

School Finance Redesign Project



center on reinventing public education

SCHOOL FINANCE SYSTEMS AND THEIR RESPONSIVENESS TO PERFORMANCE PRESSURES:

A Case Study of North Carolina

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The School Finance Redesign Project

The School Finance Redesign Project (SFRP) encompasses research, policy analysis, and public engagement activities that examine how K-12 finance can be redesigned to better support student performance. The project addresses the basic question, “How can resources help schools achieve the higher levels of student performance that state and national education standards now demand?”

Check in with us periodically to see what we’re learning and how that information may reshape education finance to make money matter for America's schools. You can find us at www.schoolfinanceredesign.org.

Jacob Adams, Principal Investigator

The SFRP Working Paper Series

The Working Paper Series presents analyses that are complete but have not undergone peer review. The papers are subject to change and should be cited as working papers. Their purpose is to promote discussion and to solicit reactions.

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Table of Contents

Summary	5
Overview of the Study	5
The School Finance System in North Carolina	6
Local Resource Allocation: Changes, Enablers, and Constraints	6
State-Level Perspectives: Issues and Concerns Affecting School Finance Decisionmaking	7
Conclusions	8
Introduction	8
Approach and Methods	10
Education Reform in North Carolina: A Brief History	13
The State Role in School Finance	16
Constitutional Responsibility	17
The Structure of K-12 Education in North Carolina	17
Paying for K-12 Education	18
Key Features of the School Finance System	21
STATE CONTEXT FOR CURRENT POLICYMAKING	25
Demographic Changes	25
Political Environment	25
Economic and Budget Climate	26
Judicial Challenges to the School Finance System	28
District- and School-Level Perspectives on the School Finance System	31
District Goals Mirrored State Expectations	31
Challenges to Meeting Goals	32
Reforms and Innovations	34
Enablers	40
Constraints	41
Summary	46
State-Level Perspectives on the School Finance System	46
Legacy of the <i>Leandro</i> Case	46
Economic and Political Conditions Favored the “Status Quo”	50
Needed: New Models for Change	53
Summary	54
Conclusion	54
References	56

Figures and Tables

Figure 1. A Conceptual Framework Linking School Finance to Student Outcomes	12
Table 1. North Carolina Students' Performance on NAEP, 1992-2005.....	16
Table 2. School District Revenue by Source, Current Expense Expenditures Only	19
Table 3. North Carolina Elementary and Secondary Education, FY 2005-2006 Appropriated Funds *.....	20
Table 4. Initial State Allotment Formulas, North Carolina Public Schools, FY 2005-2006	23
Table 5. General Fund Budgeted Revenue and Actual Revenue Collected (\$ in millions) FY 1994-1995 to FY 2004-2005	27
Table 6. North Carolina Public Schools Current Expense Expenditures (\$ in millions) (including child nutrition)	27

Summary

Overview of the Study

To improve student performance to the levels called for in current state and federal accountability programs, “business as usual” approaches to public education are likely to be insufficient. Along with other elements of education policy such as standards, accountability, curriculum, and teacher training, school finance needs to be rethought. The School Finance Redesign Project (SFRP) at the University of Washington is undertaking this task through a number of research projects and through the deliberations of an expert panel, which will synthesize and draw conclusions from the project’s work about future directions for school finance.

As a foundation for these efforts, SFRP, in collaboration with RAND Education, undertook case studies in four states aimed at understanding how school finance systems are currently operating and changing in light of increased performance pressures. This working paper presents the findings for North Carolina. The findings will contribute to a cross-state analysis based on the four case studies that will be prepared by SFRP.

The case studies were designed to help SFRP address four questions:

- What formal mechanisms do school finance systems use to deploy educational resources and how do they operate?
- Have heightened state and national performance expectations altered educational resource allocation processes and decisions?
- Would school finance decisionmakers deploy resources differently if they could, and what prevents them from doing so?
- What factors enable or constrain efforts to link resources to student performance?

The case studies drew on document reviews to describe both the formal rules and procedures of existing school finance systems and the conditioning factors (e.g., demographic changes, politics, economic context, litigation) that influence how finance systems perform the functions of collecting, distributing, allocating, and using resources. Interviews (49 in North Carolina) with district-level and state officials provided information on (1) if and how educators and policymakers were changing their approaches to resource decisionmaking in response to pressures to improve student performance and (2) the factors enabling and constraining their efforts to change.

The findings describe the North Carolina school finance system and provide insight into how study-district and state-level officials responsible for finance policies and practices had responded to performance pressures. Because of the small number of districts in the study, it is inappropriate to generalize the findings to other districts in North Carolina. Similarly, factors influencing state-level finance policymaking in North Carolina may not be generalizable to other states. The cross-state analysis being undertaken by SFRP will use information gleaned from all the case study states, districts, and schools in seeking to identify common patterns and effects.

The School Finance System in North Carolina

At the time of our study, North Carolina's school finance system had several distinctive features. Funding for public education came more heavily from the state level (65 percent in 2004-2005) than in most other states. Whereas localities in most states traditionally bore the primary responsibility for school operating costs, North Carolina law had since the early 1930s made state government responsible for operating costs, with localities responsible for facilities. This distinction remained, although it had become less clear-cut in recent years.

North Carolina also used an unusual mechanism—position allotments—to allocate two-thirds of the dollars it directed to local districts. Under the position allotment system, the state determined how many teachers (and some administrative staff) a district was entitled to have based on its average daily membership (a measure of enrollment) and then funded those positions based on state salary schedules. Districts in turn were generally expected to use these same position allotment rules in determining school staffing levels, although they had some discretion to transfer funds among spending categories. The state paid the actual salaries of teachers in the state-funded positions, giving a financial advantage to districts that employed individuals with more experience and higher academic credentials. The position-allotment formulas made no special adjustments for low-wealth districts or children with special needs; these concerns were addressed by various non-formula categorical appropriations.

Decisions about funding North Carolina schools were being made in the context of demographic, political, economic, and judicial developments. North Carolina's population had been growing rapidly and also becoming more diverse, with growing numbers of limited-English speakers presenting new challenges for many schools. The state suffered through financial hard times in the early years of this decade, as the nation as a whole experienced recession and a slow recovery. Although in their 2006 session legislators enjoyed the unaccustomed luxury of revenues in excess of those needed just to fund current services, a number of observers believed the state's tax system was structurally inadequate to keep pace with the state's growing needs.

No longer the one-party Democratic state it was for many decades, North Carolina politics had become more competitive. Democrats held the governorship and had small margins in both houses of the legislature at the time of our study. Interviewees suggested that the party had managed to stay in the majority by taking a restrained approach to new initiatives, especially costly ones.

These factors helped illuminate the state's responses to new performance pressures and to a legal case (the so-called *Leandro* case) challenging the constitutionality of the state's provision of public education. *Leandro* hung over education decisionmaking for more than a decade. Although the state Supreme Court in 2004 upheld a lower court ruling that the state was failing to exercise its constitutional responsibility to ensure that all students in the state were receiving a sound basic education, the ruling had a fairly minor impact on the state's school finance system.

Local Resource Allocation: Changes, Enablers, and Constraints

All the case study districts in North Carolina indicated that they were aware of the need to improve student performance and that they were pursuing a variety of reforms and innovations in

attempting to address this objective. Many of these reforms and innovations involved using resources in new ways, such as focusing additional resources on high-need schools, providing bonuses or other incentives to attract teachers and to encourage them to teach in hard-to-staff schools, becoming more oriented to data use in decisionmaking, and adopting other new approaches to governance and management designed to improve the effectiveness of resource decisions. The presence and intensity of such reforms, however, varied among the study districts. In no district did reforms involve fundamental changes in (rather than add-ons to) traditional resource allocation mechanisms such as the single-salary schedule for paying teachers, the staff-based model of allocating resources to schools, or the centralization of major resource allocation decisionmaking in the district office.

District- and school-level personnel gave limited and district-specific answers to questions about factors enabling them to use resources differently. The main factors mentioned were flexibility and support, illustrated by a reduction in categorical state programs and a willingness of central office administrators to support individual school needs and decisions.

There was more consistency in responses across the study districts to questions about factors constraining changes in resource use. “State interference” was frequently cited. Examples included a new state mandate about when the school year must start and end and the specificity of position allotments provided by the state. Likewise, local personnel felt constrained by state and federal strings on how they could use resources. In North Carolina, the position allotment system along with state rules on class sizes and various categorical funding programs were perceived as leaving little room for creativity in resource use. Although state policymakers argued that there was actually more flexibility in state rules than local officials often realized, the history of strong state involvement in resource allocation decisions appeared to have created a culture of rule-following that was sometimes difficult to overcome at the local level. Finally, the fact that school districts in North Carolina did not have independent taxing authority but were dependent on county commissions for local funding added another layer of decisionmakers to an already multilayered education system. These factors were mentioned more prominently than funding levels by local officials attempting to explain what kept them from deploying resources as they thought best to meet their students’ needs.

State-Level Perspectives: Issues and Concerns Affecting School Finance Decisionmaking

Among state officials, the legal, political, and economic climate were important influences shaping their decisions on school finance and helping to determine the extent to which performance pressures spurred changes in the finance system.

The *Leandro* court case, which emphasized the state’s responsibility for ensuring that all students have the opportunity to obtain a sound basic education, cast a strong shadow over the responses of state-level interviewees to questions about changes in school finance. While the court case initially focused on funding, it came to focus as much or more on the quality of educational services, particularly at the high school level. After the 2004 state Supreme Court decision, the trial court judge continued to investigate the performance of the state’s schools and to prod state government to take more vigorous action. But the broad nature of the *Leandro* findings, even while spurring the state to take a number of actions aimed at improving high school education, left the structure of the school finance system fundamentally unchanged.

While North Carolina had embraced a number of reforms over the years (including such things as class-size reduction, teacher pay raises, standards-based accountability, and early education) aimed at improving public education and better preparing children for school, these did not alter the state's basic resource allocation mechanisms. At the time of our study, both political and economic considerations seemed to encourage a "status quo" orientation of state policymakers toward their school finance system. Even among those who professed a desire to see change, however, there were few signs of discontent with the system's essential structure. The position allotment system—frustrating to some local personnel in its inflexibility and disadvantageous to the poorer, low-performing counties that had trouble attracting and keeping teachers—was described as "so much a part of the fiber of the state" that it was unquestioned. Legislators were said to perceive any state moves toward differentiated pay (based on factors besides just experience and credentials, such as local labor market conditions or teacher performance) as "radioactive" because of opposition from teachers. Increases in state categorical funding for at-risk students had been hard to come by despite pressure from the judge monitoring the school finance case. Business involvement in school reform, once an important part of the North Carolina education story, had withered (with many business leaders becoming more focused on corporate tax reductions and worker training) and was no longer being jump-started by the state's political leadership.

Helping to explain the absence of champions for finance reform, however, was a perceived absence of compelling reform strategies or, as one interviewee put it, "new models to chew on." North Carolina policymakers found themselves up against both analytical and political difficulties in attempting to answer the deceptively simple question of how to provide a sound basic education and how to design a school finance system to accomplish this objective.

Conclusions

North Carolina is heavily dependent on state funding of public schools and allocates the bulk of state dollars through a position allotment system. Districts in turn are generally expected to follow the allotment system in assigning positions to individual schools. The state has long focused on the need to improve its educational system, but it has for the most part addressed this challenge within the framework of its accustomed school finance system. Local officials, spurred by state and federal accountability requirements, have adopted a number of reforms and innovations aimed at improving student achievement. Many, however, felt they could have been more effective with fewer state and federal rules constraining their choices.

Political and economic conditions at the state level appeared to encourage a fairly "business as usual" approach to school finance. Although the system had been subject to judicial challenge, the nature of court decisions did not create an urgent requirement for change. Even policymakers who believed reform was desirable decried the absence of information on how to redesign school finance so that resource allocation decisions result in improved student outcomes

Introduction

For at least two decades policymakers and the public have been demanding better performance from American elementary and secondary education. The No Child Left Behind Act (NCLB) of 2001 institutionalized this demand, aiming at proficient achievement by all

students and imposing challenging requirements and deadlines on states, districts, and schools. Educators will have to boost student achievement significantly to meet state and federal expectations.¹

Many new policies have been adopted in hopes of raising student achievement. Standards-based reform, for example, has encouraged the alignment of various aspects of schooling—including testing, accountability programs, curriculum, teacher training, and professional development—around state-specified content standards. A market-based approach to reform has resulted in new forms of public education such as charter schools that give parents more choice about the kind of school their children will attend.

In 2003 the Center on Reinventing Public Education at the University of Washington (UW) launched the School Finance Redesign Project (SFRP) on the premise that school finance, too, would need to be reformed to support improved student performance. With funding from the Bill & Melinda Gates Foundation, SFRP set out to examine how educational resources could better support student learning and how school finance systems would need to be changed in order to foster better linkages between school finance decisions and educational performance objectives. SFRP initiated a number of research projects addressing various aspects of school finance and resource use and also convened an expert panel to synthesize and draw conclusions from the project's work about future directions for school finance. SFRP research papers and the report of the expert panel will be released (and made available on the SFRP website) at various times during 2007.

One SFRP project involved a series of case studies in four states. This project aimed at describing how school finance systems were currently operating and if and how they were changing in light of increased performance pressures. SFRP engaged the RAND Corporation to conduct two of the case studies, in North Carolina and Texas, while University of Washington (UW) researchers carried out parallel studies in Ohio and Washington State.

The case studies were designed to help SFRP address four questions:

- What formal mechanisms do school finance systems use to deploy educational resources and how do they operate?
- Have heightened state and national performance expectations altered educational resource allocation processes and decisions?
- Would school finance decisionmakers deploy resources differently if they could, and what prevents them from doing so?
- What factors enable or constrain efforts to link resources to student performance?

This case study reports on findings from North Carolina. The findings are meant to inform a cross-state analysis that SFRP plans to produce based on all the case study states.

¹ For example, in Washington State in 2006, only 52 percent of 10th grade test-takers passed the reading, writing, and math sections of the Washington Assessment of Student Learning, a requirement that all students in the Class of 2008 and beyond must meet to graduate from high school (Washington State Office of the Superintendent of Public Instruction 2006). In Texas in 2002-2003 and 2003-2004, campuses could meet their Adequate Yearly Progress requirement under NCLB by achieving passing rates on the Texas Assessment of Knowledge and Skills of 46.8 percent for reading/language arts and 33.4 percent for mathematics (Texas Education Agency 2003). By 2013-2014, to meet AYP campuses will have to achieve 100 percent passing rates on these tests.

This report is organized as follows. In the next section, we describe the approach and methods used in our North Carolina research and the limits to the generalizability of the findings. We then outline a brief history of education reform in North Carolina, providing a backdrop for current policy discussions. Next, we describe the formal structure of the state's school finance system at the time of our study. We then turn to a description of the demographic, political, economic, and judicial factors, which (as explained in the subsequent section) researchers expected to influence the school finance decisions made by policymakers. Next, we summarize the perspectives of district- and school-level individuals about if and how their resource allocation decisions were being affected by performance pressures and how the finance system enabled and constrained their efforts to link resources to performance. We then provide information on the key issues and concerns influencing state school finance policymaking in North Carolina at the time of our study. Finally, we present conclusions about the structure of North Carolina's school finance system and how it has been affected by performance pressures.

Approach and Methods

This case study was conducted through document reviews and interviews with state and district level officials and school principals.

A necessary step before data collection was to identify the elements of a school finance system. Researchers adopted a model (illustrated on the left-hand side of Figure 1) that defines a school finance system as a set of formal rules and conditioning influences that affect how those rules are structured and implemented.

In carrying out the North Carolina case study, we used policy documents, court decisions, newspaper articles, and analyses by other researchers to describe the state's formal school finance structure and key conditioning influences (such as demographic changes, political and economic contexts, and litigation). These written resources supplemented the information collected through interviews. The latter were the primary sources of data on if and how North Carolina's school finance policies and practices were changing in response to performance pressures and on the factors that enabled and constrained efforts to link resources to student performance.

Researchers carrying out the four case studies visited districts and state capitals in 2005. In North Carolina we conducted 49 interviews in four districts and in Raleigh. District interviewees included board chairs; district superintendents (and, where appropriate, subdistrict superintendents); human resources, finance, and academic/curriculum officers; teacher association representatives; and 3-6 principals per district. State officials included state board and department administrators, gubernatorial aides, legislators and legislative staff, and state teacher association officials. Interviewees were promised that neither they nor their districts or schools would be identified.

