

Innovate Education

Condition of Education in South Carolina

When South Carolina's education system was established, one of its key purposes was to prepare citizens for life and work. From its inception state-funded education was based on the notion that one of the most valuable services the state could offer its citizenry was to prepare them for gainful employment. The service was to be mutually beneficial. As citizens were equipped with the skills necessary to earn a good wage, their quality of life would improve. In turn, the government would have a stronger tax base to use to improve the quality of services it could offer. Education was seen as the driving factor in determining not just the competitiveness of South Carolina's workforce but in dynamically improving the quality of life of each individual citizen.

In keeping with its intended purpose, we should view our K-12 educational system in terms of its ability to prepare citizens for life and work. Though the purpose of education remains the same, the nature of work in our society has changed in many ways. Two essential changes have had deep and lasting impacts on South Carolina's labor force. First, technology has made individuals more productive, reducing the number of people necessary to complete a given task. This change has shifted the concentration of labor away from some industries, such as manufacturing, and into others, such as service. Second, increased connectivity has flattened the world so that companies are no longer limited by geographical or political borders in their efforts to recruit labor. Combined, these changes have made the competition for work fiercer now than it has ever been.

In light of these changes, the educational question before South Carolina is whether we are preparing all of our students to compete directly with individuals from every part of today's knowledge-based economy. This question should drive budgetary decisions made at the state level. It is important to evaluate whether South Carolina is investing its educational dollars so that each student will be equipped with the skills necessary to lead a high-quality life in a competitive world.

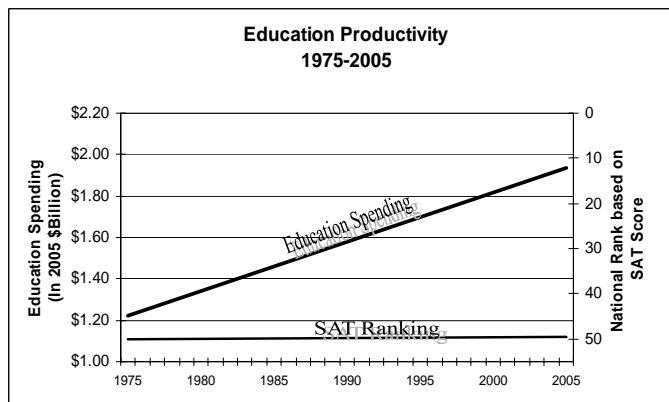
Our budget plan evaluates the effectiveness of South Carolina's educational spending by starting with an objective description of the condition of education in our state. This entails analyzing how effectively we spend our resources, where we are succeeding and where we face continuing challenges. We then consider innovations that can make South Carolina's education system one that produces graduates that are ready for the postsecondary world.

We believe that South Carolina's education system needs to improve more rapidly. Otherwise quality work opportunities will dissipate and our talent – the best and brightest among our youth – will make their homes elsewhere. Another of our beliefs is that we can no longer settle for pockets of success. While improvements should be praised, we cannot allow those praises to distract us from the fact that our education

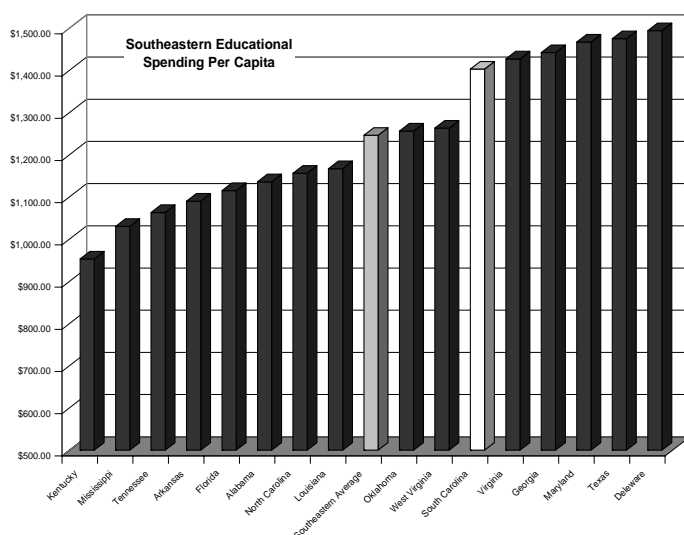
system is only as strong as is its weakest school. Every child deserves a fair chance at a high-quality education.

Education Spending in South Carolina

South Carolina makes a significant investment in its K-12 education system. The unfortunate reality is that the results produced by the K-12 education system are not commensurate to the commitment that taxpayers have made to education funding. Ever-increasing education funding combined with mediocre results demonstrates the need for real reform in not just educational practices but educational spending as well.



South Carolina's educational spending has grown at a rate that significantly outpaces enrollment increases or rising inflationary costs. Since FY 2000-01, total annual educational funding has grown from \$4.5 to \$5.3 billion, representing an 18 percent increase over a four-year period. This increase is well above the two percent growth in school enrollment over the same period. In fact, had growth in educational funding simply kept pace with enrollment and inflationary increases, current education spending would be less than \$5 billion.



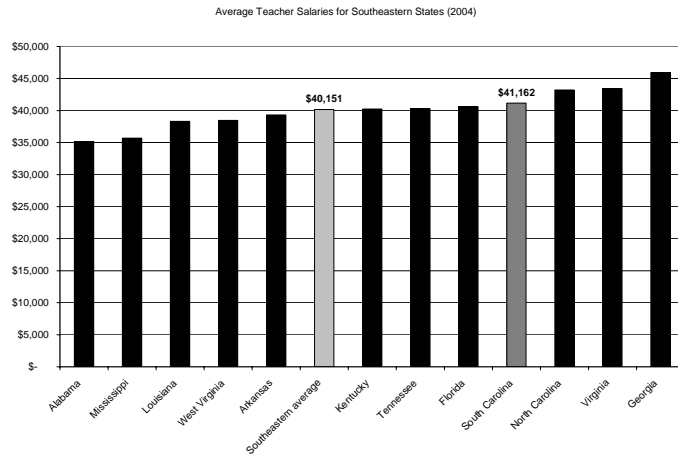
South Carolina's citizens are making a greater commitment to education than are individuals in most states. South Carolina ranks 22nd nationally in terms of its per capita spending on education. As the adjacent chart indicates, our per capita education spending is higher than most states in the Southeast. This has been accomplished despite the fact that the cost of living in South Carolina is less than that of most other states and regions in the country.

