How and Where the Education Dollar Is Spent

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Abstract

Locally elected school boards have the authority and responsibility to decide how school budgets will be spent. In doing so, however, they must balance multiple funding restrictions and competing priorities. Despite great variance in local circumstances, most school districts have remarkably similar spending patterns, generally allocating from 60% to 63% of their budget to instruction and dividing the remainder among student services such as health services, counseling, and speech therapy; administration; building operation and maintenance; and food services and transportation.

Polls show that many districts are attempting to delegate more decisions over resource allocation to the school site level. Research is just beginning to show what aspects of school site decision making are associated with improved teaching and learning.

Public elementary and secondary schools spend approximately $265 billion per year on instruction, services, and facilities. This article discusses who decides how that money will be spent, what that money typically purchases, and whether moving more authority to the school site level makes a difference.

This article opens with a discussion of the processes used to allocate funds within schooling systems, looking at the roles of school boards and superintendents, collective bargaining restrictions, and federal and state funding restrictions. The second section of this article examines purchasing patterns in public schools and pays particular attention to spending on administrative services, instruction, and special education. The third section summarizes the research on school-site-based decision making. The article concludes with a summary of policy implications.

Influences on Spending Decisions

There are numerous influences on the typical school board’s spending authority; the academic needs of students and the recommendations of school superintendents are not the only factors shaping spending decisions. Here, this article examines...
restrictions imposed by categorical funding, collective bargaining, and state and federal mandates; the pressures of competing priorities for unrestricted funds; and how school boards typically supply resources to schools.

**Categorical Funds and Collective Bargaining**

A school district's revenues are a combination of unrestricted funding (mostly from local property taxes, plus some state funding in most states) and restricted funding (from state and federal sources), usually called “categorical funding.”

Typically, about 45% of a school district’s budget comes from the state and an additional 7% from federal sources, though there is wide variation from state to state, and also within states, as Howell and Miller discuss in this journal issue. Most federal support for education is earmarked for programs such as special education, compensatory programs for low-income students, and school lunches and breakfasts.

Categorical funding from state sources is typically targeted for purposes such as specific curriculum areas, special education services, meeting class size requirements, facilities and maintenance, teacher training, compensatory programs for low-income students, desegregation, purchasing textbooks, curriculum development, or other uses.

In addition, contracts with teachers’ unions can significantly restrict a school board’s spending flexibility. For example, collective bargaining agreements may place limits on class sizes, the total student load that can be carried by a teacher, and the number of paid supervisory and preparation periods. It is also common for contracts to base teacher compensation on years of experience and training; it is uncommon for significant amounts of compensation to be tied directly to assessments of teacher on-the-job performance.

**Mandates and Politics**

Unfunded or underfunded state or federal mandates can restrict even the uses of locally raised revenues. The largest underfunded federal mandate is the Individuals with Disabilities Education Act (IDEA). Nationally, federal funds cover only about 7% of the total cost of implementing IDEA.

State mandates may restrict poor districts disproportionately. Wealthy districts with well-developed programs can find themselves already in compliance with state mandates. In contrast, poor districts with more limited programs can find themselves forced to raise additional taxes or divert funds from other uses to meet the requirements of a mandate. The resulting burdens can be substantial and need to be recognized.

Vocal members of a community or elected school board members with close ties to special interest groups can have significant effects on decisions about how to spend the school district’s budget. While there is a strong tradition in the United States to keep policy debates focused on the merits of the issues, there have been instances where dysfunctional politically driven practices like nepotism have interfered with the development of sound educational policy. Such pressures may arise, for example, in communities with high unemployment, where the school district may be one of the largest employers in the community.

