"We oppose all infringements on individual rights, whether they stem from attempts at private monopoly, labor union monopoly or from an overgrowing government. People will say we are conservative or even reactionary. We are not much interested in labels but if we were to choose one, we would say we are radical."

— William Grimes, editor, the Wall Street Journal, Jan. 2, 1951

Parental Choice for Indiana — at Last?

Some elegant research and fancy concepts are scattered throughout this issue on education reform, specifically regarding a new way to weight funding per the needs of individual students.

Broken down, though, there is nothing here but common sense. A school principal should be free to reduce what he pays a teacher to monitor the gym so he can hire one to teach calculus. And parents, even those who cannot afford private schools, deserve to choose where and what their children learn.

Why parents? Why not the highly trained educational professionals now assigning both students and funding? Because . . . well, because it's the parents' money. More to the point here, it is the money of the mothers, fathers, custodial adults and significant others of the children in whose name the state demands so much of *everybody's* money *(chart below).*

As we have written before on these pages, the taxes taken from us for "education" end up being spent first and foremost to hire adults, not to teach children. It's the old switcheroo.

Consider the Indiana Collective Bargaining Act. Its unionization of not only the teaching profession but of administrative prerogative ensures that dollars dedicated to schools are distributed on a political rather than educational rationale.

Let us assume, nonetheless, that *realpolitik* requires every budgeted education dollar be preserved. How much would Indiana's competitive position improve if we could just cap education spending at its current level, pegging any increase to the economy?

Let's go further. How far could we stretch those education dollars if we gave principals and teachers freedom to use their current budgets to meet the precise needs of the students in their particular building?

Finally, to keep the reformers themselves honest, what if we gave parents the freedom to choose which schools were doing the best job for their child?

Dr. William Ouchi of UCLA, a leading thinker on school reform, thinks he knows the answers.

Principals who have been given such freedom — and there are numerous in Ouchi's research — can reduce the hiring of administrative staff while increasing the number of classroom teachers.

At this point, the curmudgeon at the table starts figuring on his napkin. When he multiplies the amount that local, state and federal governments spend on each Hoosier student per year ($11,226)[1] by the optimum class size (24 students) he gets the estimated classroom expenditure ($269,424). Subtract the average teacher salary ($45,591)[2] and you have what he calls "the flex" ($223,833).

How much of that is administrative waste? Consider the New York City schools where the funding formula is in play: The total student load for teachers there fell 21 percent.

Going back to the napkin, that means as much as $47,000 of the flex (or the equivalent in teaching time) might be reallocated per classroom each year to better meet the needs of students and parents.

"That is a big deal," as Dr. Ouchi says. And as an added social benefit, the logic of incentives predicts that the first students helped would be those with special learning problems — that is, those whose needs cannot be accurately determined by a legislative budget committee or a task force of educrats.

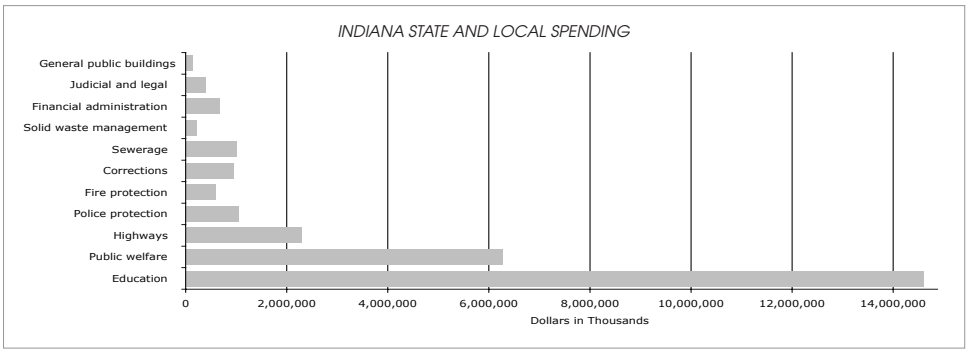
Again, there is strong supporting evidence for those who care to take a look. We think this General Assembly will take that look.

Two recent IPR legislative seminars convinced us there are those at the Statehouse ready to explore parental choice and weighted funding.

Wish them well. Support them if you are able. — *tcl*

1. Public Education Finances. U.S. Census Bureau. April 2007: http://ftp2.census.gov/govs/school/05f33pub.pdf (last viewed Oct. 24, 2007).

2. Hoosier Students and the Public Schools. InContext magazine, August 2006, a joint project of the Indiana University's Kelley School of Business and the Indiana Department of Workforce Development: http://www.incontext.indiana.edu/2006/august/3.html (last viewed Oct. 24, 2007).



Indiana State and Local Government Finances by Selected Level of Government: 2004-05. Source: U.S. Census, http://www.census.gov/govs/estimate/0515ins1_1.html (last viewed Oct. 20, 2007).

by SAM STALEY

Indiana, like dozens of other states, has struggled for decades with school reforms of all sorts. Many of them, such as collective bargaining and school choice, have often degenerated into partisan bickering. For an issue that affects so many Hoosiers in so many different ways, the only thing more stunning than the debate's decibel level may be the lack of results. It can be hoped that this is about to change, and this issue of *The Indiana Policy Review* shows why.

At the core of any education reform effort is the 800-pound gorilla of school finance. In part, this is a result of judicial meddling. Courts have ordered states to equalize their school-funding systems in 20 states. Decisions are pending in seven others (including Indiana).

More often, citizens are suspicious of a financing system that generates largess in some school districts with big factories and expensive houses while districts next door struggle to keep textbooks in the classroom.

At root is a fundamental problem: Public schools are bureaucracies run — sometimes micromanaged — by local elected officials who are often poorly equipped to hold their administrators accountable for results.

The public school system is flawed. We don't have the right incentives lined up to encourage the innovation and investment in the classroom necessary to get the results our children deserve. It's no one's fault; it's not because either Republicans or Democrats are in office. It's an institutional problem. It's the system that needs to be changed — not necessarily the people in charge or working within it.

Fortunately, for the first time in decades, a school-finance reform measure is being implemented in school districts across the nation with the potential to cross the partisan divide and create the incentives necessary for our teachers and administrators to build and nurture effective classrooms.

The concept is simple — fund our schools based on whether they are providing an education that parents (and students) value. Note the distinction: fund the schools, not the districts. Move the money down to where it can be used most effectively, and give the people closest to the classroom control of it. Each school's funding is based on the level of enrollment — the more children a school teaches, the more money a school gets — and funding is adjusted for the special needs of the individual student.

The concept, dubbed Weighted Student Formula, is showing promise where it's been applied. The most extensive experiment is in New York City public schools, where school-based funding (and budget control) is being extended to 1,300 schools. Schools funded on this concept in Oakland and Cincinnati are seeing success both in performance and in school efficiency. Several schools in San Francisco reversed performance declines once they moved to this new approach. Nevada changed its state statutes to give every district this freedom.

While the result in the classroom is the most important effect, the Weighted Student Formula has other important advantages. Because the funding is tied to the student, the effect is to equalize funding across the board. All students in the same category get funded at the same level, so inequities based on income, commercial tax base or politics are minimized.

The formula also creates transparency, a benefit anyone who has spent time trying to track dollars in the current system can appreciate. The money no longer goes into an accounting black hole that is almost impenetrable by the average parent. The money follows the child, and goes to the school where she is enrolled, not into a category or program to be distributed by a bureaucratic formula created by the district or state department of education.

Moreover, because the funding formula is transparent it allows parents, teachers, administrators and elected school-board members to focus on the thing that they care about most — the quality of education that their children receive in the classroom. As such, this reform should appeal across political parties, ethnic groups and economic classes.

The public school system is flawed. We don't have the right incentives lined up to encourage the innovation and investment in the classroom necessary to get the results our children deserve. It's no one's fault; it's not because either Republicans or Democrats are in office. It's an institutional problem. It's the system that needs to be changed — not necessarily the people in charge or working within it.

Samuel R. Staley, Ph.D., is an adjunct scholar of the foundation and a public policy expert for the Reason Foundation. He is the project manager for this dedicated issue on education reform.

SCORES RISE WHEN TEACHERS AND PRINCIPALS LEAD

And When Funding Follows the Student

In Indiana, about 75 percent of white students passed the English portion of the ISTEP exam in 2006 compared with 48 percent of black students and 51 percent of Hispanic students.

— Lisa Snell
The Indiana Policy Review

The following testimonials on how Weighted Student Formula has made a difference in other states was prepared at the suggestion of the Indianapolis Star editorial board. The articles were featured in the Aug. 26 editorial section.

by LISA SNELL

Beating the Odds," a May 2007 report by the Council of the Great City Schools, details how urban school districts have closed their achievement gaps in the past six years.

Unfortunately, the report notes that in Indianapolis the most disadvantaged students have lost ground since 2001.

For example, the achievement gap in reading on the ISTEP for low-income eighth-graders was 36 points in 2001; by 2006 it had grown to 45 points.

Overall, achievement gaps in Indiana are large. About 75 percent of white students passed the English portion of the ISTEP exam in 2006, compared with 48 percent of black students and 51 percent of Hispanic students.

Weighted Student Formula

Some urban districts are making progress closing the achievement gap with the help of a school financing mechanism known as Weighted Student Formula.

This approach distributes funding more equitably between schools and gives principals and parents more control over school resources.

School districts or state education departments use student characteristics to determine per-pupil funding levels and better match costs with actual student needs.

In each case, schools are given responsibility for managing their own budgets in key areas such as personnel, school maintenance and learning materials.

In addition, the funding follows the child to each school and is based on the characteristics of the individual child.

Big Time Support

In his 2007 State of the City address, New York City Mayor Michael R. Bloomberg called for the Weighted Student Formula plan for all city schools.

One week later, Jim Gibbons, governor of Nevada, echoed Bloomberg's proposal with his own plan. Oakland Unified has seen rapid improvements for disadvantaged students on multiple

Lisa Snell, one of the nation's foremost experts on school reform, answers critical questions about how a Weighted Student Formula could fundamentally reshape school finance and performance in Indiana. Snell, an adjunct scholar of the foundation, is director of education and child welfare studies at Reason Foundation in Los Angeles. She has met with Indiana state legislators and others here to discuss Weighted Student Formula reforms for Indiana public schools. She wrote this for the foundation.

Urban School Lessons

One solution does not fit all academic problems. Public schools across America are using an approach that puts more authority in the hands of frontline educators to decide what is best for each student.

Lisa Snell, an adjunct scholar of the Indiana Policy Review Foundation (IPR) and director of education for the Los Angeles-based Reason Foundation, is one of many scholars in search of ways to improve public education.

When a national report titled "Beating the Odds" cited successes at several urban school districts, Snell offered to share with *Star* readers what she knew about those experiences. She'd been in Indianapolis to speak to an IPR seminar about what's called a "Weighted Student Formula" approach to education.

In many schools, the approach has apparently contributed to higher graduation rates and lower achievement gaps. Oakland schools, for example, led California high schools by reducing their achievement gap from 45 to 25 points over a four-year period. Another success story comes from the Bronx School Lab in New York City. Principal Marc Sternberg and teacher Michael Waelter share their experiences with the Weighted Student Formula approach.

Whether or not this approach is right for Indiana schools, today's essays are thought-provoking.

— Jim Herman in the Aug. 26, 2007, Indianapolis Star

In many schools, the Weighted Student Formula approach has apparently contributed to higher graduation rates and lower achievement gaps.

— Jim Herman, the Indianapolis Star

performance measures under its school empowerment plan.

In 2003-2004, the city's high schools offered 17 advanced placement classes; last year, the district offered 91.

Oakland students also are taking high-level math and science courses more frequently. About 800 high school students studied first-year physics last year — nearly triple the number taking the course in 2003-2004.

Overall, Oakland had the highest gain of the 30 largest districts in California. Oakland high schools gained, on average, thirty points in one year on California's 2006 Academic Performance Index.

Shrinks Gap

Oakland has also shrunk the performance gap for low-income students in fourth-grade reading who qualified for the free-lunch program. They went from a 45 point gap to a 25 point gap; shrinking by 20 points between 2002 and 2006.

To test the Weighted Student Formula, Indiana wouldn't need to do a statewide program. Instead, it could test the approach by offering school districts a financial incentive to pilot Weighted Student Formula within a school corporation.

This would be the best way to direct more of current resources to disadvantaged children, give school principals autonomy and let parents choose which public school is best for their child.

