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FROM FINANCIAL TRANSPARENCY TO EQUITY PART 1

Using ESSA to Advance Equity & Excellence

CHIEFS for CHANGE

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CHIEFS for CHANGE

ERS Education Resource Strategies

The Every Student Succeeds Act (ESSA) mandates that school districts publicly report their per-pupil expenditures. This issue brief[1] examines steps district and state leaders can take to make financial transparency a springboard to real equity and better outcomes for students.

Introduction

When Congress passed ESSA in 2015, it created a requirement that states report per-pupil spending levels at both the district and individual school levels, disaggregating federal, state, and local funds, as well as personnel and non-personnel expenditures. In the coming months of 2017, states have an opportunity to demonstrate leadership and a commitment to equity and excellence by not just complying with the requirement, but by designing and implementing a methodology that will allow districts to use data to make strategic and smart decisions for the equitable distribution of resources.

In the fall of 2016, Chiefs for Change (CFC) and Education Resource Strategies (ERS) convened a cohort of CFC member education Chiefs in a workgroup to examine their reporting structures and spending patterns in seeking to answer: How might we allocate resources to achieve the best outcomes for kids? Together, they studied how district and state leaders could use this new requirement to construct a data collection and reporting system that can be used to increase equity and excellence across schools.

In this brief, we will share the insights that emerged that are important for other state and district leaders to consider as they move through the systems design phase of the work. In Part II (forthcoming), we will share promising practices and strategies to distribute resources in a manner that leads to better outcomes for students.

Equity *and* Excellence

Discussions of resource equity – how limited resources are shared across students, schools, and systems – must be grounded in goals to improve outcomes. Re-distributing a fixed pool of resources to better align with need may feel equitable, but is ultimately meaningless if it does not result in better outcomes. States that approach the financial reporting requirement strategically will consider how their design and implementation choices can inform policy decisions at the district level that will result in both equity and excellence.

This is a conversation that requires many voices. A CFC state member joined one of its districts in our workgroup, and the benefits of district-state partnership and coordination were clear. As the state develops its reporting structure on resource allocation, input from the district on what data they have – and what they would need to gather – was critical to inform the procedure and anticipated timeline. The partnership also highlighted to the state the barriers the district must address to advance its system's allocation of resources across schools, and illuminated to the district the state's need to create a uniform procedure that works for many different types of districts. This new understanding will inform what capacity at the state is needed to support districts in determining how human capital, time, and money are used. We strongly encourage district

[1] Chiefs for Change is grateful to Jonathan Travers, Jordan Ascher, and their colleagues at Education Resource Strategies (ERS) for providing the research and analysis in this brief.

and state leaders to collaborate on designing a financial transparency plan that leads to meaningful progress on equity.

Three Challenges of Financial Transparency

When this financial transparency provision takes effect, districts and states will release public data on spending levels at each school, and at the district level.[2] First, imagine you are an advocate for fair school funding in your city. Second, imagine you are a chief financial officer, responsible for allocating resources to schools consistent with district strategy. In both cases, consider these questions: *What does this per-pupil funding data mean? How can I understand why some schools are getting more money per pupil than others or whether some schools are using resources more effectively than others? What actions can I take to improve equity and outcomes for students?*

Both district leaders committed to equity and community stakeholders will need to be able to answer these questions clearly in order for financial transparency to inform decisions that lead to equity. In our workgroup, CFC members identified three challenges that districts will need to address as they prepare to release spending data that is informative and digestible and how this data can then inform the necessary steps they need to take to enable constructive change.

Challenge 1: How do we report spending at the school level accurately?

Many large school districts typically distribute only about half of their funds[3] at the school level. Therefore, when these districts report on school-level spending, their school per-pupil figures fail to include a range of resources that are used in schools, but billed centrally. Special education teachers accounted for in the district's special education department budget, itinerant paraprofessional support staff, and school security guards funded through a centrally-managed contract are three such examples.

The state's methodology should produce a true picture of spending across schools – whether those resources are currently accounted for at the school or district level. The challenge of fully reporting school-based spending encompasses two issues:

- **School reported funds vs. central budget.** In many districts, some resources that exist in schools are billed on the central ledger, so when advocates view the district-level and school-level per-pupil reports, they are going to see a gap between the two. In order to ensure that the school-level per-pupil figure appropriately represents funding allocated per student, districts will need to report all

[2] ESSA sets forth basic standards for per-pupil reporting and mandates that SEAs develop statewide methodologies to carry out the transparency requirements. As for timing, ESSA requires that state and local report cards be completed by December 31, 2018, and that districts report per-pupil spending for the 2017-18 school year by December 31, 2018. However, a state or district can delay the inclusion of per-pupil expenditures on the state report card until June 30, 2019, if it describes when the data will be available. States may also apply for a one-time, one-year extension to the December 31 deadline.

