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### Allocating Resources within a Big City School District: New York City after Campaign for Fiscal Equity v. New York

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Allocating Resources within a Big City  
School District: New York City after  
*Campaign for Fiscal Equity v. New York*

*Ross Rubenstein and Lawrence Miller*

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The Education Finance and Accountability Program (EFAP) is part of the Center for Policy Research. Its mission is to promote research, education, and debate about fundamental issues in the system of elementary and secondary education in the United States. The central focus of the program is on the tax and state aid programs that fund this system and on policies to promote efficiency and accountability in school districts. The authors thank the Rockefeller Foundation for financial support.

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## Policy Brief

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## Allocating Resources within a Big City School District: New York City after *Campaign for Fiscal Equity v. New York*

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In 2003 the New York State Court of Appeals ruled in *Campaign for Fiscal Equity v. New York* that New York State was not meeting its constitutional obligation to provide a “sound basic education” in New York City schools (see Duncombe, Lukemeyer, and Yinger, CPR Policy Brief No. 28/2004, for a summary of the case). In November 2004, a court-appointed panel of special masters reported that the additional operating cost was approximately \$5.6 billion per year (Feerick, Milonas, and Thompson 2004).

The total amount of new funding required for New York City public schools has been the focus of extraordinary study and debate. But relatively little attention has focused on how these additional resources will be distributed across schools within New York City. The *CFE* decision requires New York State to provide adequate educational funding to New York City, but it does not specify that individual schools within the district receive adequate funding. Thus, even if New York City receives adequate funding at the district level, it is possible that adequate resources will still not reach those schools serving students with the greatest needs, especially if future spending follows historical spending patterns. In small school districts with only a handful of schools, disparities across schools are of little consequence, but they can be enormously important in a large district such as New York City, which serves more than 1,000,000 students in over 1,300 schools.

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In this brief we take a closer look at the mechanisms used to distribute resources across schools. This brief summarizes and builds upon the authors' ongoing work with Leanna Stiefel and Amy Ellen Schwartz investigating the intradistrict distribution of resources within large school districts. We first present what we know about the current distribution of educational resources within New York City and other large city districts. Then we discuss current efforts to promote greater equity in the distribution of resources and improve student performance. We conclude with lessons and policy implications for New York State as it implements the *CFE* decision in New York City. These findings also apply to other large districts in the state, such as Buffalo, Rochester, Syracuse, and Albany.

Our focus in this brief is on *vertical equity*—ensuring that schools serving students with different levels of needs receive appropriately different levels of resources—rather than *adequacy*. But the two concepts are closely related. If we ensure that students with a variety of needs have ample resources to achieve agreed upon educational goals, we will achieve both school-level adequacy and vertical equity.

### Previous Research and Litigation

The growing focus on schools as the locus of accountability, combined with better data availability, has led to increased attention to the level and distribution of resources at the school level. A small amount of research on this topic dates back to the 1970s and 1980s (Summers and Wolfe 1976; Ginsburg, Moskowitz, and Rosenthal 1981). Most of the available evidence, however, has accumulated since the mid-1990s.

Most school finance litigation, such as the *CFE* case, has focused on state formulas to distribute resources across school districts, but a large urban school district can itself be the target of litigation over the distribution of funding across individual schools within the district. The Los Angeles Unified School

District faced such a lawsuit, *Rodriguez v. LAUSD* (1992), in which plaintiffs argued that schools in poorer Los Angeles neighborhoods had less experienced and less educated teachers—and therefore lower funding—than schools in wealthier neighborhoods. The district entered into a consent decree in 1992 that required greater equalization across schools. Some evidence suggests that the case has resulted in greater funding equity across schools, though not greater equalization of teacher experience (Sugarman 2002).