To test the Weighted Student Formula, Indiana wouldn't need to do a statewide program. Instead, it could offer school districts a financial incentive to pilot the formula within a school corporation.

— Snell

Putting Education Back in The Hands Of Teachers

by MICHAEL WAELTHER

Late last spring, I traveled to Colorado to visit the Eagle Rock School in Estes Park in search of teaching ideas.

Eagle Rock School is run by a colleague and employs experiential, hands-on learning as opposed to just reading and writing papers about subjects your teacher "taught" to you. It's an approach we aspire to at Bronx Lab School where I teach.

While visiting a class held at the Eagle Rock audio-visual center, it came to me. What my class was missing was the "doing."


Michael Waelther, far left, is a teacher in the Bronx School Lab in New York City. Marc Sternberg is the principal there. They wrote these essays on their experience with the Weighted Student Formula at the request of the foundation.

Four years after the experiment began, in a borough with a high-school graduation rate that has hovered for decades around 40 percent, 90 percent of the Bronx Lab Class of 2008 is on course to graduate in June.

— Marc Sternberg, Principal

Upon my return to the Bronx, I told my principal I would like each one of my classes, as a whole, to create its own documentary about New York.

All students would be required to research and play a part in the production of the video as a form of expressing their take on life here.

All I needed was a video camera, a computer with movie-editing software (both available at my school), and approval from my principal to take my class in a new, perhaps unorthodox, direction.

The principal responded with two questions, both of which were answered in the positive.

The principal asked, "How can we make sure this documentary will provide an authentic learning experience for each student?" and, "How can I help?"

Autonomy works in a school when its leaders believe in the team they have assembled, and when leadership is put into the hands of teachers.

A 'Good Place To Learn And Work'

by MARC STERNBERG

Five years ago, frustration over abysmal graduation rates prompted New York City's new leadership to close failing high schools and open new, smaller high schools.

Inspired by the challenge and opportunity, I tried to imagine what a great urban high school could be.

In September 2004, Bronx Lab School launched with 100 students and eight faculty members. Next month we begin our fourth year, with 420 students shepherded by 50 educators.

Many of our students are first-generation Americans, and many of those will be first-generation college graduates. We take a unique approach to teaching math and science, and we integrate project-based instruction in our classes.

Our chancellor challenged us to create a vision for success and then he let us make decisions on everything from budgeting to programming, instructional support, staffing and purchasing.

The Bronx Lab team, along with hundreds of others like us across the city, decides what we think is important to our students' success, and then we allocated resources accordingly.

Four years later, in a borough with a high-school graduation rate that has hovered for decades around 40 percent, 90 percent of the Bronx Lab Class of 2008 is on course to graduate in June.

So many things have contributed to their success. Our teachers are remarkable in a way that, frankly, I find hard to describe. The size of our school helps -- this is a place where students are known to adults, where we take their success personally.

In my estimation, though, the single most important precondition to building Bronx Lab has been the freedom our team has to make decisions that matter to our students and school.

That autonomy is why Bronx Lab is a good place to learn and work.

Parental Choice Strategy

"Empowering parents would generate a competitive education market, which would lead to a burst of innovation and improvement, as competition has done in so many other areas. There's nothing that would do so much to ensure a skilled and educated work force." — Milton Friedman

By any objective measure, Friedman was right. Beyond the obvious quantitative benefits universal plans provide *(i.e.,* more choices for a larger number of parents), consider the following lessons from experience (of school-choice movements):

• Scaling back choice plans does nothing to diminish institutional opposition. Too often, supporters of school choice assume that watering down legislation in their states will result in acquiescence from teacher unions and the education-industrial complex. Nothing could be further from the truth. Whether it is choice for one child or one million children, the education establishment will fight it tooth and nail.

• Broader choice plans equal broader support. You don't have to take Grassroots 101 to know that successful coalitions are based on addition, not subtraction. Yet in many instances school-choice supporters have been conditioned to believe that confining the parameters of parental choice will lead to a broader base of public support. As employee stock options have shown, nothing motivates individuals quite like becoming personally invested in an issue.

— Howard Rich in the June 16, 2007, Wall Street Journal

THE WEIGHTED STUDENT FORMULA: FAQs

The Right School Finance Solution for Indiana?

by LISA SNELL

The broad concept of Weighted Student Formula goes by several names including results-based budgeting, student-based budgeting, "backpacking" or fair-student funding. In a nutshell, it proposes a system of school funding based on five key principles:

1. Funding should follow the child, on a per-student basis, to the public school that he or she attends.

2. Per-student funding should vary according to the child's needs and other relevant circumstances.

3. Funding should arrive at the school as real dollars — not as teaching positions, ratios or staffing norms — that can be spent flexibly, with accountability systems focused more on results and less on inputs, programs or activities.

4. Principles for allocating money to schools should apply to all levels of funding, including federal, state and local dollars.

5. Funding systems should be as simple as possible and made transparent to administrators, teachers, parents and citizens.

Q — How is this different from funding schools based on enrollment in the current system?

A — In the current system in Indiana school corporations receive funds based on the number of children enrolled in a corporation and their individual characteristics which are weighted through either categorical programs for education programs or additional funding for student characteristics such as poverty or English-learner status. However, at the district level these resources are not allocated to schools based on individual student characteristics. Schools in Indianapolis, for example, are allocated resources for staffing positions based on the number of full-time equivalent (FTE) salaries the district has calculated that an individual school is entitled to. So when you examine individual school budgets in Indiana you see money flowing to school positions and not children.

Salary averaging across schools means individual schools with similar student populations may receive vastly different real-dollar amounts at the school level within a corporation.

Here is an actual example of how funding would change for the Walter Crowley Intermediate School in Queens between the 2006-2007 and 2007-2008 budget years. New York City public schools is implementing Weighted Student Formula district-wide, encompassing 1.1 million students in 1,400 schools. New York City schools begin the transition to Fair Student Funding during their 2007-2008 fiscal year.

Under the old approach, Walter Crowley would have received $4 million for instructional programs, $1.2 million for special needs students and another $1.9 million for "consolidated programs," for a total budget of $7.1 million. Under the weighted Student Formula approach, Walter Crowley will received $8.8 million. In short, funding students based on their individual characteristics and not based on a staffing model increases the school's budget by more than $1.6 million under the older approach.

Since the New York City public schools are phasing in the new funding approach, Walter Crowley will only receive a portion of the new formula. However, the new weighted student budgeting also creates transparency by showing what resources each of the 1,400 schools in New York City are entitled to based on the characteristics of their students, not based

When you examine individual school budgets in Indiana you see money flowing to school positions and not children. That can mean individual schools with similar student populations receive vastly different real dollar amounts at the school level within a corporation.

This reform is more robust than charter schools because it generally includes every public school in a school district, education corporation or geographic area. Everyone becomes focused on student outcomes because families have legitimate choices within the public school system.

on a bureaucratic staffing model unrelated to the actual students in the classroom. These numbers simplify the budget process in a way that is transparent to parents and all education stakeholders.

Q — Indiana has already experimented with charter schools, and their success has been lackluster. Why should we believe that the Weighted Student Formula would be any better at improving student performance?

A — While charter schools have had positive results in Indiana, especially in Indianapolis, they are mostly operating on the margins of school reform. The Weighted Student Formula is more robust because it generally includes every public school in a school district, education corporation or geographic area. It changes the culture of the public school system. Everyone becomes focused on student outcomes because families have legitimate choices within the public school system. If a child's assigned school is not meeting their child's needs, they can move to another school within the district and take their funding with them.

Every school in a district becomes a school of choice and the funding system gives individuals, particularly school administrators, the autonomy to make local decisions. This autonomy is granted based on the contractual obligation that principals will meet state and district standards for student performance. It is a system-wide reform that allows parents the right of exit to the best performing schools and gives every school an incentive to change practices to attract and retain families from the communities.

Q — How does this program handle children with special needs?

A—Weighted Student Formula provides extra resources to support special needs children, another "weight" in the Weighted Student Formula. These resources arrive at the schools as "real dollars," giving principals flexibility to spend those resources in the manner that best supports the needs of those students. In New York City, before Weighted Student Funding, special education students were funded based on classroom-support models such as Collaborative Team Teaching (CTT) and self-contained special education classrooms. Now, schools receive funds in real dollars based on the daily number of periods of special-education classroom support each student requires. Students who spend a greater percentage of their day receiving special-education services are weighted accordingly.

Q — Can a Weighted Student Formula be implemented within current collective bargaining agreements? Wouldn't teachers be disadvantaged by this system?

A — Yes, Weighted Student Formula has been implemented in most districts based on the current collective bargaining contracts. Most critics of Weighted Student Formula fear that giving principals real dollars to spend will create a bias toward hiring less-expensive and less-experienced teachers. Critics argue that senior teachers with more years of experience will be at a disadvantage because they cost more to hire.

There are two ways that districts have implemented Weighted Student Formula. In the first scenario, districts have given principals real dollars but they continue to charge schools for average district salaries. This is how Weighted Student Formula has been implemented in most districts. Therefore, schools still have more equity because they receive funding for actual students but they are not charged the real costs of their staffing decisions. Therefore, schools with more senior staff continue to receive a hidden subsidy.

The second way Weighted Student Formula is implemented is by charging schools for the actual teacher salaries. New York City, for example, is phasing in charging schools for the actual salaries of their teachers because it believes it will create more equity and will lead to better use of resources as principals decide how to spend money to improve student achievement.

Q — New York City seems to be the district that has been most aggressive with this program. How

did they work through their existing collective bargaining agreement?

A — New York City also revitalized the way it hired teachers by adopting an "open-market" system. New York ended "bumping" and "force-placing," practices that forced principals to hire teachers even if they weren't qualified or a good fit for the school. Now, through a new "open-market hiring system," more than 3,000 experienced teachers applied for open jobs and were selected by principals for vacancies across the system.

The New York Department of Education worked with the United Federation of Teachers (UFT) to actually change the contract to make it more supportive of a Weighted Student Formula. The new contract:

• Allows the Department of Education to recruit and retain the high-quality teachers that New York City students need and increases teacher pay by 15 percent.

• In exchange, the contract also gives the DOE the ability to create Lead Teacher positions, with a $10,000 salary differential, giving principals a powerful new tool to recruit experienced, talented teachers to what are called "high-need" schools.

More recently, the DOE and UFT agreed to create a $15,000 housing incentive for experienced math, science and special education teachers who come to the DOE and agree to teach for at least three years in high-needs schools. The agreement provides struggling students an additional 150 minutes every week in small-group instruction so they get the help they need to catch up during the school year.

Like New York City, several districts that have instituted Weighted Student Formula have negotiated alternative contracts with the unions that keep in place most teacher protections but allow principals more flexibility. For example, both Boston pilot schools and the new Belmont autonomous-zone schools in Los Angeles operate on a three-page contract that is basically a memorandum of understanding negotiated between the district and the union.

Q — Is this a reform that must be implemented statewide to work? What states have reformed their school finance system based on the Weighted Student Formula concept?

A — This reform can work either on a statewide basis or through individual districts. To date, the majority of school districts using Weighted Student Formula have done so without state legislation. This is a flexible reform that can work at the state level or on a district-by-district basis.

Nevada and Hawaii, however, adopted Weighted Student Formula through state legislation. Hawaii, with one centralized school district, passed this reform statewide in 2005. In 2007 Nevada passed state legislation that offers local schools and districts some financial incentive on a per-student basis to convert to empowerment schools. Several states including South Carolina and Delaware are considering proposals for Weighted Student Formula and school empowerment.

Q — Indiana is faced with significant demands on its budget. Wouldn't implementing a system-wide school-finance reform simply put more pressure on state and local budgets?

A — This is a reform that works within existing budget frameworks. It is a reform that more equitably distributes money that is already available. Furthermore, because of savings from reducing the cost of the central office, this reform can free up more money for the local school level. If categorical programs and other funding streams are collapsed into larger block-funding streams it can reduce overall administration costs, directing more money to the school level. This financing mechanism would allow policy makers to have a more transparent idea of how existing school resources are distributed.

Q — What impact would a Weighted Student Formula have on school efficiency? Wouldn't school administrators feel threatened by this approach to financing their schools?

A — Weighted Student Formula can be a threat to district-level administrators. As more money is directed to local schools,

The formula is a revenue-neutral reform in that it works within existing budget frameworks, more equitably distributing money already available. Moreover, it allows policy makers a more transparent idea of how existing school resources are distributed.

