See Appendix for detailed breakdown of 2005-2007 Budget for Basic and Non-basic Education.)

In a 1970s court decision (discussed below), Judge Robert Duran ordered that a majority of local school district funding must be paid for by state taxpayers, supplemented by local levies, grants and federal funds. In the 2005-2007 state budget,

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[1] "A Citizen's Guide to Washington State K-12 Finance, 2005" Senate Ways and Means Committee, p. 2.
[2] Senate Ways and Means Committee Staff, "Overview of Washington's K-12 Finance System, May 2005," from OSPI School Apportionment and Research; 2004-2005 enrollment data are year-to-date through January 2005.
[3] In 1971, the total population in Washington was 3,436,300. By 2005, the population had increased to 6,287,700, "Quick Facts, Washington," United States Census Bureau.
[4] "K-12 Enrollment," Office of Financial Management, www.ofm.wa.gov/trends/data/fig406.xls; "Public Higher Education Enrollment," Office of Financial Management, www.ofm.wa.gov/trends/data/fig416.xls.

$11 billion, or 43%, of the $26 billion General Fund budget is devoted to K-12 public education.[5] The result of this approach is that, for most districts, the vast majority of funding comes from the state, not from locally-approved taxes. For example, in 2005-2006, the Seattle School District received 56.4 percent of its funding from the state.[6]

II. Reform Efforts Since 1977 Lawsuit[7]

The shift from local to state funding

Washington ranks seventh in the nation in the percentage of money provided for local K-12 education that comes from the state budget, as opposed to local funding sources.[8] The high percentage of state funding is the result of a lawsuit filed against the state by the Seattle School District in 1977. Two Seattle school levies had recently been defeated by the voters. Rather than reduce the cost of the levies to taxpayers, or re-order priorities within the education budget to respond to voter concerns, Seattle school board members decided to go to court instead.

School funding lawsuits

In 1977, Thurston County Superior Court Judge Robert J. Doran, in a case known informally as School Funding I, ruled that the state had neither defined nor fully funded basic education.[9] In 1978, the state Supreme Court upheld Judge Doran's ruling. The high court said that under Article IX of the state constitution, it is the "paramount duty" of the state to provide a "basic education" to all children, by making "ample" provision through "regular and dependable" tax sources.[10]

Thus, the court said, state taxpayers are constitutionally required to fund basic education for all citizens. The court said money from local tax levies, which varies from year to year and from district to district, is to be used only for enrichment programs, not core academic programs.

The Basic Education Act

In 1978, the legislature passed the Basic Education Act to carry out the court's instructions. The focus of the Basic Education Act was to define education inputs: the length of the school year, the number of classroom hours, instructional content for each age group, and minimum ratios of certificated staff to students.

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[5] Ibid., p. 10.
[6] "Seattle Public Schools, The Superintendent's Recommended Operating Budget for Fiscal Year 2005-2006" June 22, 2005.
[7] "Organization and Financing of Washington Public Schools," Office of Superintendent of Public Instruction, February 2004, pp. 10-14.
[8] Ibid, p. 10.
[9] *Seattle School District No. 1 et . al., v. State of Washington et. al.*, Superior Court for Thurston County No. 53950, March 17, 1977.
[10] *Seattle School District No. 1 et. al., v. State of Washington, et. al.*, 90 Wn2d476, 585P2d71.

The same year, lawmakers passed the Levy Lid Act to place caps on revenues from local levies, so taxpayers would not be required to pay twice for the same education services. They also passed the Levy Equalization Act to reduce funding disparities among school districts. Under the law, the state transfers some education funds from richer districts to poorer ones.

In 1983, the court ruled in a second lawsuit, called School Funding II, to reaffirm the requirement that the state fund basic education, and expanded the definition of basic education to include special education, bilingual education, remedial education, vocational education, and some school bus services. The judge reasoned the state must fund these additional programs because they are necessary for at least some children to gain access to the basic education program.[11]

As a result of these court rulings, over 70 percent of school district general revenue comes from the state budget.[12] The weakness of this approach is that the education funding system in Washington was created by a small number of judges acting through lawsuits, not by the people's elected representatives. **[**The legacy of these lawsuits is that legislators in Washington have less flexibility and discretion over how to fund public education than officials in other states. **PULL QUOTE]**

How the state funds the schools

The Basic Education Act established ratios allocating state funds to school districts. Today, school districts receive funding based on a ratio of classroom teachers, administrators, and classified staff (bus drivers, janitors, cafeteria workers and other support personnel) to full-time equivalent (FTE) students.[13]

The state uses a set salary schedule for certificated instructional staff (CIS) – teachers, counselors, librarians and other instructional staff – based on a time and credits system. The system is designed to provide stable and rising salaries to teachers based on student enrollment. It is also meant to even out differences in salaries paid to teachers across the state. The salary system does not include measures of teacher performance based on student learning.

A CIS staff member's individual education level and teaching experience determine his or her base salary. The state provides an annual pay increase of one to three percent annually based on each additional year of work experience up to 16 years.

The law bars school principals and local district managers from setting salary levels or financially rewarding top-performing teachers. Principals and local district

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[11] *Seattle School District et. al v. State of Washington*, Thurston County No. 31-2-1713-1, 1983.
[12] "Organization and Financing of Washington Public Schools," Office of Superintendent of Public Instruction, February 2004, p. 3. Data is for the 2002-03 school year.
[13] "Organization and Financing of Washington Public Schools," Office of Supterintendent of Public Instruction, February 2004, p. 11.

managers are also forbidden from reducing or holding flat the salaries of poor-performing teachers or ineffective support employees. By law, every CIS employee receives a raise each year, regardless of whether or not students are learning at grade level in the classroom.

Additional pay increases of three to 20 percent are also automatically provided for each additional 15 credits of approved education acquired up to the PhD level. Though the state does not require school districts to pay certificated instructional staff in accordance with the state salary allocation schedule, most school districts have adopted it.

