

THE NEXT 10 YEARS OF

Education Finance



WRITTEN BY

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10 YEARS

OF ALLOVUE

10-Year Anniversary Reflection

An Introduction by Jess Gartner, Founder and CEO of Allovue

Ten years ago, I had an idea.

Perhaps you've heard of the napkin-sketch stage of innovation? On December 12, 2012, I came up with the name Allovue in order to complete an application to AccelerateBaltimore, a local seed-stage accelerator.

Here's a snippet from that application:

Give us your elevator pitch, describe your business in 250 words or less. Please include what is innovative about your idea.

Allovue is an integrated technology solution to help school leaders budget funds, track expenses, and analyze the impact of spending on instructional practices and student achievement. The budget tool will guide principals through the school-budgeting process with a series of information prompts and graphical representations of the budget (think TurboTax for school budgets). The complimentary expense-tracking tool will integrate school expense records with the budget (think Mint.com for principals) to gain a more nuanced analysis of school spending practices as they correlate to outcomes like student achievement and

teacher satisfaction and retention. Currently, individual school budgets are primarily maintained in Excel or entered into a centralized human capital management system, but there is no way to analyze the spending data across schools or school systems. By integrating the analytics with the budget and expense tracking tools, principals will have the option to make data-driven decisions based upon the best practices of high-performing schools.

In pursuit of this idea, I quit my job on the first workday of 2013 and took the plunge into entrepreneurship before I even found out if I had been accepted into the accelerator. Allovue was ultimately accepted to AccelerateBaltimore and our official anniversary, February 5, 2013, was spurred by the requirement to legally incorporate in order to receive the seed investment associated with the program.

I had a lot stacked against me in those early days: I was a first-time, non-technical, female founder venturing into an industry that was notoriously slow to innovate and historically under-capitalized. It was not a recipe for success. Receiving 330+ rejections while trying to raise an initial round of seed capital seemed to validate the improbability of success.



Receiving our first \$12,500 of funding from Deb Tillett, President, Emerging Technology Center in Baltimore, MD

But there's something else worth pointing out from that application:

Why should your company be selected for AccelerateBaltimore?

The concept for Allovue was inspired through years of experiencing and observing the effects of school-based resource allocation—the good, the bad, and the ugly. I believe that I have an intimate understanding of this problem, as well as the needs of the customer (school leaders).

Yes, I had an idea for the solution, but more importantly, I was obsessed with the problem and committed to addressing the needs of school leaders. Tech in general, and EdTech specifically, is riddled with solutions in search of problems. Understanding the problem to solve is the cornerstone of innovation, yet it's a step of the process that is often skipped entirely.

Describe how you will self-perform the work associated with launching a minimum viable product in 90 days or less.

The next stage of development will involve a series of interviews and focus groups with principals and district leaders in Baltimore in order to develop a comprehensive knowledge map of the budgeting process.

I spent the better part of a year listening to education administrators explain the problem. We didn't begin building solutions until many months later. That listening tour produced a trove of information that has proven invaluable over the years. It was miserably slow, unglamorous work, but the knowledge and empathy gained in that year is something no amount of money could have bought. This spirit is built into the Allovue DNA. **We started by listening to education administrators and we never stopped.**

I have heard and seen a lot over the past decade. Some of what I hear gets me excited; some of it breaks my heart; some of it sends me into a rage. I constantly straddle the line between hope and despair for the future of public education. I am energized by the huge potential for innovation and terrified by a host of imminent threats to its solvency. I am proud of the strides we have made and daunted by the enormity of the task still ahead, especially the vast and persistent resource inequities.

In the months leading up to this 10-year milestone, I have reflected deeply on what we've learned and where to go from here. As I contemplate the circumstances of the pandemic and ESSER funds, the polarized political landscape, the challenges with teacher recruitment, retention, and compensation, the pension debt crisis, declining enrollment, and myriad other challenges, the constant refrain I keep coming back to is: are we doing enough?

I know Allovue will not solve these challenges alone. A thriving public education system will require concerted efforts in every sphere of influence, including technology, practice, capital, research, advocacy, talent, and legislation. **We must work together to protect and elevate public education.**

Allovue's vision is that every dollar in education works for every student. We have not fulfilled this vision yet, but I invite you to join us in the effort for the next decade.





About the Authors



Jess Gartner

Jess is the founder and CEO of Allovue, where *EdTech* meets *FinTech*—*#EdFinTech!* Allovue was founded by educators, for educators. We combine powerful financial technology with education data, giving administrators the power to connect spending to student achievement.

Before founding Allovue, Jess studied education policy at the University of Pennsylvania and taught in schools around the world, including Thailand, South Africa, Philadelphia, and Baltimore. She taught middle school humanities in Baltimore City and received her M.A. in teaching from Johns Hopkins University.

Special thanks to our guest collaborators:

Jason Becker

Jason is Allovue's Chief Product Officer. He leads the data analysis, customer integrations, product requirements, and user experience and design. Jason's team also determines what improvements and additions to existing products can be made, while spearheading the innovation of new products. During his time at the Rhode Island State Department of Education, he developed and supported a new state education funding formula, assisting with the proposed funding formula's transition plan and providing data analysis on financing education reform.

Anthony Randazzo

Anthony is the Executive Director of Equable, a bipartisan nonprofit that provides public pension education, research, and solutions for employees, labor, communities, and policy makers. Anthony works with stakeholders around the country to build collaborative approaches to complex political and financial problems.

Katie Reed

Katie is a Partner and Managing Director at Afton Partners. Katie has supported state agencies and local education agencies on initiatives at the intersection of finance, strategy, and governance, with a particular interest in engaging diverse stakeholders in major change initiatives.

Zahava Stadler

Zahava is Project Director of the Education Funding Equity Initiative in the Education Policy Program at New America. Her work focuses on the policies that govern how school funding is raised and distributed, how those policies affect the equity of the public education system, and how they intersect with issues including housing policy, wealth inequality, and systemic racism.

Laura Weeldreyer

Laura is the Executive Director at Maryland Family Network. Her career has been primarily in education in the public and private sectors, most recently as Chief Program Officer for the Everyone Graduates Center at the Johns Hopkins University School of Education.





Teacher Compensation

Inadequate teacher compensation is related, directly or indirectly, to several challenges plaguing K-12 education—but how do we fix it?

WRITTEN BY

Jess Gartner and Jason Becker

IF I had to choose one issue that will dominate education finance discourse over the next decade, it's teacher compensation. Teacher compensation is related, directly or indirectly, to several challenges plaguing K-12 education: teacher shortages, teacher recruitment and retention, pension debt, resource equity, and funding adequacy.

For about two decades, teacher compensation has fallen behind wages for professions that require similar levels of education. While it varies considerably by state, a 2021 estimate from the Economic Policy Institute¹ pins the

average lag at 23.5%; if you factor in the outsize benefits that teachers receive, the gap shrinks to about 14%.

Based on Allovue's own research and recent inflation, I'd estimate that teacher wages need to increase by an average of about 20% to be truly competitive in today's labor market.

Because teacher compensation makes up such a large percentage (over 60%) of district budgets overall, meaningful teacher compensation increases are nearly impossible strictly through reallocation of existing resources. Reallocating dollars from student

transportation, nutrition, facilities, student support services (counselors, nurses, psychologists, etc), professional development, and technology cannot close the teacher wage gap.

The Rising Cost of Benefits

One of the core tensions with teacher compensation is that benefits now represent nearly 30% of personnel costs, largely due to health benefits costs rising at rates well above inflation.² If an average teacher salary is \$65,000, the district is actually spending closer to \$90,000 per teacher when you include

Staff (FTEs) Over Time

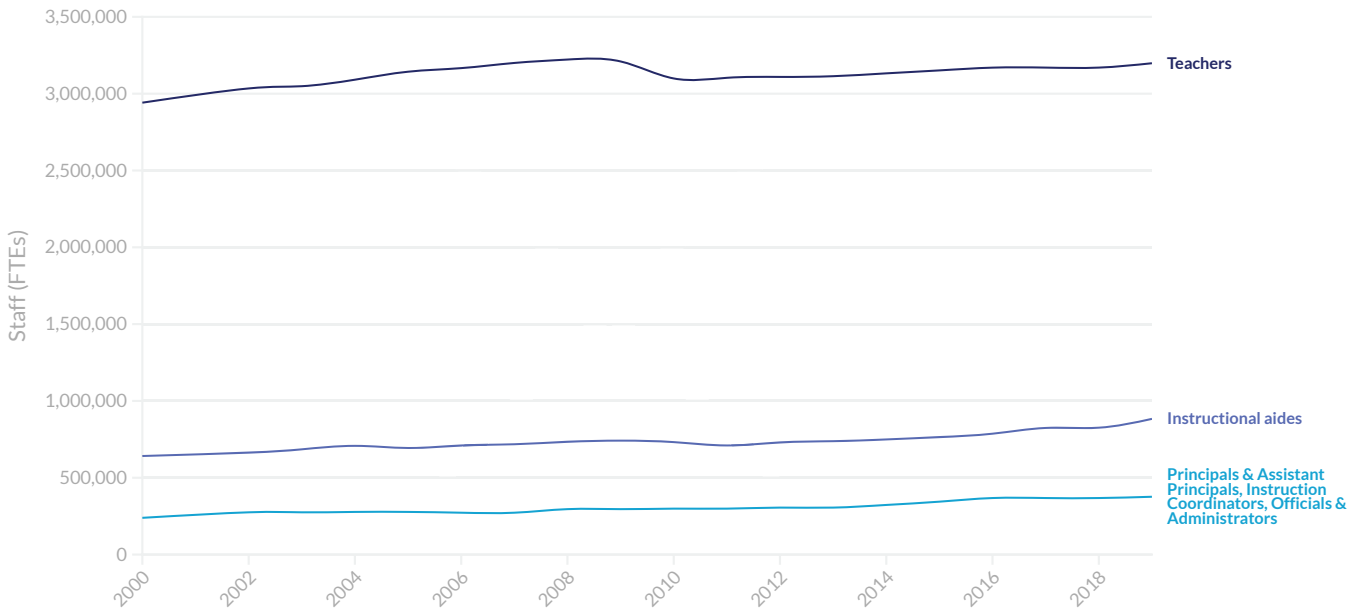


Figure 1. There are over 3 million teachers employed by U.S. public schools. Teachers and instructional aides outnumber all administrators and coordinators nearly 11:1.

health benefits, pension contributions, other benefits, and employer payroll taxes. Over the past several decades, benefits costs have increased dramatically relative to wages.

This creates a frustrating dynamic where district CFOs say they are allocating ever-increasing budget amounts to teacher compensation, teachers counter that they see little-to-no increase in their paychecks, and both parties are correct.

The Administration Myth

There is a prevailing notion that an increase in administrative staff is to blame for depressed teacher wages. I have a hunch that the reason this misconception has taken hold so pervasively is that it's common to see

Salary and Benefits as Percentage of Teacher Compensation

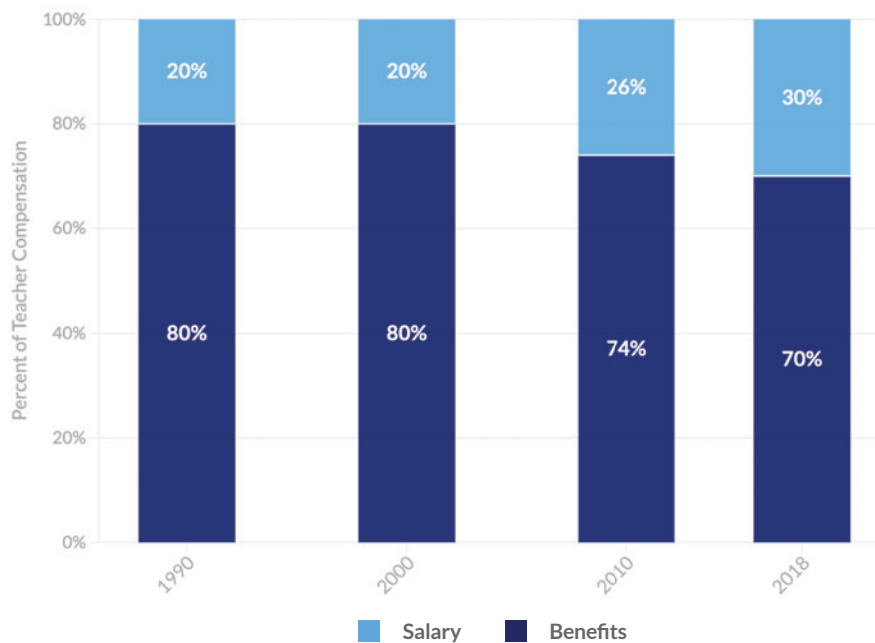


Figure 2. In 2018, benefits represented nearly 30% of teacher compensation costs, in contrast to 20% in 1990. And due mostly to the rising costs of health insurance and care, per-pupil expenditures on benefits increased 110% between 1990 and 2018, while per-pupil expenditures on salary only increased 18% (adjusted to 2020-21 dollars).

graphical representations of administrative staff versus instructional staff increases expressed as percentages. The fact is that there are nearly 11 times as many teachers as administrators—increasing administrative positions by 20% sometimes literally means adding two people in a district relative to dozens or hundreds of teachers.

Let's set the record straight: administrative spending is not the cause of flattening teacher compensation.

Here's the truth: administrator salaries make up only 7% of public education spending—that's including all school-based administrators like principals, assistant principals, and instructional coordinators. Only 2% of total spending is for district-level administrator costs. If public education completely eliminated central office administration, that would translate to about \$150 per month in teachers' take-home pay. In exchange, teachers and school-based leaders would have to pick up the tasks of managing ...



Staff Members (FTEs) per 100 Enrolled Students Over Time

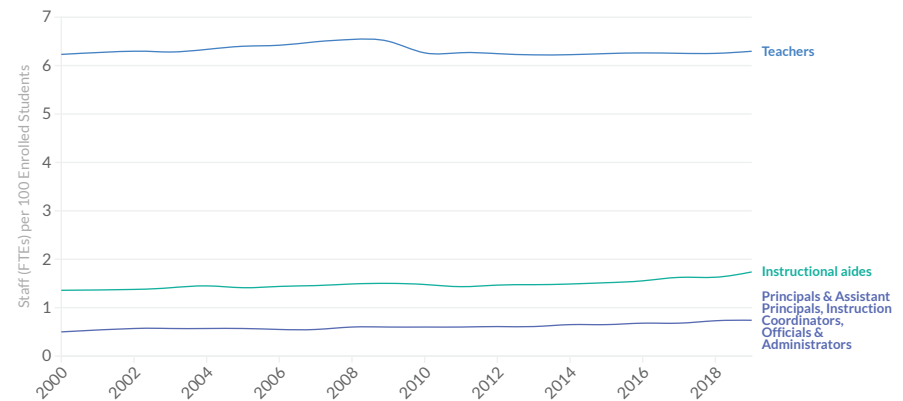


Figure 3. Staff-to-student ratios demonstrate changes in staff composition over time. If this graph looks similar to Figure 1, that's because school staffing has remained relatively flat in terms of staff-to-student ratios over the past two decades.

- Payroll
- Accounting
- Budgeting
- Human capital (including all recruitment and hiring)
- Purchasing
- Enrollment
- Curriculum
- Facilities management
- Professional development
- School board relations
- Communication with parents and staff
- Media relations
- Information act requests
- Grants
- State and federal reporting
- Compliance
- Special education administration
- Legal issues and litigation
- Student transportation
- Home and hospital programs
- Nutrition and food services
- Education technology
- Testing coordination
- Information technology
- Athletics
- Devices
- Inventory and assets
- Capital projects
- Liaising with state and local governments

... and a host of other duties that are juggled by a relatively small cohort of administrators today.

Pupils Per Staff Member

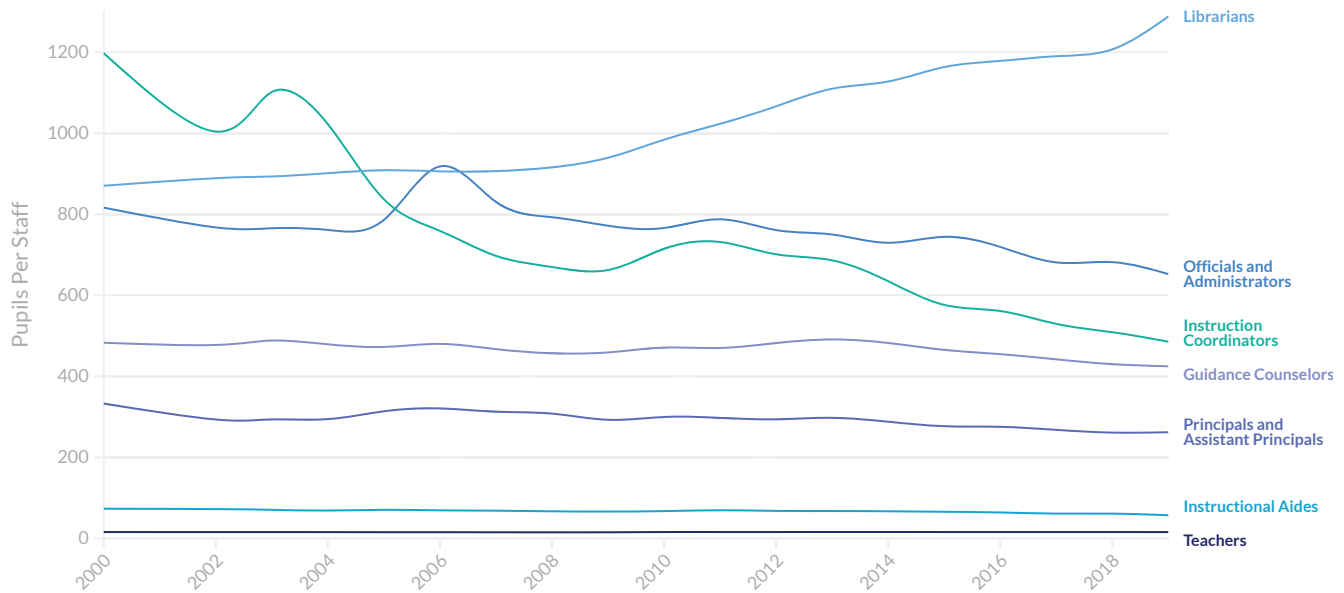


Figure 4. This graph illustrates the per-pupil ratios of staff members over time. Teachers and instructional aides have the lowest ratio of students per staff with an average of 15.8 and 67.4 pupils per staff member over the past two decades. Librarians have the highest ratio with nearly 1,300 pupils per staff member. Instructional coordinators have had a significant decrease in students per staff member, although they still represent just 2% of all district administrative and instructional staff.

Teachers make up the bulk of employees in school districts and schools. So even *small* raises spread across all of those employees are incredibly costly. It's not just that administration is a much smaller part of district spending than most assume, it's also that each dollar for teacher compensation is spread thin. A considerable reduction in spending by percentage in areas other than instruction often has just two results:

1. Teacher compensation increases that are insignificant to individuals and fail to meaningfully reduce the teacher wage gap.
2. The destruction of a school or district's ability to provide valuable, often mandatory services to students and families.





Let's give public school teachers a raise.

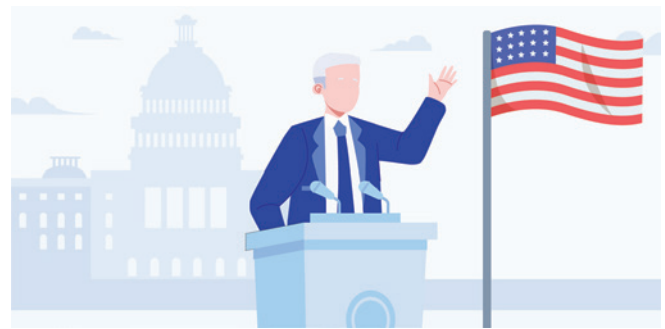
— U.S. PRESIDENT JOE BIDEN

President Biden's call to give teachers raises in the 2023 State of the Union address was met with big cheers, but it left me wondering: Who is "us" in the phrase "Let us"? With only about 8% of K-12 public education funding coming from the federal government, it's not Biden's raise to give.

There is a widespread assumption that school district superintendents and finance leaders "hold the purse strings" to school district spending. While school district administrators are responsible for building and maintaining balanced budgets, they have virtually no influence on district revenue—it's state governments and municipal governments or school boards that determine how much districts have to spend.

In most states, teacher compensation is controlled by local school districts. Contract negotiations are between teachers (and where legal, their collective bargaining units) and local school boards. The structural flaw in these negotiations is that, quite often, local school boards have limited influence on the total available funding. Depending on the state and district, state general aid to districts can represent a significant portion of total revenue. And even when districts are funded largely through local taxes, many states put strict caps on how much local taxes can be raised without direct voter approval. Increasing revenue, therefore, relies on us—local voters—and state legislatures.

Without increased revenues, the only option to increase salaries is to reallocate from other pieces of the pie, such as student services like counselors or nurses that are also under-resourced and are often required to meet service level requirements set in law. The purse, so to speak, is not holding any loose change to give to teachers.



Absent increased revenues for schools, and with relatively few dollars dedicated to required services beyond direct instruction, districts look to structural changes to schools and classrooms to increase teacher wages and keep up with rising benefits costs. As we're seeing play out in Minneapolis, this means school closures and layoffs. Districts can afford to pay teachers more if there are fewer teachers, but also if there are fewer schools that are all operating closer to their capacity, reducing fixed costs and spreading them among the most students possible.

As one of Allovue's partners put it, "It's a pie, not a well." Expanding that pie will require new revenues and better distribution of those funds to the right schools. To do that, we need state and municipal lawmakers to shift priorities and dollars to education from other areas and/or increased taxes. We need to convince them (and voters) it will be worth it. 🏠

Data Sources

Figures 1, 3, 4

U.S. Department of Education, National Center for Education Statistics, Statistics of State School Systems, various years; Statistics of Public Elementary and Secondary Schools, various years; and Common Core of Data (CCD), "State Nonfiscal Survey of Public Elementary/Secondary Education," 1986-87 through 2019-20.

Figure 2

U.S. Department of Education, National Center for Education Statistics, Biennial Survey of Education in the United States, 1919-20 through 1949-50; Statistics of State School Systems, 1959-60 and 1969-70; Revenues and Expenditures for Public Elementary and Secondary Education, 1979-80; and Common Core of Data (CCD), "National Public Education Financial Survey," 1989-90 through 2018-19.