### *Disparities Uncovered*

In a comprehensive overview of research on school-level resource distribution, Stiefel and colleagues (2004) identify almost 20 studies dating back over 25 years examining the school-level distribution of various resources, including dollars, teacher-pupil ratios, and teacher characteristics. A number of studies (for example, Summers and Wolfe 1976; Rubenstein 1998; Iatarola and Stiefel 2003) examine resource allocations across schools within a single large school district, while others (such as Clark 1998; Stiefel, Rubenstein, and Berne 1998) examine the distribution within (but not across) several large districts. Still others (such as Betts, Rueben, and Danenberg 2000; Burke 1999; Hertert 1996) use school-level data to compare resources across schools in different districts.

#### Across-District Studies Mask Across-School Disparities

The studies looking across districts find that district-level averages typically understate the level of disparities that exists across schools within the districts.

- For example, Hertert (1996) compares per pupil expenditures in California across districts, across schools (ignoring districts), and across schools within districts, and finds that differences between schools in different districts are substantially greater than average spending differences between districts.

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- Owens and Maiden (1999) examine the distribution of instructional expenditures across districts and schools in Florida and find substantially larger disparities between schools than between districts. They also find that, at the school level, the higher the percentage of African American students and students eligible for subsidized or free lunches, the lower the level of instructional expenditures.

Sometimes higher concentrations of students with special needs, such as low-income students, are associated with higher levels of per pupil spending.

- For example, Schwartz (1999) uses data on over 3,000 schools in Ohio for the 1995-1996 school year and finds that, controlling for district fixed effects, higher student poverty is associated with higher spending, with an even stronger relationship when the sample is limited to the state's largest urban districts.
- In their review of the research on intradistrict resource allocation, Stiefel and colleagues (2004) find a significant positive relationship in 5 of 11 school-level studies examining the relationship between spending and poverty, with significant negative relationships in only 2 studies. However, these findings come with the caveat that expenditure data alone may mask a tradeoff between quality and quantity of resources.

*Teacher Quantity-Quality Tradeoff in High-Poverty Schools*

The growing availability of school-level personnel data has made it easier for researchers to analyze the number and type of staff employed across schools, to determine whether a quantity-quality tradeoff takes place. A common finding in research examining the distribution of teachers is that high-poverty schools often have more teachers relative to pupils, but that these teachers are generally more inexperienced and educated and, thus, lower paid.

- As early as the 1970s, Summers and Wolfe (1976) found significantly lower education levels and teacher exam scores in

schools with higher poverty and higher proportions of black students in Philadelphia.

- Several years later, Ginsburg and colleagues (1981) examined the distribution of teacher inputs (professionals and paraprofessionals per 1,000 pupils, teacher education, experience, and salary) in relation to special needs students (minority, low-income, low test scores) for New York State schools for 1976-1977. They found more professionals and paraprofessionals per student in high-poverty and high-minority schools, but the teachers in these schools tended to have less experience and lower salaries.
- Stiefel and colleagues (1998) provide an overview of intradistrict resource allocation research in Chicago, New York City, Rochester, and Fort Worth and report low variations in base funding across schools in each city, but also find lower teacher salaries in high-poverty schools, sometimes offset by more staff relative to pupils in those schools.
- Similarly, Rubenstein (1998) examines the distribution of budget dollars per pupil across Chicago schools, separated by funding source (General Fund, Special Education, Desegregation, state Chapter 1) and school level (elementary vs. high schools). He finds that both high- and low-poverty elementary and high schools receive similar General Fund positions per pupil, but that average teacher salaries are significantly lower in higher poverty schools, leading to lower General Fund dollar allocations in the higher poverty schools (particularly elementary schools).
- Betts and colleagues (2000) compare California schools in 1997-1998 and find relatively little variation in average class sizes across schools but large differences in teacher qualifications as measured by experience, education, and credentialing. They also find relatively large variations in the number of advanced placement (AP) courses offered and in the percentage of courses that satisfy public university entrance requirements.