Weighted Student Formula becomes a group discussion about equity and fairness in education funding that involves the entire community. Still, it will take leadership from individual legislators or school officials who believe in the concept.

a by-product has been a reduction in the number of central-office staff. In New York City, the move to a Weighted Student Formula system has been in conjunction with a "rightsizing" of the central education office. *(See the interview with UCLA's William Ouchi on the opposite page).*

Q — Like most state school-finance systems, Indiana's school-finance system is under legal and political pressure to move away from the property tax. How would a Weighted Student Formula address concerns about equity in school finance?

A — Weighted Student Formula works best when all funding is equalized and not based on differences in local property tax allocation. Indiana has already made efforts to equalize funding across districts. Therefore, it already has a culture concerned with school equity and a more centralized funding system than most states. Weighted Student Formula is the next step to drive that student equity to the school level. Indiana has already done the hard part of aggregating school resources at the state level. It makes Weighted Student Formula a reform that makes sense to continue toward the goal of individual student equity.

Q — This seems like a program that works best in a big-city school district where there are already lots of schools. What about suburban and rural districts which tend to be smaller?

A — This strategy also works in suburban and rural districts. If this is done at the state level, students could have access to schools in more than one school district even if they reside in a very small district. However, in extremely small districts with transportation limitations to other schools, school choice may be less important than school autonomy. In a geographically isolated school, Weighted Student Formula still gives principals more control over resources and parents and teachers more input into how those resources are used to meet the needs of individual children.

Q — Where does the leadership for implementing a Weighted Student Formula come from? School boards? Administrators? Legislators? Citizens?

A — Strong state leaders or an individual superintendent can introduce the community to this concept. They can involve principals, parents, teachers and community leaders in a transparent process to decide on student weights and other implementation issues from school choice to professional development for principals. This really becomes a group discussion about equity and fairness in education funding that involves the entire community. Still, it takes leadership from individual legislators or school officials who believe in the concept.

State legislators can be proactive by:

- Visiting other school districts that have implemented Weighted Student Formula. A trip to New York City and a review of the New York City Department of Education would offer the most comprehensive view of a large-scale Weighted Student Formula program.
- Reviewing existing examples of state and model legislation for Weighted Student Formula and tailoring it to meet Indiana's needs.
- Reviewing existing resources in Indiana and proposing a system of weights that would work within the current constraints of state and federal categorical funding. While this proposal would be subject to change, it would give legislators a clear idea of how resources might be allocated.

School administrators and teachers can be proactive by:

- Visiting or talking to staff, board members and other constituents from districts that have already implemented Weighted Student Formula.
- Developing a preliminary Weighted Student Formula implementation plan with the school board and holding open meetings to discuss the plan and receive feedback from the community.
- Reviewing how current resources are aggregated at the district level and deciding a preliminary proposal for weighting students to give stakeholders an idea of how Weighted Student Formula would work in practice at the school level.

THE WEIGHTED STUDENT FORMULA: AN INTERVIEW

He Teaches School Districts How To Set Teachers Free to Teach

Editor's Note: William G. Ouchi is the Sanford & Betty Sigoloff Professor in Corporate Renewal at The Anderson Graduate School of Management at UCLA. Drawing on the results of a landmark study of 223 schools in six cities funded in part by the National Science Foundation, Dr. Ouchi's book, Making Schools Work, shows that a school's educational performance may be most directly affected by how the school is managed. Now he may be the nation's leading researcher and proponent of the concept.

Dr. Ouchi was interviewed by Lisa Snell on Sept. 15, 2007, in his office at UCLA, where he provides an update on his ongoing work on Weighted Student Formula and school empowerment.

Q — How is your current analysis of case studies of Weighted Student Formula progressing?

A — We are analyzing the data, and it is really interesting. The way you organize a district is hugely important. We've looked at eight districts, all of which are implementing Weighted Student Formula, school choice and school autonomy: Boston, Chicago, Houston, New York City, Oakland, San Francisco, Seattle and St. Paul.

There is extreme variability in the percentage of resources that principals are allowed to control under Weighted Student Formula. The amount of resources the principal controls makes a difference. I studied 66 schools in New York City in the year 2000, and I went through with each principal their budget to figure out how much they controlled and on the average it was 6.1 percent. Today, these data show that 85 percent of the budget was controlled by the New York City principals who were part of 42 schools in the autonomy zone in 2003 and 2004. As a result of the success of the experiment, New York has expanded this budget control to all 1,467 schools for 2007.

Q — When you give principals freedom what do they do with their money?

A — What they should do is reduce the hiring of administrative staff at the school and increase the number of classroom teachers. And then use their freedom over curricula, schedule and staffing to further reduce total student load. Autonomous schools have largely used their autonomy to drastically reduce total student load in high school and middle school classrooms. In New York City, student load is 88. In Boston, it's 76 (in the high school). In New York City, by contract, a teacher may be asked to teach 170 students, five classes of 34 in middle school or high school. In Boston the contract requires 140 and in Los Angeles, 225.

The stand-out here is New York City. In New York City, although the contractual maximum is 170, the actual district-wide average is 111, because there are a lot of magnet schools, special schools and special-education schools that have much smaller total student loads. In the 42 original autonomous schools in New

The formula allows school districts to reduce the hiring of administrative staff at the school and increase the number of classroom teachers. Teachers then can apply their freedom to curricula, schedule and staffing to further reduce total student load (the total number of students across a schedule for which a teacher is responsible).

New York City has one of the most powerful teacher unions in America. But they have been able to find a way to work together (with reformers). Clearly, this reducing total student load is in the interest of all teachers and all students. It is in the interest of everybody except for the central office bureaucrats.

York City the total student load fell from 111 to 88. That is a big deal.

In some cases the union can be an impediment but that's really not the issue, because New York City has one of the most powerful teacher unions in America. And Randi Weingarten is no pushover. But they have been able to find a way to work together. Clearly, this reducing total student load is in the interest of all teachers and all students. It is in the interest of everybody except for the central office bureaucrats.

Q — How did New York get to smaller student loads and higher achievement?

A — Under the tutelage of Eric Nadelstern, who had been working with those populations his whole career, and followed the work by Ted and Nancy Sizer, who preached that no teacher should ever have a student load over 80. Eric figured out how to restructure schools. He said, "My gosh, if you could get there, think of all the things you could do that are good for the student." So now the question is "How do I get below 80?" Through trial and error he figured out how to do it. So Eric has been personally training all these principals in New York City and it has made a huge difference.

About half of getting to 80 is less administrators and more teachers, but the other half is your creative use of curricula and scheduling. If you are a school that uses block scheduling it causes your average student load to rise by 17 students. If you are a school that uses combined courses you combine social studies and language into humanities and you combine math and science into integrated math/science curricula, on average it reduces your average student load by three. But, if you use both block scheduling with combined courses on the average it reduces your total student load by 23.

Q — What are the most important effects of Weighted Student Formula?

A — Weighted Student Formula has a couple of different kinds of effects. It has a fairness effect and it has a governance effect. The fairness effect is difficult to implement because it involves income redistribution from the rich to the poor. That's never been easy to achieve in this country or in any other. However, it is not impossible to achieve if you have the political time, meaning several years, and the political will and enough political astuteness.

The "governance effect" is immediate and easy to achieve. It is that Weighted Student Formula brings transparency to school finance. It makes it real simple for parents and the public to understand how much money is in the school and what it is supposed to be used for. Therefore, it brings parents and teachers into the argument over how a school spends its money. This is a really healthy thing.

If you are going to give schools money rather than positions, you have to figure out how much money you are going to give to each school. When you think about that for more than five minutes, you come to the conclusion that there is no way to allocate money to schools except by allocating money to students and letting the money follow the student to the school. Now you have got to figure out how much money you are going to allocate to each student, and that's known as Weighted Student Formula.

Once you have done that, you have created autonomy with a financially transparent funding formula. If the next superintendents that come along try to take away the autonomy, they will have an immense fight on their hands with all the parents and all the teachers — and they will lose that fight. So, if you are a fan of local school autonomy, competition and transparency then you want to introduce autonomy with Weighted Student Formula because a Weighted Student Formula protects the autonomy.

Q — If you were going to start to implement this do you have a favorite governance level, should it be started through state legislation, superintendent-driven, or started by a local mayor?

A — I am a fan of the superintendent as the change agent. I think superintendents who want to do this can do it with their school boards. I also think there are enough districts that are trying to find

their way that we will see more successes. I think St. Paul is doing a really good job. Boston is also doing some things right. Boston pilot schools are a joint venture with the Boston Teacher Union (BTU). So there is a lot of union input. The good news is the BTU agreed to a three-page contract for those schools. So they do have a lot of flexibility.

Q — Now, why haven't they had a bigger impact?

A — I think one reason is that the other schools, the non-pilot schools in Boston, have been improving which narrows the gap — perhaps because they have been learning from those pilot schools.

I think the other one is that the pilot schools in Boston do not display with consistency what I consider to be the full-blown New York model. But they have a lot of it. They are getting down to some good student load numbers with 86. But given the amount of money they have per student perhaps they ought to be down to 70.

The full-blown New York model includes, in addition to the things we've talked about, having "advisories," an important element of the horizontal school. The advisories are typically 12 or 13 students who meet with a teacher for four years. They become cohesive.

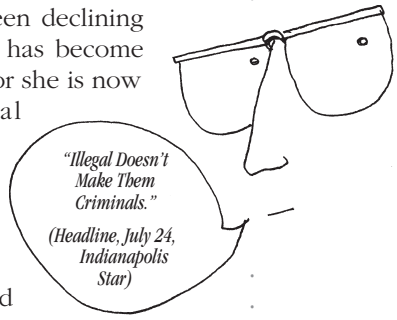
Another element is the teacher grade-level meeting. Teacher meetings are another aspect of the horizontal school. The teachers meet usually once a week; it might be twice, or three times a week. All the grade level teachers.

And they go through every student who needs special attention. And each teacher has something to contribute, sees some different angle on the student. And they discuss why the student's performance has been declining or why the student has become so superior that he or she is now needing additional challenge. Then together they figure out a strategy, and then if they need to they engage the student's family and they implement it.

People say education should be personalized, that's what personalization is.

That's the real thing.

There is no way to allocate money to schools except by allocating money to students and letting the money follow the student to the school. Now you have got to figure out how much money you are going to allocate to each student, and that's known as Weighted Student Formula.



Governors Pave the Way

According to the Alliance for School Choice, governors are leading the charge for school choice legislation on the state level.

• South Carolina Gov. Mark Sanford has proposed a tax-credit program that would give families earning up to $75,000 a credit on their state income taxes for the cost of public or private school tuition up to 80 percent of the state's average per-pupil cost. Public school districts would still receive the local and federal per-pupil dollars, but the state's per-pupil aid would follow the student.

• In Texas, Gov. Rick Perry has proposed a pilot school-choice program to help children in failing schools. The Texas Freedom Scholarship would offer scholarships to students in the five largest urban schools with the greatest percentage of economically disadvantaged students.

• Missouri Gov. Matt Blunt is backing a tax credit scholarship for lower-income families with children enrolled in failing schools. The $40-million tax-credit proposal allows businesses and individuals to donate to nonprofit groups, which would award students scholarships to attend private or better-performing public schools. Sponsors say more than 10,000 of the state's neediest children could receive scholarships.

• Similarly, Minnesota Gov. Tim Pawlenty has proposed a $4-million tax-credit scholarship plan that would allow 1,500 low-income students in failing schools in Minneapolis and St. Paul to attend private schools. The scholarships would come from corporate donations made to nonprofit organizations in exchange for tax breaks. — *Lisa Snell in the May 1, 2005, School Reform News*

INDIANAPOLIS CHARTER SCHOOLS ENJOY A NATIONAL REPUTATION

In the 2006-2007 Academic Year, the Mayor's Office Oversaw 16 Charter Schools Serving 3,870 Students

The ideological streams of both Democrat and Republican Hoosiers cross on the issue of charter schools and the opportunity to help seriously disadvantaged children.

by DAVID SKINNER

INDIANAPOLIS — This quiet town of square jaws and sturdy conservative values has become home to some of the most daring political reformers in the country. Former mayor Stephen Goldsmith, a crusading Republican, spent the 1990s subjecting an array of government services to the unforgiving standards of private competition. And now his successor, Bart Peterson, a Democrat, has laid down a bold challenge to the city's troubled public school system: Improve or see your students migrate to the city's growing roster of impressive charter schools authorized by the mayor himself.