Thirty-four of the state's 296 school districts receive higher salary allocations for teachers because these districts were paying higher salaries in the 1970s when the legislature started funding basic education. Additionally, the legislature limits a school district's authority to establish salaries for teachers by setting a minimum and average salary level. Actual minimum salaries in a district cannot be less than the minimum state allocation schedule for a teacher who has a Bachelor or Masters degree and no teaching experience.

The actual average salary in the district cannot exceed the average salary calculated based on the state allocation schedule. **[**The average salary for Certificated Instructional Staff in 2002-03 was $45,593, plus $6,269 for benefits, for total average compensation of $51,862.[14] **PULL QUOTE]** For comparison, the average wage for workers in Washington is $37,249.[15] In addition, public school teachers pay about $763 a year in mandatory union dues.[16] Teachers who do not pay dues are subject to dismissal.

The WASL and academic standards

In the early 1990s Washington changed its approach to assessing K-12 education. Policymakers and the public were concerned about the inability of public schools to provide students with the skills necessary for success in the modern information economy. Instead of simply defining the inputs, that is, the money put into the education system, lawmakers shifted to a focus on outcomes by measuring student performance. This shift was initiated in 1991 by Governor Booth Gardner when he created the Governor's Council on Education Reform and Funding.

The Council issued its recommendations in 1992 and the legislature enacted them in the form of SSB 5953, which established the Commission on Student Learning. This Commission developed essential academic learning requirements (EALRs); standards for reading, writing and other essential academic skills that students should know. The

[14] "A Citizen's Guide to Washington State K-12 Finance, 2005" Senate Ways and Means Committee, p.17.
[15] State of Washington Data Book, the People, the Economy and the Government of Washington State, 2005," Office of Financial Management, table "Average Wages, Washington and the U.S.," figures adjusted to constant 2000 dollars.
[16] "Teachers' Union Dues: District Data 2005 – 2006," Evergreen Freedom Foundation, March 15, 2006, at www.effwa.org/main/article.php?article_id=1478&number=32.

Commission also developed the Washington Assessment of Student Learning (WASL) to measure whether students at Washington schools are acquiring basic academic skills.

The duties of the Commission on Student Learning were assumed by the Office of the Superintendent of Public Instruction in 1999. The Basic Education Act was amended to replace instruction content requirements (inputs) with measurable standards based on essential academic learning requirements (outcomes).

The academic standards require students to read, write and communicate effectively, to know certain concepts and basic principles of math, social studies, physical and life sciences, civics and history, geography, the arts, and health and fitness. If effectively taught, the learning requirements provide young citizens, on graduating from high school, with the skills, knowledge and attitudes they need to function in modern society and be successful in life.

An effective public school learning program is essential for students to reach their full potential. **[**Once a person reaches school-leaving age, the chance he or she will ever acquire the basic skills missed in public school are greatly diminished. **PULL QUOTE]** It is most likely that such a person will never become fully educated, and will be at a permanent disadvantage in comparison with other people of the same age group.

WASL deadlines

The timeline and implementation details for the WASL have been revised many times since 1992. The WASL was first given to 4th, 8th, and 10th grade students in the Spring and Fall of the 1997-8 school year.

The first major deadline for implementation of this reform occurs in 2008. High school students scheduled to graduate in June 2008 will not receive diplomas if they fail to pass the reading, writing and math on the 10th grade WASL by the time they graduate. In other words, students must pass a sophomore-level exam in order to graduate from high school, and are given two years to do so.

Science will be added as a graduation requirement by 2010. Students will be given four separate opportunities to pass, and on test day there are no time limits on how long students can work on the exam. Summer school opportunities to prepare for the WASL are provided by the state as well.

Alternatives to the WASL

Two bills passed in 2006 authorizing OSPI to implement two alternative assessments to the WASL. One is a performance-based option that allows students to submit a collection of school work to demonstrate they meet learning standards in a particular subject. The other is a WASL/grades comparison that allows students to use their classroom grades to show mastery of skills and knowledge they have been unable to

demonstrate on the WASL. Students have to attempt and fail the WASL twice before they are allowed to use either assessment option.

State assessments are now in place for students in the third, seventh and tenth grades. The OSPI reports that systems are being designed to track student achievement over time and relate this data to demographic, programmatic and fiscal data.

Extra funding for targeted education efforts

The state provides targeted training funds to help teachers improve student performance. Much of the school funding debate in Washington and nationally centers around which strategies contribute most to improving student achievement: reducing class size, improving teacher quality through more training and higher pay, extra instruction for struggling students, setting goals for improving reading and math skills, allowing charter schools, using more technology, providing more and better student assessments, and intervening in failing schools.

Except for charter schools, Washington has tried all of these strategies, with only limited success.

Since 1992, the State of Washington has spent, in nominal dollars, almost $1.7 billion on targeted education reform efforts.[17] Much of this is in addition to the basic funding the state provides for public education. A partial list of these programs follows.

[17] "Basic Education General Apportionment Funding Issues," Research Report, Figure 24, Washington Association of School Administrators, the Ample School Funding Project for Washington State, January 27, 2005, p. 40.

Partial list of targeted education programs intended to improve student learning, with year of enactment 1993 to present

21st Century Schools – 1993
Readiness to Learn – 1993
Math Initiative – 1993
Superintendent/ Principal Internship – 1993
Para-Professional Training – 1993
Beginning Teacher Assistance Program – 1994
Center for Improvement of Student Learning – 1994
Improved Technology Infrastructure – 1994
School to Work – 1994
Student Learning Improvement Grants – 1995
Reading Program – 1997
Reading Grants – 1998
Reading Corps – 1999
Second Grade Reading – 2000
Math Helping Corps – 2000
Summer Accountability Institutes – 2000
Learning Improvement Days – 2000
Initiative 732 Teacher Pay Raises – 2000
LASER Science Education – 2002
Web-based Instructional Network – 2002
Initiative 728 Student Achievement Fund – 2002
Mentor Teacher Fund – 2002
Principal Assessment and Mentorship – 2002
Focused Assistance – 2002
School Recognition – 2002
Performance Improvement Plans – 2002.

