



Tim McDonald, fellow, Center for Policy Studies

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

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Present : Verne Johnson (chairman), Janis Clay, Jim Hetland (phone), Sallie Kemper, Dan Loritz, Wayne Popham (phone), Clarence Shallbetter; guests Jon Bacal, Brad Blue, Greg Marcus

Summary of meeting: Tim McDonald, fellow at the Center for Policy Studies and associate of Education|Evolving, discusses his new book, *Unsustainable: A Strategy for Making Public Schooling More Productive, Effective and Affordable*. He contends that the public K-12 school system as currently structured is no longer financially viable and as a result becomes increasingly inefficient each year. He proposes enabling and incenting people to work on lowering the cost and increasing effectiveness of schools and argues public policy should be structured so that this dynamic is created.

A. Welcome and introductions.

Tim McDonald is a fellow at the Center for Policy Studies, a non-profit research organization focused on the redesign of large systems in the areas of health care and public education. He is also an associate at Education|Evolving, a project of the Center.

Find a copy of the book here: <http://tinyurl.com/3j2m4q2>

Find a full summary of the book here: <http://tinyurl.com/2ahtyeo>

B. Comments and Discussion

Tim McDonald opened his remarks by thanking the Caucus for the opportunity to test ideas with and obtain feedback from members and guests on the issues he has broached in his recently published book. He asserts that while the United States continues to have the most competitive economic model and established human capital, future educational success will go to the country, the state or the region, that can put in place systems that best capture individuals' talents and direct them toward productive ends.

He argued that such an ability to increase educational productivity could be Minnesota's long-term, durable competitive advantage. Since all the 50 states have open economic systems, we could try to compete with tax policy, but it will be difficult to differentiate our state simply along economic lines. Ted Kolderie made a compelling case in 2006 (<http://tinyurl.com/3fws35o>) that one of Minnesota's

greatest points of leverage for creating an appealing business climate is to have a high-performing public sector that empowers individuals and organizations, whether large or small.

McDonald contends education offers the greatest potential for Minnesota to distinguish itself and to set a new theme for the nation to follow. The timing is good now, he continued, because proposals are coming together that could enable the Governor and the Legislature to do just that. The ideas appear to have bi-partisan appeal, and after this year's budget stalemate the two parties can really use something constructive to agree on. Bipartisanship has been shown to be a characteristic of successful system-redesigns, McDonald said. If an idea involves long-term change in the incentive structure of a public system there tends to be more of an appetite for both parties to engage it than there might be if a proposal deals only with taxing, cutting, or regulation.

THE PROBLEM

Why is the current system unsustainable?

McDonald argues that there is an inherent structural imbalance in the finances of the public school system, with costs continuing to rise much faster than the growth of available revenue. He cites statistics showing that K-12 costs are projected to increase at 4 to 6 percent annually, while revenue growth will not exceed 2 to 3 percent. This poses a productivity paradox: as costs increase but performance measures stagnate, inefficiency continues to mount and the value of the school "output" per dollar of cost declines. The result has been perennial cuts as taxpayers and philanthropists tire of paying for the same performance.

However, there is evidence that with different business models the cost structure of public schools can be significantly improved. Across the country there are independent public elementary, middle, and high schools that operate on half the funds required by many districted schools today, using on-site management to determine effective ways to do more with less. Most Minneapolis chartered schools for example operate effectively on around \$9,000 per student, while the city district requires \$19,600 per head.

In his research McDonald found that unions are not the most-often cited inhibitor to change, as popular conversation would suggest; instead it is the excessive dedicated funding and other bureaucratic constraints that come with large, centrally controlled districts of schools.

This is important, he noted, because it indicates that the problems that schools and districts are facing, and even the root of the real or perceived intransigence of unions, are not fundamentally problems of money, will, or self-interested employees, but more essentially a problem of structure. The culture of control and regulation in public education is what leads to rising costs without improved performance since incentives for productivity are missing. That culture is what creates the dynamic that leads to the formation of teacher labor unions instead of the type of professional associations that exist in law and medicine.