In selecting study districts, we worked with University of Washington researchers to identify districts in each case study state that differed in size, demography, and academic performance.² We attempted to include in each state a district with a reputation for educational innovation, a district that appeared (based on regressing test scores on district characteristics) to be “beating the odds” academically, a district with similar characteristics to the “beating the odds” district but with relatively low performance, and a high-performing district. In North Carolina, however, difficulty in securing agreement from school districts to participate in the study precluded close adherence to these selection criteria. While we specifically selected one district because of its below-average performance, we were unsuccessful in pairing it with a demographically-similar district that appeared to be “beating the odds.” SFRP is undertaking separate analyses in hopes of determining if districts that differ on these dimensions also differ systematically in how finance policies and practices are linked to school improvement efforts.

We conducted interviews using a semi-structured protocol based on the research questions and on a framework adapted from the National Research Council Committee on Education Finance’s 1999 report (illustrated in the middle section of Figure 1). That report suggested that policymakers have available to them four generic reform/innovation strategies to use in attempting to change finance systems to encourage greater student achievement and more effective resource use: (1) reducing funding inequities and inadequacies; (2) investing in developing capacity, both the capacity of the formal education system to provide services and the capacity of students to learn; (3) altering incentives to make performance count, thus motivating both educators and students; and (4) changing governance and management structures, in particular allowing previously-powerless actors such as school-level educators and/or parents or both to make decisions about the use of public funds.

District- and school-level interview protocols, therefore, began with questions about the goals and challenges facing the district (to provide context). Interviewers then sought information about (1) reform/innovation strategies being pursued in the district or at the school, (2) factors enabling local educators to use resources in ways they felt would help them reach their goals, and (3) factors they saw as limiting their ability to use resources most effectively. State-level interviews focused on the key issues and concerns currently driving policy discussions about state financing of education and the forces and influences that interviewees felt were shaping policy decisions.

² In North Carolina the smallest case study district enrolled under 10,000 students. The study also included one of the state’s larger districts. Study districts were located in various parts of the state. North Carolina’s countywide districts often have urban/suburban and rural areas within the same district. One case study district was rural. One district’s students were over 80 percent white; another’s were less than 40 percent. Student eligibility for free and reduced-priced lunch ranged from about a third to over half.

SCHOOL FINANCE SYSTEM

STRATEGIES AVAILABLE TO LINK FINANCE POLICIES TO STUDENT ACHIEVEMENT

OBJECTIVE

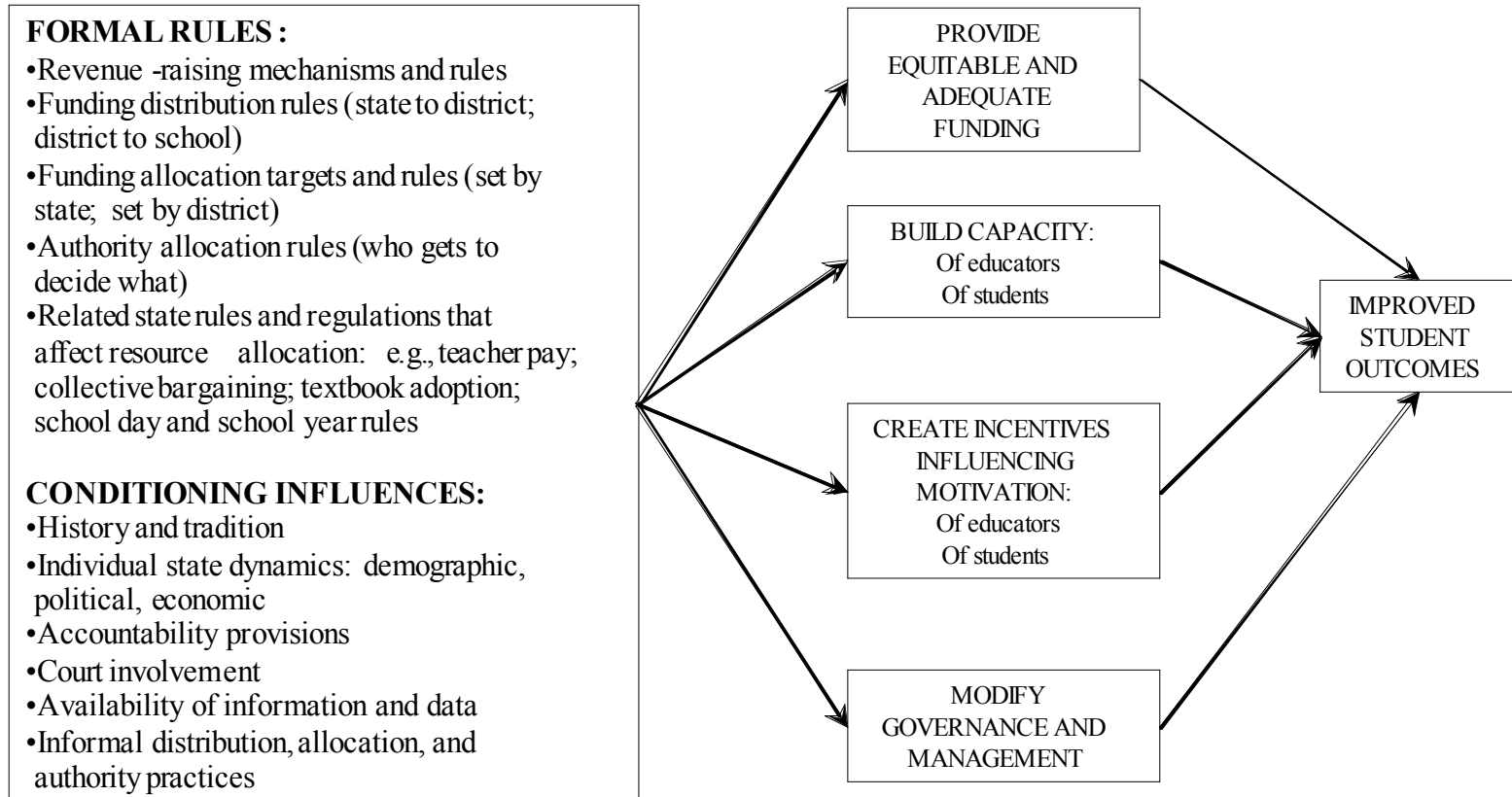


Figure 1. A Conceptual Framework Linking School Finance to Student Outcomes

Figure 1 also indicates that better student outcomes (academic achievement and other performance indicators such as graduation rates) should be the ultimate objective of changes in school finance systems.³ Improving the connection between finance policies and outcomes is a motivating concern of SFRP. The case studies, however, were not designed to assess whether changes in finance systems were in fact resulting in improved performance. The outcomes achieved by teachers and students in classrooms are determined by many factors, only some of which are affected by the formal and informal policies and practices and the conditioning influences that comprise school finance systems. Instead, the case studies focused on what the existing finance structure looked like, whether and how it was changing in response to performance pressures, and what factors enabled and constrained strategic changes. The elements described in Figure 1 (i.e., the formal rules and conditioning influences of the school finance system and the strategies available to link finance policies to student achievement) were used to classify and analyze the findings from the document reviews and interviews.

This study provides insights into how some educators were attempting to use resources to improve performance and the factors influencing their choices. Given the small number of districts in this case study, however, it is inappropriate to generalize the findings to other districts. Likewise, the factors influencing state-level finance policymaking in North Carolina may have different outcomes in other states. The cross-state analysis being undertaken by SFRP will seek to identify common patterns and effects.

It is also important to keep in mind that data about reform/innovation strategies being undertaken in response to performance pressures are largely based on the self-reports of state, district, and school leaders. We did not attempt to verify independently the extent to which these strategies were in fact being implemented, although the interviews provided some insight into this issue.

Education Reform in North Carolina: A Brief History

In order to place this study of school finance changes in context, this section provides a brief historical overview of education reform in North Carolina.

North Carolina is often cited as an exemplar of a consistent, coherent approach to education reform that has resulted in demonstrable improvements in student achievement (for example, see Grissmer and Flanagan 1998; A+ Education Foundation 2003). Having decided 75 years ago to assign responsibility for paying school operating expenses to the state rather than to local governments (more on this in the section entitled *The State Role in School Finance*), state policymakers in North Carolina have long been active in making decisions that determine how the state's schools operate.

Educational reforms⁴ were underway before the 1980s: in the 1970s, North Carolina created the nation's first statewide full-day kindergarten program, mandated a statewide testing program,

³ As the National Research Council (1999) report emphasized, cost-efficient use of resources is also an important objective for efforts aimed at designing finance systems that facilitate improved student learning.

⁴ This history of education reform in North Carolina is taken from the following sources: (1) histories of North Carolina public education and of the state board of education found on the Department of Public Instruction (DPI) website (n.d.(b)) and that State Board of Education website (n.d.); and (2) the Department of Public Instruction (2004) state plan prepared as part of the department's response to a court case.

lengthened employment terms to 12 months for principals and other administrators and to 10 months for teachers, and created regional education service centers. But reform was accelerated in North Carolina by the economic recession of the early 1980s, by the growing realization that the state's economic future could not be built on its traditional agricultural and manufacturing base, and by the release of the federal government's *A Nation at Risk* report in 1983. Key developments after that include:

1984: Governor James Hunt appointed a Commission on Education for Economic Growth.

1985: The General Assembly directed the State Board of Education to adopt a Basic Education Program. The plan, which was to be implemented over 8 years, called for a comprehensive basic education for all students. It defined a basic education to include study in the arts, communications skills, physical education and personal health and safety, mathematics, media and computer skills, science, second languages, social studies, and vocational and technical education. It was to include allocations for dropout prevention, summer school, additional teachers, textbooks, and additional support personnel. The plan, however, was never fully funded or implemented as originally designed, partially for financial reasons and partially because of concerns about the prescriptiveness of the program and the lack of an accountability component.

1986: End-of-course tests were initiated for high schools courses.

1989: The School Improvement and Accountability Act gave local districts more flexibility in making decisions in exchange for greater accountability. As amended in 1992 by the Performance-Based Accountability Program, the legislation called for the development of district- and building-level improvement plans, the possibility of waivers from state laws and policies, report cards for local districts, and authority to include differentiated pay plans for teachers and other certified staff in school improvement plans.

1993: The state gave new end-of-grade tests in reading and mathematics to students in grades three through eight. The state also began reducing class sizes, with heaviest attention to the early grades but eventually reducing class size throughout K-12 education.

1995: In response to a charge from the General Assembly to improve student performance, increase local flexibility and control, promote economy and efficiency, and restructure the Department of Public Instruction (DPI), the State Board of Education proposed the ABCs of Public Education. The proposal aimed to (A) increase accountability with an emphasis on high academic standards, (B) teach the basics, and (C) provide local control. The Board emphasized state responsibility for accountability while committing itself to local control where possible. The ABCs plan focused on school-by-school accountability, achievement goals, rewards for schools exceeding expectations, and interventions for schools identified as low-performing. It also halved the staff of the DPI and turned over funding for the regional assistance centers to districts, to continue or not as they wished (most did not). The ABCs program was implemented for K-8 schools in 1996-1997 and for high schools the next year. State assistance teams were supposed to be assigned to low-performing schools, although there was not always sufficient funding to assist all the eligible schools.⁵

⁵ A description of the ABCs program and data on ABCs performance is available online at the North Carolina Department of Public Instruction website (n.d.(a)).

1997: The State Board adopted the ABCs Plus: North Carolina's Strategic Plan for Excellent Schools (North Carolina State Board of Education 1997). Initiated by a new state superintendent (Mike Ward) assisted by a State School Improvement Panel of more than 40 educators, citizens, and business leaders, the plan built on five strategic objectives: (1) high student performance; (2) safe, orderly, and caring schools; (3) quality teachers, administrators, and staff; (4) strong family, community, and business support; and (5) efficient and effective operations. The plan was to be the central tool for organizing the work of the DPI and the Board.

1997: The Excellent Schools Act called for a number of steps aimed at attracting and retaining nationally competitive teachers, including raising teacher pay to the national average, providing paid mentoring to new teachers, providing benefits to teachers pursuing national certification, and providing pay increases to those who achieved national certification from the National Board for Professional Teaching Standards.

1999: Student accountability standards were adopted, affecting fifth graders in 2001, third and eighth graders in 2002, and high school students beginning with the class of 2005. Students must perform at grade level on end-of-grade tests in order to be automatically promoted to the next grade.

2001: Newly-elected Governor Michael Easley announced the launching of "More at Four," a statewide initiative to provide prekindergarten education to educationally at-risk children. He also spurred legislative action to further reduce class sizes in the early grades, eventually reaching a teacher/student ratio of 1:18 in grades K-3. The state also began a High Priority School Initiative, a four-year plan to further reduce class sizes in 35 of the state's lowest-performing elementary schools to 1:15 in grades K-3 and to fund more professional development for teachers in these schools and a longer (by five days) school year.

2003: With \$11 million from the Bill & Melinda Gates Foundation, the governor and the Public School Forum announced the formation of a public-private partnership, the New Schools Project, to redesign high schools and improve graduation rates by creating up to 100 small schools across the state. The foundation said that if the state identified \$10 million in state and private funds, Gates might award an additional \$10 million for the initiative.

2004: Going statewide with an initiative that was already underway in a handful of districts, Governor Easley announced a "Learn and Earn" high school program that would allow students to pursue a five-year program through which they would earn a high school diploma and a community college associate degree or two years of college credit while gaining skills needed in the "new economy." Learn and Earn schools are located on college campuses.

2005: Governor Easley announced an initiative to raise teacher salaries to just above the cost-adjusted national average over 3 years, with the first installment paid in 2005-2006.

2006: North Carolina was awarded a \$10.4 million grant from the Gates Foundation to support redesigned high schools under the New Schools Project (\$9 million) and for additional Learn and Earn High Schools (\$1.4 million).

North Carolina's efforts to improve school performance have been reflected in NAEP scores for 4th and 8th grade mathematics that have grown faster than the national average (Table 1). Reading scores for 4th graders have improved slightly faster than the national average. In both

North Carolina and the nation, 8th grade reading scores have been stable, with a slight decline in 2005.

North Carolina's school finance system was challenged in the courts in 1994 on the grounds that the state was not adequately fulfilling its constitutionally-mandated responsibility to provide public education. The case was not definitively resolved until a state Supreme Court ruling in July 2004 upheld a lower court finding that the state was not providing a sound basic education to all of the children in the state, in particular to children at risk of educational failure. This ruling and its impact on the school finance system will be discussed in the sections entitled *State Context for Current Policymaking* and *State-Level Perspectives on School Finance System*.

Table 1. North Carolina Students' Performance on NAEP, 1992-2005

Subject	Grade	Year	Scaled Score		Achievement Level Percent at or Above		
			State Avg.	Nat Avg.	Basic	Proficient	Advanced
Mathematics (scale 0-500)	4	1992 ¹	213	219	50	13	1
		1996 ¹	224	222	64	21	2
		2000	230	224	73	25	3
		2003	242	234	85	41	6
		2005	241	237	83	40	7
	8	1990 ¹	250	262	38	9	1
		1992 ¹	258	267	47	12	1
		1996 ¹	268	271	56	20	3
		2000	276	272	67	27	5
		2003	281	276	72	32	7
Reading (scale 0-500)	4	1992 ¹	212	215	56	25	5
		1994 ¹	214	212	59	30	8
		1998	213	213	58	27	6
		2002	222	217	67	32	7
		2003	221	216	66	33	8
	2005	217	217	62	29	7	
	8	1998	262	261	74	30	2
		2002	265	263	76	32	2
		2003	262	261	72	29	2
		2005	258	260	69	27	2

¹ Accommodations were not permitted for this assessment.

Source: National Center for Education Statistics (2006).

The State Role in School Finance

The formal structure of the school finance system in North Carolina is shaped by the constitutional responsibility assigned to the state for providing public education and by the laws that have been passed to carry out this responsibility. This section describes that responsibility, the structure of the K-12 system, and key features of the school finance system.

Constitutional Responsibility

Since 1776 the North Carolina state constitution⁶ has called on the legislature to establish schools for instructing youth. Article I, Section 15 of the current constitution states that “the people have a right to the privilege of education, and it is the duty of the State to guard and maintain that right.” Article IX, Section 2 requires the General Assembly to “provide by taxation and otherwise for a general and uniform system of free public schools, which shall be maintained for at least nine months in every year, and wherein equal opportunities shall be provided for all students.” Section 7 requires that the proceeds of “penalties and forfeitures and of all fines collected in the several counties for any breach of the penal laws of the state...be faithfully appropriated and used exclusively for maintaining free public schools.”

