

Section 5 –  
Education Issues –

**Funding Initiatives in Public Education  
in North Carolina**

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for  
North Carolina General Assembly  
Government Performance Audit Committee  
December 1992



## **Issue Statement**

The State of North Carolina has invested significant state resources in public education. The objectives of this issue paper are to evaluate the current funding processes and to identify opportunities to improve the return on the State's considerable investment.

## **Background:**

North Carolina spent \$4.6 billion on public education in 1991-1992. Seventy percent of this amount (\$3.2 billion) was funded by the State. Twenty-three percent came from local sources, and seven percent came from federal funds.

The State's expenditure for public education represents 44 percent of the State's total General Fund expenditures. State funding for public education has increased 70 percent since 1984-1985 when state funding equaled \$1.9 billion. There are over 125,000 budget positions (certified and non certified) in public education which includes approximately 65,000 teachers.

Two very significant reform initiatives have increased the amount of resources available, have focused attention on performance, and have increased flexibility. These programs are complementary programs that support each other. These reform initiatives affect many aspects of public education in North Carolina including curriculum, accountability for performance, and funding. This issue paper focuses upon funding.

## **Basic Education Program (BEP)**

In October 1984, the State Board, under the direction of the General Assembly, approved the Basic Education Program (BEP). The program includes requirements for a basic curriculum course of study, standards for promotion and minimum competencies, and staffing level requirements. In 1985, funds were appropriated for BEP, and an eight-year implementation schedule for BEP began. The original plan anticipated full funding of the program by July 1993. By the end of fiscal year 1993, the General Assembly will have funded \$553 million. \$320 million of the original funding of \$873 million remains to be funded.

Significant portions of the completed BEP funding have been spent for additional personnel at the local school systems. For example, of the total new positions of 12,277, 51 percent of the resources have been used for teachers, ten percent for school support personnel and another eight percent for central office staffing.

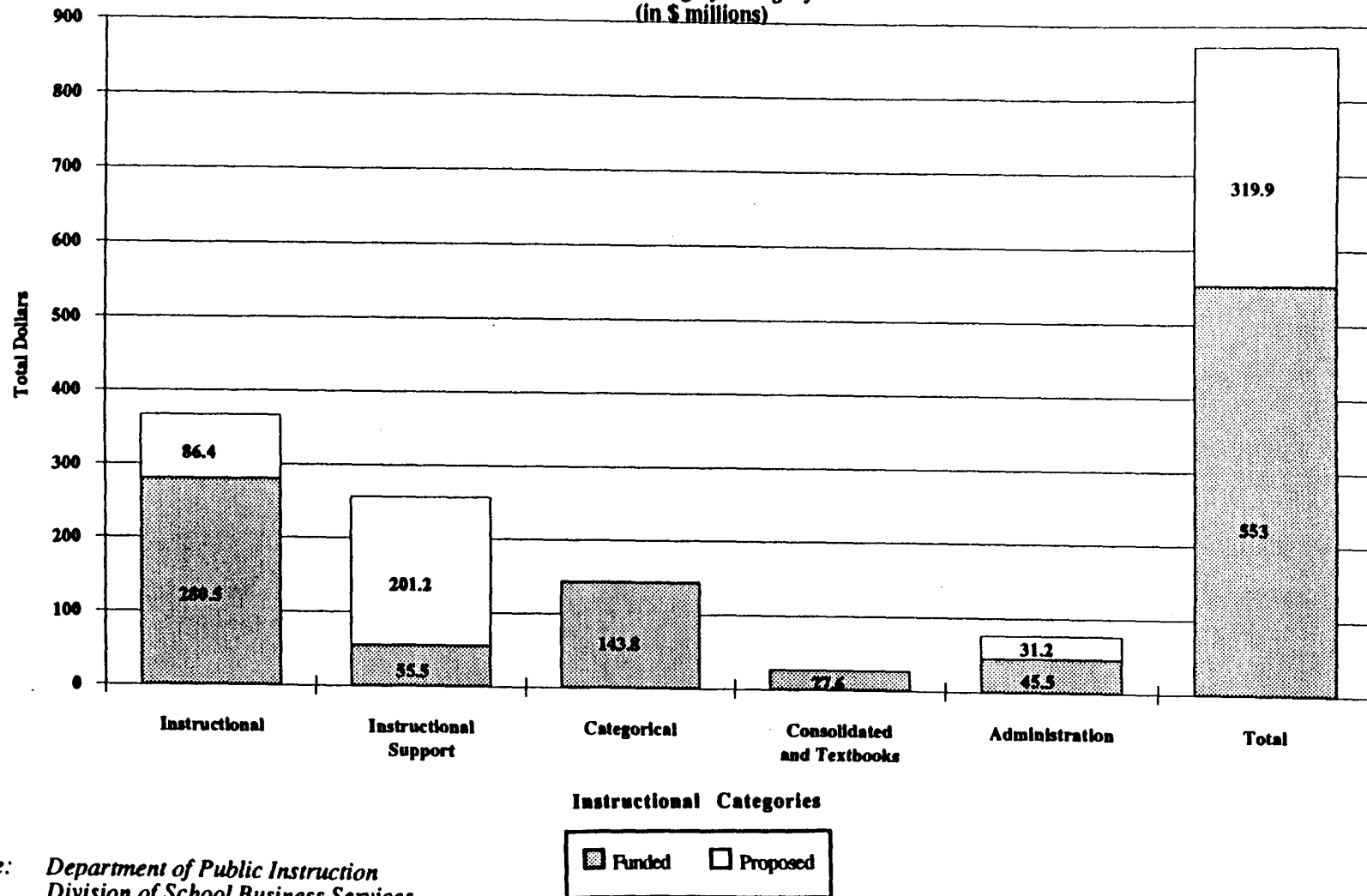
An additional \$320 million is yet to be funded. Exhibit 1 on the following page illustrates the current and proposed level of BEP funding by funding category. Exhibit 2 on the next page depicts the same information by type of position.