Declining Enrollment

Where have all the students gone, and what are the consequences of a shrinking student population?

WRITTEN BY

Jess Gartner and Jason Becker

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or the first time in decades, enrollment in K-12 public schools is precipitously declining: estimated public school enrollment for 2023 was a million students short of 2019 levels, about a 2% drop.

State and federal funds represent approximately 54% of all K-12 education funding. And since most of this non-local funding is determined by enrollment counts, shrinking student counts mean shrinking budgets.* Declining enrollment and shifting demographics of student populations will be a major theme over the next decade.

** There is another school of thought suggesting that budgets will increase on a per-pupil basis if budgets stay flat and enrollment decreases. I don't believe this will be the case. States may maintain funding for a year or two, but I suspect they will quickly adjust funding levels to match enrollment.*

Buckle up, we've got a lot to consider here:

- Private Schools & Homeschool Options
- Fewer Babies, Fewer Students
- Decline in Immigration
- School Consolidation
- School Closures
- Recommendations

K-12 Public School Enrollment

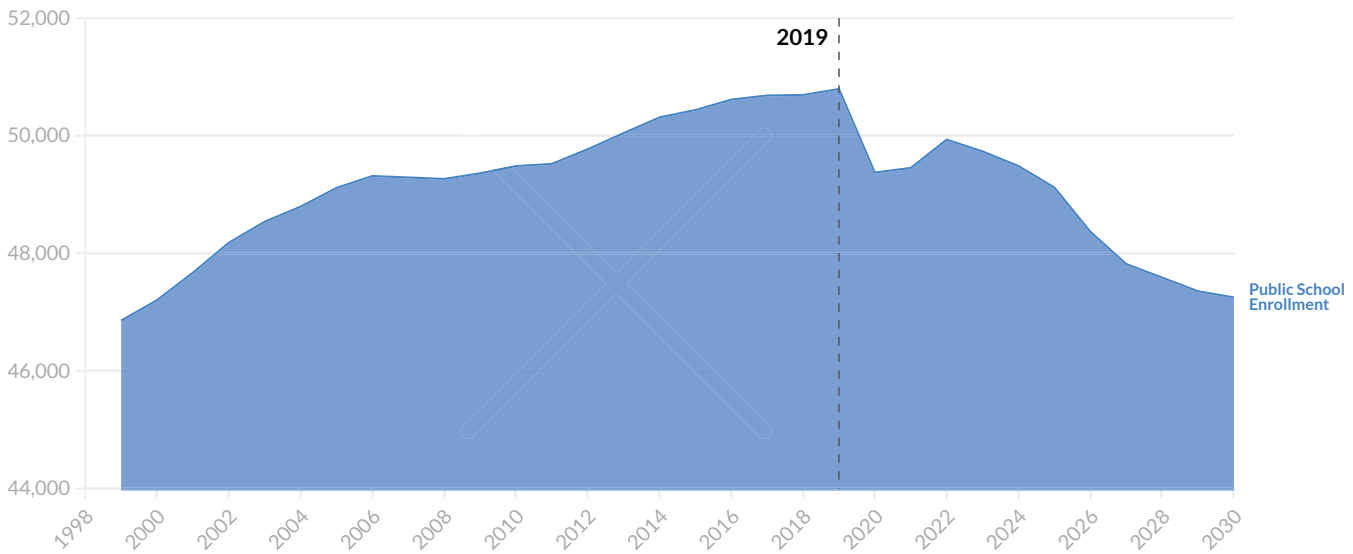


Figure 1. After an approximate 2% drop in K-12 public school enrollment between 2019 and 2020, the Department of Education is projecting a small rebound and then gradual decline through 2030.

1. Private Schools & Homeschool Options

Let’s look at some numbers. The primary narrative I hear about student enrollment is that families are fleeing public schools for private schools and homeschool options. This narrative didn’t emerge with the pandemic—I’ve been hearing this for well over a decade, yet the data doesn’t support it. Between 1999 and 2019, the total percentage of private and homeschool enrollment actually *decreased* slightly. However, there has been a steady shift towards homeschooling and

away from the private/religious school enrollment among non-public enrollment.

The most current data we have available for private school and homeschool enrollment comes from the Household Pulse Survey administered by the Census Bureau in January 2023, which has huge margins for error due to the small sample size.³ This is the source of all those headlines that homeschool enrollment has jumped to 3.3 million students, or 5.4% of total enrollment (up from 1.5 million students and 3% total enrollment in 2019). This same survey also reports 55.2

Percentage of K-12 Enrollment by School Type

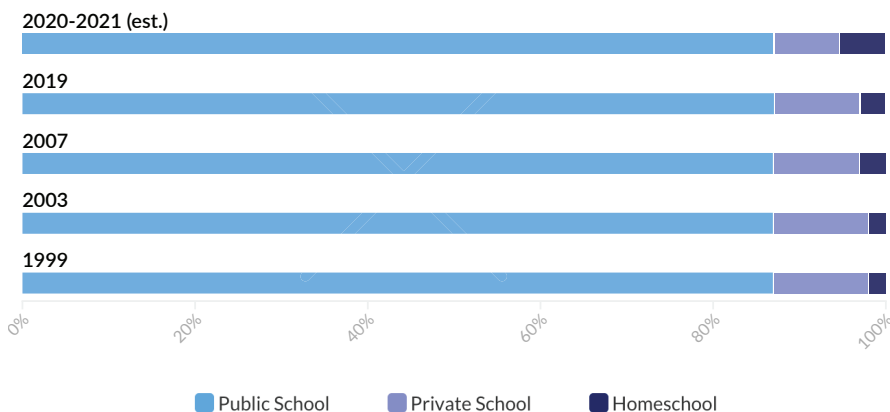


Figure 2. Between 1999 and 2019, private and homeschool enrollment decreased slightly, from 13% to 12.87% of all K-12 enrollment.

million students in public schools—up from 49.5 million in 2021—yet no other demographic trend data supports a school-age population increase of 12% over the past 18 months. So, what’s really going on?

Here are my predictions for what is most likely to be true once we account for the pandemic-related anomalies of 2020-2022 and normalize the trajectory:

Homeschool enrollment will increase, more at the expense of private schools than public schools, and hover between 3-5% of K-12 enrollment for the next 5-10 years.

Private schools and public schools will continue to experience 1-2% annual enrollment declines due to declining birth rates.

2. Fewer Babies, Fewer Students

No two ways about it: fewer babies born means fewer students enrolled in schools. Let’s look at the actual number of births in the U.S. for the past 60 years.

After steady growth in births between 1975 and 1990 and again in the early 2000s, there was an inflection point in 2007 that reversed the trend. Births haven’t been as low as they are today since the early 1980s. Since 1980, the number of births per year has grown and reversed by 700,000—when those babies grow up, that’s the difference of

Private School v. Homeschool Enrollment

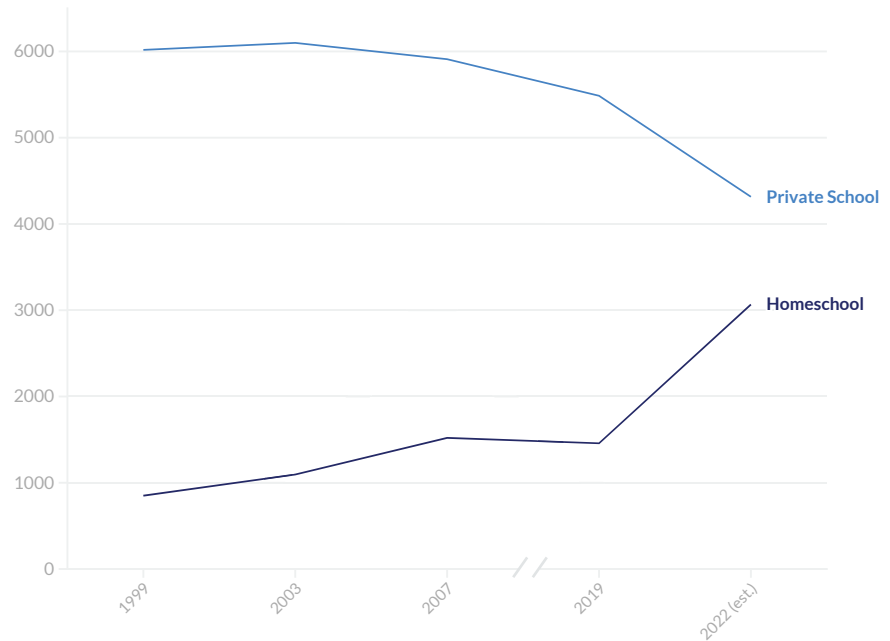


Figure 3. Data on private school and homeschool enrollment from the Household Pulse Survey (above) is in conflict with other demographic trend data.

Live Births from 1960 to Present

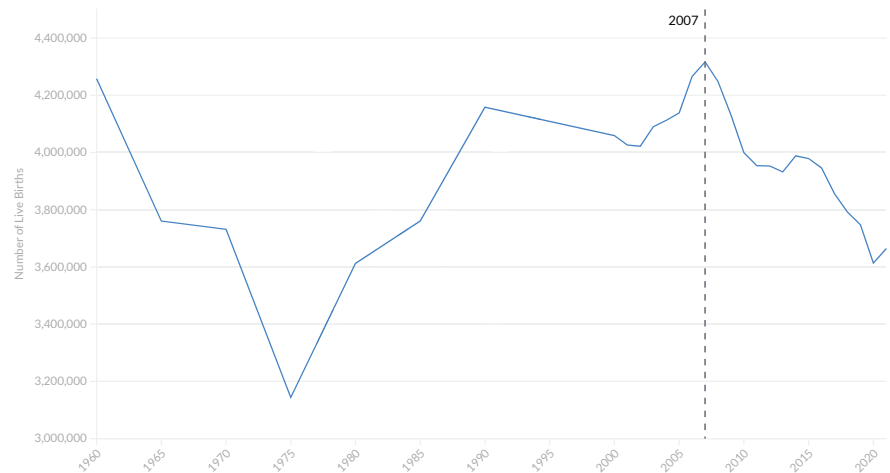


Figure 4. The number of live births in the U.S. has been on the decline since 2007.

700,000 greater or fewer school-aged children per year. For decades, we built schools, bought furniture, and hired staff to teach a growing number of students in schools—now, we are experiencing the painful downward trend.

3. Decline in Immigration

Immigration Estimates

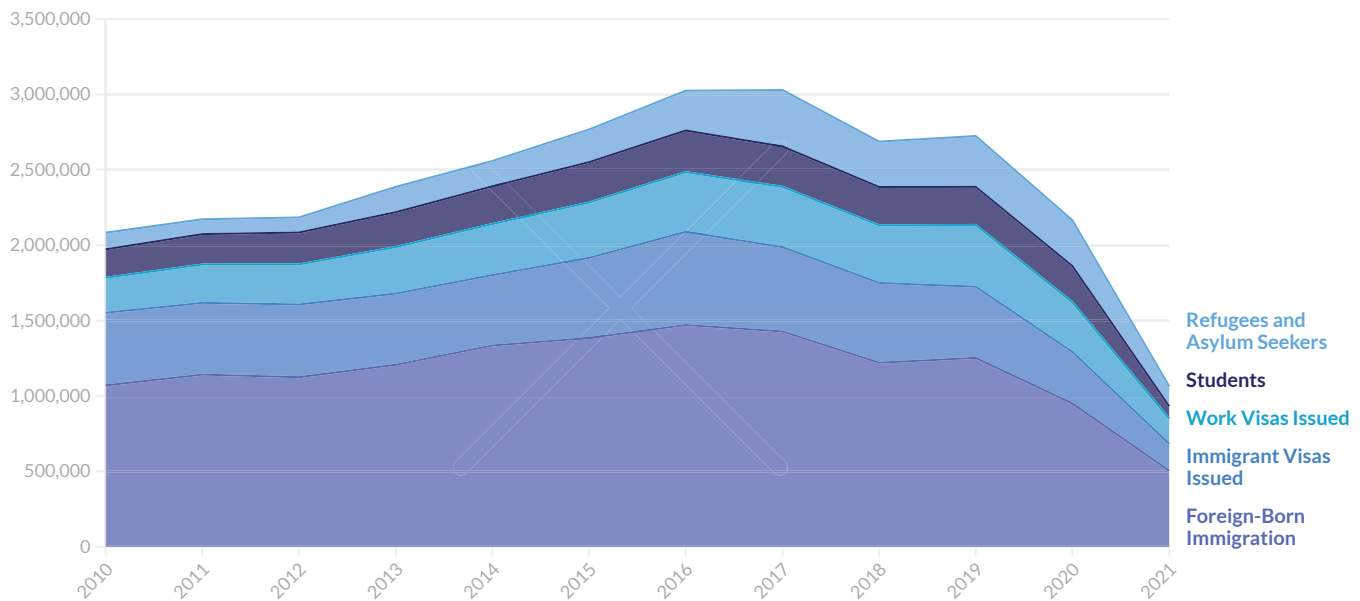


Figure 5. Migration to the U.S. has been on the decline since 2016.

There's another major component to these population trends: immigration. Immigration and foreign-born populations in the U.S. also climbed steadily after the Immigration and Nationality Act of 1965 was passed. However, migration to the U.S. has dropped sharply since its peak in 2016 as a combined result of Trump-Era immigration policies and the pandemic.⁴

We're already in the midst of this contraction. While this change has accelerated in many urban areas by the growth of suburbs and resulting population and demographic shifts, this contraction will have far-reaching consequences on schools of *all* types in *all* geographies if the declining birth rate continues.

What happens next? Two other “c” words: consolidation and closure.

4. School Consolidation

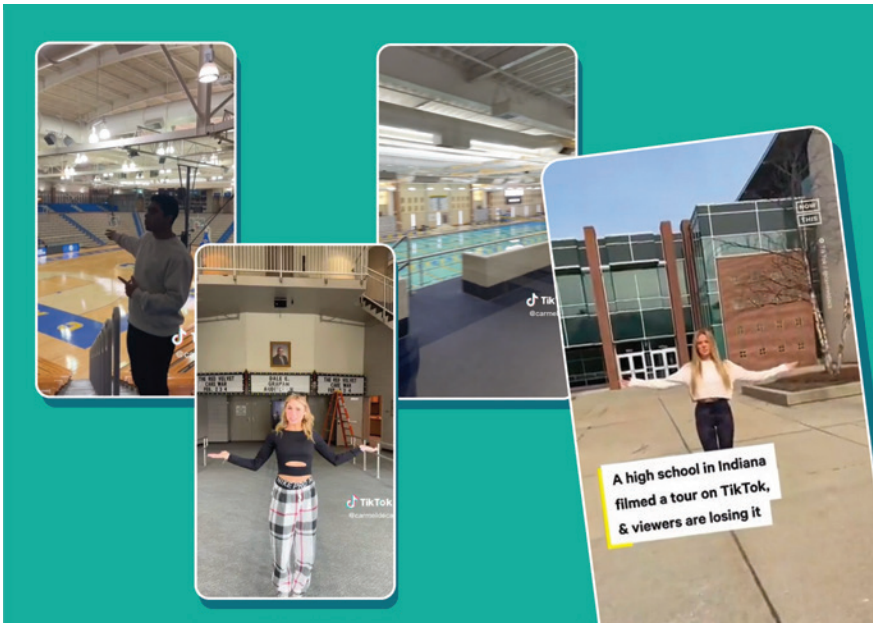
VIRAL TIKTOK TAKES THE INTERNET INSIDE A HUGE SCHOOL

In February 2023, a TikTok video of students showcasing the facilities of Carmel High School in Indiana went viral as the internet marveled over the several gyms and other instructional amenities that rival the offerings of many colleges.⁵ The internet was quick to call out funding inequity due to wealthy communities' ability to raise local tax revenue for schools. Normally, I'd suspect the same, but looking at the data, there's another side to the story.

The per-pupil spending for Carmel High School in fiscal year 2020 was just \$9,629—about 75% of the national average. But it is a relatively wealthy community, with just 10% of their

students considered economically disadvantaged, compared to 65% economically disadvantaged in nearby Indianapolis Public Schools. How is this possible? Did Carmel High School have a million-dollar bake sale?

The enrollment of Carmel High School is 5,400 students—larger than most school districts, many colleges, and several towns. It's the only high school in a town of 100,000 people. Their annual operating budget is over \$50 million—larger than most municipal governments. If Carmel High School were its own district, it would land in the largest 15% of school districts. The Carmel Clay district in which it resides includes 16 schools, but Carmel High School accounts for nearly a third of the district's \$160 million budget and 16,000 students (the other 15 schools are elementary and middle schools that



feed into the high school).

LARGE SCHOOLS HAVE OPPORTUNITIES FOR EFFICIENCIES

The national average public-school size is about 500 students, making Carmel High School about 10 times larger than any average school, and about 6.5 times larger than the average high school. Why does this matter? Many programs that are inefficient in small schools work well in larger schools. Carmel's shop classrooms were impressive. In a school with 5,400 students, it's quite possible to have just 2% of students participating in this program and over 100 students enrolled in these classes. That efficiently and effectively pays for one full time shop teacher with a full class all day. Conversely, for a school with 500 students, that same 2% interest is only 10 students—hardly sufficient for a robust offering with specialized staffing. The same is true for AP classes, additional sports teams and facilities, and clubs.

Larger schools also have more efficient economics for administration. Consider this: if the average principal's salary and benefits costs \$130,000...

- The principal costs \$24 per pupil at the 5,400-student Carmel High
- The principal costs \$260 per pupil at the average 500-student school

Denominators matter. Adding three assistant principals to Carmel High for \$100,000 each to account for the complexity of a larger school only adds another \$55 per student. Now, consider teachers. Assuming that teachers make up 65% of the annual operating budget, what remains after this cost is accounted for?

In a 5,000-student school, nearly \$20 million remains for everything else. In a 500-student school, less than \$2 million is left for everything else.

MOST EDUCATION COSTS DO

NOT FLEXIBLY SCALE UP OR DOWN

A core challenge with school budgeting is that most education costs do not flexibly scale up or down on a per-pupil basis, and the pains of enrollment swings that require quick additions or reductions of resources are felt most acutely in small schools.

Early in 2023, a high-ranking Texas Education Agency official, Steve Lechelop, was recorded on audio advocating for voucher expansion, glibly telling a parent, "School districts, what they have to do if they lose a student, [is] be smart about how they allocate their resources, and maybe that's one less fourth grade teacher."⁶ Let's play this out: how would a district allocate "one less fourth grade teacher" if a school loses "a" student? What happens to the other 25-28 students in that class? Will Mr. Lechelop be calling those parents and students personally to say, "Sorry, Johnny, we had to make some budget cuts and fourth grade isn't in the cards for you this year—why don't you take the year off and we'll see you for fifth grade?"

The problem, of course, is that enrollment declines never happen in a way that makes uniform cuts logical. If the entirety of a 1-2% enrollment loss was concentrated in a single grade, then those cuts would be quite simple. The more likely reality is that every other class in each school will lose one kid, reducing district revenue by 1-2% without reducing costs in any meaningful way. The remaining 98-99% of

kids in every class in every school still need the same ratio of teachers, principals, cafeteria and custodial staff, a safe school building, etc. Instead, resources like art, music, library, advanced course offerings, counselors, and administrative staff are regularly on the chopping block. “One less fourth grade teacher” is not a serious solution to the very real fiscal challenges created by slow, evenly distributed enrollment loss.

School consolidation is not a substitute for adequately funding public education. As discussed in the previous article, p. 10, there is no amount of administrative efficiency that will solve structural problems with instructional funding. However, school consolidation may stem the tide of deeper cuts to instructional programming if it generates 1-3% annual resource efficiency for student services and administration.

5. School Closures

We’re already a decade or more into enrollment declines in many major school districts. Most districts have



The problem, of course, is that enrollment declines never happen in a way that makes uniform cuts logical.

kicked the can down the road pretty far when it comes to enrollment decline, and the only remaining option (short of magically reversing decades of enrollment trends) is school closures.

Closing schools hovers right around “stealing candy from babies” on the popularity index. Any superintendent who wants to keep their job will avoid school closures, often to an unreasonable degree. As a result, there are far too many schools operating well below their expected capacity—sometimes as low as 30-60% of building capacity. Economically, many districts are ripe for “right-sizing”—merging schools so that buildings operate at higher capacity, while reducing administrative overhead per school to a ratio that is better suited for the total district population.⁷

Politically, school closures are practically guaranteed to end a career. For all the hub-bub about dissatisfaction with public schools, the 2022 Gallup poll shows that 80% of parents are consistently satisfied with (at least) their oldest child’s education.⁸ Nowhere is this majority more clear than at a public hearing to discuss school closures. I’ve yet to see a school closure on an agenda that didn’t produce an outpouring of community support and tearful pleas from parents and students to keep their school open.

For many reasons with a long and ugly legacy, the schools proposed for closure are most often in communities that disproportionately affect poor or Black students.⁹ School closures can never be a pure economic decision. Well-intentioned attempts to keep low-capacity schools open often end up hurting all schools and students in the district, as resources that could be allocated to expanding instructional offerings or extracurriculars are instead used to subsidize under-capacity schools. Intentionally designed small schools have a place in the ecosystem, but too many districts are using “small schools” as shorthand for “schools with declining enrollment that are dramatically under-capacity.”

Avoiding these difficult conversations in the short-term will only hurt more students and close more schools in the long-term.

6. Recommendations

This is pretty grim. Looking at the birth rates, I suspect it’s going to get a lot worse before it gets better. The ESSER stimulus funds were hailed as “transformational” for K-12 education, but the unfortunate reality is that these funds have likely been plugging holes and staving off already overdue cuts and right-sizing across the nation. I predict that we are in for some very hard times in the 2024-25 school year

and beyond as stimulus dollars dry-up and the rubber hits the road on declining enrollment and budgets.

WHAT ARE SCHOOL DISTRICTS TO DO? CONSIDER THESE RECOMMENDATIONS:

School districts that have fewer than 10,000 students can start to get ahead of this outcome by looking to merge with other area districts; they can retain instructional flexibility while consolidating administrative functions.

School districts that are already years or decades into declining enrollment must take a hard look at the number of schools they are operating relative to the current and projected enrollment. These conversations are not easy, but they are essential for preserving the integrity of education quality for students. This is particularly important during long-term capital planning—when should we fix and rehabilitate a school versus construct new buildings versus sell existing property?