Relative to other state obligations, K-12 educational spending represents the largest spending category. In Fiscal Year 2004-05, education comprised 35.5 percent of all general funds expenditures. Fiscal Year 2005-06 educational expenditures increased to represent 36 percent of General

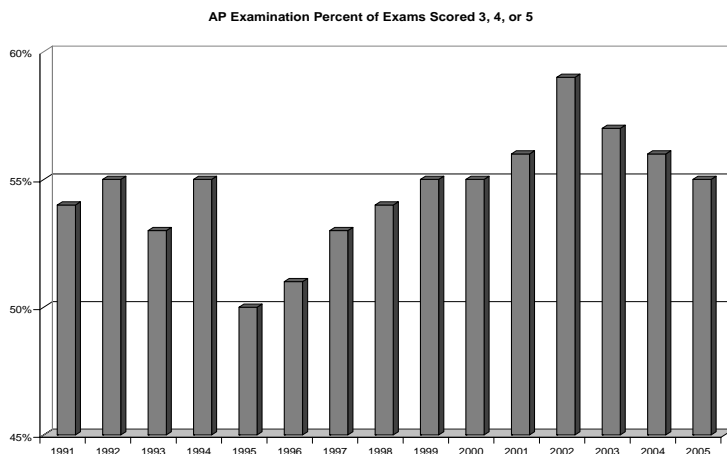
Fund expenditures. The Governor's Purchase Plan maintains the commitment to fully funding education by recommending that 42 percent of general funds expenditures be directed at improving the educational performance of K-12 students.

Incremental Progress

We have consistently advocated that the highest education spending priority is the front line of education – the classroom and teacher pay. Even through tough budget times, we have maintained our commitment to teachers by maintaining a salary standard of \$300 above the Southeastern average. As a matter of fact, a June 2004 study within the state Policy Reports ranks South Carolina seventh in the nation when comparing teacher salaries as a percentage of per capita income.



In addition to paying teachers above the Southeastern average, South Carolina has supported teachers who pursue and earn National Board Certification by offering them a monetary incentive to complete the process. As a result, South Carolina consistently ranks in the top five nationally in the number of teachers earning National Board Certification. South Carolina is one of 23 states offering both fee reimbursement and monetary compensation, having the largest annual salary bonus of all states providing such an incentive. According to the State Department of Education, if current passage rates persist the total number of Board Certified teachers will reach approximately 4,375 by November 2005 and 5,125 by November 2006.



Student performance on Advanced Placement (AP) tests is another area where South Carolina's education system has made marginal improvements. Over the last 15 years, the percent of AP exams receiving a passing grade increased from 54 percent in 1991 to 55 percent in 2005. This increase occurred while the number of tests taken has increased. From 2004 to 2005 the number of AP exams taken by public school students increased

from 10,000 to 11,000 representing a 10 percent increase in the number of test takers.

Since 1995, the SAT and ACT scores for South Carolina's public school students have increased. SAT scores have risen from 954 to 993, representing a 4 percent increase over the 10 year period. During the same time period the national average score improved 2.2 percent rising from 1,006 to 1,028. South Carolina's average composite ACT score rose from 19.1 in 1995 to 19.4 in 2005, while the national average improved one-tenth of a point, increasing from 20.8 in 1995 to 20.9 in 2005.

Continued Challenges

PISA Average Math Scores, OECD Nations					
2003			2000		
Rank	Country	Average	Rank	Country	Average
1	Hong Kong-China	558	1	Japan	557
2	Japan	553	2	Korea, Republic of	547
3	Korea	552	3	New Zealand	537
4	Switzerland	540	4	Finland	536
5	Finland	539	5	Australia	533
6	Liechtenstein	538	6	Canada	533
7	Belgium	530	7	Switzerland	529
8	Macao-China	528	8	United Kingdom	529
9	Czech Republic	527	9	Belgium	520
10	Netherlands	526	10	France	517
19	Germany	500	19	United States	493
20	Sweden	498	20	Germany	490
21	Poland	490	21	Hungary	488
22	Luxembourg	488	22	Russian Federation	478
23	Latvia	486	23	Spain	476
24	Norway	483	24	Poland	470
25	Hungary	479	25	Latvia	463
26	Spain	476	26	Italy	457
27	Ireland	476	27	Portugal	454
28	Russian Federation	474	28	Greece	447
29	United States	472	29	Luxembourg	446

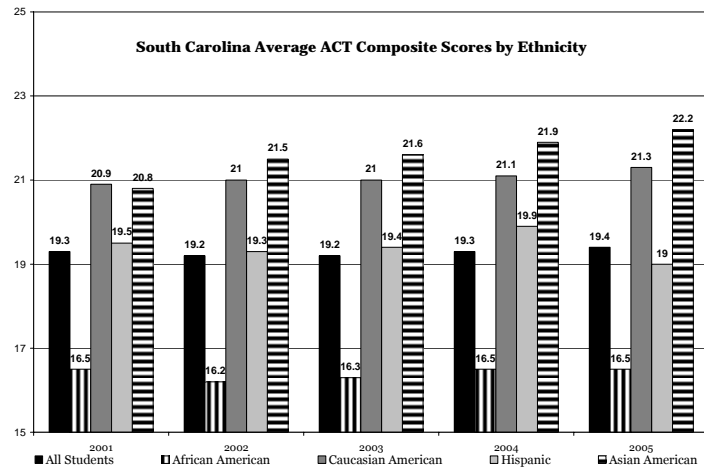
As the preceding section indicates, test scores on some assessments have shown slight gains over the last decade. However, there still remains much room for improvement. Student performance on standardized tests such as the ACT or the SAT illustrates this point. With the exception of 2002 and 2003, South Carolina's current national rank of 49 is the highest the state has accomplished over the last 30 years. ACT scores do not fare much better. In 2005, South Carolina ranked 48th in the nation based on its composite ACT scores. Similar to the SAT, the ACT is used as a measure of college or work preparedness. Among students who had completed South Carolina's high school curriculum, only 12 percent of the students received scores

indicating that they had the reading, writing, and mathematical skills necessary for work or college.

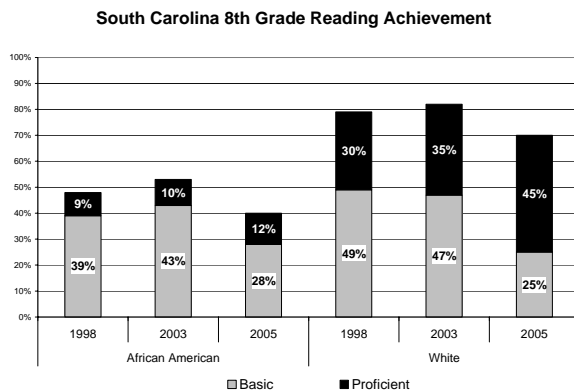
As dismaying as South Carolina's test scores are, what is more important is the fact that South Carolina continues to lag behind in a nation that is losing ground internationally. Among the 40 Organization of Economic Co-Operation and Development (OECD) member and partner countries the United States ranked 29th on the 2003 Programme for International Student Assessment (PISA) mathematics evaluation representing a significant decline from the rank of 19 the United States

received in 2000. In addition to the obvious countries such as South Korea, Japan and France, nations such as the Czech Republic, Slovakia and Hungary performed well above the United States' mean score. Student performance on the Science portion of the PISA evaluation was better, ranking 22 of 40 OECD member and partner nations. However, the point still remains that the competitive edge that the United States once maintained in science and mathematics is fading.