BEP funds are primarily allocated to local education districts (school districts) based on average daily membership (ADM) formulas.

## **School Improvement and Accountability Act of 1989 (Senate Bill 2)**

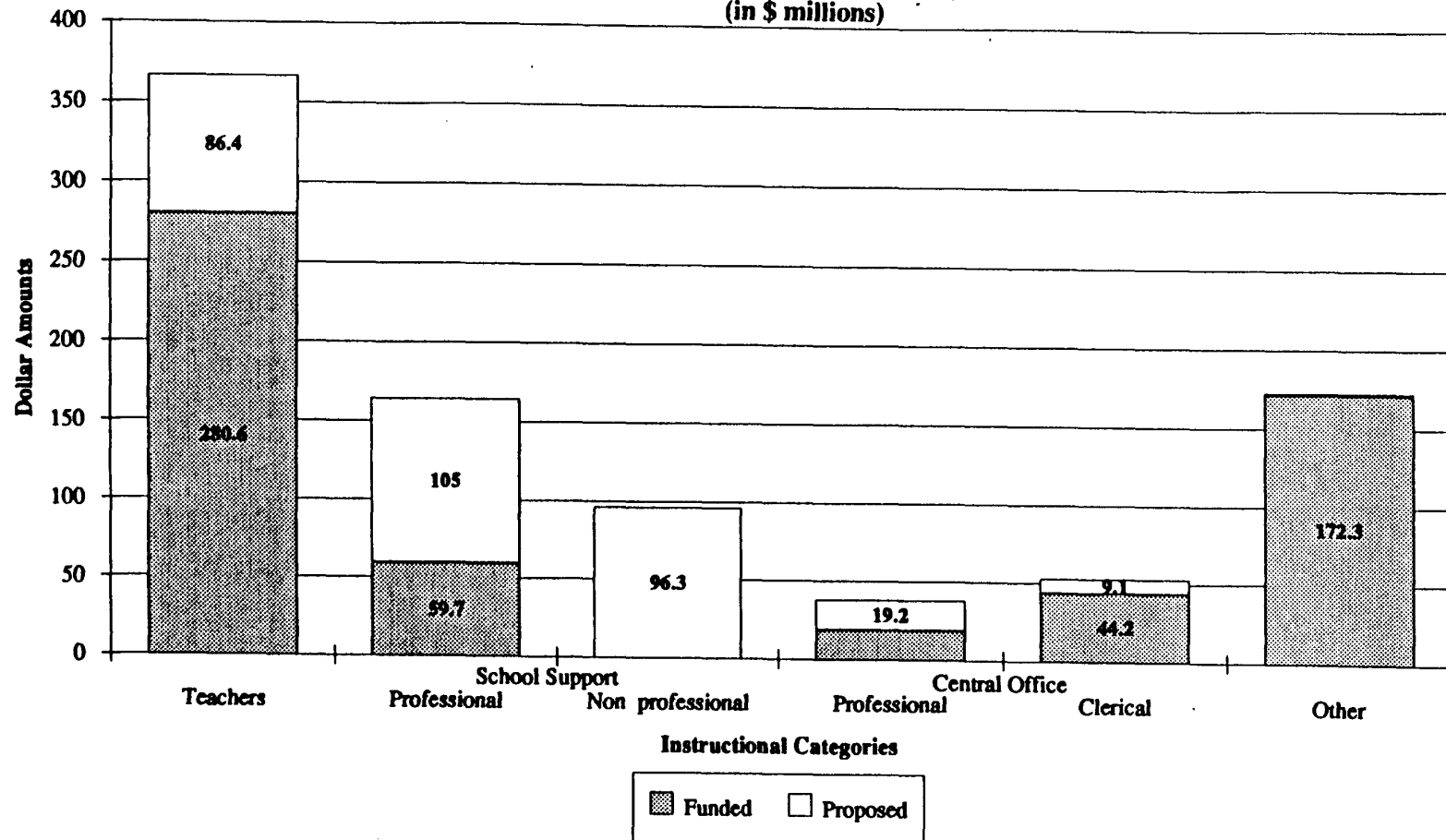
Under Senate Bill 2, school districts can elect to participate in a performance-based accountability program. Senate Bill 2 provides flexibility to school districts by allowing them to request waivers for accreditation requirements and funding formula spending. Accreditation waivers allow school districts to deviate from certain requirements, including curriculum requirements, staffing ratio requirements, and instructional hour requirements. Funding formula waivers allow school districts to transfer funds from one funding

**EXHIBIT 1**  
**BEP funding by Category**  
**(in \$ millions)**



*Source: Department of Public Instruction  
 Division of School Business Services  
 School Budget Section  
 August 25, 1992 (Summary)*

**EXHIBIT 2**  
**Remaining BEP Funding - By type of position**  
**(in \$ millions)**



*Source: Department of Public Instruction  
 Division of School Business Services  
 School Budget Section  
 August 25, 1992 (Summary)*

category to another category, allowing school districts to target funds where the greatest needs exist.