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- Ingersoll (2002) uses the three Schools and Staffing Survey (SASS) datasets to compare school characteristics and teacher qualifications and finds that teachers in high-poverty, high-minority schools tend to have lower qualifications and are far more likely to be assigned to teach classes that they have not majored in.
- Roza and Hill (2004) examine within-district differences in dollars spent per school for Baltimore City, Baltimore County, Cincinnati, and Seattle and report that teachers in low-poverty schools and those in high-performing schools tend to have higher average salaries than do teachers in high-poverty and low-performing schools. They also find that schools with the most applicants for teacher positions have the highest paid teachers, because they have the most choices and therefore hire more experienced and educated teachers. They argue that the allocation of Title I resources to hire teachers compounds the inequity because schools with lower-paid teachers subsidize schools with higher-paid teachers.

Financial Reporting Masks Variations across Schools

The ways in which data are reported, such as reporting only a fraction of district expenditures at the school level, and using average costs can often mask real resource variations across schools.

- Roza and colleagues (2005) report that in Denver only 45 percent of the district's operating budget is reported in individual school budgets while the rest is reported at the district level. Approximately one-quarter of these centrally-reported district expenditures, though, represent shared resources used to provide services across multiple schools (for example, bilingual education services). When the researchers allocated these shared resources to individual schools, the services accounted for an additional \$1,000 in spending per pupil, on average. Their findings suggest that transparency may play a direct role in improving equity between schools, as the more transparent school budgets were

distributed more equitably than the much more opaque centrally-reported budgets.

- In addition, the common practice of reporting average rather than actual teacher salaries by school can hide substantial resource differences. Roza and Hill (2004) report that if all schools received funding for only an average teacher salary for each teacher position, schools above and below the salary average would lose or gain 4 to 6 percent of their budgets, with gains of over a half million dollars and losses close to \$1 million for schools at the extremes.

#### *Studies of New York City*

As the largest district in the nation, and one in which detailed schools site resource data has been collected, New York City has increasingly become a focus of research on school-level resources.

- Iatarola and Stiefel (2003) explore the intradistrict equity of inputs and outputs, including expenditures, teacher resources, and performance across 840 elementary and middle schools in New York City in 1997-1998. They find that disparities in resources at the school level are generally greater than those reported for interdistrict studies (particularly in middle schools). Similar to results in other cities, the authors also find that elementary schools with higher proportions of students with special needs (with the exception of immigrant status) tend to have more teachers per student, but with lower salaries. They find similar results for schools with higher proportions of non-white students in both elementary and middle schools.
- Stiefel and colleagues (2004) estimate *de facto* spending models to assess the factors that appear to drive resource allocations across New York City elementary and middle schools. Consistent with previous studies, they find significantly higher teacher-pupil ratios in high-poverty schools, but

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significantly lower salaries, less teacher experience, and lower percentages of teachers with master's degrees and full licenses.

- Lankford, Loeb, and Wyckoff (2002) use data for all of New York State to explore teacher sorting and report that urban areas generally have less qualified teachers than non-urban areas and that, within large urban districts, low-performing, poor, and non-white children are more likely to have teachers who are not certified and who have failed certification exams. They conclude that teacher transfers and quits may exacerbate these differences as teachers, particularly those with the most skills, are more likely to leave urban schools with many poor students.

Much categorical funding, such as federal Title I funding, is intended to provide supplemental resources in high-poverty schools, but allocation methods at the district level often limit these effects.

- Brown (2005) examines Title I allocations in the three largest U.S. school districts and finds that New York City was the only district of the three being compared (LAUSD and Chicago were the other two) in which Title I funds appear to supplement state and local funds. In addition, though, Brown finds that New York City fails to meet the vertical equity intent of Title I funding as schools with higher concentrations of poor pupils did not receive higher Title I funding per pupil. Moreover, there were wide ranging anomalies in the allocation of Title I including one school that received \$4,864 per pupil, or nearly seven times the average per pupil allocation.

*Summary of Research Findings*

In sum, the existing studies on school-level resource disparities in New York City and elsewhere have often reached remarkably similar conclusions.