This is no idle threat. In the 2006-2007 academic year, the mayor oversaw 16 charter schools serving 3,870 students. Peterson is currently the only mayor in the nation running a charter school authorizer out of his office and has proven himself willing to be judged by the results. The charter school office issues an annual report on its schools that, in its candor and analytical sophistication, rivals just about any report out there. But what makes the mayor's experiment far more interesting than, say, improvements in the city's bus service, is that his charter schools are achieving results — in some cases, great results — with seriously disadvantaged children. The Indianapolis experience shows that government, when ably led, can adapt and usher in its own set of reforms.

The story also shows that charter schools are much more than a right-wing hobbyhorse — that Democrats, too, are capable of using them to buck the system. Peterson himself says, "I'm not interested in striking ideological notes," but he has certainly struck a chord with education thinkers like Andy Rotherham, former education adviser to President Clinton and co-founder of Education Sector in Washington, D.C. Rotherham says Peterson's example proves that school choice is perfectly compatible with the philosophy of the left. Such a philosophy, however, must be a "liberalism of people," devoted above all to the interests of students and families, not a "liberalism of institutions," devoted to preserving the bureaucracy and the unions.

Peterson, who campaigned on a promise to bring charter schools to Indianapolis, says they provide three important goods: educational alternatives, that is, a choice for students and families; a compelling reason for public school leaders to introduce their own innovations; and a chance to improve on America's traditional district public school model. "We are simply in an age where cookie-cutter, one-size-fits-all, 1950's style education just doesn't work for a lot of children. The evidence is the dropout rate. The evidence is the number of at-risk children who are failing at school." In Indianapolis the evidence includes a four-year graduation rate of 35 percent, as tabulated by *the Indianapolis Star* for the class of 2004. The numbers are even worse for African-American males, only 20 percent of whom graduate in four years from the city's public high schools. The majority of students in city schools and in the mayor's schools are

David Skinner is assistant managing editor at the Weekly Standard and the editor of Doublethink magazine. His article, excerpted here, first appeared in the summer 2007 issue of Education Next magazine and is reprinted here by permission.

African-American. But charter schools *per se* were not the innovation that Peterson introduced to Indianapolis. Well before many researchers, let alone politicians or the media, had noticed that the key to good charter schools is a good chartering authority, Peterson and his education adviser David Harris began building what is now considered a national model of a charter school office. But the story of this successful urban reform involves a number of people beyond the mayor.

The Players

For the better part of the 1990s, Republican state Sen. Teresa Lubbers was trying to get a charter school law through the Indiana General Assembly. Her efforts kept foundering on the opposition of the teacher union. In 2001, after all but a few states had passed charter-enabling legislation, Lubbers, then chair of the education committee, reached a compromise with the unions. It restored collective bargaining prerogatives on all working conditions for teachers — some of the union's power had been stripped in earlier legislation. The other part of the deal was a requirement that all charter school teachers be certified or be pursuing certification in a three-year "Transition to Teaching" program.

Bart Peterson, then a candidate for mayor, testified before the senate education committee, which gave Lubbers the idea for writing into the legislation a provision allowing the mayor of Indianapolis to become a charter school authorizer. Lubbers, who had become interested in charter schools after hearing educators in traditional schools complain about red tape holding them back, says that vesting the mayor (who is of course beholden to voters) with authorizing power offered the very desirable combination of freedom and accountability.

David Harris was a 27-year-old law school graduate working in a big corporate firm in Indianapolis when Peterson asked him if he'd like to be the "education guy" for his campaign. Harris had been a Governor's Fellow during the Evan Bayh administration; Peterson was Bayh's chief of staff. When in 2001 Mayor Peterson's office gained the power to authorize charter schools, Harris headed up the effort to figure how it should do so. As Nelson Smith, former executive director of the DC Public Charter School Board, puts it, "David went around the country vacuuming up best practices." In addition, he began building a roster of outside experts to help the mayor's office work out all the details of its application and accountability procedures. The mayor's office staff disdain to play up the rhetoric of free markets in talking about their charter schools, but much of their intelligence derives from outside government: nonprofits and even the private sector.

One of the first people Harris contacted was Paul Herdman, then an instructor at Harvard's Kennedy School of Government, who brought in Bryan Hassel of Public Impact, an education consulting firm. Herdman and Hassel had written a guide on charter school accountability — reporting, performance transparency, making data public — used in Indianapolis. Hassel compiles and writes the city's widely praised annual accountability report on its charter schools.

Andy Rotherham says when he heard the mayor's office had been granted chartering authority, he wanted in. Then a policy analyst at the Progressive Policy Institute, he believed Indianapolis could be a "proof point," demonstrating that the sky wouldn't fall if mayors began authorizing charter schools.

Another key player was Ron Gibson, Indianapolis City Council member-at-large. When asked about his work with black ministers to shore up community support for charter schools, the light-skinned council member cheerfully explains why he undertook this role, "I'm African-American, in case you can't tell." Gibson receives copies of charter applications and attends interviews with applicants. He acts as a stand-in for the charter office within the City Council and within the Democratic caucus, an important political task given that the council has to give final approval before a charter is granted. "I lay out the case for why (each) school is important," says Gibson.

The Annie E. Casey Foundation was looking into Indianapolis as a place to invest in education reform shortly after the mayor gained chartering authority,

It was the idea of Sen. Teresa Lubbers, who had become interested in charter schools after hearing educators in traditional schools complain about red tape holding them back, to vest the mayor with the authority to charter schools, thereby creating the desirable combination of freedom and accountability.

The most important thing Indianapolis did right, everyone seems to agree, was insist on quality over quantity. In their first year they received 31 letters of intent and 21 applications for charters. Just four were granted.

recalls Senior Program Associate Bruno Manno. What caught Manno's eye was the opportunity the mayor's new initiative presented to build a whole new sector of schools outside the traditional district system. What "entranced me" was nothing less than a chance to "alter the political economy, to get fancy about this, of public education . . . . to open up the district sector to different people, different arrangements." The Casey Foundation has provided money to build the infrastructure of the charter school office, establish the city's accountability and reporting system, and help underwrite school construction for charter schools in Indianapolis.

A Good but Imperfect System

One hard lesson of America's experiment with public charter schools is that building a school from scratch is no small task. From recruiting faculty to implementing a curriculum to meeting the requirements of special education laws to applying for federal funds for extra literacy instruction to complying with health and safety codes to hundreds of other little boxes that need to be checked off, getting a school off the ground is a formidable undertaking. If your charter school fails, your name will be dragged through the mud. And the political fallout will be significant. States that have too easily greenlighted charter schools have seen a number of them flame out, publicly and embarrassingly.

It is now widely understood that quality charter school authorizers are critical to charter school success. A strong charter school law makes it possible for parents to choose between the system and something else. A good chartering authority makes it far more likely that the alternative is going to be a worthy one. Mayor Peterson says, "I don't hold myself out as the guy who has the answers. I hold the key to a process where smart people who know the answers can flourish."

Entering the game 10 years after America's first charter schools opened in Minnesota, the Indianapolis mayor's office was in a good position to avoid certain mistakes. The most important thing they did right, everyone seems to agree, was insist on quality over quantity. In their first year they received 31 letters of intent and 21 applications for charters. Hassel says it was anything but a "rubber-stamp process." Along with staff and consultants, the mayor himself was "hashing through applications." Most of them, Hassel says, were "weak," but "there were some real gems." Just four charters were granted.

Running a charter school authority out of the mayor's office, Harris and others attest, brings prestige to the whole enterprise. Among "the real gems" Hassel mentions were applications from some of the most important charitable organizations in Indianapolis, including Christel House — founded in 1998 by philanthropist Christel DeHaan — which runs a child learning center in the city and others in India, Africa, Mexico and elsewhere, and Flanner House, a local social-services agency dating to 1898.

Another advantage when screening applicants is the reach of the mayor's Rolodex, which enables the charter school office to call on state budget experts and other specialists to help them assess applications.

Gaining a charter, of course, is only the beginning. The charter school office distributes a 17-page pre-opening checklist that gives a week-by-week accounting of all the paperwork required of a school: from organizational charts to budgets to teacher contracts to insurance coverage to zoning, land, and building permits, and safety documentation. Here again, the mayor's clout makes a difference. When one charter school could not get a health inspector in before the first day of school, the mayor's office successfully lobbied the governor's office to intervene. Another school had nowhere to park its school bus. The mayor was able to arrange for a bank of parking meters to be removed so that the bus would have a place to pull over. . . .

You have a fight going on in education between consumers and producers," Andy Rotherham, the Clinton advisor, says. "Smart politicians are realizing the consumers are going to win and that's the side you want to be on. Standing and defending the producers and protecting them from modernizing is a losing proposition."

CHARTER SCHOOLS: A PROGRESS REPORT

The Debate May be Over

by ANDREA NEAL

Five years into Indiana's experience with charter schools, it's hard to find any critics left. Waiting lists exist at many of the schools. Test scores are rising. And perhaps best of all, the reform has prompted a more competitive spirit in traditional public school systems.

"A big success," is how Kevin Teasley puts it. Teasley is president and CEO of the GEO Foundation, sponsor of three Twenty-First Century Charter Schools in Indiana and a fourth that just opened in Colorado Springs, Colo.

Indiana has 40 charter schools in 14 cities and a handful more in the pipeline. Under state law, these pioneering new schools can be established by school corporations, four-year public universities and the mayors of "consolidated cities," a power unique to the mayor of Indianapolis. With a few exceptions, all of Indiana's charters have been sponsored by Mayor Bart Peterson or Ball State University. And while not every one can claim success as defined by ISTEP scores and the federal No Child Left Behind law, Teasley and his colleagues are effusive in assessing progress to date.

"After five years, more than 4,000 students in Indianapolis and 11,000 statewide are enjoying new options that did not exist five years ago," Teasley said. "The private sector is getting involved in ways they never could have imagined by actually creating a school of their dreams and not just complaining about what the public schools are not doing. And the public schools are starting to compete."

Charters are themselves public schools, but with greater flexibility in scheduling and curriculum. That flexibility, which encourages innovation, appears to be having an impact on achievement.

Christel House Academy in Indianapolis, one of the 11 inaugural charter schools, has grown from 276 students its first year to nearly 400 and has seen test scores go up steadily. In 2002, less than a third of its students passed both math and language sections of ISTEP; last year 67.5 percent did. Although its principal is no fan of the No Child Left Behind Act, the school met all its requirements last year for adequate yearly progress, or AYP. The Academy features a longer school day and 189 instructional days a year instead of the state-required minimum of 180.

"It has taken lots of hard work," said Principal Carey Dahncke. "At Christel House we work to develop the whole child — mentally, physically and socially. Additionally, we work to keep focused on our objectives. Both the focus and holistic attention help to develop a better student. Traditional public schools tend to allow their teachers to be pulled in too many directions for too many reasons. Keeping your eye on the target and empowering teachers to teach is very important. "

A similar philosophy drives Irvington Community School in Indianapolis, which met AYP goals last year with a 69 percent ISTEP passage rate. "We have gone back to a principle that so many American educators have forgotten: Small schools work, big schools don't," said President Tim Ehrgott. "Our students are not numbers, nor do we spend our whole day managing the process of the building. We can actually teach."

The school has a 200-day academic calendar, which means not only more

Indiana has 40 charter schools in 14 cities and a handful more in the pipeline. With a few exceptions, all of Indiana's charters have been sponsored by Mayor Bart Peterson or Ball State University.

Andrea Neal is a teacher at St. Richard's School in Indianapolis and adjunct scholar with the foundation.

Indiana's charter schools don't get operating funds from the state until they've been in business a semester. Most of the 40 charter schools in operation have had to beg, plead or borrow to get started.

instructional time for students but less exposure "to the culture so many of them are exposed to out of school: video games, My Space, cable TV, etc. And check out the calendars of a lot of the countries that are outperforming us in international tests." Japan, where the school year is 231 days, is a case in point. Its students consistently rank in the top three in the world in standardized math and science tests.

The principals agree test scores are just one measure of success and that other developments are just as noteworthy. Ehrgott said charter schools are keeping Indianapolis families who might otherwise have moved to the suburbs.

Teasley said changes in Indianapolis Public Schools under Superintendent Eugene G. White are in part a response to charter school innovations. "IPS is competing and doing things today that they should have done years ago. They are creating smaller learning communities. They are partnering with universities. They are creating more magnets."

In just five years, charters have proved their worth. But there are challenges ahead, which may require tweaking in the law by the next legislature.