Article IX, Section 2 also addresses local responsibility for schools by empowering the General Assembly to “assign to units of local government such responsibility for the financial support of the free public schools as it may deem appropriate.” In a provision that has been important in legal challenges to the state’s school finance system on equal opportunity grounds, Article IX, Section 2 also says that “[t]he governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program.”

The state constitution vests responsibility for overseeing the schools in a State Board of Education, whose members are the Lieutenant Governor, the State Treasurer, and 11 members appointed by the governor subject to legislative confirmation. The constitution also makes provision for an elected Superintendent of Public Instruction, who is the secretary and chief administrative officer of the board. As a history of the board (North Carolina State Board of Education n.d.) notes, this “two-headed governance structure...creates ample opportunity for dispute” and has led to both public confusion and legal wrangling (including lawsuits filed by the Superintendent and the Board against each other) about who has responsibility for administering and supervising public education. A 1995 bill clarified the issue somewhat, specifying that the role of the Superintendent is to manage the day-to-day administration of the public school system under the direction and control of the Board. Further efforts to clarify accountability for the schools by changing the governance structure (by, for example, making the Superintendent a gubernatorial appointment) have failed, being unable to muster the three-fifths vote of the General Assembly required to pass a constitutional amendment.

The Structure of K-12 Education in North Carolina

The basic structure of K-12 education in North Carolina was set in the School Machinery Act of 1931 (as amended in 1933) (North Carolina Department of Public Instruction n.d.(b)). Until that time, localities had primary responsibility for funding public schools, but the economic hardships brought on by the Depression undermined this arrangement. The School Machinery Act established the county as the basic governmental unit for operating public schools. The state was made responsible for paying the current expenses of schools, while localities were responsible for school construction and maintenance. The School Budget and Fiscal Control Act of 1975 further clarified these duties:

⁶ Available online at <http://statelibrary.dcr.state.nc.us/nc/stgovt/preconst.htm>.

To insure a quality education for every child in North Carolina, and to assure that the necessary resources are provided, it is the policy of the State of North Carolina to provide from state revenue sources the instruction expenses for current operations of the public school system as defined in the standard course of study. It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments (North Carolina General Statutes 115C-408).

For the most part, school districts are coterminous with North Carolina's 100 counties, although 11 counties include within their borders one or more city school districts for a total of 115 school districts statewide. In 2005-2006, the state had 2,318 regular schools and 96 charter schools with an expected total of 1,398,226 students in average daily membership (ADM).⁷ In 2005-2006, 49 districts were expected to have fewer than 5,000 students in ADM (the two smallest, both counties, had about 650), while only four had more than 50,000 students in ADM (accounting for 26 percent of total ADM) (North Carolina Department of Public Instruction 2006a). School districts in North Carolina (with the exception of 3 small city-based districts) are dependent on their counties for local funding rather than having independent taxing authority.

Paying for K-12 Education

North Carolina relies more heavily than most other states on state dollars to support public education. In 2004-2005, public schools received about 65 percent of their revenues for current operations from the state. About 25 percent of revenues were raised locally, while the federal government provided 11 percent. If child nutrition funding is excluded, the state share of public education revenue was 68 percent, the local share 24 percent, and the federal share 8 percent (North Carolina Department of Public Instruction 2006a). The state share declined slightly between school years 1994-1995 and 2004-2005, while local and federal shares rose somewhat (Table 2).

The state appropriated \$6.9 billion for public education (including federal dollars that are appropriated through the state budget) for the State Public School Fund in 2005-2006, primarily from the General Fund (Table 3). General Fund revenues came mainly from individual income taxes (53 percent), sales and use taxes (28 percent), and corporate income taxes (5 percent) (North Carolina Office of State Budget and Management 2005a). The Civil Penalties and Forfeitures Fund, which the state established in 1997 to address the constitutional requirement that these revenues be used to support schools, contributed \$102.5 million (Table 3).

Total state funding of North Carolina's public schools increased more rapidly than ADM (119 percent versus 29 percent) between 1990-1991 and 2005-2006, although the education share of the total state budget fell (North Carolina Department of Public Instruction 2006a).

The primary source of local revenue is property taxes, although counties draw on other sources as well, including local option sales taxes, inventory tax reimbursements, and fines and forfeitures. A few counties levy supplemental school taxes, although the number doing so appears to be diminishing.

⁷“Average Daily Membership for each school month is based on the sum of the days in membership for all students in individual LEAs divided by the number of days in the school month. To be included in ADM, a student must have a class schedule that is at least 1/2 of the school's instructional day” (North Carolina Department of Public Instruction 2006, 4).

In 2005 the General Assembly passed legislation establishing a state lottery. After prizes and administrative expenses are paid, lottery revenues are meant to support an Education Lottery Fund. Fifty percent of the dollars in the fund are to pay for class size reduction and pre-school programs for at-risk four-year olds; 40 percent will go to the Public School Building Capital Fund for school construction; and 10 percent will fund college and university scholarships. An April 2006 report estimated that about \$400 million would be available from the lottery for these education purposes in 2006-2007 (North Carolina Joint Legislative Appropriations Subcommittee on Education 2006).

Table 2. School District Revenue by Source, Current Expense Expenditures Only

	Dollars Expended Per Pupil, By Source				Percent of Total		
	State	Federal	Local	Total	State	Federal	Local
Child Nutrition Included							
1994-1995	\$3,380.94	\$382.45	\$1,129.73	\$4,893.12	69.1%	7.8%	23.1%
1995-1996	\$3,412.85	\$376.85	\$1,140.03	\$4,929.73	69.2%	7.6%	23.1%
1996-1997	\$3,554.21	\$390.62	\$1,206.87	\$5,151.70	69.0%	7.6%	23.4%
1997-1998	\$3,795.61	\$422.63	\$1,273.32	\$5,491.56	69.1%	7.7%	23.2%
1998-1999	\$4,086.62	\$445.91	\$1,366.56	\$5,899.09	69.3%	7.6%	23.2%
1999-2000	\$4,323.79	\$482.31	\$1,474.20	\$6,280.30	68.8%	7.7%	23.5%
2000-2001	\$4,532.99	\$514.57	\$1,606.54	\$6,654.10	68.1%	7.7%	24.1%
2001-2002	\$4,472.46	\$578.45	\$1,645.14	\$6,696.05	66.8%	8.6%	24.6%
2002-2003	\$4,458.51	\$644.98	\$1,637.90	\$6,741.39	66.1%	9.6%	24.3%
2003-2004	\$4,563.11	\$726.08	\$1,716.94	\$7,006.13	65.1%	10.4%	24.5%
2004-2005	\$4,726.64	\$789.30	\$1,811.66	\$7,327.60	64.5%	10.8%	24.7%
Child Nutrition Excluded							
1994-1995	\$3,369.08	\$230.93	\$979.36	\$4,579.37	73.6%	5.0%	21.4%
1995-1996	\$3,403.56	\$222.94	\$987.22	\$4,613.72	73.8%	4.8%	21.4%
1996-1997	\$3,546.78	\$231.90	\$1,041.36	\$4,820.04	73.6%	4.8%	21.6%
1997-1998	\$3,788.29	\$255.39	\$1,106.69	\$5,150.37	73.6%	5.0%	21.5%
1998-1999	\$4,079.46	\$271.26	\$1,204.05	\$5,554.77	73.4%	4.9%	21.7%
1999-2000	\$4,317.07	\$309.49	\$1,304.09	\$5,930.65	72.8%	5.2%	22.0%
2000-2001	\$4,526.52	\$330.27	\$1,427.46	\$6,284.25	72.0%	5.3%	22.7%
2001-2002	\$4,467.02	\$377.89	\$1,464.09	\$6,309.00	70.8%	6.0%	23.2%
2002-2003	\$4,454.98	\$439.57	\$1,468.61	\$6,363.16	70.0%	6.9%	23.1%
2003-2004	\$4,559.86	\$510.53	\$1,544.92	\$6,615.31	68.9%	7.7%	23.4%
2004-2005	\$4,723.58	\$562.33	\$1,635.61	\$6,921.52	68.2%	8.1%	23.6%

Source: North Carolina Department of Public Instruction (2005).

**Table 3. North Carolina Elementary and Secondary Education, FY 2005-2006
Appropriated Funds ***

I. State Aid - Local Education Agencies	Positions	Funds	% of Total
General Administration			
Central Office Administration		\$104,807,383	1.53%
<u>Instructional Personnel and Related Services</u>			
Classroom Teachers	65,964.50	\$2,556,512,531	
Teacher Assistants		\$420,180,234	
Instructional Support	7,100.00	\$308,896,863	
School Building Administration	4,024.30	\$236,393,034	
Classroom Materials/Instructional Supplies/Equipment		\$70,944,872	
Compensation Bonus		\$8,200,322	
Textbooks		\$88,385,971	
Annual Leave		\$31,498,453	
Mentor Pay		\$8,100,140	
High Priority - extended contract days	14.29	\$552,586	
ABC Incentive Awards		\$100,000,000	
Estimated Matching Benefits**		<u>\$727,972,570</u>	
Subtotal		\$4,557,637,576	66.44%
<u>Support</u>			
Non-instructional Support Personnel		\$333,315,719	4.86%
<u>Categorical Programs</u>			
Academically and Intellectually Gifted		\$53,503,260	
At Risk Student Services/Alternative Schools		\$193,388,625	
Children Special Needs		\$577,402,065	
Disadvantaged Student Supplemental Funding		\$22,569,242	
Driver Education		\$32,045,036	
Improving Student Accountability		\$36,784,350	
Intervention/Assistance Teams		\$2,944,069	
Limited English Proficiency		\$45,309,707	
Low Wealth Supplemental Funding		\$133,244,938	
School Technology		\$10,000,000	
Small County Supplemental Funding		\$39,490,079	
Staff Development		\$12,142,106	
Transportation		\$298,126,389	
Career and Technical Education	6,303.15	<u>\$336,773,279</u>	
Subtotal		\$1,792,723,145	26.13%
LEA Discretionary Reduction		(\$44,201,248)	-0.65%
Subtotal State Aid - Local Education Agencies		\$6,744,192,575	98.32%

**Table 3 cont'd. North Carolina Elementary and Secondary Education,
FY 2005-2006 Appropriated Funds ***

II. Miscellaneous	Positions	Funds	% of Total
ADM Contingency Reserve		\$5,000,000	
Charter School Reserve (Governor's Salary Increase)		\$1,412,234	
Contracts-Finance Officer Staff Development		\$64,560	
Education Value Added Assessment System (EVAAS)		\$500,000	
Learn and Earn (HS Reform)		\$5,434,323	
Specialty Small School Pilot Program		\$1,446,877	
NBPTS		\$3,274,500	
Personnel Services (Longevity, Short Term Disability, Worker's Comp., Unemployment, etc.)		\$112,169,113	
Sale of Equipment-Surplus		\$7,000	
School Based Child and Family Support Teams		\$8,387,829	
School Breakfast		\$2,120,745	
School Bus Replacement		\$47,190,642	
Testing		\$8,451,146	
Textbooks - Freight		\$217,837	
Tort Claims (Department of Justice)		\$4,599,195	
UERS		\$17,532,968	
Virtual High School		<u>\$150,000</u>	
Subtotal		\$217,958,969	3.18%
Budget Receipts from Civil Penalties and Fines and Forfeitures		(\$102,500,000)	-1.49%
Grand Total		\$6,859,651,544	100.00%

DPI Agency Budget – State appropriation for FY 2005-2006 plus legislative increase and benefit adjustments is \$35,421,990, DPI Number of Positions as of 7/1/05 is 531.25 (State – 326.19, Federal – 144.35, Receipts – 60.71)

*Based on the State Public School Fund Budget including the Governor's Salary Adjustment dated 11/1/05

**Includes funds for Social Security, retirement, and hospitalization for position/month of employment allotments for classroom teachers, instructional support, and school building administration. Benefits for other LEA staff are included in the dollar allotments such as Central Office Administration and Vocational Education.

Source: North Carolina Department of Public Instruction (2006a).

Key Features of the School Finance System

At the time of our study, North Carolina distributed money from the State Public School Fund (SPSF) to local districts via three mechanisms: position allotments, dollar allotments, and categorical funds.⁸

Two-thirds of the SPSF was allocated by awarding positions on the basis of ADM. Districts were awarded a certain number of certified staff positions (or a month of employment) for classroom teachers, principals and assistant principals, instructional support personnel, and career and technical education personnel. Districts were paid by the state for the actual salary

⁸ This description of North Carolina's school finance system is drawn largely from North Carolina Department of Public Instruction (2006a). The creation of the DSSF is described in North Carolina Department of Public Instruction (2004).

(based on a state salary schedule) for the person filling the position; thus a teacher with 25 years of experience cost the state more than a teacher with 5 years of experience. (Districts could supplement individual salaries with local tax revenues, and most did so; but these supplements were not reimbursed by the state and varied according to the willingness and ability of local governments to tax themselves for this purpose.) Table 4 illustrates the basis on which initial allotments of staff positions (as well as dollar allotments and categorical programs to be discussed below) were awarded for 2005-2006. The teacher-to-student ratios in the table were set by the legislature. These ratios have been periodically adjusted over the last decade as state policymakers have adopted class-size reduction initiatives. Districts have received more (state-paid) position allotments as the number of students in Average Daily Membership required for each position has been reduced.

Districts received dollar allotments from the state to pay for specific staff and materials, including such things as teacher assistants, central office administration, textbooks, instructional materials, incentive pay, staff development, school technology, and vocational education program support.

As distinct from dollar allotments, categorical funding was given to districts to address specific populations and disparities within the state. Programs aimed at specific populations include those for academically or intellectually gifted students, at-risk students, children with disabilities, and students with Limited English Proficiency. Programs addressing disparities included Small County Supplemental Funding, Low Wealth Supplemental Funding, and Disadvantaged Student Supplemental Funding (DSSF).

Small County and Low Wealth supplements were created in 1991-1992 to recognize the special financial burdens faced by counties with low enrollments and those whose ability to generate local revenue per pupil is below the state average. The latter program, for which 70 counties qualified in 2004-2005, was funded at \$133 million for 2005-2006, \$42 million less than the program's funding formula calls for. The 2006 General Assembly appropriated sufficient dollars for 2006-2007 to fully fund the Low Wealth Supplemental Fund for the first time since it was created.

The DSSF program first began in 2004 in response to the court decision declaring parts of the school finance system unconstitutional. In the first year the governor funded the program with \$22 million via executive order, after the General Assembly declined to make a DSSF appropriation. For 2005-2006, the legislature continued this funding and raised it by \$27 million for 2006-2007.

Table 3 shows the amount appropriated for various programs for 2005-2006. What is not apparent from this table is that the appropriated amounts do not add up to all the funds that districts would be entitled to based on the allotment formulas and appropriation levels. The General Assembly, to keep state spending down, in 2003 enacted a "discretionary" reduction requiring school districts to identify funds they would return to the state. The districts were given the discretion to decide where in their state budget allotments these reductions would occur. Although meant to be a one-year "fix," the discretionary reduction was continued in subsequent budgets and amount to \$44 million for 2005-2006. It was finally eliminated for 2006-2007. Table 3 also indicates that in 2005-2006 the \$102 million made available for schools from the civil penalties, fines, and forfeitures was used to reduce General Fund appropriations by a like amount.