Teachers and parents must sit at the table with district leaders and wrestle with these challenges *alongside* leaders instead of *against* them. No superintendent wants to close schools, but they *do* want to provide a quality education for all students in the district. Proactively exploring how school consolidation can be implemented equitably and paired with new transportation solutions or expanded instructional programs that can help build community buy-in around difficult decisions. 🏠



Data Sources

Figures 1, 2, 3

U.S. Department of Education, National Center for Education Statistics, *Statistics of Public Elementary and Secondary School Systems, 1980-81*; Common Core of Data (CCD), “State Nonfiscal Survey of Public Elementary/Secondary Education,” 1985-86 through 2020-21 and 2021-22 Preliminary; and National Elementary and Secondary Enrollment Projection Model, through 2030. (This table was prepared July 2022.)

Figure 4

National Center for Health Statistics, cdc.gov/nchs/index.htm

Figure 5

United States Census Bureau, census.gov/topics/population/foreign-born.html



Equity is a priority. Do you have the tools to achieve it?

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Pension Debt & Reform

The trend of pension debt as an increasing portion of school spending is not fiscally sustainable.

WRITTEN BY

Jess Gartner, Jason Becker, and Anthony Randazzo

The Hidden \$600 Billion Cut to Education Budgets This Decade

The \$190 billion ESSER stimulus figure has been making headlines since the passage of the American Rescue Act in March 2021. It's a big number that's turning heads about its potential impact on K-12 education.¹⁰ Over the same six fiscal years that the ESSER grants are eligible for spending, public education will pay nearly \$300 billion in teacher pension debt payments.

You read that correctly: the big \$190 billion number that everyone can't stop talking about won't even cover unfunded teacher pension liabilities over the same period of time. If the trend continues (which seems likely based on recent economic performance), the public education system will be on the hook for at least another \$300 billion through 2030.

This money comes out of school district budgets—so why is no one talking about the \$600 billion or more budget cut that is happening to public schools this decade?

Let's put these numbers into perspective: imagine you have an \$800 balance on your credit card, and you pay \$50 each month while interest is compounding. Your minimum payment will quickly increase as your overall debt balloons. Now, add nine more zeros—this is the budget-crushing challenge of our teacher pension system. The debt payment is ticking up to \$50 billion per year and growing, while barely making a dent against the total \$815 billion liability.

For comparison, total ESSER spending across the 4.5-year grant period would average only \$42 billion per year. If there is such pearl-clutching scrutiny about ESSER spending, why isn't there equivalent outrage about \$40-50 billion per year coming out of education budgets to pay down pension debt?

Estimated ESSER Spending v. Pension Debt

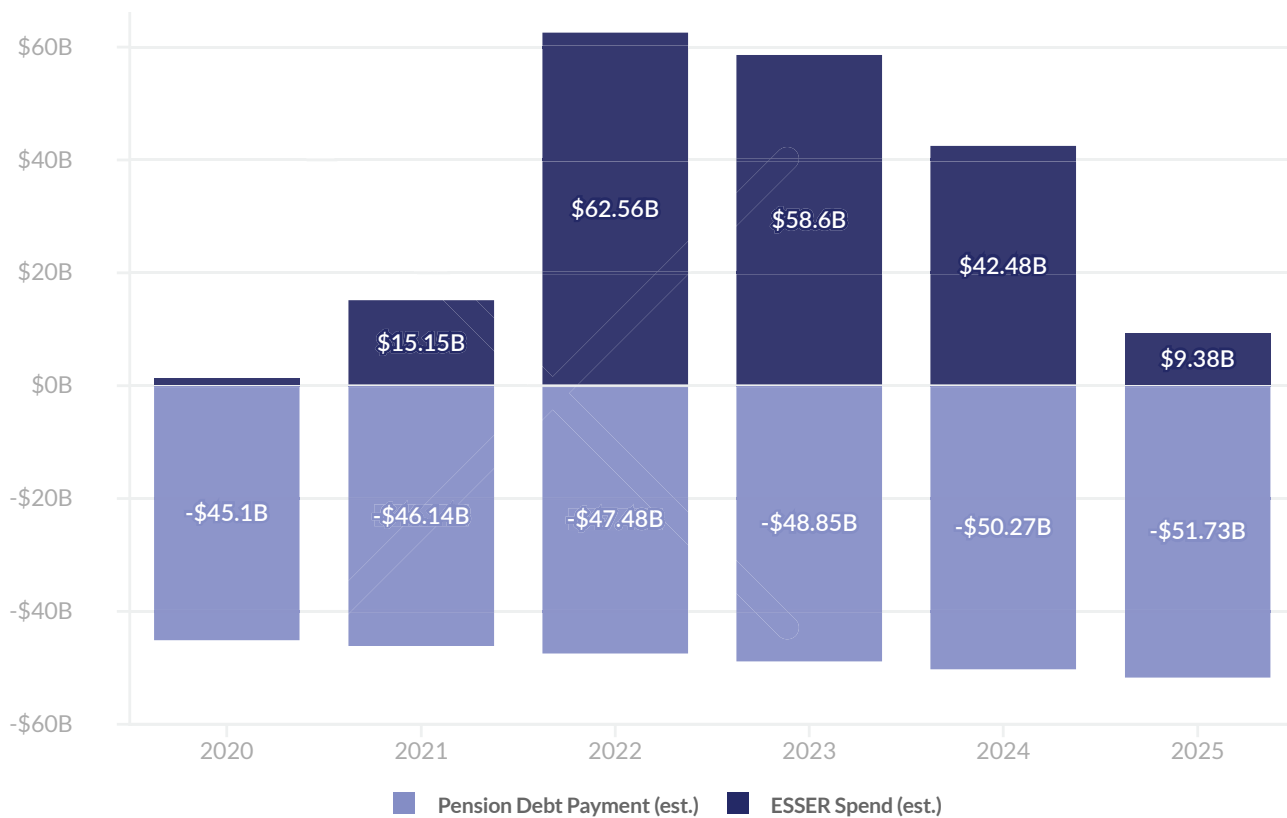


Figure 1. Projected pension debt payments between 2020 and 2025 total approximately \$290B. By 2030, total pension debt payments may reach between \$605B and \$635B, based on 2-2.9% payroll growth projections for teachers.

Most Teachers Are Not Served Well by Their Pension Plans

Aren't pensions a good thing? Isn't a pension plan one of the biggest perks of a career in public service? This is a classic case of several things being true at the same time:

- Pensions are an incredible benefit for most career teachers (more than 20 years of service) who account for an increasingly small proportion of teachers.
- Unfunded pension liabilities are crushing school budgets.

There is only one group served well by all retirement plan types on average: teachers who work their full career and leave when they reach retirement eligibility.¹¹

You know what's anti-teacher?

Keeping teacher salaries flat for decades, maintaining a system that benefits the few at the expense of many, and risking the very solvency of public education.

However, only 8-15% of teachers hired today are expected to make it to retirement age with full benefits, depending on the state's eligibility requirements for years of service and age of retirement. And even then, some teacher pension plans don't offer inflation adjustment of pensions, which makes these pensions less secure forms of income in the long-term.

We are in dire need of candid, collaborative conversations about how to improve the funding and benefit offerings of teacher retirement systems. It

seems that we collectively avoid this conversation because even broaching the topic of "pension reform" can be construed as being "anti-teacher."

You know what's anti-teacher? Keeping teacher salaries flat for decades, maintaining a system that benefits the few at the expense of many, and risking the very solvency of public education. The trend of pension debt as an increasing proportion of public school spending is not fiscally sustainable. We need to cut through the moralizing and have some hard conversations.

Pension Contributions v. Pension Debt

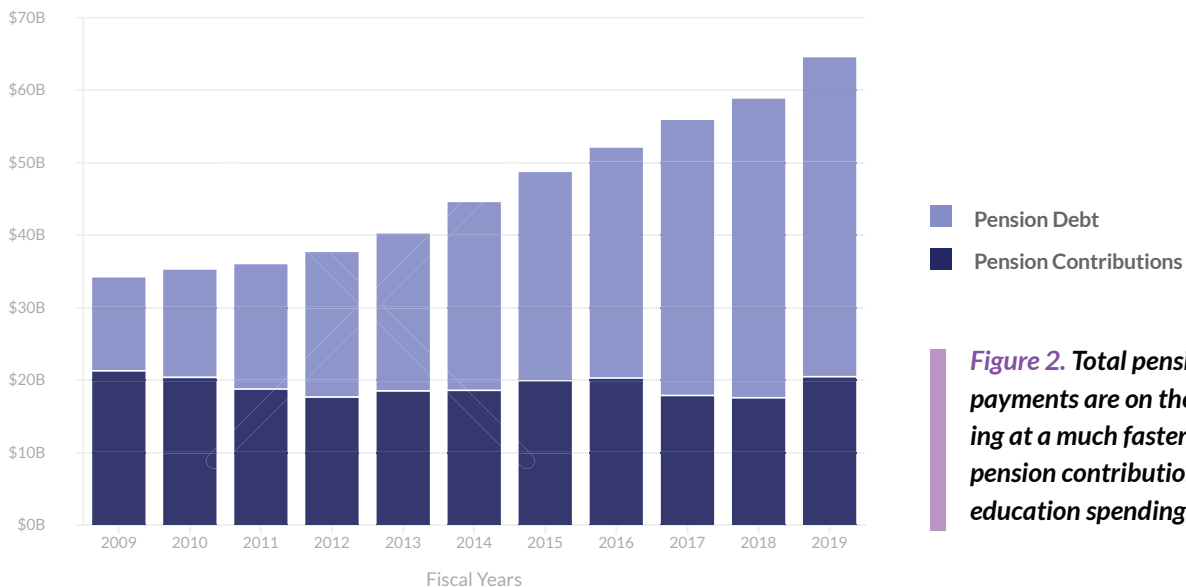


Figure 2. Total pension debt payments are on the rise, increasing at a much faster rate than pension contributions or K-12 education spending at large.

Pension Contributions v. Pension Debt Payments as a Percentage of K-12 Spending Over Time

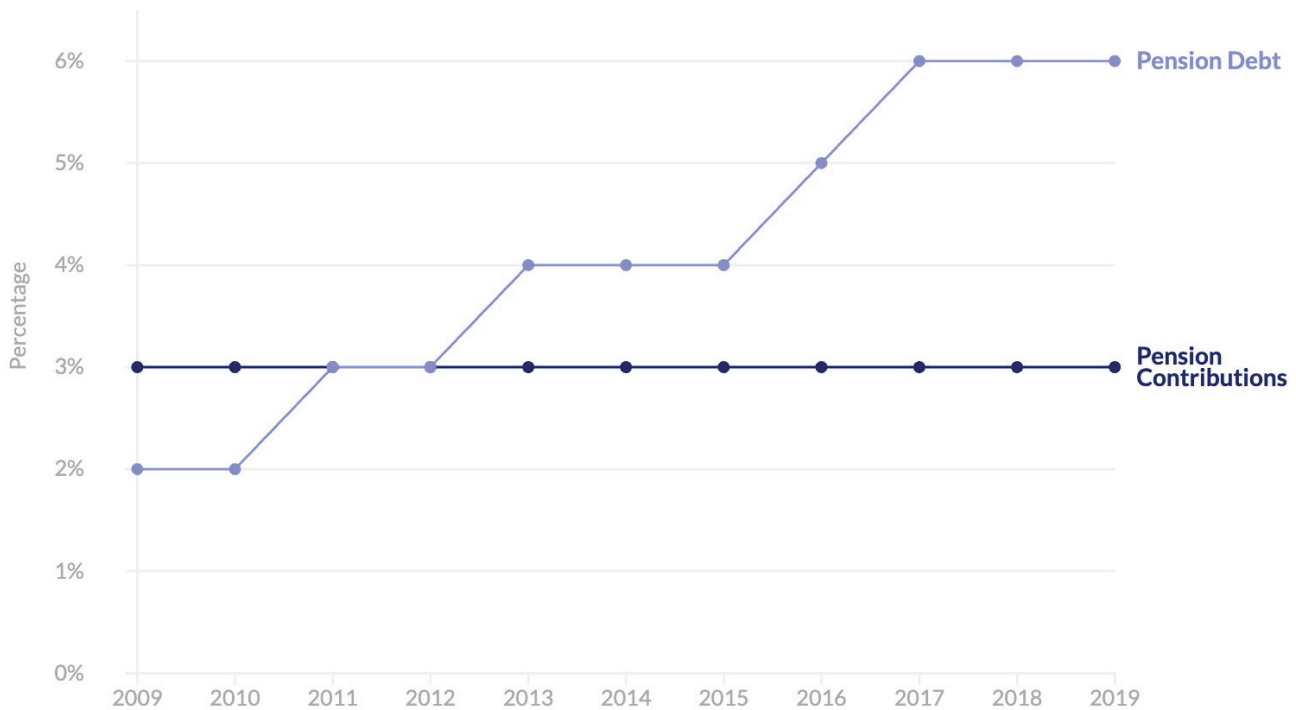


Figure 3. Over the years, pension debt payments have accounted for a greater and steadily increasing percentage of annual K-12 spending compared to pension contributions.

What We Can Learn from the Numbers

In the decade between fiscal years 2009 and 2019 (adjusting all figures for inflation):

- K-12 education spending increased 9%
- Total pension spending increased 90%
- Pension debt payments increased 240%

The rising cost of pension debt is taking up an increasing portion of education budgets, which makes it harder to increase teacher salaries or any other budget line-items.



States by Unfunded Liabilities

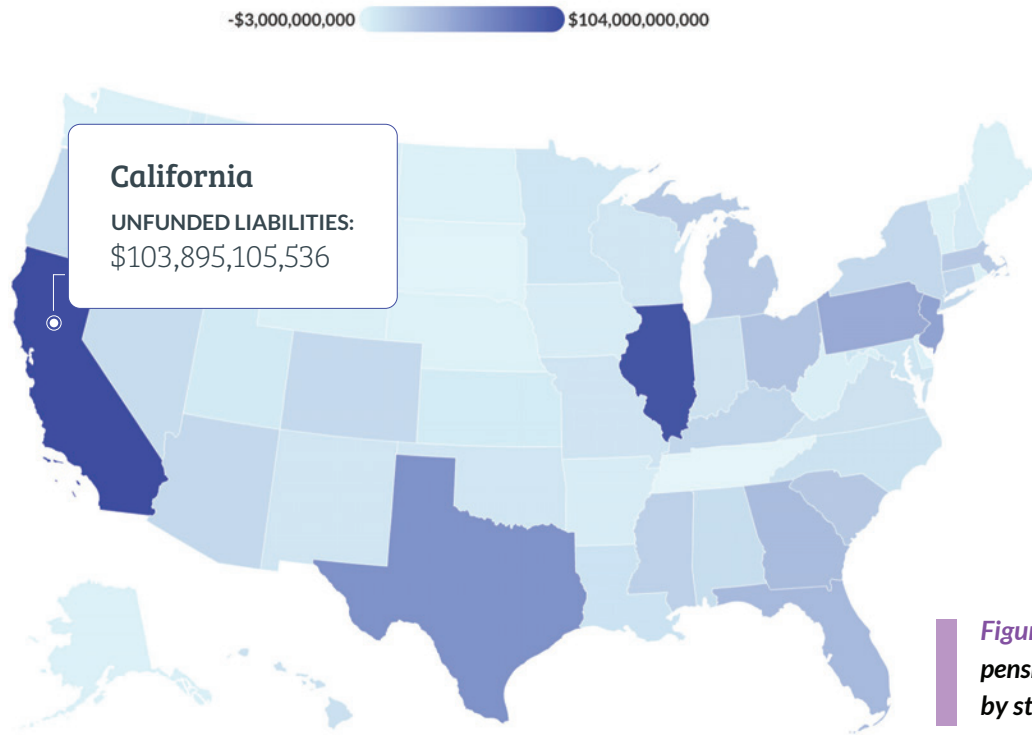


Figure 4. The amount of unfunded pension liabilities varies drastically by state.

States by Funded Ratio

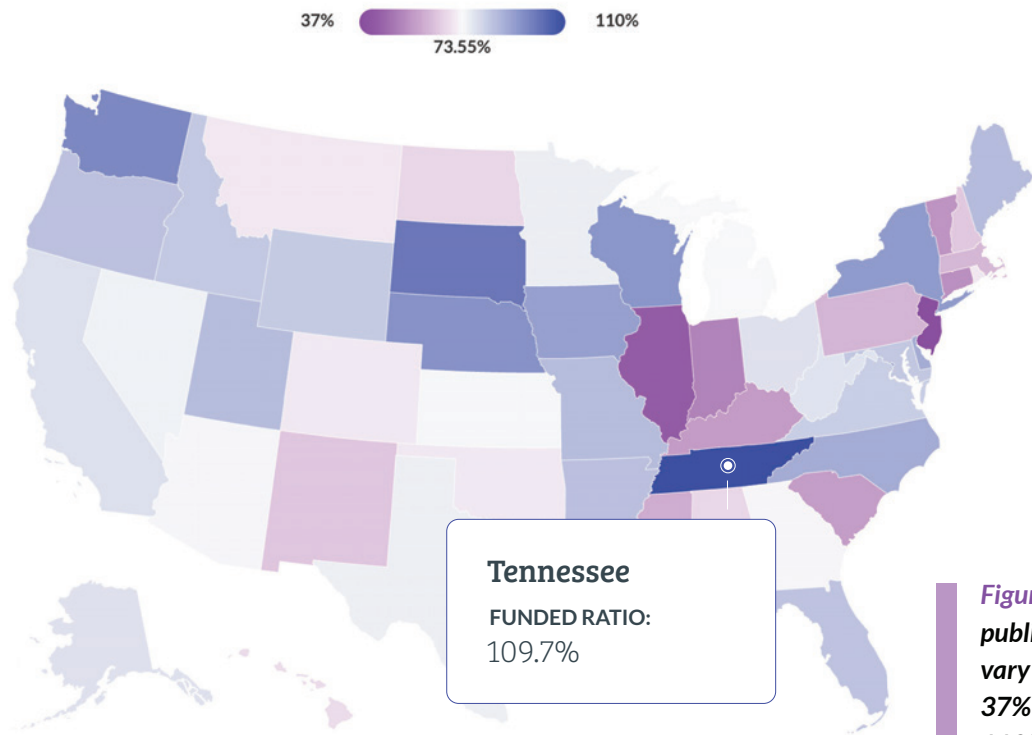


Figure 5. The funded ratios of public school pension plans vary across the nation, from 37% funded in New Jersey to 110% funded in Tennessee (and everywhere in between).

The Underfunded States of America

Pension reform is one of the trickiest topics to navigate in the world of education finance because the percentage and amount of unfunded pension liabilities varies wildly from one state to the next.

The funded ratios of public school pension plans by state ranges from 37% (New Jersey) to 110% (Tennessee). California holds the single largest amount of unfunded liabilities at \$110 billion, even though it is 78% funded. (In 2022, Governor Newsom boasted a \$97.5 billion “surplus” despite \$275 billion in unfunded liabilities across all California pension plans.)

The wide variance in state pension system funding is matched by the variance in the impact on K-12 budgets.

Some states have steadily increased K-12 funding at equal or greater rates than the growth rate of retirement costs. As a result, annual education operating budgets have grown even as pension costs have grown. In other states, overall education funding has failed to increase at the same rate as retirement costs. While overall investment in education may appear to be increasing, on an inflation-adjusted basis, these states are actually spending fewer operating dollars today on K-12 education than in the recent past.

Some states pay all or most of retirement costs themselves, while others shift costs to districts. This can change the perception of how much funding has gone to public education. When costs are held entirely by the district, the consequences of pension liability are more acutely felt as local school boards struggle with increased annual payments. When the state simply fails to increase state general operating aid for education to districts to pay for growing obligations, the perception is that the state is failing to support education (even though they may be spending more than ever).

Sometimes school employees are included in the retirement plans as teachers, and sometimes employees are covered by

separate state or local government plans. It is important to note that the figures above represent mainly teacher pensions and largely do not include administrators and other school support staff.

Why Are Pension Systems Underfunded?

Data from retirement system reports show that unfunded liabilities can be attributed to:

- Underperforming investments (50%)
- Changes to assumptions about mortality and workforce trends (20%)
- Interest on the debt—interest is growing faster than incoming contributions (20%)
- Miscellaneous economic and actuarial factors (10%)

For any given state, the share of these factors causing unfunded liabilities might be a bit different. Some states have struggled with demographic shifts more than others; a few states have legacy pension debt from decades of not funding their plans in the 20th century. But nationally, pension debt is a mix of problems caused by retirement system trustees and state legislatures—the problems do not stem from gold-plated, ever-increasing teacher pension benefits.

There is certainly enough blame to go around. Instead of pointing fingers, we must look forward to how we can best keep teacher pension plans from further accumulating unfunded liabilities.





Equity Implications of Retirement Benefits

As with most topics in education finance, there are significant equity implications of these growing costs of retirement benefits. States where the legislature directly pays for a portion of K-12 teacher retirement costs (typically called “non-employer contributions” or “on-behalf” contributions) are effectively providing a pension subsidy.¹² These states include (but may not be limited to) Connecticut, Massachusetts, California, Texas, Illinois, and Michigan.

Currently, states like these distribute subsidies based on each district’s proportionate share of unfunded liabilities—but school districts with higher-paid, longer-tenured teachers carry a disproportionately larger share of the unfunded liabilities. The consequences of this are that:

- State shares of pension costs are regressive.
- States are effectively subsidizing the compensation of teachers in wealthier districts at the expense of higher poverty districts with less experienced teachers (who likely have lower salaries and a lower likelihood of ever receiving their pension benefits).

Commonly, the most tenured and highly compensated teachers are concentrated in affluent districts. To the degree that a school district’s teacher compensation rates are higher-than-average, the state pension subsidies are exacerbating resource inequities. Districts with higher property wealth and incomes can also more easily handle increased pension costs, regardless of their share. Relatively small increases in property tax rates can raise significant resources, and these districts are often well below the same tax capacity as poorer districts that struggle to keep up with rising costs.

How Do We Fix the Pension Problem?

Two commonly proposed solutions **do not** address core problems. These include:

“ **1. Just put more money in!** Supplemental resources will be required to address unfunded liabilities but adding more money to the system without addressing structural flaws or reviewing the (in)equity of state pension subsidies doesn’t build a path to a strong future.