Waivers may be requested for all state policies and regulations, except those pertaining to the following:

- State salary schedules and employee benefits for school employees
- The instructional program that must be offered under the BEP
- General Statutes (115C-325) regarding system of employment of public school teachers and administrators
- Health and safety codes
- Compulsory school attendance
- Minimum lengths of the school day and year
- The Uniform Education Reporting System (UERS)

In exchange for flexibility, school districts must show that their improvement plans can and do actually result in improved student performance.

#### Funding Formulas

The State allocates funds to each of the 133 school districts. To determine the allocation for each school district, the State applies funding formulas that include over 50 individual items. Most of the line items are based on the Average Daily Membership (ADM) for that district.

Apart from BEP funding the State spends \$2.7 billion on public education. Including the BEP, these resources are spent as shown on Exhibit 3 on the following page.

In addition to State and Federal funds, each school district can also raise local funds. The State funding formulas do not take into account local funding. The State does not place requirements on local funding and it does not control local funding.

#### **Supplemental Funding**

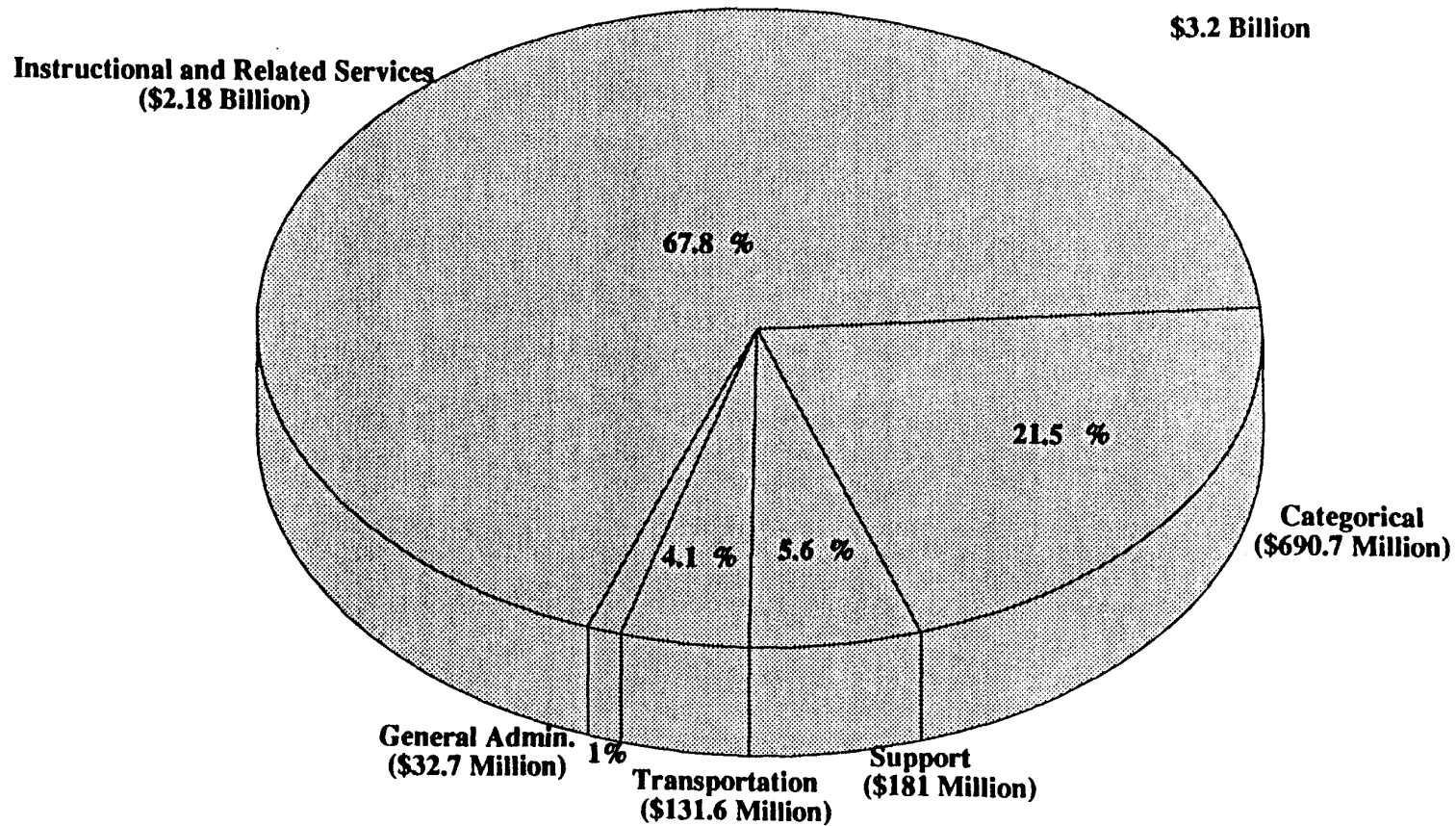
In 1991, the General Assembly established supplemental funding for small and low wealth school systems. Small systems are defined as school districts that have less than 3,000 students in ADM. School districts that have an adjusted property tax base per student that is below the average adjusted property tax base per student for the State and have more than 3,000 students in ADM are also eligible for small system supplemental funding. In 1991-1992, 25 counties received funding under the small school system supplement for a total of \$4 million dollars.