**Table 4. Initial State Allotment Formulas, North Carolina Public Schools,
FY 2005-2006**

Administration		
Category	Basis of Allotment	
Central Office Administration	FY-2005-2006 Initial Allotment is 3.25% (rounded) higher than FY 2004-2005 Initial Allotment	
Instructional Personnel and Support Services		
Category	Basis of Allotment	Allotted Salary
Classroom Teachers		
<i>Grades Kindergarten - 3</i>	1 per 18 in ADM (LEA Class Size Avg. is 21)	LEA Average
<i>Grades 4 - 6</i>	1 per 22 in ADM (LEA Class Size Avg. is 26)	
<i>Grades 7 - 8</i>	1 per 21 in ADM (LEA Class Size Avg. is 26)	
<i>Grade 9</i>	1 per 24.5 in ADM (LEA Class Size Avg. is 26)	
<i>Grades 10 - 12</i>	1 per 26.64 in ADM (LEA Class Size Avg. is 29)	
<i>Math/Science/Computer Teachers</i>	1 per county or based on sub agreements	
Teacher Assistants	\$941.57 (rounded) per K - 3 ADM	N/A
Instructional Support	1 per 200.10 in ADM	LEA Average
School Building Administration		
<i>Principals</i>	1 per school with at least 100 ADM or at least 7 state paid teachers	LEA Average
<i>Assistant Principals</i>	1 month per 80 in ADM	LEA Average
Vocational Education - MOE (LIMITED FLEXIBILITY - Salary increase)	Base of 50 Months of Employment per LEA with remainder distributed based on ADM in grades 8 - 12	LEA Average
ABC Incentive Award	Not included in the Initial Allotments. Test results were announced during August at the State Board Meeting. Allotments will be processed by August 31, 2005.	
Classroom Materials/Instructional Supplies/Equipment	\$50.31 per ADM plus \$2.69 per ADM in grades 8 and 9 for PSAT Testing	
Textbooks	\$62.32 per ADM in grades K - 12	
Employee Benefits		
Category	Basis of Allotment	
Hospitalization	\$3,748 per position per year	
Retirement	6.82% of total salaries	
Social Security	7.65% of total salaries	
Statewide Average Salaries for FY 2005-2006 (Benefits are not included)		
Category	Basis of Allotment	
Teachers	\$38,510	
Principals (MOE)	\$5,532	
Assistant Principals	\$4,758	
Vocational Education (MOE)	\$4,044	
Instructional Support	\$43,382	
Note: Dollars for 2005-2006 position/month allotments are based on LEA's average salary including benefits, rather than the statewide average salary. They are still position/month allotments; LEAs must stay within the positions/months allotted.		
Support		
Category	Basis of Allotment	
Non-instructional Support Personnel	\$238.25 per ADM \$6,000 per Textbook Commission member for Clerical Assistants	

Table 4. cont'd. Initial State Allotment Formulas, North Carolina Public Schools, FY 2005-2006

Categorical Programs	
Category	Basis of Allotment
Academically or Intellectually Gifted Students	\$947.07 per child for 4% of ADM
At-Risk Student Services	Each LEA receives the dollar equivalent of one resource officer (\$37,838) per high school. Of the remaining funds, 50% is distributed based on ADM (\$62.36 per ADM) and 50% is distributed based on number of poor children, per the federal Title I Low Income poverty data (\$370.35 per poor child). Each LEA receives a minimum of the dollar equivalent of two teachers and two instructional support personnel (\$202,476). The new formula is fully implemented, and the hold harmless no longer applies.
Children with Disabilities	
<i>School Aged</i>	\$2,935.60 per funded headcount. Headcount comprises the lesser of the April 1 child count or 12.5% of the allotted ADM.
<i>Preschool</i>	Base of \$47,830 per LEA; remainder distributed based on April 1 child count of ages 3, 4, and PreK-5 (\$2,372.90) per child.
<i>Group Homes</i>	Approved applications
<i>Developmental Day Care (3-20)</i>	To be allotted in Revision
<i>Community Residential Centers</i>	To be allotted in Revision
Driver Education	\$240.87 (rounded) per 9th grade ADM. Includes private, charter, and federal schools.
Improving Student Accountability	\$300.00 per student who scored at level 1 and 2 on either reading or mathematics end-of-grade tests in grades 3 - 8.
Limited English Proficiency	Base of a teacher asst. (\$24,723); remainder based 50% on number of funded LEP students (\$301.31) and 50% on an LEA's concentration of LEP students (\$4,099.17).
Low Wealth Supplemental Funding	See the Allotment Policy Manual for formula.
School Technology	\$7.16 per ADM
Small Co. Supplemental Funding	See the Allotment Policy Manual for formula.
Staff Development	\$750 per LEA, then 25% of total is allotted equally (base) and 75% allotted based on ADM.
Transportation	Based on an efficiency rated formula and local operating plans. The initial allotment is 80% of planning.
Voc Ed-Program Support	\$10,000 per LEA with remainder distributed based on ADM in grades 8 - 12 (\$32.46)
Categories That Cannot Be Adjusted in FY 2005-2006 Through an ABC Transfer	
Category	Reason for Restriction
ABC Incentive Award	Legislation
At-Risk Student Services/Alternative School	Legislation; Funds may be transferred into At Risk Student Services/Alternative Schools.
Central Office Administration	Legislation; Funds may be transferred out of Central Office Administration.
Children with Disabilities	Legislation; Funds may be transferred into Children with Disabilities.
Driver Education	Highway Funds
Disadvantaged Std. Supplemental Funding	Funds must be spent based on a State Board approved plan.
Improving Student Accountability	Legislation; Funds may be transferred into Improving Student Accountability.
Intervention/Assistance Teams	Legislation
Learn and Earn	Funds must be used to create rigorous and relevant high school options.
Limited English Proficiency	Legislation
Low Wealth Supplemental/Funding	Legislation
School Technology	Special Interest-Bearing Account
Small County Supplemental Funding	Legislation
Behavioral Support	Legislation

Source: North Carolina Department of Public Instruction (2006a).

While the school finance system was on paper highly prescriptive, the state had made an effort to increase the ability of school districts to address their particular needs. In 1995-1996 the number of categorical allotments was reduced to 18, compared to 62 in 1992-1993 (Testerman and Brown 2001). The ABCs program further emphasized local control; and, although the various specific allotments remained in place, districts were told that they could transfer funds within limits set by the state. In a 2004 budget presentation (McConkey 2004), a Department of Public Instruction employee said that only 17 percent of the state education budget was off-limits to fund transfers at the local level. As we shall see in the section entitled *District- and School-Level Perspectives on the School Finance System*, however, the perceptions of local administrators about how flexibly state dollars could be used was often quite different from that of state officials.

STATE CONTEXT FOR CURRENT POLICYMAKING

Conditions within North Carolina—demographic, political, economic, and judicial—are important influences on the formal policies and practices that constitute the state’s school finance system. They raise challenges for state policymakers and help define the options that these policymakers can reasonably consider. This section briefly reviews these four important influences on school finance.

Demographic Changes

Between 1990 and 2000 North Carolina was one of the 10 fastest growing states in the nation in both numerical and percentage terms, adding 1.4 million new residents for a 21 percent increase (Murdock 2006). The U.S. Census Bureau projects that the state will continue to grow much faster than the nation as a whole and the southeast region through 2025, adding approximately 15 percent more residents in each of the next two decades, compared with 8 percent in each decade nationally and 12 percent in each decade among the 16 states belonging to the Southern Regional Educational Board (Southern Regional Education Board 2007).

While growing in size, North Carolina’s population has also become increasingly diverse. For at least 20 years, about 30 percent of the state’s school children have been Black, but until the early 1990s Hispanic students were under 1 percent of the total. By school year 2004-2005 the proportion of Hispanic students had grown to 7.5 percent (North Carolina Public Schools 2005). This, along with increased immigration from non-Spanish speaking parts of the world, is confronting North Carolina educators with an unprecedented need to address the needs of limited-English students and their families.

Political Environment

Political factors are important influences on public policy decisions. Where school finance and resource allocation policies are concerned, two considerations that can matter are the political orientation of the state (as reflected in the party affiliation of state office holders) and whether educators are permitted to form unions and engage in such union activities as collective bargaining and strikes.

North Carolina is no longer the consistently one-party state it was for most of the hundred years following the Civil War. Only two Republican governors, each serving one four-year term, were elected before Republican Jim Martin held the governorship from 1985 to 1993. He was preceded and succeeded by Democrats (James Hunt 1977 to 1985; 1993-2001; Michael Easley (2001-present). Both houses of the General Assembly were strongly Democratic through the 1980s. In the mid-1990s, the Senate was closely divided for the first time (26 Democrats, 24 Republicans in the 1995-1996 biennium); since then, the Democratic majority of the 50 seats has fluctuated, rising to 35 in the 1999-2000 and 2001-2002 biennia and standing in the 2005-2006 at 29. The House actually had Republican majorities from 1995 through 1998 before reverting to Democratic control. The 2005-2006 Democratic majority was slim (63 to 57), and there was a 60-60 split in late 2003 and 2004 when one Democrat switched parties (North Carolina General Assembly n.d.).

North Carolina's elected Superintendent of Public Instruction is as of this writing a Democrat, June Atkinson. The 2004 election was so close that recounts and challenges left the position open until the election was finally settled by the General Assembly in August 2005. The disputes over authority between the Superintendent and Board of Education mentioned in the section entitled *The State Role in School Finance* have left the former in a relatively powerless position. The Board "lent" some of its powers to Atkinson's predecessor, the popular Mike Ward, but took them back upon his resignation.

North Carolina does not permit collective bargaining by public school employees. A 1959 law nullified all contracts and agreements between labor organizations representing public employees and state and local governments and agencies and prohibited strikes by public employees. State law does allow districts to enter into "meet and confer" agreements with teachers' unions and organizations.

Economic and Budget Climate

After enjoying robust economic growth in the 1990s, North Carolina shared in the national experience of recession followed by moderate recovery that characterized the first half of the current decade. Revenue actually collected for the General Fund slowed sharply beginning in fiscal year 1999-2000 and declined between 2000-2001 and 2001-2002, as Table 5 shows. The difference between General Fund budgeted revenue and actual revenue collected also went from surplus to deficit during that period. Between fiscal years 2000 and 2005, real per capita state tax revenue declined by 4.7 percent (Boyd 2006). The state managed to keep General Revenue funding for schools relatively stable during the downturn (Table 6), but due to enrollment growth state funding per pupil declined in the two fiscal years after 2000-2001. The 2003-2004 per pupil level finally surpassed (barely) the 2000-2001 level; growth the following year was 3.6 percent.

**Table 5. General Fund Budgeted Revenue and Actual Revenue Collected
(\$ in millions) FY 1994-1995 to FY 2004-2005**

Fiscal Year	Budget	Actual	Difference
2004-05	\$15,645	\$16,326	\$681
2003-04	\$14,694	\$14,936	\$242
2002-03	\$14,330	\$14,109	\$-221
2001-02	\$14,713	\$13,158	\$-1,555
2000-01	\$13,981	\$13,279	\$-702
1999-00	\$13,276	\$13,136	\$-140
1998-99	\$12,368	\$12,734	\$366
1997-98	\$11,194	\$11,727	\$533
1996-97	\$10,396	\$10,931	\$535
1995-96	\$9,770	\$10,090	\$320
1994-95	\$9,653	\$9,971	\$318

Source: North Carolina Office of State Budget and Management (2005b).

**Table 6. North Carolina Public Schools Current Expense Expenditures
(\$ in millions) (including child nutrition)**

Fiscal Year	State	Local
2004-05	\$6,296	\$2,413
2003-04	\$5,983	\$2,251
2002-03	\$5,751	\$2,223
2001-02	\$5,689	\$2,093
2000-01	\$5,682	\$2,014
1999-00	\$5,352	\$1,824

Source: North Carolina Department of Public Instruction, Financial and Business Services (n.d.).

North Carolina raised upper income tax rates, imposed a new liquor tax and a tax on health maintenance organizations, and enacted a half-cent sales tax increase in 2001, though the increase was far short of what was needed to balance the budget (the gap being filled with one-time fixes). The new top individual income tax rate and the half-cent sales tax increase were both meant to be temporary, but the General Assembly continued them until recently, when it voted to reduce (but not eliminate) them in late 2006/early 2007. In 2005, the General Assembly raised the cigarette tax, with a 25 cent-per-pack increase taking effect on September 1, 2005 and another 5 cent increase taking effect on July 1, 2006.

Going into the 2006 “short” legislative session⁹ on May 9, 2006, the General Assembly was told that projected revenues for 2006-2007 exceeded the amount needed to maintain current services by over a billion dollars. The North Carolina Budget & Tax Center, however, estimated

⁹ Originally the General Assembly met only biennially. As the need to make more frequent budget adjustments became clear, the legislature began meeting for its regular or “long” session in odd-numbered years and started holding a “short” session in even-numbered years. While these “short” sessions initially focused just on adjusting the biennial budget passed in the “long” session, now other issues may be taken up as well.

that this “surplus” would dwindle to practically zero if one-time revenues were removed and the additional spending needed to maintain current services was added in (Mejia 2006).

Thus, despite recent tax changes and the current revenue surplus, North Carolina, like many other states, faced charges that its tax system will increasingly prove inadequate for funding a 21st century government. Even before the economic downturn of the early 2000’s, tax expert Harold A. Hovey (1999) found that 39 states, including North Carolina, faced “structural deficits”: tax revenues that would be insufficient to fund “baseline” (i.e., current services) levels.

In 2003, the Government Performance Project of *Governing* magazine (Barrett et al. 2003) gave North Carolina’s tax system two stars out of four for the adequacy of its revenue and fairness to taxpayers. (Two stars meant “the state could continue to function as it currently does into the foreseeable future [b]ut there are clear elements to the tax system that would benefit from change.”) A major reason why North Carolina did not face as large a structural deficit problem as some other states is that it moved much earlier to base state revenues on income and sales taxes. Spurred by the Depression, the state took over what had been (and remained in most other states) local functions such as schools, roads, courts, and prisons.

Two reports from state sources were less sanguine than *Governing* about the sustainability of the state’s current tax system. A 2002 report from a gubernatorial commission concluded that change was needed “to ensure that our economic growth can continue, that services can be provided, that the burden for government spending is spread fairly, and that emergencies—both natural and economic—can be withstood” (State of North Carolina, Governor’s Commission to Modernize State Finances 2002, 3-4). In 2005, the North Carolina Budget & Tax Center called for “a 21st century revenue plan” that would fund state government “in a fair and sustainable way” (Mejia and Cameron 2005). A key recommendation of both reports was to make services (and not just goods) subject to the sales tax while lowering overall rates. Both also proposed various changes in business taxes to simplify them, reduce or eliminate tax credits, and bring all businesses (not just traditional corporations) under the franchise tax. Concern about the need for tax reform also motivated a conference on “Financing the Future” in February 2006, sponsored by the Institute for Emerging Issues at North Carolina State University and spearheaded by former Governor Hunt (Institute for Emerging Issues n.d.).

Judicial Challenges to the School Finance System

For over a decade, policymakers in North Carolina have operated under the shadow of a court challenge filed in 1994 by five low-wealth rural districts (“plaintiffs”), and subsequently joined by six relatively urban and wealthy school districts (“plaintiff-intervenors”), initially challenging the constitutionality of the state’s school finance system. Plaintiffs argued that children in their districts were not receiving a constitutionally adequate education. They claimed that they lacked the resources necessary to provide fundamental educational opportunities. They traced this problem to the nature of the state’s school finance system and the burden it placed on local governments to fund both capital expenses and about a quarter of operating expenses. The plaintiff-intervenors argued that they lacked sufficient funds due to the high needs of students in their urban districts. They also contended that state aid to low-wealth districts neglected urban needs and was “arbitrary and capricious.” As litigation proceeded, the case became as much about the quality of the educational services provided as about funding and about who (the local districts or the state) had the ultimate responsibility to provide a constitutionally-compliant

education. Various rulings, while acknowledging the possibility that resources may be insufficient, tended to favor the argument that the resources were adequate provided that they were well deployed.

Early skirmishing in the case, originally cited as *Leandro v. State of North Carolina and State Board of Education*, focused on whether the plaintiffs had a legal basis to have their claims litigated at all. The North Carolina Supreme Court settled this issue in 1997¹⁰, remanding the case to Superior Court for a trial on the merits. In doing so, the court made several crucial determinations. First, it found that the state constitution guarantees “every child of this state an opportunity to receive a sound basic education in our public schools.” The court stated that “[a]n education that does not serve the purpose of preparing students to participate and compete in the society in which they live and work is devoid of substance and is constitutionally inadequate.” It went on to define a sound basic education as one that provides students with at least:

(1) sufficient ability to read, write, and speak the English language and a sufficient knowledge of fundamental mathematics and physical science to enable the student to function in a complex and rapidly changing society; (2) sufficient fundamental knowledge of geography, history, and basic economic and political systems to enable the student to make informed choices with regard to issues that affect the student personally or affect the student's community, state, and nation; (3) sufficient academic and vocational skills to enable the student to successfully engage in post-secondary education or vocational training; and (4) sufficient academic and vocational skills to enable the student to compete on an equal basis with others in further formal education or gainful employment in contemporary society.

The court limited the reach of the judicial branch in finding constitutional violations:

[T]he courts of the state must grant every reasonable deference to the legislative and executive branches when considering whether they have established and are administering a system that provides the children of the various school districts of the state a sound basic education...a clear showing to the contrary must be made before the courts may conclude that they have not.