[3] ERS district data 2010-2017.

school-based staff and resources on those schools' budgets, to the extent practical. The district should be able to identify and explain any school-based staff that are reported centrally.

- **Allocations.** Some expenses really do belong on the central budget. But district-wide or shared costs do not necessarily serve all students. For example, district-level spending on special education disproportionately serves schools with higher concentrations of special education students or schools serving students with particularly significant needs – allocating those costs evenly across all students will understate the true amount spent in schools with high special education enrollments and over-state the amount spent in schools with low special education enrollments. States will need to create a methodology that effectively balances allocating central expenses to only those students and schools that benefit from them with the complexity of complicated allocation rules. To strike such a balance, states should examine current district practice to understand how centralized expenses currently play out across schools and which allocation rules are most important to creating an accurate representation across schools.

In addition to accounting for school-based services fully, districts must report accurate per-pupil expenditure data. Some of the steps to ensure the accuracy of the reported expenditures will be taken by state education agencies (SEAs) as they set compliance methods; others must be carried out in district finance offices as they generate the reports. Structuring an accounting system that can report expenditures accurately and consistently involves understanding and solving common challenges:

- **Exclusions.** Not every dollar spent by a school district belongs in the numerator of the per-pupil expenditure calculation. Costs like capital improvements and debt service are either uneven over time or not oriented toward educating students. For these reasons, the regulations for the submission of state accountability plans under ESSA exclude them.[4] States may choose to add further exclusions as they develop their reporting methodologies. Once these are all defined, states and districts will need to ensure that accounting structures cleanly separate excluded dollars so that their finance offices can consistently generate comparable per-pupil figures year-over-year.

Per-pupil metric: Basic federal standards

$$\frac{\textit{Dollars}}{\textit{Pupils}}$$

Numerator must include administration, instruction, instructional support, student support services, transportation, operations, fixed charges, preschool, expenditures to cover deficits for food service or activities, and exclude capital, debt service, and community services.

Denominator must be the district's pupil count on or about October 1.

- **Alignment of dollars and enrollment.** The schools from which student enrollment is reported must match the schools to which expenses are billed. In one participating district, a school-within-a-school appeared to have almost no funding because while students were tagged to it, expenses were billed

[4] At the time of publication of this brief, it is unclear if and when the regulations will take effect, following a 60-day delay issued by the Trump administration on January 20, 2017.

to the other school in the same location. Conversely, another school appears wildly over-funded because all the related service providers in the district are charged there. Districts must properly assign all staff, students, and other costs to the correct school codes.

SEAs must create uniform standards for implementing the transparency provision statewide.[5] Districts must adjust their accounting systems to report with fidelity. Because districts will have to comply with the rules the SEA sets, it is imperative that they understand the opportunities and limitations of their accounting systems, and advocate to state leaders for a methodology that is practicable and robust. State leaders responsible for designing the methodology must ground their design in an understanding of district practice to effectively balance accuracy and complexity and to understand the nature and extent of change in district practice necessary to execute the methodology.

Challenge 2: How do we interpret school-level spending and make sense of differences across schools?

Even with consistent and accurate per-pupil numbers reported for every school, what are stakeholders to make of the data? Likely, they will see a large spread of spending levels – and they may search out individual schools that appear to be high- or low-funded. Indeed, CFC cohort members found that when they analyzed their schools' per-pupil data, schools with the highest funding spent about three times as much as the lowest-funded schools.

However, variation in per-pupil spending across schools alone says relatively little about the *equity* of resource distribution. CFC districts observed that schools receiving more money per-pupil are not necessarily over-resourced, and schools receiving less money per-pupil are not necessarily under-resourced. Many factors drive variation in funding – some strategic and deliberate, some incidental. States and districts must understand what causes variations in funding, and how to communicate these variations to the public.