A contributing factor to South Carolina's perpetually low national rank is the fact that the current system has failed to adequately address the widening achievement gap. Student performance on the ACT between 2001 and 2005 demonstrates this point. In each testing year, African American students significantly underperform each of the other ethnic subgroups. The achievement gap between Hispanic and African American students and their Caucasian counterpart is greater in 2005 than in 2001. African American and Hispanic graduating students are significantly less well prepared for college and work than are their Asian and Caucasian American peers.



The achievement gap manifests itself in student performance on NAEP as well.

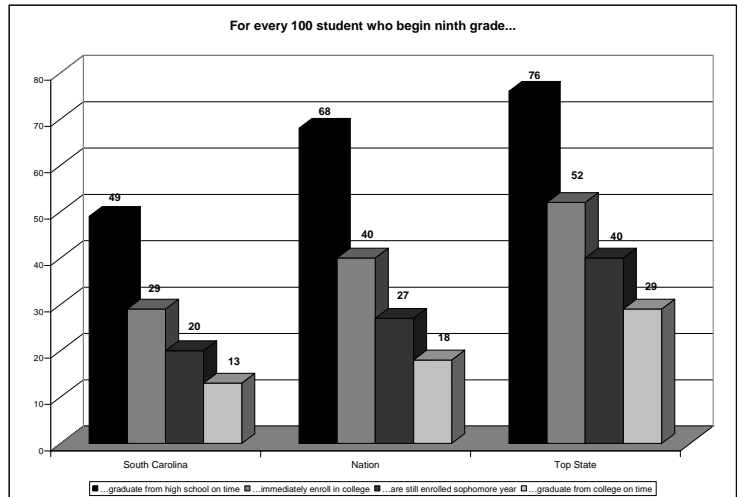


The adjacent chart shows that in reading the achievement gap between African American and white students increased between 1992 and 2005. In reading, the percentage of African American students who were proficient or advanced rose from 9 percent to 12 percent, a rather substantial increase. However, when compared to the 15 percent increase within the white student population, the improvement is overshadowed by the increased disparity between the two subgroups.

A final area of continued challenges can be found in South Carolina's declining graduation rate. The majority of the students who enter high school not only fail to graduate on time, but usually fail to complete any meaningful portion of their postsecondary education. The inability of the current system to prepare students to graduate represents a lost opportunity for this state. As the connection between earning

higher levels of education and the ability to gain a high wage increases, the failure of the public education system will continue to inhibit any efforts to improve South Carolina's economic development.

South Carolina's schools are in desperate need of innovation that goes beyond the reform efforts of the last 25 years. Parents and students who are not receiving a high quality education product deserve more high-quality options. Delivering this innovation will require greater flexibility for parents in finding the educational environment that is best for their child, greater efficiency in the use of educational spending, and an investment in programs that lead to better results.



Expanding School Choice as a Source of Innovation

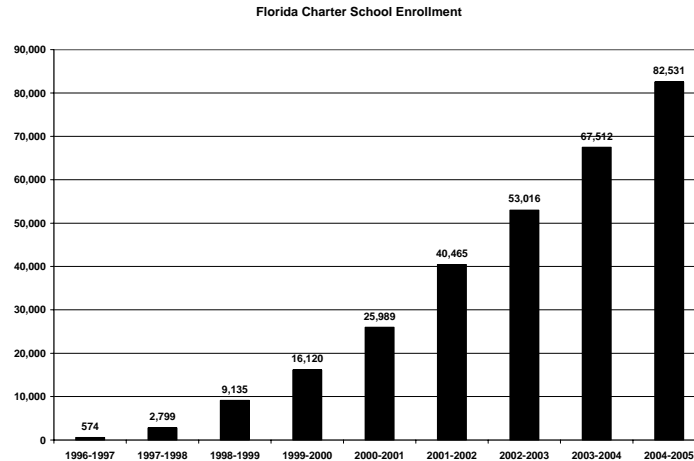
Often the debate over school choice is reduced to public versus private education, with discussion focusing on which is better. Such a limited school choice debate moves away from the underlying goal of school choice, which is to give parents the flexibility to find the best learning environment for their child so that overall student achievement is improved. Expanding school choice options can improve the state's ability to offer a higher-quality education product by leveraging all of the resources at our disposal.

Statewide Charter School District

In 1996, the General Assembly enacted the South Carolina Charter School Act allowing for the creation of charter schools, which are non-traditional public schools. The initial charter school legislation required the local school board approve and then provide oversight and funding for the operation of these schools. Any charter school applicant that was denied by the local school board could appeal to the State Board of Education. In 2000, the General Assembly modified the law to establish a statewide charter advisory board to review charter applications to ensure that an application complied with all aspects of the law before the application was considered by a local school board.

Despite these encouraging steps, only 27 charter schools have been approved to date. Other states that established charter school legislation at approximately the same time are experiencing more rapid growth in the number of charter schools being formed. For instance, North Carolina passed charter school legislation the same year as South Carolina and yet has nearly four times as many charter schools serving more than five times as many students. Florida has greatly surpassed South Carolina, with more than 82,000 students being served in 325 charter schools at the beginning of the 2004-05

school year. So rapid is the growth in the number of students served by charter schools that enrollment for the 2005-06 school year has already reached more than 96,000 students. Florida and North Carolina are but two examples of states that have embraced the importance of expanding school choice options for students.



One factor limiting the growth of quality charter schools in South Carolina is the fact that school districts are the only agencies that have the authority to issue a charter. While some school districts see the benefit of creating charter schools as a way to increase the quantity and quality of education options available to their students, many remain skeptical if not outright hostile towards charter schools. Some school districts struggle to improve the quality of service provided by the schools that already exist and find it hard to support charter schools. There are also school districts that are weary of the competition that charter schools represent. A district that sponsors a charter school runs the risk that the charter school will be more successful than other schools in the district, drawing criticism to the less successful schools and placing additional pressure on school and district administrators.

One way states have addressed the disincentive local school districts have in allowing charter schools is to create multiple authorizers. In fact, 22 of the 40 states that have passed charter school legislation have gone a step further and created multiple authorizers that can approve charter schools. Authorizers are the entities that accept and approve a charter school application and offer the charter school administrative support. Creating multiple authorizers increases the likelihood that a quality charter school will successfully apply for a charter by providing the applicant multiple options. Applicants that wish to locate in districts that, despite community interest, do not wish to allow a charter school have another alternative.