Finally, the court made clear that the state constitution allows unequal spending on schools and that spending disparities in and of themselves did not indicate a constitutional violation:

Because the North Carolina Constitution expressly states that units of local governments with financial responsibility for public education may provide additional funding to supplement the educational programs provided by the state, there can be nothing unconstitutional about their doing so or in any inequality of opportunity occurring as a result.

Based on the Supreme Court’s 1997 *Leandro* ruling, Superior Court Judge Howard E. Manning, Jr. held a trial and issued 4 rulings in 2000 and 2002.¹¹ Because he bifurcated the case

¹⁰ Decision available at <http://www.aoc.state.nc.us/www/public/sc/opinions/1997/179-96-1.htm>.

¹¹ The four rulings are *Hoke County Board of Education v. State (Hoke I)*, 95 CVS 1158, 154 (2000); *Hoke County Board of Education v. State (Hoke II)*, 95 CVS 1158 (2000); *Hoke County Board of Education v. State (Hoke III)*, 95 CVS 1158 (2000); *Hoke County Board of Education v. State (Hoke IV)*, 95 CVS 1158 (2002). All are available online at http://www.schoolfunding.info/states/nc/lit_nc_Hoke.php3.

and focused initially on the claims of the low-wealth districts, with Hoke County as the focus district for purposes of presenting evidence, his findings are technically referred to as *Hoke v. State*. In common parlance all the rulings in this case tend to be cited as *Leandro* rulings. In his various decisions, Judge Manning reviewed and found satisfactory the basic state structure of educational course requirements, accountability, and finance. He ruled, however, that the structure was failing to provide a sound basic education to at-risk students in Hoke County. He fleshed out the demands of a sound basic education as he “found, adjudged, and decreed” in *Hoke IV*:

1. Article I, Section 15 and Article IX, Section 2 of the North Carolina Constitution, as interpreted by Leandro, guarantee to each and every child the right to an equal opportunity to obtain a sound basic education requires that each child be afforded the opportunity to attend a public school which has the following educational resources, at a minimum:

First, that every classroom be staffed with a competent, certified, well-trained teacher who is teaching the standard course of study by implementing effective educational methods that provide differentiated, individualized instruction, assessment and remediation to the students in that classroom.

Second, that every school be led by a well-trained competent Principal with the leadership skills and the ability to hire and retain competent, certified and well-trained teachers, can implement an effective and cost-effective instructional program that meets the needs of at-risk children so that they can have the equal opportunity to obtain a sound basic education by achieving grade level or above academic performance.

Third, that every school be provided, in the most cost effective manner, the resources necessary to support the effective instructional program within that school so that the educational needs of all children, including at-risk children, to have the equal opportunity to obtain a sound basic education, can be met.

2. That there are children at-risk of educational failure who are not being provided the equal opportunity to obtain a sound basic education because their particular LEA, such as the Hoke County Public Schools, is not providing them with one or more of the basic educational services set out in paragraph 1, above.

3. That the State of North Carolina is ultimately responsible for providing each child with access to a sound basic education and that this ultimate responsibility cannot be abdicated by transferring responsibility to local boards of education.

4. That the State of North Carolina is ORDERED to remedy the Constitutional deficiency for those children who are not being provided the basic educational services set out in paragraph 1, whether they are in Hoke County, or another county within the State.

5. The nuts and bolts of how this task should be accomplished is not for the Court to do. Consistent with the direction of Leandro, this task belongs to the Executive and Legislative Branches of Government. By directing this be done, the Court is showing proper deference to the Executive and Legislative Branches by allowing them, initially at least, to use their informed judgment as to how best to remedy

the identified constitutional deficiencies.

The judge ordered the state to undertake remedies to address the constitutional requirements and to keep his court informed of progress every 90 days. While the case was on appeal to the Supreme Court (and afterwards, when the Court in July 2004¹² supported most of his rulings except for one ordering prekindergarten education for at-risk children), Judge Manning continued his oversight of the case. His attention was not limited to Hoke County or the plaintiff districts. For some time, he focused on what he famously called “academic genocide” in the state’s underperforming high schools (Manzo 2005). In March 2006, frustrated at what he viewed as years of state inaction at addressing “the constitutional requirements of *Leandro* regarding the minimum assets required in each school and classroom” especially where student performance was low, he warned the state superintendent of schools and the chair of the State Board of Education that he would not allow 44 high schools to open in the fall of 2006 unless either their performance improved or the school had new management and a new instructional plan in place (Manning 2006).

On May 4, 2006, five of the six plaintiff-intervenors notified Judge Manning that they were withdrawing from the case. (The sixth could not withdraw because of a legal technicality.) Apparently these districts decided that further appeals through the court were not the most cost-effective way to improve educational outcomes and get additional educational resources for disadvantaged students. They pledged to work together and with other urban districts in the state to share knowledge and expertise. They also committed to working together to influence the General Assembly to expand the DSSF and to adopt other measures to provide the resources necessary to meet the needs of at-risk students all across the state, including in the urban districts (Logan et al. 2006).

District- and School-Level Perspectives on the School Finance System

We conducted interviews in four study districts to gain a deeper understanding of local resource allocation and how it was being affected by performance pressures. This section discusses findings related to several study questions, including how officials viewed their districts’ and schools’ use of resources, whether they thought the resources could be better deployed, and what factors enabled or constrained allocating resources in ways they believed would best foster student achievement.

This section summarizes what we learned from our study district inquiries. In several instances, in order to acknowledge widely-publicized developments related to our study questions, we include information about named districts (which may or may not have been among our case study districts).

District Goals Mirrored State Expectations

All the study districts defined their primary goal as student achievement. In three of the districts, this was expressed as raising student performance levels and reducing achievement gaps among subgroups. Reflecting efforts in North Carolina to raise the state’s historically low

¹² Available online at <http://www.aoc.state.nc.us/www/public/sc/opinions/2004/530-02-1.htm>.

rate of high school graduation and college enrollment, goals also included reducing drop-out rates and increasing the proportion of students pursuing college-preparatory activities (for example, taking Advanced Placement and International Baccalaureate courses and SAT tests). In the study district that had traditionally been among the state's top academic performers, district officials sought to stand out, not just in the state, but in the region. They also pursued goals "broader than improving performance on standardized tests," such as challenging their gifted and talented students.

Though achievement goals dominated responses of our interviewees, district planning documents also frequently mentioned other goals, including providing safe and orderly schools, improving relationships with parents and the community, and using resources efficiently and effectively. One reason these goals frequently appeared in local documents might have been that they echoed the broad goals of state's ABCs Plus strategic plan.

Challenges to Meeting Goals

Several common themes emerged as interviewees talked about the challenges facing their districts and schools in meeting their goals.

Diversity and Resegregation

North Carolina has been experiencing noticeable growth in its minority population and in its non-English speaking population. One study district saw the percentage of English-as-a-Second Language (ESL) students increase by 50 percent, from 4 to 6 percent, over 4 years. Another saw its Hispanic population, including many with limited English skills, grow from 3 to nearly 10 percent over 10 years. A district in the western part of the state, not generally one that would be thought of as a destination for immigrants, had students speaking 41 languages in its schools. This was partly explained by missionary work done by local churches that had resulted in opportunities for people to immigrate to the county.

At the same time that the schools were addressing issues related to more diverse student bodies, officials in the two more populous districts in our study were also addressing concerns relating to resegregation. With the ending of court-ordered desegregation plans, these districts found themselves with some schools that had very high concentrations of minority and low-income students. Neighborhood schools tended to isolate low-income students, especially if the district was geographically large (complicating transportation problems) or if constraints on facilities limited opportunities for voluntary intradistrict school choice (a problem in the most populous of our study districts). The emergence of schools with very high populations of at-risk students had in turn exacerbated the difficulty of recruiting and retaining teachers, who often resisted working in such schools.

Recruiting, Training, and Retaining Qualified Teachers

Even without the difficulty of attracting teachers to hard-to-staff schools, North Carolina was facing major concerns over hiring enough teachers to fill its classrooms. The state's teacher training institutions produced only 3,500 teachers annually, of whom only 2,500 actually entered the field. Meanwhile, districts were trying to fill 9,000-11,000 teaching positions annually (Public School Forum of North Carolina 2005). Some of these vacant positions arose when teachers moved from one district to another, but many were the result of retirements or of teachers leaving the field altogether. North Carolina has long experienced special problems in

attracting enough candidates for jobs in hard-to-staff subjects like math, science, and special education.

Less wealthy counties with fairly near neighbors sometimes found themselves serving as “farm teams” for their wealthier counterparts who paid higher local salary supplements. One of our study districts reported losing a number of its teachers to the county next door after they accumulate a few years’ experience and become more attractive candidates to the second district. The first district also found itself losing teachers it had recruited from out-of-state and initiated into the profession when these recruits chose to return “home” after a few years. Less well-paying districts also said they lost teachers late in their careers to districts paying more because teacher pensions were based on the salary in the last few years of teaching.

High teacher turnover rates, in turn, exacerbated the challenges of training new teachers and also raised the importance of finding ways to retain more teachers.

Facilities

Population growth, repeated state initiatives to reduce class size, and insufficient funding had combined to create a serious facilities challenge for many districts. The most recent comprehensive study of statewide public school facility needs (mandated to be prepared every five years) identified \$9.7 billion in facilities needs statewide over the 2006-2011 period (North Carolina Department of Public Instruction 2006b). One low-wealth study district noted that it had very little property other than residential real estate to assess, and residential taxes resulting from population growth did not meet the costs of providing the schools needed by the new residents. Another, relatively wealthy district had seen its county-provided local funding stay fairly stable for four years, so for a different reason was struggling to keep up with rapid growth. The final district drawdowns on the funds provided by the statewide Public School Building Bond Act of 1996 were to be made by the end of 2005-2006. Even though property taxes were comparatively low in North Carolina, voter resistance to them was growing; therefore, counties were experiencing more difficulty raising local funds for facilities. Voters in the state’s largest district, Charlotte-Mecklenburg, defeated a school bond issue in the fall of 2005. Wake County, highly visible in the state because it is the home of the capital, has been converting some schools to year-round operation because of problems paying for enough new buildings to serve its growing population.

High schools

Like educators in many other states, those we spoke with in North Carolina believed their school reform efforts had had their greatest success with students in lower grades and now saw high schools as a major challenge. Many interviewees considered dropout rates to be too high and the quality of the preparation schools were providing for college or jobs to be too low. Judge Howard Manning repeatedly drew attention to the issue of low high school performance at various times while his rulings in the *Leandro* case were under appeal to the Supreme Court. Since having the case remanded to his court in 2004, he has continued to shine a bright light on, as he entitled a May 2005 report from the court, “the high school problem” (North Carolina Superior Court Division 2005).

Reforms and Innovations

Districts and schools reported trying many new things in their efforts to raise student achievement and use their resources more effectively.

Addressing Equitable and Adequate Funding: Focusing Resources on Needs

While most state and local dollars still appeared to be distributed through “one size fits all” staffing and other formulas in North Carolina, our study districts, especially the two more populous and diverse ones, said they allocated extra resources to schools with especially high concentrations of at-risk students. One district reported providing extra resources to 30 Title I elementary schools (to lower class sizes to 15 in grades Kindergarten through 2) and extra personnel (such as assistant principals, teachers, and social workers) to four targeted high schools. Another designated its low-performing schools as “Focus” schools and gave these schools extra staff to reduce class sizes and additional instructional supplies and materials. The district also made Focus school staff eligible for special financial incentives such as hiring bonuses, financial assistance for teachers enrolled in a master’s degree program, and extra stipends for teachers with master’s degrees or who were enrolled in a graduate level program.

These “need-based” allocations occurred at the margins of the resource allocation system, however. None of our study districts had fundamentally moved away from the staff-allocation model to a more needs-based approach such as weighted-student budgeting, although the Charlotte-Mecklenburg Public Schools (not necessarily one of our study districts) was considering this reform as it took up the recommendations made by a citizens task force in late 2005 (American Institutes for Research/Cross & Joftus LLC 2005).

Capacity-Building

All of our study districts supported professional development aimed at improving the capacity of teachers and principals. In three of the districts, interviewees indicated that professional development was largely school based and left to a great extent to the choice of principals and teachers. This might have been because the state mandated that 75 percent of staff development funds be allocated to schools to be used in accordance with the school improvement plan.¹³ A central-office curriculum director in one of these districts (a district that was trying to move toward more district-led development) worried that teachers, when left unguided, were too apt to select one-shot workshops with no follow-up. The superintendent in this district was trying to move away from the tradition of having “a lot of free agents out there,” believing that “a district initiative is more powerful than doing nickels and dimes at the school level.” The major district-wide initiative involved using the book “Working on the Work” (WOW) as a framework for improvement, bringing in an outside consultant to help guide the program and also sending staff to a national conference. WOW provided a focus around which schools had formed whole faculty study groups to discuss improvement.

One of the larger of our study districts had a more strategic approach to professional development. It emphasized the development professional learning communities and had hired Michael Fullan to provide training to so-called STARS teams, which consisted of 8-10 faculty and school leaders at each school. STARS team members were expected to train other staff in their building. The training covered topics such as cooperative learning, graphic organizers, and

¹³ North Carolina General Statutes, Chapter 115C-105.30.

understanding the process of change. This district also worked with local universities to develop NCTM-aligned math content courses and required (and paid) all middle school math teachers to attend. Principals were offered professional development institutes at the beginning of the year, depending on their needs. The district paid for academic coaches and school-based curriculum facilitators to provide job-embedded training. The district also sponsored a “Grow Your Own” program to develop new principals, paying promising teachers to participate in a leadership development programs and paying for them to obtain a master’s degree in education in exchange for a commitment to stay in the district for 3 years. To hire high quality teachers, the district used a standardized interview process, with staff (who had been trained in the process) using structured interviews with the same questions being asked of each applicant. Interviews were audio-taped and video-taped and scored at the district level, and schools were only allowed to hire interviewees who exceeded a cut-off score on the interview.

Likewise, this district and the other large district in our study had undertaken a number of initiatives aimed at improving the capacity of students to learn. One district had since the late 1990s invested heavily in providing a full-day, literacy-based prekindergarten program for 4-year-olds with identified educational needs, largely using federal dollars. Tutoring and other forms of extra help were common in the study districts. One district reported helping students by turning one school into a year-round school, with struggling students offered extra instruction during the last week of the 3-week break periods throughout the year. Two districts mentioned pairing at-risk high school students with adult “mentors” or “advocates” to provide individual guidance and encouragement. One offered special student academies or institutes, such as a technology institute focused on girls. Two districts specifically mentioned initiating programs to address the disciplinary problems that often disrupt schools and interfere with student learning.

Reflecting the concern over the quality of high school education, all four study districts had undertaken programs aimed at improving student learning at this level. One rural district had established virtual classrooms in its high schools so that students could take courses (such as Calculus II) that were not offered on each individual campus. Even before the governor made Middle and Early Colleges (now called Learn and Earn schools) a statewide initiative, one study district was offering this option for students at risk of dropping out to pursue their high school education on a college campus. One district received a grant from the U.S. Department of Education to create smaller learning communities in three of its high schools. In another, the county commission provided the school district with a special appropriation aimed exclusively at improving achievement at three of its lowest-performing high schools.

More generally, all of our study districts reported focusing more attention on the curriculum itself, with more attention to linkages with the state program of study through the use of such things as curriculum and pacing guides geared to the program of study and the state tests and benchmark testing at various points throughout the year. These efforts, which took different forms in different districts, shared the purpose of ensuring that all teachers were providing their students the opportunity to learn the state curriculum. As one district administrator put it:

[P]rior to '96 [use of the state course of study] was somewhat a joke. It's no longer a joke. [Y]ou have certain things in place that cause people to focus in. Now I would not sit here and tell you that every school, every teacher's at the same level as far as compliance [is concerned], but certainly it's much, much better than what it was a number of years back.

Another noted:

[W]hen I first became a teacher, teachers could be as good or as bad as the individual wanted to. No principal ever came to my classroom. And when I taught history, if I wanted to—and they used to laugh at me because I never taught the ...war between the states was the Civil War. I taught the war of northern aggression—if I wanted to spend to a half year on that part of history, [I did]So if a child left my classroom they [sic] may be an expert in that, but they couldn't pass any end-of-grade or whatever test if they went somewhere else. And so one of the things that set [my district] aside early is when we became a managed curriculum, which means we say to teachers this is what you need to teach.

