

# *Put Learning First*

## A Portfolio Approach to Public Schools

by *Paul T. Hill*

Despite nearly two decades of reform initiatives, we still do not know how to provide effective schools for millions of poor and minority students. Half of all poor, immigrant, and minority children never earn a regular high school diploma.<sup>1</sup> In many cities, more than 30 percent of all low-income African-American students score below the bottom 10th percentile on national reading and math tests.<sup>2</sup>

We also do not know exactly what all youngsters will need in order to meet the demands of the fast-changing global economy. Surely, all students will need to read, write, and reason mathematically, but what else? Today's workers need skills that were not even considered important 30 years ago, and there is little reason to think that 30 years from now schools will not find themselves in a similar position.

These realities demand new educational approaches that allow for various types of schools that have the freedom to innovate to meet students' unique needs. However, our public education system is incapable of such problem solving because it is oriented in precisely the wrong direction. Today, public education policies and administrations are organized to serve the needs of the institutions and the adults that work in them. Addressing our stunning achievement gaps, particularly those affecting minority students in our cities,

means that students, not the system, must become the primary organizing principle for educational policies—and, more importantly, for schools themselves.

Today's public school system tolerates new ideas only on a small scale and it does so largely to reduce pressures for broader change.<sup>3</sup> The current system is intended to advance individual, community, and national goals, but is, in fact, engineered for stability. That is normally a good thing. We want schools to open on time, teachers to count on having jobs from one day to the next, and parents to feel secure knowing that their children will have a place to go to school.

Stability alone, however, is the wrong goal in a complex, fast-changing, modern economy. Students—disadvantaged students, in particular—need schools that are focused on providing them with the skills they will need to succeed in today's society, schools that are flexible enough to try a variety of

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*“One person with a belief is a social power equal to ninety-nine who have only interests.”*

—John Stuart Mill

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teaching methods until they succeed in reaching these goals. The existing structure of public education, and most of today’s schools, were not built to serve students with special needs and it does not work for them.

This paper proposes a radically different approach to public education. To bring about systemic change, we must transform the role of school boards. Today, boards oversee a central bureaucracy which owns and operates all the schools in a given district. It is time to retire this “command-and-control” system and replace it with a new model: portfolio management. In this new system, school boards would manage a diverse array of schools, some run by the school district and others by independent organizations, each designed to meet the different needs of students. Like investors with diversified portfolios of stocks and bonds, school boards would closely manage their community’s portfolio of educational service offerings, divesting less productive schools and adding more promising ones. If existing schools do not serve students well, boards would experiment with promising new approaches to find ones that work.

A portfolio-based system would allow school boards to customize schools to their students’ diverse needs within the framework of public education. Such a system would have eight key features:

- Public oversight;
- Public funding;
- Concentration of resources near the student;
- Strategic use of community resources;
- Rewards for high performance;
- Openness to promising ideas, people, and organizations;
- Free movement of dollars, students, and educators; and
- An environment of support for both new and existing schools.

This system would benefit students, especially the most disadvantaged, and it

would create new opportunities for teachers and school leaders. It would also require significant change for teacher unions and district central offices, which are the major forces for stasis in today's system. For any state or locality, the adoption of a portfolio-managed public school system would require careful planning and political organization, both to unify those who stand to benefit and find ways of blunting opposition from those who fear they have the most to lose. Foundations, state governments, civic leadership groups, and mayors would all play important roles in the planning and political transition to such a system.

This paper explains how the public education system resists reforms and shows how to make much higher-performing schools available to disadvantaged children. It explains why change is so difficult and why seemingly obvious solutions will not work. The paper also shows how new ideas about teaching, learning, and effective schooling can take hold, and details a portfolio management system—a new set of structures and incentives that fosters innovation, adaptability, and performance.

## **How Public Schools Resist Change**

In the late 1980s, many would-be reformers supported the idea of site-based management (SBM). The idea emerged from research showing that the most effective schools were driven by student needs and evidence about what works, not by rules and the demands of bureaucratic superiors. Schools in cities like Miami, Chicago, Los Angeles, and San Diego were told to imagine and try new methods. However, regulations about funding, use of time, teacher assignment, and work rules remained firmly in place. The result was that schools could not innovate without risking union grievances

or confrontation with central-office bureaucrats. Recognizing this, Miami appointed an ombudsman, who ran interference between the union and central office. As soon as pro-SBM superintendent Joseph Fernandez left to become chancellor in New York City, however, the ombudsman was fired. The most enthusiastic SBM school principals found themselves on the carpet for violating rules that remained in place even while the district urged innovation and entrepreneurship.<sup>4</sup>

While SBM's core insight is as valid as ever—that schools need freedom to adapt to student needs—the movement lies in the dustbin of education reform history. Like so many other initiatives, it was frustrated by a system of linkages that allows public education to defy meaningful change. The Annenberg Challenge, to cite another example, spent \$500 million over 10 years on teacher training and other reform efforts, but the effort has dwindled to a few newsletters and a couple of diehard supporters. The Bill & Melinda Gates Foundation, which commissioned this paper, is starting to wonder whether its nearly \$1 billion investment in K-12 school reform affects only those schools that get grants, and whether even those localized reforms will survive after the money is gone.<sup>5</sup>

The problem for reformers is that our current public school system is a lot like a building designed to withstand an earthquake. It has multiple, independent structural supports that flex and bend, dissipating outside jolts of energy. While this makes for a very stable educational system, it also diffuses pressures for positive change—most notably, efforts to reform schools to meet the shifting needs of students and society.

