

OXFORD FOUNDATION

MEMORANDUM

Date: Nov. 5, 2012

To: Bill Rustem
Greg Tedder
Mike Flanagan

From: Richard D. McLellan

Re: **Update On Public Education Finance Project**

Process

We have concluded most of our meetings with education interest groups and Peter Ruddell is going working on an initial draft of the Michigan Public Finance Act of 2013. It will, of necessity, be incomplete and subject to substantial revision. But the draft bill and this Memorandum should give you a sense of our direction.

We will not, of course, be making specific funding recommendations and to the amount to be appropriated in the various funding buckets. This is the job of the Budget Office and ultimately of the Governor and Legislature.

We previously received a very helpful “Headlee Amendment and Proposal A Primer” from Jane Wilensky and Paul Zimmer, retired assistant attorneys general that handled the Durant and Adair cases for the state. This will help us stay within the limits imposed by the constitution and these important cases.

Mike Flanagan has been generous is making his staff available to discuss the concepts we are considering. Their technical knowledge is vital to assuring that what we propose is consistent with federal law and regulations. (They, of course, reserve the right to make their own conclusions regarding the wisdom of the proposals.)

Peter and I are relying on Mary Kay Shields (who is volunteering from CMU) for many of the technical aspects of school financing. She has a much deeper background on school finance and was involved in the original adoption of Proposal A. In addition, as soon as feasible, we want to meet with Robbie Jameson to get her reaction to the proposals. We will give her the draft as soon as Peter completes it.

Peter is drafting the bill as amendments to a 297-page version of the School Aid Act renamed the “THE MICHIGAN PUBLIC EDUCATION FINANCE ACT OF 2013.”

We will circulate the Draft 1 on or after November 7.

Outline of Significant Proposals and Issues

As you know, reading a lengthy draft bill to determine what really is being proposed is often challenging. The interplay of multiple definitions and sections, including sections not amended, sometimes obfuscates what is intended.

Accordingly, I am going to try and outline the major concepts I have asked Peter to include in his first draft.

Purposes Clause

We are proposing to include a purposes clause, as follows:

THE PURPOSES OF THIS AMENDATORY ACT ARE TO:

(1) CREATE A PUBLIC EDUCATION FUNDING SYSTEM THAT'S PRIMARY OBJECTIVE IS TO CREATE CAREER READY CITIZENS;

(2) PROVIDE SEAMLESS TRANSITIONS FOR THE PUPIL BETWEEN EARLY CHILDHOOD, ELEMENTARY, SECONDARY, AND POST SECONDARY EDUCATION;

(3) PROVIDE A PUBLIC EDUCATION FUNDING SYSTEM THAT PROMOTES INDIVIDUAL LEARNING STYLES;

(4) ENABLES PARENTS AND PUPILS TO EMPLOY EDUCATION PROGRAMMING OPTIONS THAT ENSURE THEIR FUTURE SUCCESS;

(5) PROVIDE GREATER ACCESS TO SELF-PACED PROGRAMS ENABLING A PUPIL BELOW GRADE LEVEL TO HAVE ADDITIONAL TIME AND HELP TO GAIN COMPETENCY, WHILE A HIGH ACHIEVING PUPIL MAY ACCELERATE ACADEMICALLY.

“Unbundling” and “Enrollment District” As An Approach to “Any Time, Any Place, Any Way, Any Pace”

The existing public school model can be viewed as primarily a “bundled” model where each student enrolls or is assigned to a specific school, which thereafter attends to all his or her education needs. The School Aid Act of 1979 is built on this model with its focus on “membership” and the per pupil allowance aid to the school district. (The term “district” generally includes general powers districts, ISDs, charter schools and Education Achievement Authority schools.)

I addressed the unbundling alternative in the paper we posted on the Oxford website: “Disaggregating High School Education; An Approach to Implementing ‘Any Time, Any Place, Any Way, Any Pace’.” The MDOE staff reviewed the paper and raised a number of issues related to how this approach might be difficult to adopt and the challenges it faces.