**“Resourcing” Schools**

In typical practice, the school board allocates resources, rather than dollars, to individual schools by formula. For example, a district may allocate one teacher for every 20 to 25 students enrolled in each school. While districts vary substantially in the degree to which principals have a say in hiring decisions for their schools, it is common for teachers to gain influence over their school assignment as they acquire seniority. It is not uncommon to see a majority of the most experienced teachers (whose pay is the highest) collected in the “best” schools in the district, where students have fewer disadvantages and are easier to teach. If per-pupil expenditures were calculated separately for each school...
(which is rarely done now), they would show dramatic variance in costs. Most commonly, the highest per-pupil expenditures are in the schools in the wealthier communities.

**Loosening the Web of Restrictions**

Influences on spending come from different sources. Some are imposed by the federal and state governments (categorical funding and mandates) while others arise at the local level. For example, it is the local school board that negotiates the contract with teachers, and the restrictions that are agreed to can persist over time. Also, the political process at the local level can create strong pressures to spend (or perhaps more typically not to spend) in particular areas.

Regardless of the source, all of these restrictions limit the discretion of local school boards and principals to make significant changes in how resources are dispersed, particularly in the short run. Pressures to increase flexibility at the local level have grown in recent years, and efforts are being made to enhance local decision-making autonomy. For example, the federal government recently redesigned the Title I program to allow “whole school initiatives” that reduce the need to screen individual students for eligibility. States are also moving forward with either mandate reductions or enhanced waiver programs.

**Where Money Is Spent**

In 1993–94, the most recent year for which data are available, the nation spent $265.3 billion on public elementary and secondary education. Of that total, 11% ($29.1 billion) was for construction and repayment of construction bonds, 1.8% ($4.7 billion) was for summer schools and adult education, and 87.3% ($231.5 billion) was for current operating expenditures. The following discussion focuses on current operating expenditures.

Despite the decentralized nature of education in America and the emphasis on local control, the influences discussed above are common to virtually all districts. Perhaps, then, it should not be surprising that spending patterns among school districts are more alike than different. For example, districts tend to use about 60% of their current expenditures for instruction, regardless of their size, location, or wealth. Included in this discussion are expenditures for curriculum development, teacher training, libraries, and computers, bringing the total to 63% of the school budget.

It is possible to examine current expenditures from different viewpoints. The national spending data published by the National Center for Education Statistics (NCES) are organized by function (instruction, student services, administration, and operations). The same expenditures could also be analyzed by program (for example, general education, special education, Title I, bilingual education, and vocational education). However, program allocation is problematic because assumptions need to be made about how to allocate broad categories of funds (such as transportation, building maintenance, or the superintendent’s salary) which are not specific to individual programs but also are not equally divisible among programs. There is currently no common agreement about how a district accounting system should allocate centrally provided services to programs. Newly developed information management systems should, in the future, make it increasingly feasible for districts to analyze expenditures by school site and by grade level.

**Analyzing by Function**

Public schools provide a wide range of services, some only tangentially related to education, such as food and transportation services. Here, spending is grouped in four primary functions: instruction, pupil services, administration, and operations. Emphasis is placed on current spending patterns rather than on changes over time. While overall spending on education has increased dramatically over the past several decades, it is difficult to pinpoint to what extent each type of change accounts for these increases. Guthrie’s article in this journal issue discusses this problem at length.

**Instruction**

Nationally, approximately 63.1% of expenditures goes directly to instruction. This figure is made up mostly of teachers’ salaries and benefits.
instruction, as Figure 1 illustrates. This percentage is made up mostly of teachers' salaries and benefits ($131 billion). It also includes professional training, supplies, libraries, and computers. Although the trend has varied from year to year, for the most part, teachers' salaries after inflation are roughly equivalent to those of 30 years ago. Most of the increase after inflation appears to be related to increased experience and educational attainment among teachers.9

Pupil Support
Nationally, 6.7% of school spending ($15.6 billion) is used to provide student support services, which include, for example, speech therapy, health services, guidance counselors, diagnostic services for students with disabilities, and attendance. Several, but by no means all, of these services are mandated by the Individuals with Disabilities Education Act.

