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ERIC Development Team

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At the dawn of a new decade we look back on the 1980's as a period of major education reform in areas ranging from restructuring curriculum to parental choice. These ambitious initiatives advocate changes not solely for the sake of improving education but to assist the nation in recapturing its competitive edge (Bernstein 1988). Yet policymakers have rarely analyzed the fiscal dimensions of reform on schools.

This digest is intended to help school district leaders understand the most important fiscal policy issues generated by education reform and to help them respond to those issues with sound fiscal management and an emphasis on cost-effectiveness and accountability.

WHAT IMPORTANT FISCAL POLICY ISSUES FACE SCHOOLS?

Contemporary fiscal policy issues are tied to the educational policy issues that emerged over the past several years of education reform. Beginning with A Nation at Risk in 1983, reform initiatives spread state by state leaving few untouched. Although reform efforts varied greatly across and within states, they centered on five major areas: restructuring curriculum, the teaching profession, student outcomes, school management, and parental choice.

Many schools have returned to a traditional curriculum emphasizing core subjects, increased graduation requirements, and longer school days and years. Teacher reforms have centered on upgrading compensation through direct across-the-board increases, incentive pay plans, and career ladders. For student outcomes, reforms have placed greater emphasis on testing, from kindergarten through college.

Reform in school management has focused on school sites where principals have responsibility for planning, instruction, and budgeting often in collaboration with school councils. Choice programs allow parents to select schools either within a district or across district lines but are generally limited to public schools.

All these reforms may be synthesized into two critical fiscal policy issues: How is education reform to be financed, and do the dollars spent on education reform make a difference?

The first question speaks to the appropriate balance in the local/state/federal partnership, an unresolved policy issue. The second focuses on student outcomes, more specifically, increased student achievement. (For a sobering discussion of the results of twenty years of research on the relationship between expenditures and student performance, see Eric Hanushek's 1989 article.)

WHY SHOULD SCHOOLS BE CONCERNED WITH THESE ISSUES?

Reforms cost money; they require either an infusion of new dollars or a redistribution of current revenues. Reforms mandated at the state and federal levels, if not fully funded, increase the fiscal burden on school districts or cause a shift in funding from other programs. Locally based reforms have the same fiscal impact since they necessitate either an increase in local taxes or a reduction in spending on existing programs. Here are examples of potential costs from each of the reform areas:
Restructuring curriculum. Increasing graduation requirements starts a "domino-effect" on costs, the largest expenditure being additional staff salaries. More rigorous graduation requirements may also translate into a longer school day and increased costs for utilities and maintenance.

The teaching profession. Compensation reform to retain current teachers and attract talented newcomers, incentive pay plans, and career ladders are the costliest of education reforms, because salaries and benefits consume over half of the district operating budget (Fox 1987).

Student outcomes. Implementation of districtwide competency-based testing may appear to entail minimal cost, but small costs snowball. They include startup costs, purchase or development of tests, scoring, inservice education, and staff release time.

School management. Moving the level of decision-making to the school may appear to be cost-free, but substantial hidden costs exist. Increased clerical demands come with site-level planning, budgeting, and school councils. Inservice education for administrators, teachers, and school council members is essential to prepare them for the transition from centralization to decentralization (White 1989).

Parental choice. Choice programs vary widely in cost. Even small-scale indistrict plans involve administrative coordination costs. Also school districts generally spend resources in educating parents as to the choices available, for example, through mailings.

With regard to the second fiscal policy issue, schools need to ask whether education reform dollars are making a difference, because a watchword for the 1990's will be accountability. After a significant infusion of state funds in the 1980's, policymakers and taxpayers want results. Cost-effectiveness is also emerging as an important concept; that is, are schools making the best possible use of all resources? Schools must demonstrate in tangible terms efficient use of resources and a larger bottom line in terms of test scores.

HOW CAN SCHOOL DISTRICTS PRACTICE

SOUND FISCAL MANAGEMENT?

Schools can successfully meet these challenges with two major strategies. First is practicing sound fiscal management, and second is an emphasis on cost-effectiveness and accountability, which are addressed in the next section.
Gilbert Hentschke (1988) noted that a shift in authority must occur with site-based fiscal management. A prerequisite for assuming this new authority is mastery of these skills: Budget literacy, budget construction, costing out alternatives, monitoring revenues and expenditures, and computer literacy. School-based management becomes a meaningless exercise unless all participants are fluent in fiscal management.

Budget literacy involves reading, understanding, interpreting, and analyzing a budget. Participants tie educational objectives to expenditures at the program (grade/subject), school, and district levels.

Also necessary are budget construction skills. The principal and school council synthesize program budgets into a school budget, and so they must be able to construct program and school budgets. Classroom teachers need skills in developing program budgets.

Costing out alternatives means calculating the costs of different means to reach educational goals. "Packages" containing different mixes of personnel, materials, supplies, equipment, and facilities are developed for comparison and evaluation.

A budget represents a blueprint for revenues and expenditures, often requiring modifications during the school year. In a school-based management environment, the principal has responsibility for monitoring school revenues and expenditures regularly--monthly, quarterly, annually.

Computer literacy on an electronic spreadsheet enables all participants to easily construct a budget, cost out alternatives, and monitor revenues and expenditures.

HOW CAN SCHOOL DISTRICTS ACHIEVE COST-EFFECTIVENESS AND

ACCOUNTABILITY?Sound fiscal management provides the foundation for cost-effectiveness. In layperson's terms, it means selecting the best alternative at the least cost, not necessarily the cheapest one. For example, in purchasing student desks, durability is an important consideration. The cheapest product may cost more in the long run because it is of poor quality. Requiring those making expenditure requests to cost out alternatives is one method to ensure cost-effectiveness.

Accountability, defined as responsibility for results, builds on the base of sound fiscal management and cost-effectiveness. If a district practices sound fiscal management and consistently selects the most cost-effective options, school officials will be comfortable justifying their fiscal decisions before any audience.

Where can school districts find those with expertise to assist them in honing these skills? District personnel, such as the central office administrator in charge of budgeting, welcome the opportunity to share their knowledge. State education departments frequently offer inservice education. Also, professional organizations at the local, regional, state, and national levels provide expertise or maintain a "bank" of qualified individuals. Finally, textbooks such as Hartman's (1988) constitute a useful resource for practitioners.

WHAT CRITICAL FISCAL POLICY ISSUES LIE BEYOND THE 1990'S?

As wave after wave of reform crashes over schools, it may be difficult to find time to reflect on and plan for critical educational and fiscal policy issues only glimpsed on the horizon. If the U.S. wishes to regain its competitive edge in the world economic market, a rethinking of the federal role will be necessary particularly in the funding of student equity issues and technological innovations in learning.

Student equity issues address the health and welfare of at-risk children so that they will be successful learners and earners. In spite of valiant efforts by schools to meet the needs of at-risk students, the rates of high school dropouts and teen pregnancy remain high. Coordination of services provided by federal, state, and local agencies is essential, and the federal government is in the best position to implement and fund such a system.

While student equity issues often center on urban areas, equal access to a quality education is an issue for students in rural areas. Distance learning offers these students the possibility of a broader curriculum. This technology is in the early stages, however, and requires large investments that are beyond the capabilities of individual states. The federal government is in a strategic place to invest in development and assist states in implementation of this technology (Piele 1989).

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