

“Public Education’s Future”
A Story of Fiscal Policy and Politics

MONDAY, MARCH 13, 2017

**MONTANA PUBLIC EDUCATION DAY OF ADVOCACY
BEST WESTERN PREMIER GREAT NORTHERN HOTEL
835 GREAT NORTHERN BLVD, HELENA, MT 59601**

Presented by:

Ralph M. Martire, Executive Director

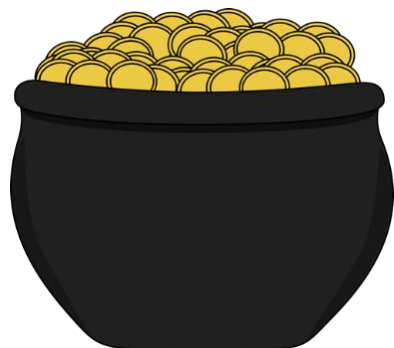
Former Commissioner, Federal Equity & Excellence Commission



The Fiscal Policy Issue:

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ONE AXIOM DEFINES THE CORE PROBLEM



Where needs are greatest
Resources are least



Which Creates the Political Problem

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Responding to core fiscal issues requires tax policy to be redistributive—even under capitalist theory



Adam Smith, the father of modern capitalism, contended that for a tax system to be fair it has to be progressive

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- According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ... [As Henry Home (Lorde Kames) has written, a goal of taxation should be to] 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"

Was Adam Smith Right?

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The long-term trends in income distribution in America demonstrate that his reasoning was solidly on target.

Change in Average US Income Growth Over Time	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

Change in Average US Income Growth Over Time	
Income Group	1979 — 2011
Top 10%	139.8%
Bottom 90%	-39.8%

Source: Economic Policy Institute's website: <http://stateofworkingamerica.org/who-gains/> Data used is from Piketty and Saez, "Income Inequality in the United States, 1913-1998", *Quarterly Journal of Economics*, 118(1), 2003, 1-39 (Tables and Figures Updated to 2011 in Excel format, January 2013), <http://elsa.berkeley.edu/~saez/> .

So There Should be Bipartisan Support to Raise Taxes the Capitalist Way and Solve Problems, Right?

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UH — NOPE

Because this is also Fertile Political Fodder for: Grandstanding and Demagoguery—which are politically preferable to fixing tax policy

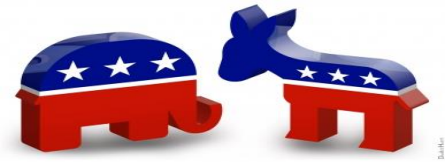
And hence the second fiscal policy axiom:

Inadequate capacity on the front end means inadequate outcomes on the back end.



The Political Impact of All This

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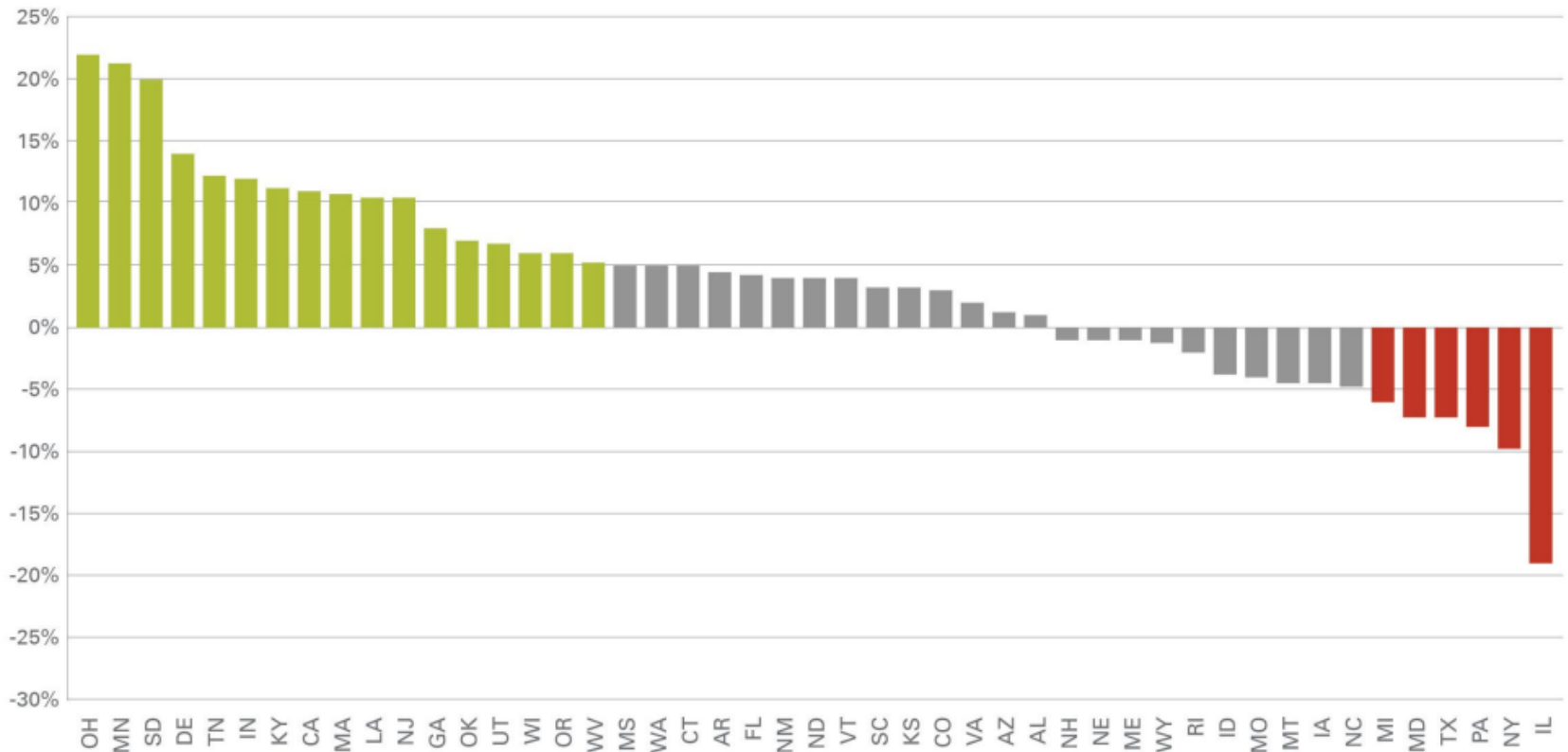
Incentivizes electeds in both parties to:

1. Hide the real cause of fiscal problems, i.e. “Tax Policy”; and
2. Cover up shortcomings in Tax Policy by pinning the blame for less than desired outcomes on the education system itself—rather than recognize the lack of capacity.

Funding Gaps

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Figure 1: Gaps in State and Local Revenues per Student Between Districts Serving the Most and the Fewest Students in Poverty¹¹



Source: Funding Gaps 2015, The Education Trust

“By far the largest gap is in Illinois, where the highest poverty districts receive nearly 20% less state and local funding than the lowest poverty districts.”

INTO THE FRAY CAME THE EQUITY & EXCELLENCE COMMISSION

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■ Researchers & Academics

- UC Berkeley, Stanford University, NYU, University of Virginia, Campaign for Educational Equity



■ State & Local Educational Professionals

- Chicago Public Schools, Illinois SBE, NY State



■ System & School Reform Experts

- Education Law Center, CAP, Education Resource Strategies, Ed Trust, Council of the Great City Schools



■ Teachers Unions

- National Education Association, American Federation of Teachers



■ Issue Experts

- NIEA, Michigan DOE Office of Special Education, Rural School and Community Trust, CTBA, American Cities Foundation



■ Civil Rights Leaders

- NAACP, MALDEF, NUL

The Equity & Excellence Commission's Charge was to Advise the DOE on:

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“the disparities in meaningful educational opportunities that give rise to the achievement gap, with a focus on systems of finance, and to recommend ways to which federal policies could address such disparities.”

Why—Because as it Turned Out....

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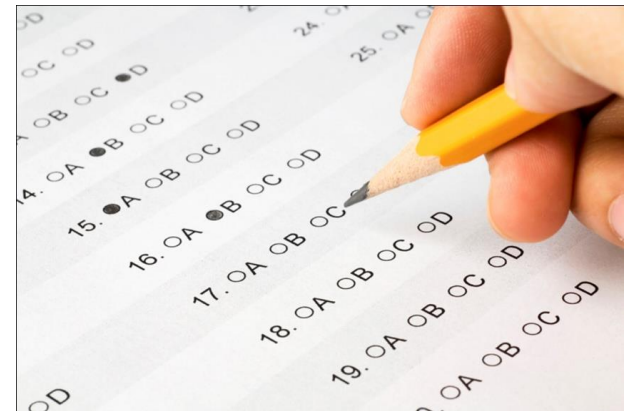
Public Education in America is not so much “Broken”
as it is under-resourced to educate all children



The International Benchmark

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- 2015 Programme for International Student Assessment (PISA):
 - Combined Reading, Math, Science, Critical Thinking
- In Reading, U.S. schools scored a middling 497 with the OECD average @ 493 (24th overall)
- But fell to 38th among OECD nations in Math (470)



Reality ✓ #1

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- **But adjusting for poverty**

→ U.S. schools w/ 0-10% poverty scored a combined 551, best in the world (Finland was 2nd @ 536)

→ U.S. schools w/ 10-24.9% poverty scored 527, top in the world for similar profiles (Canada was 2nd @ 524 and 4th overall)

Poverty

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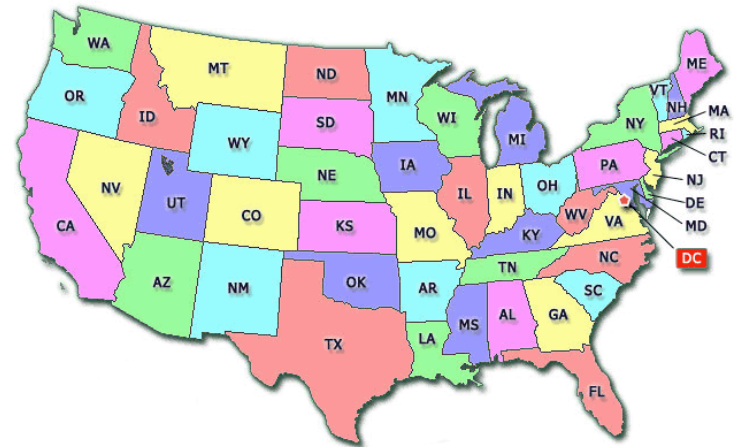
- U.S. scores did not start to drop significantly until poverty got over 25%
- That's a concern because.....