Failing to meet academic standards

On the whole, public schools in Washington are failing to educate children to the standard set by the state.[18] While Washington compares favorably on some national measures, the results for the 2004-05 Washington Assessment for Student Learning (WASL) show that in general public schools are failing to educate children to the academic standard required by law.[19]

- In fourth grade, only 79 percent of Washington students met the WASL reading standard, 57 percent met the writing standard, and 60 percent met the math standard.

- In seventh grade, 69 percent met the WASL reading standard, 61 percent met the writing standard and 37 percent met the math standard.

- In tenth grade, 60 percent of students met the reading standard, 65 percent met the writing standard and 39 percent met the math standard.

In all three grades less than 37 percent of students met the WASL standard in science.[20] Test results show that often the longer a student remains in public school the greater the chance of failing a portion of the WASL.

II. The No Child Left Behind Act and the 2014 Deadline

The No Child Left Behind (NCLB) Act was signed into law by President Bush on January 8, 2002. Its four central themes are:

- Accountability for results;
- Flexibility and local control;
- Parental information and choice; and,
- Emphasis on proven teaching methods.

This law sets a mandatory national deadline – school year 2013-2014 – by which all public schools are expected to bring all their children to a "proficient" achievement level, that is, the appropriate grade level for the child's age. States are required to develop a single, statewide accountability system which incorporates measurable objectives for improved achievement by all students. States must also set learning objectives for specific groups of students, such as those who are economically disadvantaged, minorities, disabled or have limited knowledge of English.

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[18] "2004-2005 WASL Results (administration info)," Washington State Report Card, Superintendent of Public Instruction, at www.reportcard.ospi.k12.wa.us/, accessed July 3, 2006.
[19] "2004-2005 WASL Results (administration info)," Washington State Report Card, Superintendent of Public Instruction, at www.reportcard.ospi.k12.wa.us/, accessed July 3, 2006.
[20] Ibid.

No Child Left Behind in Washington

In Washington, the WASL is used to evaluate student proficiency levels under the NCLB. The NCLB requires Washington schools to demonstrate Adequate Yearly Progress towards these goals, and schools which do not meet state benchmarks for two consecutive years will be identified, according to the act, as "in need of improvement" and will be required to develop improvement plans from "scientifically based research."

Continued lack of improvement can lead to the removal of staff or administrators. The law can also require school districts to provide supplemental education services, a voucher-like program for extra tutoring, and offer students attending the non-improving school with another choice of public school, plus 20 percent of their federal Title 1 funds for transportation to that school. The NCLB also requires expanded annual assessments of student performance. Currently, 45 percent of Washington schools receive Title I funds.[21]

Flexibility for accountability

One of the other significant reforms introduced by the NCLB is "flexibility for accountability." This allows states, in return for entering into performance agreements, to transfer up to 50 percent of the funding they receive from various federal programs into local programs that most closely match their local needs.

The Office of the Superintendent of Public Instruction publishes the WASL scores and the Adequate Yearly Progress report of every school in Washington. Parents can easily obtain this information. The NCLB requires public schools across the country to do what they promise – educate students – or face losing considerable federal funding. The NCLB provides parents of children whose schools are failing in their educational mission with the ability to obtain funding for extra tutoring or to transfer their children to a better school. The NCLB is based on the educational principle that every child can learn.

NCLB Results So Far

According to a February 2006 report from the U.S. Department of Education, the NCLB is working. This report collects data from multiple studies in reports, which show that student achievement is rising across America. For example, the Nation's "Report Card," (NAEP) show that in the past five years, America's nine-year-olds have made more progress in reading than in the previous 28 years combined. America's thirteen-year-olds earned the highest math scores ever recorded. Reading and math scores for African American and Hispanic nine-year-olds reached an all-time high. Math scores for African-American and Hispanic 13-year-olds reached an all-time high. Achievement

[21] "K-12 Spending and Performance Review, Preliminary Report, September 14, 2005," State of Washington Joint Legislative Audit and Review Committee, p. 20.

gaps in reading and math between white and African American nine-year-olds and between white and Hispanic nine-year-olds reached an all-time low.

The Nation's report Card Trial Urban District Assessment, released in December 2005, showed select urban school districts improving faster than their peers nationwide over the last two years. And a study by the Council of the Great City Schools, released in March 2005, showed urban students becoming more proficient in reading and math.

III. Review of Washington public education spending trends

Washington has greatly increased funding for K-12 operating expenses from 1982 to 2002, in inflation-adjusted dollars. In 1982, public school operating expenditures in 2005 constant dollars were about $3.4 billion. In 2002, operating spending reached $7.5 billion, an increase of almost 92 percent.

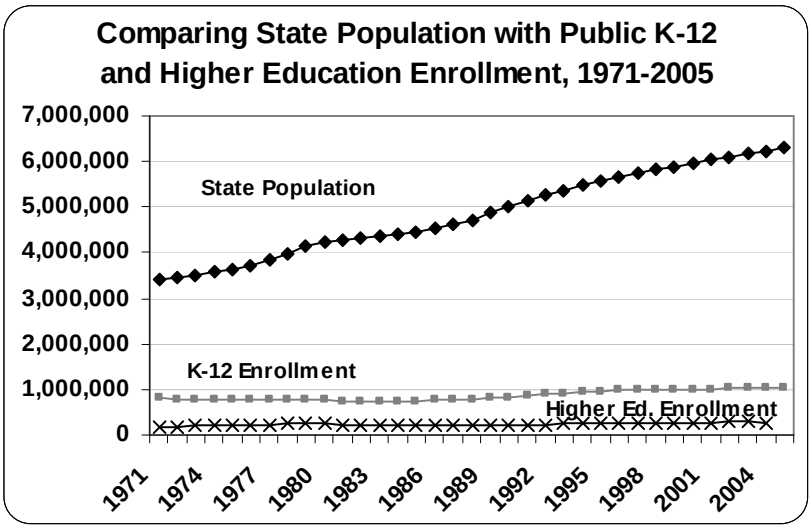
Yet the size of the state's educational mission has grown much more slowly. Over the same 20-year period, the number of students in Washington public schools increased by only 34 percent. In 1982 public education spending in the operating budget was a little over $5,000 per student. By 2002, per student spending had mushroomed to $7,510, an 42.6% increase.