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1. Resource disparities found across schools may be as large as or larger than the more widely recognized disparities across districts.
2. These disparities are generally not explained by differences in school and student characteristics. On the contrary, schools with greater student needs often find themselves disadvantaged relative to other schools in the same district, particularly in terms of the quality of teacher resources.
3. These patterns are not caused by the intentional targeting of resources to lower-need schools, but are frequently the result of position-based funding formulas, average cost budgeting practices, and teacher sorting patterns that allow higher paid teachers to systematically opt into lower-need schools without financial ramifications for the schools they transfer from or to.

The next section addresses efforts and proposals to address these school-level disparities.

## **Alternative School-Based Funding Systems**

### *Current Allocation Methods in New York City*

Resources are allocated to schools in New York City through a series of formulas based largely on each school's student register and number of students with special needs.

#### Base Instructional Allocation

Most funding (82 percent of school-level allocations in FY 2005) is allocated through the Base Instructional Allocation (see NYC Department of Education 2004 for details). The Base Instructional Allocation consists of three components:

1. a school overhead allocation to fund a principal and selected other administrative personnel;

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2. a base teacher allocation, which divides each school's general and special education register by maximum class sizes for each grade and program to calculate the number of teachers required (as well as adjustments for such factors as teacher prep and lunch periods, frequency of course offerings, and "breakage," that is, additional teachers needed when the student register does not divide evenly by the maximum class size); and
3. a per capita allocation to fund other basic needs such as assistant principals, paraprofessionals, aides, and instructional supplies.

The remainder of each school's allocation is provided through a series of specialized formulas targeting students with special needs (such as students with limited English proficiency and those eligible for free lunch), specific types of schools (for example, new schools, schools under registration review), certain grades (for example, early grades class size reduction) and specific types of expenditures (such as school-based support teams).

An important aspect of the base teacher allocation is that each school budgets for average, not actual, teacher salaries. Therefore, all things being equal, schools with higher paid teachers do not face a tighter budget constraint than those with lower paid teachers, and schools with lower paid teachers do not have additional resources for other purposes.

*Proposed or Implemented Allocation Options*

The review below discusses several options that have been proposed or implemented to address potential inequities that may arise from such a position-based funding system.

**Weighted Student Funding**

In recent years, several large districts around the country have taken steps to reduce their reliance on traditional position-based

allocation formulas by introducing *weighted student budgeting* (Miles and Roza 2005). Drawing on experience in Edmonton, Alberta, districts in Seattle, Houston, Cincinnati, and San Francisco have begun implementing weighted student allocation formulas in recent years (Archer 2004).

Weighted student funding formulas hold considerable promise for reducing intradistrict resource disparities. Miles and Roza (2005) examine school-level equity before and after the implementation of these funding systems in Cincinnati and Houston and find that funding disparities unrelated to student characteristics were virtually eliminated in Cincinnati and decreased slightly in Houston. They conclude that details matter; the choice of student weights and the share of district resources allocated through the formula will affect the degree to which equity goals are achieved. The use of district average teacher salaries (average costs) instead of actual school site teacher salaries (real costs) continues to hinder intradistrict equity gains in the districts that have implemented weighted student funding, however. Oakland, California, which has begun the process of charging schools actual rather than district average teacher salaries in conjunction with the use of the system, is a notable exception (Archer 2004).

Intradistrict allocation formulas based on teacher positions, such as those currently in place in New York City, complicate efforts to enhance school-level resource equity, as schools may compete for the most educated and experienced (i.e., highest paid) teachers with no financial penalty. Odden and Busch (1998) recommend that schools be charged actual teacher salaries, but with a seven-year phase-in period. Similarly, Roza and Hill (2004) recommend that states fund children, rather than districts or schools, with funding following children to their schools. Such a student-based approach also has implications for systems employing enhanced public or private school choice (Rubenstein and Picus 2003).