Poverty

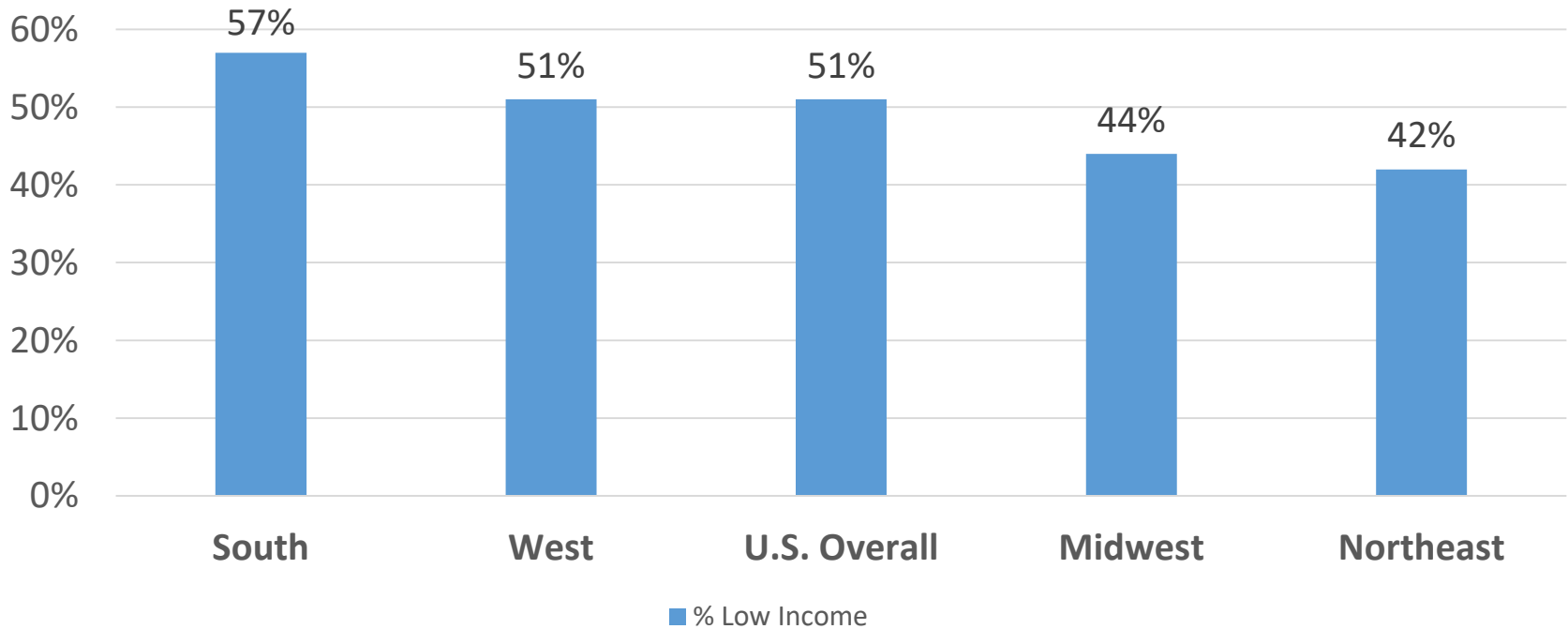
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- U.S. Poverty Rate for school age children is more than double the OECD average—and higher than any advanced industrial nation in Europe, North America or Asia
- A majority of public school children in 21 states were low income in 2013
- As a region, southern states have the greatest % of total student population represented by low-income children—57%
- Mississippi was highest at 71%, but populous states like California, Texas, Illinois, and Florida were over 50
 - In Montana, 42% of students qualify for free or reduced lunch
- In large urban districts, poverty can be very high—Chicago Public Schools—over 85% of the children live in poverty
 - In Billings, the largest in Montana, 45.5% of students live in poverty
- Most districts with significant low income populations spend less than their wealthy peers



Percentage of Low Income, Public School Students by U.S. Region

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Source: Southern Education Foundation Calculations of NCES Common Core of Data, 2013

Demographic Splits

The Poverty — Racial/Ethnic Divide

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- **CHILDREN IN POVERTY (2014)**

- 38.1% of African American Children
- 31.7% of Latino Children
- 11.6% of Asian/Pacific Islander Children
- 12.5% of White Children
- Achievement GAP between children from high and low income families is 30%-40% **WORSE** among children born in 2001 than those born 25 years earlier.



Source: NCES, Common Core of Data

The Montana Poverty Data

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- Overall Child Poverty Rate = 18.9% (2015 data)
- By Race:
 - White: 12.7%
 - Native American 36.6%
 - Asian American 19.9%
 - Latino 18.9%

Criterion Reference Test (CRT)

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Achievement Gaps

AVG. Proficiency Over 2009-2013 Sequence	WHITE	AMERICAN INDIAN	GAP
Reading	88.08%	63.76%	24.32%
Math	71.80%	39.02%	32.78%
Science	64.32%	30.06%	34.26%

*Montana Code Annotated 20-9-330  \$200 per American Indian child (over \$3M per year) to help close achievement gap

So the Charge of the Commission
was on Point—The Core Issues Remain:

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- Poverty

and

- Insufficient Resources
Inequitably Distributed

Which is Nothing New

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Who first noted these as
core issues in U.S. Education





The NIXON COMMISSION on Education in 1972!

The Nixon Commission Found:

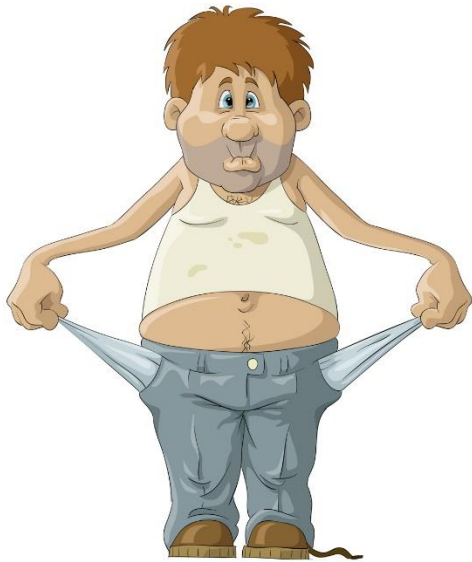
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1. Educational funding at the state level is too tied to property taxes—and rarely connected to the educational needs of children.
2. Money can help solve many of the Educational Problems that have surfaced.
3. States have the responsibility to reform school financing to eliminate disparities and ensure adequacy



So How's that Working Out?

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- Overall, states were providing less per pupil funding for K-12 in 2014 than they did before the Great Recession hit in December of 2007
- In real terms (adjusted for inflation), at least 33 individual states provided less \$ per student for the 2014-15 school year than before the Great Recession
- To pile on, the Feds have cut funding for Title I by 8.3% in real terms since 2010 (in large part due to “sequestration”)

In case you are wondering, after adjusting for inflation:

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- Montana was spending 1.5% more per student in FY2014 than FY2008.
- The national average was a -4.5% drop.
- Montana was spending \$158 more per pupil in FY2014 than FY2008—14th best in the nation.
 - North Dakota was among the largest increases, up \$1,488; while Idaho was among the largest decreases, down -\$1,166.

Source: Analysis of National Center for Education Statistics Data

What State's Actually Do

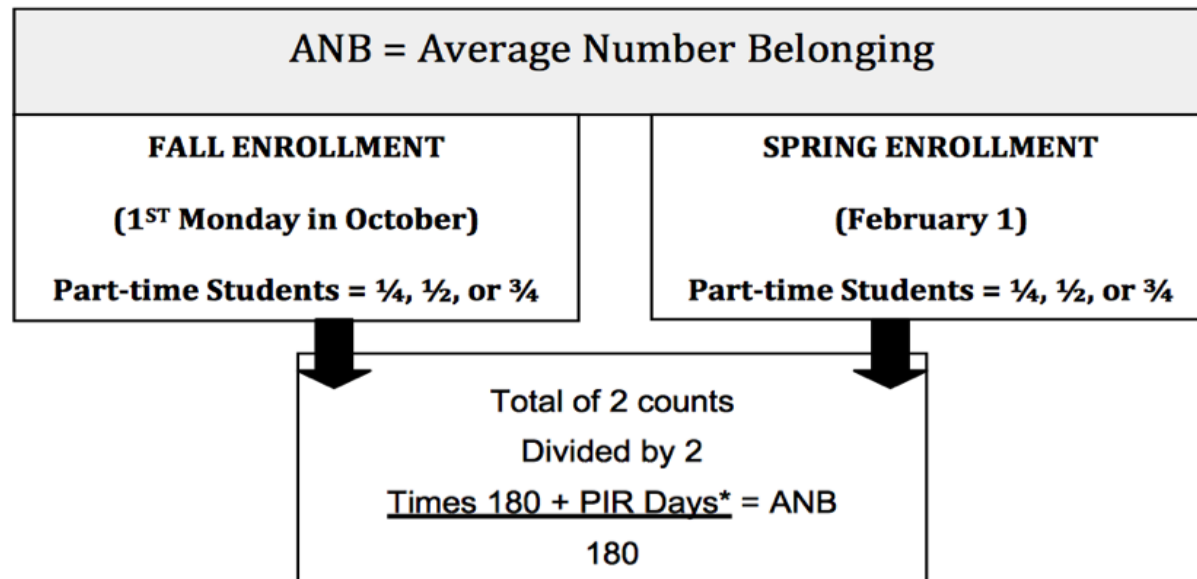
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- 36 states use a “Foundation” or base level of funding per pupil → But rarely tie it to actual cost needed to educate even non-at-risk children
- This base is usually supplemented in formula:
 - 30 states supplement the base w/ a factor for low-income students
 - 27, have a factor for ELL
 - 25, have a factor for disability
 - 29, have a factor for local property tax effort
- And supplemented out of formula with categoricals for transportation, special ed, etc.

Montana is a “Foundation” Program

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- ANB = Average Number Belonging.
 - Think of it as an enrollment count taken twice during the school year.



* PIR Days are “pupil instruction related” days

For teacher in-service training and recordkeeping.

