

Stateline Midwest

Vol. 20, No. 1 • January 2011

THE MIDWESTERN OFFICE OF THE COUNCIL OF STATE GOVERNMENTS

No easy answers

As states and K-12 schools brace for loss of federal funds, legislatures seek new education efficiencies and reforms

by Tim Anderson (tanderson@csg.org)

INSIDE

CSG Midwest Issue Briefs 2

- New mandates for health insurers take effect
- Report shows region's 'new economy' struggles
- Impact of new food-safety law in Midwest
- Wisconsin adopts energy-efficiency standard

Around the Region 4

- Prison populations fall in 5 Midwestern states
- Midwest losing 5 congressional seats

Question of the Month 5

What Midwestern states have meat-inspection programs, and how do they operate?

Feature Story 5

A look at the redistricting process, and Iowa's unique way of redrawing political maps

Profile 8

North Dakota Sen. Ray Holmberg

FirstPerson 9

Wisconsin Rep. Sandy Pasch on efforts in her state to improve mental health services

CSG News & Events 10

- Indiana Rep. Scott Reske takes over as new MLC chair
- Legislators encouraged to apply for fellowship to attend regional leadership program

Capitol Clips 12

- Illinois law on red-light cameras tweaked
- Ohio gets results from long-term-care changes
- New gun laws take effect in Iowa, Ohio
- Municipal bankruptcy in hands of states

Stateline Midwest is published 12 times a year by the **Midwestern Office of The Council of State Governments.**

Annual subscription rate: \$60.
To order, call 630.925.1922.



CSG Midwestern Office Staff

Michael H. McCabe, *Director*
Tim Anderson, *Publications Manager*
Cindy Calo Andrews, *Assistant Director*
Melissa Bailey, *Policy Analyst*
Ilene K. Grossman, *Assistant Director*
Andre Guerra, *Policy Analyst*
Lisa R. Janairo, *Senior Policy Analyst*
Laura Kliwer, *Senior Policy Analyst*
Gail Meyer, *Office Manager*
Laura A. Tomaka, *Senior Program Manager*
Kathryn Tormey, *Policy Analyst/Assistant Editor*
Kathy Treland, *Administrative Coordinator and Meeting Planner*

Across the Midwest, no single expenditure gobbles up more of the state budget pie than K-12 education.

In most states, spending on elementary and secondary schools accounts for more than one-third of general-fund expenditures, and nears or exceeds one-half of spending in states such as Indiana, Kansas and Michigan (see table on page 7).

These figures reflect the high priority that legislatures place on education, as well as the pressures that lawmakers have faced — from constituents and the courts, for example — to strengthen funding for schools.

In the coming months, that dedication to K-12 education funding will be put to the test: The temporary federal dollars that have propped up state education budgets is going away, and in most states, revenues have not rebounded nearly enough to make up the difference.

"It's going to be a devastating year for K-12 education," says Michael Redell, executive director of the Campaign for Educational Equity at Columbia University's Teachers College.

John Myers, a former Kansas legislator and an education consultant who specializes in school finance, says state funding woes will be compounded by worsening problems at the local level: Declines in the value of reassessed property will result in a drop in local tax revenues.

State and local tax dollars account for a vast majority of school revenue, but with the American Recovery and Reinvestment Act of 2009 and the \$10 billion Education Jobs Fund of 2010, the federal government made an unprecedented — albeit temporary — commitment to financing the nation's K-12 schools.

A review of recent state budgets in the Midwest shows just how much of an impact these additional federal dollars have made. For example, Recovery Act dollars amounted to 14.8 percent of total state aid for schools in Nebraska and 8.6

percent of state aid in Iowa's FY 2010 budget. (A review of the impact in all 11 Midwestern states can be found on page 7.)

"We're going to see a lot of cuts across the country, and many more layoff notices going out to teachers," says Michele McNeil, an assistant editor at Education Week magazine.

