



Editor's Introduction

Thomas A. Garrett

On June 29, 2005, the governor of Missouri signed into law Senate Bill 287 (SB287), which dramatically changed the way elementary and secondary public education is funded in the state of Missouri. Prior to the new law, the education finance formula in Missouri was a tax rate–driven formula: School districts that levied identical property tax rates would receive the same level of state funding. Disparities in school district wealth (and thus property tax revenue) would be offset with additional state funding. Over time, however, soaring property values in higher-income districts relative to lower-income districts and weakening state fiscal conditions placed pressure on this tax rate–driven formula. In addition, several lawsuits were filed that claimed the tax rate–driven formula was unconstitutional because it did not provide an adequate level of funding for low-income, arguably higher-need, school districts. SB287 moved school finance in Missouri from a system based on fairness (in terms of equal tax rates) to a system based on adequacy. Specifically, the new law provides a minimum level of spending to all districts (\$6,117 per student) and establishes that the state has the responsibility to ensure that all districts meet this minimum level of per-student expenditure, regardless of district tax effort.

Despite the new law, there is still much public and political debate over education finance in Missouri. Because SB287 will require, according to some estimates, roughly \$900 million in additional state spending over the next several years, the question of affordability arises. Other issues

such as teacher salaries, expenditures for students with special needs, and meeting requirements set forth by the No Child Left Behind Act are still at the forefront of the debate. Missouri is not alone in dealing with these issues, however—each state across the country shares in these challenges.

On November 4, 2005, the Federal Reserve Bank of St. Louis cohosted, with the Weidenbaum Center on the Economy, Government, and Public Policy at Washington University in St. Louis, a one-day symposium on public education finance: “Challenges to Public Education Financing Facing Missouri and the Nation.” The purpose of the symposium was to provide attendees with a non-technical description of the major issues surrounding school finance in Missouri and the nation.¹ To provide diversity of views and experiences, the symposium brought together nationally recognized academic scholars, state lawmakers, and public school officials. The symposium format consisted of presentations by academic scholars as well as several panel sessions involving school officials and state lawmakers. This issue of *Regional Economic Development* contains the proceedings from the symposium.

ALTERNATIVE EDUCATION FINANCE STRATEGIES

In the first paper of the symposium, Thomas Nechyba discusses two broad education finance

¹ More information on the symposium can be found at <http://research.stlouisfed.org/conferences/challengesconf/index.html>.

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strategies: (i) traditional strategies that provide state funds to local districts and (ii) strategies that provide funds directly to parents. Nechyba argues that because traditional school expenditures are tied to local property values, this “pricing” of public schools often segregates students based on income and nonfinancial characteristics, such as student quality and home life. Thus, Nechyba argues that this latter strategy, while often ignored in the policy debate, is crucial because traditional strategies alone cannot correct for the unequal distribution of nonfinancial inputs across school districts.

Nechyba provides evidence that suggests that even if state financing completely equalized per-student expenditures across districts, unequal educational opportunities would still exist as a result of nonrandom sorting of nonfinancial inputs. The main point stressed by Nechyba is that the introduction of choice can eliminate some or all of the unequal distribution of nonfinancial inputs across schools. The predominant means of introducing choice is through private school voucher programs or grants that give parents and students a choice in where students attend school. Nechyba argues that a careful design of public school vouchers could also increase public school quality through greater competition. However, Nechyba is correct in pointing out that vouchers or grants are not without potential problems, each of which must be carefully considered before formulating new policy.

In his discussion, Ross Rubenstein points out several critical issues raised by Nechyba. First, school finance has focused predominately on ensuring adequate or equal resources across all districts. However, evidence suggests that there exist large interdistrict differences in resources and student and teacher quality. Thus, school finance policies and formulas should also focus on addressing these interdistrict differences. Second, although there exist numerous state and federal grant programs and tax credits that provide more choice to students in higher education, such programs for K-12 education are often vilified. Rubenstein argues that K-12 policy officials could learn important lessons from the design of higher education financing programs. Finally, Rubenstein discusses several problems that may arise from vouchers or grant programs.