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Weighted student funding is often implemented along with more general decentralization efforts designed to provide enhanced management and resource allocation discretion to school personnel. Ouchi (2004) reports that in three large districts using traditional budgeting systems, the percentage of the school's budget under the discretion of the principal ranged from 19.1 percent in Chicago to 6.1 percent in New York City. Conversely, in three districts using a weighted student funding system, the proportion of the budget controlled by the school's principal ranged between 59 and 92 percent. While a weighted student formula could, in theory, be implemented without decentralizing budgetary control, the system provides important new opportunities for school personnel to control the use of resources and, in particular, the mix of staff, at the school site.

#### School-Based Funding

While weighted student formulas typically focus on the methods that districts use to allocate resources across schools, a number of researchers have advocated changing state funding formulas by moving the basic unit of support from the district to the school. Such a "school-based funding" system would largely remove the discretion of school districts to re-allocate funds across schools. For example, Guthrie (1997) has proposed a school-based financing system, with 90 percent pass-through of funds to the school site, including capital outlays. He also recommends that schools be given discretion for purchasing and other resource allocation decisions. Similarly, Hess (1995) discusses problems with examining equity from only a district-level perspective and proposes a school-based funding system in which 85 percent of district funds are allocated to the school site. Hess simulates the funding under such a system, which would result in a range of expenditure levels of no more than 1.45:1 across all schools.

Allan Odden has written most extensively and in the greatest detail about the structure of a school-based funding system. For example, in Odden (2001) he argues that states in the U.S. should follow England's lead in creating need-based school (rather than

district) funding formulas. The formulas can include a base amount per pupil, with adjustments for student needs, grade level differences, and particular school needs.

Odden and Busch (1998) review three existing examples of school-based financing: charter schools, the Australian model, and the British model (for other useful overviews of the Australian and British systems see Hill 1997; Caldwell 1997). Victoria, Australia, began school-based financing in 1993, with approximately 87 percent of funding budgeted at the school site. Schools have the ability to determine their own staffing mix (i.e., regular teachers, specialists, support staff) or convert a teacher position to a cash allotment to be used for other purposes. In England, school-based funding has been in place since the late 1980s, though funds flow through Local Education Agencies (LEAs). Approximately 85 percent of the budget is allocated directly from the central government to schools as a lump sum. LEAs are required to determine funding formulas, with at least 80 percent based on “age weighted pupil units,” though LEAs can develop their own formulas for calculating these pupil units and schools are charged for actual teacher salaries.

Based on experience in these districts, Odden and Busch (1998) develop proposals for a school-based funding system in the United States. They suggest that districts would be required to identify functions to be devolved to schools and those retained by the district, determine the portion of resources to go with these devolved functions, and develop formulas to allocate the resources to schools. The state would retain authority to structure the ways in which districts can develop these school funding formulas.

### **Improving School-Level Resource Reports**

One of the biggest challenges that researchers continue to face when examining intradistrict resource allocation patterns is the availability of school-level data. According to a recent survey by

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*Education Week*, 23 states collect school-level financial information, suggesting at least moderate demand for such information. A generally accepted method of accounting for school-level resources does not exist, though, and this ambiguity fuels mounting concerns about how to report costs among our nation's schools (Archer 2004, Educational Testing Service 2004).

Efforts to address weaknesses in school-level data have resulted in several proposals aimed at improving the transparency and usability of school-level resources (see Chambers 1999; Odden et al. 2003); however, school budgets do not include many centrally reported resources that appear instead in consolidated central department budgets, making it difficult to determine which schools ultimately benefit from them.

One model, developed by Coopers & Lybrand and implemented in New York City in 1994, accounts for a greater share of district resources at the school level by allocating costs based on the face-to-face principle. With this model, only the cost of personnel that physically work within schools is reported at the school level, while administration and operations costs associated with central services remain centrally reported (Coopers & Lybrand 1994). While this strategy facilitates reporting a greater portion of shared resources at the school level than is typically reported, some within-district variation is lost and analysis of effective resource use becomes more difficult (Miller, Roza, and Swartz 2005). For reporting purposes it may be most useful to show school site spending both with and without these indirect cost allocations.