"School districts were warned all along that there was a funding crunch coming, that this money wouldn't be here forever. But it's one thing to prepare for it, it's another to face the harsh reality."

The budget decisions that state legislatures must make in the weeks and months ahead will partly determine how harsh that reality will be.

Potential savings, efficiencies

In Indiana, lawmakers have pledged to keep state funding for K-12 education at its current level.

"Considering we're losing hundreds of millions of dollars in federal money

Breakdown of K-12 education spending in Midwest (2007-08)

State	Source of revenue			Spending	
	Federal	State	Local	Per-pupil spending	U.S. rank
Illinois	8.1%	33.8%	58.2%	\$10,246	17
Indiana	7.3%	48.5%	44.2%	\$9,036	37
Iowa	7.4%	46.5%	46.1%	\$9,267	30
Kansas	6.4%	58.4%	35.2%	\$9,667	26
Michigan	7.7%	57.3%	35.1%	\$10,069	20
Minnesota	5.6%	65.8%	28.5%	\$10,140	19
Nebraska	9.7%	33.0%	57.3%	\$9,577	28
North Dakota	13.7%	36.1%	50.2%	\$9,675	25
Ohio	6.9%	44.1%	49.0%	\$10,173	18
South Dakota	15.2%	33.2%	51.5%	\$8,367	41
Wisconsin	6.0%	50.1%	43.9%	\$10,680	15
United States	8.1%	48.3%	43.7%	\$10,259	—

Source: U.S. Census Bureau "Public Education Finances"

[due to the loss of stimulus dollars], that is going to be a real challenge," says Republican Sen. Dennis Kruse, chair of the Senate Education Committee.

Along with their funding goal for 2011, Indiana's GOP-led legislature and Republican Gov. Mitch Daniels have introduced a series of education reform

► PLEASE TURN TO PAGE 6



Education experts say this will be the toughest year yet for states in funding K-12 school systems due to the loss of temporary federal dollars and the recession's lasting impact on state revenues. Current fiscal conditions likely will have legislators looking for efficiencies and cost savings within their education budgets.

▶ CONTINUED FROM PAGE 1

Premium on cost savings and efficiencies in toughest year yet for education budgets

proposals, some of which seek cost savings and all of which seek to get more out of the money that the state is putting into the K-12 system.

One cost-saving idea, Kruse says, is to encourage certain school districts to cover their employees through the state health care plan. (Depending on the plans, some districts would save money by doing so; others would actually pay more.)

State leaders, too, are looking to expand the use of charter and virtual schools, both of which receive less per-pupil aid than traditional public schools.

One of the more unique proposals this year in Indiana would provide a college scholarship to



Sen. Dennis Kruse

students with enough credits to graduate from high school after their junior year and who by-pass their senior year.

Under a plan being considered in early January, the scholarship would be \$3,500 — enough to pay for a student to attend a state community college,

but thousands of dollars less than the cost to the K-12 education system if he or she returned to high school for a senior year.

The issues of education finance and school reform are expected to dominate discussions throughout Indiana's 2011 legislative session. As

Kruse notes, the dual goals of maintaining K-12 education funding and not raising taxes will force the legislature to make cuts and find savings in all other parts of state government.

Meanwhile, in some U.S. states, a scaling back of education spending seems unavoidable, Redell says.

"When it comes to education, you can't just slash-and-burn or rely on across-the-board cuts," he says.

"Education is a constitutionally protected level of service in states, and you have to take steps that maintain that constitutional level of service."

If cuts aren't made in a thoughtful manner, he says, states open themselves up to future education-finance lawsuits that challenge the adequacy or equity of funding systems.

Myers warns, too, that many cost savings might come at the expense of student learning, a trade-off that he says states should avoid.

"K-12 education can be very efficient, but sometimes for the wrong reasons," he says.

"You pack 30 kids into a classroom with one teacher and you shut the door, that is efficient on paper and in terms of the operation of the school. But it's not efficient in terms of student learning."

Redell suggests several cost-saving ideas for states to consider.