In 2006, per student operating costs are even higher, about $9,500, even though the student population has increased only slightly.[22] **[**Public schools in Washington today receive far more money, in both relative and absolute terms, than at any point in the state's history. **PULL QUOTE]**

Expanding tax base for education funding

The state's total population, however, has grown at a much faster pace than the number of students, creating a larger tax base to pay for educating a proportionately smaller number of students. Between 1971 and 2006, the state population increased by almost three million people (82 percent),[23] while K-12 public school enrollment increased by only little over 200,000 students (25 percent).[24] These trends are shown in the chart below.[25]

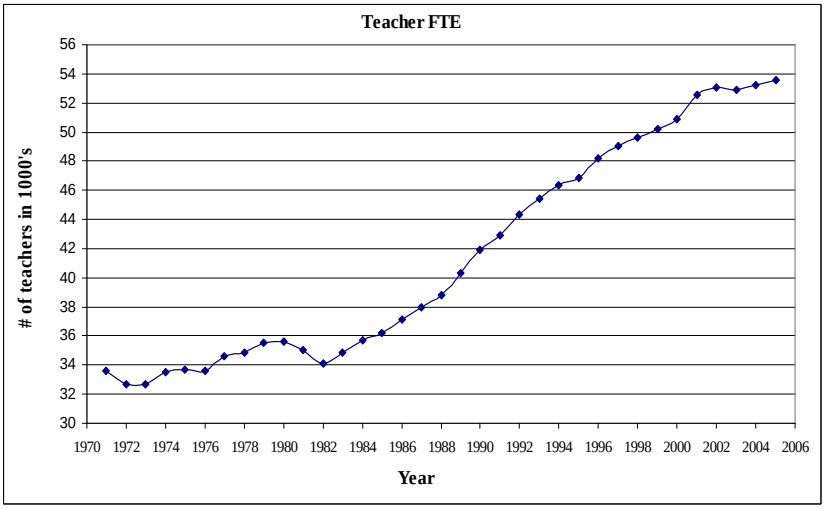
[22] "Organization and Financing of Washington Public Schools," Office of Superintendent of Public Instruction, p. 113.
[23] In 1971, the total population in Washington was 3,436,300. By 2005, the population had increased to 6,287,700, "Quick Facts, Washington," United States Census Bureau.
[24] "K-12 Enrollment," Office of Financial Management, www.ofm.wa.gov/trends/data/fig406.xls; "Public Higher Education Enrollment," Office of Financial Management, www.ofm.wa.gov/trends/data/fig416.xls.
[25] "State Population By Age and Sex: 1970-2030, From November 2003 Forecast," "K-12 Enrollment," and "Public Higher Education Enrollment," Office of Financial Management.



State population has grown much faster than public school enrollment, creating a larger tax base to pay for educating a proportionately smaller number of students.

Increasing number of teachers

While K-12 student enrollment in public schools has increased by only about a quarter, the number of teachers on the payroll has risen more than twice as fast, growing 68 percent over the last 30 years.



While the number of students enrolled in public schools since 1970 increased 25 percent, the number of teachers on the payroll rose more than twice as fast.

Washington public schools are well-funded

Advocates for increased spending often argue that education is underfunded because it makes up a smaller share of the state budget than in the past. Their choice of

statistics is selective, however, and it is only by looking at broad measures that an accurate picture emerges.

As the state expands spending on non-education programs, the *proportion* going to pubic education falls, even as the *amount* spent on education is increasing. Public schools in Washington are receiving more public money than in the past, even as total state spending on other programs expands.

Over the long term, per capita K-12 spending in Washington has been above the 50-state average every year between 1980 and 2000 (the last year for which the comparison is available). While the figure has gone up and down over the years, education spending per capita in Washington has not fallen below the national average for two decades.[26]

State education funding has steadily increased over time, and in no year has the legislature reduced the amount of money devoted to public schools. In fact, per-pupil spending is higher than ever, and therefore school district administrators have more resources than in the past to educate a given number of students. In addition, there are more taxpayers paying into the system than ever before. **[**By almost every reasonable measure, public schools in Washington receive adequate funding. **PULL QUOTE]**

IV. Measuring Student Achievement

Increasing Accountability for School Spending

A recent audit of school district spending reveals that the current system of tracking school district spending "does not allow the public to see exactly what is being spent at individual schools and how resources are allocated within school districts and schools."[27] The Joint Legislative Audit and Review Committee (JLARC), a bipartisan legislative commission which conducts performance audits and fiscal studies, recently produced a 68-page study, "K-12 School Spending and Performance Review, A Preliminary Report."[28]

The purpose of the study was to report on the process by which school districts distribute resources to individual schools, with a particular view to tracking expenditures aimed at improving student achievement. JLARC surveyed all 296 school districts in Washington and hired consultants to review budgeting and performance.

This report points out that the state does not require school districts to report spending by individual schools within their districts, and though many districts choose to

[26] "K-12 Education Expenditures Per Capita," Office of Financial Management.
[27] "K-12 School Spending and Performance Review, A Preliminary Report," State of Washington Joint Legislative Audit and Review Committee, September 14, 2005, p. 28.
[28] "K-12 School Spending and Performance Review, A Preliminary Report," State of Washington Joint Legislative Audit and Review Committee, September 14, 2005.

code expenditures to individual schools, there is no uniform statewide method for doing so.

The information available provides general information about spending patterns for schools, but does not capture the complete costs of schools nor does it report comparable information from every district. The report concludes that current information makes it impossible to correlate spending allocations to student achievement, and that requiring such reporting would not necessarily lead to increased student achievement, though it would greatly improve transparency and accountability in K-12 spending.