A recent National Center for Education Statistics publication calls for districts to allocate *all* spending to schools, including district administrative and school board costs. The rationale states that “the provision of educational services through operation of schools is the only product of a school district [and] the allocation of these costs is necessary to full costing of the schools

and their programs” (National Forum on Education Statistics 2003). No cost allocation model has yet been developed to execute the recommendation; however, a recent paper by Miller, Roza, and Swartz (2005) proposes a model by which typical school budget data are supplemented with spending data on centrally reported resources, both of which are then classified by student type, to enable comparisons of spending differences between schools.

### *New York City after Campaign for Fiscal Equity v. New York*

The remainder of this brief discusses policy alternatives for New York City as it works toward achieving adequacy and equity for all of its students.

Researchers have consistently found staff-based allocation systems used to allocate resources from the central office to the schools to be highly inequitable. These findings have led to a search for alternative mechanisms, and no other alternative has garnered more interest than weighted student funding.

#### *Weighted Student Funding*

New York City could follow the lead of districts such as Edmonton, Cincinnati, Seattle, Oakland, San Francisco, and Houston in implementing a weighted student funding formula. Weighted student funding systems shift the focus from the resource being allocated, teachers for example, to the recipient of the resources, the student. All students start with an equal amount of base level funding; students with special needs (e.g., English language learners, students with learning or physical disabilities) receive higher funding to equate the cost of their education with the amount of resources the school actually receives.

The potential benefits of this system include a high level of vertical equity and greater transparency. The success of a weighted student funding system ultimately hinges on a number

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of important details that the district would need to consider, including teacher distribution, calculation of appropriate weights, and accounting for economies and diseconomies of scale (discussed below).

*Teacher Distribution*

Ensuring an equitable distribution of teachers while still protecting teachers' workplace rights presents one of the most vexing challenges for school-based funding systems. As described earlier, much of the disparity in resources across schools may be attributable to the sorting of teachers and the resulting strong correlations between teacher characteristics and student characteristics. Teacher preferences, in particular, may often work against recruitment efforts in urban districts, and against schools within districts serving students who may be perceived as being more "difficult" (Lankford, Wyckoff, and Loeb 2002).

Moving from position-based to dollar-based funding on its own might not be sufficient to affect the distribution of teachers significantly unless districts choose to eliminate average cost budgeting practices as well. If schools work with budgets in dollars rather than positions, they would be forced to make tradeoffs between the quantity and the "quality" of teachers in the school (to the extent that quality is associated with observable characteristics such as experience and education that are rewarded in teacher salary schedules). With existing teacher salary schedules, this would not, however, change existing teacher incentives to choose schools they perceive as having the most desirable work environment. Therefore, it is quite possible that schools serving fewer students with special needs would continue to hire higher-paid teachers while schools with more special needs students could hire additional teachers, but would largely be left with newer and less-educated teachers.

Two potential elements of a student-based formula could affect teacher assignments, though. First, student weighting would provide relatively more funding to schools serving more students with special needs and relatively less funding to other schools. Therefore, under a weighted student formula schools with fewer “high-weight” students would lack the resources to hire large numbers of the highest paid teachers, potentially increasing the supply of such teachers for high-need schools. Second, a weighted student formula could be implemented along with a system of differential pay for teachers working in the hardest-to-staff schools and grades. Differential teacher pay would be, perhaps, the most controversial proposal described here, and would be quite difficult to implement under existing collective bargaining agreements (unions in some urban districts, though, such as Denver, have approved differential pay for hard-to-staff schools). One possibility for implementing such a proposal within current arrangements is for the state, rather than New York City, to set aside a portion of any funding increase to support bonuses for teachers agreeing to work in schools with the greatest needs (Ballou 2004). It is unclear, though, how large these bonuses would need to be; the limited evidence on wage differentials suggests they could be quite large (Odden and Kelly 2000; Hanushek, Kain, and Rivkin 2004).