For purposes of implementing the unbundling approach in the draft bill, Peter is going to include the concept of an “enrollment district,” i.e., the school district a student and his parents would select as the primary school authority for the maintenance of records and payment of public funds for the student’s education. For most students who select to continue to receive a bundled education, the enrollment district would be the district or charter school the student selects.

But for students and their families that want to access multiple public school resources, the enrollment district would have to perform some or all of these functions:

- Initial enrollment of the student and determination of Michigan residency.
- Categorization of the student, e.g., as special education eligible, at risk, ELL, etc.
- Maintenance of electronic records of the academic and financial matters related to the student for the entire period he or she is in Michigan public schools
- Serve as fiscal agent for receipt of state education funds and accounting and payment of a portion of the funds to public schools that provide part of the student’s education.
- Monitoring the courses and credits earned.
- Conducting or supervising state-required tests.
- Issuing diplomas
- Accept all credits earned.

One major issue that needs to be addressed is the amendment and operation of Section 25:

388.1625.amended Enrollment of pupil in district or intermediate district after pupil membership count day; report of information to department; duties of department; changes in calculation of state school aid under subsection (1); notice; information to be provided to department; "educating district or intermediate district" defined.

There are other significant issues that will need to be resolved:

- Does the enrollment district “own” the student in the sense that its will be held responsible for the outcome even though the school does not control all the student’s courses? This is where data and record keeping requirements may undermine a new approach.
- Does the enrollment district have any mandatory counseling function to assure the student only takes courses that meet the student’s needs?

- Does the enrollment district have the power to prohibit a student from taking a course offered by another Michigan public school and does this create a financial incentive for the enrollment district to act in the district's economic interest rather than the academic interest of the student?
- How and how much is the enrollment district paid for performing these functions? We will include a placeholder for this concept, recognizing that work will need to be done on the scope of the function and costs involved.

Create Space for Change

As we draft the bill, we are trying to create a framework that will allow rapid change and innovation, particularly in the technology area. There is a tendency to be overly prescriptive and mandate the latest flavor of innovation being proposed.

Technology is moving faster than any policy will be able to anticipate or react. One of the major goals of unbundling education is to create more consumers of education services, where there are not consumers. The largest segments of consumers of online learning are those pupils seeking credit recovery or catching up so as to graduate on time. The pupils were "nonconsumers" in the traditional education system. By turning these pupils into full consumers of education services, we will improve our workforce by creating more career and college ready pupils.

In this connection, Robbie Jameson has recommended we read "Disrupting Class," by Clayton M. Christensen. Appendix A presents a brief outline of the concepts included in Mr. Christensen's book.

Data and Performance Based Funding

Given the Governor's focus on performance and choice, we want the education financing law to focus on funding things that work (and stopping things that don't work) rather than the present focus on funding schools regardless of performance.

The Governor's request that we focus on performance based funding forces us to wade into the thicket of data collection in public education. The state has been addressing this issue for years and is in the midst of several initiatives, including:

- Funding for technology infrastructure to facilitate data collection.
- Creation of a temporary state agency, the MCEE, to develop and recommend a "student growth and assessment tool" to measure student growth in the core subject areas of mathematics, science, English language arts, and social science, and in other subject areas.
 - The tool must be "a value-added model that takes into account student achievement and assessment data, and is based on an assessment tool that has been determined to be reliable and valid for the purposes of measuring value-added data."

- The Superintendent's process of rating the bottom 5% of schools and other ranking of school performance.
- School boards must adopt and implement for all teachers and school administrators "a rigorous, transparent, and fair performance evaluation system ... (that) evaluates the teacher's or school administrator's job performance at least annually...."
- The implementation of new curriculum and assessment requirements in 2014-15.
- The adoption, by the EAA and other schools, of new computer-assisted learning and assessment tools.
- Increased use of computer-adaptive national norm tests.
- In the current fiscal year, the state started with performance based funding in a limited way.