“ **2. Convert everyone to 401(k)/defined contribution plans.** There are good ways to build public employee defined contribution (DC) plans that avoid the failings of typical corporate 401(k) plans. Offering the choice of DC plans can be a good way to support certain teachers/school employees who are not going to work their full career in a single state and/or work the 25+ years often needed for a decent pension. However, creating a DC plan for all new employees doesn’t do anything to address historic unfunded liabilities and fails to address any of the funding problems going forward. What’s more, DC plans that are designed to save money typically don’t fully support retirement income security.

Four categories of solutions can help reduce funding challenges. We consider each in turn below.

1. Transparency

States can implement reporting standards that reflect the effects of pension debt costs so that hidden funding cuts can be addressed before they become untenable or damaging to teachers and students.

One possible approach: A general annual report tracking each dollar of K-12 spending, including shares going to retirement costs. Legislatures could determine the most appropriate measurement of education spending in their state and require an annual report that compares this with the change in teacher retirement costs and whether they’re paid by the state and/or school districts. This is particularly

important for states with funding formulas integrating local control of education resources, as any pension debt costs that get pushed down to districts can inhibit their ability to allocate those funds to improving educational outcomes and appropriate pay for educators.

States should also regularly review:

- If growing retirement costs for school districts are exacerbating education funding inequities.
- If state retirement payments (non-employer contributions) on behalf of school districts, which are effectively a kind of pension subsidy, are inequitably distributed.

2. Use the State General Fund for Pension Debt Instead of Education Dollars

There is very little that school districts can do to manage pension plans or avoid the development of unfunded liabilities. It would be more appropriate for the state to pay for any costs of unfunded liabilities directly. A few approaches could be:

- Provide one-time, supplemental contributions to a teacher pension plan to pay down unfunded liabilities using budget surplus dollars and/or money from rainy day funds.
- Adopt a rule that school districts only need to pay for normal costs of retirement benefits. The “normal cost” is how much benefit each current employee in a pension plan has accrued each year. Districts would pay all costs required to cover current employees and not be responsible for covering the accumulated liabilities for existing retirees and liabilities accrued by failing to pay the full normal cost in prior years.

It’s important to note that state General Fund dollars are often fungible in terms of how they are allocated to different line-items, like education. This means that General Fund dollars can be budgeted with a high degree of flexibility, versus something like a targeted federal grant for public transportation infrastructure that must be used for a specific purpose. If the state absolves districts of accountability for unfunded liabilities, there must be some maintenance of effort protections in place to ensure that dedicated funds for education are not reduced to pay down pension liabilities.

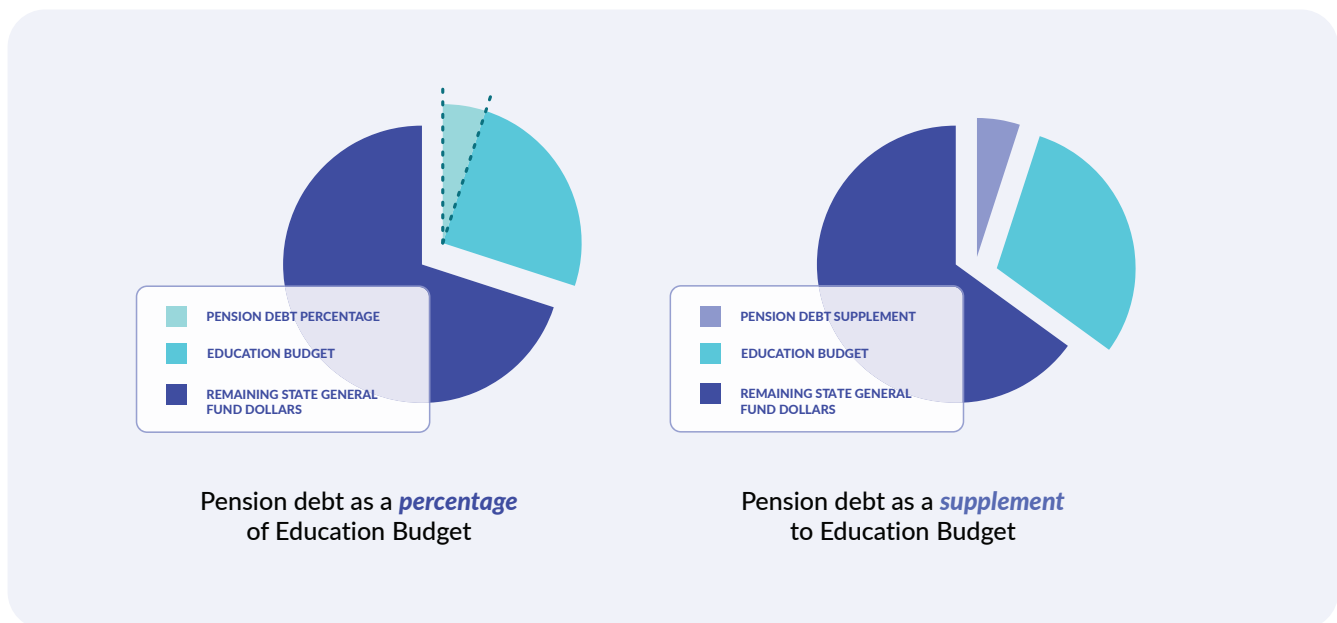


Figure 6. One recommendation to fix the pension problem is to use the state General Fund for pension debt, instead of education dollars. This strategy can be effective and equitable if the state budgets supplemental dollars for pension debt (right), rather than supplanting existing education budgets (left).



Without maintenance of effort provisions, “hidden” cuts to education budgets will become absolute cuts to education funding, which disproportionately hurts low-wealth districts due to their higher reliance on state aid (and lower contribution to pension debt). This strategy is only effective and equitable if the state budgets supplemental dollars for pension debt, rather than supplanting existing education budgets.

3. Improve Pension Funding Policies

All states should continuously work toward achieving a resilient funded status for their defined benefit plans. The specific challenges to solve and solutions for these challenges vary considerably from state-to-state. Each state must look holistically at the current and potential future effects of pension debt costs and design targeted policy accordingly.

While there are no one-size-fits-all solutions, some categories of change include:

- Adopt more realistic investment assumptions to avoid underperforming returns causing a growth in unfunded liabilities.
- Require state legislation that contribution rates are always at least covering the interest growth in unfunded liabilities. Typically, states calculate a “required contribution” that is an actuarially-defined value to meet their current and future liabilities. While not all states always pay their fully required contributions, the larger issue is that states control the method to calculate

this contribution. That has allowed some states (Georgia, Maryland, Mississippi, and Nevada, to name a few) to pay their “required contribution,” but this value fails to cover interest on their debt. This sets up a runaway growth in pension liabilities because the principal debt is never reduced. (This effect is just like paying less than the interest on your credit card debt while still making your minimum payment.)

- Develop two plans: one to pay off legacy unfunded liabilities and one to address future costs. States could work to take care of the first plan directly, and school districts could ensure future stability by being part of paying for pension benefits accrued from today forward.

4. Ensure Retirement Plans Are Working for All

Many states have pension plans that only work for teachers with a 25+ year career in the same state. This means that even two decades in the classroom doesn’t provide a livable retirement. Some states have offered alternatives to pensions, but with very poor benefit values. Most states don’t give a choice of benefits to teachers or consider the dynamics of a more mobile 21st century workforce.

Ensuring retirement plans work for all doesn’t mean abandoning pension plans—states like South Dakota and Colorado have modern, adaptable pension designs for teachers. Strong pension plans have low vesting periods, robust benefit multipliers, flexible retirement eligibility, employer matching on refunds, and inflation protection built-in from the start.

There are bad ways to design defined contribution plans (also known as hybrid plans or “guaranteed return plans”). However, there are good examples of these models, such as those developed in Michigan, South Carolina, and Oregon. Strong defined contribution plans have adequate contributions that take into account whether or not members are enrolled in Social Security, have default investment plans so members don’t have to make choices, and offer annuities to “pensionize” accounts at retirement.

The Big Takeaways

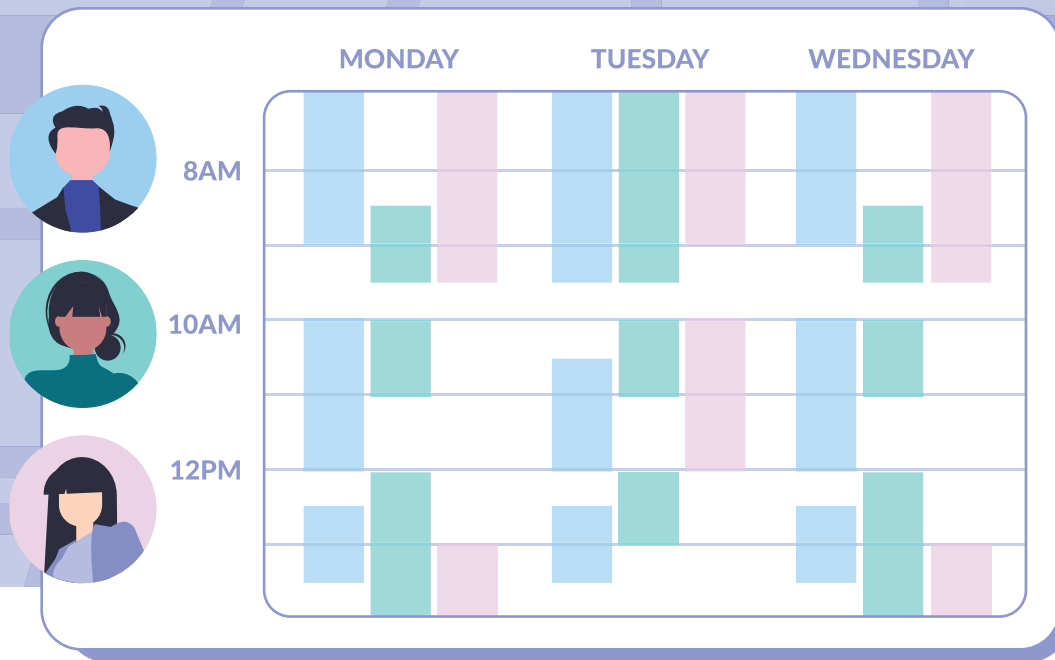
The public school pension system is fiscally unsustainable in many states. This contributes to depressed wages for teachers and school staff and presents a major threat to school budgets, despite only benefiting a minority of teachers in the workforce today. There are practical solutions to 1) mitigate the negative fiscal impact to school budgets, 2) present diverse retirement benefit options that better serve all teachers, and 3) stabilize the financial future of public education, but these solutions require frank conversations and cooperation between district leaders, teachers, labor unions, and state legislatures. 🏠

Data Source

Figures 1–6

Equable Institute, Equable Public Retirement Research Database, September 3, 2021, equable.org/equable-public-retirement-research-database.





The Great Unbundling

School districts' ability to thrive beyond this decade will largely depend on their ability to reimagine resource allocation strategies—more like LEGO® sets and less like Jenga® towers.

WRITTEN BY

Jess Gartner

The first three articles have covered complex and heavy topics: teacher compensation, declining enrollment, and the implications of pension debt on school budgets. Combine these factors with the denouement of ESSER (Elementary and Secondary School Emergency Relief) funds, ongoing political and economic volatility, and the wild-card fiscal ramifications of school choice expansion, and you have the makings of a perfect storm on the education finance horizon.

But it's always darkest before dawn, so let's imagine some new opportunities somewhere over the rainbow.

Rethinking the Jenga Tower of Education Resources

I predict that we're in for a great unbundling of education resources. Education budgets have long operated as a seemingly amorphous mass of resources, full of mysteriously intertwined bits and bobs that are difficult to understand as parts of a whole; yet these budgets are constructed with all the dependencies and fragility of a Jenga tower—remove one piece too quickly, and things fall apart.

School districts' ability to thrive beyond this decade will largely depend on whether they cling to resource allocation



strategies of the past or reimagine resource allocation more like LEGO: combining resources to scale programs up and down in response to student need and demand.

If you ask the average school district how much it costs per student to teach introductory French, it's unlikely you'll get a clear answer, and that's not because of financial mismanagement or incompetence. It's because the traditional budget and accounting structures in school districts have not been designed to ask or answer that question. An accurate answer also depends on answers to several other questions.

- Is the class taught by a first-year teacher or 20-year veteran?
- How many students are in the class?
- How many sections are offered per day?
- Do you want to include the indirect costs of the building, furniture, and lighting? Or only the direct marginal costs like the French workbooks?

Future education finance systems and processes may well indeed benefit district officials by being able to ask and answer these types of questions. What if a homeschooled student or student in a neighboring school or district wanted to learn French, but their district only offers Spanish? What if a student in their district, in turn, wants to learn Mandarin?

The Difference Between Unbundling and Dismantling

If school districts successfully unbundle resources and instructional programming, they can offer a wider range of curated educational choices for students and families within the public school system, rather than requiring them to seek choices outside the system. I'm prepared for some people to read unbundling as dismantling of education resources, so I want to call out the distinction.

Consider when you go to a restaurant that offers a prix fixe meal and an à la carte menu—all the ingredients are in the same kitchen, but the experience is determined by the diners. Unbundling education resources means understanding all the ingredients in the kitchen and offering a variety of menu options to accommodate dietary tastes and preferences; dismantling education resources would be like bringing out a tray of raw ingredients to each table.

To stretch this metaphor to its absolute limits, unbundling education maintains a shared kitchen and dining room, operated by professional chefs and trained staff who know how to buy fresh ingredients, negotiate for the best price, meet food safety standards for all, and can adjust for any allergies or preferences at the table. Dismantling education resources requires we rebuild the entire food supply chain

across countless amateur chefs who might be able to make a mean tuna melt, but you'll have to eat elsewhere if you don't like fish, can't have cheese, or want gluten-free bread. And all too often, dismantling resources would also bring about the elimination of food safety regulations and inspectors, labor laws and protections, and non-discrimination for diners.

Unlocking Individualized Public Education Experiences

Historically, there has been resistance to analyzing the unit economics of public education. It sounds overly corporate and seemingly antithetical to an institution that values whole-child learning and wellness. And unit economics are hard to translate into practice when so many education costs are “stepwise”—we need a new teacher once we hit a certain number of students so that class sizes aren't too large, but losing or gaining one or two students won't change how many teachers we hire. What if we flipped this narrative on its head? What if flexible, dynamic instructional and extra-curricular options created more equitable, accessible, and customizable learning experiences for students and families and were, in fact, the very key to unlocking truly individualized public education experiences? What if the whole really is greater than the sum of its parts? This will take both courage and innovation.

The Jenga resource allocation model is essentially all or nothing: you successfully build a tower with a set number of identical blocks, or you topple the structure. In the LEGO resource model, you can assess the resources you have and get creative with building. Maybe you construct one big tower or four small houses or two medium buildings; there



The logistical calculations required to get 50 million students assigned to the right classes at the right time and place [...] are a not-so-minor tactical miracle often accomplished by an administrator equipped only with spreadsheets and sticky notes.

are endless combinations. Of course, one of the biggest barriers to this model is the restriction of space and time: the best French teacher in the country might only be 25 miles away, but there's no way to get there and back before math class.

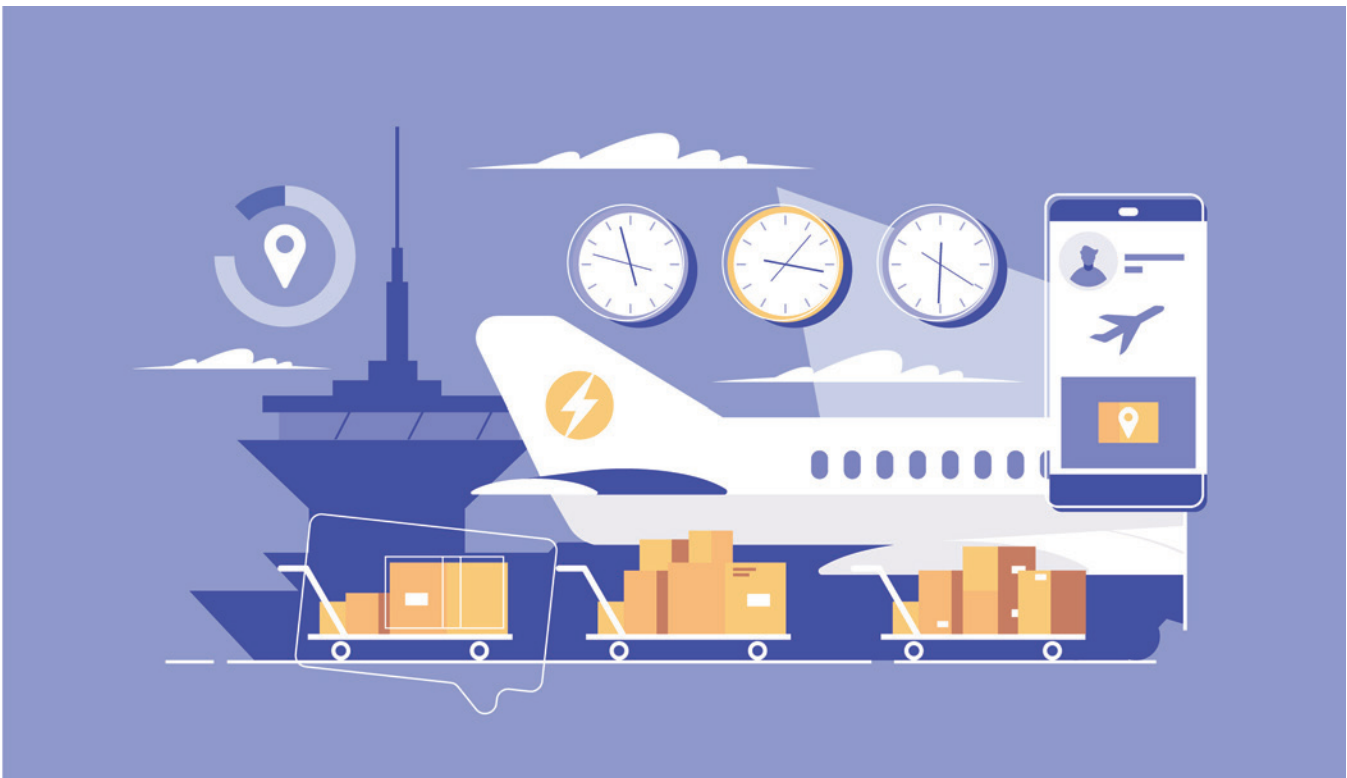
The Promise of Modern Technology and Innovation

This space/time challenge isn't limited to students' day-to-day experiences. The logistical calculations and permutations required to get 50 million students assigned to the right classes at the right time and place—while simultaneously meeting individual student academic needs, state mandates, budgetary constraints, and teacher/staff contract specifications—are a not-so-minor tactical miracle often accomplished by an administrator equipped only with spreadsheets and sticky notes (add even more complexity to this model with increased virtual learning options, and you'll be faced with a revolt of the school staff who are already buried by this task).

Parents and caregivers deal with space/time constraints, too: balancing transportation for students and participation in school-family events, alongside the requirements of their work and other life obligations. During the pandemic, schools started using purpose-built technology solutions to conduct virtual IEP (Individualized Education Program) meetings for special education compliance. Many parents responded, “Can we please keep doing it this way?”

Staffing, scheduling, transportation to place-based instruction, and legal mandates have required a rigid, tightly-knit web of resources to make schools work. Modern technology and innovation offer an opportunity to revisit preconceived notions about what is possible in terms of resource allocation. Do you know why FedEx can ship a package around the world in a day, or why you can have groceries delivered to your exact specifications in less time than it would take to drive to the store and back? Billions of dollars have been invested in sophisticated logistics technology to optimize the movement of things around the world with eerie precision. Yet we often expect schools and districts to make sure every kid graduates on time, without breaking any laws or contract terms, with little more than a big stack of Post-its (ask me how I know). In K-12 education, we're often asking humans to manually do the tedious work of rule-based logic that has been automated in nearly every other industry. 🏠

In K-12 education, we're often asking humans to manually do the tedious work of rule-based logic that has been automated in nearly every other industry.





The Future of EdTech

A confluence of factors will soon entice—or force—school systems to adapt more sophisticated and complex resource allocation strategies, which cannot be achieved with manual processes.

WRITTEN BY

Jess Gartner

includes Q&A with Michael Gustin and Jennifer Wagner

When I founded Allovue a decade ago, I was struck by the overwhelming focus on instructional tools in the EdTech community compared to utterly scant innovation on the administrative and operations side of the house. Reimagining K-12 education to accommodate a rapidly fluctuating student population (with increasingly diverse instructional needs and options) will require a categorically different approach to resource allocation and management, yet the practices and data tools for handling the flow of money, people, time, and supplies have remained stubbornly stuck in the past.

The public sector, in general, is pressured to take a “penny-wise and pound-foolish” approach to investments in

administration and operations. In education especially, school systems are pushed to funnel maximum dollar amounts into classrooms—often with counterproductive results for administrative efficiency.

Time and again, I see legislators and community members question why school systems don’t operate with the fiscal efficiency of the private sector, and then question the purpose of administrative spending in the very next breath. I would argue that there’s plenty of unseen waste and bloat in the private sector that eludes scrutiny in the absence of detailed public financial reporting, but the private sector typically does value and invest in the very type of purpose-built technology solutions that their public sector peers would be



pilloried for purchasing. Instead, public sector leaders often persist with “free” manual or home-grown solutions that inevitably cost the organization several times over by way of increased human capital costs, data errors, and loss of institutional knowledge via retiring staff who, by necessity, stored decades of detailed process and information components in their heads.

Drivers of Change in EdTech Innovation

The education sector’s reluctance to invest in administrative solutions creates a chicken-and-egg problem: innovators are discouraged from building modern solutions for an unmotivated buyer, and education administrators are constantly disappointed by an array of round-peg-square-hole solutions that are mostly hand-me-downs from other industries.

Seventy-five million Baby Boomers are expected to retire by 2030, paving the way for a generation of digital natives to move into leadership roles.

I predict that we’re about to see the tide change: the next wave of EdTech is in the back-office support for administration and operations. There is a confluence of factors swirling around K-12 education that will entice or force school systems to adapt resource allocation strategies with a level of sophistication and complexity that eclipses what is possible with manual processes. We consider each in turn below.