Funding

Charter schools are proving themselves where it counts: on the ISTEP test. Now it's time for Indiana lawmakers to reward them financially.

Overall, charter schools get about half the money other public schools receive. They don't qualify for capital funds and can't recover transportation expenses, which are big-ticket items for their traditional public school counterparts.

But the biggest issue of all — one that no doubt has kept some promising charter school proposals from becoming reality – is they don't get operating funds from the state until they've been in business a semester. Most of the 40 charter schools in operation have had to beg, plead or borrow to get started.

"Right now, new charter schools don't receive any per-pupil funding until January of their first year, and aren't fully funded until June, usually after the first year's already over," said Indianapolis Charter Schools Director Daniel Roy. "As a result, charter schools typically have to take out a loan from the state to help pay for their first year of operations. I think the better policy would be to say, you've got charter schools that are serving kids from day one, so they ought to be fully funded from the start."

Few charter advocates demand equal funding, in part because they see traditional public schools as bloated and wasteful and want to prove they can do more for less. Charter schools tend to have a lower percentage of non-teaching personnel, which reduces per-pupil costs.

"I believe firmly that charters should not ask for the same funding as the traditional public schools," said Irvington Community School President Tim Ehrgott. "We are supposed to be more efficient, focusing on the important things and not on bureaucracy."

That said, Ehrgott's two exceptions are building funds and first-semester funding. "I'm paying for our two buildings out of our operating revenue, which is already much less than our resident district. No other school district would accept that, and why should our students' educational resources be reduced for this reason? . . . Second, we have more than $1.5 million on our books for the first semester loans."

Teasley said the situation must be fixed if charters are to maintain momentum.

"Charters are going to start choking if they don't get money for their buildings and transportation. Charter schools get half the funds traditional schools do yet we have to pay for buildings, administration, transportation, books, etc., and the teachers. We have all the same requirements to perform yet we get half the funds. Not a level playing field."

In the five years since the inaugural group of charter schools opened, they have met or exceeded expectations for enrollment and accountability. A few have closed, a few that received authority to open never did, but most are growing in size while raising test scores.

Despite predictions of critics that charter schools would "cream" the best students off the top and weaken the traditional school system, their demographic characteristics closely

mirror that of their neighborhoods. Some are appealing specifically to struggling students.

That has been true in Indianapolis where Mayor Bart Peterson has taken advantage of his unique authority to sponsor 17 charter schools so far. "In our experience, many — actually, most — students are behind their peers academically when they first step into a mayor-sponsored school," Roy said. "For example, the average percentage of students passing both English and math (on the ISTEP test) for a new mayor-sponsored school is just 27 percent."

Improvement has been remarkable at many. Under Public Law 221, which requires schools to consistently increase achievement scores, six of the 11 schools with biggest gains in Marion County and five of the top 50 in the state were mayor-sponsored charter schools.

There is room for improvement, and the charter school principals are first to admit it. But the debate over the value of charter schools is settled. Now the question is: Does Indiana want to encourage or discourage more of these innovative schools? If the answer is the former, and it should be, lawmakers will have to improve the funding picture.

Six of the 11 schools with biggest gains in Marion County and five of the top 50 in the state were mayor-sponsored charter schools.

Academic and Economic Benefits Go With a Later School Starting Date

by ANDREA NEAL

(Oct. 8) — If Gov. Mitch Daniels wants schools to open closer to Labor Day, he needs to enlist Hoosier parents for support. In other states that have rebelled against ever-earlier August start dates, parents have been the key lobbying group.

This year, among Indiana schools following traditional calendars, start dates ranged from an outrageously early Aug. 8 to a sensible Aug. 24. The majority of schools opened the week of Aug. 14. Daniels' suggestion was nixed immediately by the Indiana Association of Public School Superintendents, which said schools have to start in mid-August so semester exams can occur before Christmas break.

That reaction is typical of the education establishment, which seems to think convenience is the primary driver of policy. There is no academic reason to end a semester before Christmas. The only argument for doing so is to let students relax without having to worry about upcoming tests.

Professor William H. Cunningham of the University of Texas who chaired the Texas School Start Date Task Force, said learning is actually more permanent when there is a short break between instruction and testing. "A widely known psychological phenomenon known as the 'spacing effect' implies that students' long-term learning will be improved if students study the material, take a break from their studies, review the material again and then take an examination," he said in testimony to the Texas legislature. "This is perfectly consistent with the traditional school year where students take their fall semester exams after the Christmas holiday."

This may explain why most public schools in New England and the West Coast start around Labor Day and give first-semester exams in mid- or late January.

No matter the start date, schools must hold a minimum of 180 instructional days under state law. Barring a longer school year, the two policy questions are: Since Indiana determines the length of the school year, should it also set a uniform start date? If so, is it better to open in August and end in May or to start around Labor Day and end the year in June?

To the first question, the answer is a definite yes. Local control sounds good on paper, but it's caused the race to the front we've already experienced: schools moving their start dates earlier and earlier to get an advantage on standardized tests. Even with ISTEP in the spring, schools will argue that the more content a student covers before testing, the better scores will be.

As to the second question, there are economic and academic reasons to delay the start of school. Although many schools have air conditioning, a majority of inner-city schools do not. Sweltering August classrooms are no environment for learning. This year, Indianapolis Public Schools and Muncie city schools had to dismiss classes early or cancel them altogether due to room temperatures above 80 degrees.

Energy costs are higher in August, too. In July 2002, faced with a $17-million two-year budget deficit, the Tulsa, Oklahoma, school district pushed its August 19 school start date to the day after Labor Day. Savings were close to $1 million, enough to hire 30 teachers.

In the scheme of things, the start date is a minor issue facing schools. But if it makes sense to mandate a later one, we should do it, as 11 states recently have done. It took more than a decade to get ISTEP switched back to spring when it should be.

At this rate of change, no wonder our test scores aren't improving more quickly.

DOES PROXIMITY TO CHARTER SCHOOLS AFFECT PROPERTY VALUES?

Toledo, near Indiana and similar in economic history and challenges, is a city in which charter schools had existed long enough and in sufficient numbers to allow meaningful comparison of house sales values before and after the opening of charter schools.

by **JOHN HOROWITZ, STANLEY KEIL and LEE SPECTOR**

Would you buy a house in a neighborhood with a charter school? A growing volume of literature suggests that neighborhood schools have an impact on residential property values. Is this also true for charter schools and do charter schools increase or decrease property values?

Like school vouchers, charter schools give parents a choice between schools. Unlike vouchers, Indiana's charter schools operate under agreements established by a public sector organization (usually a public university, school district, or the City of Indianapolis) and must meet the performance standards and requirements set forth in the agreement.

While some charter schools are for advanced students, most charter schools specialize in educating lagging students. This is often called "accelerated learning." Charter schools that specialize in accelerated learning also help regular public schools increase their average performance since school administrators can suggest to the parents of the lowest performing students that they attend a charter school.

The remedial nature and racial composition of many charter schools may cause property owners to believe that there is a risk that their property values will go down when they live closer to a charter school. To determine if this is the case, we empirically estimated the impact of charter schools on property values in Toledo, Ohio.

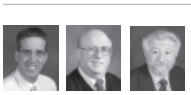
Toledo as a Charter School Case Study

Toledo has a number of advantages for studying the effects of charter schools on neighborhoods. It's proximity to Indiana and similar economic history and challenges are obvious ones. More importantly, however, we wanted a city in which charter schools had existed long enough and in sufficient numbers to allow meaningful comparison of house sales values before and after the opening of charter schools in a variety of neighborhoods.

Lucas County, which contains Toledo, was chosen by the state of Ohio for a pilot project in 1997 to test the efficacy of charter schools in overcoming problems in what was viewed as a "challenged" school district. A significant proportion of the schools in the Toledo school district were considered to be in "academic emergency." Two charter schools were established in 1998, an additional three in 1999. By 2004, there were 23 charter schools. Of these, eight offered "alternative education" emphasizing smaller classes, 10 offered "academic excellence" approaches, one focused exclusively on high school dropouts, and one each specialized in science, performing arts and art. One school was "online" only.

Ohio's charter school law is considered to be flexible relative to other states although not as flexible as Michigan's or California's.* Charter schools may be converted public schools, new start ups or virtual schools (there is currently a moratorium on new virtual schools). The law allows multiple chartering agencies and initial charters may be as long as five years. Automatic waivers from most state and district education laws, regulations and policies are granted, including a waiver of any collective bargaining requirements. Charter schools in Ohio must also reflect the racial composition of the school district in which they are located.

This often means that there is a major discrepancy between the racial



John B. Horowitz, Ph.D., Stanley R. Keil, Ph.D., and Lee C. Spector, Ph.D., are associate professors of economics at Ball State University.

**A detailed description of Ohio's law is available at www.edreform.com/charter_schools/laws/CER_OhioLaw.pdf?CFID=5474988&CFTOKEN=65374913.*

composition of the school and the racial composition of the surrounding neighborhood.

Study Approach

Whatever is happening in the local economy, the price of a particular house depends on the characteristics of the house (number and type of rooms, building materials, interior size, lot size, etc.), the characteristics of the immediate neighborhood (the value of other houses, crime rates, etc.) and distances to places of employment, recreation, shopping and schools. The housing value and school-quality literature provide strong evidence that, at least at the district level, housing values correlate with measures of school performance. The measures include scores on standardized tests administered at various grade levels, graduation rates and indices of school violence.

Clearly, relating changes in a house's value to all potential change-causing variables is a complex task. Therefore, we took several approaches to this measurement problem. Assessed value data and sales price data for the period from 1989 to 2005 were obtained from the Lucas County assessor's office. These data were in a GIS (Geographic Information Systems) format that allowed calculating distances from other buildings in the county.

Using a 2,000-foot radius (about one-third of a mile) to create a "neighborhood" around each charter school (with the exceptions of the charter schools in the central city where there are no nearby residences), we drew samples of houses that had sales transactions both before and after the opening date of the charter school. This and all other samples were restricted to houses transferred under general warranty or similar deeds that had transfer prices greater than 50 percent of their assessed values. This was done to eliminate intra-family transfers which are often recorded as a zero price, sheriff auctions and transfers of seized property to public housing authorities. The resulting sample included 253 houses. We verified that housing values in these "neighborhoods" were positively correlated with the performance indices of the nearest elementary school. This established that the pattern of housing values in Toledo was consistent with the literature despite its economic problems. We then examined whether the distance a property was from the charter school at the center of its "neighborhood" had an impact on a house's market price.

Second, we took into account that housing prices have some momentum from other factors that would continue even if a charter school had not opened in the neighborhood. Median housing values reported in the 1990 and 2000 census were used to create a trend line for the annual rate of change of house prices in each of Toledo's census tracts. These trend lines allow us to create an expected price for each house in the absence of the opening of a charter school. Thus, an alternative way to see if charter schools had an impact on housing values was to examine the deviation of post-charter school housing actual sale prices from expected prices. The expected price was based on a home's sales value in the last transaction prior to the opening of the charter school and the interval between that sale and its post-charter school sales value. This part of the study used the same sample as the first part.

To examine the impact of charter schools at the junior high-high school level, we paired a chartered high school (Toledo Accelerated Academy — which serves grades 7-12) with a public high school and junior high school located adjacent to each other (Rogers HS/McTigue JHS). The chosen schools are in neighborhoods with similar socio-economic characteristics and racial composition. Houses in the charter school neighborhood, which were younger and larger than the houses in the public high school neighborhood, had an average $23,000 higher assessed value. Even after correcting for age and size, there was about an $18,000 difference. This suggests other factors made the charter school neighborhood more attractive to buyers. Both neighborhoods were at least 90 percent white. The student body of the charter school is 90 percent non-white, that of the high school is 63 percent non-white. Because the neighborhoods around these schools were less densely settled, the sample distance was extended to 3,000 feet. These non-overlapping

The housing value and school quality literature provide strong evidence that, at least at the district level, housing values correlate with measures of school performance.

It does not appear that the establishment of a charter school in a neighborhood influences the expected growth rate of property values in that neighborhood.

"neighborhoods" contained 170 houses satisfying our sampling criteria. For this sample we studied both whether distance to either school was associated with housing assessed values and whether the opening of the charter school in one neighborhood had differentially affected price trends. For houses sold in 2005 we also examined the ratio of sales price to assessed value.

Results and Conclusions

Our statistical analysis for the first sample described found that while such variables as age, lot size, neighborhood income, bedrooms, percentage of white residents, unemployment and distance from the center city all have statistically significant effects on property values, the distance to the charter school does not. Furthermore, it does not appear that the establishment of a charter school in a neighborhood influences the expected growth rate of property values in that neighborhood.