Equal grants to all parents may dissuade school districts from enrolling the students who are most costly to educate, thus leaving special needs students more isolated. Unequal grants raise the question of which families should receive more funding and which should receive less. In addition, determining the appropriate level of grant funding for each family poses a difficult challenge.

K-12 PUBLIC SCHOOL FINANCE IN MISSOURI

Michael Podgursky and Matthew Springer provide a historical perspective of public school finance in Missouri. They first discuss previous education finance formulas and laws in Missouri. In particular, they discuss the details of the school finance formula that existed prior to SB287. They then present statistics on student quality and district expenditures per student, for school districts both in Missouri and across the United States. From this data analysis, Podgursky and Springer conclude that expenditures per student in Missouri are very close to the national average.

Podgursky and Springer also compare funding under SB287 with funding under past formulas. SB287 states that there is a minimal, or “adequate,” level of funding required to educate a student and it is the state’s responsibility to ensure that each district spends this minimal level for each student. Podgursky and Springer also discuss several other changes that occurred with SB287, such as cost-of-living adjustments and modifications based on student poverty thresholds. Their paper concludes with a general concern for the new adequacy-based system. Specifically, the new formula under SB287 implies that student funding and performance are linked. That is, because there is a direct link between expenditures and performance, school officials can thus chose a level of student achievement and measure the level of spending needed to reach that level of achievement. As Podgursky and Springer point out, however, research has not established a definitive relationship between spending and student performance, and their analysis of data from Missouri school districts reveals no relationship between spending and student performance.

SCHOOL ACCOUNTABILITY AND STUDENT PERFORMANCE

Eric Hanushek and Margaret Raymond present a nontechnical overview of research on state accountability of public education performance. One objective of their paper is to predict the likely effects of the No Child Left Behind Act. They use statistics to highlight the importance of accountability and show a positive relationship between the human capital (e.g., education and skills) of an individual and his or her earnings. After establishing that schooling does matter, they cite previous research and present statistics, both national and international, that reveal there is little relationship between expenditures per student and student quality. Given this lack of evidence between levels of funding and quality, Hanushek and Raymond argue that student quality can improve only as a result of increased accountability.

Hanushek and Raymond provide a general description of accountability systems, including two important components of such systems: (i) consistent performance measures and (ii) consequences (e.g., reduced funding) for unacceptable performance that are similar across districts. Hanushek and Raymond argue that both components must exist. To support their argument, they present data that suggest that states with stronger consequences for poor student performance had much greater improvements in student quality. Hanushek and Raymond conclude with an overview of how accountability systems should be designed.

In his discussion, Steven Rivkin raises several important issues concerning the interpretation of the relationship between earnings and school quality, such as measurement error and accounting for inherent student characteristics, including work effort and talent. Rivkin argues that any accountability system must measure quality or quality gained rather than simply the skills students bring into the classroom. He also suggests that the strong relationship between accountability systems and achievement might not be reflective of the average student because state achievement tests focus on less-advanced skills, thus making it more likely that the tests predominately capture quality changes in students from lower-income districts.

COMMENTARY

In addition to the three academic papers, two panel sessions were also held during the symposium. Four superintendents from Missouri public schools, two from rural districts and two from urban districts, participated in the first panel session. Several of the superintendents discussed how SB287 will affect their district; others offered their opinions on how public education should be financed in Missouri. Comments from two of the superintendents are printed in this volume.

The last session of the day consisted of a panel of Missouri state legislators and a representative from the governor's office. Two Democratic legislators, two Republican legislators, and an official from the Missouri Department of Elementary and Secondary Education (DESE) offered their views on education finance in Missouri. The panel session provided the audience an opportunity to understand the highly political nature of education finance in Missouri. Statements from two of the legislators as well as the DESE official are provided in this volume.

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