As a starting point for the proposed Public Education Finance Act, Peter is going to include language with these concepts:

- A "performance count day" to be added to the existing enrollment count days where eligibility will be based on a school's performance on the measure of student growth based on the results of the student growth and assessment tool.
- A change in the funding formula, based initially on a small proportion to be based on performance, with the expectation that the proportion would be increased over time.
- New terminology.

Performance based funding is the most challenging task we have, in part, because there are many aspects of this approach that are still in development. But, I think the financing law can be redesigned to facilitate a greater and more effective use of student achievement and assessment data as it becomes available.

I have three caveats:

- It appears that much of the assessment and data functions (and perhaps federal laws and regulations) are focused on measuring schools, not actually student performance. In fact, we have been advised that students and parents are not given access to much of granular information the state collects on individual students. I think the data process should be student-centric as well as meeting legal requirements.
- I am concerned that the data collection structures will be used to prevent a robust unbundling that would be in the interest of student achievement, but will force structures to meet data requirements instead ("You can't do it that way because the feds require it this way.").
- There is a need to focus on what reports are required of schools. 15 years ago, there was a list generated of all reports required by the state, federal government and legislature from schools. We suggest that a similar list be developed with the

objective of reducing the number of redundant or unread reports. Mary Kay Shields has recommended that we establish a “Master Calendar of Reporting Requirements” supplied to districts to assist with their red tape, ideally made available in an electronic format that could be easily synced to Outlook calendars or whatever. CMU already does this on a limited basis for CMU-authorized schools and they love it.

Alignment with HB 5923, the New Forms of Schools and Online Learning Bill

HB 5923 is a bill amending the School Code to implement, in part, the Governor’s Education Message.

The bill authorizes a number of new forms of public schools that could be created by existing school districts and authorizing bodies. In general, these new forms of school would be funded on the same basis as existing public schools. There may, however, be a need to make sure the new Public Education Finance Act incorporates these new forms of schools. There are also some other minor issues, such as administering tuition payments from international students that will need to be reflected in the financing law.

It is the area of online education that may require more to do. HB 5923 is designed to establish a robust online education strategy for all public schools. This will only be accomplished if the unbundling aspects of the school finance system are implemented and if the proposals to impose state approval of online courses are resisted.

I have asked Peter to identify any provisions of the present School Aid Act or the proposed law that will need to be changed to fully implement the provisions of HB 5923.

Online Education

The proposed bill will make it clear that all public school authorities are authorized to conduct or contract for online learning for students enrolled in the school.

The unbundling provisions will assure that a student and his or her parents will be able to access all public school online learning opportunities, and have those courses paid as part of the student’s free public education.

As provided in HB 5923, online learning can be provide by and should be paid through an open entry/open exit. This may be a significant element in facilitating some students to accelerate their pace of learning.

We may need to incorporate several new terms including: online course syllabus, online course and online learning pupil.

After considering several options, we are not going to propose state control over online education course or prices, for the following reasons:

First, it is school authorities, not the state that selects teachers, textbooks, course content, and other aspects of public education. In the rapidly changing area of online learning, schools, teachers and parents should not be hostage to some state agency to approve an online course or method of study. The state has created, through the MVU, a Center for Online Learning Research and Innovation that can be a valuable resource, but it should not be a gatekeeper for education innovation.

Second, online education resources vary widely in cost and should be expected to go down, as do most prices of technology services. In fact, many online resources are essentially free and can be bundled with on-site teachers for blended learning. Any formula imposed by statute would be fair to some and unfair to others. This is an area where the school authorities (if they are independent) have the incentive to seek the best value for performance in online learning.

Terminology

Public education is fraught with terms with special meanings, or multiple meanings. And these terms have a significant effect on how a student is judged by the system.

We are trying to be careful, and seek the guidance from Mike Flanagan and his staff, in the use of terms. For example, what does “proficiency” mean (in plain English) and how does that differ from “mastery?”

As with the present term “membership,” much of the policy articulated in the school aid act is through definitions. Accordingly, we are going to have to work carefully to assure that both new and existing terms are defined in a way that achieve the policy objectives intended.