As long as districts are controlled centrally, McDonald said, principals will structurally be more the agents of the central office than leaders of those in their schools. Since schools have no self-

determination teachers have neither the reason nor the opportunity to innovate because they do not compete for students, nor do they have an incentive to save money since they do not see or influence the budget.

THE GOAL

Continue restructuring the system so productivity is incentivized.

To achieve structural reform of schools, McDonald believes policy makers need to begin by asking certain questions. Too often, he observed, proposals are pushed without a clear idea about the causes of the problem they're seeking to solve. If behavior is a function of the incentives of a system, then policy makers must always ask: *How does this proposal change incentives?* Some examples:

- ***How to get better achievement?*** Personalization.
- ***How to contain costs?*** Put schools in charge of their own budgets.
- ***How to improve productivity?*** Empower students through technology.
- ***How to make more and better use of technology?*** Put teachers in charge of setting up school structures and processes.
- ***Not enough innovation?*** Get districts into the game.
- ***How to address union resistance?*** Create opportunities for unions to move toward a professional model.

The question Dan Loritz and Ted Kolderie then ask is *How can these strategies be implemented?* Policy needs to be humble, and recognize it will not be able to directly compel change. Instead, policymakers should think about restructuring laws so incentives encourage people and organizations inside the system to begin behaving differently.

HOW TO ACHIEVE THE GOAL?

The elected leadership in Minnesota in facing the problem must seize an opportunity.

The challenge we face is that the chartering sector in Minnesota has almost ground to a halt. In the past 3 years there have only been 11 new schools opened (just one this current year) - down from 15-20 annually in years prior. This is a problem McDonald said because the chartering sector is the driving force behind all the competitive dynamics within public education. Innovation, choice, and the development of alternatives are all activated by the pressure created when appealing options are provided to parents and students.

Top on the agenda then for the special session and interim should be to reactivate the chartered school sector. This can be a near-term strategy to set the stage for systemic reforms.

Next, we must seize the opportunity to bring about real structural change.

Minnesota led the first phase of structural redesign of the modern American public education system, through a succession of initiatives that began the choice movement. This "removed the exclusive" as Ted Kolderie describes it, of districts over the creation of new schools. This state created the structures for choice that were quickly replicated or modeled through most of the country. It happened locally, and Minnesota provided the model.

In the ensuing time there has been rapid growth in the availability of options for students, but there are areas that need improvement requiring more innovation, more dynamism, more experimentation. In a lively public school sector good schools should grow, McDonald said, and bad schools go out of business. "As Walt McClure says, protect kids, not schools."

The time is right McDonald said, 20 years on from the enactment of the first-and strongest-chartering law in the country, to revisit the strategy. There has been lots of innovation, but there could be much more. Modern technologies are yet to be widely taken up in schools. The job of teaching is still very much blue-collar, thus probably why it's not attracting top-tier college graduates. The legislative and executive leadership needs to ask itself: *If, 20 years on, the system is not doing what we want, then how can incentives be changed so it does?*

Consider a different approach to management.

After the important task of re-starting the chartering sector, one of the most potent strategies the Governor and legislature could take is to get districts into the game of innovating. The Governor can lead this effort. The key question, McDonald said, is what incentives could get the public education system spinning in a direction toward self-improvement.

The legislature can begin now to establish incentives for school districts to engage in innovation in competition with the chartering sector. The goal is to have schools that are continually seeking out ways to improve on their own-without outside pressure-to improve their cost and effectiveness.

Get districts into innovation.

For 20 years districts have been competing against charters with one hand tied behind their backs, McDonald said. What would happen if Minnesota changed that?