There is significant variation in how states form multiple authorizers. States such as North Carolina and Ohio allow public universities and colleges to create charter schools. New York and Rhode Island allow the state education agency to form charters. There are states that allow nonprofits, county councils, and city mayors to approve a charter school application. Lastly four states and the District of Columbia have created separate

statewide entities that serve as Independent Charter Boards that have the authority to approve or deny charter school applications throughout the state. While having multiple authorizers is essential to the growth of quality charter school options, there is no one alternative authorizer structure that fits all states.

We propose expanding the charter school legislation even further by creating an alternative authorizer, which can encourage the growth of charter schools and provide the additional support those schools need to succeed. By creating an Independent Charter School Board in the form of a statewide charter school district, South Carolina can alleviate the burdens that skeptical school boards face while facilitating the creation of more charter schools. There are four other states that have pursued a similar response to slow charter school growth. Independent Charter School Boards allow charter schools to be supported by a school board that is focused entirely on charter schools and benefits from the expertise that such focus develops.

A bill that would create such an independent board was introduced by Speaker Pro Tempore Doug Smith, and co-sponsored by Former Speaker David Wilkins, House Education and Public Works Committee Chairman Ronnie Townsend, and K-12 Education Subcommittee Chairman Bob Walker. The bill would create a statewide charter school district, the Carolina Public Charter School District, to govern newly formed charter schools or existing charter schools that choose to join the statewide district. Under the proposed legislation, this district would be considered a Local Education Agency and would be eligible to receive state, federal, and private grant and loan funds. Though this district would not have a local tax base, it would receive 100 percent of the state's Base Student Cost for which any school district is eligible as well as all other state and federal funding to which school districts are entitled. One of the benefits of this statewide district would be the ability to apply for more federal grant programs than under current state law. We expect that having multiple authorizers legislation, along with access to far more resources, would significantly increase the number of charter schools in the state. This legislation passed the House in 2005, and passed the Senate Committee on Education. Unfortunately the legislation was not debated on the Senate floor. We will again work closely with the General Assembly to enact this important legislation in the 2006 legislative session.

Benefits of Charter Schools

There are many states that have an active and growing charter school population that has experienced success in improving test scores. According to a recent study by Caroline Hoxby of Harvard University and the National Bureau of Economic Research, students in charter schools are four percent more likely to be proficient in reading and two percent more likely to be proficient in math. Compared to similar regular public schools, charter schools can be more effective at raising the achievement of traditionally underperforming subgroups. As the adjacent chart indicates, while charter schools tend to outperform comparable regular public schools, those that serve predominantly Hispanic and African American communities show larger gains than do charter schools

in other communities. A similar pattern persists when charter schools in high poverty areas are compared to all other charter schools.

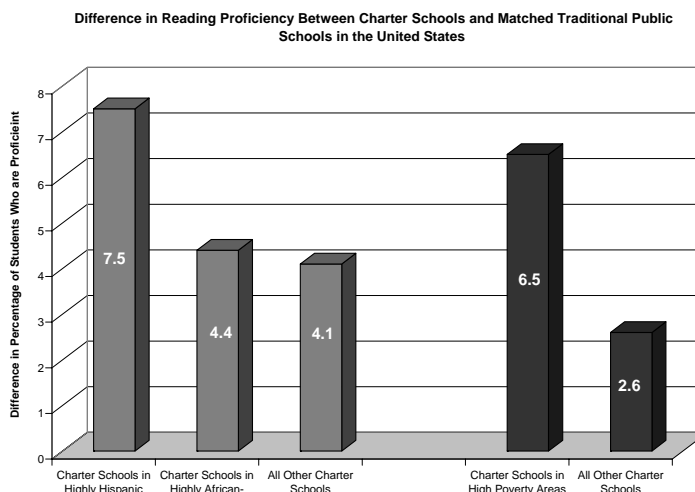
Charter schools offer students from diverse backgrounds more educational options. This is reflected by the charter school enrollment in Arizona, where charter schools have been around for a decade. The student population does not mirror that of the public schools:

- 61 percent of charter students are on free or reduced lunch, compared to 50 percent in traditional public schools.
- 5.8 percent of the charter students were designated as having special needs, compared to 3.8 percent in traditional public schools.
- Only 2 percent of charter students were designated as gifted, compared to 7.6 percent of public schools.

Studies indicate that students in Arizona charter schools perform better than those in traditional public schools. In a three-year study of charter school students, researchers observed an annual achievement growth of roughly three points higher than traditional public schools. Over a four year period of elementary school, this amounts to an additional full year of growth. 62 percent of charter schools met the required Adequate Yearly Progress standard set by No Child Left Behind. This compares to 54.5 percent of traditional public schools. In Arizona, fourth grade students are about seven percent more likely to be proficient in reading and math.

Similar results are seen in other states. In California, students are eight percent more likely to be proficient in reading and three percent more likely in math. Charter school students in Colorado are 11 percent more likely to be proficient in reading and math. Most importantly, in the District of Columbia, the only area with lower SAT scores than South Carolina, charter school students are 35 percent more likely to be proficient in reading and 40 percent more likely to be proficient in math.

In Georgia, charter students exceed traditional public school students in “meets” or “exceeds the standards” in proficiency. As the tables below indicate, the performance of charter school students in Georgia across grade levels and subject areas meets or exceeds the performance of traditional public school students.

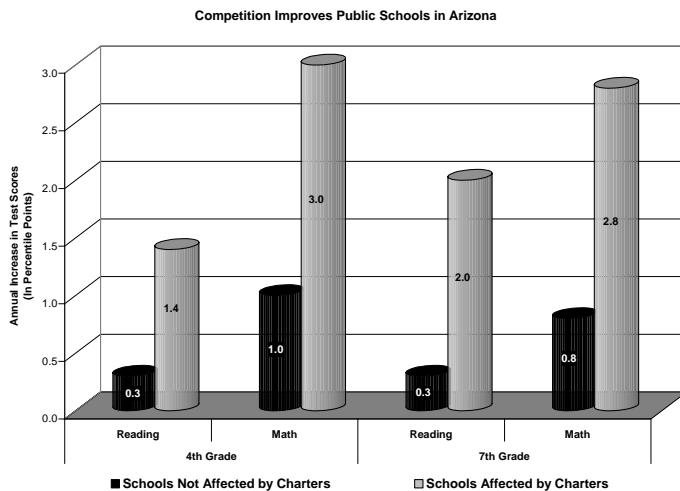


Percentage of Students Meeting or Exceeding Standard in Reading		
Grade Level	Charter Schools	Traditional Schools
4	81%	80%
6	84%	82%
8	86%	81%

Percentage of Students Meeting or Exceeding Standard in Math		
Grade Level	Charter Schools	Traditional Schools
4	74%	74%
6	73%	70%
8	73%	66%

Though charter school students start at about the same proficiency level in Grade 4, the charter students make greater gains in both math and reading by Grade 8. This is particularly important because success in the 8th grade is indicative of success in completing high school.

