

School Finance and School Outcomes

Testimony before the
Finance Committee of the Ohio Senate

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Thank you for the opportunity to discuss with you your upcoming decisions on school finance policy. This topic rightfully gets considerable attention because of its prominent position in the state budget. But I would argue that its budgetary prominence *understates* the importance of these discussions. Nothing has a larger impact on the economic future of Ohio than the quality of its citizens, and shaping the skills of the people who will carry Ohio through this Century is the central role of the schools.

In addition to being a North Olmsted High School graduate, I have analyzed school finance issues for five decades. Over this time, I have also been heavily involved in court deliberations about school finance and, among other things, have written a book on school finance litigation and policy across the U.S.

In this testimony, I will discuss some of the details of the decisions that face you in setting the funding of the schools. I will start with an overview of how these decisions fit into the operations and success of schools. I will then talk more specifically about HB 110.

Some Principles

School finance is educational policy. Frequently, there is an attempt to separate the finance of schools from how that money is used. This perspective, however, ignores the role of finances in affecting the performance of the schools. There is ample evidence that schools respond to incentives, and, if ignored, the performance of schools will generally be inferior. The simple fact is that it is extremely difficult to think of regulating the way to better outcomes.

How money is spent is more important than how much is spent. Few forces ensure that added spending in schools leads to more learning, and the general lack of market forces means that spending is not a good indicator of quality. Supporting schools is not the same as buying a new car. When buying a new car, higher spending is associated with getting a better car – more features, higher quality workmanship, low maintenance costs, and the like. This logic, however, does not hold for schools. We regularly see districts with similar students spending the same amount but producing very different learning outcomes in their students. This is not a matter of demography but of how effectively resources are used across districts. Figure 1 provides a visual representation of the relationship between *spending and gains* in student achievement for districts in Tennessee. I have looked at similar analyses in more than a dozen states, and the picture never varies. After adjusting for demographic differences in students, for special education and ESL, and for poverty, we see two things: 1. The relationship seen in the line between spending differences across districts and what districts add to student learning shows no increase in performance with more spending; and 2. At any spending level, there are huge differences in the amount of learning that goes on across districts. Simply providing more funds does not ensure that you get a highly effective district.

A second simple demonstration of “how” versus “how much” is shown in Figure 2 that plots state funding increases against the change in test scores on the National Assessment of Educational Progress (NAEP) over two decades. Again, more money does not lead to better performance. It is not spending that is driving differences in school performance across states.

If interested in student achievement, it is necessary to focus on student achievement. As a general statement, just providing more resources does not guarantee higher performance. Neither does setting rules on how the money is spent such as maximum class sizes or the structure of teacher salaries. It is

necessary to think of policies that are directly related to the outcome of interest – which I believe should be student achievement. This thinking obviously intersects with other legislative actions and other Senate committees, but it provides guidance to your deliberations that I will return to later. A portion of funding should, in my opinion, provide incentives for high student performance.

The Courts are an actor in school funding and school policy. The constitutional requirement of providing a “thorough and efficient system of common schools” does not describe any particular organization or funding of schools. But I believe that the shadow of deRolph and court involvement lingers over legislative and executive actions, and this should not be ignored in your decisions. I will return to this in the context of the finance bill from the House that you are considering.

HB 110

The general finance issues that I have raised can be used to give perspective to HB 110. The proposed finance formula for Ohio, like the current one, is a foundation formula. Used by a vast majority of states, it specifies a base spending amount that is funded jointly by the state and local districts. While the details vary considerably, the state ensures at least the base spending amount, and the local share depends on its fiscal capacity as measured by property tax base and, as in Ohio, including income measures. These base amounts are supplemented with add-ons for specific district characteristics such as the proportion of special education, poor, or ESL students.

The initial base spending level in the foundation formula can be derived in a variety of ways. The formula in HB 110 builds on average teacher and personnel salaries in the state evaluated at a fixed intensity of hiring such as a pupil-teacher ratio of 25 in middle school. The proposed Ohio formula would use salaries for FY2018 and would freeze the amounts derived from this base funding calculation until FY2028. There would also be a phase-in over this period along with various hold-harmless provisions.

How the finance formula is described matters. By building up from these components, those involved in constructing the base spending amounts often describe the result as being based on “actual costs” and as representing the “adequate” funding of schools. While these terms sound like generic descriptions of the formula, they are actually terms of art that are used regularly in school finance law suits, so care is needed.

This terminology is both incorrect and deceptive:

1. The base calculations are not “actual costs.” These calculations are derived from average expenditures by districts in FY2008, but (as seen in Figure 1) some districts need fewer resources than others in order to achieve their learning outcomes. The term “costs” generally apply to the amount needed in a competitive market where costs are driven down to a minimum level.
2. The base calculations are not generally “adequate”. They relate directly to the level of performance currently observed. If the state wanted to aim at different achievement levels, it may require a different level of resources. Again, while used frequently in courts, adequacy bears no relationship to the constitutional requirements.