Incentives

Even though North Carolina has one of the nation's best-established state accountability systems (one that has financial rewards for schools attached), we heard relatively little about it when inquiring about performance incentives at the district level. One superintendent did describe accountability as the factor that “drives the train.” Several interviewees mentioned the No Child Left Behind Act, both positively (it focused attention on subgroups, which the state accountability system historically did not) and negatively (it focused attention on proficiency, not growth as the state system does). Perhaps accountability is *so* well-established in North Carolina after so many years that it was no longer considered worthy of mention when discussing today's challenges and efforts to address them.¹⁴

At the time of our visits, a leading issue for districts was teacher incentives. Perhaps reflecting the prominence of the teacher shortage concern in North Carolina, all of our study districts offered some kind of incentives or bonuses to encourage teachers (and sometimes principals) to work in hard-to-staff schools or to attract staff into the district or with special subject-matter skills. (The poorest and most rural of our study districts was just able to begin offering bonuses through the Disadvantaged Student Supplemental Fund dollars—“*Leandro money*”—it received from the state.) Incentives and bonuses were keyed to specific district needs. The rural county was offering signing and resigning bonuses, as well as bonuses for teachers who led study groups or committees or who work in Reading First schools and completed Reading First required training. Math teachers in the high-performing district were eligible for a hiring bonus. While this was meant to attract new college graduates, it had had the unintended effect of luring experienced teachers from nearby districts to apply, thus just shifting the “math teacher shortage” problem. Another study district that offered a salary bonus to special education teachers (by placing them higher on the salary schedule than they would otherwise be) had had a similar experience of attracting teachers from nearby districts and resulting in a local, but not a global fix. A large urban district had a variety of incentives and bonuses aimed at encouraging such behavior as signing up to teach in the district early in the hiring season, hiring

¹⁴ Research by Elizabeth Glennie and Helen F. Ladd (2002, 2) suggests that this might indeed be the case. These authors cite evidence from surveys of elementary school principals in 1997 and 1999 that “leaves little doubt that a well-designed school-based accountability system of the type implemented in North Carolina can have powerful effects on the behavior of one set of key adults in the education system: school principals....Many principals redirected resources to math and reading, incorporated math and reading into other courses, increased their work with teachers to prepare for the end-of-grade tests and to improve instruction, and incorporated math and reading into extracurricular activities.”

on to teach math or other areas of “critical need,” and qualifying under district criteria as a “master teacher.” Non-financial incentives for teachers to work in low-performing schools included smaller class sizes. This district also supplemented the financial bonus that teachers certified by the National Board for Professional Teaching Standards received from the state with a half-day substitute teacher so that the NBPTS teacher could spend time visiting a low-performing school.

One urban district reported offering a sizeable bonus (\$7,500 annually over three years) to teachers who would transfer to low-performing schools. The bonus was unsuccessful in attracting teachers to these schools and was dropped. Some administrators said that teachers had told them that the bonus would have had to be much higher to persuade them to take on the challenge; other teachers reportedly said that no amount of money would induce them to switch.

One of our study districts incentivized principal performance by placing all principals on two-year contracts with stated goals. Principals who could not perform would be replaced, but the superintendent did not expect principals to reach all of their goals; he calls them “stretch goals.”

The University of North Carolina recently joined the debate over differential pay for teachers in hard-to-staff subjects. In its budget request for 2006-2007, the university asked for \$2.1 million to “recruit, prepare, mentor and differentially reward select mathematics teachers in high need schools” in counties that were original plaintiffs in the *Leandro* case. In a pilot program, the university proposed to pay certain secondary mathematics teachers higher salaries than they would receive on the regular salary schedule to help close the gap between teacher pay and the pay mathematics graduates can usually command in other jobs. The university also said it planned to “further explore and study market differentials for public school teacher’s salaries in high need licensure areas and how such a market rate might be applied and justified.”¹⁵

Two of our study districts had recently launched teacher incentive programs that aimed to provide pay bonuses linked to student achievement measures. These plans focused on high-poverty or low-performing schools and were part of broader incentive programs aimed at recruiting and retaining high-quality staff in these schools.

New Approaches to Decisionmaking: Management and Governance Changes

Data-driven decisionmaking. District and school personnel in our study districts in North Carolina indicated a strong awareness of data and claimed that it was an important part of their decision-making processes. For the most part, the evidence offered in interviews seemed to support this, with one exception. In one low-performing, rural district (one that our analyses suggested was performing below levels that would be predicted by its demographics), school personnel claimed that all their decisions were guided by data (one principal said “our feedback on the ABCs is the engine in the car”). Nevertheless, when we probed about specific decisions it appeared that they were often made on the basis of past practices and principal opinions rather than data use. Data use seemed stronger at the district level, but even there it was uneven. The finance officer noted that school and district personnel were supposed to also be using a data-driven approach to spending money, in order to link strategies to specified objectives.

¹⁵ Information on the University of North Carolina’s 2006-07 budget request, as supplemented on April 11, 2006, was obtained from the University’s website at http://intranet.northcarolina.edu/docs/finance/reports/2006-07Supp_Request.pdf.

The trick comes down to—it's hard for school people to do that, is what I've seen. It's easy to say that, and that sounds real good when it blows out of your mouth, but the devil is in the details. You end up really working hard on trying to help people just understand how to join all that together. And it's not an exact science and it's not perfect, but the main thing that I see myself doing is to keep harping on the fact that you don't need to spend money to spend money, but you need to have it based on something; it needs to be connected to your goals and your strategies that you have. And some do better than others.

This individual also noted that the state-provided template for school improvement plans omitted any mention of the dollars needed to achieve specific goals or pursue specific strategies. He added this to the form his district used, trying to encourage staff to make the connection between the amount of resources needed and where they will be found.

Evidence of data-driven decisionmaking appeared stronger in our other three study districts. One was among the “first wave” of districts to adopt the NC Wise (Window of Information on Student Education) system that is currently replacing a 20-year old student information system. This district, traditionally a high-performing one, appeared to have spread the doctrine of data use throughout the system in ways that were reflected in both school-level and district-level interviews. It had adopted a “continuous improvement” approach to reform, which emphasized data use, and had conducted student, staff, and parent surveys to supplement information on student achievement with data on school climate and resources available within schools to create a more complete picture of the educational environment within which each student was expected to learn.

The district cited earlier as having a strategic approach to professional development included a focus on data use in this effort. The emphasis began with academic officers at the top; one said, “If you haven't noticed, I walked in with all my data in front of me. Data is really what we are all about: looking at results and outcomes.” A key task given to the Instructional Improvement Officers that the district assigned to work with principals was to help schools analyze student data and develop data-based improvement plans and strategies as well as to access research and information on best practices. In this district, as well as the largest of the study districts, growing emphasis on data use accompanied the adoption of Balanced Scorecards, a management innovation first developed by two business school professors that has been adapted for use in educational settings.

More strategic, coherent decisionmaking. The Balanced Scorecard approach used in two of our study districts reflected efforts intended to orient the governance and management of these districts toward coherent, strategic decisionmaking aimed at accomplishing clearly-stated district goals and objectives. In one district, though, the scorecard was virtually never mentioned in our interviews (though the district appears strategic and data-driven in its decisionmaking). In the other, it was pervasive in conversations at the district level, though not yet with school-based personnel.

In the latter district, adoption of the scorecard represented “a deliberate effort to change the process, in fact to change the culture of the district” in response to pressure to improve student performance. The scorecard required each district department to articulate its goals in terms of supporting student achievement and defined (for each goal) objectives, measures, targets, and the responsible official. It also included a score summarizing the progress in meeting each goal. The

scorecard supported the development of strategic plans (called charters) for major annual initiatives and also informed school improvement plans. A Project Management Oversight Committee was created to support alignment between activities and the scorecard by reviewing performance data and project charter deliverables. Rapid Support Teams were sent in to help schools that were falling seriously behind their targets.

This district reported taking a number of other steps to change the culture of the district to emphasize more efficient and effective management of its resources. The district got help from major corporations in the area in devising their new management approach and sent some of their staff through one of the corporation's training "university." Department heads were called "fund owners" (a term adopted from their accounting system) to emphasize the responsibility of the owner for his or her budget. The district had adopted a "sunset clause" that required programs and services to be reviewed on a three-year cycle and a determination made about whether to reduce, eliminate, or expand them. At the school level, where the state has since 1989 required campus improvement plans, administrators were being required to model their plans after the Balanced Scorecard to improve their understanding of the scorecard and its goals and to tighten the linkage between what occurs at the school level and district objectives.

A different sort of governance change occurred in a district that a few years ago sued its County Commission for failing to provide sufficient funds to provide basic educational services for all students. Rather than pursue their differences in court, however, the two sides agreed to changes in the kind of information provided by the district so that the Commission could more readily see the spending decisions and projections the district was using. The district developed a long-range budget forecasting model with cost projections aimed at improving the ability of both groups to do long-range planning. The district also developed a large color-coded spreadsheet that lays out all the allocations and allotments for each school. The willingness of the district to be more transparent had helped alleviate mistrust about school spending among County Commissioners and had also reduced special pleading by board members on behalf of schools in their voting district.

District personnel in North Carolina, mirroring a discussion that has been taking place at the state level since the late 1980s, frequently mentioned "school-(or site-)based management" as a way in which they were attempting to better align accountability and authority and give school-level officials more control over decisions about resource allocation. Unlike efforts to devolve significant budgetary responsibility to school-level personnel in districts such as Houston and Seattle and their spiritual ancestor, Edmonton, Canada (Ouchi 2006), what went by the name of "school-based management" in North Carolina appeared to us to be much more limited in scope. These initiatives were constrained primarily by the relatively small share of school spending that came from local sources and was under the control of local officials. This is not to denigrate what school-level personnel in several districts perceived as sincere and meaningful efforts on the part of district leaders to give them more discretion in using position allotments and some funds but only to point out that the rhetoric about the attention given to school-based management is belied by the reality on the ground. One reason why the term was in such widespread use might have been that the formal name of the ABCs program in the state statutes is the "School-Based Accountability and Management Program."¹⁶

¹⁶North Carolina General Statutes, Chapter 115C, Article 8B.

Enablers

As the foregoing shows, we heard in our interviews about many ways in which districts said they had adjusted the ways they made resource allocation decisions and the kinds of decisions they made in response to heightened performance expectations. We also sought to learn about the specific factors that school district personnel believed contributed to their efforts to make the connection between resource allocation decisions and their educational goals. The responses we received to our question about enablers were limited and frequently unique to the individual district.

The main enablers cited by district interviewees were supportive and flexible arrangements. Several longtimers remembered the days when the state had many more categorical funding programs than it currently does, and they were appreciative of the greater discretion they now had. Several also mentioned the sharp drop in staffing levels at the Department of Public Instruction and commented that this has limited the state's ability to "manage everything." One superintendent reported that it used to be harder to get state waivers than it is now and that districts had been demanding more flexibility from the state. The superintendent of the traditionally high-performing district supported such flexibility and passed it on by giving school-level improvement teams the freedom to make decisions about how to use their position allotments without his permission. He encouraged innovation with the attitude that "if you can be successful by dancing the Texas two-step on top of your desk, then get started."

Two principals in different districts reported that their efforts to use resources effectively were enhanced by the fact that they started their schools and therefore had an unusually high degree of influence on the selection of teachers. This in turn has enabled them to implement programs (such as before- and after-school student tutoring) that teachers already established in a school might have resisted. Some principals mentioned district efforts to focus funding on high-need schools and students as important in supporting their effort to raise performance among low achievers. In one district principals were appreciative of the professional development and other support provided to teachers to help them improve and grateful for the effectiveness of the district human resources department in counseling poorly-performing teachers into alternative careers.

In one small, rural study district, several interviewees mentioned as an enabler the ease with which school leaders could sit down and talk with district-level administrators. One said that the intimate scale of the district was one reason people wanted to work there despite comparatively low salaries; if individuals just cared about money, they could make more in a nearby county.

"*Leandro* money" (that is, money from the Disadvantaged Student Supplemental Fund) was cited as an enabler in the one study district that received it. This district, which is rural and has had a hard time attracting teachers, was using its money for hiring and rehiring bonuses as well as for other bonuses and supplements that helped them be more competitive with surrounding counties.

Data on student performance provided by the state through the ABCs program also enabled district and school personnel to make more intentional decisions about resource use. Local officials have been hoping for even more information as the state transitions from an out-dated, DOS-based Student Information System to NCWise, an internet-based system that is supposed to combine student and school information systems and capture data about students throughout their public school careers. NCWise, for which planning began in 1998, has been plagued by

implementation problems, which have slowed the planned roll-out to all districts in the state and disappointed some of the users in the pilot districts. Even they, however, acknowledged that the new system was an improvement over the antiquated system it will replace.

Constraints

Reflecting the centralized funding and decisionmaking that characterize North Carolina education, district- and school-level officials cited many examples of constraints that they believed limited their ability to use resources most effectively to improve student achievement. These included the perceived tendency for the state to “interfere” by constraining local decisionmaking, strings on the use of resources (federal as well as state), the legacy of centralization that contributed to a culture of “rule following” rather than innovation, and a governance structure (i.e., the reliance for local funding on county commissions) that added an extra layer to the politics of decisionmaking. Limited funding was mentioned as a constraint but was not a strong theme among interviewees.

State Interference

Local administrators cited many examples of what they viewed as a tradition of unhelpful, unpredictable state interference that constrained local decisionmaking.

At the time of our interviews (mid-2005), a major complaint in every district was a decision made by the 2004 legislature affecting the school-year calendar. Beginning in 2005-2006, public schools cannot open before August 25 (many had moved to earlier start dates) and must end by June 10. Eighty-two of the state’s 115 districts formally opposed the change (Martinez 2004) but tourism interests (supported by the state education association) favored it. Students will have the same number of days of instruction (180), but teacher work days were reduced from 20 to 15 with no loss in pay. Many district officials and principals bemoaned the loss of teacher work days and the opportunity for professional development they provided. (One noted that teachers originally fought hard to get the extra paid days for professional development and other non-instructional activities and commented on the irony in their state association’s supporting the calendar change now.) District officials noted that the state also gave teachers 10 vacation days, which teachers generally took on work days (since they could not take them on days when students were present), so fewer days would be available for activities requiring the presence of all teachers in a grade, subject, or school. Administrators also expressed concern about whether teachers would actually continue to work into June since state law also required that teachers be paid on a ten-month basis beginning with a full month of pay for August, so teachers would have effectively received all their annual pay by the end of May even if school continued into June.

Interviewees cited numerous other instances of state officials controlling district and school resource allocation decisions. Some of this was connected to the position allotment system. In making annual budget decisions, the General Assembly has an annual opportunity to impose specific position requirements on districts. For example, the legislature has tacked back and forth on classroom teaching aides, in terms of whether they are allowed or required and in what numbers at what grade levels. As noted earlier, state law required school boards to distribute 75 percent of funding in the staff development allotment fund directly to schools, whether or not district officials thought the schools were using the funds wisely. The state sometimes imposed costs without funding them: one district noted that it had to pay \$145 per person to send teachers

to a “math inquiry” program; another pointed to the local costs involved in implementing NCWise.

Local educators objected to state interference in part because new mandates and changes to allotment formulas that affected district spending often came late and complicated districts’ ability to plan rationally. Interviewees frequently complained about late state budgets, a special concern when so much of public education funding comes from the state. Even in years when the General Assembly met its July 1 deadline for approving the state budget, districts were still put in the position of asking for county funding in May before they knew what their state funding would be. And in recent years the legislature has had a poor record of producing on-time budgets. In 2006 the budget was wrapped up and signed by July 10, but the 2004 and 2005 budgets were enacted in late July or August, and the 2001 and 2002 budgets were not approved until the end of September (causing school officials to remember not getting notification of their state funding until October or November). Since many of these budget years involved lean funding and cutbacks in dollars from the state, late notification felt particularly disruptive at the district level, notably when it delayed decisions about teacher hiring until late summer or even after school had already started.

A recent example of the kind of state-imposed budget “shock” that could upset local administrators occurred in October 2005, when Governor Mike Easley unexpectedly announced a plan to bring teacher salaries to the national average within four years, beginning with increases to be included in November paychecks. While money was to be provided from the state to support the increase for teachers paid from state funds, no mention was made about helping districts, whose annual budgets were already set, find the funds to match the increase for teachers paid from local funds. For a week districts “believed they had been put in a midyear fiscal quandary” (Binker and Fernandez 2005), until state officials announced that they would cover the additional costs for locally-paid teachers for the first year, giving districts time to plan for the additional costs in the out-years.