According to the Manhattan Institute, similar results were found when comparing the performance of charter schools in Texas to traditional public schools in their performance on the Texas Assessment of Academic Skills. In reading, students who were enrolled in charter schools demonstrated proficiencies that were the equivalent of eight percentile points higher than students in nearby traditional schools. In terms of rank, this translates to a student going from being better than 50 percent of the students in the state to being better than 58 percent of the students in the state. Math yielded similar results with students improving their performance by seven percentile points. These improvements were robust and persisted over time.

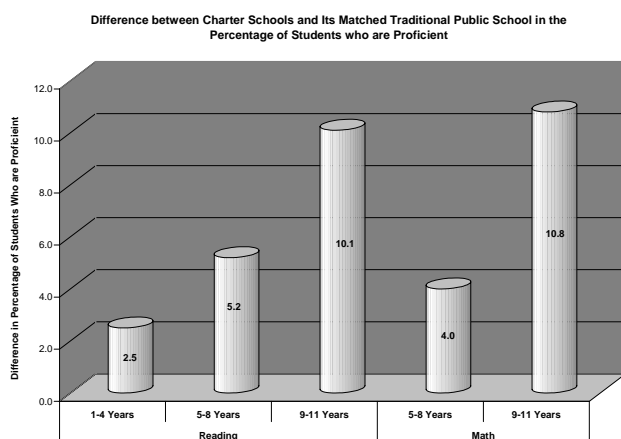


The benefits of charter schools are not limited to the students who take advantage of the choices they provide. Regular public schools respond to the existence of charter schools by implementing innovative strategies that improve student performance more rapidly than traditional methods. The Arizona Department of Education used the percentage of a district's population that chooses a charter school as a measure of the competitiveness of a district.

Districts where more than six percent of the student population enrolled in charter schools were considered more competitive than districts where a smaller portion of the student population chose a charter school option. Schools in more competitive districts began increasing student achievement more rapidly than comparable schools in districts that were not as exposed to the competition that charter schools created. Examining 4th and 7th grade reading and math scores shows that Arizona's traditional public schools that were in competitive districts improved as much as five times more rapidly on the

state issued assessment than did public schools that had a lower percentage of the student population choosing to enroll in charter schools.

The benefits of charter schools increase as the schools gain more experience. Charter schools that have been established for less than five years tend to outperform their regular public school counterpart. However, charter schools that are older experience even greater gains. For instance, when comparing regular public schools to charter schools, those that have been established for less than 5 years are 2.5 percent more likely to be proficient readers. However, in charter schools that have been established between 9 and 11 years, students are 10 percent more likely to be proficient readers than are students in traditional public schools.



Ultimately, we believe charter schools offer a public school option for students who may be struggling in traditional public schools. As we have seen in other states and cities, we believe the passage of a statewide district will foster a more successful charter school environment that will allow the option in much greater numbers than is available today.

Giving Parents Greater Control of Their Child's Success

In South Carolina the choices parents have over how and where their child is educated is determined by their income. Parents have access to choice to the extent that they can afford to live in communities that have schools offering the services their child needs. Some school districts allow parents to choose schools within the district, but these options are limited by the number of “slots” the district is willing to open to school choice. When districts make these options available, they are usually issued under a lottery system that places a child’s educational fate on the probability that their number is selected. Lastly, parents can transfer their children to public or private schools that are not part of the district in which they reside. However, these out-of-district transfers come at a cost in the form of tuition and other fees. Additionally, there are transportation costs associated with any choice option a parent pursues. These costs – transportation, tuition, and others – are prohibitive for many parents in our state.

In an effort to help parents fully realize the possibility of taking advantage of the best educational option available for their child, we supported enactment of the Put Parents in Charge Act last year and will continue to be supportive of similar plans. We believe this form of school choice is an important component of making transformative change

to education, and we will continue to support measures to give more options to parents to help choose the education that best suits their child.

Greater School Choice Increases Outcomes

The state of Florida has one of the largest school choice programs in the country. Their program, known as Opportunity Scholarships, provides scholarships to students in consistently failing schools to go to another school. In Florida, test scores at schools that face losing students as a result of their taking advantage of Opportunity Scholarships have increased at twice the rate of other schools. A study by the Manhattan Institute for Policy Research demonstrates that competition from school choice in Florida improves performance in failing schools more dramatically than reducing class sizes from 25 students to 17 students. In a recent study of the Milwaukee Parental Choice Program, 64 percent of the students enrolling in high school in 1999 under the program graduated in 2003 – compared to 34 percent in Milwaukee Public Schools.

Town Tuitioning – Vermont and Maine

To provide educational opportunities for its children, many of whom live in rural and non-urban areas, Vermont and Maine long ago instituted a practice known as “town tuitioning.” This practice has been in effect since 1869 in Vermont and 1873 in Maine, meaning that choice programs have existed in the United States for over 100 years. In both states, small, rural towns were given the choice of either building public schools or using public dollars to send students to another public school or a private school. The public funds could also be used to send students to out-of-state schools – even out of the country.

In Vermont, 20 percent of all secondary students are tuitioned students: 53 percent in public high schools, 41 percent in private schools, and 6 percent attend out-of-state schools. In Maine, 18 percent of all secondary students are tuitioned students: 66 percent enrolled in public schools, 33 percent in private schools, and one percent chose to go to school in another state. In Maine, towns spend an average of \$5,732 per pupil for tuitioning a student (totaling \$63 million statewide) – compared to Maine’s state average of \$8,393 per pupil. In Vermont, towns spend an average \$7,347 per pupil for tuitioning a student (totaling \$47 million statewide) – compared to Vermont’s state average of \$9,675 per pupil.

Studies indicate that schools that have higher standardized tests attract more tuition money from parents. According to a study of tuitioning, schools that are closer to tuition towns – whether affluent or poor, rural or urban – have higher standardized test scores than schools that are more distant from tuition towns. The study also finds that tuitioned students perform 13 percent higher on standardized tests than other students in the respective states. In an estimate of what it would cost the states to produce the same results in traditional public schools, the state would have to increase spending by \$909 per student, increasing education spending by roughly \$300 million dollars.