The ability to identify high performing teachers is critical to accurately evaluate current teacher distribution patterns and policies, such as wage differentials, aimed at improving the equity of teacher distribution. Recent research on nationally certified teachers finds that teachers who earn national certification are at least marginally more effective than both average teachers and teachers who sought, but failed to earn, this certification. Furthermore, applicants who earn certification appear more effective at raising student achievement and have a greater impact on low-income students (Goldhaber and Anthony 2004). Unfortunately, only 12 percent of nationally certified teachers teach in high-poverty schools (greater than 75 percent

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free or reduced priced lunch) (Humphrey, Koppich, and Hough 2005).

*Determining Appropriate Student Weights*

A growing literature has examined the cost of providing an adequate education for students, with much of the work focusing on New York and other states embroiled in adequacy litigation (see, for example, Duncombe and Yinger 1997; Duncombe, Lukemeyer, and Yinger 2004; Chambers et al. 2004). While detailed discussion of the methods used to estimate adequate funding levels is outside the scope of this brief (see Duncombe, Lukemeyer, and Yinger 2004 for an excellent overview and critique of methods used to estimate adequate funding), selection of appropriate funding weights is crucial if adequate resources are to reach students. While the majority of adequacy studies have focused on school districts rather than schools within districts, the weights derived from these studies may be appropriate starting points for developing funding formulas. Unlike the ad hoc weights often found in state and district-level formulas, the student weights derived from these adequacy studies are empirically linked to student performance levels. The weights found in many funding formulas often represent political compromises rather than empirically derived decisions regarding the appropriate level of funding for different types of students. Thus, to the extent that shifting to a new weighting system produces winners and losers, it is likely to be politically controversial.

Estimating appropriate weights is also complicated by issues of marginal and average costs, particularly at different enrollment levels. For example, the marginal cost for serving the first student with limited English proficiency can be expected to be considerably higher than the cost for serving the tenth such student. Conversely, high concentrations of students with special needs (for example, students from low-income families) could result in higher marginal costs per student. Using weights based

only on average costs may result in under-funding or over-funding certain schools. Several alternatives are possible to address this issue. One possibility is to include higher funding weights for schools with low incidence of certain student needs, or to fund those schools on a cost reimbursement basis, as is often done with low-incidence special education services. Another option is to start with a base funding amount for the fixed costs associated with running a special program, and then to allocate weighted per pupil funding in addition to the base. To address higher costs from higher concentrations of students with special needs, the formula could include higher per pupil weights for schools over a certain threshold, for example schools in which more than 60 percent of the students are from low-income families. Since low-performing students in New York tend to be heavily concentrated in a small number of schools (Boyd, Lankford, and Loeb 2004), it may be particularly important to focus additional resources on these schools.

A related issue is how districts identify student needs for the purposes of funding. New York City collects quite detailed data on student characteristics, including unique data such as the percentage of recent immigrants and their home countries. These data provide an opportunity for the district to effectively target subpopulations of students. Again, though, the effectiveness of such targeting is dependent on how the district chooses to define student needs (for example, federal Title I funding in New York City is currently distributed based on proportions of students eligible for free but not reduced price lunches, thereby targeting schools serving only the poorest children [Brown 2005]), and the appropriateness of funding weights assigned to these children.

#### Small Schools

Unless it accounts for potentially higher costs associated with small size, a weighted student funding formula could disadvantage small schools, many of which have opened over the past several years and are currently being developed in New York City. New York City is not alone in turning to small schools as a

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reform strategy; Los Angeles and Chicago, the second and third largest districts in the country, have recently announced small school strategies as well. The LAUSD, in fact, has announced that all secondary schools will transform into small schools within three years.

