School Finance Systems and Their Responsiveness to Performance Pressures

A Case Study of North Carolina

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SUMMARY

OVERVIEW OF THE STUDY

To improve student performance to the levels called for in current state and federal accountability programs, “business as usual” approaches to public education are likely to be insufficient. Along with other elements of education policy such as standards, accountability, curriculum, and teacher training, school finance needs to be rethought. The School Finance Redesign Project (SFRP) at the University of Washington’s Center on Reinventing Public Education is undertaking this task through a number of research projects and through the deliberations of an expert panel which will synthesize and draw conclusions from the project’s work about future directions for school finance.

As a foundation for these efforts, SFRP, in collaboration with RAND Education, undertook case studies in four states aimed at understanding how school finance systems are currently operating and changing in light of increased performance pressures. This working paper presents the findings for North Carolina. The findings will contribute to a cross-state analysis based on the four case studies that will be prepared by SFRP.

The case studies were designed to help SFRP address four questions:

- What formal mechanisms do school finance systems use to deploy educational resources and how do they operate?
- Have heightened state and national performance expectations altered educational resource allocation processes and decisions?
- Would school finance decision makers deploy resources differently if they could, and what prevents them from doing so?
- What factors enable or constrain efforts to link resources to student performance?

The case studies drew on document reviews to describe both the formal rules and procedures of existing school finance systems and the conditioning factors (e.g., demographic changes, politics, economic context, litigation) that influence how finance systems perform the functions of collecting, distributing, allocating, and using resources. Interviews (49 in North Carolina) with district-level and state officials provided information on (1) if and how educators and policy makers were changing their approaches to resource decision making in response to pressures to improve student performance and (2) the factors enabling and constraining their efforts to change.
The findings describe the North Carolina school finance system and provide insight into how study-district and state-level officials responsible for finance policies and practices responded to performance pressures. Because of the small number of districts in the study, it is inappropriate to generalize the findings to other districts in North Carolina. Similarly, factors influencing state-level finance policy making in North Carolina may not be generalizable to other states. The cross-state analysis being undertaken by SFRP will use information gleaned from all the case study states, districts, and schools in seeking to identify common patterns and effects.

THE SCHOOL FINANCE SYSTEM IN NORTH CAROLINA

At the time of our study, North Carolina’s school finance system had several distinctive features. Funding for public education came more heavily from the state level (65 percent in 2004-05) than in most other states. Whereas localities in most states traditionally bore the primary responsibility for school operating costs, North Carolina law had since the early 1930s made state government responsible for operating costs, with localities responsible for facilities. This distinction remained, although it had become less clear-cut in recent years.

North Carolina also used an unusual mechanism—position allotments—to allocate two-thirds of the dollars it directed to local districts. Under the position allotment system, the state determined how many teachers (and some administrative staff) a district was entitled to have based on its average daily membership (a measure of enrollment) and then funded those positions based on state salary schedules. Districts in turn were generally expected to use these same position allotment rules in determining school staffing levels, although they had some discretion to transfer funds among spending categories. The state paid the actual salaries of teachers in the state-funded positions, giving a financial advantage to districts that employed individuals with more experience and higher academic credentials. The position-allotment formulas made no special adjustments for low-wealth districts or children with special needs; these concerns were addressed by various non-formula categorical appropriations.

Decisions about funding North Carolina schools were being made in the context of demographic, political, economic, and judicial developments. North Carolina’s population had been growing rapidly and also becoming more diverse, with growing numbers of limited-English-speakers presenting new challenges for many schools. The state suffered through financial hard times in the early years of this decade, as the nation as a whole experienced recession and a slow recovery. Although in their 2006 session legislators enjoyed the unaccustomed luxury of revenues in excess of those needed just to fund current services, a
number of observers believed the state’s tax system was structurally inadequate to keep pace with the state’s growing needs.

No longer the one-party Democratic state it was for many decades, North Carolina politics had become more competitive. Democrats held the governorship and had small margins in both houses of the legislature at the time of our study. Interviewees suggested that the party had managed to stay in the majority by taking a restrained approach to new initiatives, especially costly ones.

These factors helped illuminate the state’s responses to new performance pressures and to a legal case (the so-called Leandro case) challenging the constitutionality of the state’s provision of public education. Leandro hung over education decision making for more than a decade. Although the state Supreme Court in 2004 upheld a lower court ruling that the state was failing to exercise its constitutional responsibility to ensure that all students in the state were receiving a sound basic education, the ruling had a fairly minor impact on the state’s school finance system.