For example, he says special-education budgets deserve closer scrutiny. Increasing numbers of

students are being placed into special-education programs, at a higher cost to states and perhaps not in the best interest of some young people. Urban districts, in particular, often have a disproportionately high number of special-education students.

He says teacher pension reform and school consolidation are other potential areas for cost savings. Several states, in fact, have already made changes to their pension systems, but as Redell notes, many of these reforms have applied only to newly hired employees.

Changing the benefit structure for current teachers and other public employees would allow states and districts to realize more-immediate savings. However, it also is more difficult and controversial, or sometimes even impossible due to constitutional constraints.

As for consolidation, McNeil says it is always a "popular thing to think about." But when it comes to actually forcing a drop in the number of schools or districts, states usually balk.

"In the end, it's very controversial and there are still questions about how much it really saves," McNeil says.

According to Myers, since the 1960s, states have largely shied away from forcing school consolidations.

"I believe you can identify small- and medium-sized districts that would be better off and gain efficiencies from merging with other school districts," he says.

Court decisions, legislative actions continue to reshape how states in Midwest fund their schools

The mix of local, state and federal funds being used to finance K-12 education is different in every state (see page 1 for the breakdown in the 11-state Midwest).

One nationwide trend, though, has been for states to assume a larger share of total spending, with the goals of easing local property tax burdens, reducing inequities in school-finance systems, and ensuring that districts have adequate levels of funding to meet state education standards.

Here are some notable examples in the Midwest of states that have revamped how they finance K-12 education.

- In **North Dakota**, the state is now financing 70 percent of the cost of elementary and secondary education (excluding the federal government's share) as the result of an education-reform bill passed in 2009 that pumped more state dollars into the system in exchange for property tax relief.
- As the result of a 2008 law that reduced local property taxes and increased the state sales tax, **Indiana** now funds 100 percent of the general operating costs of public schools.
- In 2005, the **Kansas** Supreme Court ruled that the funding formula for K-12 education did not meet the state's constitutional obligation to adequately fund public schools. In response, the Legislature increased the amount of revenues going to schools by 25 percent between the 2005-06 and 2008-09 school years. A disproportionate share of this new money went to higher-poverty districts and schools. Late in 2010, in response to recent budget cuts, a new education-finance lawsuit was filed in Kansas.
- **Ohio**, too, has made funding changes over the past decade as the result of court decisions. In the 1990s and early 2000s, the Ohio Supreme Court ruled that the state's school-finance system was unconstitutional. The legislature responded by increasing overall funding, allotting more school aid to low-wealth districts, creating a separate education budget and using tobacco-settlement dollars to help build new schools. More recently, the state adopted an evidence-based model for school funding (see main story for details on this model).
- **Michigan** has had one of the more unique funding systems in place since 1994, when voters in that state passed Proposal A — a measure that reduced the state's reliance on local property taxes by raising the sales tax and creating a stream of revenue for a separate School Aid Fund. Money for this fund comes from sales and income taxes, as well as a statewide property tax.

More proposals to tweak or overhaul school-funding formulas are expected to be considered in 2011 and beyond. Late in 2010, **Wisconsin** State Superintendent Tony Evers unveiled a plan to reform his state's school-funding formula. Under his proposal, the state would fund a slightly greater portion of overall K-12 funding. Specific provisions would: guarantee \$3,000 per student in general aid to every district; introduce into the school-funding formula a factor that measures family income and poverty levels in districts (the current formula is based solely on local property wealth); and establish new categorical-aid programs that support local dropout-prevention and teacher-mentoring programs.

Several states, meanwhile, are facing litigation that challenges the constitutionality of their current finance systems. Those states include **Illinois**, Indiana, Kansas and **South Dakota**.

David Sciarra, executive director of the Education Law Center, says the mix of local, state and federal dollars used to fund K-12 education isn't necessarily as important as two other factors: the total amount of dollars going to schools, and how states distribute their share of the money.