International Examples

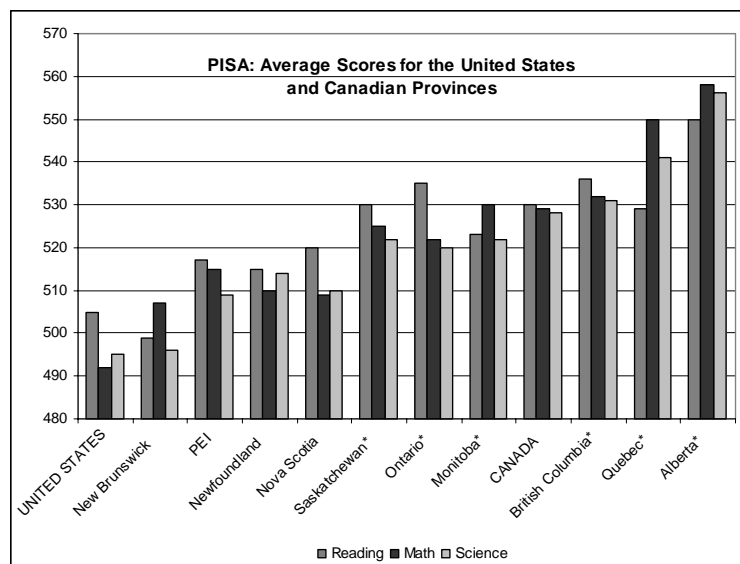
The United States is by no means the only country that has considered school choice as a way to improve student achievement. Countries all over the world have recognized the value of providing students access to all of the educational options available in their community. Rather than limiting students to government run or public schools, countries are giving parents increasing flexibility to choose where their child is educated.

Canada

Canada's longstanding tradition of allowing parental choice has led to the widespread use of a variety of educational options. Parents may choose to homeschool their children or to enroll them in an independent school of their choice. In regions that have a large Catholic population, religious schools are included among independent school options. In terms of the forms of school choice available, provinces in Canada are similar to South Carolina. What distinguishes school choice in Canadian provinces from the options available to parents in South Carolina are the ways in which Canadian school choice is funded.

Provinces in Canada have been creative in finding ways to fund parental choice. Some use refundable tax-credits and school vouchers to ease the financial burden that parents face when pursuing school choice options. Other provinces fund independent schools on equal footing with public schools while allowing them to maintain their independence through autonomous school boards. A few provinces combine the use of multiple funding models to maximize the number of educational options from which parents can choose.

Canadian school choice is raising student achievement. Provinces that use tax-credits, vouchers, or independent school funding to provide parents educational freedom have higher levels of student achievement on international assessments such as PISA. As the adjacent chart shows, provinces such as Quebec and Alberta that have more school choice options available to parents score well above the national average on PISA, and significantly outpace United States student performance on the same assessment. However, provinces where parents have less educational freedom have lower test scores. The differences in



student achievement are even greater in subjects such as math and science. In Canada, provinces that give parents greater flexibility in choosing how and where their child is educated experience higher levels of student achievement.

In addition to raising overall student achievement, school choice in Canada is breaking the connection between family income and the quality of the education a child receives. Provinces that have implemented school choice programs have a higher percentage of low-income students enrolled in independent schools, which is improving the likelihood that these students are placed in learning environments that match their individual needs. This flexibility works to close the achievement gap between students in poverty and those from affluent families. Conversely, in provinces that do not offer school choice family income is 20 percent more likely to determine the score a student received than it is in provinces where school choice existed.

Chile

As part of a massive school reform effort in the 1980s, Chile implemented a nationwide voucher system that gave parents the flexibility to choose public and private schools. Prior to 1981, the central government was responsible for funding and providing education services. This entailed establishing and implementing curriculum, managing capital and human resources, and regulating student outcomes. The 1981 reform provided local governments, Chilean municipalities, control over public schools, provided school funding on the basis of student enrollment, granted parents the ability to choose public or private schools, and opened the market for new schools to form.

The educational reforms of the 1980s led to the emergence of three types of schools: public schools that are run by the local government; subsidized private schools that receive funds from the government as a result of enrolling students who receive state vouchers; and unsubsidized private schools that receive no funds from the government. The first two types of schools tend to serve students from comparable backgrounds while the latter primarily serves students from higher income families.

The greatest impact on student achievement has been in the private subsidized schools where a large portion of the school budget is driven by student enrollment. The budgets of private subsidized schools rely on their ability to attract students by offering a higher quality educational service. When compared to public schools, students in private subsidized schools experienced greater gains in student achievement.

The gains in student achievement experienced under the voucher system in Chile have not been even. The lowest impact has been in public schools where the connection between the school budgets and student enrollment is weak. Public schools that lose students as a result of students choosing other options – different public schools or private school alternatives – are given increased per student subsidies from the local government. Rather than being forced to respond, public schools in Chile are protected from true competition.

Two primary lessons can be learned from the choice program implemented in Chile. School choice benefits students from a variety of backgrounds. Second, schools that are exposed to competition through school choice experience greater gains in student achievement.

Sweden

Most often known as a country with high taxation and a highly centralized national government, Sweden has had school choice for more than a decade. In the 1990's, Sweden enacted two very important reforms that have led to an outgrowth of school choice unexpected in this European nation.

First, the government transferred central authority of schools from a nationwide responsibility to one of the local municipality. When virtually all other government services are provided at the national level, Sweden determined that more local participation in the public education system would be beneficial.

Second, the government enacted two bills in 1991 to enhance the growth of independent, or private schools. The legislation, the Government Bill on Freedom of Choice and Independent Schools and the Government Bill on School Choice, changed the law to allow independent schools to receive funding from municipalities on terms equal to municipal schools. The schools, which are approved by the National Agency for Education, must operate in accordance with the national curriculum, may not have discriminatory rules of admission, and may not charge a fee, in exchange for full public funding.

Since enactment of the legislation, the number of students enrolled in independent schools has quadrupled and the number of independent schools has increased fivefold. The nationwide enrollment of students in independent schools is roughly 4 percent of elementary schools and 5.6 percent in the high school equivalent (upper-secondary school). What is particularly important is that rural municipalities, at or above the Arctic Circle, have enrollment well above the national average at roughly 10 percent. Meanwhile, suburbs of Stockholm have enrollment ranging from one-fifth to one-third of the total student population.

According to a recent study by The IUI Foundation, “[w]e find that the extent of competition from independent schools, measured as the proportion of students in the municipality that goes to independent schools, improves both the test results and the grades in public schools.”

Cultivating Quality Educators

Many education factors are outside of the control of our schools. Schools do not control the family dynamics that greet their students when they return home daily. Community factors such as the prevalence of poverty or social isolationism are not for the school to

dictate. Lastly, students bring to school internal motivations and interests that can be tapped into by the school but are not the schools to determine. However, schools are charged with the awesome task of meeting kids where they are and providing each individual with the education that they will need for today's world.

We believe every school can and must meet the charge that is set before them. Doing so requires that schools recognize the factors that are within their control and use them to the best of their abilities. A key factor that can be controlled by the schools is the quality of the educators instructing students. We believe that one of the best ways to positively impact student achievement is to increase the likelihood that every student will receive quality instruction everyday.