At present only the chartered sector is endowed with the type of school-based authority required for robust innovation. Yet distrcited schools still account for more than 90 percent of public school enrollment in Minnesota. Almost wherever chartered schools appear they attract students away from distrcited schools. They tend to be much more responsive to student, family, and teacher interests. Why not give districts the same authority? Put them on equal footing-let districts create schools with the same appealing conditions as those in the chartered sector have.

There are two steps to this.

First the legislature could strengthen a law that was passed in 2009 but has yet to be used, that enables school districts to enter into agreements with so-called site-governed district schools (statute 123B.045). These are distrcited schools, with union teachers, that are intended to be as independent as chartered schools. The local union enters into an agreement with the district board waiving aspects of the collective contract that are deemed necessary by the teachers in order to run the kind of school they would like.

At present there has been some ambiguity around what the school should have control over - budget, staffing, curriculum and pedagogy? The answer is all of it. You're either all-in on giving schools autonomy, McDonald said, or they won't take off. Autonomous schools are small businesses and

need to be treated as such. There is no part-way. The school needs to be in a sink-or-swim dynamic, and for that to work they need complete authority over anything consequential to operate. This includes full control over the allocation of resources, which they should receive in a lump sum-not with the tangle of dedications placed on traditional districts from the outside.

To strengthen the law, direct a minimum of 95 percent of revenue to the school site. This guarantees they will have complete control of their budget, putting them in the driver's seat. One of the most distinct advantages of chartering is control over a lump-sum budget - and the freedom to allocate resources as the board sees fit.

This is the first step. It enables districts to create unionized schools with the autonomy of a chartered school. It can be done. Massachusetts has a similar law, and has built up a pipeline of schools putting together proposals. Minnesota can build on this by pairing this new option for locally controlled district schools with a new district-management paradigm.

Then, **secondly**, the Minnesota legislature and governor can make use of the site-governed schools statute to create the first-ever law of its kind in the country to enable school boards to flip their management model from a board that both runs and oversees schools, to one that oversees schools that run themselves.

One of the greatest inhibitors, McDonald said, to change in the district sector is the legal requirement that district boards must run schools. Reading from the Minnesota statute establishing school boards, McDonald noted that the duties of a school board are that:

"The board must superintend and manage the schools of the district; adopt rules for their organization, government, and instruction...and prescribe textbooks and courses of study." (123B.09 Subd. 8.)

"This small provision is the root of why the present system behaves as it does." In order to run schools, he said, the board hires a chief public administrator to superintend them. He then hires deputies to administer each individual school. Decisions are made in the central office and the administrators are directed to carry them out. Structurally school administrators are more closely aligned with the interests and sentiments of the central office than the teachers. This process necessitates standardization, since it is prohibitively complicated for a central office to design and run 10, 20, or 30 different schools.

Senators Olson and Pogemiller, and Representatives Downey, Greiling, and Benson called this model "education boards" in a bill they introduced this year. The idea has varied origins, but in addition to being promoted by these legislators it has been developed and advocated by Ted Kolderie (Education Evolving) and Paul Hill (Center on Reinventing Public Education).

"They recognize - at least I think they recognize - it is antithetical to try running a decentralized framework inside a centralized school district."

This is significant, McDonald said, because for innovation to occur those at the school site need to have both the reason and the opportunity to improve schools - and the structure of the education board appears to be capable of providing those incentives.

If enacted, he continued, there is reason to believe other states would quickly follow suit, as was the case with chartering in the 1990's. And, like chartering, there is a role for constructive federal involvement. If states could demonstrate that schools may be created inside districts that have equal self-direction and autonomy as do chartered schools, then they could be made eligible for the same federal startup grants as chartered schools are.

To aid in the startup of chartered schools, McDonald said, the Federal government has a program by which it provides funds to state agencies to distribute to approved chartered schools. If Minnesota could secure stronger autonomy and self-direction for districted site-governed schools than many states require of their chartered sectors, he asked, shouldn't they be allowed to access the fund as well? New schools have extra capital costs at the outset, McDonald said, and conversion to self-governance requires planning, so startup and transition aid could be a tangible way for Republicans like Chairman Kline of Minnesota to use federal policy to localize control.