Low wealth supplemental funding addresses a county's ability to pay for public education. The ability to pay is based on the county's property tax base and per capita income. In order to receive supplemental funding in counties, the effective tax rate for a county must be equal to or greater than the statewide effective tax rate. In 1991-1992, 60 counties received a total of \$6 million. An additional 31 counties were eligible for funding but were not funded because they did not meet local tax effort requirements. Supplemental amounts

# EXHIBIT 3

## State Public School Fund

### Fiscal Year 1991-92 Budget



Instructional and Related Services: Teachers, Principals, Consolidated allotment, etc.  
 Categorical: Exceptional Children, Vocational Education, etc.  
 Support: Clerical, Custodians, Energy, Maintenance.  
 Transportation: Bus Drivers, Fuel, School Bus Replacement, etc.  
 General Admin.: Superintendent, School Administrators, and Finance.

ranged from \$2,567 in Alleghany County to \$714,898 in Cumberland County.

## **Findings**

***Finding 1:*** The North Carolina education reform initiatives as demonstrated in the BEP and Senate Bill 2 have had a positive impact on education in North Carolina. However, these efforts to date have not achieved the desired level of student achievement.

This positive movement in public education is demonstrated by the increased course offerings in such subjects as Algebra I, more importantly Algebra I for 8th graders, and the introduction of foreign languages in many schools. These results are also demonstrated in higher SAT scores and reduced dropout rates. The introduction of site based management by the 1992 General Assembly is a further indication of progress and proof that the State recognizes the important role of parents and the community in public education.

However, the reform efforts in other states have improved their performance also, so that North Carolina still lags behind many other states in key indicators such as performance on standard tests and graduation rates.

Significant portions of the reform efforts in Senate Bill 2 are being implemented in the 1992-1993 school year. It is too early to evaluate results of those reforms. We were able to compare the type of reform initiatives contained in Senate Bill 2 to the reform initiatives in other states and found that North Carolina efforts were at least equal to those of other states with two exceptions. These exceptions were early childhood education and the use of school linked collaborative services. School linked collaborative services can be defined as a range of special education, education, social, child development, and family support services which are aimed at helping needy children and their families.

When we compared the level of funding increase made in North Carolina to that of other states, we found that North Carolina has increased its support for public education to a greater degree than many other states. North Carolina has continued to fund educational reform in a time when many other states have slowed or reduced their efforts. For example, the increase in funding for public education in North Carolina was 48 percent between 1984 and 1989 versus 25 percent for the nation as a whole. Given the financial pressures placed on states by the federal government, the economy and the courts over the past 12 years, this is particularly commendable when we recognize that public education in North Carolina is funded primarily by the State.

However, given the low level of funding that North Carolina has had historically, the overall result has been that North Carolina is still below the national average for education funding.

In this issue paper, we have assumed there are no significant untouched sources of additional funding for public education in the State. Therefore, we have focused our efforts on identifying how North Carolina can increase the return on the significant investment it now makes in public education and through the continuation of funding of the BEP. Our findings and recommendations follow:

***Finding 2:*** The State is unable to definitely measure the results of its significant investment in public education because measurable goals and objectives were not established at the beginning of most of its new programs. The accountability measures



established in Senate Bill 2 do not yet link student performance to funding. This limits the ability of the General Assembly and the taxpayers of North Carolina to effectively measure the results and progress.

This lack of measurement has contributed to the overall concern that public education is not providing the educational results it can and should provide. The State recognized this need and has defined goals and performance expectations in Senate Bill 2 in the Annual Report Card and the Performance Based Accountability Program. Further refinements have included the annual building level improvement reports as defined in the 1992 amendments approved by the General Assembly. However, these measures are not linked to funding, so it is not possible to determine the results of specific funding strategies. The BEP funding (approximately \$553 million annually) is not linked to specific measurable performance goals.

For example, approximately \$10 million has been appropriated for small and low wealth schools to address equity issues. This amount has not been linked to specific expectations or student achievement improvements. The overall goal, which is well understood, is to provide additional assistance to small and poor school districts. Not addressed are the questions of how much is enough, and more fundamentally, how to measure the results of this investment? Will these funds address the needs? How much more is needed? How does the State determine when it has achieved its goal?

In yet another example, the General Assembly has provided approximately \$30 million for drop out prevention/students at risk/in school suspension. The understood goal is to reduce the drop out rate, but these funds have not been linked to expected performance such as reducing the dropout rate by a certain percent.

The inability of the General Assembly and taxpayers of the State to link funding strategies to performance expectations is a factor in the overall dissatisfaction with the quality of public education in North Carolina.

***Finding 3: Funding formulas are too controlling and prescriptive to allow local school districts to effectively manage their operations. The current waiver process does not provide the necessary flexibility.***

The State's funding formula limits the ability of the school districts to direct resources to its greatest needs. The consolidation of 32 existing funding categories into 14 by the General Assembly in 1992 is a step forward, but it does not go far enough to provide true flexibility to school district officials. For example:

- Eight of the consolidations simply combine benefits categories (social security, state retirement, medical insurance and longevity) of vocational education teachers with those of regular teachers.
- Transportation-Other Expenditures and Fuel-Buses are consolidated with Tire, Repair Parts.
- Staff development-child nutrition supervisors, staff development-finance officers are combined in staff development.

There are other indicators of flexibility in recent changes to State funding formulas. These include the far reaching flexibility of the funds allotted to the small and low wealth schools

(\$10 million in 1991-1992) and the increased accountability for performance included in the new transportation monitoring system, TIMS (Transportation Information Management System).