If the legislature accepts this terminology, any future deviation from the implied spending can be taken as a failure of the state to meet its constitutional obligations. For example, if a future legislature decided to shift its priorities or met with a fiscal crunch such as that following 2008, it could trigger court involvement. In fact, the Ohio Supreme Court was explicit in its deRolph III ruling:

We realize that the General Assembly cannot spend money it does not have. Nevertheless, we reiterate that the constitutional mandate must be met. The Constitution protects us whether the state is flush or destitute.

Adjustments for future actions must be contemplated. It is unrealistic to believe that neither the executive nor legislature will want to change funding over the next six years but instead would stay with salaries from three years ago and static funding plans. While not something that I am testifying about, I think this unrealistic structure will lead to potential future budgetary and fiscal issues. Having a stable funding structure is desirable, but regularly reviewing and adjusting the funding formula to reflect both outcomes and fiscal trade-offs is a function of the legislature.

The finance plan should be neutral to charter and choice providers. The plan changes from pass-through to direct-funding of community schools, but I believe it is important to insulate all public schools from potential political attacks. As the COVID pandemic revealed, many charter schools have shown nimbler responses to school closures, remote learning, and the like than the traditional public schools. It is appropriate simply to treat charters and choice schools entirely like traditional districts.

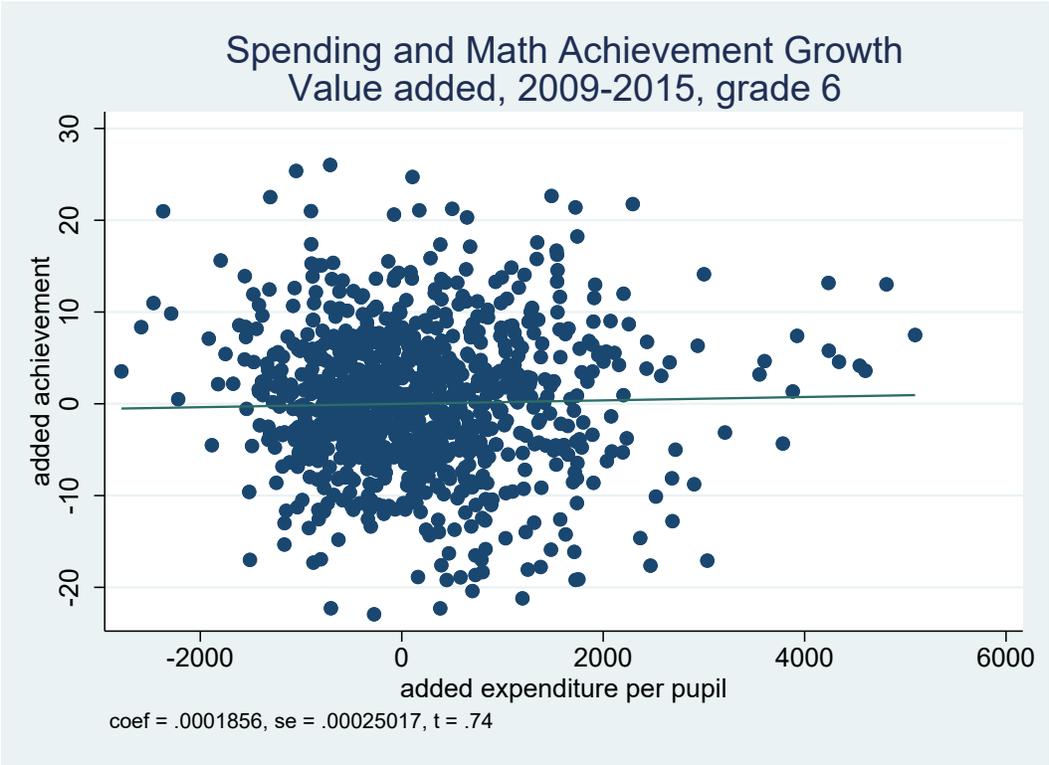
Overall

While there are a number of concerns with the current manner in which Ohio schools are funded, HB110 offers a very uncertain alternative. There is little reason to believe that it would lead to improved student outcomes. Indeed, consideration of student outcomes is absent from this discussion, leading to some question about what “fairness” means in this plan.

Clearly, consideration of school finance change is often a contentious and politically charged activity, so you might want some respite in the future. HB 110 is not likely to take school finance off the legislative agenda in the future. Given a formula based on old salary data and the proposed freeze on the formula through FY2028, it is unlikely that everybody will continue to view this as fair and adequate as opposed to needing further work.

Finally, Ohio’s future depends importantly on the quality of its citizenry, and schools are an important determinant of that. While difficult, I think that major changes in school finance should provide incentives for student performance. Such incentives would provide a rational basis for getting the most out of your public spending. This is not likely to be something done on the fly, but it should be on the development path.

Figure 1. District Performance in Tennessee



Note: matched students adjusted for A(t-1), Hispanic, black, Asian, ESL, special education, and poverty.

Figure 2. State Differences in Expenditure Increases and Changes in NAEP Scores, 1990-2009