Strings on the Use of Resources

Many district- and school-level administrators complained about the strings that tied their hands in using resources they were given, although the specific concerns varied from district to district and person to person. District, state, and federal rules all came in for criticism.

The position-allotment method of providing most state funding, accompanied by class size restrictions and categorical funding for special programs, set the basic parameters for staffing arrangements. One district academic officer observed that the targeted nature of so much of state funding

...doesn't allow us to be creative in terms of looking at other solutions. We're in an environment now where we have to think way out of the box and look at things very, very differently [to meet our performance goals]....[For example,] we would like to be able to be real creative, moving around staffing and class sizes so that we can ensure that children who need the most are in very small class sizes.

The rules allowed some opportunities for tradeoffs, although the willingness and ability to use this flexibility often differed among individuals, even in districts that encouraged principal initiative. Experienced principals claimed to have figured out how to use their resources

creatively, while their less-experienced counterparts were viewed as not knowing how to do this and/or as being kept on a tighter leash by the central office. Said one principal:

There's a two-tier system. There are some people who are hung up by the district obstacles and those who've figured out how to make the system work for them.

And some rules could not be bent or circumvented, at least legally. Table 4 indicates that, while districts had some flexibility to diverge from the class sizes that determined state position allotments, they were still subject to overall limits on average class sizes district-wide. Table 4 also lists a number of categories of funding that could not be adjusted at the district level. Sometimes administrators were prohibited from making tradeoffs that they felt would benefit their schools, such as trading off an instructional position for an assistant principal or a dropout prevention counselor. In schools where improving student behavior or keeping kids in schools were seen as essential precursors to improving academic achievement, for example, such prohibitions were perceived as standing in the way of the ultimate goal. One principal cited several tradeoffs she would have liked to make but currently could not, such as a computer lab assistant instead of an extra half-time librarian and a lead physical education teacher with two assistants instead of three fully-certified PE teachers. Another principal reported going around the rules to put a teacher where she was most needed but not consulting with the school leadership team so that the group could not be held accountable for this decision. One district financial officer with experience outside education described it as “bizarre” to restrict spending for schools as tightly as North Carolina did to particular pots of nontransferable money. As an example, this officer cited making decisions about whether to buy or lease copiers based on what pot had money in it, not what financing arrangement was most cost-effective.

Restrictions on how federal money could be spent were also often cited as constraints by school-level personnel. Said one principal:

Title I money helps, but the hoops that we jump through are outrageous. I understand people abuse situations, but they are making life hard for those of us trying to make the best decision for our students.

Another gave an example of “busy work” that accompanied Title I funding: he had to change the name of an English/writing class to include “reading” so he could buy some books to improve reading skills.

If you give me money and then I have to write a dissertation almost as to why I'm going to spend it on these particular kids...you may be less likely to want to spend it in a way that you feel is in the best interest of kids. Just give me the money; hold me accountable; and if it's legal what I'm doing, let me do it.

Another principal reported that she was glad to have had Title I funding but found the restrictions onerous and was looking forward to getting about the same money from a district equity funding program when she lost the federal money. She expected to have much more autonomy spending the local funds. Other principals complained about rules requiring that they spend federal money on specific things, such as professional development, even when they felt they could not use all the available money effectively (e.g., when limited work days would have required using the money during instructional days and pulling teachers out of classes to receive the training). Many principals complained about the paperwork accompanying Title I and special

education funding. We also encountered principals who chose not to apply for federal money because of the strings involved.

A Culture of Rule-Following

Strings on funding did appear to restrict local initiative, but often state policymakers argued that there was actually a great deal of flexibility in state funding and that district and school officials were not fully taking advantage of it. It was our impression that North Carolina's history of highly-centralized decisionmaking, along with a continuing tendency of state officials to make extensive and specific rules about education, had created a culture of rule-following in some places that was sometimes difficult to overcome. Federal practices could exacerbate this situation.

Sometimes this culture was expressed explicitly. One principal thought that it was a good thing that her funding was so precisely prescribed by line item; otherwise she might spend money on the "wrong thing." A principal in another district described himself as a "rule follower" who saw other people "navigate around the rules" but who did not do this himself because he did not think it appropriate. More generally, it was our impression that district and school leaders had to be willing to be "mavericks" (in the words of one superintendent) to be innovative, rather than operating in a climate where local initiative was expected and rewarded.

Sometimes even exercising the discretion that the state allowed could appear as "gaming the system" in a way that engendered public distrust and created political problems in exercising local discretion. For example, it was completely legal and rational for districts to juggle the way they accounted for staff during the year to assign the most expensive individuals to state-funded positions since the state paid the full salary (according to the state salary schedule) for these people. But, as one financial officer described it, the shifting around they did to maximize state dollars was confusing to outsiders and led to misunderstanding and distrust because people did not understand why the changes were being made. In this particular district, suspicion over the district's motives in shifting teachers among accounting categories was one of the factors that led administrators into a serious political controversy with their county commission at one point.

Likewise, the fear of running afoul of auditors could cause individuals to adhere more tightly to rules than they might otherwise have wished to. The superintendent of one district reported:

We have people who are just afraid to death over how we spend Title I dollars....They are afraid we are going to get audited and then all of a sudden somebody from Washington is going to say you've got to pay half a million dollars back and everybody's going to get fired....So we err on the cautious side when it comes to Title I dollars. We're constantly calling the state and saying, "Can we spend Title I monies like this?" And it's not enough any more for people to say, yes, and you to document, well, I talked to Sherry on this date and she said I could do this. We want it in writing. We want it e-mailed, or we want it in writing. We're that frightened over compliance issues.

Several state agency officials that we interviewed acknowledged that the way state funds were allocated and accounted for contributed to a mindset that how districts received state money is how they had to use it. The chart of accounts that the state required districts to use was tied to allotment categories, which encouraged local administrators to think in "set silos." Staff at the

Department of Public Instruction said DPI intends to change the chart of accounts in 2007 in hopes of helping to break down this mindset.

Governance

North Carolina's reliance on local county commissions for local funding, rather than giving local school boards independent taxing authority, added another layer of decisionmakers to an already multilayered education system. In the two larger of our study districts, the reliance on the county commission for funding came up as a constraint in our district interviews. In one district, as noted earlier, relationships between the school board and the county commission became so bad that the two almost ended up in court over the adequacy of local funding before new information and consultation arrangements were put into place to improve communication and trust. In the other, relations still appeared testy. One district school board member said:

We are not in control of our own destiny. We must beg and borrow and steal and whine and cry and flirt with the County Commission....In the best of all worlds I think the School Board needs taxing authority....I think it would make us a more responsible body in that we are the people that are spending the peoples' money. We need to go ask for it instead of begging other politicians for it.

Another district administrator said:

We have more trouble at the local level than we do the state level, you know, in terms of getting adequate resources. Because there's a dogfight every year. When we're trying to plan and develop new programs that we believe would be beneficial to the kids, and if it increases the cost, well, we have to go to the County Commission and fight and scrap and claw for every penny we get. [When we don't get what we ask the county for] something has to go. Either we have to sunset some programs that we believe are no longer effective, we have to take off the books some programs that we can no longer afford, or we have to throw away the new programs and initiatives.

As this administrator acknowledged, sometimes this process had the constructive result of encouraging the district to end ineffective programs, but the larger point was that another body, not the local school board or administration, could ultimately determine whether worthy programs were continued and whether new programs and initiatives were implemented or not.

Other constraints

The inadequacy of funding was sometimes raised by local interviewees, but it was not a strong theme in North Carolina. It was felt as a particular problem in the poorest of our study districts (a district that qualified for funding under the Disadvantaged Student Supplemental Fund). In study districts struggling to avoid resegregation and/or attempting to focus resources on needy students, affluent parents were cited as roadblocks to change. In one instance, parents opposed to a district plan to reassign high school students as part of a federally-funded reform effort protested to the U.S. Department of Education and asked that the federal grant be denied. In a few instances, limited knowledge of best practices was cited as a barrier to more effect use of resources.

Summary

This section presents the results of interviews with district and school personnel about how they made resource allocation decisions and how these decisions were being affected by performance pressures. It also discusses local officials' perspectives on their ability to deploy resources as they wished and on the factors that enabled and constrained them from linking resources to their student performance objectives.

According to the self-reports of district and school personnel, much about resource allocation decisions and decisionmaking had changed in response to heightened performance expectations. Interviewees did not often mention the state's accountability system as a specific spur to improving performance, although the system provided school-based financial incentives.

In our interviews, we were provided many examples of districts working to build teacher capacity and using data to drive decisions about where to focus resources. We heard about some efforts to use resources in new ways, such as by directing additional funding to high-need schools and by providing financial incentives to attract and retain teachers and reward performance. The presence and intensity of these changes, however, varied among the study districts and did not involve fundamental changes in (rather than add-ons to) traditional resource allocation mechanisms.

Local decisionmakers felt constrained by the many state restrictions (as well as federal requirements) on how education dollars could be spent, although we were told of occasions when a new, strong superintendent or a perceived crisis appeared to jumpstart local discussions about more strategic investments and about the accompany changes (e.g., in district governance) needed to support them. Concern about state-imposed restrictions on resource allocation persisted despite the legislature's decision a decade ago to reduce the number of categorical programs. Although state policymakers argued that districts had more flexibility in spending state funds than they realized, local officials were accustomed to following state rules and found it hard to overcome the legacy of strong state control. Local officials complained that the frequency with which the legislature made late state budget decisions hampered effective district decisionmaking. Local officials also had to accommodate the wishes of county commissioners, since the former depended on the latter for tax revenue. District officials perceived these constraints on their freedom to make resource allocations decisions, rather than the level of funds available, as the major problem with the school finance system

State-Level Perspectives on the School Finance System

We interviewed state-level officials to obtain their views on the issues and concerns influencing state school finance policymaking in North Carolina and to gain insight into how pressures to improve student performance might be affecting their finance decisions.

Legacy of the *Leandro* Case

As noted in the section entitled *State Context for Current Policymaking*, since 1994 school finance debates in North Carolina had taken place in the shadow of the *Leandro* lawsuit, upon which the state Supreme Court ruled in July 2004. The broad rather than specific nature of the *Leandro* findings and the way the trial court judge oversaw compliance had spurred the state to

take a number of actions aimed at improving high school education but had left the structure of the school finance system and the patterns of resource allocation in the state fundamentally unchanged.

As the state Supreme Court noted in its July 2004 decision:¹⁷

[The Leandro] litigation started primarily as a challenge to the educational funding mechanism imposed by the General Assembly that resulted in disparate funding outlays among low wealth counties and their more affluent counterparts. With the Leandro decision, however, the thrust of this litigation turned from a funding issue to one requiring the analysis of the qualitative educational services provided to the respective plaintiffs and plaintiff-intervenors.

Superior Court Judge Howard E. Manning, to whom the case was remanded, at first seemed to focus on both funding issues and school-improvement efforts. After the 2004 General Assembly adjourned without appropriating \$22 million for the newly proposed Disadvantaged Student Supplemental Fund, for example, he called a hearing to explore this failure. At the hearing the state reported that Governor Easley had found \$12 million for DSSF, and several months later the governor provided another \$10 million. But fairly quickly the judge began to focus on high schools. He obtained data from the Department of Public Instruction on the composite test scores of all the schools in the state. In a November 10, 2004¹⁸ letter, he pointed out that elementary and middle schools were performing comparatively well but that serious problems were evident in high school performance. On March 7, 2005, he held hearings to address the problem of low composite test scores in high schools, focusing on problems in the Charlotte-Mecklenburg School (CMS) district. On May 24, 2005 he issued the “Report from the Court: The High School Problem,” in which he declared:

The most appropriate way for the Court to describe what is going on at CMS’s bottom “8” high schools is academic genocide [emphasis in original] for the at-risk, low income children (North Carolina, Superior Court Division 2005, 23).

Judge Manning scheduled an August 9, 2005 hearing at which he wanted a report from the state on what action it was taking to provide the 44 low-performing schools with “substantive, effective and academically proven measures to be in place at the start of the 2005-2006 school year” (Manning 2006, 4). Governor Easley announced that the State Board of Education would be sending in “turnaround teams” for these schools (North Carolina, Office of the Governor 2005).

Subsequently the judge asked the Department of Public Instruction for more information about the lowest performing high schools, this time focusing on their cost. He learned (Manning 2006) that for 2004-2005 the cost of the 44 lowest performing high schools was \$268 million for slightly over 44,000 children. He then asked for data on the top 44 performing high schools and was told that they had cost \$254 million for 47,500+ children. In a March 5, 2006 letter to the State Superintendent and Board Chairman, he emphasized more strongly than before that money was not the key problem facing North Carolina’s low-performing schools:

¹⁷Online at <http://www.aoc.state.nc.us/www/public/sc/opinions/2004/530-02-1.htm>.

¹⁸The letter (Manning 2004) was sent to counsel for the state and the plaintiffs, with copies to the chairman of the State Board of Education, the State Superintendent of Public Instruction, the governor, and leaders of the General Assembly.

[I]t is obvious that “money” is not the answer to the disparity [in performance] ...I have come to the conclusion that the major problem with these schools lies within the category of school leadership [emphasis in original], not money (Manning 2006, 6-7).

He expressed frustration about how little had been done to address the problems he had been highlighting for so many years (Silberman (2006), for example, reported that only 10 of the 44 schools promised the turnaround teams the previous summer had received help):

Despite having full notice of the low performance in high schools well prior to the fall of 2004, no one appeared to be much paying attention to the constitutional requirements of Leandro regarding the minimum assets required in each school and classroom, especially in continually low performing high schools (Manning 2006, 4).

Superintendents and principals have run out of room and out of time. The State is clearly and ultimately legally responsible for these high schools and all other schools....This letter is to put you on notice that in the event the 2005-06 ABC performance composite for any of the 44 priority high schools is at 55%, or below, then and in such an event that high school will not be allowed to open in the fall of 2006 unless there is (a) new management in place approved by the State Board of Education, and (b) a valid plan underway, approved by the State Board of Education, to redesign the high school with an instructional design for a 21st Century High School and a staff committee to implementing that change (Manning 2006, 16-17).

The state sent in assistance teams over the next 3 months to the 34 priority schools that had not yet been visited. On June 13 Governor Easley announced (North Carolina, Office of the Governor 2006) that all 44 priority schools had been required to develop detailed improvement plans with their assistance teams and that any school that had a composite score of lower than 60 percent proficient on its 2005-2006 end-of-grade tests would be required either to implement a “research-based high school restructuring model” or to be reconstituted and resigned through the New Schools Project.

As this chronicle indicates, the *Leandro* case and the continuing involvement of Judge Manning influenced how North Carolina made resource allocation decisions. Governor Easley, who as attorney general during the 1990s defended the state in its ultimately losing arguments, said in 2005:

I think having the case is good for the state, because it keeps that stick out there for measuring purpose and for prodding purposes to keep the state focused on what does it take to be sound and basic....[w]e use Leandro whenever we can to nudge things forward in other branches of government. And the more the court demands, the more I can do by executive order, and the more progress we can make (Rice 2005).

Despite this assertion, however, neither he nor the legislature had appeared to move any faster than the judge had pushed them, as the response to the judge’s prodding on high schools indicates. Some interviewees reported that the governor was not inclined to let a judge tell him how to run the schools. To the extent that some of the original concerns of plaintiff districts in

Leandro did have to do with perceived inequity and inadequacy in funding for public schools, little has changed in North Carolina. As indicated above, the legislature initially balked at funding the DSSF at all and did not give DSSF funding a high priority in the 2006 budget. The low-wealth county fund grew somewhat, and the state put some funds into the high school initiatives described early in this paper. But all these efforts amounted to just a fraction of the state funding that goes to North Carolina schools, the vast majority of which continued to be allotted to districts with no special consideration of their wealth or student needs.

As one state-level interviewee told us in an interview that preceded Judge Manning's March 2006 ultimatum on the low-performing high schools:

The Leandro suit is looming over everything, but...since the judge has yet to be prescriptive about solutions, it's there, but it's not leading to the kinds of responses one might expect.