ENROLLMENT CRUNCH

Nationally, K-12 enrollment is on the decline primarily due to reduced birth rates and decreased immigration, compounded by a surge of alternative education options and state-funded school-choice programs. Optimizing for administrative economies of scale with finance, HR, nutrition, transportation, and other operational functions will be critical for maintaining

and expanding equitable education offerings for students and families while offering competitive compensation packages for teachers. I predict that we’ll see a flattening and consolidation of administrative functions amidst increasing decentralization of instructional options.

LEADERSHIP TURNOVER

The rate of change in K-12 leadership is fast and furious: current estimates suggest that superintendent turnover is approximately 25% per year.¹³ Seventy-five million Baby Boomers are expected to retire by 2030, paving the way for a generation of digital natives to move into leadership roles.

A new cohort of K-12 administrators who were raised with information at their fingertips and lifestyle automations for everything from their taxis to their grocery shopping will have limited patience for doing things like bus-routing, scheduling, staff planning, and program evaluation by hand. Isn’t there an app for that? When they start looking for solutions to their problems, the innovation economy will respond to meet the need.

Plenty of great things came out of 1986, but hopefully not your finance system.

THINGS FALL APART

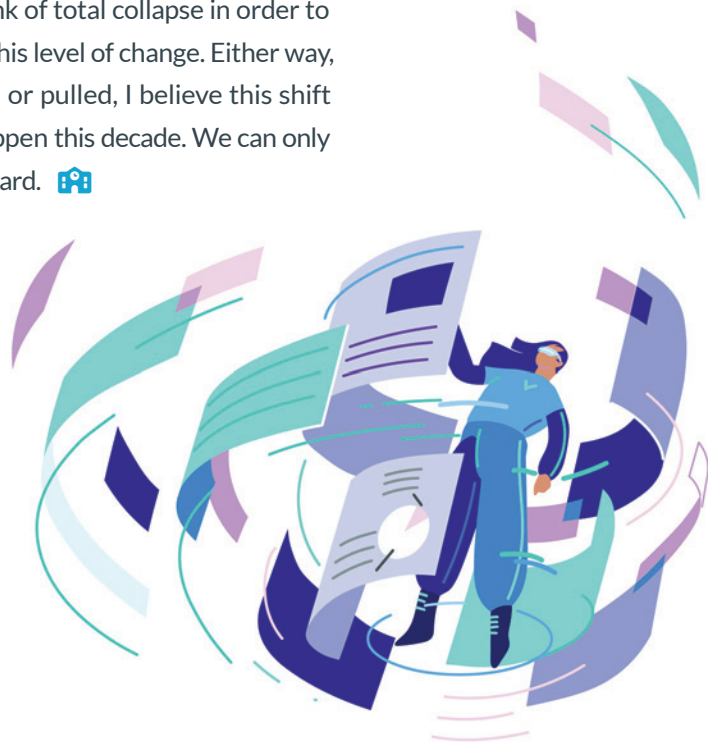
Most of the operational technology systems that schools are using today were built last century. Plenty of great things came out of 1986, but hopefully not your finance system. Because this has historically been an inefficient market segment, there are a few large companies that have cobbled together Frankensteinian offerings through mergers and acquisitions with shockingly minimal ongoing investment in technology upgrades. Over the next decade, many of these systems will begin to fail, crushed by decades of technical debt. The point at which the one person at the district or company who understands the codebase retires, there will be no choice but to start fresh with solutions built this millennium.

K-12 ONLY

I'm already seeing emerging solutions with an exclusive K-12 focus in the administrative and operations space igniting a sense of possibility with niche, purpose-built solutions tailored to the specific needs of school and district administrators. These companies eat, sleep, and breathe K-12 education and understand the unique challenges of designing and implementing resource allocation processes focused on improving educational outcomes for students. I see transformative K-12 innovations popping up around hiring, teacher retention, scheduling,

nutrition, transportation, facilities management, cybersecurity, and more.

When I started Allovue, I imagined a world where executives of billion-dollar companies would look on with envy and say, "I wish we had the kind of tools they have in education." I still believe that world is possible—a world in which the leaders facing the most difficult resource allocation challenges, who are tasked with making the most consequential decisions, are fully equipped with world-class innovations to get the job done. On my most optimistic day, I hope the general public will encourage schools to proactively pursue these types of solutions now; on my most cynical day, I suspect the public education system will have to be on the brink of total collapse in order to adopt this level of change. Either way, pushed or pulled, I believe this shift will happen this decade. We can only go forward. 🏠





What District Administrators Have to Say

Explore more thoughts on this topic, co-written by Mike Gustin, Director of Business Technology, and Jen Wagner, Treasurer/CFO, with Cincinnati Public Schools.

Q What percentage of the solutions that you personally work with do you think are explicitly designed for K-12 v. designed for broader/other industries?

Currently, the vast majority of our solutions are designed for K-12. This has been a very thoughtful choice on our part, as we have replaced more general business solutions with K-12 specific ones over the last six years. We have adjusted our procurement process for large system purchases to look for vendors with demonstrated K-12 experience. Exceptions to this would be our standard office toolsets (Google suite and Microsoft Office) as well as external financial web applications, such as with our bank or purchase card vendor.

Q Are you able to tell when a solution is designed especially for K-12? What are some telltale signs in your experience as a product user/partner?

Yes, there are certain features that tend to exist or be more robust when

a solution is designed for K-12. On the general ledger side, this is shown with how the system handles fund accounting. For procurement applications, K-12 systems tend to have well-developed business rules around purchase orders. In HR and payroll systems, you will see the ability to track and pay employees by contract, not just hourly work. These K-12 systems will also have the ability to pay employees on a different schedule than the schedule they worked. This allows teachers and other school-based employees to be level-paid over the summer.

Q What are some potential problems or challenges you have experienced when you are trying to do your job with tools that aren't made for your specific needs?

School districts are highly regulated by their respective states and reporting accurate data to state agencies is critical. Systems need to be flexible enough to capture the data correctly at the beginning of a transaction and carry it through to reporting. As mentioned above, the length and complexity of

our general ledger accounts, as well as the overall number of accounts needed, can be a challenge for system vendors. Similarly, K-12 organizations have unique rules for Human Capital management.

One example is the need to track teacher licenses, both for payroll compliance and for instructional quality. In previous systems, all this data was stored in custom, text-based fields. In our current system, the data now resides in integrated tables with defined date fields and dropdown lists. This enables better reporting, integration with other platforms, and workflow notifications of important events.



Q Have you ever given up on trying to find a solution to meet your needs and resorted to manual processes?

I would not say we've resorted to a manual process, however, I would agree that we have kept some manual processes because a solution that meets our needs doesn't exist. I would also say we've done a large amount of custom development work to address gaps in existing systems or to conform to our district-specific rules.

Q Do you see any opportunities to improve K-12 operations with technology and innovation that is focused specifically on the K-12 user experience?

What are some examples?

Yes, having solutions that are tailored to the K-12 user experience reduces the amount of customization and configuration needed per solution. It should enable better reporting and data visibility as well. On the flip side, we want K-12 solutions to keep pace with those made for broader usage as new features are introduced. We don't want to trade functionality for familiarity, we want both.

One example we have worked on extensively is streamlining the purchasing process. At our homes, and even in many businesses, purchasing can be as easy as saying "Alexa, order me a..." The challenge for an innovator would be to provide that same ease-of-use to the requestor while also ensuring compliance with our budget and spending rules. Other industries have been able to combine their financial and operational information into a single picture, but K-12 is still working through this process. It will help us greatly to have solutions that have performance tracking and per-student costs built into the planning and resource allocation systems. 🏠

ABOUT THE DISTRICT:

Cincinnati Public Schools is Greater Cincinnati's largest school district and Ohio's third largest school district.

GEOGRAPHY:

91-square-mile district in southwest Ohio

SIZE:

65 schools (preschool to 12th grade)

POPULATION:

~36,000 students



Reimagining K-12 Real Estate

If we expect schools to be catch-alls for community support, why not coordinate community resources in the very hubs of community that already exist?

WRITTEN BY

Jess Gartner

AS of 10 years ago, 99% of school districts owned buildings with a collective maintenance backlog of \$197 billion.¹⁴ Students, teachers, and administrators have noticed the deficiencies: according to a recent school facilities survey, 45% of teachers, principals, and district leaders gave their buildings a “C” grade or lower in the survey, roughly equivalent to the 42% who assigned a “B” grade to their building or buildings. Only 14% gave their building the highest marks.¹⁵

Matthew Lentz, Chief Financial Officer of Upper Moreland Township School District in Pennsylvania, shared with me that the district community was lobbying him to implement traffic calming measures around a local school. The ongoing debt payments to finance this project would have cost \$500,000 per year for several years—about 1% of the 3,500-student district’s annual operating budget.

Do we expect school district finance leaders to moonlight as urban planners?

The Difference Between Capital and Operating Funds

Capital projects and facilities are an insidiously inequitable component of school district finance. You do not need to be an education economist to observe that wealthy suburbs offer gleaming school facilities while economically disadvantaged school districts regularly have students shivering or sweating in half-century-old buildings with aging HVAC systems, roofs in need of repairs, windows that don't open, and no potable water due to lead pipes. The differences are so visually stark that the disparity looks like mismanagement to the casual observer.

First, we must understand that capital funds are distinct from annual operating funds. According to the National Center for Education Statistics, in fiscal year 2019, districts spent

\$15,621 total per pupil, including \$1,499 per pupil on capital outlay (expenditures for property and for buildings and alterations completed by school district staff or contractors) and \$420 per pupil on interest on school debt. Here's what this tells us: **12% of total per-pupil spending goes towards capital and debt.**

This leaves just over \$13,700 for current expenditures...of which \$1,263 (or 9%) is dedicated to operations and maintenance. This category includes custodians and cleaning supplies, landscaping, utilities, plumbing issues, roof, window, and HVAC repairs, rodent management, toilet paper, painting, drinking water (remember the lead pipes?), and other various standard facility issues.

**All figures were adjusted to 2020-21 dollars.*

Capital Debt Expenditures Over Time

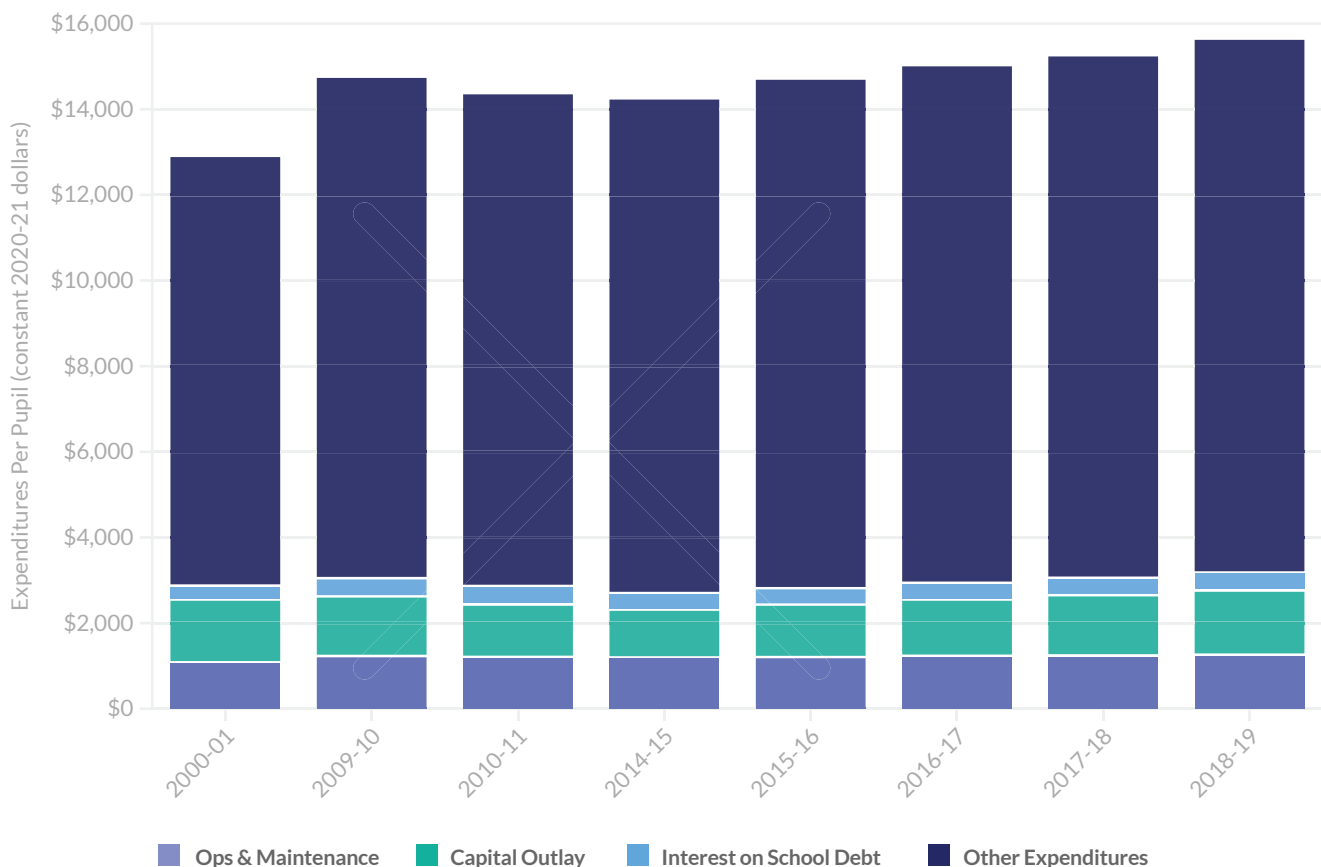


Figure 1. Across recent years, expenditures on operations, maintenance, capital outlay, and school debt have been a small fraction of total per-pupil expenditures.

Methods for Funding Capital Projects

How do capital projects get funded? The answer can vary depending on state and local policies and taxing mechanisms, but there are a few different ways districts can access funds for capital projects:

State Bond Measures: the state legislature passes a Bond for a series of development projects which typically includes new construction.

Local Bond Measures: a local community votes for a specific tax to fund a Bond for local school construction projects.

State Capital Funds: the state reimburses districts for approved capital projects from a general capital projects fund.

In these three scenarios, the local bond measures and state capital projects funds are ripe for deepening inequities. In the local bond scenario, districts with a wealthy tax base have a much higher capacity to raise funds through local taxes for capital projects, even though their overall tax effort may still be lower than less wealthy districts. How is this possible?

Let's say one property tax base is \$500 million and the neighboring district's tax base is \$1.25 billion. If the tax rate is 2.5% in the \$500-million-district, it will yield \$12.5 million; if the tax rate is 1.5% in the \$1.25-billion-district, it will yield \$18.75 million. These districts may serve a similar number of students, but if the property values are substantially higher, one community can easily raise more money even with lower tax rates. Property values do not track with student enrollments or need, especially when some districts see a significant portion of their property wealth in commercial or industrial properties.

The state capital funds system should be more equitable. Theoretically, the motivation behind having state funding for capital projects to begin with is to ensure that districts don't have vastly unequal purchasing power for capital projects. In many states, their state capital dollars only reimburse districts once the money has been spent.

I am often asked the question, "School spending keeps increasing—when will it be enough?" to which I always reply, "Enough for what?"

This requires first having the capacity to locally raise capital dollars for the full project cost, and then recover and pay back short-term debt after the state reimburses the district. Applications for reimbursing capital funds typically require highly detailed project plans, including budgets and timelines, as well as meeting strict building regulations. The long process of project planning, submission, approval, and reimbursement can generate large hidden costs. Economic fluctuations can dramatically change the cost of materials and labor even from one year to the next.¹⁶ Therefore, each district is at risk if they cannot weather changes in costs for the full project while waiting for reimbursement dollars—and because districts must complete projects within certain timelines and budgets to get reimbursed, a district may have to return funds to the state if projects deviate too far from the plan.

I am often asked the question, "School spending keeps increasing—when will it be enough?" to which I always reply, "Enough for what?" Enough for them to successfully finance, develop, operate, upgrade, and maintain 100,000 buildings as a side project?

Opportunities to Repurpose Parts of School Buildings

Looking ahead in education finance, I feel compelled to ask: should school districts be real-estate property managers? With over 13,000 districts, it strikes me as an unnecessary burden and an inefficient use of resources for every single district to spin up their own special operations team of building engineers, construction teams, and bond agencies—not to mention the resources spent lobbying their community to raise taxes or write capital projects plans. Further, with

the shifting sands of populations, the capacity needs at the start of construction may differ wildly from the capacity needs (greater or fewer students) than at the completion of a project, let alone the payoff of a capital bond 30 years later. School construction is not cheap, and we are all placing a lot of faith in demographic projections over decades that have, traditionally, not had results of an exact science.

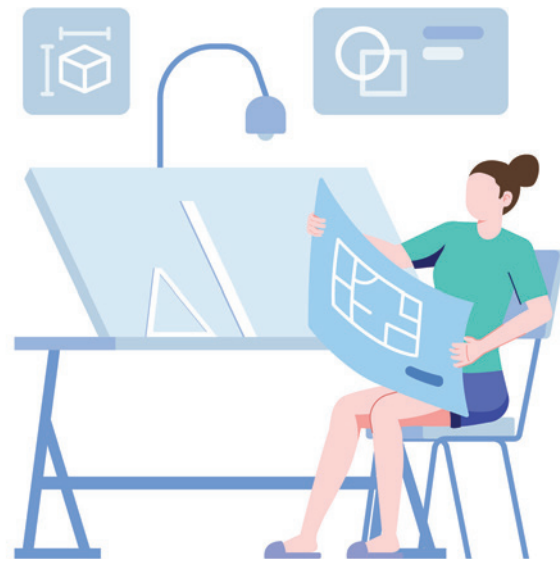
What if states hired expert building engineering and management teams to manage school real-estate facilities across the state? These efforts could include more comprehensive regional capacity planning versus a single township and consider how to merge and enhance the use of these spaces amidst population shifts. Imagine taking a school building at 40% capacity and repurposing part of the building for a public library, Internet cafe, recreation center, workforce development program, or health clinic. What else could we accomplish?

We have a critical teacher shortage—let's spin up teaching apprentice programs in surplus classrooms. We could recruit people from within the neighborhood who are looking for new career opportunities and are already invested in the community. We could provide alternative pathways to teaching certifications right inside the walls of the schools who desperately need a fresh labor supply.

We could assess neighborhoods for inequitable food environments and spin-up a local grocery store or farmers' market in an underused gymnasium or cafeteria.

We could expand facilities for training and apprenticeship programs in much needed and well-paid skilled labor like construction, plumbing, electrical work— career and technical programs by day and workforce development in the evenings or weekends.

We could provide alternative pathways to teaching certifications right inside the walls of the schools who desperately need a fresh labor supply.



We could modify segments of the building as co-working spaces and incentivize local businesses to set-up offices and community-school partnerships. Our Chief Product Officer, Jason Becker, has a degree in chemistry—I would have gladly shared his time with the science department down the hall for a few hours a week to help with lesson planning, co-teaching, and grading in exchange for free or reduced rent. I could dust off my trusty red pen on my lunch break and grade some essays. Our brilliant design team could lend their skills for flyers and school-family communications. So many people would be willing to share a few hours of their time per week with schools if it were only so easy as a mid-day trip to the other side of a building.

Considerable effort would need to be given to ensuring equitable investments in capital projects and supplemental resources, as well as safety and security mechanisms in scenarios where non-employee adults are entering school buildings. But these are solvable problems in a world where public schools have security protocols that rival domestic airports.

Relieving (Some of) the Burden on School Districts

If we expect schools to be catch-alls for community support, why not coordinate community resources in the very hubs of community that already exist? Why not make underutilized public spaces one-stop-shops for public services and engagement?

Undoubtedly, bringing in supplemental services and community members would also stimulate local neighborhood economies as people start looking for new places to grab lunch or coffee or run a quick errand, providing a ripple effect of economic development in long neglected and underinvested neighborhoods. ***Siloing these services across tens of thousands of agencies is limiting our capacity to think collectively about resources, space, and talent while schools are being crushed by the growing list of expectations placed upon them.***

Centralizing the development and maintenance of school buildings at the state level would help to concentrate specialized expertise, reimagine school buildings as multi-purpose community centers, and increase access to public services and economic opportunities for the communities who need them the most. Simultaneously, this would free schools and districts to focus more time, talent, and financial resources on instructional programs. 🏠

Data Source

Figure 1

Digest of National Statistics, 2021 Tables and Figures, National Center for Education Statistics, "Table 236.60. Total and current expenditures per pupil in fall enrollment in public elementary and secondary schools, by function and subfunctions: Selected years, 1990-91 through 2018-19," nces.ed.gov/programs/digest/d21/tables/dt21_236.60.asp.





GOT QUESTIONS?

Ask Jess!

Submit a question to **Ask Jess**, a new column on all things school finance.