In contrast to these examples of increased flexibility, our evaluation of the State Aid to Local School Units indicates that even if you exclude teaching positions, over 43 percent of the State budget, or approximately \$1.4 billion, is significantly restricted as to purpose or use.

The restrictions on the use of funds impact the ability of local units to manage their operations and may reduce the overall benefit to the State of these funds by reducing their effectiveness and efficiency.

Senate Bill 2 offered some flexibility for funding decisions. Today, school districts can request waivers that allow them to move funds from one line item to another. The results to date have been very limited. Through October 1992, 2468 waiver requests have been submitted. A break down is shown in the table below.

#### Senate Bill 2 Waivers

Status	Number
Recommended without stipulations	1057
Recommended with stipulations	<u>316</u>
Total	1373
Not recommended by DPI	575
Not recommended by the Board	52
No Waiver required	150
Under consideration statewide	215
Requires further information	<u>103</u>
Total	<u>2468</u>

The total amount included in waiver requests represents only \$3.4 million. With over \$3.2 billion in annual state funds, waivers have had very limited impact on flexibility. A breakdown of waivers submitted through April 1992 is shown in the appendix to this issue paper.

***Finding 4:*** The performance expectations established by Senate Bill 2 and its 1992 amendments are not linked in meaningful ways with State funding formulas.

One of the recurring themes of North Carolina's most recent educational reform initiatives

has been the attempt to define and focus accountability for student achievement. Senate Bill 2 and its 1992 amendments established accountability for performance in the development of the Annual Report Card, the Performance Based Accountability Program and the annual building level improvement reports. These are important tools that can be linked to funding to drive performance and increase student achievement. That linkage does not exist at present except in very limited instances where the funding structure may consider performance in the grant applications that school districts use to apply for funds. These include the Differentiated Pay Program and the Alcohol and Drug Defense funds, for example.

In government, the most important tool, the driver that most significantly impacts behavior, is the budget. By not linking performance to the budget process in a meaningful way, the General Assembly is missing one of its best opportunities to materially affect student achievement.

***Finding 5: North Carolina's basic funding formula does not factor in local ability to pay nor the barriers faced by small school districts in providing a complete core curriculum.***

Relying upon funding formula based on ADM does not consider special school district characteristics and needs. Under this funding approach, larger districts are rewarded with more positions. This has the tendency to place even more staff in districts that already have the critical mass in place to provide specialist positions. It is the larger school districts with more, not necessarily the districts with the greatest needs that receive most funding.

The State's supplemental funds for low wealth school systems and small enrollment districts does consider the ability of a county to support public education and represents an important first step in dealing with equity issues. However, the funds represented by the supplement are so small (approximately \$10 million in 1991-1992) in comparison to resources in the public education program that they have little effect on the issue.

***Finding 6: The current funding practices do not promote nor encourage efficiency.***

The current reliance on position allotments and prescriptive categorical allocations discourages districts from searching out and identifying alternative methods for the delivery of services which could result in greater efficiencies. For example, school districts can not contract out their custodial operations under current policy nor can they share resources with other districts.

While it was outside the scope of this study, we noted that there appear to be opportunities to decrease costs by using local district noninstructional resources more efficiently. For example, we reviewed the results of the State Auditor's performance reviews of five different school systems. In four of those studies, the reports identified opportunities to increase efficiency by reducing central office and support staffing. The estimated percentages of possible reduction ranged from a low of 2.9 percent to a high of 12.2 percent.

Increasing flexibility in the uses of state funding and encouraging efficiency by rewarding performance in this area will increase the results the State achieves from its investment.

## Recommendations

**Recommendation 1:** Continue to fund the BEP as scheduled in its primary focus, teachers and professional instructional support personnel. Redirect the remaining balance to address prioritized needs.

The original funding formulas for the BEP were established in 1984 and represented the best ideas and estimates at that time regarding improving student achievement in North Carolina. The formulas did not and could not have considered the significant changes that the State and public education have undergone in the ensuing eight years. For example, the BEP funding formulas did not anticipate the economic challenges that the State would face in the forthcoming years. Nor did the BEP anticipate a number of educational changes such as the increased use of automation in the local districts or the movement to site-based management in the schools.

The General Assembly recognized those changes by delaying and in some cases modifying the implementation of BEP funding. For example, the General Assembly has delayed extending the months of employment for assistant principals for the last three years. It has also delayed the additions of new central office administrators for two and three years respectively. Certain categories of the BEP have never been funded. The most significant of these is the category for Instructional, Laboratory, Media, and Clerical Assistants in the schools.

We recommend that the General Assembly reevaluate the anticipated use of a portion of these funds and consider using those funds to address new needs. The categories for reevaluation should be limited to those funds intended for non teaching personnel in the schools, central office administrators and clerical staff. We estimate that up to \$143 million could be redirected to address new needs. The remaining portion of BEP funding is shown on Exhibit 4 on the following page. The new needs which could be addressed could include the following:

- To address instructional and administrative needs identified through the Annual Report Card or other measures in Senate Bill 2
- To increase the amount of funding for small and low wealth school districts
- To address gaps in the current public education program such as the need for comprehensive preschool programs
- To address new educational reforms that the General Assembly may wish to implement such as school-linked collaborative services.

A brief discussion of two potential uses of these funds follows.