Centralized bureaucracies are still making most of the key funding decisions for individual schools in Washington. **[**Local principals control less than five percent of the money allocated to their schools. **PULL QUOTE]** The JLARC report states:

> "In most cases, central administrators determine the number of certificated and classified staff assigned to individual schools. Almost 96 percent of districts responding to JLARC's survey said that central administrators determine whether to hire additional teachers and 89 percent said central administrators determine the number and type of classified staff employed at each school."[29]

For local principals making a "major spending decision" means no more than buying office supplies, library books, textbook replacements and copy machine contracts.

The JLARC survey also reveals that a little over half of the districts reported that central administrators decide which teacher candidates to hire. The remaining school districts reported that school principals make these decisions.

One of the districts surveyed, "District C," did not follow this centralized control model. This district uses "site-based management," giving principals significant control over spending decisions related to staffing, curriculum and professional development. As the JLARC report puts it: "this district subscribes to the belief that schools should be more involved in financial decisions since schools are accountable for student achievement."[30] For example, the principal of one "District C" middle school had control over 85 percent of the expenditures coded to that school.

Seattle – An Example of Good Management, of at Least Half of its Resources

The Seattle Public School District is the largest school district in Washington. Nearly 47,000 students attend 100 schools within the district. Less than ten years ago, the Seattle School District overhauled the financing and management of its schools. In the early 1990's, the Seattle School District was faced with a crisis. Student enrollment had plummeted from a high in 1962 of 100,000 students, to a low of 39,087 students in 1989-90.

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[29] Ibid, p. 17.
[30] Ibid, p. 17.

Dropping test scores prompted the legislature, led by Governor Gary Locke, who was a state legislator at the time, to commission an evaluation of the Seattle School District by an outside consulting firm.[31] This report criticized the current superintendent and board for a failure to provide leadership, and reported that:

> "...schools had little flexibility to alter the mix of resources in a way that would most benefit students, because the money was allocated in an inflexible manner, with a fixed number of teachers and other staff per student."[32]

With strong community support, the school board hired General John Stanford to become the new superintendent. Stanford and Chief Financial Officer Joseph Olchefske introduced the use of the "weighted student formula," an innovative financing mechanism developed by Edmonton School Superintendent Michael Strembitsky.

The "weighted student formula" was implemented in the Seattle schools in 1997-8. Under this formula, each Seattle school is funded by a basic operating grant from the district, plus the weighted funds brought in by each individual child enrolled at the school. Students are assigned "weights" for supplementary funds for categories such as poverty, limited English proficiency and special education. Each child is worth a weight of between 1 and 9.2, depending on the needs of the particular child.

This reform transferred a great deal of spending power from the centralized bureaucracy to individual school principals, giving principals control over their budgets. The principal of John Hay Elementary School on Queen Anne Hill described how this change increased her control over her school's budget:

> "Weighted Student Formula came into place my second year here. My operating budget here was $25,000 a year. That was it. That was all we had to tinker with. Now, we have $2 million a year. We never got more money, by the way, out of the Weighted Student Formula. We came out about even. There wasn't any more money, we were just able to think about redistributing it."[33]

John Hay's principal has created parent and teacher teams involved in the decision making, and these teams have cut out some activities and hired a specialist so that teachers have no more than 14 students in their reading classes, among other changes.

The results speak for themselves. Thirty percent of the students at John Hay Elementary are minorities, and 24 percent qualify for free lunch. Until a few years ago,

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[31] "Making Schools Work: A Revolutionary Plan to Get Your Children the Education They Need," by William G. Ouchi, Simon & Schuster, 2003, citing Washington State House of Representatives, "Report of an Evaluation of the Seattle Public Schools," by Cresap, a Towers Perrin Company, November 15, 1990, p. I-4.

[32] Ibid, p. I-8.

[33] Ibid, p. 81, quote from Joanne Testa-Cross, Principal, John Hay Elementary School, Seattle.

John Hay attracted the neighborhood children only until third grade, when they would leave for private schools. Things have changed. In 2003, fourth grade math scores on the WASL test at this school have gone from 36 percent in 1998 to 61 percent in 2001. Education researcher William Ouchi points out that:

> "Perhaps the biggest result of local control of the money was the way that local autonomy brought everyone together to develop a common vision for the school. People who wouldn't ordinarily come out for parent meetings show up because they know that this time, they control the money and thus have the ability to implement the plans."[34]

Principals in Seattle have more control than principals in other districts over their school budgets. In 2003, principals in Seattle controlled almost 80 percent of their schools' budgets.[35]

General Stanford and Olchefske introduced other reforms, including Open Enrollment, which changed the practice of assigning students to schools. Today students are assigned to their neighborhood schools, but may apply to attend any school in the district. Assignment to a non-neighborhood school is based on space available.

The Seattle School District's web page explains that "if there are more applicants than space, priority will be given first to students with siblings at the school. After siblings, family economic status is the second determiner followed by a random lottery determines who gets into the school." In 2003, 90 percent of students were assigned to their families' first- or second- choice school.[36] This element of student choice encourages schools to compete for students, since non-conforming schools could lose students and the funding that comes with them.

In 1999, Olchefske removed four non-performing principals from their positions. While it is still difficult to remove non-performing teachers in Seattle from their jobs, union leaders have not opposed these budget reforms. Teachers see that their interests benefit from greater local control:

> "Principals and teachers in Seattle have tenure, and both engage in collective bargaining with the school district. However, low-performing principals and teachers can be dismissed after a one-year probation. Strong unions have not proven to be a barrier to effective revolution in Seattle. In fact, most teachers' unions have become strong chiefly to protect teachers against the whimsy and caprice of thoughtless or even cruel bureaucrats. When the power moves down from the central office to the schools, and teachers are engaged in decision

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[34] "Making Schools Work: A Revolutionary Plan to Get Your Children the Education They Need," by William G. Ouchi, Simon & Schuster, 2003, citing Washington State House of Representatives, "Report of an Evaluation of the Seattle Public Schools," by Cresap, a Towers Perrin Company, November 15, 1990.