Nobody deliberately engineered this system. The complex set of laws, regulations, contracts, and established practices that now control almost everything in public education

is an accidental result of many small decisions, each intended to accomplish a particular purpose.<sup>6</sup> The process began 40 years ago when the U.S. Supreme Court decided *Brown v. Board of Education*. That ruling ordered the end of school segregation, but also inadvertently began the process of turning publicly supported community institutions into government agencies. Since then, local, state, and federal governments have imposed more and more constraints on schools. Each of these requirements, on its own, has been fairly minor and most were in pursuit of desirable goals. But the cumulative effect has been to strip educators of the power to adapt instruction to the needs of students.

While the elements of the system exist for different purposes, each contributes to the system's ability to resist fundamental change. The main groups of independent, but mutually supporting, parts include instruction, funding, human resources, licensing, and investment.

### ***Constraints on Instruction and Distribution of Teachers and Students***

While individual teachers and schools have some freedom to choose course materials and teaching methods, their freedom to experiment with different instructional strategies or develop expertise in particular instructional areas is limited. State curriculum rules typically require coverage of a wide range of subjects. State testing programs also provide strong incentives to emphasize some skills over others.

Schools are also unable to specialize in particular academic areas or in serving students with particular needs or learning styles, because students are generally assigned to schools in their neighborhoods, particularly at the elementary school level. Although districts allow transfers, these are possible only if the desired school has

vacancies. Faculties that do try to focus on certain subjects or on serving students with specific needs risk confrontations with parents who want something else but cannot go elsewhere.

### ***Constraints on the Use of Funds***

Although overall spending within a school might amount to several million dollars, school-level leaders typically only control budgets of perhaps \$10,000 to \$50,000.<sup>7</sup> In part, this stems from the fact that federal and state governments fund and regulate programs like transportation and extracurricular activities, instead of funding students or schools. Also, state laws and labor contracts largely govern teacher salaries and benefits, which account for about 80 percent of spending at the school level.

### ***Constraints on Human Resources***

School principals have little control over the hiring and assignment of teachers, who typically work in schools according to the terms of collective bargaining agreements. In general, teacher seniority trumps other factors in determining who gets to fill a particular vacancy. Principals often want, but are unable to hire, young people who have worked as interns or substitute teachers in their schools. Moreover, state law and labor contracts typically spell out work rules, detailing the amount of time teachers spend with students and the length of their workday. Principals can try to persuade teachers to work differently, but a single dissident teacher can lead the school to a labor grievance.

### ***Constraints on Teacher and Principal Licensing***

States establish licensing requirements for teachers and principals. Schools of education

generally define these standards, thereby ensuring demand for their courses and degrees. The requirements set minimum, yet not very effective, standards for teacher and principal quality: More than one-half of new urban principals and teachers report being poorly prepared for their jobs.<sup>8</sup> When periodic shortages do occur, people with different preparation can get provisional licenses, but ultimately they must finish the same coursework.

### ***Constraints on Investments***

Districts own and manage school facilities and generally follow the notion that a school occupies its own building. However, city populations shift, and over a generation, neighborhoods that once had many children can end up with hardly any. In cities experiencing rapid immigration, it is common for school buildings to have plenty of unused space at one end of town and be overcrowded at the other. Districts are then forced into two expensive activities: maintaining underused buildings and investing in new ones. Schools are also often limited by their facilities, particularly by a lack of adequate wiring for computers and antiquated designs that prevent grouping students in novel ways, such as by their level of academic achievement, rather than their age, or in differing class sizes that reflect the subject being taught, teacher skills, or the amount of one-on-one attention that students need.

Many perfectly plausible reform strategies have failed because they did not take these mutually reinforcing elements into account.<sup>9</sup> The system works to maintain the status quo in public education because, even if one feature is weakened or temporarily taken out of action, the overall system can still reject change. While a school might be allowed to try innovative methods of instruction, for instance, it typically cannot hire new teachers or use money differently than it would

otherwise, limiting its ability to carry out these innovative ideas. Moreover, while individual teachers and principals are constantly coming up with new ideas about teaching and learning—and every city has a school or two that beats the odds with poor and disadvantaged students—other educators have few, if any, incentives to investigate what is working best and imitate it. Roger Erskine, a teacher union leader active in the “reform unionism” movement, has called this process “random acts of innovation.”<sup>10</sup>

Most recently, this system has managed to stymie standards-based reform. Although schools are supposed to benefit or suffer under the No Child Left Behind Act (NCLB), depending on whether they provide effective teaching, schools remain so regulated that no one can reasonably say that they have had the freedom to abandon bad practices or try new things.<sup>11</sup> Not even the most dedicated school principal can take responsibility for the performance of a school when budget and staffing are outside of his or her control.

Even the powerful federal government cannot get local public school systems to do things for which they were not designed. Under NCLB, districts are required to offer choices to students in low-performing schools. While dozens of urban districts cannot fulfill that mandate, higher-performing schools are full and the only available alternatives are low-performing schools. In Baltimore, for example, 27,000 students were eligible to transfer in the 2004 school year—one-third of the district’s total enrollment—but only 301 seats in higher-performing schools were available.<sup>12</sup>

### **Is More Regulation the Answer?**

Experience shows that the more society regulates schools, the less schools are able to try out promising new methods and adapt to changing student needs. A recent national

commission on K-12 choice illustrated this “no free lunch” message with Figure 1, which shows that education policy choices can be reduced to two questions: How heavily should government regulate schools and how much money should be put at the disposal of school leaders responsible for providing effective instruction? The more policy moves toward the right of Figure 1—toward greater regulation—the less schools can innovate and adapt to student needs. The more policy moves from the top of Figure 1 to the bottom—toward less funding at the school level—the less educators are able to adopt new ideas and invest in methods that could make instruction more effective. The reality is that changing how schools work or implementing innovative teaching methods costs money. As the commission noted, policies designed to situate schools in the extreme upper-left of Figure 1 are probably unrealistic. There is some need for public oversight of schools. Still, it needs to be recognized that every new regulation or diversion of funds has a significant cost.