Another described the judge's focus on high schools as an unfortunate "side show." Yet another said:

The state has not really until now taken the court cases seriously....North Carolina has always had the attitude that we're doing okay, that we'll get through this, and we won't have to step up to the plate. Well, obviously, it's turned out not to be that simple. And Governor Easley happened to be in office when the chickens came home to roost, and so he found himself having to do what the legislature had not planned to do or didn't want to do or just simply didn't do....Judge Manning is like a bull in a china shop....He knows just enough to be a bully....Probably you need a bully to get the legislature's attention, and I think he's gotten the legislature's attention, certainly the governor's attention....but he's also had a change of insight. A year ago...he was saying, "You're not putting enough money in these low-wealth schools....Now he's saying "Wait a minute. I've been heading down the wrong path. I've got to back up and take another look at what's really driving this."

A legislative staff member said: "There's a lot of push/shove going on, but there's not a whole lot of definition of what needs to be done, what needs to be different."

One of consequences of *Leandro* appeared to be to a loss of some of the flexibility and local control that the mid-1990s ABCs reform promised to districts. State-level interviewees agreed with the perception we heard in districts and schools that the state was moving away from local control to more prescriptiveness. While not wholly to blame, the court case spawned remedies and attitudes that encouraged state control. To receive DSSF funding, for example, counties had to prepare plans for state approval that complied with state guidelines for appropriate uses of the money. The court's strong emphasis on the fact that the state had the responsibility to ensure that all students have the opportunity for a sound basic education was echoed in the words of a senior state policymaker:

The court has been very clear about this. The state has some authority to ensure that the dollars it is spending are being used well. And an accountability program that says, "here's your target, get to it however you can," isn't enough; and the state has to have some role. This is where we're beginning to take that role.

Economic and Political Conditions Favored the “Status Quo”

While the broad nature of the mandates in *Leandro* provided part of the explanation for a “status quo” orientation of North Carolina policymakers toward their school finance system, economic and political conditions of recent years were also part of the story.

As noted previously in this report, state policymakers faced serious fiscal problems beginning in 1999. Until recently, just keeping funding for schools stable was a challenge. Current services (including the dollars needed to reflect enrollment growth) ate up what revenue was available, leaving little room for financing new initiatives or expanding older programs. The 2006 “short session” of the General Assembly marked the first time in many years that legislators faced the happy prospect of budgeting “surplus” funds (funds exceeding the amount needed to maintain current services).

Even given these constraints, however, we observed little evidence of any strong political will to make any significant changes in how North Carolina funds its schools. The major state education initiatives of the last few years involved further class size reduction (following on reductions enacted in the 1990s), the “More at Four” prekindergarten program, and high school reform. North Carolina had been for many years been engaged in reducing class sizes, an expensive and politically popular reform. The recent reductions appeared to have been pursued without much discussion about whether further reducing class sizes was the most cost-effective way to use available resources, especially in tight fiscal times. The “More at Four” program was undertaken after Judge Manning, in a 2000 ruling, declared that prekindergarten had to be provided to at-risk children (this ruling was overturned by the Supreme Court in 2004). The program grew annually since its 2001 beginning but still only enrolled about 10 percent of the state’s 4-year-olds in 2005 (National Institute for Early Education Research 2006). Finally, the high school reforms were widely touted in the state, but much of the money for them had been provided by the Bill & Melinda Gates Foundation. The incremental state investment in high school reform was a tiny part of the state budget for public schools.

Thanks to the 2006 budget surplus, public schools were projected to gain almost 10 percent in additional state funding for 2006-2007, but much of it will go to fund across-the-board salary increases for staff via the state salary schedule, with teachers averaging an 8 percent increase and other increases ranging from 5.5 to 7 percent for principals and other administrators. Only \$515,000 in new funding was allocated for teacher pay outside the salary schedule, in this case for a pilot program providing \$15,000 supplements to 10 new math and science teachers in each of three school districts (Public School Forum of North Carolina 2006).

Various political factors contributed to policymaking on the margin rather than at the core of the school finance system. Several interviewees commented on the teacher salary concerns that drove actions like the recent pay raise for all teachers, noting that such actions failed to address the labor market realities that result in shortages in specific fields like special education, mathematics, and science. Although, as noted earlier, districts were beginning to respond to these pressures with various kinds of bonuses and incentives, interviewees indicated little interest among state-policymakers. One noted that the state teacher association was adamantly opposed to differentiated pay and said: “Teachers are the last communists around.... Legislators won’t go near [differentiated pay] because they know it is radioactive.” This same individual noted that the existence of a state salary schedule (as opposed to locally-bargained salaries) for teachers pushed the politics of teacher pay to the state level. The state teacher association seemed to be

more powerful in the capital than were teacher groups at the local level, and “state-level negotiations” over teacher pay favored the existing system.

More generally, we were told that the ability of Democrats to remain in control of state government had been enhanced by their restrained approach to new initiatives, especially costly ones. One interviewee said:

You're looking at a state that ought to be governed by Republicans that continues to be governed by Democrats because of a majority that has made enough steps on revenue and taxes to keep educational services strong, health care services strong, economic development activity going, but not enough to kind of push the conversation politically over the edge where the real anti-tax vote can kind of take over.

This theme was echoed in the comments of the head of North Carolina's John Locke Foundation, who was quoted in the press comparing the record of the current governor, Michael Easley, with that of his predecessor James Hunt, whose efforts on behalf of public education in the state have been widely praised:

Hunt got enacted public policies changing how the state educated kids, did its business, hired people. His programs involved expenditures in the billions. Mike Easley has gotten legislative enactment of things that are modest by comparison (Johnson 2006).

The journalist who reported this quote went on to observe:

Easley's thrift wasn't optional. A recession and dip in state revenues prevented him from proposing programs with price tags like those of his predecessor, legislators say (Johnson 2006).

Even among those who said they would like to see change, however, we heard few expressions of discontent with the basic structure of North Carolina's school finance system. This was true despite the fact that the position-allotment system worked to the disadvantage of the poor, low-performing counties in the eastern part of the state, who had trouble attracting and keeping teachers and therefore found their initial disadvantage being worsened by receiving comparatively low state reimbursement for their relatively inexperienced teachers. (By contrast, the low-wealth counties in the western mountains tended to be higher performing and to have experienced teachers who wanted to stay in these areas; as a result they did comparatively well under the position allotment approach.) But, as one interviewee said, the position allotment system “is so much a part of the fiber of the state” that it is not questioned.

Instead, state-level discussions about resource allocation centered on the Low-Wealth Supplemental Fund, the newer DSSF, and the “discretionary reductions” the state had imposed on districts since 2003. The DSSF (when fully implemented) was supposed to target at-risk students in whatever district they reside, and local plans for spending DSSF funds had to be approved by the state. Thus the fund seemed more directly responsive to the mandates of *Leandro* than the Low-Wealth Fund that was tied to local wealth but not to education performance or the presence of at-risk students. Nevertheless, the two funds had effectively been competing against each other for additional dollars. One interviewee opined that that the long-time failure of the legislature to fully fund the program for low-wealth counties was creating a “logjam” that was getting in the way of properly addressing the DSSF and targeted assistance.

This logjam may have been broken with the 2006 legislature's approval of full funding for the low-wealth counties (raising the fund to \$175 million). An additional \$27 million was also provided for the DSSF (for a total of \$49.5 for 2006-2007). The adequacy of this amount to address the needs of at-risk students was unclear since the funding for the program had always been determined on political rather than empirical grounds. In their May 2006 letter to Judge Manning withdrawing from the *Leandro* suit, the urban plaintiff-intervener districts said:

In the fall of 2005, the State promised this Court that by February of 2006, DPI would determine the amount of DSSF funding necessary to address the needs of every at-risk child in the state. Today, in May of 2006, DPI has failed to make that determination and the State Board of Education apparently has delayed any such determination for at least another year. The General Assembly and the Governor have likewise failed to adequately budget and appropriate funds for the DSSF. It appears doubtful that DSSF funding will be provided to at-risk students in any of the urban districts anytime soon (Logan et al. 2006).

In fact, the additional DSSF dollars appropriated for 2006-07¹⁹ would expand the program to all 115 school districts in the state. However, the 16 pilot districts were guaranteed to receive no less than they did in 2005-06 (when the appropriation was \$22.5 million), suggesting that at-risk students in the remaining districts would be less generously funded for the time being.

While eliminating the “discretionary reductions” (at a cost of \$44 million), the 2006 budget did not entirely end the shell game that has made North Carolina funding of public education less than transparent in recent years. The \$113 million in new resources schools might otherwise have expected from additions to the Low-Wealth fund and the DSSF and elimination of “discretionary reductions” were offset by a \$33 million loss related to the sales taxes they pay. A new budget provision disqualified public schools and community colleges (but not other agencies of state, county, or local government) from sales tax exemptions or refunds, which they previously had received.

The 2006 budget also continued the tradition of appropriating state dollars for specific education initiatives, regardless of whether they corresponded to local priorities. In 2006-07, for example, \$4.8 million was provided to fund literacy coaches at 100 schools that had an eighth grade.

The budget further continued the tradition of keeping a tight rein on staffing at the Department of Public Instruction. Despite the pressure from Judge Manning for the state to assist low-performing schools in their improvement efforts, just one new position for this activity (a director of high school turnaround at an annual cost of \$122,350) appeared in the budget. While some state-level policymakers we talked to questioned the value of DPI staff (one legislator said they “cover up” spending and did not provide information to justify what they are doing), others asserted that the vastly diminished staff at the agency compared to a decade ago means DPI lacked the capacity to address the new demands to turn around low-performing schools. A senior executive branch official noted the absence of any strategic discussion of the functions that the state needed to perform on behalf of these schools and where such functions should be located (i.e., at DPI itself, in regional offices, or in one or another of the various education service agencies that have state funding but operate outside the department). Others commented that the

¹⁹ This and other details of the 2006-07 budget can be found in the budget act online at <http://www.ncleg.net/Sessions/2005/Bills/Senate/PDF/S1741v8.pdf>.

growth of these service agencies has had a “splintering effect,” which has been compounded by gubernatorial decisions moving programs from DPI to his office or setting up new programs outside of DPI. One interviewee suggested that this splintering discourages coordinated efforts that might result in more efficient use of existing resources. It might also diminish DPI’s effectiveness over the long run if the department is eventually expected to manage initiatives that initially were housed elsewhere.

A final point about the political climate influencing school finance decisions in North Carolina relates to the business community. Especially during the reform era led by Governor James Hunt, business leaders were important voices for change (Grissmer and Flanagan 1998). Partially this reflected the individuals in leadership positions at the time; partially it reflected conscious efforts on the part of the governor actively to engage with very senior officers of major companies. Several interviewees commented on how under Governor Easley some of the structures supporting business involvement had withered, at the same time that business leaders were becoming more focused on corporate tax reductions and on worker retraining and less interested in K-12 education. Said one, “We really need to identify and energize a new generation of leaders in the corporate community.” A legislator observed that there was “no push” from the state level to get the business community involved; policymakers were not asking for that involvement as they once did.

Needed: New Models for Change

Significant change in North Carolina’s school finance system appeared to await new champions for reform; but, as state-level interviewees told us, it was difficult to engage new champions without more compelling ideas than currently exist. Said one state leader:

We don’t have a lot of intellectual firepower on [the school finance issue]. We have some very good people in the Department [of Public Instruction], but mostly folks who have been important architects of the current system. We have a K-12 interest group community that is not terribly focused on this. Superintendents will have good conversation with you about it or finance directors will talk to you about changes on the margin, but they’re not pushing for major reform mostly....School boards are certainly not there. Teachers are not thinking about it [though] they think about the salary schedule from time to time. Other research groups that have had a little focus on this haven’t brought much....the university community hasn’t been particularly engaged in this conversation. So you’ve got a time that’s fairly ripe for some reform on the tax structure, on the reallocation of dollars and how they could be spent....but not a whole lot of new models to chew on.

This individual noted that he and his colleagues were interested in teacher incentives but did not know how to do them effectively:

Frankly, we’ve looked across the country at the ways that different folks have done it and haven’t been real encouraged with the results....And so, for now, I think what you’ll see as we move forward is we’ll continue to try to invest in salary schedules [but do] some disproportionate investment in beginning teachers’ salaries which we’ve really fallen back on.

Similarly, policymakers were finding that, as they developed several new forms of high schools under the New Schools Project, they did not have a model for funding high schools that dealt with new kinds of schools very well.

More generally, the state faced the constitutional mandate to ensure that all students are receiving a sound basic education without a roadmap for how this should be accomplished. Several groups, including the Public School Forum of North Carolina and the North Carolina Justice Center (Public School Forum of North Carolina 2005; Reid and Schofield 2004) have called for the development of a “comprehensive plan” to guide the redesign of the state’s school finance system and to bring the state into constitutional compliance with *Leandro*. Some common agreement on the strategies to guide the myriad individual decisions that policymakers face yearly on how to fund their schools would certainly seem to be useful. Here again, though, North Carolina could look across the nation at the ways that other states have tried to link their funding structures and their reform objectives and come away discouraged at the analytical and political difficulties encountered in attempting to answer the deceptively simple question of how to provide a sound basic education and how to design a school finance system to accomplish this objective.

Summary

This section reports on how North Carolina policymakers viewed the factors influencing their decisions about deploying educational resources. The case study indicates how the conditioning influences identified in this report—judicial involvement and economic and political conditions—shaped policymakers’ decisions about the structure and operation of the school finance system. There appeared to be little impetus for finance reform in North Carolina aside from the rulings in the *Leandro* lawsuit. That case spurred the governor and legislature to provide some additional funding for disadvantaged students and to target low-performing high schools for attention but not to undertake any fundamental reform of the way the state determined funding and allocated dollars to districts. The apparent preference for the “status quo” was abetted by legal decisions that emphasized school leadership rather than money as the key to school improvement. It was reinforced by economic and political conditions that encouraged a restrained approach to new policy initiatives. Even had the interest in significant reform been stronger, however, policymakers felt they lacked persuasive ideas for how to better link their finance system to their goals for improved student performance.

Conclusion

This case study was undertaken to help the School Finance Redesign Project understand (1) the formal structure and operation of the North Carolina school finance system, (2) the effects of heightened performance pressures on educational resource allocation processes and decisions, (3) the ability of decisionmakers to deploy resources as they thought appropriate, and (4) the factors enabling or constraining their efforts to link resources to student performance. The study addressed these issues by (1) documenting the state’s school finance system and key conditioning influences that have shaped it and (2) reporting on the views of local and state officials about if and how North Carolina’s school finance policies and practices were changing in response to performance pressures and what factors enabled and constrained reform efforts.

The state's school finance system reflected a 75-year-old decision to place primary responsibility for funding school operations at the state level. North Carolina used an unusual mechanism—position allotments—to allocate the majority of state dollars to districts. The position-allotment system, through which the state determined how many teachers a district was entitled to have based on student enrollment and then paid state-determined salaries for these teachers, was applied uniformly throughout the state. Funding that adjusted for low district wealth or for children with special needs occurred through categorical programs.

North Carolinians had been on a two-decade-old trajectory to raise their schools from the bottom of the nation's education rankings, spurred by the widespread understanding that students could no longer succeed in life with the educational levels that allowed them to “get by” in a rural state with many agricultural and low-skill manufacturing jobs. The momentum from past reform efforts was reinforced by state and federal accountability systems and performance expectations. While the state had focused on the need to improve performance of all its students, however, it had not seen the need to make major alterations in its school finance system to do so.

Local officials had adopted a number of reforms and innovations aimed at improving student achievement, but many administrators felt that they could have been more effective if they had greater control over resource allocation decisions and less state (and sometimes federal) interference. State officials, on the other hand, believed districts had more flexibility in using state funds than they took advantage of. Interviews at both the local and state level suggested that North Carolina's history of centralized decisionmaking sometimes fostered a culture of rule-following rather than creativity in resource use. Moreover, the final rulings in the *Leandro* court case, emphasizing the state's responsibility for ensuring that all students have the opportunity to obtain a sound basic education, seemed to have encouraged the tendency of state-level policymakers to adopt statewide policies and rules, further restricting the ability of local officials to adapt resource allocation to the specific needs of their schools and students.

Despite some changes reflecting performance pressures and judicial decrees, the governor and legislature had mostly tinkered around the edges of the school finance system rather than altering it in fundamental ways. The nature of the *Leandro* rulings and the way the *Leandro* case had played out seemed to partially explain the state's response. Economic and political conditions favored the status quo even as the courts re-emphasized the state's responsibility for providing a sound basic education. There was also a perceived lack of strong new models for change. The absence of compelling ideas about how to redesign school finance to link it more closely to goals for student achievement constrained the emergence of champions for new finance policies.

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