For our two neighborhoods sample comparing one with a junior-senior high charter school and one with a regular public junior-senior high school, the type of school does not seem to matter with respect to property values. There is some evidence for a "locally undesirable land use" (LULU) effect. When distance to either school is factored in with age, housing values tend to increase by $600 per every 100 feet increased distance. In the neighborhood with the charter school, house values increase at $2,000 per every 100 feet of distance from Toledo Accelerated Academy. In the neighborhood with the public school, houses increase in value by $530 per 100 feet of distance from Rogers High School. Many things could explain this difference, but the primary reason for caution is that Toledo Accelerated Academy is in a commercial area and Rogers High School is near a public park. In either case, when house size is taken into account, the distance variables, while remaining positive, are not statistically significant.

Our results are consistent with studies by Espey and Owusu-Edusei on the impact of public parks and by Do, Wilber and Short on the impact of churches on property values. This literature suggests that parks and churches increase property values in neighborhoods as long as the property is not too close. Noise and traffic congestion may be reasons for the observed pattern.

We find that charter schools *per se,* and "accelerated learning" charter schools in particular, do not have a measurable effect on neighborhood property values or on trends in neighborhood property values relative to regular public schools. Even though homeowners don't like to be immediately adjacent to any school, the fact that the school is a charter school should not cause any particular alarm.

These conclusions are, of course, conditional upon the usefulness of the choices made in generating the samples used. The primary choice was that of using Toledo, a city whose charter-school movement grew out of a strong perception of a district school system in crisis, and which had seen strong suburbanization of higher-income families and a long-term decline in economic activity. It is quite possible that choosing a different city and a different sampling method might lead to different conclusions.

Suggestions for Further Reading

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MITCH 'THE KNIFE' MEETS JOE PROPERTY OWNER

The following two essays contrast in an important way from the views of the Indiana political leadership: They speak to the tax issue from the point of view of the economy, not merely the treasury. A version of the Schansberg essay appeared in the Wall Street Journal weekend edition of July 28, 2007.

by ERIC SCHANSBERG

(July 28) — On July 4th, hundreds of protestors showed up in front of the governor's mansion in Indianapolis. They've been back in the streets several times since. As a result, Gov. Mitch Daniels has been scrambling, the city's mayor has ordered a hiring freeze and a 10 percent cut in his budget and there have been calls for a special session for the legislature and even a state constitutional convention.

Runaway property taxes are an issue wherever property values have shot up in recent years. But now Indiana may be at the forefront of a homeowner rebellion against a tax system that has come to be seen as arbitrary, unfair and unpredictable. What's driving this angst is the first reassessment of property values in six years and the resulting property tax bills. In Marion County (the city of Indianapolis), average property taxes increased sharply — by 34 percent. Across the state, the average increase is 24 percent. And these are only averages. Many homeowners are facing much larger increases.

As always, there was no shortage of short-run prescriptions. One thing that was really stirring anger: Marion County businesses mostly avoided an increase this year, while almost all homeowners saw higher tax bills. To cool tempers, Mr. Daniels, a Republican, ordered another reassessment and a freeze on property taxes in the meantime in Marion County — delaying increases for at least six months. He has also given counties a few months to rethink whether they'd like to increase local income taxes to offset the need for higher property tax revenues. And taxpayers will now be able to pay their property taxes on an installment plan.

All of this is a nice start. But none of it addresses the underlying problem: taxing property at a value that periodically increases can stick homeowners with a surprisingly high bill. The system punishes those who made smart (or lucky) home purchases and can force people out of the neighborhoods.

Property taxes also, at the margin, lower property values. A retired Indiana University economist, Morton Marcus, calculates that for every $1,000 increase in property taxes, the value of a home falls by almost $12,000. Moreover, high and uncertain property taxes make it difficult to attract workers and capital investment to the state.

The governor wasn't alone in hoping that a quick fix would do the trick. House Speaker Patrick Bauer, a Democrat from South Bend, wanted to use some of the state's budget surplus to issue qualified homeowners a tax rebate. But the state is already scheduled to implement another band-aid (through Mr. Bauer's leadership last year): to pay out some $300 million in property tax abatement.

Indy Mayor Bart Peterson, also a Democrat, wanted to borrow $75 million

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— Schansberg

Eric Schansberg, an adjunct scholar of the foundation, is a professor of economics at Indiana University (New Albany). Dr. Schansberg is the author of "Turn Neither Right nor Left: A Thinking Christian's Guide to Public Policy" (Alertness Books, 2003). He edits Schansblog at http://schansblog.blogspot.com.

Indiana politicians may not be able to finesse their way out this time. They've been tinkering with the system since 1973, when lawmakers faced similar problems with property taxes and tried to fix them by allowing for local income taxes, doubling the state's sales tax and allowing public school teachers to collectively bargain.

— Schansberg

to pay for cutting property tax increases. And he has proposed to hike local income taxes by 65 percent.

Perhaps the most promising short-term fix being considered would accelerate a "circuit-breaker" to cap a total tax bill at two percent of a property's assessed value. The legislation passed this last year, but it isn't scheduled to go into effect until next year. Implementing it a year early could mitigate the current crisis.

But politicians may not be able to finesse their way out this time. They've been tinkering with the system since 1973, when lawmakers faced similar problems with property taxes and tried to fix them by allowing for local income taxes, doubling the state's sales tax and allowing public school teachers to collectively bargain. Indiana's property tax may be so flawed — and the public sufficiently cynical — that changes to the system may not gain necessary public support. The best option might be to toss the property tax out the window and replace it with higher income, sales or a "fair" consumption tax.

This would dismantle an unwieldy system where some 1,008 town assessors evaluate property values and pass their assessments onto 92 county assessors, who then pass their assessments to state officials. With so many assessors involved, it's no wonder the system can produce arbitrary results — residents in similar homes in similar areas paying very different tax bills.

Property taxes are, of course, useful in that they provide a stable and independent revenue source for local governments — which cause them to be more responsive to the people. It's also a highly visible form of taxation. Property taxes seem to take a bigger bite out of homeowners than other taxes because they are paid only once or twice a year — unlike income taxes, which are automatically deducted from regular paychecks. As we see now, greater visibility makes it difficult to increase taxes without fearing a public backlash.

And the fear of the lash is producing some interesting political results. Mayor Peterson faces voters in the fall, which may explain why he has reacted so swiftly. Speaker Bauer wants to protect a slim majority in the House after next year's elections, which may explain why he's eager to put his name on tax rebates for homeowners.

For his part, Mr. Daniels has called on his staff to brainstorm for ideas, has encouraged them to meet with affected people and is weighing whether to call the legislature back into town to enact reforms. He has expressed interest in eliminating the property tax. And he seems quite interested in another significant issue — reducing the number of local governments in the state. Beyond its high number of counties and townships, Indiana has 2,730 local taxing authorities. Eliminating some of these may help with tax reform.

Mr. Daniels is favored to win a second term as governor next year. But if he's not careful, he could yet stumble in his bid. Eric Miller, Mr. Daniels's 2004 primary opponent and a vociferous property-tax opponent, might be tempted to challenge him again. And a set of seemingly weak Democratic challengers could suddenly become competitive against a governor unable to handle such a thorny issue.

Reforming local government has been a top priority for the governor. But that was before homeowners took to the streets to protest their property tax bills. At times, Mr. Daniels has shown a willingness to go outside the box — in particular, with "Major Moves" (his road privatization initiative for the I-69 extension). Will he play it safe here or work for significant change? Now that the public has spoken, will Mr. Daniels listen?

Indiana's Tax Options: History and Solution

by PAUL SPEER

(Aug. 13)— In shifting from a fractional valuation replacement cost system to an estimated market-value assessment system, the state of Indiana took an excellent first step into the 21st century. That brave move, however, caused, as it must, a sense of uncertainty in taxpayers' minds as to the burden they would be expected to carry. This uncertainty was compounded by evidence that the residential sector would be carrying a greater share of the tax burden than before.

The state sought to limit this burden through the institution of a "circuit-

breaker" system, limiting the taxes that would be paid by any residential parcel to two percent of the gross taxable valuation. At the same time, it instituted a trending system, increasing the valuation of all parcels by the increase in valuation of the sold parcels of like kind. It was thought that trending would permit local tax revenues to grow to cover increases in expenditures, but limit the growth to that permitted by the circuit-breaker.

The state made an unfortunate assumption under this new system that the Municipal Cost Index (MCI) would grow in parallel with the increase in property values. The circuit-breaker would limit the growth in municipal costs and force economy upon the local units of government. The problem is that property values and costs do not rise in tandem.

In the past, property values have risen at a higher percentage than the Consumer Price Index (CPI) and the MCI. They rose at a greater rate than the increase in individual pay. That last was what put Indiana taxpayers in a bind this summer.

As long as replacement costs were used to assign valuations, there was some protection. Owners were aware, of course, that the gap between replacement costs and property values as measured by current sales was widening. Evidence is clear that they took advantage of increasing values on the books by diving into home-equity loans.

Taxpayers viewed the trending as a means by which local units could raise additional taxes within the two-percent circuit-breaker, but if trending increased all values by, say, 10 percent, that left leeway for taxes to go up more than two percent. The uncertainty of it all left the taxpayers who were on fixed income or whose income increased less than the trending percent in distress.

Today, the MCI and the CPI move upward at different but perhaps parallel rates of inflation. Wages, a more personal matter to the taxpayer, lag. Housing values are for much of the economy flat or declining.

We are seeing anecdotally high rates of foreclosure even in higher-valued property; sellers, instead of receiving money at the closing table from the buyers, are having to pay the buyer for their negative equity. Trending, a gross measure, no longer works well and is becoming politically unpalatable.

Finally, when taxpayers lose faith in their government on such a basic measure as taxation, systemic long-range change must be made.

A Solution

Property taxes are the traditional method by which local taxpayers are cognizant of the efficiency of their local government in the provision of municipal, school and other services.

More to the point, it is the traditional way in which debt of the local unit is financed. Each issuance of bonds, lease-purchase agreements and other forms of debt bears the pledge of the issuer to pay the holder from a dedicated revenue source. For general obligation bonds, full faith and credit is pledged, and that security includes a property tax levy for that and for no other purpose. Interfering with that levy or substituting another revenue stream has implications regarding the unit's ability to pay when due interest and maturing principal, and thus the value of the security in the holder's portfolio. Further brought into question is the unit's future borrowing ability.

Indiana attempted to assuage market fears regarding the security of local bonds. It limited local spending and the ability to raise additional revenue from property taxes but placed debt-service payments in a prior lien position with respect to property-tax revenues.

The revenue-raising limitations, however, raised questions regarding the sufficiency of the property tax to pay for the day-to-day operations of the local unit. It attempted to patch over this problem by permitting counties, with the approval of the major municipalities, to raise a local option-income tax by a limited amount. This did not sway the Bond Insurance industry or the municipal-rating services — the primary governors of the cost

When taxpayers lose faith in their government on such a basic measure as taxation, systemic long-range change must be made.

— Speer

Paul D. Speer, of Municipal Finance Consulting Services, Inc., has been a financial advisor to local units of government in Indiana for 30 years.

It is time that Indiana simplified the tax-raising oversight of local units of government with a three-step rectification: 1) Remove the State from the Assessed Value business; 2) concentrate state efforts in the area of budget certification and tax-levy approval; and 3) make debt service once again an independent levy.

— Speer

of municipal credit. These independent arbiters are perhaps the best judges of the state-enacted solutions on the feasibility and, most important, the sufficiency of local-government revenue raising.

The present situation in Indiana has brought to the fore certain factors adversely affecting the cost of borrowing for all local units of government:

1. No municipal or county government has access to bond insurance. Only school corporations, which have built-in state distribution intercept mechanisms, are being considered. For everybody else, this increases the cost of borrowing to the taxpayer.

2. In addition, the rating services are waiting in the wings, threatening to lower municipal and county debt one notch. The income-tax solution (COIT, CEDIT, LOIT or whatever acronym) does not have the same weight as traditional property taxes. Relying on a sales tax (if one were available) has even less weight. Property taxes are viewed as a one-to-one trade-off with the debt they support. That is, the rating services and the market view that one dollar of levied property taxes can be expected, after collections, to pay off one dollar of debt service. Other taxes are more problematic. To receive the same treatment, pledged sales taxes require a two-to-one ratio to receive the same perception of security. For example, look at the hotel-motel tax bonds. They have a huge coverage ratio but not an equivalent bond rating.