In general, this category includes services provided to individual students or small groups of students outside the general classroom. Some special education services (such as physical therapy or occupational therapy, or private tuition for a small number of students with intense specialized needs) would be included here, while others (such as tutoring in basic skills) might not.

Administration
The perception by taxpayers and prominent policymakers that schools suffer from an excess of administrators has played a key role in driving the controversy over where and how the education dollar is spent. In the state of New York, Lieutenant Governor Betsy McCaughey Ross went as far as to blame excessive spending on central administration for statewide shortages of teachers, books, and equipment.10

Research on the costs of education administration, however, does not appear to substantiate beliefs that extravagant spending is the norm. Studies of educational expenditures consistently place the share of total administrative costs at 10% to 11% of total district spending,11,12 a figure which has not changed substantially since 1967.9 Approximately one-third (a total of $5.9 billion nationally) of schools' administrative spending is allocated to school district and county or regional education offices, and the remaining two-thirds (or $13.5 billion), to school site administration. Another $2.0 billion nationally (not included in school district budgets, or in Figure 1) is used for state-level administration of schools.13 In fact, some research shows that the percentage being spent on central administration has been declining in recent years.12

While the total spent on administration has remained remarkably constant, the proportion of administrative dollars allocated to special education appears to be significant. National data are not available, but analysis of central and school administrative staffing patterns in New York State indicates a state average of 10.58 total administrative positions per 1,000 pupils. Of these, just over half are dedicated to special education administration.12

Operations
Nationally, operations (transportation, food, and building maintenance) consume 18.7% of the school budget. There is little variation across districts in the percentage of total spending committed to transportation costs. This holds true when comparing across districts of different wealth, spending levels, and performance.12 However, the amount spent on food services varies significantly by wealth. In New York State, districts in the wealthiest quintile spend 1.5% of the school budget on food services while the least wealthy districts spend 3.2%.12

Facilities operation and maintenance (10.3%, or $23.9 billion nationally) is composed of janitorial services, utilities, basic repairs, and other current building operating costs but does not include capital expenditures, new construction, or interest on construction debt. This level of expenditure is probably not enough; many districts are suffering from severe problems of deferred maintenance, as discussed in Appendix A.
The Impact of Special Education

Unfortunately, 1987–88 was the last year in which the states were required to report separate totals for special education spending. The last independent national special education cost study was based on 1985–86 data. While it can be difficult to trace spending to specific programs like special education, the available evidence suggests that spending for special education has grown more rapidly in recent years than spending for regular education. Inclusion programs, which are growing in popularity, are particularly difficult to cost given the explicit emphasis on integrating special education students into mainstream classroom activities. The additional resources (for example, additional training for classroom teachers or increased professional and paraprofessional support) are not captured solely by students with special needs.

The proportion of schoolchildren receiving special education has grown from 4.5% of all students in 1976–77 to approximately 7.7% in 1993–94.

Studies of individual districts, both large and small, have tended to confirm that special education consumes an increasingly large share of the budget. An in-depth longitudinal analysis of spending in nine school districts (selected to include a range of district sizes, wealth, and populations served) between 1967 and 1991 found that special education’s share of the budget increased from 4% to 17% of total resources. At the same time, in these districts regular education spending grew at a much slower rate than special education, causing regular education’s relative share to shrink from 80% to 59% of the total school budget.

The growth in spending on special education is partly explained by increases in numbers of students served under the IDEA, the range of services being provided, and (in some states) economic or educational incentives to assign students to special education. This disproportionate growth in special education has raised concerns that regular education suffers fiscally as a result, but evidence on that point is not clear. It is possible that the educational system receives more total funding from legislators because part of
the total is clearly allocated to legally mandated special education services. In 1993, the state of New York created a special commission to examine why educational resources have not been reaching regular classrooms at expected levels, with an emphasis on the evolution of internal spending practices between 1979 and 1992. The researchers found no clear evidence to prove or disprove the hypothesis that increased expenditures in special education crowded out spending for regular education.