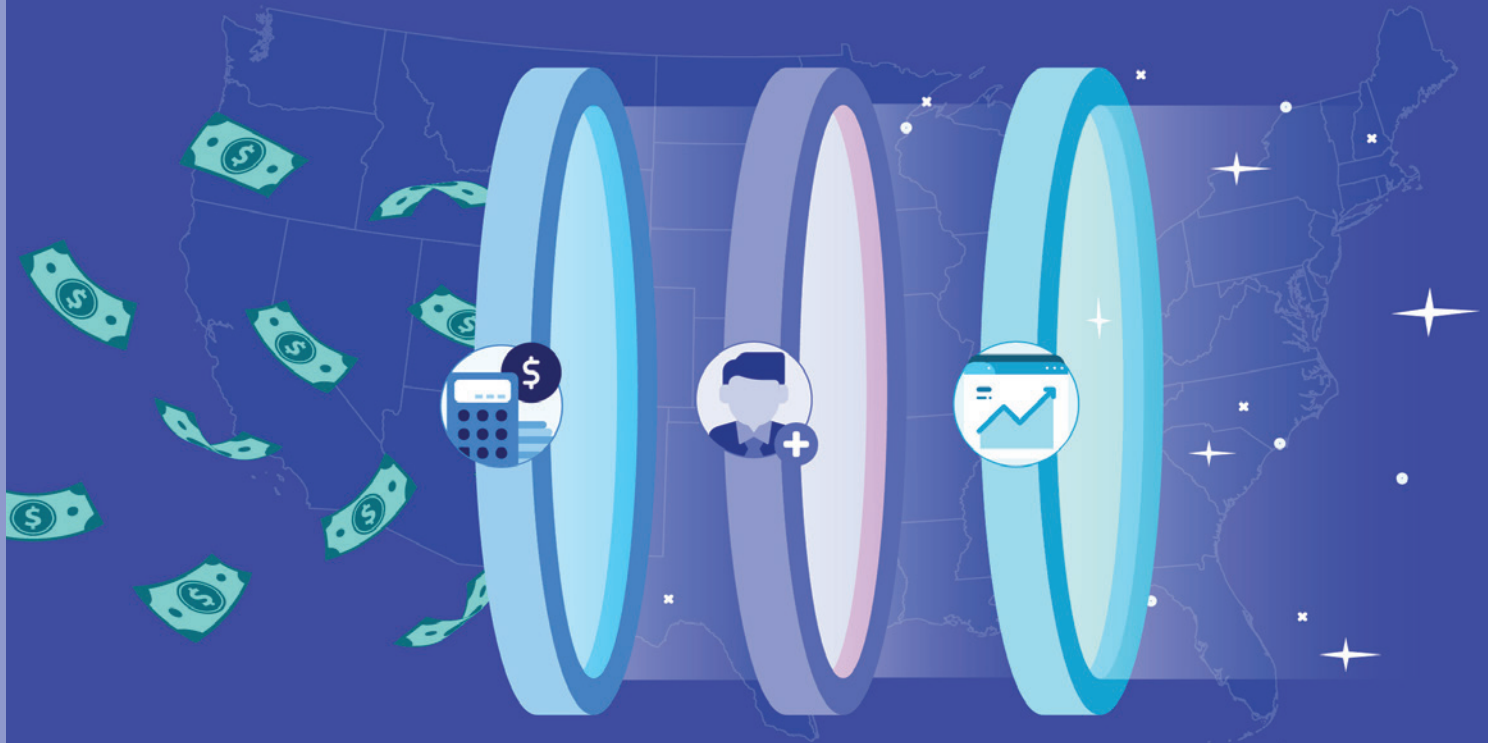
The world of K-12 education finance is complicated and convoluted (on a good day!) Jess Gartner, #EdFinTech pioneer and founder of Allovue, is responding to your public school finance questions in her new column.

What do you want to know?

Scan to submit your questions, or visit:

[ALLOVUE.COM/ASKJESS](https://allovue.com/askjess)





State Funding Formulas

Despite how U.S. presidential candidates bloat about K-12 education every election cycle, it's actually state legislatures that play the most influential role in school funding.

WRITTEN BY

Jess Gartner and Zahava Stadler

AS

states grapple with ongoing economic uncertainty and political polarization amidst population fluctuations, public school enrollment declines, and labor shortages, I predict we'll see more robust debate and analysis on the topic of state education funding.

I invited Zahava Stadler, Project Director of the Education Funding Equity Initiative in the Education Policy Program at New America, to collaborate with me on this topic.

The Basics

On average, the typical composition of K-12 education funding¹⁷ breaks down like this:

- Federal Funding: ~8%
- Local Funding: ~ 46%
Includes private PTA/PTO Fundraising: <1%
- State Funding: ~46%

Although local and state funding make up roughly equal proportions of total funding, state legislatures have the greatest influence, for better or worse, on funding (in)equity and policy.¹⁸ States' direct dollars to local education agencies (LEAs; usually school districts) are based on a comprehensive formula, whereas local education funding is far more fractured and almost entirely dependent on local property wealth. Ideally, states leverage their education funding authority to ensure equity and adequacy for all schools, although many states still fall short of this reality.

Parent organizations' private fundraising is a tiny fraction of school funding, but it is also the most inequitably distributed with the least transparent reporting.¹⁹ In fiscal year 2013-14, the nation's 50 richest PTAs (the wealthiest 0.05%) raised and spent \$43 million (~10% of total PTA spending) for the nation's most affluent schools.



Petitioners and students attending low-wealth districts are being deprived of equal protection of law.

— JUDGE RENÉE COHN JUBELIRER

A Constitutional Matter

The most recent state ruling on school funding equity is a Pennsylvania Commonwealth Court case. While there have been similar funding lawsuits, there is a powerful moral clarity in the language of this decision that rejects the state's argument that those gaps are an inevitable and acceptable side effect of a locally controlled education system. In an 800-page ruling, Judge Renée Cohn Jubelirer determined that the state's funding formula (which relies heavily on local dollars) is inequitable and unconstitutional.²⁰

What's next? Judge Cohn Jubelirer says the burden of remedy rests on the Legislature and Executive branches of Pennsylvania government. We'll be watching Pennsylvania for the next few years to see what funding reforms are in store in the wake of this court decision. Will the state fundamentally reform its unjust school funding system, as Kansas did after that state's 2017 Supreme Court decision in *Gannon v. State*? Or delay for years before taking action and ultimately make only moderate tweaks to the formula structure, like the Washington legislature following the 2012 *McCleary v. Washington* ruling? All eyes are on Pennsylvania lawmakers as they face this new and vital mandate.

Major Themes in State Funding Formulas

The most salient theme in state funding is a shift towards more equitable and need-sensitive K-12 funding allocations.

Over the last decade, education funding experts have shone a light on how regressive or progressive state school funding is. In this context, regressive funding means that the state's highest-poverty districts receive less combined state and local funding than the state's lowest-poverty districts. An EdBuild analysis of fiscal year 2014 data showed that 27 states had regressive funding: school districts serving the fewest poor students have more per-pupil funding than those serving the greatest number of poor students.²¹

Urban Institute performed a similar analysis of how progressive education funding is by state that also included federal funding, finding that the addition of federal funding further helps balance out funding between high and low-wealth districts, leaving just a handful of states remaining regressive with overall funding.²² However, the underlying regressivity of state and local funding in many states meant that the federal funding served largely to fill gaps or achieve a very limited level of progressivity; only in a handful of states was there enough funding to ensure that students in poverty received the substantially greater funding needed to support them to succeed.

The 2022 “Equal is Not Good Enough” report from The Education Trust reveals that inequities in school and district funding persist. Across the country, districts with the most students of color on average receive substantially less (16%) state and local revenue than districts with the fewest students of color, and high-poverty districts receive 5% less state and local revenue than low-poverty districts. The districts with the most English learners receive 14% less state and local revenue, compared with districts with the fewest English learners.²³

The wealthiest districts [...] have the greatest latitude, while high-need districts face the most restrictions.

IDEA, the law guaranteeing rights and providing federal funding for students with disabilities, is famously underfunded [...] IDEA grants only cover between 10-20% of special education costs to districts.

Definitions of student need vary, but common categories taken into account in school funding formulas include students from low-income backgrounds or those in high-poverty schools, students with disabilities, and English learners. Less frequently considered but also important are students who are experiencing homelessness or housing instability, and students with limited or interrupted formal education (SLIFE). Districts receive targeted federal funding for some of these students, although there are also several “unfunded mandates” associated with serving some of these student populations—scenarios where districts are required by federal law to meet certain compliance requirements, but do not receive any (or not nearly enough) federal funding to comply with those obligations. IDEA, the law guaranteeing rights and providing federal funding for students with disabilities, is famously underfunded, with analyses estimating that targeted IDEA grants only cover between 10-20% of special education costs to districts.²⁴

Flexibility of funding is also an important equity consideration.²⁵ Local money is generally unrestricted, but these dollars are more easily raised in high-wealth districts, giving school leaders in low-wealth districts far less flexibility in addressing student needs. Federal dollars, in contrast, usually have many strings attached to ensure they are spent on intended student groups. Some state funding comes in the form of flexible per-pupil aid, but much also comes through limited-use grants or reimbursements for specific costs. As a result, the wealthiest districts, with more local money at their disposal, have the greatest latitude, while high-need districts face the most restrictions.

Weighted Student Funding

One popular and effective approach for state (and, increasingly, district-level) funding formulas to achieve resource equity is Weighted Student Funding (WSF). In this type of resource allocation model, state policymakers determine a series of student-need categories (economically disadvantaged, special education, etc.) and apply a multiplier, or “funding weight,” to the dollars provided for those students. For example, for every \$1 of funding for a pupil with no identified needs, students with disabilities may receive \$2.50; English learners may receive \$1.40. Total LEA funding allocations are determined by applying these funding rules to the specific student population counts at each school district. These formulas are often highly complex with a variety of rules and weights.



EXAMPLES OF STATE FUNDING FORMULA OVERHAULS IN THE LAST DECADE

- Connecticut and Kansas both moved from block-granting their school funding to providing state aid through WSF formulas.
- California moved from a cumbersome, categorical-heavy allocation system to a much cleaner WSF formula.
- Tennessee moved from a resource-based formula to a WSF, to be implemented in the 2023-2024 school year.²⁶
- Maryland’s Blueprint funding formula changes modified local funding rules, added money for concentrated poverty, and increased weight for disability.
- Texas increased its base amount, added differentiated funding for different degrees of community poverty, and streamlined the calculation to emphasize student need over geographic characteristics.²⁷

Shifting (and Shrinking) Student Populations

There are two major trends in public school enrollment that spell trouble for school budgets: student populations are decreasing, and student needs are increasing. Special education designations have increased by more than 10% over the past 10 years, with students who receive special education services now making up 15% of the population; the English Learner population is growing; and student mental health needs are increasing, with only about half of schools feeling equipped to meet those needs.²⁸

Meanwhile, total enrollment is declining by 1-2% per year and birth rates indicate that the declines will continue for years to come (article #2, p. 16). With more than half of education funding determined by student counts, this spells decreasing total revenue coupled with increasing per-pupil costs—you don’t have to be a math wiz to understand that this equates to a troubling financial scenario. Furthermore, a number of states are launching universal Education Savings Account programs to offer alternative education pathways



for families—and while it remains to be seen to what degree these new choices will accelerate enrollment decreases beyond current forecasts, it's broadly predicted that these offerings will only contribute to enrollment and revenue declines in traditional public schools.

The broad shift to weighted student funding models should be flexible and responsive to the growth and increasing prominence of higher-need populations. Historically, states have relied on the Free or Reduced-Price Lunch designation as a proxy for low-income status in state formulas, but this is becoming a less valid indicator of economic need as schools and districts move towards community-level calculations of eligibility for subsidized school meals, a change that provides more students with access to free meals but reduces the accuracy of the count of students in the school or district that should receive supplemental funding under the state formula. Instead, many states are trying to use direct certification data (such as data from other state agencies regarding SNAP or TANF participation) for individual student households as the qualifying criterion. In making this move, some states have allowed students to also qualify for funding through the low-income weight if they are homeless, migrant, or foster youth. States could and should add distinct weights for these populations as well, rather than just using them as additional ways to qualify for the same low-income weight.

We must stress that current funding formula systems are not yet equipped to adapt well to enrollment declines.

There are two likely potential scenarios with existing state formula models:

- States will maintain effort in terms of total funding appropriations (i.e., if the education budget is \$1.3 billion this year, it will be sustained at or above \$1.3 billion regardless of enrollment declines). In this scenario, the per-pupil amount may temporarily increase as the denominator of student count decreases, although the true value of the funding amount also depends on whether the \$1.3 billion is adjusted for inflation.
- States will maintain effort in terms of per-pupil funding appropriations, in which case the total appropriation will decrease relative to enrollment decreases.

We are deeply concerned that at least some states will perceive enrollment declines as an opportunity to save funds in a recession. At first glance, it may seem reasonable that the dollars should scale down with student counts. The problem is that school budgets do not easily scale up and down due to the high percentage of fixed costs (you can't pay a teacher 7% less if a 4th grade class is 26 students instead of 28 students).

Generally, formulas have dealt with enrollment declines in ways that provide transition time, using policies like calculating funding based on the greater of last year's student count or the average counts of the previous three years—but districts will need better, more permanent ways to adjust because these declines are not a blip. To the extent that state policymakers are even aware of the long-range implications, they have not yet found good solutions to this problem.

The future may well rest in intergovernmental cooperative agreements that allow schools to use parts of their facilities to host other public and community services (see article #6, p. 44). Any viable paths forward—especially ones that prioritize equity for the most vulnerable student populations—will require far more innovative, collaborative, and nimble resource allocation models at the school, district, and state levels.

In Sum

The past decade has seen modest improvements in resource equity as a result of state funding model reform, and yet, major inequities persist. The next decade poses additional challenges of looming economic and political volatility, population shifts and enrollment declines, labor shortages, and a host of threats to the traditionally rigid unit economics of K-12 education. Whether these inequities improve or worsen from here will hugely depend on state leaders' willingness to seek innovative, iterative approaches to funding K-12 education with a special focus on ensuring equal access to high quality educational opportunities for *all* students.

As Judge Cohn Jubelirer wrote in the Pennsylvania decision: “[E]very child can learn. It is now the obligation of the Legislature, Executive Branch, and educators to make the constitutional promise a reality.” 🗣️

Any viable paths forward—especially ones that prioritize equity for the most vulnerable student populations—will require far more innovative, collaborative, and nimble resource allocation models at the school, district, and state levels.

Investing in Early Childhood

The myriad benefits of affordable, equitable, high-quality childcare and early childhood education programs extend beyond individual learning—these programs are some of the highest-return civic investments we can make.

WRITTEN BY

Jess Gartner, Katie Reed, and Laura Weeldreyer

Research shows that human brains develop more between birth and age 3 than any other time in our lives, yet the concept of public education in the United States typically refers only to the period between kindergarten and high school graduation (K-12). The first three years of life affect future learning, behavior, and health, but this age group remains conspicuously absent from most public education funding models, policies, and labor protections at the state and federal level.²⁹

The myriad benefits of increasing access to high-quality childcare and early childhood education programs extend even beyond learning and wellbeing: the broader social and economic impacts prove early childhood programs to be one of the highest-return investments we can make with public

dollars. The next decade of education finance should be far more inclusive of childcare and early childhood education—expanding the traditional “K-12” focus to a comprehensive “cradle to career” approach to education, made possible through robust public investments in universal access to high-quality early childhood programs.

Types of Childcare Between Birth and Kindergarten

There are separate but related challenges with increasing public childcare and education programs for children between birth and kindergarten.



Childcare refers to an institution that primarily provides supervision and care of infants and young children during daytime or other times that parents need to work, which can include third shift hours, where there is a gap in care that is often met by home-based care programs. Childcare providers are typically not required to possess advanced degrees in education or teaching certifications.

Early Childhood Education refers to an early childhood center (sometimes home-based) or school-based preschool that, in addition to meeting children's basic needs, also focuses on learning and development milestones and provides education to prepare children for kindergarten. The teachers in these facilities typically have higher levels of education and/or training, often including state-certified teachers.

Head Start is a federal program to support early learning and development for children between birth and kindergarten whose families meet the federal low-income guidelines: "The federal government funds Head Start programs through the U.S. Department of Health and Human Services, Administration for Children and Families. Across the country, school districts, nonprofit and for-profit groups, faith-based institutions, tribal councils, and other

Wealthy countries' governments contribute an average of \$14,000 per child per year for childcare, compared with just \$500 in the United States.

organizations qualify to become a Head Start recipient and receive federal funding. The federal-to-local model allows local leaders to create a Head Start experience that is responsive to the unique and specific needs of their community."³⁰

Let's Talk About Childcare

Childcare in the U.S. is severely inadequate, inequitable, and unaffordable.³¹ Far too many parents cannot find or afford the care they need; out-of-pocket costs to families continue to rise, and families with fewer resources often struggle the most to find or pay for a high-quality program. If parents can't secure childcare,³² they are often forced to leave the workforce, impacting not only their family's livelihood, but the economy as well.

The childcare system is dangerously close to collapse.³³ The COVID-19 pandemic forced many early childhood centers to decrease their enrollment (and revenue/funding), increase their prices, or close their doors entirely.

Even as pandemic recovery is underway, the nationwide workforce shortages, rising costs, and impending end of stimulus funding will further imperil the already fragile system.

According to the 2017 Maryland Child Care Survey results, nearly 50% of the 298 respondents—all working parents with kids aged 5 and under—reported a short-term disruption to employment (e.g., a sick child) over a three-month period because of issues with childcare. In 2016, absence and turnover due to childcare issues cost Maryland employers approximately \$2.4 billion.³⁴

There is virtually no industrialized country in the world that doesn't provide some kind of (generous) paid family and medical leave, state subsidized childcare, and/or child tax credits. Wealthy countries' governments contribute an average of \$14,000 per child per year for childcare, compared with just \$500 in the United States, most of which is in the form of federal assistance to families in poverty.³⁵

By contrast, Finland (the country whose education system we can't stop comparing with the U.S.) spends \$23,353 per child. In short, this country's chronic underinvestment in childcare is an economic crisis, an educational disaster, and a global

In 2016, absence and turnover due to childcare issues cost Maryland employers approximately \$2.4 billion.

embarrassment—a stunning trifecta of governmental failure.

Let's Talk About Early Childhood Education

The research on the value of high-quality programming for infants, toddlers, and preschool is staggeringly consequential and overwhelmingly positive: children who score higher on “school readiness” indicators when they start kindergarten are more likely to read on grade-level by third grade and more likely to graduate high school on time (without repeating a grade).³⁶

According to the American Academy of Pediatrics, one of the most widely recognized risk factors for school readiness is poverty: only 48% of 5-year-olds from low-income households are ready for school, compared to 75% of 5-year-olds from moderate- or high-income households.³⁷

High-quality preschool programming is the closest thing we have to a silver bullet when it comes to mitigating the impact of poverty on a child’s educational outcomes. A 2022 research study by the Washington Office of Superintendent of Public Instruction found that “kindergarten readiness predicted whether students met third grade SBA standards, even after controlling for student characteristics. The odds of meeting ELA standards were 1.62 times greater for students who were kindergarten-ready in literacy compared to students who were not. Likewise, the odds of meeting math



standards were 1.72 times greater for students who were kindergarten-ready in math.”³⁸

Excellent preschools consistently prove to be our very best shot at closing the stubborn gaps in educational outcomes across race and class lines, and not only have we failed to universally invest in early childhood programs, but they often elude our entire concept of education, which only begins at kindergarten as far as educational funding and policy are concerned.

Who Pays for Early Childhood Care Costs?

Parents and families bear the majority (55%) of early childhood care

costs through private payments that are estimated to consume between 10-27% of annual household income. Fractured private networks of centers (often unregulated/unlicensed) with varying costs, quality, and safety have obvious equity implications. We also lack a comprehensive understanding of how the myriad funding streams for early childhood education are being allocated (and to whom), which leads to notable inequities in funding. A comprehensive study by Afton Partners in Illinois showed there was no correlation between funding and community needs.³⁹

The birth-to-five period is a critical window for identification of a child’s special needs, as well as early intervention to address developmental delays. However, targeted funding streams for Early Childhood Special Education do not support child- and family-centered services.⁴⁰ For inclusion purposes, all children who are eligible for special education services should be able to receive them in a way that meets their needs and the needs of their families across a continuum of settings in home, schools, and community-based programs.

Furthermore, the Learning Policy Institute highlights socioeconomic

Children who score higher on “school readiness” indicators when they start kindergarten are [...] more likely to graduate high school on time.

segregation in the early childhood education system: “Means testing for programs causes children to be sorted, and thus segregated, into classrooms by their family’s income, which, in practice, often translates to racial, ethnic, and linguistic segregation as well. For example, Head Start and state preschool programs often operate in parallel and serve children in poverty separately from their higher-income peers in state or private preschool programs. Although some schools and community-based organizations blend state preschool and Head Start funding, doing so is difficult due to differences in federal and state standards and reporting requirements.”⁴¹

The education funding inequities and segregation of special education services and low-income students literally begin at a child’s birth and are often compounded through high school—a damning indictment of this country’s empty promise to create equal opportunities for all children.

What About Workforce Development and ROI?

Early childhood centers continue to struggle to hire staff and pay them a living wage, especially as workforce shortages push wages up in other industries like retail and restaurant chains.⁴² The Bureau of Labor Statistics reports that childcare workers earned a mean annual wage of \$27,680 as of May 2021—hovering near the federal poverty line for a family of four.⁴³ Many childcare workers do not have access to employer-provided benefits, including paid sick leave.⁴⁴ Early childhood educators are 97% women and are more racially diverse than the general population, with 38% of childhood educators estimated to be women of color.⁴⁵ Structural racism and misogyny are glaringly obvious in a field where the work of women and, specifically, women of color, is persistently undervalued and underpaid despite well-documented economic impact.

Today, the U.S. spends about \$76 billion per year on early childhood—\$42 billion (or 55%) of this total is paid by families for private child care.⁴⁶ There is another hidden cost to this system: parents forgo roughly \$30-35 billion in income because the high cost of early childhood

education leads many parents to leave the paid labor force, or reduce their paid work hours, to care for their children. This translates into a loss of tax revenue of about \$4.2 billion each year. That brings the tab closer to \$115 billion, for which we have a fractured system of care that is inadequate, inequitable, economically depressing, and exploitative to the childcare workforce. Not exactly a bargain.