3. Underneath it all, Indiana was relying on continued high inflation in real property values to be the saving grace. Those days are gone — if not forever, then in the short to medium term. Meanwhile, increases in the MCI and inflation in the general economy do not slow down. The two-percent circuit-breaker becomes ever more binding and tweaking by the Legislature must continue with the desired result being a moving target.

The circuit-breaker was the wrong solution at the wrong time. Again, tweaking is not the best solution.

It is often said that the best solutions are the simplest. It is time that Indiana simplified the tax-raising oversight of local units of government with a three-step rectification:

1. Remove the state from the Assessed Value business.

Now that the state has properly changed the valuation method to a full market-value basis, it is appropriate to freeze all valuations at the current post-appeal level, with increases only when improvements are constructed or upon sale. Homestead and other exemptions would remain in place.

This will provide open, simple and transparent relief for property owners, save counties millions of dollars in reassessment costs as well as the legal expenses incurred in appeals and save the DLGF (the Indiana Department of Local Government Finance) a similar amount.

It will provide those on fixed incomes protection against the vagaries of general reassessment. Moreover, it is equitable in that the additional taxes to be expected as the result of the construction of improvements will be clearly evident. Purchasers will have a clear indication of the additional taxes due as the result of the purchase and adjust their purchase price accordingly.

2. Concentrate DLGF efforts in the area of budget certification and tax-levy approval.

Permit increases in the taxing unit's levy for all funds except Debt Service to a fixed percentage based on the greater of 2.5 percent or the increase in the MCI, subject to the following modifications: a) additional taxes to be collected against the value of new construction, which will require municipal or school services; b) the cost of funding unfunded state mandates; and c) the levy increase occasioned by the passage of referenda by units of government for levy increases and debt service.

3. Make debt service once again an independent levy.

These actions place the onus of local spending back upon each taxing unit. Such a system, similar to that in California, places the local taxpayer closer to the units of government to whom he will pay his taxes and provide him with a basis for participation in periodic elections.

HOW (NOT) TO STOP SMOKING

A Critique of Indiana's 'Quit 2 Win'

by CRAIG LADWIG

(Aug. 29) — The "Quit 2 Win" anti-smoking contest of the Indiana State Department of Health is up against a famous thought experiment, one that predicts it will produce more smokers not less if in fact it has any effect at all.

Twenty-four years ago, the social scientist Charles Murray wrote the bestseller "Losing Ground."[1] He described an imaginary anti-smoking contest with rewards far more generous than Indiana can afford, proposing as an experiment that the government pay people who had smoked a pack a day for five years $10,000 each to quit.

Murray's logic was this:

1. The $10,000 prizes first of all would be claimed by smokers who already had decided to quit, producing no real smoking reduction.

2. Next, those smoking less than a full pack a day would have reason to increase their intake to qualify; likewise, those who had smoked less than the five years would be motivated to continue smoking.

3. Finally, young nonsmokers would have a new incentive to take up the habit on the actuarial calculation that they could smoke the five years, claim the cash and do only minimal damage to their lungs.

"My conclusion is that social programs in a democratic society tend to produce net harm in dealing with the most-difficult problems," Murray concluded in his chapter on smoking cessation. "They will inherently tend to have enough of an inducement to produce bad behavior and not enough of a solution to stimulate good behavior; and the more difficult the problem, the more likely it is that this relationship will prevail."

Fortunately, the rewards for entering Indiana's "Quit 2 Win" contest, which was to have begun Sept. 15, were likely too small to increase smoking here. Indeed, it is hard to imagine anyone but the most maniacal — and legally adept — solving its maze of 19 rules and requirements. It is even harder to imagine it being achieved during acute nicotine withdrawal.

And there is a question of whether the rules are even enforceable. Rule five, for example, warns that "a potential winner(s) must supply a creditable character reference who can certify his or her prior smoking status and non-smoking status during the contest period." Rules seven and eight advise that "the winners must refrain from smoking for an unspecified time after the awards are announced and must submit to drug tests. And, of course, Rule 12 reminds us that, "all winner(s) are subject to Indiana State laws and responsible for all appropriate taxes."[2]

But even if the Department of Health applies thumbscrews to those "character" witnesses, its contest will break at least three of Murray's laws of economics:

• The Law of Imperfect Selection: "Any objective rule that defines eligibility for

T. Craig Ladwig is editor of the journal.

SOCIAL ENGINEERING

Twenty-four years ago a social scientist imagined an ineffectual government anti-smoking campaign. This year, the Indiana Department of Health reinvented it.

ECONOMIC 'DEVELOPMENT'

In Fort Wayne, the downtown boosters have confused rent-seekers for "private investors." There's a word for that, "boondoggle," but the newspaper won't print it.

a social transfer program will irrationally exclude some persons."

• The Law of Unintended Rewards: "Any social transfer increases the net value of being in the condition that prompted the transfer."

• The Law of Net Harm: "The less likely it is that the unwanted behavior will change voluntarily, the more likely it is that a program to induce change will cause net harm."

Will the contest fail? Not really, because we all understand that it is a political gesture in an election season, an expression of good intentions, a statement that our government isn't only interested in taxing smokers but would reform them as well. Public expectations, understandably, are low.

Even so, should government take the position that cigarette smoking, one of the most gripping of human addictions, can be overcome as easily as entering a mail-order contest?

HISTORY

Mystery solved: Gen. George Armstrong Custer was defeated by a self-serving bureaucracy.

The question should be put to Hoosiers who actually have quit smoking. It might be that a heroic attitude, combined with continuous albeit unofficial prayer, all carefully synchronized with an individual forbearance approaching the saintly, would be more effective.

Endnotes

1. Charles Murray. Losing Ground: American Social Policy, 1950-1980. Basic Books. (Tenth anniversary edition) 1994.

2. Official rules of "Quit 2 Win" at http://www.in.gov/inshape (last viewed Aug. 20, 2007).

'Progress' by Another Name

(Aug. 2) — Observing the Fort Wayne City Council discussion of the now-approved Harrison Square project (a downtown baseball stadium and convention hotel), it was obvious that a rationale for proponents was that this would be a civic partnership with private enterprise, not just another government project.

The concept of private enterprise implies freely taken risks, hard-earned rewards and, most important, a carefully thought-out business plan.

Listening to the testimony, however, it was clear that the private "investors" in the project, their personal wealth shielded by corporations, had negotiated a dizzying array of pre-conditions, up-front payments, operational understandings, tax credits, development incentives, last-minute demands and even profit guarantees, all without incurring any significant risk compared with city taxpayers.

Economists refer to such persons as "rent-seekers" or, more casually, "favor-seekers," not participants in a system of free enterprise. Indeed, it was difficult for an observer to understand what incentive existed for the so-called private investors, already assured an ample return, to optimize performance or even construct a defendable commercial strategy.

Without a real private investor, of course, there is no business plan — or at least no business plan independent of political ambitions, goals and timetables. In short, Harrison Square does not fit the definition of a civic partnership with private enterprise.

So, when the ceremonial silver shovels come out, what should we call it?

My dictionary includes the definition of a noun of unknown origin (circa 1930) that might serve:

> *Work or activity that is wasteful or pointless but gives the appearance of having value.*

A boondoggle, in other words.

Assessing Property, Counting Native Americans

(Aug. 22) — Oops, we missed it entirely again, the June 25 anniversary of the Battle of the Little Bighorn. So we'll have to stretch a bit and use as our peg the governor's call for a more accurate assessment of taxable property.

No, stick with us and you'll see that all of this has to do with tallying things correctly. It means the difference between a small tax bill and a large one . . . or between chasing Native Americans and being surrounded by them.

Two of the foundation's favorite scholars, James McClure and T. Norman Van Cott, may not or may not have an answer to the governor's property-tax

predicament but they likely have solved the mystery of Custer's Last Stand. And they did it without leaving their offices at the Ball State University Economics Department.

Writing in *the Journal of Economic Education,* the two professors note that a primary source of military intelligence for the U.S. Army in 1876 was the count of Native Americans on reservations.[1] Logically, the more Native Americans on the reservations should have meant fewer out on warpaths.

"But who counted the Indianas?" the professors wanted to know.

The answer, according to a respected historian of the battle, Evan Connell, was government agents — agents paid by the number of Native Americans they counted, a systemic error that would cost General Custer and his men their scalps:

> *Connell reports that reservation agents' salaries varied directly with reservation populations. This provided an incentive for the agents to overstate the count. In Connell's words, " . . . an agent foolish enough to report a decrease in population was taking a bite out of his own paycheck."*[2]

The agents reported 37,391 Native Americans on reservations before the battle but a count afterward could find only 11,660. It is reasonable to believe, therefore, that Custer thought he was running to ground a relatively small party of warriors when in fact he was about to be surrounded by what may have been three times as many.

Believe what you wish, it is this view that George Armstrong Custer was not done in by the white man's arrogance or even incompetent or jealous senior officers.

He was defeated by a self-serving bureaucracy. Yes, he was killed by frontier assessors.

Endnotes

1. James McClure and T. Norman Van Cott. "Public Choice at the Little Bighorn." *The Journal of Economic Education,* pp. 135-136. Spring 1994.

2. Evan Connell. Son of the Morning Star. Harper Collins, New York. 1984.

Why We Don't Vote

(Aug. 21) — The Indianapolis Star's Aug. 20 editorial asks an important and disturbing question. Why are Hoosiers, even when faced with mounting government failure, not showing up on election day? Economists have an answer, and the problem is more serious than apathy or the frustration of gerrymandered incumbency.

As odd as it may seem, low voter turnout and government failure go hand-in-hand in certain historical situations. And the phenomenon has an equally odd name, "rational ignorance."

It occurs when government becomes so complex and detached that the citizenry loses faith in its ability to influence it, when people make a rational decision that to become informed (and eventually vote) would be a waste of their time. It is why the old Soviet Union had to make *not voting* a capital offense.

"Voter knowledge and control of government will be much greater under a regime of strictly limited government power," writes Ilya Somin of the Cato Institute. "It also leads to the counter-intuitive suggestion that the extension of government power to new areas of social life undercuts democratization rather than furthers it."

In other words, to make democracy work better, *i.e.,* ensure a larger number of informed voters, its scope must be narrowed.

Dr. Cecil Bohanon, an economist at Ball State University, made the point in an article for this journal entitled, "The Nov. 7 Election: Don't Get Your Hopes up." He organized his argument around Thomas Jefferson's famous quote, "that the government that governs least governs best."

"This is often taken, not without merit, as a libertarian motto for government to keep its hands off private choices," Dr. Bohanon argues. "But it also can be seen as a prescription for government to do a few tasks quite well."

It all fits on a bumper sticker: "Fire a Bureaucrat, Create a Voter."

"Rational ignorance" occurs when government becomes so complex and detached that the citizenry loses faith in its ability to influence it, when people make a rational decision that to become informed (and eventually vote) would be a waste of their time.

"In its brilliant youth, this country showed the rest of the world what greatness was possible to Man and what happiness is possible on Earth. Then it began apologizing for its greatness and began giving away its wealth, feeling guilty for having produced more than its neighbors. Twelve years ago, I saw what was wrong with the world and where the battle for Life had to be fought. I saw that the enemy was an inverted morality and that my acceptance of that morality was its only power. I was the first of the men who refused to give up the pursuit of his own happiness in order to serve others. . . . The world will change when you are ready to pronounce this oath: I swear by my Life and my love of it that I will never live for the sake of another man, nor ask another man to live for the sake of mine."

— Excerpt from the 90-page "Radio Speech" by John Galt, the hero of Ayn Rand's 1957 classic, "Atlas Shrugged"

Hassles

by LEO MORRIS

(Sept. 4) — I'm guessing that anything that's less of a hassle for police will be more of a hassle for us:

> *Getting a traffic ticket in Indiana will soon become a little less of a hassle, at least as far as police are concerned. A new e-ticket system, which will be available later this year to law enforcement agencies statewide, promises to save time and money, cut the number of errors and free court employees from having to type information into computers. It will, officials said, move citation-writing from a sometimes barely legible handwritten affair into the computer age . . . Indiana State Police Superintendent Paul Whitesell pointed out it takes about 15 minutes for an officer to write a ticket. With the electronic system, that time will be cut to five to seven minutes. That can add up quickly, as troopers issue about 750,000 warnings and tickets a year, he said. (Rob Schneider in the Sept. 1 Indianapolis Star.)*

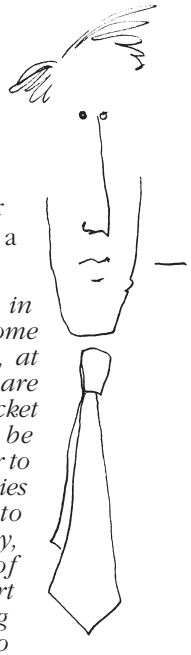
How many tickets don't even get written now because it's just too much of a hassle? How many more will be written because it will be less of a hassle, especially in the early days when this will all be a new toy?