**LOCAL RESOURCE ALLOCATION: CHANGES, ENABLERS, AND CONSTRAINTS**

All the mapping study districts in North Carolina indicated that they were aware of the need to improve student performance and that they were pursuing a variety of reforms and innovations in attempting to address this objective. Many of these reforms and innovations involved using resources in new ways, such as focusing additional resources on high-need schools, providing bonuses or other incentives to attract teachers and to encourage them to teach in hard-to-staff schools, becoming more oriented to data use in decision making, and adopting other new approaches to governance and management designed to improve the effectiveness of resource decisions. The presence and intensity of such reforms, however, varied among the study districts. In no district did reforms involve fundamental changes in (rather than add-ons to) traditional resource allocation mechanisms such as the single-salary schedule for paying teachers, the staff-based model of allocating resources to schools, or the centralization of major resource allocation decision making in the district office.

District- and school-level personnel gave limited and district-specific answers to questions about factors enabling them to use resources differently. The main factors mentioned were flexibility and support, illustrated by a reduction in categorical state programs and a willingness of central office administrators to support individual school needs and decisions.

There was more consistency in responses across the study districts to questions about factors constraining changes in resource use. “State interference” was frequently cited.
Examples included a new state mandate about when the school year must start and end and the specificity of position allotments provided by the state. Likewise, local personnel felt constrained by state and federal strings on how they could use resources. In North Carolina the position allotment system along with state rules on class sizes and various categorical funding programs were perceived as leaving little room for creativity in resource use. Although state policy makers argued that there was actually more flexibility in state rules than local officials often realized, the history of strong state involvement in resource allocation decisions appeared to have created a culture of rule-following that was sometimes difficult to overcome at the local level. Finally, the fact that school districts in North Carolina did not have independent taxing authority but were dependent on county commissions for local funding added another layer of decision makers to an already multilayered education system. These factors were mentioned more prominently than funding levels by local officials attempting to explain what kept them from deploying resources as they thought best to meet their students’ needs.

STATE-LEVEL PERSPECTIVES: ISSUES AND CONCERNS AFFECTING SCHOOL FINANCE DECISION-MAKING

Among state officials, the legal, political, and economic climate were important influences shaping their decisions on school finance and helping to determine the extent to which performance pressures spurred changes in the finance system.

The *Leandro* court case, which emphasized the state’s responsibility for ensuring that all students have the opportunity to obtain a sound basic education, cast a strong shadow over the responses of state-level interviewees to questions about changes in school finance. While the court case initially focused on funding, it came to focus as much or more on the quality of educational services, particularly at the high school level. After the 2004 state Supreme Court decision, the trial court judge continued to investigate the performance of the state’s schools and to prod state government to take more vigorous action. But the broad nature of the *Leandro* findings, even while spurring the state to take a number of actions aimed at improving high school education, left the structure of the school finance system fundamentally unchanged.

While North Carolina had embraced a number of reforms over the years (including such things as class-size reduction, teacher pay raises, standards-based accountability, and early education) aimed at improving public education and better preparing children for school, these did not alter the state’s basic resource allocation mechanisms. At the time of our study, both political and economic considerations seemed to encourage a “status quo” orientation of state policy makers toward their school finance system. Even among those who professed a desire to
see change, however, there were few signs of discontent with the system’s essential structure. The position allotment system—frustrating to some local personnel in its inflexibility and disadvantageous to the poorer, low-performing counties that had trouble attracting and keeping teachers—was described as “so much a part of the fiber of the state” that it was unquestioned. Legislators were said to perceive any state moves toward differentiated pay (based on factors besides just experience and credentials, such as local labor market conditions or teacher performance) as “radioactive” because of opposition from teachers. Increases in state categorical funding for at-risk students had been hard to come by despite pressure from the judge monitoring the school finance case. Business involvement in school reform, once an important part of the North Carolina education story, had withered (with many business leaders becoming more focused on corporate tax reductions and worker training) and was no longer being jump-started by the state’s political leadership.

Helping to explain the absence of champions for finance reform, however, was a perceived absence of compelling reform strategies or, as one interviewee put it, “new models to chew on.” North Carolina policymakers found themselves up against both analytical and political difficulties in attempting to answer the deceptively simple question of how to provide a sound basic education and how to design a school finance system to accomplish this objective.

CONCLUSIONS

North Carolina is heavily dependent on state funding of public schools and allocates the bulk of state dollars through a position allotment system. Districts in turn are generally expected to follow the allotment system in assigning positions to individual schools. The state has long focused on the need to improve its educational system, but it has for the most part addressed this challenge within the framework of its accustomed school finance system. Local officials, spurred by state and federal accountability requirements, have adopted a number of reforms and innovations aimed at improving student achievement. Many, however, felt they could have been more effective with fewer state and federal rules constraining their choices.

Political and economic conditions at the state level appeared to encourage a fairly “business as usual” approach to school finance. Although the system had been subject to judicial challenge, the nature of court decisions did not create an urgent requirement for change. Even policy makers who believed reform was desirable decried the absence of information on how to redesign school finance so that resource allocation decisions result in improved student outcomes.