For example, **Minnesota's** funding formula ensures that more dollars flow to districts serving high percentages of students living in poverty. In other states, most notably Illinois in the Midwest, funding formulas result in high-poverty districts receiving less in state and local per-pupil aid, Sciarra says.

"We're not going to get very far on some of our educational goals — such as moving large sub-groups of students to proficiency on state assessments and closing gaps — unless we improve the underlying condition of the finance systems of the states," Sciarra says.

"If you start moving to a fair funding system, over time, you're likely to see better student outcomes," he believes.

11-state review: Role of K-12 education in state budgets and the recent impact of the federal stimulus on school finance

State	K-12 education's share of state budgets	Impact of American Recovery and Reinvestment Act on school finance
Illinois	In FY 2011, nearly \$7 billion of the state's \$25.8 billion general-fund budget was appropriated to K-12 education — 26.9% of the total.	In FY 2010, \$922 million, or about 8%, of the Illinois State Board of Education's total budget came from the Recovery Act.
Indiana	In FY 2011, \$6.9 billion was appropriated to K-12 education (not including teacher pensions) — 48.7% of state general-fund spending.	In FY 2010 and FY 2011, the Recovery Act accounted for 5.3% and 3.1%, respectively, of total K-12 education appropriations.
Iowa	In FY 2010, State Foundation School Aid for K-12 education totaled \$2.1 billion (Recovery Act dollars not included), 38% of net general-fund revenues.	The Recovery Act accounted for 1.8% of total school aid in FY 2009, 8.6% in 2010, and an estimated 5.6% in 2011.
Kansas	In FY 2011, aid to K-12 schools was nearly \$3 billion, 53% of the state's total expenditures of \$5.6 billion.	The Recovery Act accounted for 8.9% of the \$3.2 billion spent from all sources on K-12 education in FY 2010 and 3.3 percent of the estimated \$3.3 billion being spent in FY 2011.
Michigan	In FY 2010, revenue for the separate School Aid Fund for K-12 education (funded primarily by sales and income taxes as well as a state education property tax) was \$10.8 billion, compared to revenue of \$6.8 billion for the general fund; for every \$1 in state revenue that goes to the general fund, approximately \$1.60 goes to the School Aid Fund.	In FY 2011, two temporary federal funding sources (the Recovery Act and Federal Education Jobs Act Fund) provided the School Aid Fund with \$500.6 million — about 3.7% of total revenue for the fund.
Minnesota	In FY 2010-11, an estimated \$11.4 billion will be spent on K-12 education — 37.8% of the state's \$30.3 billion in general-fund expenditures.	In FY 2010-11, \$500 million from the Recovery Act went to K-12 education; that equals about 4.4% of state general-fund spending (\$11.4 billion) on K-12 education.
Nebraska	In FY 2010-11, the aid formula for K-12 schools accounted for 23.4% of the state's \$3.4 billion general-fund budget; total spending on non-postsecondary education accounted for about 30% of general-fund spending.	In FY 2010-11, \$140 million from the Recovery Act went to the state's aid formula for K-12 schools — 14.8% of total state aid for schools (\$950 million).
North Dakota	In the current biennium, \$1.1 billion is being spent on K-12 education — 35.4% of the state's \$3.2 billion in general-fund expenditures.	In the current biennium, 8.8% of state school aid came from the Recovery Act (\$85.6 million of the \$973 million total).
Ohio	In FY 2010-11, a little more than \$15 billion was appropriated for K-12 education — 28.6% of general-fund appropriations (\$52.7 billion).	In FY 2010-11, the amount of Recovery Act dollars that went to education was \$2.4 billion — 8.8% of total education funding.
South Dakota	In FY 2010, state aid to schools was \$375 million — 33.4% of total general-fund spending.	Of the \$395 million in FY 2011 appropriated for state aid to schools, \$24 million came from federal funds — 6.2% of the total.
Wisconsin	In the current biennium, \$10.3 billion was appropriated for state aid to K-12 education — 37.2% of total general-fund appropriations (\$27.7 billion).	In FY 2009-10, \$237 million from the Recovery Act went to bolster state support for K-12 education — 3.8% of total state support (\$6.2 billion).