Drive carefully.

Move Along, Move Along

(Aug. 31) — A homeless man in Indianapolis is suing because police chased him away from Monument Circle:

> *It's not clear whether the action was part of a recent police crackdown on the homeless downtown. "Officer Dittemore told him that it was now the policy of the Indiana War Memorials Commission to remove all homeless persons from the property controlled by the Commission and that the Executive Director of the Indiana War Memorials Commission and the Mayor of Indianapolis wanted to remove the homeless from Monument Circle," the lawsuit says. (Jon Murray in the Aug. 30 Indianapolis Star.)*



The man wasn't arrested, but there was a clear implication that he would be if he returned. He apparently wasn't doing anything overtly illegal — not aggressively accosting strangers for money or urinating in public — but merely sitting there, looking homeless. People sitting there not looking homeless — on public property, which we are all entitled to peacefully occupy — were presumably not asked to move along.

This amounts to a *de facto* charge of vagrancy, a legal concept that has fallen out of favor for good reason. It is one of those selectively enforced laws that is ignored for most people and used only to target those whom society dislikes but can't find a valid reason to bring into the criminal justice system.

Still. Before "the homeless" became embedded in the national consciousness, this country had a lot of vagrants, those who were "idle, refused to work although capable of doing so, and lived on the charity of others" — bums, in other words.

Those bums are still out there in great number, along with those who wander the streets because they are mentally ill or consumed by drug or alcohol addiction.

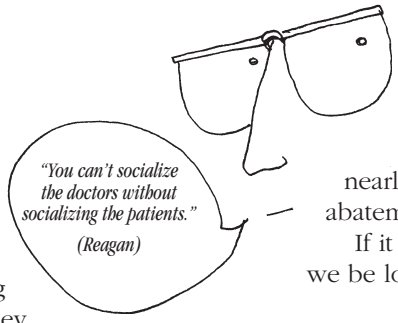
But we lose track of them because of our collective need to think all the homeless are ordinary families destroyed by an unfeeling capitalist society.

Is it too much to hope for that we can sort out the homeless factions — and thus come up with targeted solutions — without going back to bad and selectively enforced laws?

Leo Morris, one of Indiana's most independent and insightful newsmen for over 30 years, is the editorial page editor of the Fort Wayne News-Sentinel, a newspaper he delivered at the age of 12. Born in Eastern Kentucky the son of a coal miner, Morris and his family "escaped before the sociologists found us." He is a graduate of Ball State University and served for three years in the U.S. Army, including "a tour" of Vietnam. The items here are reprinted with permission from his blog, "Opening Arguments," http://www.openingarguments.wordpress.com.

More Misdirection

by FRED McCARTHY



(Aug. 19) — Interesting front page story for a Sunday morning. Well, we tried to tell them it was going to be a problem when they took all those hospitals, churches and schools off the tax rolls last week. They just wouldn't listen.

What? You say it wasn't last week? OK. Well, last month then. Oh? Last year?

You don't say. The provision is in the state's constitution and has been there for more than a hundred years? What a surprise. If that's the case, then surely the primary cause of the present crisis must lie elsewhere. (The paper wouldn't be putting up some sort of smoke-screen to protect the spenders, would it?)

We noted that it was suggested specifically that churches are getting off too lightly. The editorial writer should hope the Catholic Archbishop is not as short-fused as we are. If we had the reins and church properties became taxable, Indianapolis School Superintendent Eugene White would find his population had increased overnight by some 15,000 pupils — all of them children of taxpaying parents. That's the number of pupils shown in the article. Would other private schools follow suit?

It is to be presumed that the paper was taking a rifle rather than a shotgun approach to the problem, so they limited the article to *non*-profit organizations. But it would have been interesting to show how much more revenue would have been added if all the *for*-profit organizations downtown which benefit from abatements and exemptions were paying what they should be.

Let's see, now. What is the potential revenue from several downtown acres of the most valuable land in the city, all of which is completely off the rolls and is being used by for-profit businesses? And just what could we squeeze out of a billion dollars worth of stadium and fieldhouse?

Didn't an article in the same paper less than two weeks ago show nearly $800,000,000 worth of tax abatements in Marion County?

If it really is a crisis, shouldn't we be looking at all possibilities?

Before "the homeless" became embedded in the national consciousness, this country had a lot of vagrants, those who were "idle, refused to work although capable of doing so, and lived on the charity of others" — bums, in other words.

— Morris

Easy Way Out . . .

(Aug. 30) — An article published Aug. 22 in *the Indianapolis Star* opens with these words: "Indiana's multiple layers of local government are ripe for changes . . ." Maybe so, but most of the concern seems to be overlap or redundancy of separate agencies or levels of government. We'd still like to see someone take a long, hard look at the proliferation of bodies within the framework of municipal government in Indianapolis — especially those non-elected bodies that have separate authority to issue debt and spend public money.

An article dated Aug. 26 carried a story headlined, "Obscure Agency Lit Fuse of Tax Time Bomb." The agency referred to is the state Department of Local Government Finance (DLGF), formerly known as the State Board of Tax Commissioners. It is of particular interest because it consists of nearly 50 column inches of finger-pointing. As we have indicated, a major deficiency of the whole property-tax system is its susceptibility to manipulation for the purposes of confusion and misdirecting responsibility for its failures.

Finally, on Aug. 28 *the Wall Street Journal Online* presented an interesting article entitled "Road Work" by Mr. Joel Kotkin. In the middle of the story the following sentence appears:

"But there is yet little appetite for this (infrastructure). Governments prefer subsidizing high-profile but marginally effective boondoggles — light-rail lines, sports stadia, arts or entertainment facilities, luxury hotels and convention centers."

Sound familiar?

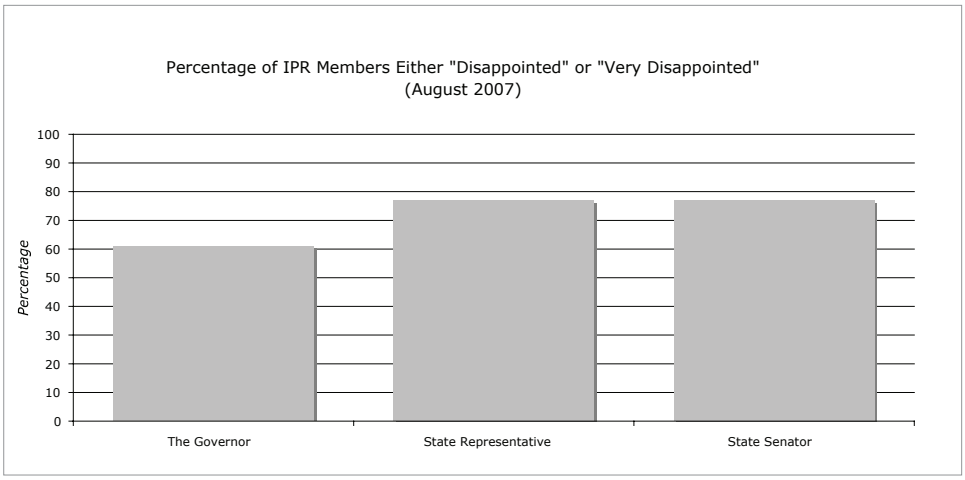
Let's see, now. What is the potential revenue from several downtown acres of the most valuable land in the city, all of which is completely off the rolls and is being used by for-profit businesses?

— McCarthy

Fred McCarthy, a retired lobbyist and perhaps government's most influential critics, for 40 years represented various taxpayer and business organizations before local governmental bodies and the Indiana General Assembly. He was awarded a Sagamore of the Wabash by two governors. Items here are reprinted with permission from his blog, "Indytaxdollars," at http://www.indytaxdollars.typepad.com.

THE BARBER POLL:

Which is closest to your assessment of how elected officials here have handled the issue of tax reform?

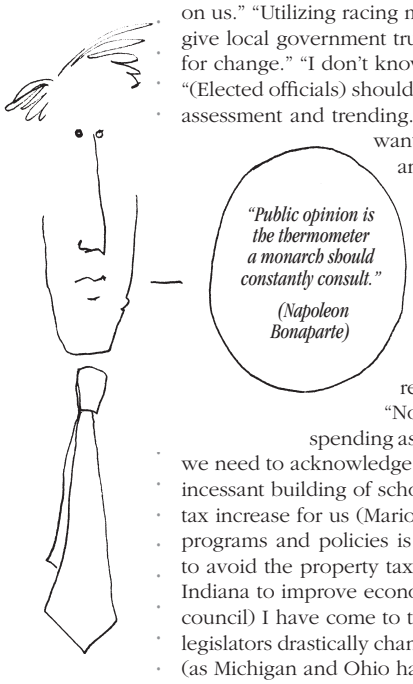


"As my accountant says, it's not how much you make but how much you spend."

— Respondent to October poll

AUGUST	Very pleased	Somewhat pleased	Somewhat disappointed	Very disappointed
The governor	9	22	34	13
Your state representative	6	12	25	35
Your state senator	7	13	28	30
OCTOBER				
The governor	5	17	19	15
Your state representative	3	10	15	28
Your state senator	3	10	16	27

AUGUST COMMENTS: "(Elected officials) ignored the tax debacle, creating the tax crisis." "There's a lot of talk about moving the property tax burden to other taxes, *i.e.,* sales or income. There's no talk about limiting spending, especially schools, where superintendents see it as their little fiefdoms." "The legislative leadership of both parties, especially in the House, has failed Hoosiers." "So far, none of my local representatives, or the governor, seems to care about home owners." "My state representative promised to be a friend to taxpayers. Unfortunately, as a member of the Democrat majority, he turned his back on us." "Utilizing racing money as tax relief is short-sighted and irresponsible; the legislators are afraid to give local government true home rule on fiscal decisions." "My representatives have made no proposals for change." "I don't know that my state representative has done or said anything (about the tax crisis)." "(Elected officials) should have foreseen what occurred, especially after one or two counties went through assessment and trending." "While culpable, they (elected officials) are hamstrung by most citizens who want everything and all services for nothing, and all jobs done by highly educated and motivated government workers who would work for free."



OCTOBER COMMENTS: "I'll wait until they unveil their new plan and the upcoming session. I'm not expecting much." "(I am) disappointed with my state representative for not giving time to help explain options and not attending special meetings in his home county to discuss (tax policy)." "My state representative? My state senator? Are they still around? The governor needs to get behind a plan that — unlike the proposed one-percent County Option Income Tax — doesn't reward the least-efficient government units and penalize the more-efficient units." "None of these officials, especially the governor, has addressed the issue of decreasing spending as a route to reducing taxes. Since the biggest share of property taxes go to schools, we need to acknowledge the need at some level to rein in spending on schools, especially as it relates to incessant building of schools in growing districts." "We thank Governor Daniels for postponing the huge tax increase for us (Marion County)." "The rise in property taxes to fund government spending on failed programs and policies is a disaster." "There has been no leadership at any level from either old party to avoid the property tax meltdown we are experiencing. Spending must be cut at all levels if we want Indiana to improve economically." "I'd give the legislature a much-lower mark." "As a member of (a city council) I have come to the conclusion that nothing will change with property taxes until Indiana's state legislators drastically change the school-funding formula to wean it from its dependence on property taxes (as Michigan and Ohio have successfully done). Too many state legislators are tone-deaf to changing our school funding formula. Eric Miller's proposal to repeal property taxes is possible although his math is wrong. Indiana simply needs initiative and referendum, as the majority of states already have." "I have not heard of any significant cuts in the state's spending. As my accountant says, it's not how much you make but how much you spend."

This quarter's Barber Poll was conducted Aug. 15 through Aug. 21 with a follow-up poll Oct. 10 through Oct. 16. The initial survey was mailed to 218 correspondents (persons on the foundation's e-mail list for one reason or another) of which 78 responded. The follow-up survey was mailed to that group, of which 56 reevaluated their answers without significantly changing the percentage results.