This can be Minnesota's strategy. "While other states work on improving the existing system, Minnesota will be redefining it."

DISCUSSION

A participant noted that he believes policy makers should be focused on higher levels of student learning and neutral about how that is achieved; policy should let resources move from lower performing schools to higher performing schools and establish incentives for high performing schools to replicate.

McDonald responded that one of the greatest virtues of the chartering philosophy has yet to be realized: That good schools grow, and bad schools close. Lack of enrollment is the strongest mechanism for accountability, he said. The ability of parents to choose high performing schools will be key in the demise of low-performance/low-enrollment schools. But that also depends upon the availability of multiple measures of performance to properly inform parents and allow good decisions to be made. It is clear that if regulators were in charge of closing schools, few if any would ever be closed.

A participant observed that we must also be wary of the "not my kid's school" syndrome, referencing surveys where parents regularly say they are dissatisfied with the education system as a whole, but are pleased with their own schools.

McDonald contended that part of this effect is probably human nature, but a sizeable portion of it can probably be explained by a lack of alternatives present and available. Parents need to see not just multiple schools, but different kinds of schools. It is hard to prefer an alternative, McDonald said, if no real alternatives are available and if parents are unaware of what distinguishes them. Walt McClure, chairman of the Center for Policy Studies, sometimes calls these 'Honda schools.' Americans didn't know what else was possible for car design and production, McDonald said, until Hondas started to show up and quickly improve. "Then they forced the issues of quality and efficiency on the entire industry."

A participant asked how Teach for America fits.

McDonald said that Teach for America provides a vivid illustration of the need to incentivize local control in schools. "TFA does an effective job at recruiting, training, and supporting competent and effective new teachers, but then they are placed into environments that are dysfunctional." Half the talent of TFA teachers cannot be tapped, McDonald argued, because they have no professional authority to change things.

The dichotomy is absurd at times, he continued: These brilliant young people, supported by a brilliant training program, are placed in environments that are toxic for everyone involved. "The school designs most poorly matched to their student populations are urban districted schools," McDonald said. Localize control here, and change will come very quickly.

He added that a huge problem with recruitment of teachers stems from the fact that people perceive the quality of the job of teaching to be bad. And while some TFA teachers are willing for at least a period of time to be subjected to martyrdom, for the long run, we need to make the job of teaching more appealing. Then the talent may naturally follow.

A member brought up the issue of performance measurement and the specialized training needed for K-12 teaching. He noted that much work must be done in the education graduate study arena, both in addressing the research and in training new educators. Now teachers are training to work in the system, as it exists today, not as it must change in the future. There needs to be "disruption" in university graduate education studies as well as disruption in school systems in order to achieve the kind of innovation required.

"Very true," McDonald said. "Teach for America is just the beginning. As the exclusive right of districts to run schools was removed 20 years ago, so has the exclusive right to train teachers been removed from universities."

C. Conclusion

The difficult economic situation, while exacerbating the cost/revenue squeeze on public schools, paradoxically affords an unusual opportunity for leadership and cooperation in bringing about the reforms needed to improve productivity. Leadership, especially by the Governor, will be critical in order to take advantage of this unique opportunity for Minnesota to again lead the nation in education reform.

The Caucus chair expressed his view that he has never seen as much sentiment for change as he sees today. The opportunity to bring about real innovation is stimulating a degree of enthusiasm unlike any in recent memory. The situation calls for new proposals for actionable ideas from groups such as Education|Evolving and others. He believes the key to leveraging the teacher's role lies in the expanded use of information technology.

McDonald cautioned that Ted Kolderie's idea to flip the management structure of school boards and schools in order to encourage innovation might in itself take as many as ten years before measurable results are apparent. This is a strategy to alter a trajectory, he said. It introduces a new paradigm.