What Districts Do with More Money

When districts have more unrestricted money available, it is most likely to be spent either on facilities (often making up for the cumulative effects of deferred maintenance) or on reducing class size. Research into the use of new, discretionary reform dollars in Texas and New Jersey showed that the need to improve facilities, reduce teacher-pupil ratios to meet previous state mandates, and provide compensatory education programs drives the majority of new educational expenditures in many districts. These immediate needs were evidenced by a lack of well-maintained facilities and relatively large class sizes in low-income areas.

Site-Based Management

Site-based management (SBM) is a general term for the reallocation of some decision-making authority from the district level to the school level. Currently, the concept of SBM is so widespread that nearly every school district is considering some type of restructuring that incorporates its concepts. Because the purpose of an SBM design is to enable schools to respond to local needs, the model varies greatly from school to school.

Elements of SBM

Terms used to describe versions of SBM include: school-based management, school-site management, school-site autonomy, shared decision making, shared governance, school improvement program, school-based budgeting, and administrative decentralization. Generally, these variations result from the differences in their stated purposes; the degree to which authority is divided among school principals, teachers, parents, and other members of the community; the degree of authority over budget, personnel, and instructional program; and the flexibility regarding union and/or district requirements.

Schools that adopt SBM programs have varying stated objectives. Summers and Johnson found that the most common objectives are teacher empowerment and increased professionalism; improving school climate, efficiency, and accountability; and increased involvement, ownership, and leadership of personnel.

Another basic difference between various SBM models is the extent to which the SBM decision makers (commonly called a school site council, SSC) actually have control over budgets and expenditures. There are varying degrees of authority given to the SSC which range from full authority to enact decisions to the authority only to make recommendations to higher administrative officials. Clune and White found that the decisions likely to be delegated first were budgetary decisions, followed by personnel decisions, and then curriculum decisions. Hentschke, however, found that, although budgetary decisions are readily delegated, the authority over expenditures is not. For example, if a school needed a roof repair, the SSC may have the authority to decide to fix the roof but would still have to work through the district administration before taking action to have the work done. Here, the authority to budget the money toward the roof repair is clearly at the school site, but the authority to actually spend the money is still centrally located.

Requirements established by the school board or collective bargaining agreements are major determinants of the SBM model. For example, if limitations over class size and student-teacher ratios are set by collective bargaining agreements or district mandate, then the SSC would not have authority to override these decisions. Alternately, if these limitations are not in place, the SSC may have more flexibility to rearrange the allocation of professional staff within the school.
There are three common models of SBM programs, which differ in the composition of the SSC. In the community control model, the largest number of SSC seats are allocated to parents and community representatives. In administrative decentralization, the teachers have a majority of SSC seats. A third SBM governance model, principal control, shifts control to principals and may not use an SSC at all.21,22

An example of a community control model is seen in Chicago, where the SSC consists of six parents, two teachers, two community representatives, and the school principal. This model gives representation not only to parents, teachers, and administrators, but also to nonparent residents of the school community.22,23 The administrative decentralization model emphasizes more equal representation of teachers and administrators on school councils. These councils may also contain nonteaching staff, parents, and community representatives but in relatively smaller numbers. Examples of this type of model can be found in Dade County, Florida; Los Angeles, California; Rochester, New York; and Santa Fe, New Mexico.24,25 For the principal control model, the formation of an SSC is optional. Generally, this model requires the principal to consult with school-level personnel but does not emphasize consultation among members of an SSC for the formation of decisions or policies.22,24

There may be a link between the type of model chosen for a school and the politics that surround its formation. For example, Chicago’s SBM plan was created as a response of the state legislature to intense lobbying by community organizations and business groups. This may explain why these councils are made up of a majority of nonprofessional community members.22,25 In similar fashion, the administrative decentralization models found in Dade County and other cities mentioned previously were created in response to collective bargaining negotiations. In these schools, union leadership influenced teacher participation in planning, and consequently, the majority of council members are teachers.22,24,26