Source: CSG Midwest review of state budget documents and interviews with state budget and education offices

“But most of the small schools are going to argue, and they make a good argument, that they are the center of the community. To find savings, you have to literally close school buildings, and then the question is, are you really saving that much money?”

He adds that states and school districts might also find savings by closing underutilized school facilities in medium- and large-sized districts — a more politically palatable efficiency idea.

An ‘evidence-based’ funding model

Lawrence Picus, director of the Center for Research in Education Finance, says the primary role of states in K-12 education is to provide school districts with an “adequate” level of resources.

Defined broadly as providing school administrators, teachers and students with the money they need to meet state standards, adequacy has been central to school-finance reforms and litigation over the past two or three decades.

And with the strengthening of state standards and the current strain on state budgets, Picus says, it becomes imperative that resources are allocated wisely in order to meet the adequacy definition.

He has worked with state and local school officials in different parts of the country on implementation of an “evidence-based” model of school finance: to base funding decisions on what has been proven by research to improve student learning and outcomes.

The model emphasizes the importance of

- maintaining relatively small class sizes (a 15:1 student-to-teacher ratio in the early grades and 25:1 ratio in the higher grades),
- offering extra help to struggling students (through the use of tutors and after-school and summer-school programs),
- investing more in the professional development of teachers, and
- giving classroom instructors more time to plan and collaborate.

In many cases, he says, spending patterns in

“We currently are funding teacher salaries in a way that is not aligned much with growth in student learning.”

John Myers

K-12 education finance consultant and former Kansas state legislator

schools diverge from this evidence-based model, and from the performance goals that the schools have set for themselves.

“The question becomes what are your teachers doing versus what you want them to be doing, and how do you reallocate your staff in a way that best fits your priorities?” Picus says.

In 2009, Ohio adopted its form of the evidence-based model as part of a 10-year plan to adequately fund K-12 education.

The model has since met resistance, Picus says, at least in part due to concerns that the state would begin mandating that local school districts implement it.

But he hopes that state and local school leaders, in Ohio and elsewhere, try to more closely link funding decisions with what has been proven to work in the classroom.

“If a school is successful, students are learning and scores are going up, I don’t think a state wants to interfere — even if the model isn’t being used,” Picus says.

“But if a school isn’t performing, and it has the resources to employ the evidence-based model but instead asks for more money to continue what it’s doing, my answer would be, ‘No, there are strategies that work with your current level of funding.’”

Money matters, Picus says, but it alone cannot improve the performance of schools.

“Using the dollars wisely — training the teachers well and putting resources into helping students who are struggling — is more important than just the overall dollars,” he adds.

Merit pay for teachers on the table

Over the next few years, McNeil says, more and

more states are likely to re-examine how teachers are paid.

From a school-finance perspective, the salaries of teachers make up a large percentage of the money that states spend on schools; from an education-reform perspective, teacher quality is seen as a critical element to improving student performance and outcomes.

“We currently are funding teacher salaries in a way that is not aligned much with growth in student learning,” Myers says.

That is beginning to change.

The idea is to use “value-added data” to evaluate the teacher’s effectiveness in the classroom: Use the past performance of students to predict their academic progress, and then evaluate — and compensate — teachers based on whether the children in their classroom are exceeding or falling short of their predicted academic growth.

“Most savvy principals can tell you after two years which teachers are getting the students to perform and which aren’t,” Picus says. “The value-added data pretty much confirms it.”

“What teachers want are assurances that the data will be used to improve instruction and help them get better, instead of being used to fire them.”

Part of the package of reforms in Indiana would begin to base teacher pay partly on performance.

Not surprisingly, considering current fiscal conditions, the teacher-pay proposal would not use additional state resources, but would instead reallocate dollars in the current system, Kruse says. ★