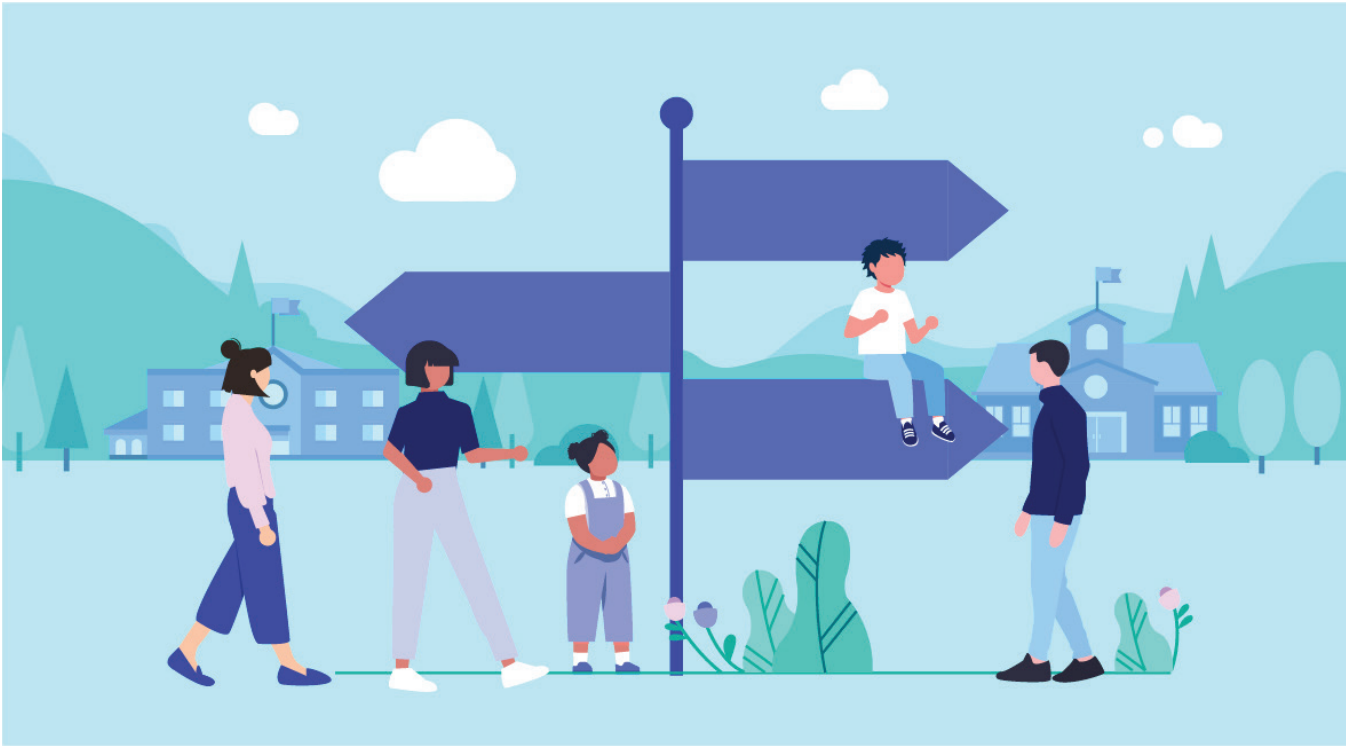
One study estimates that the cost of providing universal birth-to-five care and education (where teachers are appropriately compensated and programs are of high quality and available to all families) would be in the ballpark of \$400 billion per year.⁴⁷ Yes: that’s a steep ~250% increase in spending, but studies show that high quality birth-to-five programs yield a 13% return on investment (ROI). This research analyzes a wide variety of life outcomes, such as health, crime, income, IQ, schooling, and the increase in a mother’s income after returning to work due to childcare.⁴⁸

We can conclude that this ROI may be significantly underestimated at scale when we factor in:

- The stimulus of parents redirecting \$42 billion in saved costs to other spending.
- The additional economic stimulus created by households earning an additional \$30-35 billion as the cost/benefit ratio of work versus childcare shifts to favor workforce reentry.
- The economic stimulus of the 2-3 million women in the childcare workforce realizing increased wages. Remember, women influence 85% of consumer spending.⁴⁹
- Billions of dollars in increased tax revenue due to all the above.
- Increased GDP to the tune of over \$200 billion per year.

The only real question about investing in early childhood care and education is: how can we afford not to make these critical investments in education, society, and the economy? 🏠





School Choice

People on all sides of school choice arguments are passionate about providing excellent education options for students, even if their ideas about the means to that end vary dramatically.

WRITTEN BY

Jess Gartner

with reflections from Derrell Bradford, Emily Anne Gullickson, Marc Magee, and Andrew Clark

There is perhaps no more polarizing hot-button topic in education finance than school choice. As charters, vouchers, education savings accounts (ESAs), and other alternative education options like micro-schools have expanded in recent years, the debates have intensified, leaving little room for nuanced opinions.

With states like Arizona, Utah, Iowa, Arkansas, and others moving to fund universal voucher-access while public school enrollment is down, it's clear that rapidly expanding

learning options for students will play a large role in education finance conversations over the next decade.

What strikes me most about this debate is that folks on both sides of school choice arguments are fiercely passionate about providing excellent education options for every student, even if their ideas about the means to that end vary dramatically. Education finance plays a significant role in this debate, although the financial challenges are rarely addressed head-on. While most school choice discussions

center topics like parents' rights, curricular options, religious freedom, and other social-political components, I believe that the current zero-sum financial scenario is a major culprit driving the undercurrent of vitriol and spite in this conversation. I also believe that school finance is precisely the arena where respective parties must ally themselves in order to achieve their vision of excellent education for all students.

There are a variety of brass-tacks questions that I wrestle with in terms of financial implications for schools and students. Most of these don't go away when we expand school choice; instead, school choice, as it is practiced in many states today, only lengthens the list. At my most optimistic, I believe this unbundling of education will inevitably reveal just how severely underfunded some of our students and school districts really are, uniting education advocates of all kinds to address structural funding insufficiencies and inequities. I've invited several colleagues who are choice proponents to engage in a good old-fashioned discourse on this topic. I hope that collectively we can move the conversation about choice toward ensuring our system of education provides the resources each student needs to succeed.

Here are a few school choice topics that keep me up at night:

- Inflexible Unit Economics
- Special Education
- Special Programs
- Debt
- Transparency & Accountability

Inflexible Unit Economics

Schools and districts have a huge number of fixed costs that are nearly impossible to adjust on short notice. School buildings take decades to fund and build; capital equipment like buses, furniture, hardware, and textbooks are purchased for use over several years or a decade; teachers and principals take many months or years to hire and train. Between these costs and other obligations, that leaves less than 10% in an

annual district budget for discretionary expenses, yet when a student leaves the system, they take 100% of the planned revenue that was associated with their enrollment. There are very few line items in a district or school budget where the unit economics are such that costs decrease proportionally for individual students. If you have hired a teacher in May with the expectation that they will teach 28 third graders, the teacher's salary and benefits do not decrease by 7% if there are only 26 students in the class in September, and you cannot return 2 desks or get a refund on 2 textbooks.

Over time, if schools and districts continue to shrink, they will have to cut entire programs because it is often fiscally impossible to trim costs piecemeal—so art, music, or AP classes are cut in order to make up for the increasingly higher cost-per-pupil of other instructional programs. It is an unfortunate reality of school finance that the same principal is twice as expensive for half the students on a per-pupil basis; this is why many districts resort to sharing counselors, psychologists and librarians between several school buildings.

How can we reimagine funding and budgeting for schools to make instructional programs more resilient to enrollment fluctuations over time?

Special Education

Special education is notoriously unfunded. In many districts, targeted special education funding covers only 10-20% of special education costs. Since these services are required by law, the other 80-90% is siphoned from general fund dollars, which chips away at funds for other instructional programs.

Aside from the services themselves, IEP (Individualized Education Plan) administration, reporting, and legal

In many districts, targeted special education funding covers only 10-20% of special education costs.

proceedings all contribute to outsize per-pupil costs. It's not uncommon for a special education student to cost anywhere from 3-10x the average per-pupil expenditure. I worry about how this plays out as education revenue is fractured. In a school district of 50,000 students, a student whose special education services tally \$50,000 represents a marginal cost of just \$1 per student. If that same student wants to attend a 500-student private school, equipped with a \$7,000 voucher, the marginal cost of their special education services is now \$86 per student. It seems like a foregone conclusion to me that small schools will start looking for ways to screen-out, reject, or otherwise limit enrollment for students who show up with a hefty price-tag for their education costs.

If a voucher, ESA, or state education funding formula sets its value at the “average cost” including special education services, traditional districts lose out on an inflated cost per pupil that does not reflect the needs of students without IEPs. It doesn't take cynical motives, just an understanding that some schools are unequipped to provide the services some students require. Private schools already routinely engage in this practice, including those eligible to receive money from ESAs or vouchers. Public school districts don't have that option; since the passage of IDEA (Individuals with Disabilities Education Act), they are required to find a way to meet the needs of any student.⁵⁰ How can education leaders unite to increase funding for special education and ensure that schools receive fundings commensurate with the costs of services for enrolled students with IEPs?



Special Programs

Funding all students commensurate with their cost to educate seems like an area where common ground could be reached to benefit all students wherever they attend school. The average taxpayer is probably familiar with the concept of special education, and even if they don't spend their days analyzing special education budgets, they could reasonably surmise that a child who qualifies for special education services might cost more to educate than a child who does not require special services. I would wager that the same average taxpayer is completely unaware of the long list of other services (most also required by law) that school districts are responsible for providing, such as private transportation for students who face housing instability (McKinney Vento); the removal of language barriers for English learners (The Equal Educational Opportunities Act); and instruction for students who are homebound or hospitalized due to temporary or chronic illness (Home and Hospital laws, vary by state). These are legal responsibilities that fall on “local education agencies” often with meager additional funding that fails to cover the full cost of these services.

Most choice programs and choice advocates include the resources required for these services when comparing spending and outcomes, but these responsibilities do not transfer (in whole) to private schools. In some states, charter schools are exempt or have argued to be exempt from these as well. When we talk about resource equity, this is at the crux of it: certain student groups cost more to educate in order to comply with basic regulations. Will alternative education programs be willing and able to provide these services? Will they be held to the same standards under the law? If not, will we ensure that these programs remain fully funded so that concentrating these costs in traditional public schools does not require that we “rob Peter to pay Paul” and ensure inadequate resources for core educational programming in traditional public districts? This cost imbalance is at the heart of resource inequity and complaints of underfunding.

Debt

A hefty portion of school district revenue comes right off the top for pension liabilities (see article #3, p. 24) and capital debt repayment. In some districts, these obligations may consume 20-30% of their budget. These liabilities were incurred to compensate teachers and build/upgrade school buildings to educate more than 90% of U.S. students over the past several decades. School districts ask their communities to issue debt to build schools that will serve the community for years to come. If an increasing number of students leave the public education system, will the system be left holding the bag on these obligations with decreasing revenue to cover future costs?


These are public liabilities that were approved by local taxpayers to invest in their communities. If we pursue structural changes to education, we must consider how we cover the liabilities of our existing system. Is a new system of choice cost-effective, or even effective, if all we've done is leave concentrated liabilities behind in traditional schools we've starved of resources? We know what this looks like in the corporate world—shady business practices allow the use of bankruptcy protection to leave behind liabilities and fail to pay creditors while someone else profits. Choice advocates cannot avoid this question; otherwise, they doom traditional school districts to the same fate.

Transparency & Accountability

Public sector agencies are required to demonstrate fiscal transparency. But what counts as public versus private starts getting very blurry under many school choice programs. If an organization is receiving public funds in the form of direct funding to charter LEAs or indirect funding through

vouchers or ESAs, at what point are they responsible for making (any? most? all?) of their financials public? This has become a major issue with charter schools who contract with management organizations, whether non-profit or not. Is it actually transparent if a school gives most of its resources to a management organization without clear, detailed contracted services and prices while that organization is not required to disclose any of its financials? This is an especially tricky question given the financial scrutiny that school districts endure today—wouldn't it be hypocritical to suggest that it's suddenly an irrelevant indicator of education management because of the legal standing of school operators?

The financial consequences of increased competition for student enrollment cannot be ignored by anyone who is invested in creating quality school options for all students. Charters, vouchers, ESAs, and other emerging consumer options for education have been slowly gaining traction in K-12 for decades. The Supreme Court's 2022 decision, requiring states allow religious institutions to participate whenever the state funds private schools, has further emboldened many choice advocates.⁵¹ Recent state legislation focused on expanding and funding school choice programs indicates that non-traditional school options are not only here to stay but will expand more rapidly over the next decade. While this may sound like a "win" for school choice proponents, the very options they have advocated will quickly reach their own state of fiscal peril if they do not align their financial interests with traditional public schools.

How do we allocate and manage public education resources to truly ensure choice for all? 

Is a new system of choice cost-effective, or even effective, if all we've done is leave concentrated liabilities behind in traditional schools we've starved of resources?

Reflections on School Choice

The responses below are published in full (with only minor typographical edits) in the spirit of intellectual curiosity and discussion. The authors speak for themselves and/or their organizations and should not be interpreted as an endorsement by Allovue.

Aligning Interests with Family Expectations
by Derrell Bradford, 50CAN

Transportation Policy Reforms
by Emily Anne Gullickson, A for Arizona

More Money, More Opportunity
by Marc Magee, 50CAN

Fundamental Transformations
by Andrew Clark, yes. every kid.

Aligning Interests with Family Expectations

Derrell Bradford
President, 50CAN

Commentary on Inflexible Unit Economics: This, to me, is not a problem of school choice, and it is not one problem but two. First this is a problem of every increase in school enrollment resulting in a variable cost and every decrease in enrollment being described as fixed. That's an inflexible and unworkable paradigm. The second problem is that we have a public education model whose finances are predicated on consistent student growth in a time of flat-to-decreasing student populations across the nation, both in states with school choice and in states without it. Whether or not there are any options outside of district led public schools there will be fewer kids in schools in coming years so the issue must be addressed. Given this reality, schools probably should close. Teacher head count probably should decrease. But these will be political questions instead of practical ones so who knows what will happen? If New York City has anything to tell us we'll keep everyone in place, despite hemorrhaging students, and hope no one notices.

Commentary on Special Education: This is the one policy area where we already see significant funds follow students to private schools so I often use it as an example when discussing extending this opportunity to more students. But the point is a good one and I would address it with a few

suggestions. The first is a matter of program design, and that is simply that all the funds to which a special education student is entitled should follow the student. It is politically easier to avoid adding local tax revenue etc., but the money is there for the student and should follow the student to the school they choose. Secondly, though, is that we'd all benefit from a more nuanced discussion about private school participation in an ESA/voucher program that acknowledged a few things. First, parents do choose school environment (academic rigor, community, etc.) over available services at schools from time to time because parents value many things. Second, public school districts may have a comprehensive set of special education services (all of which a student may not need) but often fail to deliver on the terms of IEPs (hence consistent litigation in the area). Third, that any universe of schools (public, private, charter) is not comprised of schools that do all things well. I believe an environment where all schools are honest about what they can offer, and parents can make informed decisions about what tradeoffs they are or are not willing to make, is preferable.

Commentary on Special Programs: To embrace a pluralistic approach is to embrace difference, not uniformity. That said, if the problem is that LEAs don't (or believe they don't) have sufficient funding to address these rules/mandates I think many school choice advocates would join hands with those who would like to see a fairer funding arrangement for these students.

Commentary on Debt: Whether there are choice systems in place or not, many states have made pension commitments (as a debt example) that they cannot meet and that, sadly, crowd out the ability of states and municipalities to fund essential services in the present because of obligations in the future. In a world of declining enrollment and fewer students,

this is perhaps not an issue choice advocates can avoid, but it is one that public school districts that have overbuilt and overcommitted must solve regardless. Additionally, and to my knowledge, there are few if any charter or private school choice programs that fund facilities (New York City charters being an outlier).

Commentary on Transparency & Accountability: An important question of definitions and incentives. Scholarship Granting Organizations in many school choice programs, for instance, have historically had to have an annual audit and produce a report on the program's participants and results in a given year. Some have had to give state assessments and some have had the option to give a normed assessment. Others are required to report on parental satisfaction. This is all transparency (financial and otherwise), but it also isn't what I think many would describe as the onerous reporting that is required of LEAs. The programs should not be a black box financially, but their reporting should also not be so unwieldy as to be unworkable at smaller scales. This is to say I am more persuaded by an improved approach that is less onerous for all schools than exporting the expansive regime of current LEA reporting to all schools that may participate in a choice program.

I think existing options should align their interests with family expectations, desires, and demands, and that is the best way to ensure we have a responsive environment where many providers, including traditional public schools, help the nation's children learn and grow into the best versions of themselves.

I believe an environment where all schools are honest about what they can offer, and parents can make informed decisions about what tradeoffs they are or are not willing to make, is preferable.

Transportation Policy Reforms

Emily Anne Gullickson

Chief Executive Officer & Founder, A for Arizona

“How do we allocate and manage public education resources to truly ensure choice for all?”

This is a critical question for advocates to answer as education options expand. Let’s look at a specific example for an often-overlooked component of school choice: transportation.

The nation’s K-12 transportation system is largely in the same form as when it was established nearly 80 years ago. State funding formulas operate as if students and families are all still attending their assigned school within neatly designed and restricted attendance zones. We’re still calibrating our transportation funding around the yellow school bus.

The time for a refresh is long overdue.

We in the Grand Canyon State have long bragged about our leadership in school choice, with nearly one out of every two students attending a public school other than the neighborhood district school to which they were assigned and we’re the first state in the nation to adopt universal ESAs. But a choice is not a choice if you can’t get there.

So, Arizona is changing things by helping more kids get to their school of choice by adopting first-in-the-nation K-12 transportation policy reforms, making transportation an allowable expense for ESA families, and by awarding \$40 million in modernization grants to entrepreneurial leaders ready to rethink public school transit.

As a result, Arizona’s approach to K-12 transportation is driving down costs, enhancing safety and efficiency, improving student attendance, and providing more students with equitable access to more educational options. Many public schools, especially in rural and remote communities, are

utilizing the In Lieu of Transportation Grant option for families to pay for carpools, K-12-friendly ridesharing options, public transit, and even gas.⁵²

There’s a new generation of school leaders who see technology, a more diverse set of vehicles and drivers, community partnerships and collaborations, circuit loops, and on-demand options as tools to be leveraged for better access and more affordable rides to and from school. Changes aren’t just occurring in the cities and suburbs. Leaders in rural and remote communities are leading with creative, safe, and cost-effective ways to get kids to and from school. From the international border up to the Grand Canyon, more than 74,000 students have been served to date from these innovative grant solutions, with a focus on families utilizing open enrollment and public charter kids.

The Transportation Modernization Grants and In Lieu of Transportation programs underway are a great start. But these funding models and innovative transportation practices have also made it apparent that Arizona can do more to achieve a truly student-centered transportation funding system.

State Senate Education Committee Chairman Ken Bennett of Prescott championed a bill this year to model out a revolutionary approach where every K-12 student would generate transportation funding.

For illustration, let’s say base funding for every student starts at \$400.⁵³ Recognizing that transportation barriers are real for many kids and families, a universal flat rate is an inequitable way to give every child a real choice. Just like with academic weights based on students’ unique traits, there would be additional student transportation weights, modeled off the best practices underway, to generate extra dollars to eliminate the biggest transit barriers:

Sparsity Weight: For states like Arizona, distance traveled in a single day is real, especially for how far open enrollment students are willing to go. It costs more for our rural and remote students, but a sparsity weight can expedite more direct micro

transit routes and grants to families to cut travel time down and ensure students have consistent methods to get to school.

Foster and Homeless Youth Weight: To account for high mobility and distance traveled, this student population requires additional funding for reliable and individualized routes to have real choices like their peers.

Extraordinary Needs Weight: This weight acknowledges the costs of services and prioritizes student safety for our students with the most significant disabilities and enables schools to expand routes for 18–22-year-old students with special needs to access meaningful workforce training.

9-12 Grade Weight: If we truly want every student to be ‘career ready,’ we must provide additional funding to help our high school students access rigorous credential training and certification programs, apprenticeships, and internships year-round, not just the calendar school year.

High Poverty Weight: To ensure every student can participate in sports, ‘Learn Everywhere’ programming, high-impact tutoring, and other extracurriculars, we must ensure they can get home afterwards. A family’s income level and limited safe transportation options should no longer be the barrier to enrichment learning.

Yes, this approach is bold. It’s audacious. It requires the school choice community to collaborate with the traditional school associations, the business community, parent organizations,

Flexible student-centered funding is essential to ensure school choices are accessible for every student in every community, not just those who can catch the yellow school bus every morning.

local governments, tech start-ups, and local nonprofits to work together to design the appropriate funding model. Flexible student-centered funding is essential to ensure school choices are accessible for every student in every community, not just those who can catch the yellow school bus every morning.

More Money, More Opportunity

Marc Magee
CEO & Founder, 50CAN

For much of the past two decades, when discussing the financial impact of expanding school choice, the debate focused on the growing market share of charter schools in big cities. That conversation has widened considerably in recent years as a wider variety of forms of school choice and funding mechanisms has taken center stage. This raises new questions about the financial impact of expanding school choice but the starting point in these discussions should be the same: what are the educational experiences and opportunities we want for our kids?

Our public investment in education often follows a path of providing to all families the educational opportunities that were previously reserved for the wealthiest among us. In the 19th century, that meant making a basic education a right and a responsibility rather than a privilege. In the 20th century, we expanded this commitment to high school, transforming something that had served just 2 percent of kids into a cultural expectation and norm for everyone.

Now we are in the midst of another expansion: to provide to all families the school choices wealthy families enjoy while also providing all families with access to the educational opportunities, experiences and support that have long been the norm among the elite: a range of choice for tutoring, summer camps, connectivity, mental health, after school enrichment and more to create a personalized educational

journey for their children. This is particularly important as the growth in education spending beyond schooling is one of the biggest drivers of inequality in American education today. The most straightforward way to provide all families with these opportunities is through funding systems that enable choices both between schools and across a wide range of services, programs and providers. That means putting more education resources directly in the hands of families.

It's important to spell out this goal—and decide that it's worth fighting for—because as with any change, there will be a lot of work to do to make this transition to a better system possible. Most of these challenges grow out of a shrinking role for the “default” educational provider of the local school district. Because of a lower birth rate and lower levels of immigration, school districts were already on track to have to manage a downsizing of enrollment and with an expansion of school choices this will likely accelerate.

A further consolidation of districts in this new era can help maintain the economies of scale districts now enjoy. This is somewhat akin to what happened after the Cold War when we had to find a way to shrink the number of military bases and defense contractors while minimizing the damage to communities.⁵⁴ Or perhaps closer to home, we could look to the school district consolidation that took place during the last great expansion of educational services in the 20th century when the number of districts dropped from 119,000 school districts in 1937 to 18,000 by 1970.⁵⁵ In both cases, we didn't let the challenges of consolidation stand in the way of progress but instead developed a way to do so that made room for community input, transition periods and new forms of investment in areas that would have the greatest challenges.

This may also mean reforming pensions,⁵⁶ expanding the federal and state role in paying for special education, providing additional weights for student need in funding formulas and other state policy changes while also making room for experimentation (and hopefully new technologies) that can upgrade transparency and accountability systems⁵⁷ to work in this more unbundled environment. This is likely to be a 10 to 20

One important role for the federal government in this effort is to provide funds both for this experimentation and knowledge sharing as well as paying for transition costs that help bridge districts into their new roles.

year-long project, where states can learn from each other as they have in the past and make adjustments along the way. For example, Arizona is piloting new approaches to transportation that can work in a world with more educational options, including microschooloring.⁵⁸ This approach deserves additional attention and study as a possible model that can be adapted in more states.