More ANB

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- The Legislature determines the rate applied to each ANB – called the per-ANB entitlement.
- Elementary District: per-ANB entitlement of \$5,226
 - Decreased at a rate of \$0.20 per-ANB for each additional elementary ANB, up to 1,000 ANB.
 - For each ANB over 1,000, the district per-ANB entitlement is \$5,026.20.
- High School District: per-ANB entitlement is \$6,691
 - Decreased at a rate of \$.50 per-ANB for each additional high school ANB, up to 800 ANB.
 - For each ANB over 800, the district per-ANB entitlement is \$6,291.50.

Additional General Fund Payments

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- **Quality Educator** - Each district and special education cooperative will receive a \$3,042 payment for each full-time equivalent licensed educator and for other licensed professionals employed by the school district (nurses, psychologists, social workers, counselors, etc).
- **At-Risk Student** - Addresses the needs of at-risk students, and the money is distributed in the same manner as Title I monies are distributed to schools. For FY 2014-15 the Legislature appropriated \$5.149M.
- **Indian Education for All** - Each district receives an Indian Education for All payment to implement the provisions of the Montana constitution and the statutory requirements for the recognition of American Indian cultural heritage. The Indian Education for All payment is the greater of \$100 for each district or \$20.40 per ANB.
- **American Indian Achievement Gap** - A school district receives a payment of \$200 for each American Indian student enrolled in the district.
- **Data for Achievement** - Beginning in FY 2014-15, the payment is equal to \$15 per budgeted ANB.

BASE and...

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- The BASE budget is the minimum budget that a district must adopt for its general fund.
 - Equal to 80% of the basic entitlement
 - 80% of the district's per-ANB entitlement
 - 100% of the Quality Educator payment
 - 100% of the At-Risk Student payment
 - 100% of the Indian Education 11 for All payment
 - 100% of the American Indian Achievement Gap payment, 100% of the Data for Achievement payment
 - 140% of the district's special education allowable cost payment
 - 40% of the district's prorated special education cooperative cost payment.

Max

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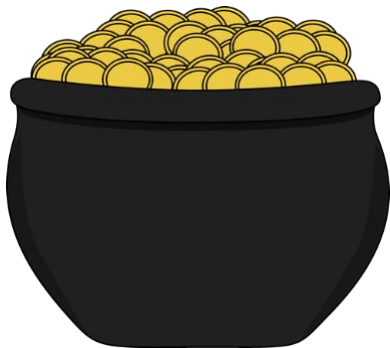
- **The Maximum general fund budget is the sum of:**
 - 100% of the district's basic entitlement
 - 100% of the district's per-ANB entitlement
 - 100% of the Quality Educator payment
 - 100% of the At-Risk Student payment
 - 100% of the Indian Education for All payment
 - 100% of the American Indian Achievement Gap payment
 - 100% of the Data for Achievement component
 - Between 175% and 200% of its special education allowable cost payment
 - Between 75% and 100% of the district's prorated special education cooperative cost payment.
- **Districts must obtain voter approval to adopt a budget over the Maximum**

Fiscal Policy Issues:

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- The “Base” or “Foundation” level is usually funded by a combination of state-based resources and local resources
- But getting that mix right is crucial for both equity and adequacy

BECAUSE ONE AXIOM COVERS ALL

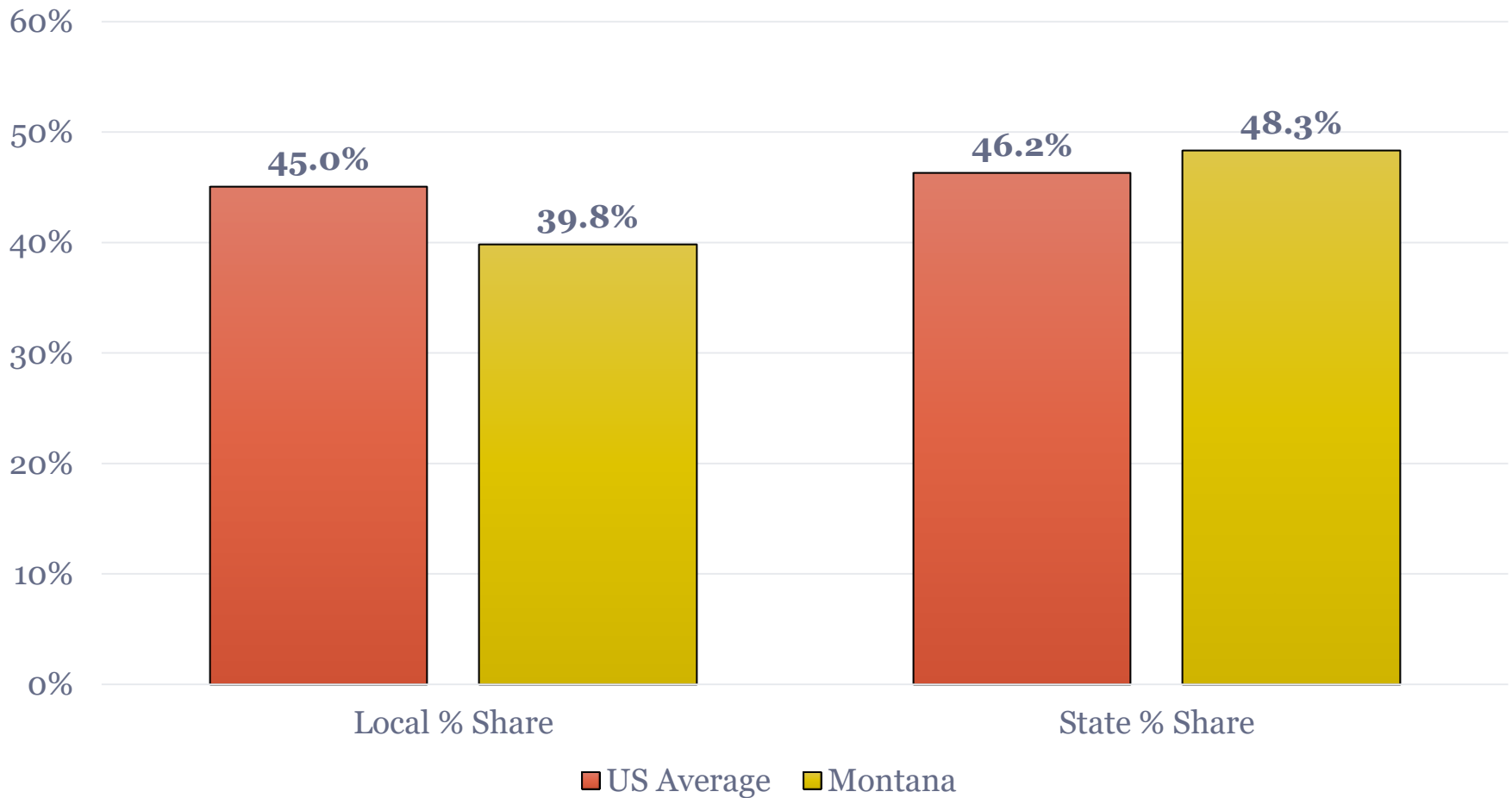


FISCAL POLICY:
Where needs are greatest
→ Resources are least



And Montana Has Assumed the Primary Funding Obligation

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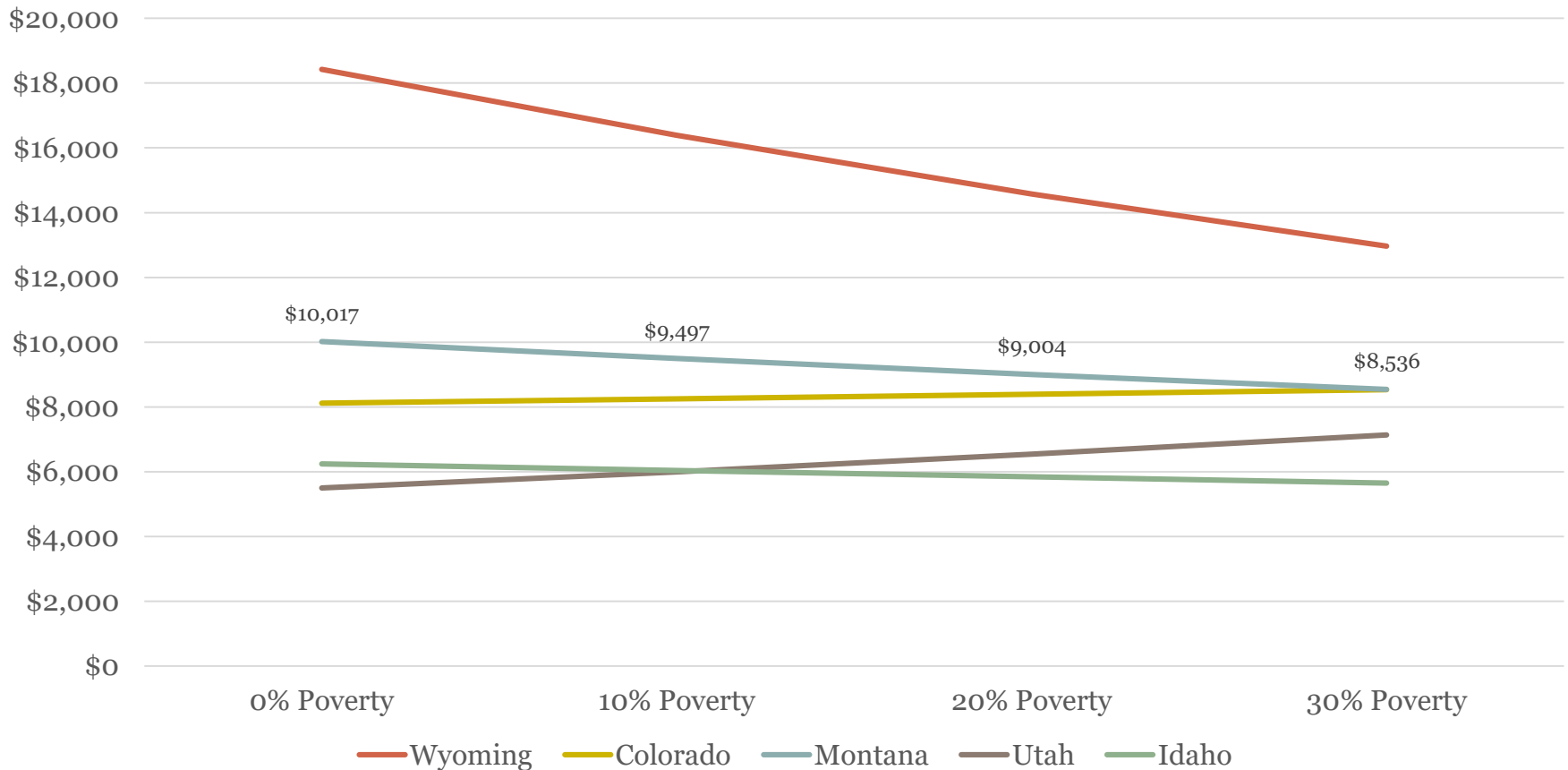


Source: NECS, Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2013-14

But: Funding Distribution Relative to Student Poverty (2014)

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Montana spends \$1,481 less per-student (or 85%) in schools with 30% poverty compared to those who attend school with no poverty.