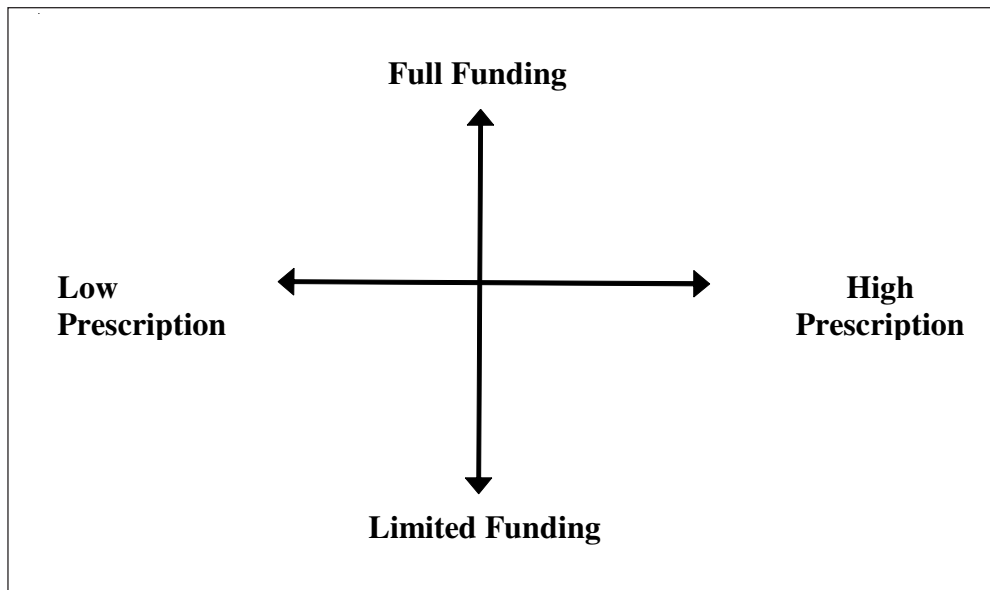
No single actor designed the system we have—which is somewhere in the upper right quadrant of Figure 1—and no single actor can change it. The next section, however, suggests a strategy for transforming the public education system in a way that undermines several of its mutually reinforcing parts, yet maintains its focus on serving all children and provides new opportunities and rewards for innovation.

### Toward a Portfolio System

Disadvantaged, urban children need schools customized to serve their needs. Schools serving children who cannot speak English, for instance, need to teach differently than schools serving native-born students. Schools serving children whose parents taught them to read by age 5 must start in a different place than schools serving students who come to 1st grade unfamiliar with the alphabet.

Central regulation does not meet these needs. School districts will gloss over the problems of managing such differences by

**Figure 1: Two Choices Define Education Policy**



SOURCE: National Working Commission on Choice in K-12 Education, *School Choice: Doing it the Right Way Makes a Difference*, Brookings Institution Press, 2003.



claiming their schools accommodate everyone. Regardless of how sincerely the statement is made, it reflects more pious intent than reality. Like other organizations, individual schools must choose between doing a few things well and many things poorly. And doing a few things well is tough enough—some schools, even when supported, do not succeed. Creating a system that can do many different things well requires a diversity of schools, each of which is highly competent in providing specific types of instruction and services.

In general terms, we need a system that is designed to search for the best possible ways of teaching students. Unlike the existing system, which hopes to educate children but is constrained in doing so, the portfolio management system proposed here would put effective instruction first. The system would create circumstances under which schools and individual educators are compelled to constantly search for better ways of preparing their students and given real freedom to do so.

A series of books by the Brookings Institution on urban school reform identified three necessary elements of effective reform, upon which the portfolio management model is built.<sup>13</sup> Those elements are:

- ❑ Incentives for educators to seek effective teaching practices and abandon ineffective ones;
- ❑ Government and philanthropic investments in building the capacity of schools and educators to implement a variety of quality instruction models, so that new approaches can be tried and educators struggling to improve can get help; and
- ❑ Increased freedom for school-level leaders to make and implement decisions, so that people with new ideas about instruction can put them into practice.

This last element is perhaps the biggest challenge for a system that has long relied on regulation and government control in its attempt to guarantee school quality. These traditions unnecessarily limit much needed flexibility. We assume, for instance, that formal instruction happens when children file into a classroom for six hours each day. The schools most successful with high-poverty populations, however, like the Knowledge is Power Program (KIPP) and Nativity Model Schools, have extended the time and focus of formal instruction, teaching students between eight and 12 hours per day. These schools have also greatly expanded their health, counseling, and recreational programs.

Table 1 contrasts the portfolio-based system proposed here with the attributes of the current system. All the requirements in Table 1 can be compressed into a single over-arching requirement: An alternative system must be

**Table 1: What We Have vs. What We Need**

What We Have	What We Need
Instruction is controlled by government mandates.	Instruction is flexible enough to accommodate student needs and incorporate new ideas about how to meet them.
Schools' location, hours, and sources of funding are standardized.	Location, hours, and sources of funding are adaptable to meet student needs and community resources.
Spending is not controlled by schools but by federal, state, and local agencies.	Schools receive funds on a per-pupil basis and have control over spending.
Only the school district can create and provide public schools.	Under public oversight, a variety of organizations can provide public schools.
Licensing rules and labor contracts govern teacher hiring and classroom placements.	Schools have control over teacher hiring and classroom placements.