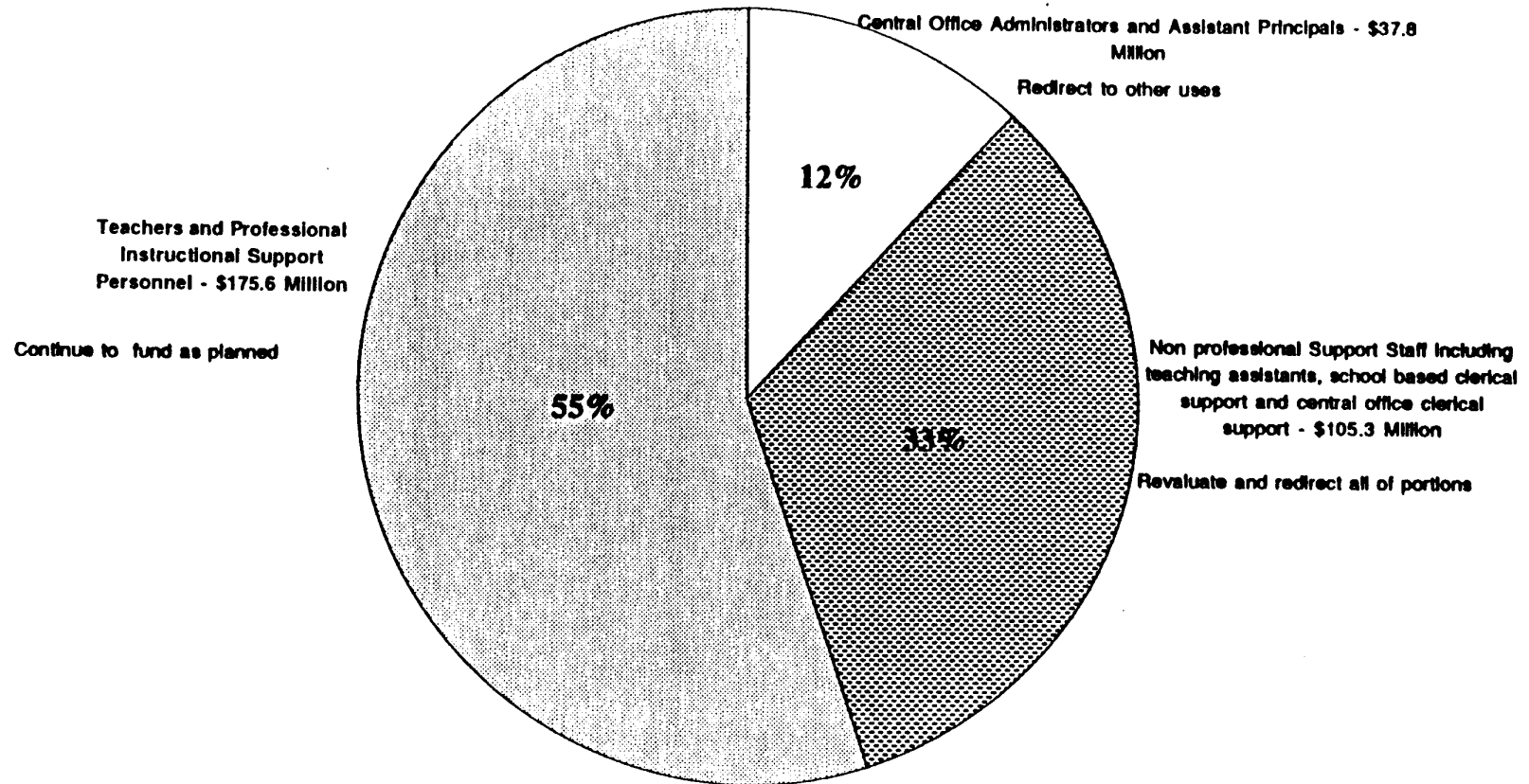
### Funding for a Preschool program

There is proof that preschool years are crucial to the formation of a child's personality. This process is in place by the time a child is two or three. A number of studies suggest that by the time a child starts kindergarten, it is almost too late to recover from a lack of training or parental support. By the fifth grade, potential dropouts can be identified by lower test scores.

North Carolina dropout prevention programs have traditionally centered on students in

## EXHIBIT 4

### Recommended allocation of Remaining BEP Funding - \$320 Million



secondary schools with funding formulas based upon the ADM of middle and high schools. While it is commendable to try to reach and save these students, there is growing evidence that preventing the problem in the first place means that our students will never reach the point of failure. Preschool programs may be our best approach to this prevention strategy. Approximately 5,000 of the State's 100,000 four-year-olds are currently in formal preschool programs funded through Chapter I and private foundations.

The best known early childhood program is Head Start which was begun in 1964. This program offers education, health, mental health, nutrition, social services and parent involvement to three-, four- and five-year-old children and their families. The law requires that at least 10 percent of the children enrolled be learning disabled and from low-income families.

There have been numerous studies of Head Start children and the impact of their experience on their later school success. This research has shown that Head Start children are more confident and socially skilled than their counterparts who were not in Head Start. They have better health, score higher on standardized tests, and have lower representation in special education classes. A lower percentage of Head Start students are retained and require intervention for discipline problems. Some 65 percent of Head Start students graduate from high school, compared with only 52 percent of those in their neighborhoods who do not participate in the program.