Early Graduation Scholarship

We are going to propose the adoption of an “early graduation scholarship” process for students who are able to accelerate their successful completion of high school. This implementation of the “any pace” concept will facilitate funding for post-secondary education for high achieving students.

For example, an Open Entry/Open Exit (OE/OE) courses is self-paced educational alternative designed for students who can master course material without traditional classroom instruction. With no traditional lectures or regularly scheduled class, a student can complete a course in several weeks, a month, or a semester.

Pre-K Issues

We are proposing no changes to the Great Start Readiness Program (“GSRP”). There appears to be uniform agreement the program is successful and a recognition that more funding is necessary to expand opportunities. (We are not including the MEA suggestion to expand the concept to age 2 and 3.)

Statewide Enrollment

As part of eliminating the restrictions on enrollment based on residency, every student will be permitted to enroll in any public school without the necessary approval of his or her home district. But, the receiving school will retain its ability to control enrollment.

Year Around School

Peter has developed a concept to encourage year around schools so as to reduce the summer loss of many economically challenged students. The school would not be an extended school year, but a 180-day year spread out over 12 months, not 9.

This is just a summary of some of the issues to be included in the draft bill.

I would be happy to respond to any questions. This memo will be posted on the web site.

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Appendix A

“Disruptive Innovation;” Ideas from: “Disrupting Class,” by Clayton M. Christensen

- Areas of nonconsumption where disruption can occur:
 - Advanced Placement (AP). There is a vast nonconsumption of AP courses in most high schools. Online allows a school system to aggregate the demand for AP courses over an entire school district.
 - Specialized or advanced courses
 - Small, rural, and urban schools the are unable to offer breadth
 - “Credit recovery.” Remedial courses are often not available.
 - Home-schooled students
 - High school dropouts
 - Students needing special tutoring
 - Prekindergartners
 - Courses for gifted students
 - Enrichment classes for special-needs children
 - Online supplementary courses
 - Languages
- Disruptive transition from teacher-led to software-delivered instruction.
 - Stage 1: Computer-based or online learning.
 - Stage 2: Student-centric technology; students learn in a manner that is consistent with their learning needs.
- NCLB requirements for only “highly qualified” teachers for each subject limit the availability of teachers in rural and urban schools.
- Patterns of disruption:
 - Disruptions first compete against nonconsumption in a “new plane of competition.”
 - Technology improves and the underlying cost declines.
 - Technology begins drawing applications from the original plane of competition.
 - Transition is neither abrupt nor immediate.
 - The initial substitution pace is slow; then it steepens dramatically; and, finally, it asymptotically approaches 100 of the market. (Example: digital photography replacing film photography.)
- Technological and economic advantages of online learning, compared to the monolithic school model:
 - Accessibility for those who previously would have been able to take the course.
 - Convenience to fit the course into the student’s schedule at the time and place that it is most desirable.
 - Comparatively greater flexibility in the pace and learning path.
 - Online can scale with ease.
- The sequence of substitution:

- The overriding concern among school leaders is to improve the test scores in subjects on which schools will be judged.
- Schools are doubling up on reading and math at the expense of other subjects.
- Core subjects are where priority resources are being focused.
- Schools are disinvesting in “nice-to-have” courses.
- It creates a vacuum of nonconsumption – the ideal place for student-centric online technology to be deployed.
- Disruptive innovation requires targeting on courses schools would be relieved *not* to have to teach, but do feel the need to offer.
- Through a rational and incremental process, schools would outsource more and more of the instructional job to virtual providers.
- Student-centric technology can fulfill both assessment goals:
 - Determine the extent to which students have mastered a body of material.
 - Compare students against one another.
 - Under the monolithic instruction model, even if a student fails, he or she must move on, because moving on is inherent in the model of monolithic instruction.
- Comparing monolithic instruction to the factory model of industrial production:
 - Educators borrowed the concept of monolithically processing students in batches, with a fixed time spent in each stage of the process of assembling an educated person, from the concept of batch processing in industry so that they could cope with the burgeoning student population in the early twentieth century.