[35] "Schools Improve When Principals Can Be Entrepreneurs," by Snell, Lisa, Reason Foundation, December 1, 2003, p. 2, citing Ouchi, p. 93.

[36] "Public schools seeing more kindergartners," by Ervin, Keith, *The Seattle Times*, May 1, 2003.

making, the union may remain vigilant, but it has no reason to object to this change and may well support it."[37]

Various missteps and errors have distracted the Seattle School District from continued progress on these goals: a serious accounting error in 2002-3 masked a $35 million budget shortfall, wholesale changes in leadership occurred in 2004, and a failed attempt in 2004 to close several high-performing schools, based on the poor condition of their buildings, not student performance. Despite these setbacks, corrective measures have been taken, and the community as a whole has embraced the Stanford/ Olchefske reforms.

These changes to Seattle public schools have had positive results on student achievement, despite the challenges of educating such a diverse population. Since 1996, Seattle elementary students have gained six points in reading and eight points in math on the Iowa Test of Basic Skills.[38] Scores on the WASL approximate statewide achievement, though minority students continue to lag.

Despite these reforms, the Seattle School District is seriously hampered by the power of a large centralized bureaucracy. Nearly half of the money allotted to the school district by the legislature is spent on this bureaucracy. in 2005-06, the General Fund Budget for Seattle is about $450 million, of which only $238 million is allocated for direct school expenditures.[39] The rest is controlled by the District's central office.

Need for legislative reforms

The legislature is as much to blame for this situation as the bureaucracy itself. Figure 2 above demonstrates that over $2 billion has been allocated over the past 15 years in categorical non-basic education spending. As Ouchi explains, categorical funds are a bureaucrat's dream come true:

> "When a state legislator or a governor runs for office and talks about education, he or she will usually promise voters to allocate more money for whatever is the concern of the day. In the post-Sputnik era, the allocation was for science education in high school. When Nixon went to China, it was for foreign-language education. Today, the categorical funds are probably to reduce class size in the elementary grades, to buy new books, or to implement a new standardized test.
>
> After the legislature allocates the new money, that cash doesn't go directly to individual schools – it goes to the district central office. There, the bureaucrats don't send dollars to the schools. Instead, they hire people to perform new tasks in the schools. The problem with doing it this way is that the decisions on exactly

[37] Ouchi, p. 92.
[38] Ouchi, p. 37.
[39] "The Superintendent's Recommended Operating Budget for Fiscal Year 2005-2006", Superintendent Raj Manhas, June 22, 2005.

what kind of staff each school needs aren't made at the local school, they're made far away in the central office.

One school might need only 0.6 of a specialist, while another school might need 1.3 – but each school will get one whole person. Not only that, but the schools might have a better, more creative way of using that money to meet the goal – but they don't have the freedom to do so. And here is the topper: before the central office bureaucrats assign the new personnel out to schools, they'll create several new positions in headquarters – with several new executive positions to oversee the new offices – and to make matters worse, those newly created central office bureaucrats will proceed to tell the new teachers in the schools how to do their jobs!"[40]

Finally, it is worth noting that the New York City School District, cited by Ouchi as an example of a command-and-control centralized bureaucracy, has just undertaken the path of reform based on Dr. Ouchi's ideas. Consultants hired by the district are now creating a framework for creating "autonomy zones," a pilot group of 42 schools whose are largely relieved of administrative regulation as long as they agree to meet performance targets.[41]

V. Focusing Spending in the Classroom – the First Class Education Initiative

Patrick Byrne, president of online retailer Overstock.com, is working across the country in support of the First Class Education Initiative. This grass-roots effort seeks to require school districts in all 50 states and the District of Columbia to spend at least 65 percent of operating budgets on classroom instruction. Nationally, only 61.5 percent of operating expenses for public education actually reach the classroom. The 3.5 percent difference represents $13 billion nation-wide. Only four states in the nation (Utah, Tennessee, New York and Maine) manage to spend at least 65 percent of their operating budgets on classroom instruction. Fifteen states spend less than 60 percent.

So far, Louisiana's legislature has passed a resolution encouraging its State Board of Elementary and Secondary Education to implement the 65 percent standard. Kansas recently enacted the measure as a goal. Texas Governor Rick Perry issued an executive order requiring all schools to spend 65 percent of their budgets in the classroom. Arizona, Colorado, Florida, Missouri, Ohio, Minnesota, and Illinois are considering ballot measures to implement the 65 percent requirement.

First Class Education Initiative requirement

The First Class Education Initiative would require:

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[40] Ouchi, p. 91.

[41] "New York Tries Yet More Ways to Fix Schools," by David M. Herszenhorn, *The New York Times*, April 9, 2006.

- Every school district to spend a minimum of 65 percent of its budget on "classroom instruction," using the definition used by the National Center for Education Statistics (NCES).

- School districts which currently fall below the 65 percent standard would be required to increase that percentage by a minimum of two percent a year until the 65 percent standard is met.

- School districts to send their annual proposed budgets to the governor verifying that the 65 percent standard of two percent annual improvement is being made.

- School district officials who believe they can neither meet the 65 percent goal or make two percent annual improvements may petition the governor for a renewable one-year waiver along with their proposal of what can be achieved toward reaching the goal.

- The governor shall have 30 days to either deny or grant the one-year waiver or grant a partial one-year waiver short of the 65 percent standard goal or two percent annual increase.

- The legislature will have the opportunity to determine what punitive action may be taken if school districts do not voluntarily comply with the requirements.

The definition of classroom instruction used by The First Class Education Initiative is the definition developed by the National Center for Education Statistics, which is the primary federal entity for collecting and analyzing state education data. The NCES definition of classroom instruction includes:

> "Expenditures for classroom teachers and personnel, general instruction supplies, instructional aides, classroom activities such as field trips, athletics, music and arts, and tuition paid to out-of state districts and private institutions for special needs students."