A longitudinal study of the Perry Preschool Program also offers documented proof of the value of preschool programs for our children. This program in a poor section of Ypsilanti, Michigan followed the progress of 100 students beginning in 1962. Half attended the Perry Preschool and half did not. The students who participated in the program had higher achievement:

- 67 percent of the preschool group graduated from high school versus less than half of those who did not attend
- 38 percent acquired college or additional job training versus 20 percent of those who did not attend
- 45 percent were self supporting by age 19 versus 24 percent of the non-preschool group
- 31 percent of the preschool graduates had criminal records versus over 50 percent of the non-preschool group
- Only 18 percent were on welfare versus 33 percent of the non-preschool group
- And most importantly for breaking the cycle of poverty, under education and underemployment, was the decrease in the number of children born to teenage mothers. By age nineteen, the non-preschool group had produced 117 babies per 100 people versus 64 for the preschool group.

Studies of this nature while limited in scope hold out the promise that the very significant problems of these children can be addressed in a preventive and effective manner. One study conducted by the High Scope Research Foundation on this project showed that over time, every dollar invested on the preschool program saved four dollars in avoided welfare, special education, and criminal justice costs.

It is beyond the scope of this study to recommend the funding of any one educational

program over that of another. That role belongs to the General Assembly which has spent tremendous energy studying these issues through its Joint Legislative Oversight Committee on Education and the Committee on At Risk Children among others. It is also beyond the scope of this study to determine the costs necessary to fund a preschool program for four year olds, particularly if day care services and their associated costs are included. We have, however, suggested possible sources of funding for this program. Potential sources for funding a comprehensive preschool program include the following:

- BEP funding. Use a portion of the non instructional designated funding for the preschool program.
- Chapter I funding. Currently \$13 million of the Chapter I funds are focused upon preschool aged children who are "educationally disadvantaged." It may be possible to redirect other portions of the approximately \$110 million Chapter I funds to target preschool children, specifically those who are currently at risk and who will meet Chapter I criteria.
- Dropout Prevention/Students At Risk/In-school Suspension funding. Approximately \$30 million is provided by the State for these purposes. These funds are determined by secondary school eligibility and ADM formulas for grades 7-12. These funds can be used at the elementary level. DPI does not track how much is currently spent at each level but their assumption is that most of the funds are spent at the secondary level. These funds could be redirected to preschool needs.
- Costs of grade retention. The resources now spent on grade retention could be redirected to fund a portion of the preschool program. A study conducted in North Carolina in 1988 and 1989 found that approximately 8.6 percent of the young children in the study spent an extra year in school either through retention from Kindergarten before entering the first grade or by spending a year in transitional classes such as pre-kindergarten or pregrade 1. This is comparable to national retention rates of 5-7 percent for the same age group. If these percentages can be applied to the state as a whole, the State is currently spending approximately \$40 million on providing an additional year of schooling.
- Head Start. The State could build upon these very successful federally funded local programs by either expanding the programs with state funding to serve more children or by supporting them with additional resources. Head Start in North Carolina currently serves 13,500 students using a budget of \$39 million. This program has been expanded under President Bush and it is anticipated that it will expand further under President Elect Clinton.
- Day care funds. Approximately \$67 million was spent last year on day care support to low income parents and parents receiving AFDC aid from a variety of programs. These funds came from both federal and state sources and were used to provide services to children of all ages.

## **Funding for school-linked collaborative services**

Children today face a variety of physical, emotional and social problems that were unimagined when most of us were in school. Studies estimate that some 50 percent of children today need some combination of special health, education, social, child development, and family support services if they are to become viable citizens of tomorrow. Traditionally, school systems have tried to provide a limited amount of these services relying on their own staffs and resources.

Many school systems have added school nurses and sometimes social workers and elementary counselors to the staffs to attempt to address these needs. They have tended to act independently and separately from other agencies. The State has funded a number of programs such as the dropout prevention and at risk programs as well as alcohol and drug defense programs. The efforts have not been enough in themselves to resolve the problems. School systems have begun to realize that achieving their educational objectives is dependent upon their students receiving appropriate social, health, mental health and family support services. They recognize that schools alone can't provide all the needed services.

At the same time the States in facing their economic problems have taken a hard look at the provision of all kinds of human services to its citizens and recognized the fragmented and duplicative nature of much of that service delivery.

These two realizations, coupled with the recent educational reform initiatives have created a climate where the State, local communities, and the school systems can come together to collaboratively develop full service delivery systems which use the school's special access to children and which build upon the unique ties that the schools have with their communities.

While these programs are very new, there is the recent and very positive example in Kentucky which is implementing the program statewide. Enacted in 1990 as part of Kentucky's school reform, the state created school-based centers in or near all school where at least 20 percent of the students are eligible for free or subsidized school meals. The family resource centers at the elementary level and the youth services centers at the middle school are expected to provide a variety of assistance to families with services such as child care, parenting education, health and social services, employment counseling, summer jobs and substance abuse treatment. The goal of the program is quite simple. It is to ensure that needy children and families receive the help they need to do their best in school.

There are also two limited projects in North Carolina.

The program is being implemented over four years beginning in the 1991-1992 school year. The current budget of \$15.9 million is funding 206 centers serving approximately 400 schools. The average grant was \$68,100 for the first year.

One opportunity for North Carolina to address this emerging reform is to fund a collaborative school-linked program which brings together a full range of services that focus upon the child and its family. Potential sources for funding include:

- Redirection of portions of the remaining BEP non instructional professional funding.
- Federal education programs such as Child Abuse Challenge Prevention, Drug



Free Schools, Homeless Children and Youth which total approximately \$1 million annually in funding.