It would be a mistake to try and figure out all of these transition questions all at once or create one national playbook every state and community will follow but we could be doing much more to highlight what is working in one community and what we are learning when experiments fall short. One important role for the federal government in this effort is to provide funds both for this experimentation and knowledge sharing as well as paying for transition costs that help bridge districts into their new roles.

As with the original push to provide basic education for all in the 19th century and high school for all in the 20th century, this effort to provide a more complete set of educational opportunities inside and outside of the school day will likely require an additional public commitment to support education which will allow us to do more for kids. This will require new bipartisan coalitions for change that move beyond an approach to education focused on more money for the same basic educational opportunities to an approach where more money delivers dramatically more opportunities for all kids.

Fundamental Transformations

Andrew Clark

President, yes. every kid.

Education in America is undergoing a fundamental transformation. This transformation promises to replace the current top-down, centralized system designed to meet the needs of the average kid with a new bottom-up, decentralized approach that promises to meet the needs of every kid. For the promise of this new approach to be realized, we must transform the ways we approach transparency and accountability in education.

That approach necessitates that we fundamentally flip accountability away from educators and families being accountable to the government through standardized tests and reporting and towards the government being accountable to families through choice and pricing.

For too long politicians have promised that standardized testing and other forms of government oversight would ensure that our education system provides a quality education to all students. However, the evidence is clear: today's approach to accountability is not working.

The examples of this failure are legion. A 2023 lawsuit in Baltimore provides an all-too-common example of the problem. By a government definition of success, basic proficiency in math, 2,000 students took the state math test. In 23 schools, zero were proficient at grade level in math.⁵⁹ Not zero percent. Zero. Not a single student. The promise of politicians is that if these students and schools are just accountable to government-imposed standards and tests that students will thrive. Look at the facts around the country. The evidence is clear: the status quo is not working. We must do something radically different.

Making the current accountability system better is an inadequate approach. No child left behind, race to the top, read by three, it doesn't matter which failed idea from the past

politicians want to double down on. Standardized testing and systems, like Carnegie units, are outdated methods of measuring educational success. These metrics were designed for a different era, one in which students were all expected to follow the same path through the education system. But today's students are more diverse than ever before, and they need an education system that can adapt to their individual needs. Standardized tests simply cannot provide the kind of nuanced information that parents need to make informed decisions about their children's education.

Instead of relying on government oversight, we should be transforming our education system into one that is accountable to families. This means that education entrepreneurs, including public, private, and charter schools along with education savings account vendors, should be held accountable to the families they serve. They should be transparent about their goals, outcomes and pricing, and they should be open to feedback from parents and students.

Many in the education market, including many self-professed education reformers, have conceded the need to move towards a system that is accountable to families but argue that such a transition must be slow, highly regulated, and carefully controlled for quality assurance. However well-intentioned, these arguments miss the fundamental point of empowering families. There is nothing magical about choice itself. A choice between three red apples is not inherently better than being given one red apple, it's just wasting two apples. Creating real value for the customer requires far more than choice, it requires real freedom to explore an unlimited range of products and services and to depend on the insights that price points bring along with customer feedback to serve as accountability.

To make this vision a reality, states have begun passing education savings accounts (ESAs) that are empowering families with thousands of dollars to choose the education products and services that work best for them. While not a utopian policy, this idea opens the doors to new products and services to education without the regulatory burden or the status quo system. Empowering families to make financial decisions

also forces educators of all stripes to answer questions we should have known long ago: how much does it cost for a student to learn how to read? If this approach to reading doesn't work for my kid, what other alternative options are available that might work?

As these policies mature, we need an education culture of openness and tolerance. One that is like social security. Social security is a program that is designed to provide a safety net for people who need it. It is funded by the government, but it is ultimately accountable to the people who benefit from it. If grandma goes to Target and buys a big screen, there's no political cry of social security fraud. We trust that grandma has her best interests at heart and will consider the ways she can spend her social security check and make the best decision for her unique situation. This is the kind of accountability that we need in our education system. A system with fraud prevention, but a system that believes in people and has tolerance that they will choose the products and services that create the most value for them.

We need to confront some ugly truths about the promises of politicians. Government oversight is often more about control than it is about accountability. It is about making sure that everyone is following the same rules and that everyone is on the same page. But this kind of top-down approach is simply not effective in a system that includes school choice.

When families can freely choose the kind of education that works best for their kids, the educators are held to the right kind of accountability: creating value for the kid. If you're an educator who isn't collaborating effectively with families, the families will stop coming. This critical feedback loop encourages education entrepreneurs to innovate and improve, knowing that they are accountable to the families they serve.

In such an environment, prices are critical to the process of gathering information and innovating. Knowing costs allow the customer to have real power. Empowering them to tradeoff against the things they actually value and sending market signals to the educator. Giving the educator feedback

beyond whether their offerings are valuable and towards better understanding of just how valuable the product or service they're offering is.

Education is changing rapidly. This modernization is long overdue. But it won't meet the moment if we still believe there's an average kid and that all of our systems should produce that average. Instead, toleration is required. Every kid is unique. Every journey is different. That's a feature, not a bug. We should embrace the plurality of outcomes as the right kind of accountability and send the one-size-fits-all system to the scrapheap of history where it belongs. 🗑️

We should embrace the plurality of outcomes as the right kind of accountability and send the one-size-fits-all system to the scrapheap of history where it belongs.





EdFinTech Climbs to New Heights

My boldest prediction for the next 10 years is the virtually limitless potential of education finance technology (EdFinTech) to redefine the way we allocate resources in K-12 public schools.

WRITTEN BY

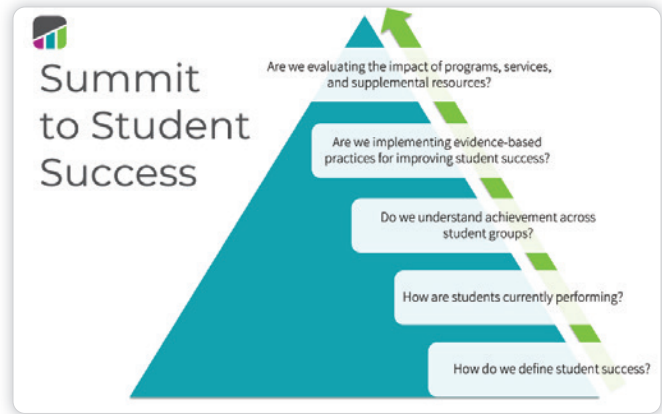
Jess Gartner

IN

the introduction, I shared some of Allovue's founding story, including the application and acceptance to AccelerateBaltimore, and our early obsession with the problems in K-12 finance.

After that three-month accelerator, I set out to raise a round of seed capital to hire designers, developers, education finance experts, and to cover other relevant startup costs in order to start turning the napkin-sketches into fully functioning software tools.

It took me 2.5 years and over 500 meetings to raise our first \$1.8 million in seed financing. During that time, I revised our "pitch deck" presentation more than 80 times. I was convinced that if I could just explain the problem more clearly, or propose the solution more boldly, then surely everyone would jump at the chance to be part of this vision to make every dollar count for every student.



A BRIEF PERSONAL TANGENT:

I spent most of those early years feeling like an abject failure, especially as I was surrounded by fellow founders who seemed to be having a much easier time raising money and getting off the ground. I was aware of the structural barriers facing female founders raising capital, but that knowledge is cold comfort when you are fielding hundreds of rejections all day, nearly every day, for years on end.

Please do not call this persistence or tenacity: the early-stage investment-capital process is a deeply broken system steeped in structural biases (while feigning meritocracy) that requires superhuman efforts from women and underrepresented founders.

I don't want my example of (barely) surviving this ordeal to be celebrated; I want the whole funding ecosystem to be overhauled and improved for all the founders coming up behind me.⁶²

Resource Allocation Mountain

In a 2015 iteration, I put on my teacher hat and tested a narrative relating school finance to Bloom's Taxonomy.⁶⁰ We called it Resource Allocation Mountain (remember, these slides were made before we could afford to hire great designers⁶¹).

I initially developed these dual taxonomies because I was fielding questions disproportionately focused on the tip-top of the mountain (basically, the fun stuff)—breathless questions in the realm of:

"Can you calculate the return on investment (ROI) of an SAT prep class?"

"Can you show the connection between learning violin and math proficiency?"

"Can you calculate the optimal class size?"

"Can you prove which curriculum is the best for teaching reading?"

Meanwhile, from principals and district budget directors I was hearing things like:

"It takes me 60 days to get my account balance for supplies, and by that time it's changed."

"It takes us 12 weeks to order a pallet of paper."

“I have no idea how many employees we actually have on any given day.”

“I couldn’t tell you how many different instructional strategies we are using.”

Do you see the gap here? During one sanity-preserving call with Jim Shelton, when he was President of the Chan Zuckerberg Initiative, he chuckled and said, “Your problem is that you’re building a plumbing system. No one wants to fund plumbing.” But who wants to buy a house without a functioning toilet and sink?!

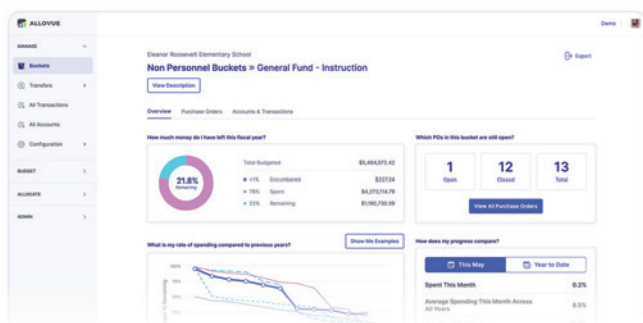
Expectation v. Reality in K-12 Finance

The problems in K-12 finance are deeply unsexy, and the real magic happens behind the walls and under the hood. Do you know why it is a legitimate nightmare for district administrators to figure out how many employees they actually have on any given day? Because finance and human capital systems are not typically designed to talk to each other—even though 80-90% of district spending is for personnel.

Imagine this:

You have 10,000 unique salary and benefits accounts; these do not contain staff data, only accounting codes.

You have 5,500 budgeted positions, including 400 vacant positions; vacancies do not have unique accounting codes, and at best, have a position ID. Not all of your positions without staff assigned are budgeted, not all of your budgeted vacancies have position IDs.



Finance and human capital systems are not typically designed to talk to each other—even though 80-90% of district spending is for personnel.

At the start of the fiscal year, staff data is loaded into one system, accounting data is loaded into another system, and job requisitions are loaded into a third system.

Your HR department starts recruiting and hiring; some positions are filled and other previously filled positions become vacant as people change positions, leave the system, or go on extended leave throughout the year.

Funding data does not have start and end dates, so when you change how a position is paid for, no one knows where it was originally budgeted and for how much money or when that was changed.

So, the only way to reconcile what employee count did we start with, how many employees have entered the system, how many employees have left the system, how many net-positions are still unfilled...is typically to pull all those data sets from at least three separate systems and calculate it manually using a mess of VLOOKUP formulas for thousands of records across several disparate spreadsheets.*

This process would take even a very savvy Excel wizard literally days to compile; no one is doing that manual analysis very often. Herein lies the disconnect between expectations (how many points will Johnny’s reading score go up if we enroll him in the band program next spring?) and reality in K-12 finance offices.

**We just solved the headcount problem in Allovue’s new version of Manage, a tool for monitoring spending, but it took years to untangle all the moving pieces and design a great solution.*

The Future of EdFinTech

We've been tackling these fiscal plumbing problems for a decade, and we're really just at the base camp of potential—there's still a whole lot of Resource Allocation Mountain to climb. On a bad day, it bums me out a little to be only as far along on this journey as we are. Then again, the Roman aqueducts took 500 years to construct so...not bad.

Data is infrastructure. Reaching the summit of Resource Allocation Mountain requires a meticulously planned information architecture system of pipes, tunnels, bridges, and canals. The good news: software and data technology capabilities are improving at a faster rate than ever before. In fact, we are building new solutions today with a framework for web applications and a programming language that didn't even exist at the time of Allvue's founding.

DREAMING BIG

Over the past decade, there have been major finance-technology advancements in payments processing, banking, cloud computing, the Internet of Things, and, of course, the much-hyped artificial intelligence (AI). At Allvue, we're dreaming big about the future of EdFinTech.

We're moving away from the rote compliance of accounting

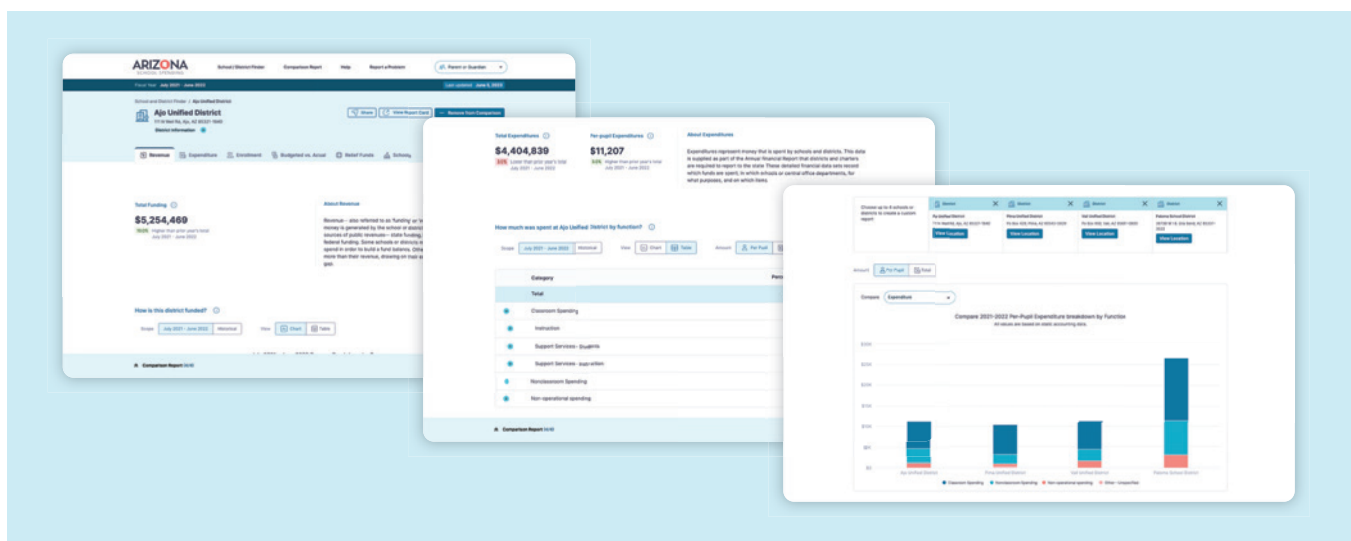
codes towards more integrated priority-based budgets that indicate strategic investments schools and districts are making in everything from math interventions to cybersecurity.⁶³

No more 800-page PDFs that require an accounting degree to interpret. It's time for dynamic, interactive public portals that invite informed discussions about resource strategy. (Check out the one Allvue built for Arizona at schoolspending.az.gov.)

Let's end the era of that one person who understands how the state funding formula works—it should be so easy to understand that a third grader can check the legislature's math.

For once and for all, let's be done with issuing paper checks. It's beyond time for universal digital payment processing and virtual purchasing cards. (Don't sweat the audit, CFOs. That's what automated compliance checks are for.)

Let's breakdown silos between research and practice, providing school leaders with relevant, real-time cost-effectiveness data on research-backed intervention strategies during budget planning. Take it a step farther and create a two-way marketplace between researchers in search of a topic for analysis and school leaders in need of targeted intervention strategies.



Screenshots from the Arizona School Finance Transparency Portal, built by Allvue (schoolspending.az.gov)

DREAMING EVEN BIGGER

Now what if we dream even bigger?

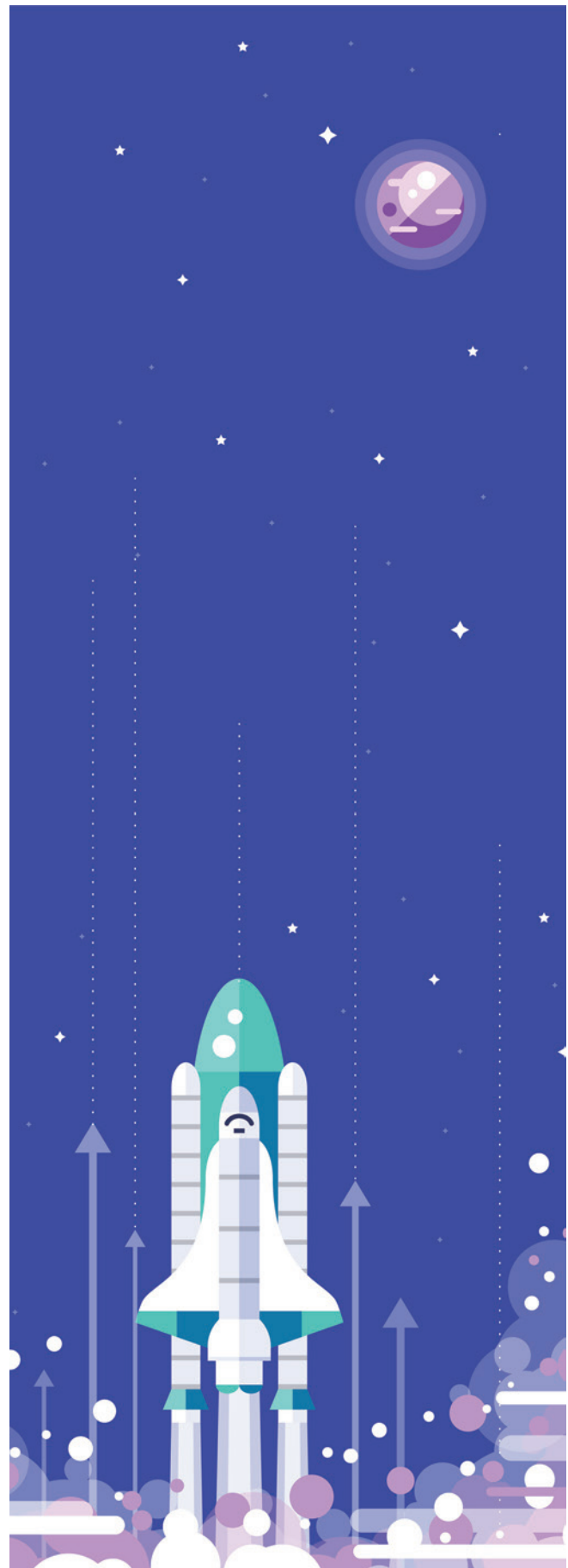
- An AI budget assistant that assesses how to match and braid grant funds for optimal compliance and usage.
- Forecasting and trends analyses that factor in enrollment trends, birth rates, population shifts, facilities capacity and conditions, and global economic conditions.
- Algorithms to optimize a cadre of bus routes, carpools, taxis, and last-mile transportation solutions to get students to and from school as quickly and safely as possible.
- National benchmarks and research-driven recommendations for funding formulas and resource allocation strategies.
- Magic compensation modeling that factors in building capacity, labor supply, student needs, inflation indices, and hybrid/alternative health benefits and retirement packages.

Ten years ago, we dreamed up a suite of software for budgeting, monitoring, and allocating K-12 education resources, and then we built them.

My boldest prediction for the next 10 years is the virtually limitless potential of EdFinTech to redefine the way we allocate resources in K-12. Now, we've got a 10-year head start: Allovue's team of 50 dedicated EdFinatics, thousands of committed school and district budget managers, tens of billions of dollars of detailed financial data, and a lot of great plumbing.

We're just getting started.

Because the best way to predict the future of education finance is to create it. 🏠



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Teacher & Administrator Perceptions about K-12 Education Finance

KEY FINDINGS FROM THE FIRST ANNUAL EDUCATION FINANCE SURVEY

Commissioned by Allovue
Conducted by the EdWeek Research Center



WHAT WE LEARNED

WHAT

1,303 U.S.-based educators including 337 school district leaders, 340 principals/vice principals, and 626 teachers

WHO

A nationally representative, 36-question survey

WHEN

Nov. 17, 2022–Dec. 16, 2022

WHY

To gain insights into educators' views, knowledge, and projections of K-12 finance

■ Pandemic relief funds were not seen as “transformational.”

Only 21% of respondents said their district's ESSER dollars were sufficient to make a transformational or very important difference.

■ Many do not know the cost of teachers' total compensation.

86% of teachers, 73% of school leaders, and 66% of district leaders incorrectly estimated how much districts pay for teacher benefits, such as pensions, healthcare, and paid leave.

■ Over half of respondents (53%) said higher levels of need among today's students have a major impact on rising per-pupil costs.

36% and 31% of respondents named declining enrollment and special education as other top factors, respectively.

■ School-based administrators want more budget autonomy.

School leaders control only 7-8% of their schools' total spending, and most said they need more decision-making authority.

Introducing the Allovue Education Spending Confidence Index

The Allovue Education Spending Confidence Index was designed to provide a high-level overview of teacher and administrator perceptions of their school systems' current and expected financial status, with the goal of tracking this new metric over time.

The Confidence Index's inaugural score is -38 on a scale ranging from -100 to +100. This score suggests that educators are more likely to view their districts' financial status and future with pessimism than with optimism.

Taken together, our findings suggest that K-12 teachers and administrators would benefit from expanded access to information, more opportunities for knowledge sharing, and improved collaboration around public school resources, budget processes, and spending practices. Allovue's Education Finance Survey is an attempt to highlight this need and encourage action.



A common theme was the idea that administrative salaries are constraining teacher wages. However...

Public schools spend approximately **\$261 billion annually on teacher salaries**—roughly **46x more than they spend on district leader salaries** (\$5.6 billion per year).

Even if school boards laid off every single district leader in the country and spent 100% of the savings on teacher pay, the average teacher would earn **just 2% more.**



← Scan the code to download the full whitepaper, or visit [ALLOVUE.COM/STUDY](https://allovue.com/study)

Financial clarity is a priority. Do you have the tools to achieve it?

Allovue is ed finance software designed for K-12 districts to allocate, budget, and manage resources—efficiently and equitably. Today's modern district leaders rely on Allovue to ensure that every dollar works for every student. Learn more at [ALLOVUE.COM](https://allovue.com).

Exploring dominant themes, challenges, and possibilities in K-12 finance through the next decade.