Source: Education Law Center, "Is School Funding Fair? A National Report Card" (Sixth Edition), January 2017.

Some Trends that Raise Questions Going Forward

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- Average salaries for public school teachers **DECLINED** by **1.67%** in constant \$'s, for the decade ending in the 2014-2015 school year
- 25 states had a drop in real teacher salary over that decade, led by:
 - ✦ Illinois (**-13.5%**)
 - ✦ Indiana (**-11%**)
 - ✦ Mississippi (**-10.5%**)
 - ✦ North Carolina (**-10.2%**)
 - ✦ Idaho (**-9.9%**)
- Overall, state tax revenue has recovered to above 2008 levels, however, 17 states still lag 2008. Key among them:
 - ✦ Alaska
 - ✦ Louisiana
 - ✦ Florida
- By this time after the 2001 Recession, tax receipts had rebounded in all states except one:
 - ✦ Michigan
- Montana is down **\$656 M** or **-8.4%** since the end of 2008 (Pew Charitable Trust)

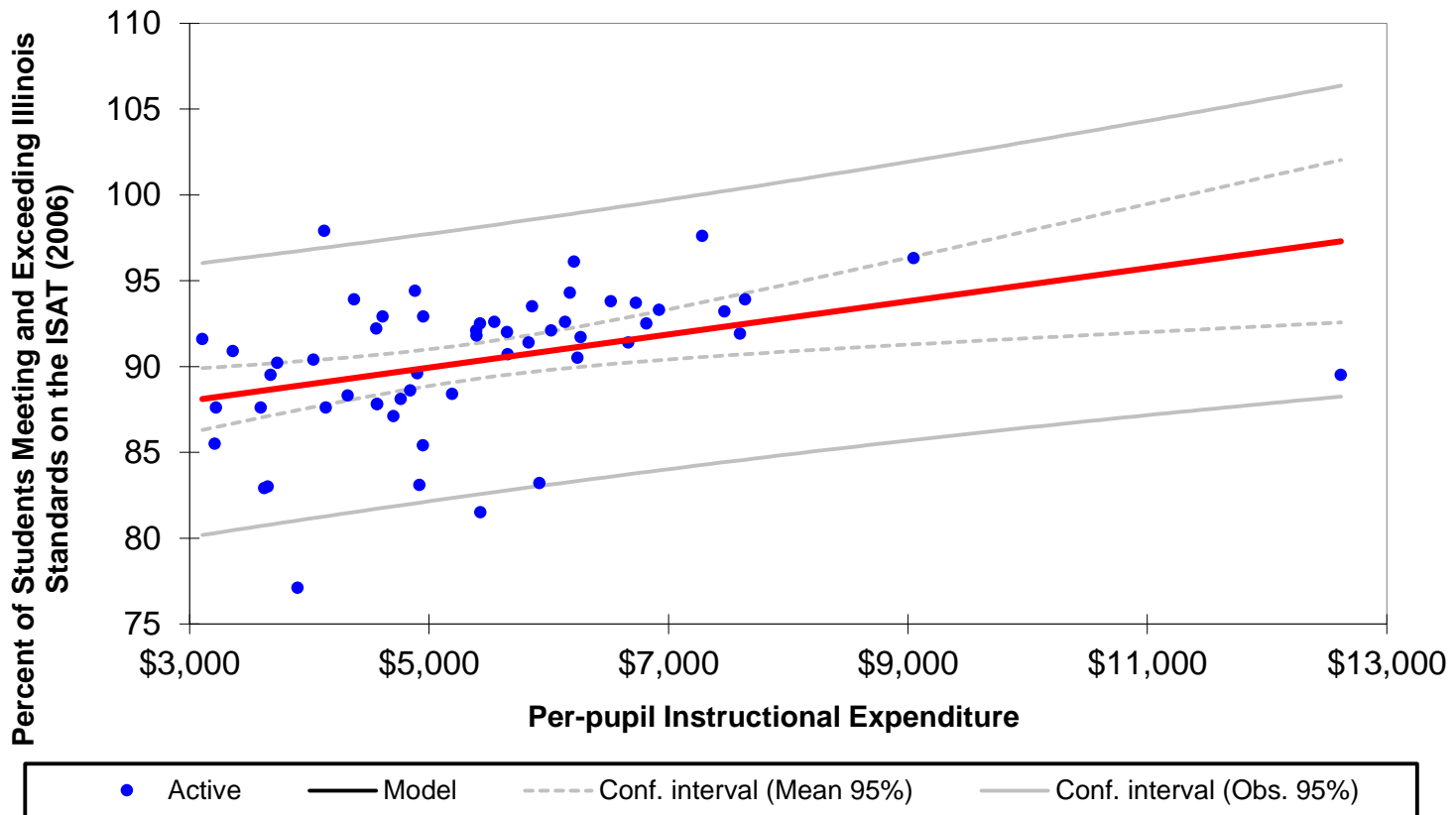
That's a Problem Because \$ Does Appear to Matter

Illinois Example, Part 1

(2006 data)

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Regression of ISAT Performance Vs. Per-pupil Instructional Expenditure for School Districts with 3-8% Low Income Rates



*Linear regression is a statistical analysis that shows the correlation of two or more variables, in this case, how per-pupil expenditures correspond to ISAT test scores. The regression line (heavy red) represents the predicted test score results a school district should obtain, given a specific level of instructional expenditure.



It's Also GOOFY Short-Sighted Economically Because

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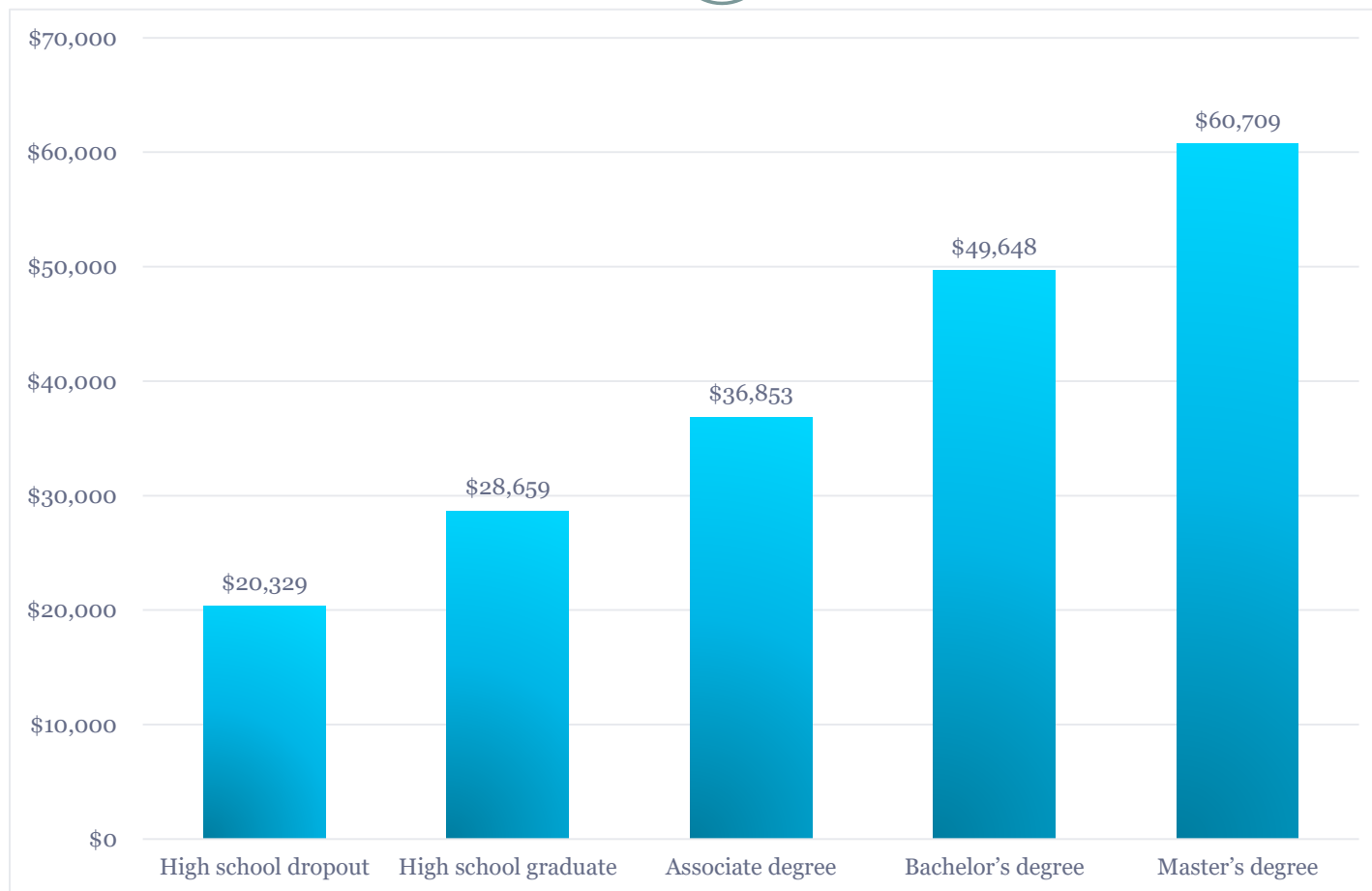
- The research shows that those states which have made the greatest investment in building the capacity of their public school system to meet the educational needs of all their children, from the poorest on up, have experienced stronger economic growth than states that did not. Source: Noah Berger and Peter Fisher, *A Well-Educated Workforce is Key to State Prosperity*
 - Indeed, the high-investing states also had larger increases in worker wages over the same time period. Source: Michelle T. Bensi, David C. Black, and Michael R. Dowd. “The Education/Growth Relationship: Evidence from Reach State Panel Data.” *Contemporary Economic Policy* 22, no. 2 (April 22, 2004): 297.
 - As well as a statistically meaningful advantage in state level GDP growth. (Id)

- And it's not just Bensi, Black & Dowd whose research found this.
- As it turns out, investment in K-12, higher ed and infrastructure are the only policy decisions at the state level which have a statistically meaningful correlation to economic outcomes. Source: Center for Tax and Budget Accountability, "Good for Business: How Illinois Can Best Support Small Business." (April 7, 2014)

- The Federal Reserve of Cleveland found that differences in personal income between states could be explained in large part by differences in educational attainment.
 - Specifically, it found states that had a greater percentage of their population attaining high school degrees than other states, also had a 1.5 percent higher per capita personal income.
 - Overall, the states with the greatest high school and college graduation rates have the highest per capita personal incomes.