- Instructional personnel in the current Substance Abuse program and categorical programs such as Alcohol and Drug Defense and Dropout Prevention/ Students At Risk/In-school suspension, group homes and Prevention/ Student Assistance which total approximately \$32 million annually.

***Recommendation 2: Increase the performance levels of school districts by making them accountability for performance by linking funding to performance.***

School district performance should also be linked to funding. The State currently has an accreditation process where local school districts are placed on warning status with the threat of state takeover if performance does not improve. The current accreditation process has no link to funding.

For high performing systems, innovate grant funds should be available on a competitive basis. A system of sanctions should be in place for poor performing districts. In addition to sanctions, though, the State should also encourage poor performing districts to improve by making challenge grant funds available to local school districts on a competitive basis.

***Recommendation 3: Efficiency in school district and school operations can be improved by simplifying funding formulas and empowering the school districts to manage for results.***

Although the amount of state funding provided for public education ranks 8th in the nation, North Carolina falls below the national average in its overall funding of public education, ranking 32nd in 1991. Opportunities do exist to increase the efficiency of the current funding.

By combining major non-teaching funding categories such as teaching assistants and custodians in a general operating fund, the State would increase the flexibility of almost \$300 million of state funds, a little less than 10 percent of the State public education budget. If school districts were able to save even 5 percent of that amount thorough improved efficiencies in current operation, it would be \$15 million annually or 50 percent more than the amount the State spent in 1991-1992 to address the needs of small and low wealth school districts.

These savings could be achieved by school districts becoming more efficient in their current operations as suggested by the State Auditor in his performance audits, by contracting out services in communities where private sector resources are available, or by working cooperatively with other school districts to deliver shared services. For example, if only 50 percent of the small districts (under 10,000 students) in the state combined the delivery of their maintenance services and shared one maintenance supervisor position between two adjacent districts, the districts and the State could save almost \$1.2 million annually.

As student populations continue to decline in certain parts of the State, the ability of school districts to provide effective services; on an individual basis is reduced. This is due to declining resources the reduced capability of the individual districts to attract and retain able personnel. These districts should seriously consider providing services through multicounty service delivery mechanisms. Examples of possible services include joint bus repair shops, shared routing systems, cooperative special education classes. The benefit of

these joint efforts should be improved quality on a more cost effective basis.

To be truly effective this increase in efficiency must come from the districts themselves. The State can provide direction and incentives by funding model programs and by rewarding successful operations with incentive awards. More importantly, it can provide school districts the incentive to achieve savings by allowing first the flexibility to manage operations in such a manner that they can realize the savings and secondly, the incentive to do so by allowing local districts to carry forward a portion of those savings, such as 25 or 30 percent for their own use in the following year. In this example, all levels of government come out ahead as both the State and the local school districts reap the benefits of more efficient operations.

### **Implications**

By redirecting that portion of the remaining BEP funding which has been dedicated to non-teaching school-based staff and central office personnel to other identified needs, the State could achieve a better return on its investment.

By consolidating major funding categories, school districts will have more flexibility and more control over spending decisions and can become more efficient in their operations. By sharing savings in improved efficiencies with the districts, each district will have an incentive to operate as efficiently as possible.

By linking funding to performance and establishing a system of rewards and punishment, school systems will become more accountable for performance outcomes.

Exhibit 5 on the following page illustrates the annual and cumulative resources available to the State from redirection of portion of BEP funding. We have provided examples of potential savings from more efficient use of resources. It is important to note that these are only examples of the possible benefits which may result from the implementation of our recommendations. The realization of actual benefits will be dependent upon the General Assembly and its willingness to expand the flexibility begun in Senate Bill 2 and the local school districts themselves and their resourcefulness and creativity.

# EXHIBIT 5

## Estimated resources which could be redirected from remaining BEP funding

	Fiscal Year ending June 30 (\$ in millions)							
	1994	1995	1996	1997	1998	2000	2001	2002
Balance of BEP	\$	\$	\$	\$	\$	\$	\$	\$ 0.18
School based non-professionals	96.00	96.00	96.00	96.00	96.00	96.00	96.00	
Assistant principals	16.00	16.00	16.00	16.00	16.00	16.00	16.00	
Central Office	\$ 31.00	\$ 31.00	\$ 31.00	\$ 31.00	\$ 31.00	\$ 31.00	\$ 31.00	\$ 0.18
total annual resources	\$ 143.00	\$ 143.00	\$ 143.00	\$ 143.00	\$ 143.00	\$ 143.00	\$ 143.00	\$ 143.18
total cumulative resources	143.00	286.00	429.00	572.00	715.00	858.00	1001.00	1144.18

## Examples of savings from increased efficiency in local school district operations

	Fiscal Year ending June 30 (\$ in millions)							
	1994	1995	1996	1997	1998	2000	2001	2002
Consolidation of teaching assistance and custodian line items - savings at 5 percent	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Carryover of savings								
30 % at school level	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
70 % at state level	10.50	10.50	10.50	10.50	10.50	10.50	10.50	10.50
Total annual savings	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Total cumulative savings	15.00	30.00	45.00	60.00	75.00	90.00	105.00	120.00

	Fiscal Year ending June 30 (\$ in millions)							
	1994	1995	1996	1997	1998	2000	2001	2002
Cooperative services example maintenance supervisors	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Total annual savings	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Total cumulative savings	1.20	2.40	3.60	4.80	6.00	7.20	8.40	9.60