South Carolina has made many efforts to improve the quality of its educators. In our most challenging schools, the results of our efforts have been short-lived. Long-term improvements will occur when all schools have high quality leadership guiding the efforts of high quality teachers. Our goal is not to undermine the hard work of educators who have dedicated years of their lives to the students in our state. Rather, we simply wish to acknowledge that quality must be defined in terms of results, and, unfortunately, the results we are getting are far from what we had hoped. Addressing the results we are getting, particularly in our historically low-performing schools and districts, will require that we rethink efforts being made at placing quality leaders and teachers in every school or district.

Giving administrators the flexibility to lead – SMART Funding

School and district leadership ranks second only to teacher quality among school factors that influence a student's performance. South Carolina's ability to create a competitive educational system will rely upon our ability to recruit and retain strong school and district leaders. This is even more the case in schools that have historically underperformed.

There is no model for effective leadership that will work in all environments. The needs of a rural affluent community will differ from those of a poverty stricken urban community. Schools where most students have college-educated parents will have needs that differ from those where a high school diploma is typically the highest level of education. A high performing school or district has different needs than districts and schools that have yet to reach high levels of academic success. Rather than focusing on the inputs a leader chooses, a good measure of quality will focus on the results a school leader produces.

South Carolina needs to consider whether the system by which education leaders are generated is one that increases or decreases the availability of innovative leaders. A key hindrance lies in the fact that much of what a school leader does is dictated by the state. Leaders in many cases are primarily program implementers. One of our main goals in the education budget is more dollars going directly to the classroom. Many dollars are tied to very specific funding categories and do not allow local school districts to put

resources where they are needed most. An example illustrating this is found in the Education Improvement Act that was enacted in 1984 as a set of grants directed to schools to implement dynamic new programs aimed at improving educational achievement. However, over time, the EIA budget has become a collection of more than 70 different programs, which give Columbia greater leverage over dollars spent in communities around the state. Regulations are not lifted until the school has either performed so poorly that it is clear no current programs are working or the students perform so well that the school is given flexibility to operate outside of the confines of what regulations dictate. We believe that spending decisions are better made closest to the child they affect, and propose putting in place a measure which would give school districts greater flexibility in those decisions.

We propose reducing the regulations that limit the ability of innovative leaders to make site-based decisions by reducing the number of programs to which education funding is tied. Reducing program requirements and giving leaders larger blocks of money to use at their discretion can give school and district administrators the flexibility they need to make decisions based on the individual needs of their students. Funding flexibility cannot be provided without the appropriate accountability. Increased flexibility can be balanced with accountability that is connected to the performance of the school.

In each appropriations act for the last three fiscal years, school districts have received a degree of flexibility in spending via proviso. In our first two State of the State addresses, we called for the General Assembly to enact a permanent statute which would provide school districts more flexibility in how they spend the dollars allocated to them. This proposal, SMART Funding, would put more education spending decisions in the hands of the communities, rather than dictating policy from Columbia. This proposal, introduced by Representative Roland Smith and co-sponsored by Former Speaker David Wilkins and the then House Ways and Means Chairman Bobby Harrell, passed overwhelmingly in the House in 2003 and came very close to passing in the Senate. The SMART funding bill currently rests in the Senate. We will work closely with the General Assembly in the upcoming legislative session to enact this bill in 2006.

Rewarding Teachers with Greater Discretion

Of all the factors affecting South Carolina's school system, teacher quality has the most direct impact on students. On the day-to-day bases, each teacher in our state has the opportunity to lead the students in their classes to educational success or failure. While many of South Carolina's teachers strive daily to offer their students the best educational service they can, the unfortunate truth is that not all teachers are equal in their effectiveness at reaching individual students and raising their levels of achievement. Our current compensation system fails to acknowledge this fact and rewards all teachers based on years of experience and levels of education. Knowing the impact that teacher quality has on students, we believe that South Carolina's commitment to improving student performance should be reflected in how we reward

our teachers. High-quality teachers deserve compensation that acknowledges the challenges they face and that is based on the results they produce.

In our budget, we propose creating pay incentives that encourage high-quality teachers to accept more challenging of positions. Of particular interest are our Nationally Board Certified Teachers who are not necessarily teaching where they are needed most. For instance, in Richland School District 1, a critical needs school district, where roughly 60 percent of the students are on free or reduced lunch, Nationally Board Certified teachers comprise only 5.9 percent of the workforce. Just next door is Richland School District 2 which is not considered a critical needs area. In that district, 30 percent of the students are on free or reduced lunch, yet 20 percent of the teachers are Nationally Board Certified. In December 2005, the University of South Carolina released a study that indicates that Nationally Board Certified Teachers are not having the impact on student achievement that justifies the tremendous investment the state is making in the program. We recommend that we focus our efforts in putting Nationally Board Certified teachers in critical needs areas as a means of attracting better qualified teachers in areas that cannot successfully recruit those teachers now. In states such as California and New York, Nationally Board Certified teachers are only awarded bonuses if they teach in low performing schools. In Illinois, the state offers a two-tier bonus plan, \$3,000 for all Nationally Board Certified teachers and an additional \$3,000 for teachers in critical needs areas. We propose limiting the bonus for Nationally Board Certified teachers to only critical needs or low-performing areas in the state. This proposal is consistent with a proposal released by the Democratic Leadership Council in their *2004 State and Local Playbook* advocating the use of National Board bonuses as an incentive to recruit teachers into the poorest school districts in a position paper entitled, "Employing Board Certified Teachers Wisely."

The teacher salary schedule can be modified so that it more effectively rewards teachers who accept positions in areas facing increasing teacher shortages. In areas such as science, math, special needs, and English as a second language, South Carolina faces an increasing difficulty to recruit and retain quality teachers. Restructuring the teacher salary schedule to pay teachers more for accepting more challenging positions is one way that South Carolina can provide incentives that can reduce the shortage and turnover rates. A similar approach has been implemented in the Denver Public School District, which has implemented the Professional Compensation System for Teachers (ProComp). Rather than maintaining the traditional salary schedule that paid all teachers based on years of experience and level of education, Denver voters have opted to implement a merit-pay system to raise teacher salaries based in part on the difficulty of their teaching assignment. Teachers in hard-to-staff subjects like science or English as a second language are paid more than are teachers in less challenging positions. Likewise, teachers in more challenging communities are paid more than teachers in affluent schools where students come from well-educated households.

Ultimately our goal in modifying teacher pay is to improve student performance. With the exception of those who teach in hard-to-staff positions, we believe that rewarding teachers who have improved student achievement is a better approach than rewarding

teachers based on their credentials. States across the union are realizing the potential merit-pay has in rewarding quality teachers. Denver's ProComp System incorporates a merit-pay component that rewards teachers for reaching student performance goals. Under Denver's ProComp System, teachers receive a base pay level. However, those who reach district-established performance goals receive pay increases that reflect the extent to which they exceeded the goal – better teachers receive better pay.