Some Data: Median Annual Earnings of U.S. Workers (Age 25+) by Educational Attainment, 2011

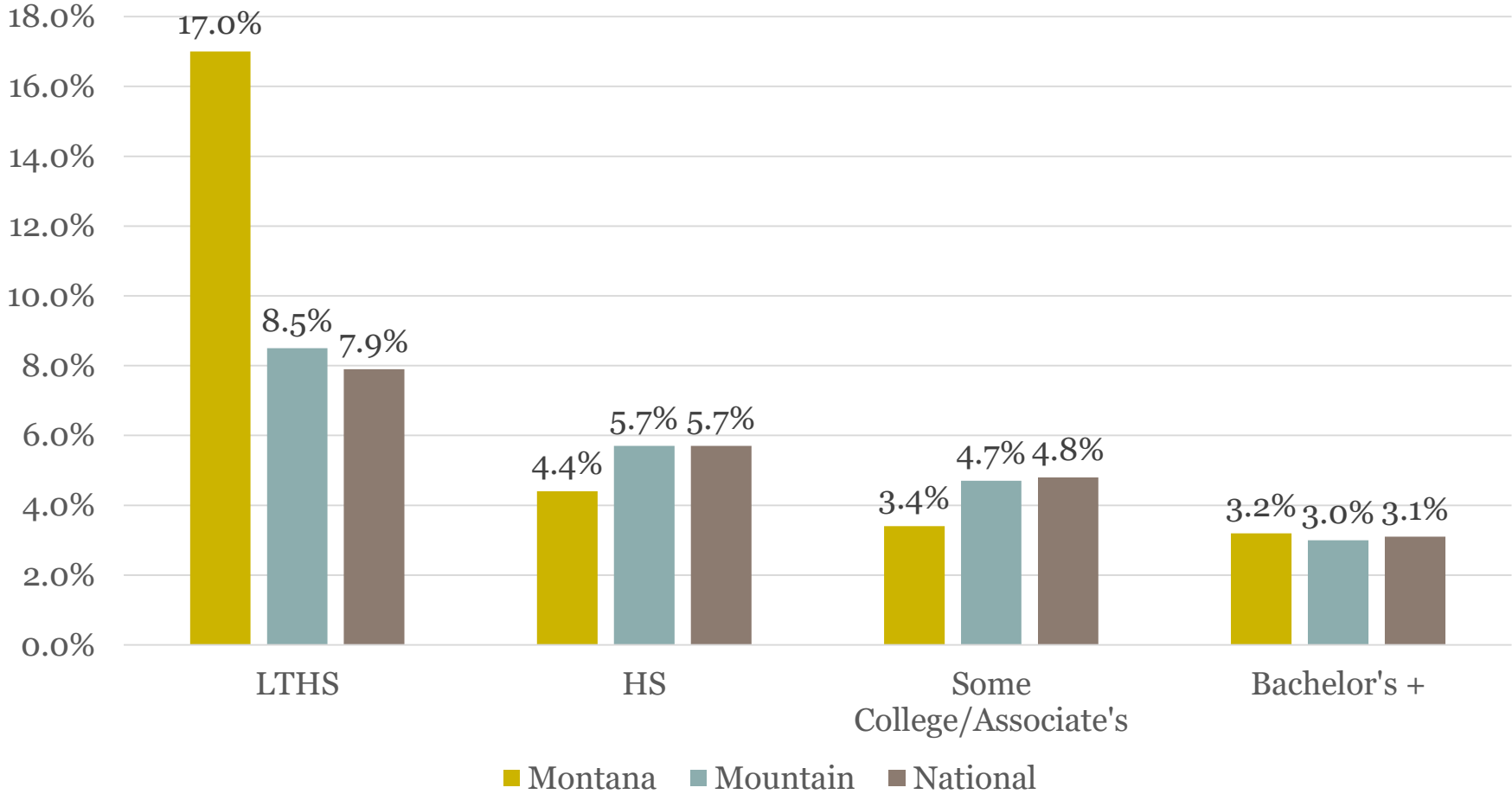
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Source: Economic Policy Institute, Berger and Fisher, "A Well-Educated Workforce Is Key to State Prosperity"

Failure Has Economic Consequences

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Source: US Census, 2014

Education Wage Gaps Over Time

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Education wage gaps	1979	1995	2007	2011
College/high school	23.5%	42.5%	46.4%	46.9%
Advanced degree/high school	32.4%	62.3%	66.6%	69.6%

Source: The State of Working in America

***NOTE: The gaps doubled over the 1979-2011 sequence!**

CTBA analysis of Census data on per pupil spending in all 50 states and Washington, D.C., confirms that those states that did the best job investing in K-12 education have higher median and mean wages and income than other states, with per pupil spending being strongly correlated with median income (.668), mean hourly wage (.635), median hourly wage (.668), and annual mean wage (.634).

And There Really is A lot to Gain for Everyone

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If American schools performed comparable to higher-performing nations (e.g. Canada) in math (scoring approximately 40 points higher on the Programme for International Student Assessment), our higher skilled students would produce a faster growing economy, improving GDP over the next 80 years by an amount with a present value of \$70 trillion.

Source: Hanushek, Ruhose & Woesmana

For Each and Every Child

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- The Equity and Excellence Commission found that eliminating the achievement gap between white students on the one hand and African-American and Hispanic students on the other, would add “some \$50 trillion (in present value terms) to our economy” over the next 80 years.
 - Simply achieving a 90 percent graduation rate for students of color would add as much as \$6.6 billion in annual earnings to the U.S. economy.

Source: U.S. Department of Education, *For Each and Every Child—A Strategy for Education Equity and Excellence*, (Washington, D.C.: 2013), 13.

Benefits Go Beyond Simple Economics

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- Research demonstrates that high school graduation reduces criminal activity.
 - Nationally, a 1 percent reduction in the male dropout rate would save as much as \$1.4 billion per year in reduced correctional costs, or about \$2,100 per additional high school graduate.
- Across the United States, the smoking rate for individuals with college degrees is one-third of the rate for those who are less educated.
- Obesity and heavy drinking rates are half as high among the more educated, which helps, in part, explain why college graduates had a life expectancy that was eight years longer than high school dropouts in 1990.

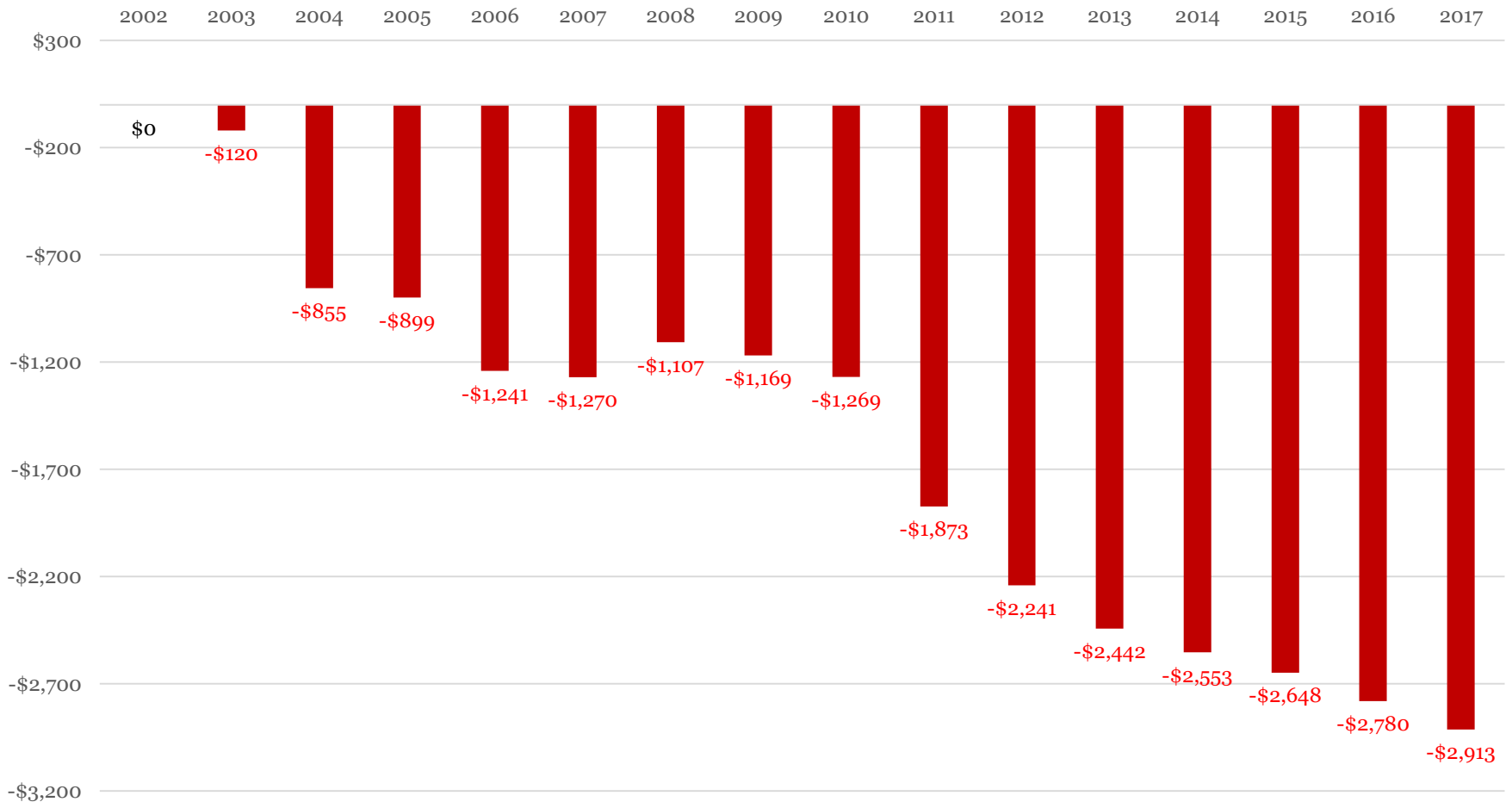
AND HIGHER EARNERS PAY MORE IN TAXES

YEAH



Dollar Shortfall in State Per-Pupil K-12 Education Funding to Meet EFAB Adequate Education Standard by Fiscal Year