SOURCE: Author Analysis.

one that strongly rewards improved instructional performance and successful adaptation to children's learning needs. Such a system would encourage money, human resources, and students to flow readily from lower- to higher-performing providers of instruction.

These needs are easier to formulate than to fulfill. For instance, Milton and Rose Friedman's proposal for a government-created open market appeared to fit it well. They argued that families should receive tax-supported vouchers and be free to choose any form of education they pleased. In their system, all adults could offer instruction, and a school's success would depend on its ability to attract students.<sup>14</sup> This system would surely have been flexible and innovative. However, as in all pure market theories, the introduction of such a system would come at the expense of many short-term losses. Families would learn about the consequences of bad choices only through bitter experience. Incompetent providers would be driven out of the market only after their harm to students became obvious.

Just as theories of physics require pure vacuums and frictionless motion, the Friedmans' theory requires perfect information and totally fair competition. Yet the real world is not pure and perfect. That is why people interested in actually using their educational theory acknowledge that any system of publicly supported education must avoid predictable harms and abuses, even while promoting innovation and free movement of resources. Terry Moe, for example, advocates a carefully regulated market in which government continues to play a strong role in school licensing, parent information, and protection of civil rights.<sup>15</sup> This paper also argues that protections for children, families, and educators can be built into the system without sacrificing the benefits of innovation and the continuous movement of resources from less- to more-productive options.

## **What a Portfolio Management System Would Look Like**

What would a public education system look like if it were built for an unending search for better ways of educating children? The key change would be in the role of local school boards. Instead of overseeing a system of standardized, one-size-fits-all schools, boards would maintain a diverse portfolio of educational options. These would range from traditional neighborhood schools, to magnet schools with particular curricular focus, to alternative schools serving at-risk students. They would include schools operated by the district as well as schools maintained by community, nonprofit, and for-profit groups operating under charters or contracts. Potentially, they could even oversee private schools. Superintendents would have the tools and incentives to improve existing schools and encourage the creation of new schools through traditional and nontraditional means, including opening new schools through the district, authorizing charter schools, or entering contracts with a variety of providers to operate new types of schools needed by the students. Schools would be accountable both to the board (through enforcement of performance agreements) and to families (through choice). Teachers and school heads would come from promising new sources, including the private, nonprofit, and government sectors, and new training programs, such as Teach for America, New Leaders for New Schools, or the Broad Residency and Superintendents Academy programs, and school leaders would be free to negotiate contracts based on their skills and knowledge.

### ***How it Will Work***

A portfolio management system would have eight key attributes. Table 2 shows why these



**Table 2: Necessary Features of a Portfolio Management System**

<b>Feature</b>	<b>Why</b>	<b>How</b>
<b>Public Oversight</b>	Not all schools are effective and officials have a responsibility to provide some safeguards and options for students.	Public management of admissions and student testing should be in place, plus an ombudsman for discrimination complaints.
<b>Public Funding</b>	Public funding breaks the link between family wealth and student opportunity.	Maintain current state and local commitments while linking funds to students, not programs.
<b>Concentration of Resources Near the Student</b>	Schools must be free to make monetary decisions based on local needs.	Fund schools based on enrollment — make the school, not the district, the locus of spending decisions, including teacher hiring and other purchases.
<b>Strategic Use of Community Resources</b>	Current school funding and capacity is insufficient to develop new ideas about educating disadvantaged pupils.	Create open partnerships between state and district leaders and the private sector to support experimentation.
<b>Rewards for High Performance</b>	Making school funding contingent on results creates strong performance incentives. Allowing families to choose schools creates incentives for personalization and adaptation because funding follows the child.	Authorize school boards to enter into contingent performance agreements with schools and allow boards to encourage the formation of alternative schools.
<b>Openness to Promising Ideas, People, and Organizations</b>	The search for higher performance requires fresh approaches and methods to meet the needs of students for whom today's public schools are not working.	Create many alternative avenues for the entry of new teachers, administrators, and school providers.
<b>Free Movement of Dollars, Students, and Educators</b>	Districts cannot develop alternative schools unless they have some flexibility to act quickly and nimbly.	Authorize family choice and encourage boards to seek new providers and abandon failed ones.
<b>Environment of Support for Existing and New Schools</b>	Operators of new schools must face a level playing field and modest costs of entry. All schools need help finding teachers and improving instruction.	Create incentives to encourage school leaders and teachers to respond to school needs—no "grandfathering" or protection for existing schools.

SOURCE: These ideas emerge from a line of analysis starting with my own work in *Reinventing Public Education: How Contracting Can Transform America's Schools*. Its most recent evolution is represented by Frederick Hess. The proposals presented here, however, are more explicit and detailed than in earlier sources. (Hill, Paul T., *Reinventing Public Education: How Contracting Can Transform America's Schools*, University Of Chicago Press, 1997; Hess, Frederick, *Common Sense School Reform*, Palgrave Macmillan, April 2005.)

features are crucial and how they would work. These eight points are further discussed below.

### ***Public Oversight***

Public oversight would follow a tight-loose model: tight regulation and accountability on civil rights and student performance; loose regulation of procedures. The main concern of school boards would be student learning; they would be driven to intervene in the operations of schools under board direction only when schools are not performing. School boards would understand that different schools face different challenges and would oversee schools individually.

Boards would also hold all schools to common minimum expectations, derived from schools' obligation to ensure that all children are prepared to thrive as democratic citizens and workers in a modern economy. This responsibility would give boards incentives to create a portfolio of diverse schools that would meet the needs of all children in any given community.