Small schools are related to the discussion of adequacy and equity because opponents of the reform strategy often allege that small schools cost more than larger schools due, in part, to scale advantages. Proponents counter that input costs are arbitrary and that on a cost per graduate basis, small schools may actually cost less (Stiefel et al. 2000). In other work examining economies of scale using production functions, Andrews, Duncombe, and Yinger (2000) find that high schools serving 600-900 pupils may best balance scale advantages with the potential negative effects of larger schools. Research on the cost of small high schools in Seattle and Denver (Roza, Swartz, and Miller 2005) finds that small schools appear more expensive when school budgets are considered in isolation. However, when full costs, which include school budgets, real salaries, central budgets for educational services, and the cost of non-educational services (e.g., food service and transportation), are analyzed then the costs of small schools may not be uniformly higher. In developing a funding formula for New York City, care must be taken that the formulas do not impose undue financial burdens on small high schools.

#### *Decentralization of Resource Allocation Decisions*

The NYC public schools have a long history of decentralization followed by consolidation dating back to the 1960s (Ravitch 1974). In 1997, the district began an experiment in school-based budgeting termed the Performance-Driven Budget (PDB) initiative (Siegel and Fruchter 2002). Under the plan, schools established School Leadership Teams with discretion “to combine multiple funding sources to split-fund staff; hire people full-time, part-time or on a per-session or per diem basis; and move money between and among personnel and non-personnel

categories, activities and programs” (Siegel and Fruchter 2002, iv). Though evidence on the effectiveness of school-based management and budgeting in improving student performance is scarce, an evaluation of the PDB initiative found evidence of significant performance gains in PDB pilot schools (Stiefel et al. 2003). Though PDB is no longer in place in New York City, the district began a new school-based budgeting initiative in the 2003-2004 school year that provides principals with the authority to budget resources within the school, in consultation with a School Leadership Team. The district’s experience with school-based budgeting could provide much-needed capacity for implementing a decentralized budgeting approach in the future. While such a system is not mandatory under a weighted student funding formula, centralized resource allocation may mitigate the promise of substantial performance and equity gains.

#### *Transparency*

If wage differentials are the most controversial recommendation discussed in this brief, then increased transparency might be considered the least controversial. The deleterious effect that budgeting for average teacher salaries has on equity has resulted in recommendations to end the practice altogether (Moss Adams 2003). With only one district nationally attempting to budget with actual salaries, strategies to increase demand for such practices deserve consideration. Legislation has been proposed in California to enhance transparency by requiring reporting of actual school site costs and district average costs, including “the percentage by which the school is above or below the district wide average” (California Senate Bill 687). The proposal comes in the wake of a 2005 report by the Education Trust-West finding substantial spending gaps between high- and low-poverty schools within many California districts.

New York City may already be ahead of many large school districts in this area. The Department of Education (formerly known as the Board of Education) has, for a number of years,

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been releasing School Based Expenditure Reports that report detailed expenditures by level (central vs. school-based), function (such as classroom instruction vs. instructional support), and student program (such as general education vs. full time special education). These expenditure reports use actual school-level salaries rather than averages to calculate expenditures.

### Conclusions

While most litigation in New York State and elsewhere has focused on disparities in, and adequacy of, funding across school districts, it is clear that achieving equitable and adequate funding across districts is not the end of the story. Unless attention is paid to the methods used to distribute resources *within* districts, it is unlikely that sufficient resources will reach the schools and students who need them most. On the contrary, if additional funding is distributed using the methods currently in place in New York City and in most other large districts, inequities across schools could actually increase. While this brief has focused on New York City, it is also quite possible that a statewide remedy will be implemented that would dramatically increase funding in the state's other large districts. While there is little available evidence regarding intradistrict allocations in the "Big Five" districts, it is likely that the same patterns are in place, though on a much smaller scale than in New York.

This brief highlights some of the problems inherent in traditional school district allocation systems, and describes proposals for reform. As the discussion points out, attempts to reform traditional district resource allocation practices face numerous difficult and potentially controversial issues. Our purpose is not to advocate for a specific plan, but to describe the importance of the task and some of the challenges New York City will face in responding to the *CFE* decision. To ignore the distribution of resources across districts risks missing an historic opportunity to ensure that all students have access to the educational resources they need.

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