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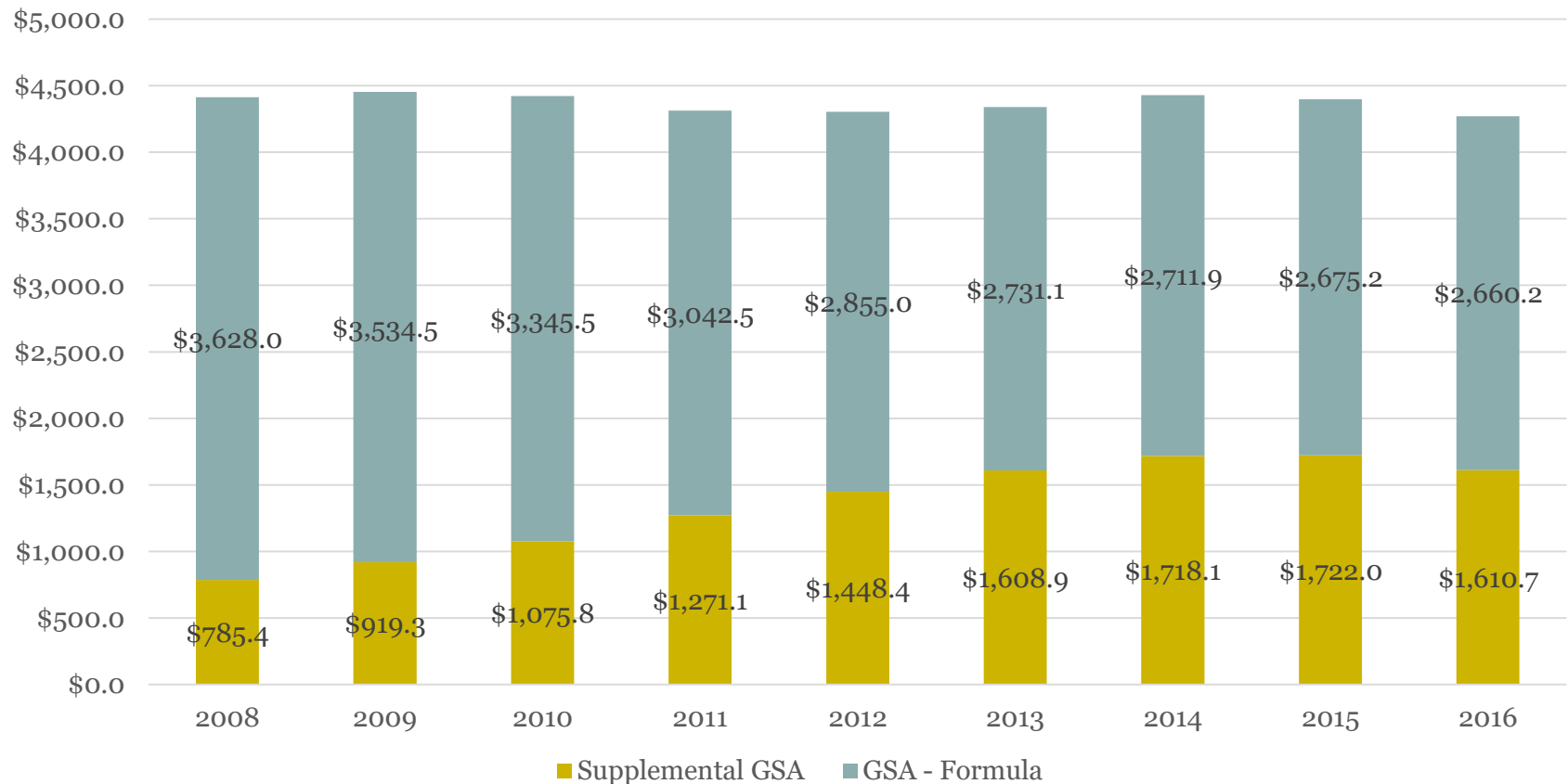
Sources: CTBA analysis of January 2017 EFAB data. Education Funding Advisory Board, *Illinois Education Funding Recommendations*

Feeling Better Pick on Illinois

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Changes in GSA Spending, FY2008-FY2016

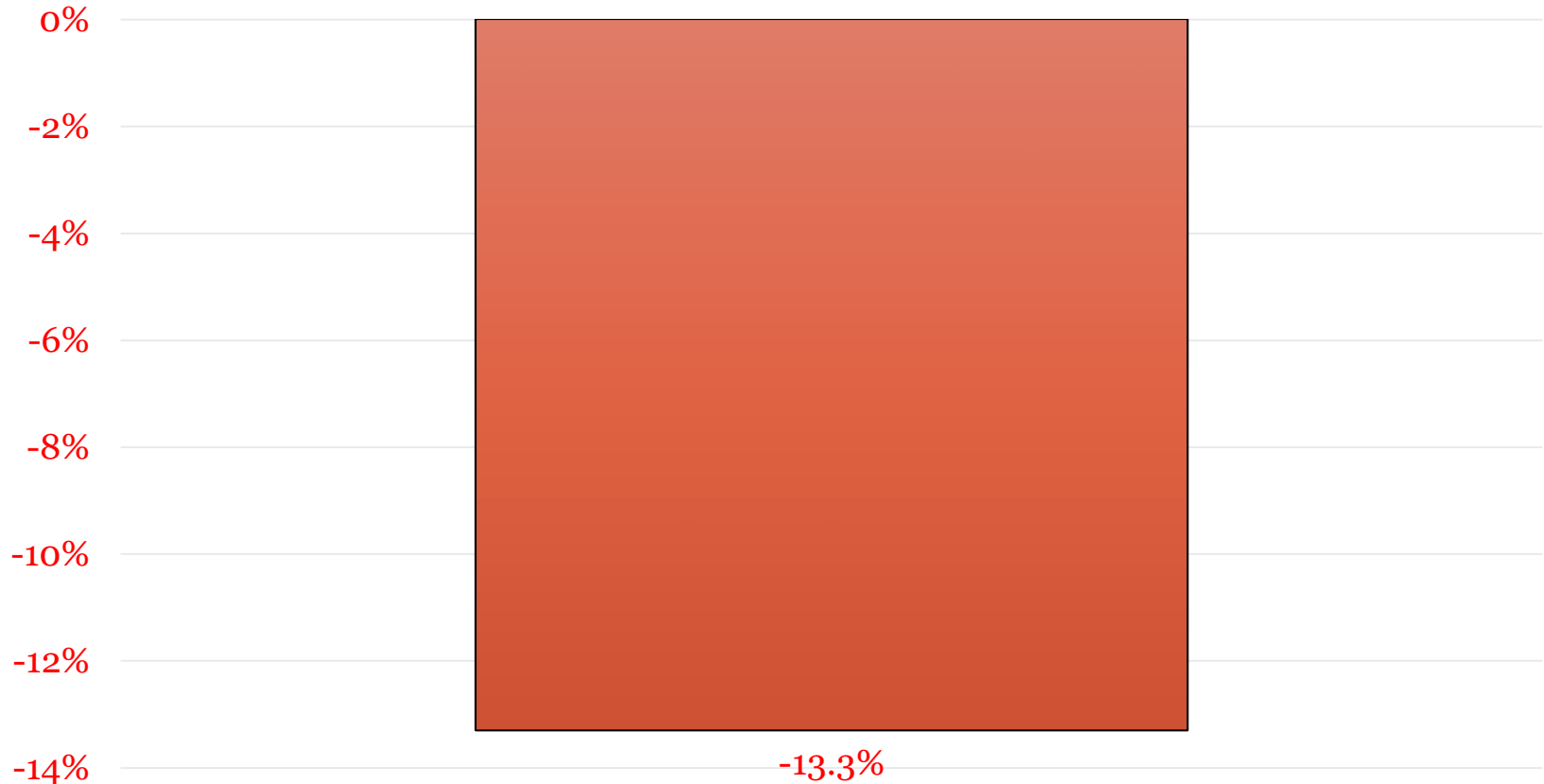
(\$ in Millions, Inflation Adjusted)



Consider – Illinois

Enacted P-12 Appropriations for FY2015 Compared to FY2000 Enacted Adjusted for Inflation (ECI) and Population

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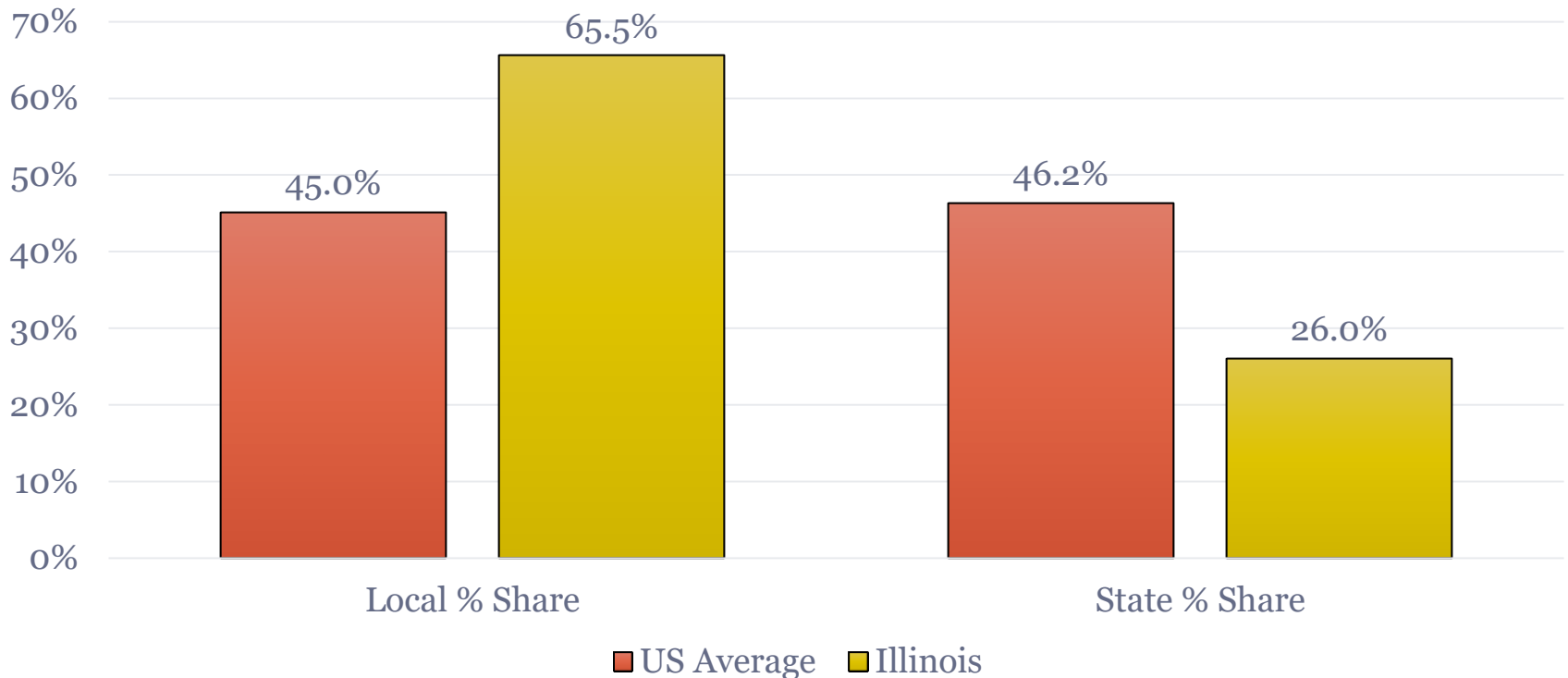