Several education analysts (including this author) have proposed all-charter or all-contract education systems in which local school boards would not operate any schools themselves, but instead operate entirely through third parties. Some localities might decide to operate all schools under such contracts, but this is not necessary for a portfolio-based system. What is necessary is that all schools:

- ❑ Receive funding on the same basis;
- ❑ Face the same costs in obtaining resources and services;
- ❑ Undergo performance assessments according to the same standards; and
- ❑ Face the same contingencies if they fail to educate children or attract families.

In order to implement such performance-based accountability, localities might rely on simple tests of basic quantitative competence and literacy, with cut-off points set at minimum levels required to ensure high school graduation and eligibility for community college admission. Other school offerings, such as arts programs or specialized curricula, would be assessed via market mechanisms—that is, through schools' ability to attract students and teachers.

### ***Public Funding***

Public funding would be an integral part of a portfolio management system, and schools would receive money on a per-pupil basis. Although no one can say exactly how much is required to provide every child with an excellent education, it is obvious that low or erratic funding can put the goal of public education at risk. This is especially true when funds are spent on children who have the fewest family resources.<sup>16</sup>

The most direct way to target education spending on student needs—rather than based on political incentives that serve adults instead of children—is to attach funds to pupils, so that all students will have the same baseline amounts. However, as subsequent sections of this paper suggest, the struggle to provide effective schools for disadvantaged children almost certainly requires weighted per-student funding to ensure that the neediest students get the most.

### ***Concentration of Resources Near the Student***

If public education is to adapt to the needs of children, it must have flexibility. For example, some schools may find their students are better served by increasing after-school instruction, while others may prefer to devote resources to expanding preschool programs.

School leaders should be able to allocate resources accordingly. To make this happen, changes would be required at every level. States would need to either consolidate all K-12 appropriations into one per-student allocation, or allow districts to combine separate financial accounts. Districts would also need to reduce their services, spending only a modest amount on things like financial administration and school performance assessment. Districts could charge fees for optional services.

### ***Strategic Use of Community Resources***

People who have worked intimately with disadvantaged students know that they require more time and money than other students. While KIPP and similar schools might not be the final answer to improving disadvantaged student achievement, they make it clear that a public education system built to constantly strive for higher performance would not rule out expanding what schools provide and how they structure their days. That, however, raises the question of money. It costs a lot more money to run a school for 12 hours per day than it does to operate for six hours.

Schools such as KIPP require significant private investment and most derive at least some of their operating funds from philanthropies. Yet these organizations can provide only so much. Communities that want to offer such schools to all students will need to find ways of supporting them with public funds.

Schools serving disadvantaged children could expand their services if the budgets of separate social service agencies—such as state and local mental health, daycare, or children’s services agencies—were combined. For example, some charter schools have begun to provide on-site clinics or health services to students and their families, because health problems and lack of access

to quality health care too often undermine their students’ school performance. Combining parts of state health care budgets with those of these schools would enable more schools to provide such services and could improve both educational and health outcomes for students and their families. This would require a wrenching change in funding and administration, as money would be used at the point of delivery and not controlled centrally. Yet if this could be done, high-poverty schools might evolve into charter youth service agencies with the core task of instruction, but with the ability to also offer social services and other resources. Such schools would be more like parishes than government agencies and would be able to draw on a wider array of expertise—and money—than they do currently.

### ***Rewards for High Performance***

For all parties in a portfolio management system to constantly seek more effective methods of instruction, strong performance incentives would be necessary. Although teachers and administrators hope their work benefits children, they have other concerns, such as complying with rules and limiting their hours so they can maintain balance in their own family and personal lives. Strong performance incentives do not eliminate these motives, but they can profoundly affect individuals’ priorities.

Parental choice would create strong performance incentives for schools. It would also allow educators with new ideas about how to meet the needs of a particular group of students—particularly at the secondary level where student needs become diverse—to compete for students and their dollars.

These features differ sharply from current practice and would imply profound changes in school district practice. Instead of making permanent commitments to fund schools or employ teachers, a district would offer

contracts that are limited in time and renewable only after review. Instead of curtailing their options, districts would constantly expand them, always looking for better instructional models, leaders, and teachers.

### ***Openness to New Ideas, People, and Organizations***

If we knew how to provide effective schooling for disadvantaged children, the public education system would simply administer the proven models. However, in the face of profound uncertainty about the best instructional means, public education needs to be open to multiple courses of action in response to changing conditions and needs.

Although the teachers and administrators employed by public schools represent a significant share of a community's relevant expertise, they do not have all of it. Many local groups have significant education expertise and ideas, including youth service centers, arts and music organizations, and education companies. Surely, these will not all produce schools that are different or better than those available within the traditional system, but as public education tries to find and implement new approaches to ensure that all children can acquire the skills and knowledge they need, it cannot afford to ignore alternative sources of ideas.

Thus, under a portfolio management system, anyone with expertise—from a university, to a museum, to a for-profit company—could provide instructional services or start a school. District school boards would, of course, have to hold these outsiders to the same set of expectations about performance and respect for public values—such as serving all students, non-establishment of religion, and responsible use of public funds—that apply to school district careerists.

A firm that provides online Advanced Placement (AP) courses is one example

among many that illustrates the point of how external providers can help schools. The firm has expanded AP opportunities for students in urban and rural areas, whose schools often lack faculty qualified to teach these courses.<sup>17</sup>

### ***Free Movement of Dollars, Students, and Educators***

In a portfolio-based system, dollars would accompany students and schools would use that money to hire teachers and cover other costs of educating students, such as facilities, technology, and classroom materials. Schools alone would decide how to configure their staffs, making trade-offs between teachers, equipment, and other services. In search of greater productivity, schools might:

- ❑ Employ specialist administrators or distribute administrative tasks among teachers interested in increased leadership roles (as many charter schools do);
- ❑ Offer small classes (requiring more teachers, who are on average paid less);
- ❑ Provide all instruction in-house, or contract out the teaching of specialized subjects like foreign languages, physics, or calculus; and
- ❑ Rent facilities instead of purchasing them.