**Studies of SBM**

An important question addressed in the research is whether different types of management—specifically district-based or school-site-based—budget and spend resources differently and, if so, how they differ. A second question is whether the differences matter, that is, whether one system shows better results. Research indicates that spending decisions vary widely, with few set patterns, reflecting local preferences. Few schools implementing SBM have attempted to measure the impact on student outcomes, and even fewer have been able to document improvements in teaching and learning.
The General Accounting Office (GAO) studied three large school districts which had between 4 and 18 years of experience in delegating substantial authority over budgets, personnel, and instruction to the school site level. Prince William County, Virginia, and Edmonton, Alberta (Canada), implemented SBM in all their schools (61 and 205 schools, respectively), while Dade County, Florida, implemented SBM in 156 of its 279 schools.

The GAO found that SBM schools kept their total budgets constant (that is, the schools' budgets did not realize any savings) but shifted spending to items deemed more important based on local needs and preferences. There were no clear patterns seen in the budgeting changes. For example, in Edmonton, two high schools of about the same size chose to move in opposite directions regarding class size. One school gave a high priority to reducing class size, while the other school increased the size of each class and used the resulting savings ($50,000 to $75,000 per year) to purchase additional computer equipment.

One common trend was the tendency of high schools and middle-grade schools to add administrative staff such as assistant principals, administrative assistants, and clerical staff to help with business responsibilities. Elementary schools, on the other hand, typically added instructional staff such as teachers and paraprofessionals.

Until recently, studies of SBM have been limited in their ability to determine whether local choices in any way improve the allocative efficiency of the system. In other words, there are few direct links found between student performance and any specific facet of the reallocation of resources due to the SBM program. One explanation for this is that few schools employed measurement of student outcomes in their assessments of the restructuring efforts. For example, in one study, only 7 of 70 SBM programs included a measurable assessment of student outcomes. Of these 7 programs, 2 showed positive results and 5 showed no or negative results. Another explanation comes from Elmore, who reviewed the evidence on restructuring of schools, instructional practices, and student performance and found only modest relationships between the ways that teachers teach and mechanisms that allow teachers more opportunity to influence school decisions.

Although the link to student achievement outcomes is not clear, one study has started to reveal what makes SBM programs work and what does not. Priscilla Wohlstetter, in a study of 44 schools operating under SBM for at least four years, pinpointed those elements of SBM which lead to failure and those elements of SBM which lead to success, defined as changes that affected teaching and learning in a positive manner. The elements associated with failure are summarized in Box 1, and the elements associated with success, in Box 2.
According to Wohlstetter’s study, the first element that leads to failure is that SBM is adopted by a district as an end in itself. She suggests that SBM will not generate improvements in school performance, but rather it is the various reforms and initiatives that are brought about through the SBM structure which can improve teaching and learning. Schools often become overwhelmed with the problems of delegating power and writing policy related to the SBM structure, rather than using the model as a tool to form ideas that lead to school performance improvements.

The second element related to failure is that principals often work from their own agendas and dominate the decisions being made by the school councils. This generally leads to power struggles within the SSC, and teachers eventually reject the principals’ plans for change.

The third element leading to failure is the delegation of decision-making power to a single SSC, which often did not have broad representation. Again, these situations led to power struggles and alienation between faculty members who were on the SSC and those who were not. In addition, the members of the SSC felt overworked and exhausted from these struggles.

The final element is found in those situations where the newly established SBM program is implemented with no attention to restructuring schedules to allow time for the SSC meetings and planning sessions. This study found that too many schools assumed that the new program could be layered on top of the teachers’ existing responsibilities. The result was that SSC meetings were planned during after-school hours and were poorly attended.

Wohlstetter identifies six strategies that lead to the success of SBM programs. The first is to create many teacher-led decision-making teams within the SBM structure. The most successful SSCs were those that took on the role of coordinating and integrating the activities of several decision-making teams within the school. Because there were a number of teams, the entire faculty could participate in the decision-making process. The SSC would provide direction and allocate resources to support the various team activities.