The NCES definition does not include expenditures for administration, plant operations and maintenance, food services, transportation, instructional support, including librarians, teacher training and curriculum, and student support such as nurses and counselors.

Washington falls short of the 65 percent standard

Washington, according to the NCES statistics, spends only 59.5 percent of its operating expenses in the classroom, and ranks as 38th in the nation for allocating dollars to the classroom. A transfer of 5.5 percent of funding from the administrative bureaucracy to the classroom in Washington would represent an increase of $390 million a year into classrooms, without any increase in the tax burden the state places on citizens.

OSPI calculates that 61 percent of public school funds for years 2001-2004 were spent in the classroom. The difference between the OSPI number of 61 percent and the NCES number of 59.5 percent is due to the fact that the OSPI includes expenditures for Extracurricular Activities (Activity Code 28) and Payments to School Districts (Activity Code 29) to expenditures for Teaching (Activity Code 27).[42]

In 2006, a group of concerned Washington citizens promoted the First Class Initiative as a way to improved the quality of classroom instruction in public schools. They filed the proposal as an initiative to the people, but the effort failed to gain enough signatures to qualify for the November ballot.

VI. Improving teacher pay and other reforms

Paying teachers for performance

Several states and school districts have revisited the idea of paying bonuses to teachers for improvements in student test scores, and have succeeded in involving teachers in the planning for the systems to do so. *The Wall Street Journal* reports that governors in 20 states have proposed changes in how teachers are paid, including the use of performance bonuses.[43] One major union, the American Federation of Teachers, has given its locals permission to explore alternative compensation measures that could boost pay.

In Minnesota, school districts can become eligible for an extra $260-per-student in state aid by signing sign up for the state's new "Q Comp" system, which requires districts to stop giving raises based on seniority and instead base 60 percent of all pay increases on performance, as measured by test scores, classroom evaluations and other factors.

In Denver, the teacher's union overwhelmingly endorsed a system in which member teachers can volunteer to be compensated under a $25 million performance-pay program, which combines bonuses for student achievement, about $3000 in extra pay for earning national teaching certificates, and $999 for filling hard-to-staff positions.

In Florida, school districts will pay five percent bonuses to the top 10 percent of teachers whose students make the biggest test-score gains. In Houston, teachers will earn annual bonuses up to $3,000 based on school accountability ranking, students' scores on national tests and progress in reading and math on state tests.

Lack of merit pay in Washington

As discussed, the current pay structure for Washington public school personnel bases pay increases on the number of years of experience and the number and level of

[42] Interview of Pam Peppers, Office of Suptintendent of Public Instruction, August 2005.
[43] "More Districts Pay Teachers For Performance," by Robert Tomsho, *The Wall Street Journal*, March 23, 2006.

education credits and degrees. The system was established in the 1920s and has not changed significantly in the intervening eight decades.

Because pay is not linked with performance, as it is in almost every other profession, there is no chance to reward success in the classroom and teachers are not held accountable for failure. This gives teachers little incentive to become better educators over time and to help their students learn more effectively.

The advantage of performance pay is that it encourages teachers to develop their talents and acquire new skills. Performance pay also allows school boards, administrators and parents to recognize quality educators and encourage them to excel in the classroom. At the same time, performance pay improves the quality of the teaching profession by encouraging underperforming teachers to seek a different line of work.

There are four different approaches to creating an effective performance pay system in Washington.[44]

- Merit pay. Individual teachers are evaluated and given bonuses based on improvements in their effectiveness in the classroom.

- Knowledge- and skills-based pay. Teachers receive a salary increase when they acquire new levels of education and training. In Washington, teacher contracts often include automatic knowledge-based pay increases.

- Performance pay. Teachers are rewarded when their students show measurable improvement on standardized academic tests.

- School-based performance pay. All the administrators teachers, and staff at a particular school receive a bonus if their students meet certain academic standards.

Legislative Effort to Raise Achievement - Washington Learns

In 2005, in response to the request of Governor Christine Gregoire, the Legislature passed E2SSB 5441, requiring a comprehensive study on early learning, K-12, and higher education finance and policy. This effort, known as "Washington Learns," will look broadly at the state's education system and how it uses funds to provide all students with the opportunity to achieve state standards. The website defines its goals as follows:[45]

> "Washington Learns will publish a report by November 15, 2006 which will improve and expand access to quality early learning. Align K-12 finance methodologies, including teacher compensation, with a standards-based delivery

[44] "Pay for Performance: What Are the Issues?" by Ellen R. Delisio, Education World, January 30, 2006, at www.education-world.com/a_issues/issues/issues374a.shtml.
[45] See www.washingtonlearns.wa.gov/work/default.htm.

system. Provide post-secondary education and training to meet demographic and economic needs. Create a seamless education system where students enter each educational level ready to learn and succeed."

VII. Conclusion

Education spending in Washington has increased sharply in recent decades – by any reasonable measure public schools are well funded – yet there has been only a slight increase in student performance.

The quality of public education is not necessarily related to the level of spending. This can be seen in both national and international test scores, which show that high academic achievement is often not parallel to high levels of education spending. Similarly, measures such as spending per student, number of students per teacher, average teacher salary, and level of spending by local school districts are not reliable predictors of high academic performance.

Washington's adoption of a standard test, the WASL, has been successful at moving the culture of the education system from measuring inputs (number of dollars spent) to measuring output (how well students are learning). Recent test results, however, reveal a troubling trend; often the longer a student remains in public school the greater the chance that he or she will fail a portion of the WASL.

The research argues not for lowering test standards, which would only result in more poorly educated students being graduated into society, but for maintaining standards and improving student learning. A greater proportion of current public education money should be spent in the classroom, to help teachers educate students more effectively. Not all students are good at taking tests, but practice, preparation and careful instruction from teachers can ensure all students have an equal chance to perform well.

Education leaders should decentralize the management of education by giving local principals more control over spending decisions. Those principals should then be held accountable for how well their school is accomplishing its educational mission.