While many assume that variation across schools will be largely driven by differences in teacher compensation since teacher salaries typically double over their career and their compensation is a large proportion of total school-level spending, CFC districts observed that other factors explained more of the spending differences. These included:

- School size—Schools with fewer students generally had higher per-pupil spending as they may have been less able to take advantage of economies of scale. This was true even for schools that were not extremely small (e.g., under 100 students).
- Student population/needs—Schools with higher need populations generally spent more per-pupil, and this can be more pronounced with higher percentages of students with disabilities or enrollment of students with particularly significant disabilities.
- Grade configuration—Some systems invest more in specific school levels (usually high school, although districts with aggressive elementary class size reduction strategies may see the opposite).

[5] See this guidance on state and local report cards from the U.S. Department of Education for one way to comply with and implement a uniform standard.

In each of these cases, higher spending did not imply that a school provided better service to students. It could simply mean the school was smaller, its student population was different, or it served a different grade span.

State and district implementation of this requirement should consider how much of the variation in spending among schools is due to structural conditions like school size or level, how much is due to variations in student need,[6] and, crucially, how much is related to differences in the richness or quality of the services schools provide. Districts should also determine how much of this variance is strategic versus unintended to determine implications for action.

If they seek to foster a conversation on equity and take meaningful action, systems will need to develop strategic engagement and communications plans and leverage key partners, such as principals, as they work to communicate to the public what funding variation among schools really means.

Challenge 3: How do we place school spending into the context of a broader equity and excellence strategy?

Equity and excellence aren't just about how *much* – but how *well.* What schools do with the resources they have – and the type of resources they have – matters even more than a school's level of funding. In fact, the districts in our workgroup found that above a certain baseline, there was little correlation between a school's spending per-pupil and the success of its students.

Fair funding is important, but if equitable resource distribution does not foster success for all students, it becomes an academic exercise. Conversely, if a system consistently prepares students of all need levels and backgrounds for college and careers, its resource distribution choices need not necessarily be challenged.

There are many factors that influence the quality of educational outcomes and the distribution of key resources that will not necessarily show up in a per-pupil spending report. In order to speak authoritatively and comprehensively about equity, a district must move beyond just reporting how much it spends on schools and consider other metrics strongly related to educational equity and excellence – some of which may have no correlation at all to funding. These can include student access to the most effective teachers, access to rigorous courses and enriching experiences, access to extra time and support for struggling learners, and indicators around climate and culture that speak to a school's environment.

With these metrics and transparency, families and stakeholders will be able to see if a school with relatively low per-pupil funding is staffed by the most effective educators and is producing excellent outcomes and opportunities for all students. Likewise, they can identify high-funded schools that may be highly segregated or performing poorly. A set of metrics that illustrate equity across a broad range of resource inputs and student outcomes can inform district and school leader action and direct attention to where it is most essential.

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[6] Understanding variation in student need is crucially important to understanding equity in a district, but variation in funding among schools that is driven by variation in need is not on its own telling of equity across schools. This type of variation is more likely to relate to the possibility of inequity among students in a school.

Despite the regulations being delayed, districts should move forward with calculating and sharing metrics that illustrate the state of equity in their schools. As states and districts create accountability report cards, they should consider how to integrate non-financial indicators, such as course rigor and exclusionary disciplinary rates, into one report that can clearly communicate what per-pupil data both say and omit about equity.

Now Is the Time

States will submit their ESSA plans to the U.S. Department of Education in 2017, and districts will need to report their 2017-18 expenditures by December 31, 2018.[7] As such, they will need to have their reporting processes in place very soon. The time to begin this work is now.

As an immediate first step, both district leaders and stakeholders in the community need insight into how resources are being spent in order to move their systems forward. Clear and accurate financial transparency data will enable district leaders – both inside and outside the central office – to make bold and effective policy decisions.

A reporting procedure that generates accurate, contextualized, and clearly-communicated per-pupil figures is an indispensable tool as we strive for equity and excellence. A poorly-designed or executed reporting system will be a tremendous hindrance in that effort.

In the coming months, Chiefs for Change and ERS will continue our work with a cohort of districts and states to collaboratively and concretely generate solutions to the questions this brief raises and will share these promising practices in a subsequent brief. As part of our collaboration, we will develop tools and templates for districts to self-diagnose on equity and ESSA readiness, and to design effective reporting structures. The workgroup will continue its focus on communicating with stakeholders, aligning budgets with strategic plans, building capacity, and coordinating ESSA implementation in support of greater equity and excellence for all students.

[7] See footnote 2 for clarity on the timeline.