Sources: Sources: FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2015 CTBA analysis of GOMB. Inflation for healthcare inflated by Midwest Medical Care CPI; all other appropriations adjusted using ECI-C and Midwest CPI from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013.

Getting it Wrong: Illinois as an Example

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Local and State Share of Education Funding Spending



Source: CTBA analysis of U.S. Department of Education, National Center on Education Statistics, 2016. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2013-2014 (Fiscal Year 2014)."

The Solutions

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1. Build the capacity of the public school system to create a meaningful educational opportunity for every child in her or his local public school;
2. Utilize an evidence-based approach to education funding tied to strategies proven to enhance student achievement;
3. Minimize inefficient competition, maximize collaboration;
4. Develop resources to sustain the investments needed for success; and
5. Implement an effective, informative, and corrective accountability system.

Each and Every Child

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- **What a State Should Do:**
 - Identify and publicly report the teaching staff, programs and services needed to provide a “*meaningful educational opportunity*” to all students of every race and income level **BASED ON EVIDENCE OF EFFECTIVE EDUCATION PRACTICES—LIKE THE APTLY NAMED “EVIDENCE-BASED MODEL”**;
 - Adopt and implement school finance systems that provide equitable/sufficient funding for all students to achieve content and performance standards;
 - “**Equitable**” in some case means more than equal investment—as in other advanced nations, it includes providing additional resources for at-risk populations.

The Evidence-Based Model

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- Created by Drs. Odden and Picus it:
 - ties funding to those educational practices which the evidence and/or research show have a statistically meaningful correlation to enhancing student achievement.
 - creates an “Adequacy Level” of education funding for each school district that adjusts for demographics.

Recommended Strategy	Effect Size
Full Day Kindergarten	0.77
Class Size of 15 in Grades K-3	
Overall	0.25
Low Income and Minority Students	0.50
Multi-age Classrooms	
Multi-grade Classrooms	-0.1 to 0.0
Multi-age Classrooms	0.0 to 0.50
Professional Development with Classroom Instructional Coaches	1.25 to 2.70
Tutoring with Tier 2 Intervention Teachers, 1-1 and small group	0.4 to 2.5
English Language Learners Direct Intervention Support	0.45
Structured Academic Focused Summer School	0.45
Embedded Technology	0.30 to 0.38
Gifted and Talented	
Accelerated Instruction or Grade Skipping	0.5 to 1.0
Enrichment Programs	0.4 to 0.7

Model Highlights

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Calculates Core Instructional Cost / Student

- Ratios for staffing and expenses
- Additional Ratios for Staffing/Expenses for
 - ✦ Low Income students
 - ✦ English Learning students
 - ✦ Special Education students (mild/moderate)
- State Average Salaries

Direct Funding for Evidence Based Practices

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- **Tier 2 and 3 Intervention Teachers**
 - 1FTE/125 DHS and EL Students (Duplicate Count)
- **Additional Pupil Support Teachers**
 - 1FTE/125 DHS and EL Students (Duplicate Count)
- **Extended Day Programs**
 - 1FTE/120 DHS and EL Students (Duplicate Count)
- **Academic Summer School**
 - 1FTE/120 DHS and EL Students (Duplicate Count)
- ✦ **English Learner Teachers**
 - 1FTE/120 DHS and EL Students (EL Count Only)

ALSO OPENS THE DOOR TO A BETTER ACCOUNTABILITY SYSTEM



BUT WAIT.....

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WON'T TAX INCREASES KILL THE ECONOMY?



NOPE:

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Economic Growth

- A rigorous 2012 study commissioned by the U.S. Small Business Administration (SBA) found:
 - “No evidence of an economically significant effect of state tax portfolios on entrepreneurial activity.”
Can State Tax Policy be Used to Promote Entrepreneurial Activity, Small Business Economics, 2012.
 - The Harry S. Truman Institute @ University of Missouri found that when benefit of a tax break is measured against the economic loss generated by spending cuts—there is always a NET ECONOMIC LOSS.
 - The CBO found no correlation between tax policy & job creation. . . . Private sector demand is what counts.

NOPE: Two Approaches to Tax Policy...

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- **Kansas**

- Cut top personal income tax rate from 6% to 4.5% in 2012
- Projected to reduce revenue by \$920 million in FY2017
- Income tax as share of state revenue fell from 50% to 40%

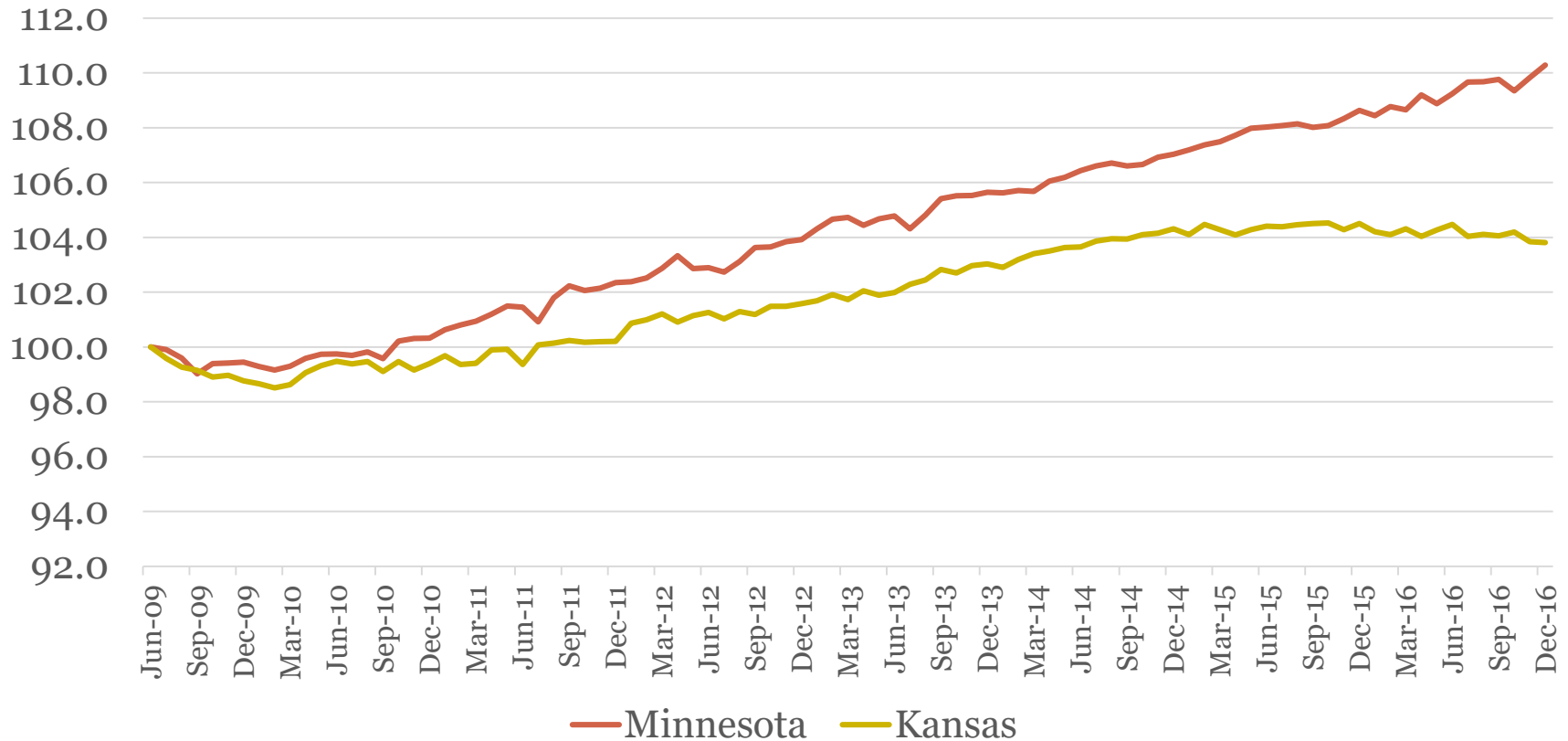
- **Minnesota**

- Raised income taxes in 2013
- Third-highest top marginal personal income tax rate (9.85%)
- Middle rates, covering income from \$25,180 to \$146,270, are 7.05% and 7.85%
- \$1.4 billion budget surplus for FY2018-19

...And Their Results

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Total Nonfarm Employment in Minnesota and Kansas
(Indexed to 2009 recession)