Students could also move freely in a portfolio-based system. Families could leave an acceptably performing school in favor of a comparably performing one where parents and students felt more at home.

### ***An Environment of Support for Existing and New Schools***

Under a portfolio-based system, local school boards would be accountable to

parents, voters, and the state government for the education of all local children. Consistently good schools, or those working out better ways to educate children, would be treated as strategic partners deserving full support. When schools are stuck at low levels of performance, the board would take action. In some cases, that might involve requiring schools to make personnel or method changes. In others, it might require closing schools and contracting with outside groups to create new ones. Understanding the likelihood that some schools will fail, boards would work to ensure they always have contingency plans and other schools available to serve students that need to move to better schools. School boards would be sure to create and exercise these options in order to fulfill their responsibilities to children, not to threaten or punish educators.

A portfolio-based system would not expect all schools to be the same. Depending on the needs of their students, schools would develop and employ different instructional and curricular approaches, and provide different supports for students. The system would also expect some schools to succeed and some to fail for any number of reasons, including experiments with ill-conceived curriculum or dysfunctional staff relationships.

Boards would also make sure new schools could easily compete with existing schools. Currently, the field is tilted against new organizations creating new schools to serve students. Some existing schools get free facilities, for instance, while newer schools pay for rent out of their operating budgets. Probably the best way to create a totally level playing field is to eliminate district-operated schools entirely and allocate every dime on a per-pupil basis. That approach might be politically unrealistic, but it is not a pre-condition for a healthy

portfolio system. A more practical and promising way to level the facilities playing field is Michael DeArmond's proposal for creating a local public schools real estate trust.<sup>18</sup>

### *Supply and Demand*

Another way to understand the portfolio system is as a quasi-market, albeit one that is funded and overseen by the public. Families, teachers, and school leaders would have the opportunity to demand schools that are better tailored to serve students' diverse needs. The system would also allow schools to meet those needs in ways that look very different from how we think of a school today—for example through online and distance learning options, combinations of apprenticeships and instruction, and other possibilities not yet imagined. Table 3 summarizes the supply and demand relationships embedded in a portfolio-management public education system.

**Table 3: Supply and Demand in a Portfolio System**

<b>Demand Factors</b>	<b>Supply Response</b>
Parental choice drives allocation of public funds	Formation of new schools and multi-school providers
Pressure to replace bad schools with better ones	Families withdraw children from schools. School boards pull support from the weakest schools
Obligation to meet new or unrecognized student needs	School boards incubate and recruit new providers
Schools' needs for teachers	Potential teachers seek training or non-traditional access to new positions
Schools' needs for new materials and technology	Formation of new supply firms

SOURCE: Author Analysis.

## *Who Will Be Affected*

Changes this sweeping will alter the responsibilities and incentives of educators, elected officials, and parents. Although everyone involved in public education would experience benefits, some will see themselves as bearing costs. The benefits and the costs for various groups are described below.

- ❑ **Families:** The portfolio system would offer families many nearby schools to choose from. The district would try to offer good schools in every neighborhood, but some parents would prefer schools elsewhere in town and could petition to transfer to another school at any time, subject to space availability and, when needed, transfer lotteries. The district would also provide a great deal of information about school programs, demographics, and student performance.
- ❑ **Teachers:** Educators would work in schools that choose to hire them and would negotiate their salaries with their employers. That holds true whether they continued to work for the school district, an individual school, or a contractor providing teachers with specific skills to a variety of schools, such as expertise teaching for AP courses. Teachers who proved to be highly successful at improving student achievement or attracting enrollment would command premiums and have a great deal of leverage over their assignments and working conditions. Teachers with good reputations or rare skills would have their pick among many schools, while teachers with bad reputations would have difficulty finding work and may have to leave the profession. The new system would also preserve important roles for teacher unions as professional associations, job placement experts, and

representatives for teachers when employers renege on employment agreements.

- ❑ **Principals:** Like teachers, principals and other school leaders would work in a professional labor market. They would negotiate single- or multi-year contracts with their employers, who could be boards of directors at individual schools, firms operating multiple schools, or the citywide school board. School heads would manage school budgets and decide how much to pay for teachers, materials, technology, and supplementary educational experiences. In order to stabilize funding, school heads would have to attract a steady clientele of students and be sure their schools do not become ineligible for public support due to low performance.
- ❑ **School board members and superintendents:** District leaders would be portfolio managers overseeing performance agreements, some with individual schools and some with groups of schools. To do their jobs, district leaders would need employees or contractors to administer tests, assess school progress, identify schools in trouble, and suggest corrective action. District leaders would also act as venture capitalists, encouraging the creation of a variety of different types of schools, both to fill unmet needs and to ensure that all existing schools experience the pressure of competition.
- ❑ **Educational service entrepreneurs:** This group, which includes universities, social service organizations, and for-profit companies, would play an important role. In addition to assisting schools and districts with instruction,



evaluation, and general maintenance, they could also start their own schools.

## How a Portfolio Management System Can Come About

What can energize policymakers, parents, and education interest groups to work together and create such a system? It will require at least two conditions. First, it will probably take outside pressure such as a court-ordered state takeover of a floundering school district or the threatened enactment of a state voucher plan. Such external pushes can overcome local groups' reluctance to take on hard issues, and empower leaders who want to take action but need a justification.

