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Strategic Resource Allocation for the 21st Century

HOW STATE LEADERS CAN ADDRESS THE SILENT RECESSION

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INTRODUCTION

As education expenses continue to outpace revenues, school districts are experiencing a "Silent Recession" (Krausen & Willis, 2018), forcing many districts to make difficult decisions about how to maximize limited dollars to best meet the needs of students. State leaders are uniquely positioned to support school districts during these difficult budget periods. This executive summary encapsulates key points from Strategic Resource Allocation for the 21st Century: How State Leaders Can Address the Silent Recession, the third in a series of reports exploring the Silent Recession. Drawing from research literature as well as from interviews with 20 state leaders, directors of regional education-focused nonprofits, and leading education researchers, the report outlines factors contributing to increased education costs and offers strategies that state education leaders can deploy to support school districts during difficult budget periods.

- The report describes, for example, how state leaders can support school districts through the design of their state funding formulas, by aligning resource allocations with other major education policy areas and with the state's goals for student achievement and by developing long-term plans for revenue generation that are responsive to rising costs and rising expectations for schools.

SHIFTS IN THE EDUCATION SYSTEM THAT CONTRIBUTE TO RISING COSTS

A range of important contextual factors, both within the education system and outside it, contribute to the rising costs of educating students in the 21st century:

External factors

- **Recovery from the Great Recession has been slow.** Despite annual increases in per-pupil funding, many states still have not fully restored pre-recession education funding levels.
- **The student population is changing, with higher levels of need.** K–12 schools currently serve higher proportions of students who are English learners, students experiencing homelessness, students affected by trauma, and students with disabilities — particularly high-cost disabilities.

Internal factors

- **Results-driven accountability highlights achievement gaps and sets high expectations for all students.** In response, schools must provide an array of additional supports to raise the performance of struggling students.

TRENDS IN STATE FUNDING DISTRIBUTION

Over the past two decades, many states have engaged in efforts to improve the distribution of resources by increasing overall funding levels and by attempting to make resource allocation among districts more equitable.

- **Nearly every state has been sued over school funding, but states rarely invest in sustainable, comprehensive school funding solutions.** Following lawsuits over the adequacy and/or equity of school funding, courts have mandated that states raise education funding levels. However, legislatures tend to redirect funds from elsewhere in the budget — a potentially less sustainable solution than raising additional revenue.

- **States have a role in determining not just how much funding is allocated per pupil, but also how well the funding is used.** Most states now distribute K–12 education funds through foundation formulas, but specific features of funding formulas can affect how equitably and effectively schools use their funds. In addition, state education agencies (SEAs) can provide guidance and technical assistance to help school districts improve the effectiveness of their resource allocation.

RESOURCE ALLOCATION STRATEGIES IN BUDGET AREAS WITH EXTREME COST PRESSURES

State education leaders and other education experts interviewed for this report described the following state-level strategies for helping districts mitigate some of the most severe education cost pressures.

Special education

Although districts must provide all necessary supports for educating students with disabilities, regardless of cost, states can help districts provide these services in a more cost-effective manner. Some strategies for doing so include the following:

Provide technical assistance to school districts

- **Help school districts develop a thorough, widespread understanding of the allowable uses and requirements of federal funding for students with disabilities.** Alongside their roles as compliance monitors, SEAs can provide technical assistance to help districts improve both program effectiveness and resource allocation. Although various requirements of federal funding may unintentionally hinder the effectiveness of states' and districts' resource allocations, having a more thorough understanding of the funding's flexibilities and limitations may help state and local education leaders reduce these barriers.
- **Invest in early interventions.** SEAs can provide technical assistance on using state discretionary dollars to fund a multi-tiered system of supports and other initiatives, which can yield a significant return on investment by improving student outcomes and reducing more intensive (and expensive) supports that students might otherwise need later on (Schwartz et al., 2019).

Promote regional cost-sharing

- **Build systems to promote cost-sharing and cost stability across regions.** This strategy can include creating high-cost pools, at either the state or the regional level, to fund services for students with high-cost disabilities. In addition, states can build cost-sharing mechanisms to help small and rural school districts — which are disproportionately affected by steep special education costs — to benefit from economies of scale.

Staff compensation and pensions

The challenge of teacher compensation is twofold: Districts must manage the steeply rising costs of salaries and benefits, and they must find strategies to improve teacher recruitment and retention. States can lead the way in tackling this challenge by redesigning staff compensation structures to both improve their sustainability and maximize their appeal for most of today's teaching workforce, including new teachers.

Maximize the appeal of compensation structures

- **Create sustainable compensation structures that are attractive to 21st-century school employees.** Because today's teachers tend to place a higher value on take-home pay than on retirement benefits (Fitzpatrick, 2015), compensation structures that prioritize salaries may prove more appealing and improve staff retention. As with retirement plans, revising statewide salary schedules can make the distribution of teacher compensation more equitable and more appealing to newer teachers. Conducting periodic market surveys to inform teacher salary rates can help ensure that rates remain competitive.
- **Introduce teacher leadership opportunities and career ladders.** With teachers citing a lack of advancement opportunity as a top reason for leaving the profession (McFeely, 2018), establishing teacher career ladders and leadership opportunities can improve retention (Booker & Glazerman, 2009).
- **Invest in higher education programs and loan forgiveness for incoming teachers.** Many states are improving the teacher pipeline by investing in service scholarship or loan forgiveness programs, particularly for high-need positions and hard-to-staff locations and subject areas.

Improve the sustainability of retirement plans

- **Consider retirement plans that offer more sustainable alternatives to the traditional, defined-benefit pension plans and that offer more flexibility for today's young, more mobile workforce.** Cash balance plans, 401(k)-style plans, and hybrid plans may offer promising alternatives.
- **Use state funds to gradually reduce the state's pension debt.** Without leadership from the state, pension systems' unfunded liabilities will continue to grow, presenting major fiscal risks in the case of a future recession.

LONG-TERM PLANS FOR REVENUE GENERATION

Although many of the aforementioned strategies may be accomplished by simply reallocating existing education funds, state education leaders also noted the need to generate additional resources for K–12 education and offered strategies to support long-term plans for necessary revenue generation, including the following:

- **Make a clear connection between state education funding and revenue generation.** By helping policymakers understand the extent of the fiscal pressures that school districts face — including the higher levels of student need and higher expectations placed on schools — state education leaders can help policymakers recognize that to provide adequate funding, states will need to generate additional revenue.
- **Identify new revenue sources.** Given the difficulty of gaining legislative or voter approval for general tax increases, states may first try to find new, untapped sources of revenue — such as taxes on marijuana sales, casinos, or online retailers — and dedicate these funding streams to education.
- **Change the narrative from underfunding to innovation.** State education leaders have gained support from lawmakers and other key stakeholders when they focused not just on the current system's underfunding, but on their proposed investments' potential to enhance the education system and improve student outcomes.

CONCLUSION

Many SEAs have shifted away from serving solely as a monitor of state funding; increasingly, SEAs also serve as advocates for the strategic deployment of resources to improve student outcomes. Accordingly, state education leaders and lawmakers can collaborate to tackle the complexity of the rising cost pressures that school districts face. By looking to research and other states for innovative strategies and by changing the narrative around education funding, state leaders can create more effective and sustainable education funding systems, enabling school districts to meet the needs of students in the 21st century.

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