The second element of success is found in schools that provide schoolwide training and staff development in areas of curriculum and instruction targeted by the faculty. The schools showing the most success in their SBM initiatives were those that had the most participation in professional development programs.

The third element is use of a variety of communication techniques to reach parents

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**Box 2**

### Characteristics of Schools That Successfully Used Site-Based Management (SBM) to Improve Teaching and Learning

1. School site council (SSC) establishes many teacher-led decision-making teams, which SSC coordinates.
2. Teachers’ professional development is a major part of SBM goals and activities.
3. Communication among SSC, parents, and community is regularly maintained.
4. Those who help achieve school objectives are recognized and rewarded.
5. Principals promote schoolwide commitment to goals and encourage active participation of entire faculty.
6. School does not attempt to create site-specific standards, curriculum frameworks, or testing. Instead, it adopts district, state, or national programs.

and the community. SSCs kept the community informed about reform initiatives and innovations in their schools. Several of these schools also conducted surveys of parents and community members to provide feedback which they used to set priorities for the next year.

The fourth element is to develop reward structures to encourage staff members to achieve school objectives. The forms of reward varied among schools from simple acknowledgments and thank-you notes from principals and SSC members to monetary rewards in a variety of forms.

The fifth element determined from this study is to select principals who can facilitate and manage change. Those principals who could disperse power, promote schoolwide commitment to learning, and encourage active participation were associated with schools that showed greater success. In addition, those principals worked to facilitate the involvement of their entire faculty and directed activities toward a shared vision for the school.

The final common element found in successful schools is that these schools used district, state, and/or national guidelines to direct reform initiatives and changes in curriculum and instruction. Performance standards, curriculum frameworks, and assessment systems were selected by the schools so that they did not have to spend valuable time deciding what to do and were, instead, free to determine how to do it.

Conclusions

Expenditures Vary Surprisingly Little
The most striking expenditure pattern is the near-universal allocation of about 63% of education budgets to instruction, a figure that varies remarkably little across time, size, wealth, special needs, and population characteristics. Among wealthier districts, the proportion dedicated to instruction remains constant, but class sizes tend to be smaller and teachers’ salaries higher. Where budgets are tight, class sizes and building maintenance often suffer.

Nationally, operations (building maintenance and utilities, food services, and transportation) consume 19% of the budget, with an additional 7% spent for student services and 11% for administration at all levels. Larger school districts in theory have the advantage of economies of scale, but those savings appear to be spent on subject matter specialists working out of the district office, leaving total administrative costs fairly constant across district size. Special education appears to consume a growing share of the total budget, but whether that has a negative impact on general education spending is unclear. When more unrestricted money is available, especially in lower-income areas, it is used primarily to repair facilities and to reduce class size.

SBM Alone Is Not Enough for Improvement
Research is beginning to identify best practices among site-based management (SBM) efforts, as summarized in Boxes 1 and 2. It appears that much could still be learned through experimentation with SBM. However, it is unlikely that simply moving more of the decision-making process to the site level will create substantial improvements. Indications are that, without focused local agendas, substantial investment in professional development, structured rewards for achieving objectives, wide involvement of faculty, and effective communication with parents and community, SBM models often fail to address student needs.

2. Contrary to common belief, the federal mandate for special education services was not created by Congress. Rather, the Individuals with Disabilities Education Act (IDEA) serves primarily to clarify obligations mandated by federal courts, based on the constitutional guarantee of equal protection. See Martin, E., Martin, R., and Terman, D. The legislative and litigation history of special education. The Future of Children (Spring 1996) 6,1:25–39.


6. The National Center for Education Statistics (NCES) has made considerable progress in recent years toward promoting the use of a common set of accounting definitions, which significantly increases the potential for meaningful comparisons across states and school districts.


8. Unless otherwise noted, all figures in this section come from U.S. Department of Education, National Center for Education Statistics (see note no. 1), p. 156.