Such pressures exist in many areas, and some leaders have made good use of them. Because of state voucher initiatives, Cleveland and Milwaukee were able to create new options via chartering. In the shadow of a state takeover, Philadelphia expanded chartering and contracting with independent parties. The most notable example, however, is Chicago. Due to NCLB requirements, the city has moved forward with a plan to create more than 100 new schools by 2010. The district has also become one of the nation's most skilled and effective authorizers of new charter schools and other autonomous schools, and is considering a vast expansion in the number of new schools it manages under performance contracts.

The Chicago experience is instructive because the portfolio approach there does not move to replace the school district entirely. Instead, it helps school districts modernize their operations to provide more customized student-centered learning opportunities. A more thorough implementation of the portfolio approach would require deeper changes in the district central office and teacher allocation, and would put more money under individual schools' control. But as a partial

measure, Chicago's approach harnesses the existing capacity and expertise within the school district while also helping improve its agility. Coupled with the political pressure to drive reform, such an approach both addresses the limitations of today's school districts and captures and utilizes their strengths. In communities where school districts lack either the will or capacity to improve, alternative organizations—modeled after independent charter school authorizers—can also help manage schools' portfolios.

Once outside pressures for change exist, the second key condition required to move toward a portfolio model is for local citizens to become organized and empowered through civic and community organizations working to improve local schools. Such organizations, which could be new or could grow out of existing community groups, have the potential to pull together diverse potential supporters, and commit time and money to day-to-day implementation.<sup>19</sup> In most localities, it is unrealistic to rely on board members and superintendents for such leadership. High turnover forces school boards to build new internal coalitions frequently, leading to substantial flip-flopping on reform strategies.

After researching six cities that were touted as having the most ambitious reform initiatives, a Brookings team found that informal but powerful reform coalitions—often driven by foundation or business leadership—proved to be the cities' most effective instigators of effective local education reforms.<sup>20</sup> Such a core group should recruit others to the idea, but never engage in open-ended consultation, since they simply cannot afford to imply that the portfolio reform strategy will take account of every interest in the community.<sup>21</sup>

Whether or not the political forces exist, local boards of education and school districts will need to develop broad new capabilities to effectively implement a portfolio approach. These include:

- ❑ Informing parents about their options in choosing a school that best fits their needs;
- ❑ Creating simple exams and other hard-to-corrupt outcome measures, so that the performance of all schools can be measured in the same way; and
- ❑ Identifying failing schools early, before students start to languish.

The system would also have to learn how to better support an increased number of schools. Although some successful schools might become large, the inherent advantages of smallness—such as intimacy, and modest facilities needs—would prevail in many cases and significantly increase the number of schools within most districts.

The system would also have to avoid some practices, such as forcing schools to accept teachers who do not fit and pushing schools to pay for services they do not need. These are all relatively simple prescriptions, but because they differ so much from traditional school district practices, realizing them will not be easy.

Portfolio management is not an idea that should be implemented by half measures, however. If only a few reform elements are adopted, or the main supports of the existing system are left in place, so-called portfolio management experiments will join the litany of unsuccessful education reform fads. One example of the futility of such hedged adoption is Philadelphia. Although the city announced it was adopting a multiple-provider model—essentially another name for the portfolio idea—it did not give schools control over their budgets and hiring, and few parents could choose schools.<sup>22</sup>

If one thing is clear from the decades of research on school reform, funding and expertise for the development of new

capacities must come from outside of school districts—from the federal government under some circumstances, but mostly from philanthropic foundations.<sup>23</sup> Fortunately, a number of major foundations have started to invest in building the ability of school district personnel to implement and manage performance-driven reforms. The Stupski Family Foundation has branded itself as a research and development partner for urban school districts. The Casey, Fordham, Joyce, and Bradley Foundations have also invested in performance-based oversight. The NewSchools Venture Fund is seeding new school providers and encouraging the development of alternative services vendors.

Perhaps most importantly, the Bill & Melinda Gates Foundation has announced major new investments in portfolio management that will help localities pay for reform planning and implementation. A new national initiative on “Doing School Choice Right”<sup>24</sup> is also developing and testing methods for student-based funding, quality parent information, protection of children left behind in conventional public schools, and other needed reforms.

## Conclusion

Portfolio management is a new and different vision for education reform. It dramatically changes the roles, responsibilities, and incentives of virtually everyone in the public education system. Instead of trying to refurbish an old, ineffective public education structure, it aims to raze the current system to the ground and build a new one. Certainly, the need for such dramatic change is clear. Encumbered by a system that resists meaningful reform, the nation’s schools are unable to educate millions of poor and minority students.

The ideas outlined here are feasible to create a system that would be focused on

ends and flexible about means.<sup>25</sup> Its commitment to children and their learning would be absolute, but its loyalty to particular schools and other adult arrangements would be conditional. Its slogan would not be "the best we can do given the bureaucratic circumstances," but "by any means necessary."

If reformers are to build such a system, however, they must be prepared to stay with the effort and avoid partial measures. Just as new structures do not get slapped up overnight, this change will take time and effort. After all, it will require nothing less than the total transformation of the nation's public education system.

## Endnotes

<sup>1</sup> For a striking analysis of how high school failure is concentrated among minority students in big city high schools see: Balfanz, Robert and Nettie Legters, *Locating the Dropout Crisis: Which High Schools Produce the Nation's Dropouts? Where Are They Located? Who Attends Them?*, Center for Social Organization of Schools, Johns Hopkins University, 2004.

<sup>2</sup> See the analysis on achievement gaps in Washington state by Mary Beth Celio in Hill, Paul T., Kacey Guin, and Mary Beth Celio, "Minority Children At Risk," chap. in *Our Schools and Our Future: Are We Still At Risk?*, Paul E. Peterson, ed., Hoover Institution Press, 2003, p. 111-140.