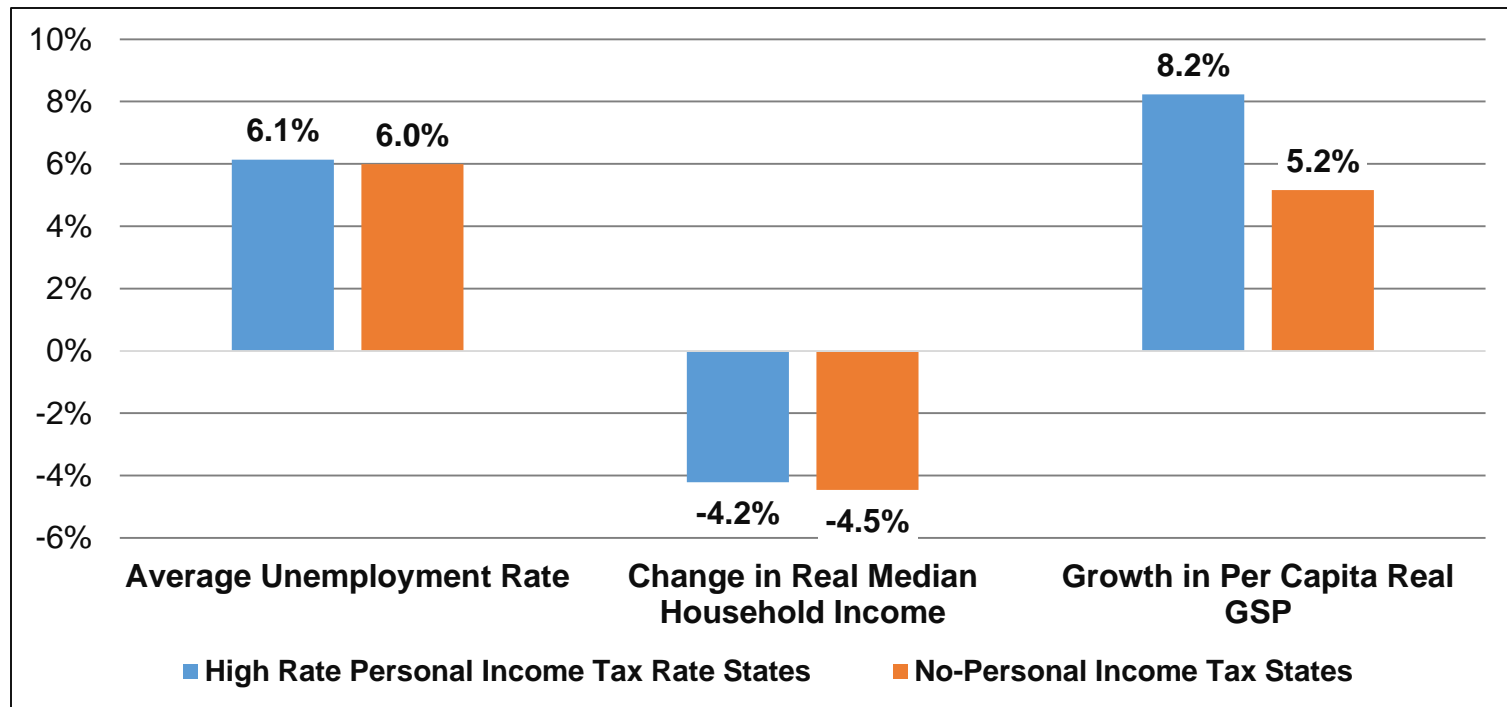


Source: St. Louis Federal Reserve

Increasing Taxes the Right Way Won't Hurt the Economy

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2002-2011 Comparison: 9 States with Highest Graduated Income Tax Rate vs. 9 States with No Income Tax

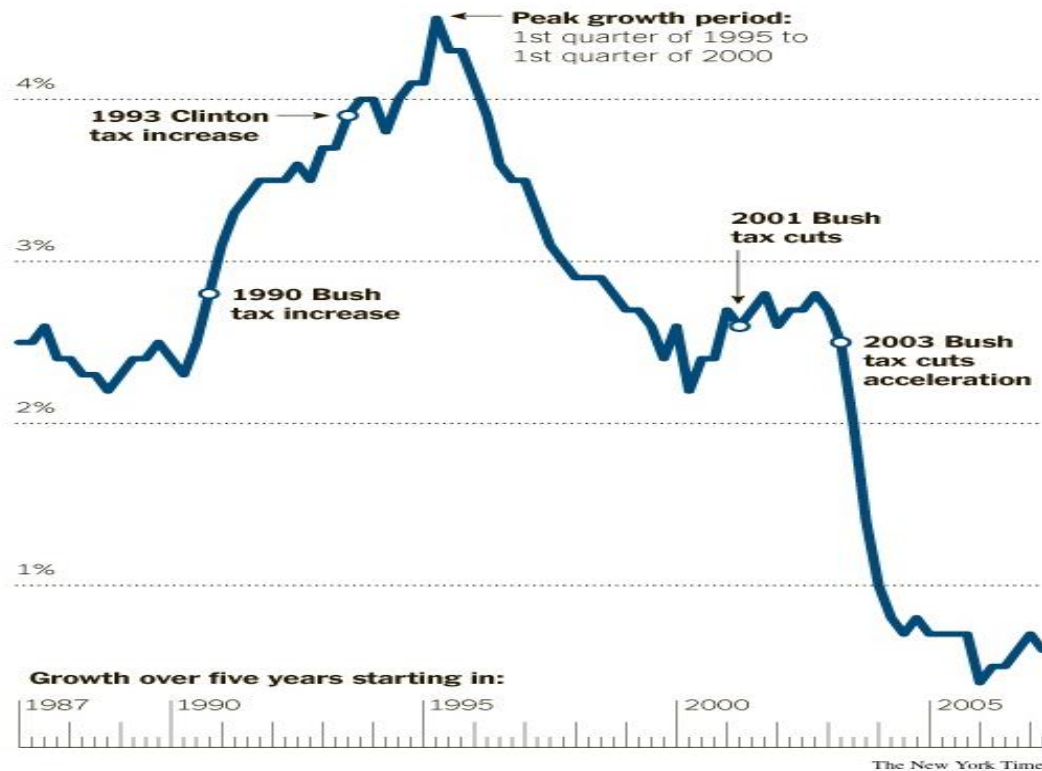


Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2,3 & 4

Economic Growth Isn't Stymied by a Well-Designed and Needed Tax Increase

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Economic Growth Rates Following Periods of Tax Increases and Tax Cuts



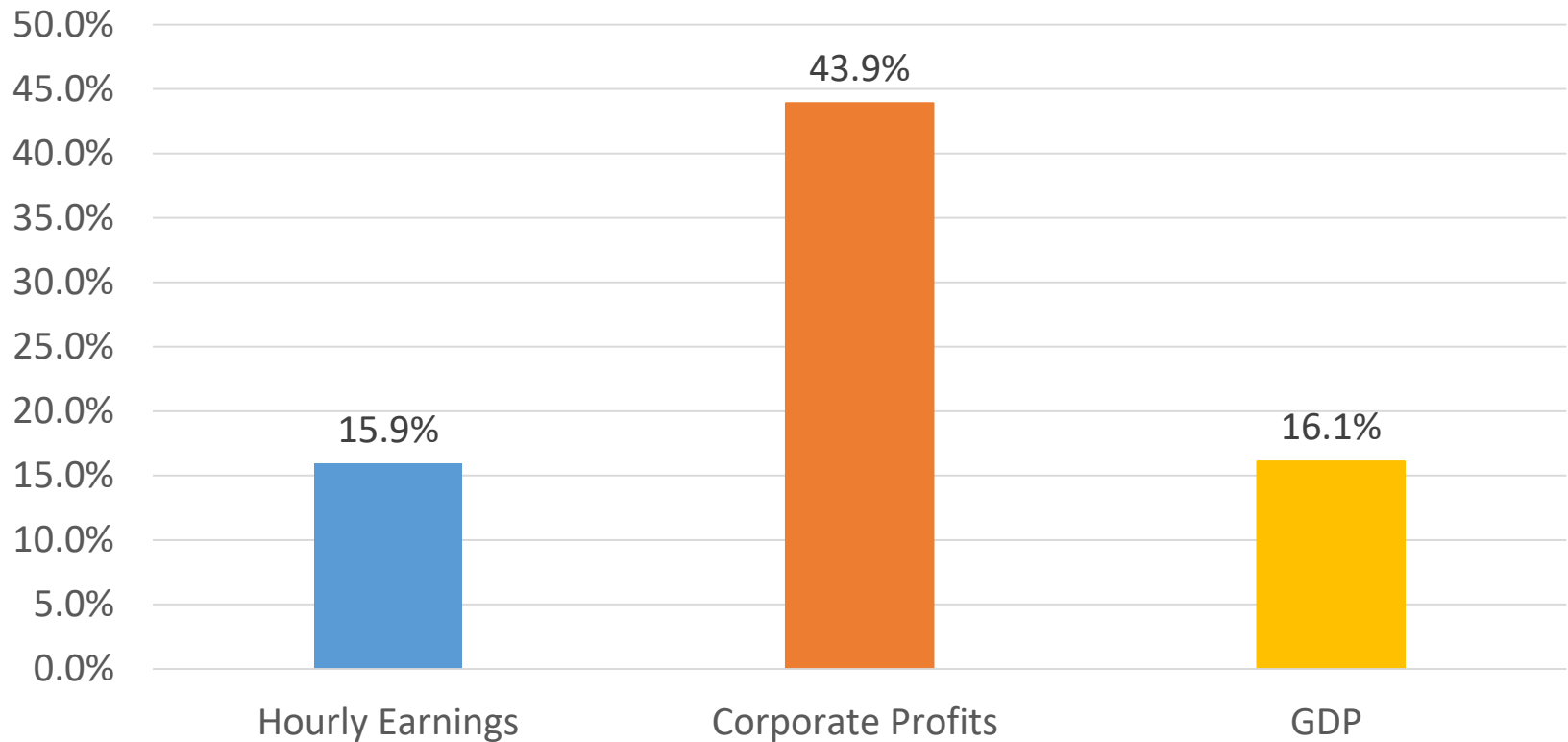
Source: Bureau of Economic Analysis, via Haver Analytics

Henry Blodget, Bombshell: New Study Destroys Theory That Tax Cuts Spur Growth, September 21, 2012 <http://www.businessinsider.com/study-tax-cuts-dont-lead-to-growth-2012-9>

Business Can Handle it OK

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Percent Change Since the Great Recession
2009 (Q3) to 2016 (Q3)



Source: Bureau of Economic Analysis

The Multiplier Effect

Government Action	Multiplier Effect on Illinois Economy
(i) Tax Cut:	
• Across the board tax cut (temporary)	0.98
• Cut In Corporate Income Tax Rate	0.32
• Accelerated Depreciation	0.29
(ii) Spending Increases:	
• General (for spending on items such as education, public safety, health and human services)	1.34
• Infrastructure	1.44

Source: Testimony of Mark Zandi before the Joint Economic Committee, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits", 2012

For More Information

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