Similarly, policymakers should allow principals to adopt merit or performance-based pay for teachers. Policymakers who support performance pay systems show respect for students, parents and taxpayers, who have a right to expect that public schools will consistently and effectively educate children.

Simply increasing education budgets, as public sector union officials and some political activists argue, will not improve the quality of student learning in Washington. Blindly boosting spending not only misuses the public's money, it contributes to public distrust when people are told schools are improving when in fact that is not happening.

Only dramatic, proven reforms, not increased spending, will significantly improve the academic achievement of Washington students.

Appendix[46]

School districts record expenditures in five funds. About 78 percent of all expenditures are for the day-to-day maintenance and operation of the school district and are recorded in the General Fund. 2002-3 expenditures are show below. Dollar figures are shown in million; from Organization and Financing of Washington Public Schools, April 2004.

Fund	Amount	Percent	Purpose
General Fund	$7,233	78.48%	Maintenance and operations
Capital Project	1,103	11.97%	Facilities construction/remodeling
Debt Service	709	7.9%	Repayment of bond debt
Transportation Vehicle	34	0.37%	Purchase of school buses
Assoc. Student Body	117	1.27%	Student body activities
Permanent Fund	20	0.22%	Various dedicated purposes
Total	**$9,216**	**100.0%**	

The single largest program in the school district General Fund is basic education, representing more than half of all spending.

Program	Amount	Percent
Basic Education	$3,910	54.06%
Special Education	701	9.69%
Vocational Education/Skills Centers	261	3.61%
Compensatory Education	607	8.39%
Other Instructional Programs	154	2.13%
Pupil Transportation	282	3.90%
Food Services	244	3.37%
Community Services	39	0.54%
Other Support Services	1035	14.31%
Total	**$7,233**	**100.00%**

[46] "Overview of Washington's K-12 Finance System, May 2005," Senate Ways and Means Committee Staff, p. 11.

It is interesting to note that $1.035 billion of the total $7.233 billion expended under the General Fund for the 2002-2003 school year was attributed vaguely to "Other Support Services." The Accounting Manual description for recording expenditures under Other Support Services corresponds to Program Code 90 Support Services, which reads as follows: "Support service programs consist of activities to accomplish objectives that support the educational programs of the district." Such an imprecise description is an example of how difficult it is for lawmakers, parents and the public to determine whether public education money is being spent effectively.

The ambiguity of this definition is somewhat only slightly mitigated by the three subsets to Code 90, Code 97 Districtwide Support, Code98 Food Services, and Code 99 Pupil Transportation, which generally explain that districtwide support activities not otherwise directly identifiable with any one program are to be recorded here. In other words, Program Code 90, representing 14.3 percent of total expenditure, provides a "catch-all" account for district-wide expenditures not easily assigned to one teaching program or another.

Funding of basic education does not show the entire picture, as the state spends additional funds on non-basic education programs, as shown in more recent figures below.

2005-07 BASIC EDUCATION PROGRAMS (in millions)		
General Apportionment (RCW 28A.150.260)	$8154.5	70.5%
Special Education (RCW 28A.150.370)	932.0	8.1%
Transportation (RCW 28A.160.150)	489.1	4.2%
Learning Assist. Program (RCW 28A.165)	155.4	1.3%
Bilingual (RCW 28A.180)	123.2	1.1%
Institutions (RCW 28A.190)	38.8	0.3%
Subtotal: Basic Education Programs	**$9893.0**	**85.5%**
2005-07 NON-BASIC EDUCATION PROGRAMS (in millions)		
Student Achievement Fund (I-728)	$629.4	5.4%
Levy Equalization (LEA)	357.2	3.1%
K-4 Enhanced Staffing Ratio	207.2	1.8%
Initiative 732 COLA (1.2%,1.7%)	135.2	1.2%
Health Care Benefit Increases	126.2	1.1%
Education Reform	82.7	0.7%
Two Learning Improvement Days	56.0	0.5%
State Office & Ed Agencies	26.6	0.2%
Statewide Programs/Allocations	20.3	0.2%
Highly Capable	13.8	0.1%
Educational Service Districts	7.4	0.1%
Food Services	6.3	0.1%
Summer & Other Skills Centers	6.2	0.1%

Pupil Transportation Coordinators	1.6	0.0%
Subtotal: Non-Basic Education Programs	**$1676**	**14.5%**
TOTAL – STATE FUNDS	**$11,569**	**100.0%**

Another way of examining state expenditures is to look at expenditures under Activity Grouping. School districts are required to assign expenditures to a Program (see table above), an Activity (see table below) and an object.[47]

K-12 General Fund Expenditures per FTE Enrollment: by Activity Grouping		
	District Budgeted School Year 2004-5	
	$(in millions) per FTE Enrollment	% of Total Expenditures
Teaching	5,106	62%
Teaching Support	661	8%
Food Services	273	3%
Pupil Transpo	315	4%
Util/Plant/Ins/IS/Other	879	11%
Unit Admin	477	6%
Central Admin	492	6%
Total All Activities	**8,202**	**100%**

For the 2004-5 school year, school districts budgeted approximately $5.1 billion (62 percent of the total amount budgeted) for teaching activities. This includes payments for salaries and benefits for classroom teachers, direct classroom instruction, extracurricular activities, and payments to other districts for educational services.

The teaching support budget of $661 million for 2004-5, eight percent of the total, includes guidance counseling, library services, audio-visual functions, psychological services, health-related activities, and other services that support the delivery of teaching services. After teaching, the largest activity for school district spending is for utilities, grounds care, plant operation and maintenance, insurance, information systems, and other support functions. For 2004-5, school districts spent $879 million, or 11 percent of total spending on these activities.

Central administration includes school board functions, superintendents' offices, business functions, human resources, centralized programs, and other district-level administrative functions. It does not include state-level expenditures for OSPI or the State Auditor.

Unit administration includes $446 million, or six percent, for principals and other building-level administrative functions.

[47] Ibid., "K-12 General Fund Expenditures per FTE Enrollment: by Activity Grouping," p. 1.