<sup>3</sup> For evidence that school districts are always changing in small ways but seldom move for long in any particular direction see: Hess, Frederick, *Spinning Wheels: The Politics of Urban School Reform*, Brookings Institution Press, 1999.

<sup>4</sup> For this and other information about site-based management see: Hill, Paul T. and Josephine Bonan, *Decentralization and Accountability in Public Education*, RAND, 1988.

<sup>5</sup> For reflections on Gates' high school reform experience to date see: Shear, Linda, "Mapping the Terrain: Year 1 of the Evaluation of the Bill & Melinda Gates Foundation's National School District and Network Grants Program," Paper presented at the 2003 Annual Meeting of the American Educational Research Association, Chicago, Ill., April 2003.

<sup>6</sup> Hill, Paul T., "Recovering From an Accident," in *Who's in Charge Here? The Tangled Web of School Governance and Policy*, Noel Epstein, ed., Brookings Institution Press, 2004.

<sup>7</sup> Ouchi, William G. and Lydia Segal, *Making Schools Work: A Revolutionary Plan to Get Your Children the Education They Need*, Simon and Schuster, 2003.

<sup>8</sup> "A Report on the Preparation and Qualifications of Public School Teachers," National Center for Education Statistics, 1999, <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=1999080>.

<sup>9</sup> Mary Beth Celio and I analyzed the cause and effect assumptions between most education reform strategies and found that they all included "zones of wishful thinking"—assumptions that needed changes would somehow occur spontaneously. (Hill, Paul T. and Mary Beth Celio, *Fixing Urban Schools*, Brookings Institution Press, 1998).

<sup>10</sup> Erskine, Roger, "Statement on School Reform and the Seattle Contract," Society for the Advancement of Excellence in Education, February 2002, [http://www.sae.ca/policy/D\\_021\\_DDB\\_LON.php](http://www.sae.ca/policy/D_021_DDB_LON.php).

<sup>11</sup> Most state standards-based reform laws had three parts: new state standards, investments in instructional materials and teacher training aligned to those standards, and deregulation of schools so that they were constrained only by rules governing student health, safety, and civil rights. All states created standards; some made at least symbolic investments in materials and training; and none created the promised school-level flexibility. The Washington State Legislature provides an example of why states did not deregulate. The legislators learned quickly that almost every regulation has a friend or an interest group that still relies on it for protection and so they abandoned the effort after a single hearing, leaving the "flexibility" provision of the state's reform law a dead letter.

<sup>12</sup> Fields, Reginald, "City Transportation Problems Stall Transfers to Better Schools; Shortage of Bus Drivers Blamed; Children are Left Behind at Inferior School," *Baltimore Sun*, October 23, 2003, 1A.

<sup>13</sup> *Fixing Urban Schools*, op. cit.; Hill, Paul T., Christine Campbell, and James Harvey, *It Takes A City: Getting Serious about Urban School Reform*, Brookings Institution Press, 2000; Hill, Paul T. and James Harvey, eds., *Making School Reform Work: New Partnerships for Real Change*, Brookings Institution Press, 2004.

<sup>14</sup> Friedman, Milton and Rose D. Friedman, *Free To Choose*, Harcourt Brace Jovanovich, 1980.

<sup>15</sup> Moe, Terry M., "The Structure of School Choice," in *Choice with Equity*, Paul T. Hill, ed., Hoover Press, 2002, p. 179-212.

<sup>16</sup> Roza, Marguerite and Paul T. Hill, "How Within-District Spending Inequities Help Some Schools to Fail," in *Brookings Papers on Education Policy 2004*, Diane Ravitch, ed., Brookings Institution Press, 2004; Guin, Kacey, "Chronic Teacher Turnover in Urban Elementary Schools," *Education Policy Analysis Archives*, v. 12, n. 42, 2004.

<sup>17</sup> Apex Learning, <http://www.apexlearning.com/>.

<sup>18</sup> DeArmond, Michael, "Getting Out of the Facilities Business: A Public School Real Estate Trust," chap. in *Making School Reform Work*, Paul T. Hill and James Harvey, eds., Brookings Institution Press, 2004.

<sup>19</sup> *Ibid.*, chap. 1-2.

<sup>20</sup> Hill, Paul T., et al., *It Takes a City*, Brookings Institution Press, 2000.

<sup>21</sup> Kentucky's Pritchard Committee is an example of such a self-starting independent oversight group, albeit one that works statewide. The Pritchard Committee has formulated reform ideas, pressed for implementation, and identified needs for mid-course corrections in Kentucky's KERA reform. As a privately convened group they perform a civic, not governmental, function. (Pritchard Committee for Academic Excellence, <http://www.pritchardcommittee.org/>).

<sup>22</sup> Bulkley, Katrina, Leah Mundell, and Morgan Riffer, *Contracting Out Schools: The First Year of the Philadelphia Diverse Provider Model*, Research for Action, May 2004; Bulkley, Katrina, Elizabeth Useem, Eva Gold, and Jolley Christman, *Blurring the Boundaries: Nonsystem Actors and the Central Office of the Philadelphia Schools*, presented at the 2005 Convention of the American Educational Research Association, April 11-15, 2005.

<sup>23</sup> Hill and Harvey, *op. cit.*

<sup>24</sup> The Center on Reinventing Public Education's "Doing School Choice Right" project, <http://www.crpe.org/hot/introDSCR.shtml>.

<sup>25</sup> A system driven by commitment to ends not means is the essence of what Rick Hess calls common sense school reform. Hess, Frederick M., *Common Sense School Reform*, Palgrave Macmillan, April 2005.