In October 2005, Texas Governor Rick Perry announced that he is designating \$10 million to be targeted towards economically challenged schools as an incentive for these schools to move to a merit-pay system. Interested schools can apply for a \$100,000 grant that can be used to implement merit-pay in their local campus. Schools that receive the grant will have the authority to distribute the grants to teachers who demonstrate the ability to raise student performance. The proposed Texas program does a few things. First, it rewards teachers who accepted the challenge of teaching students who come from a more challenging background. Second, rather than dictating state level programs targeted at affecting the inputs that affect student learning – textbooks, technology, reading initiatives – it sends the money out to teachers who have attained the results that the state wants. Massachusetts Governor Mitt Romney has proposed a similar plan to add \$5,000 in merit-pay to teacher salaries.

Iowa has restructured its teacher compensation system with the goal of improving teacher quality and student performance. A key component to this salary restructuring was the implementation of a merit-pay program. Districts are required to create a team-based performance plan that includes student performance goals, multiple indicators for reaching those goals and a system of financial rewards. Teams of teachers are rewarded for gains in student achievement.

Merit-pay is not foreign to South Carolina. The Teacher Advancement Program (TAP) is an example of a merit-pay model that has already been implemented in schools in our state. TAP combines the use of individual, team, and school-wide incentives to encourage teachers to improve student achievement. By establishing a career ladder wherein master teachers are rewarded for sharing their expertise with the teachers they mentor, the TAP program increases the likelihood that success in one classroom can be duplicated throughout the school. Schools that implement the TAP program evaluate teachers based on classroom observations as well as student performance on periodic standardized assessments. Throughout the year teachers that either demonstrate ineffective teaching methods or fail to yield the results in student achievement are given targeted professional development to improve the quality of their performance. The results of this merit-pay system speak for themselves. In all of the high-poverty schools that have implemented the TAP program, the percentage of students who score proficient in math or reading are increasing more rapidly than in comparable schools.

The Governor's Purchase Plan proposes redirecting a portion of teacher pay incentives to focus on improving the results teachers produce. Our plan targets the funds used to raise the average teacher salary above the Southeastern average to establish a merit-pay block grant for which school districts apply. The amount districts receive will be

determined by the number of teachers in the school district. However, we propose a requirement that districts submit a plan that establishes how they will use the funding to reward teachers who are willing to accept more challenging assignments or who demonstrate the ability to improve student achievement. We give school district leaders the flexibility to determine the best incentive program for their faculty. Our plan gives districts the discretion of creating their own merit-pay system, implementing a system similar to those used in other states, or implementing the TAP program. Our guidelines only require that the distribution of incentives be determined either by a teacher evaluation that is tied to student performance or by providing an incentive for teachers to pursue hard-to-staff positions. We believe that by providing an incentive for schools and districts to move towards merit-pay we can accomplish two tasks. First we can increase the salaries of teachers who are getting the results that we desperately need. Second we can provide an incentive for our highest quality teachers to move to areas that offer greater challenges.

Early Childhood Education

South Carolina's ability to improve its educational outcomes is in part contingent upon our ability to increase the likelihood that a child starts school ready to learn. There is increasing evidence that once a student falls behind in school they are unlikely to catch up to their peers. The long-term performance of retained students illustrates this point. An Education Oversight Committee report released earlier this year indicates that students who have been retained in grades three to eight are unlikely to improve PACT scores when they retest in the grade that they have repeated. Even more disheartening is the fact that students who start out below basic on PACT are unlikely to reach proficiency. Waiting until students reach first grade or third grade hazards the fact that low performing students are likely to continually lag behind their peers in educational attainment. Ensuring that students start school ready to learn increases the chances that they keep pace with their peers and benefit from a successful educational experience.

A child's early developmental needs are not just academic. There are several developmental areas that determine a child's readiness to perform when they enter school. These areas include physical and motor development, social and emotional development, as well as overall cognitive development. The needs of a preschool age child extend well beyond the scope of the services schools provide and include services that involve multiple local, state, and federal agencies. At the state level, the Departments of Education, Social Services, Health and Environmental Control, and the Office of First Steps to School Readiness provide services to young children. Coordinating these agencies is essential to any attempt to improve the likelihood that a student enters school ready to learn.

Properly preparing children for the K-12 system requires an awareness of the fact that the needs of children will vary from household to household and from community to community. Many of our students reside in households that are well-equipped to

prepare them to start school ready to learn. However, this is not the case for all students in our state. As Judge Thomas W. Cooper, Jr.'s recent ruling on the education funding case concludes, there are students who suffer primarily because they fail to receive an early childhood intervention that is "designed to address the impact of poverty on educational abilities and achievement." These at-risk students require higher quality early childhood services than they currently receive.

There are five key service providers that serve at-risk early childhood students in South Carolina: Public four-year-old kindergarten programs offered through public school districts; Head Start programs funded by the Federal Government; preschool Special Education programs; private and faith-based childcare service providers; and A Better Childcare (ABC) Vouchers funded by the federal government. In "Building a Foundation for Success by Getting Every Child Ready for School," the Southern Regional Education Board makes it clear that state and federal programs provide an opportunity for all of South Carolina's at-risk students to receive early childhood services. For our at-risk students, the issue of preparedness for school is about matching them to the high quality services they need to successfully transition from early childhood programs into the K12 learning environment. If South Carolina is to improve early childhood education programs, there must be better coordination of the early childhood services that are provided to at-risk students. This can best be accomplished by strengthening the collaboration between the early childhood service providers.

We believe that the state should direct the resources that are committed to early childhood education services to more effectively serve children who are most at-risk. We propose that early childhood funding be used to provide incentives that improve the quality of early childhood services by encouraging more collaboration between all of the agencies that serve our youngest children. Providing such incentives can increase the likelihood that an at-risk student will receive comprehensive services that address all of their developmental needs.

Conclusion

Our education proposals reflect a simple goal of providing options for students in South Carolina to get the best possible education they can. We accomplish this goal through a combination of funding education at the front lines and reforming the system for better results. In a number of other states, reform initiatives are offering more and better education options to parents. As of this year, the Bill and Melinda Gates Foundation has contributed more than \$2.2 billion to small school initiatives across the country. According to a study released by the foundation, students in small schools in New York had higher graduation rates than their peers in larger schools. Students in small schools in Chicago had a dropout rate one-third lower than students attending big schools.

We have made progress over the last five years on some measurements of education, but we still lag in many others. With the growth of more education choices in other states,

we cannot afford to simply rely on incremental change to impact our competitiveness both nationally and internationally. We should stop aiming to get out of the bottom of the list and start aiming to get to the top of the list. We believe these initiatives offer that transformational opportunity to succeed.

Improve the Conditions for K-12 Student Performance

Every generation must prepare the next generation for the challenges that lie ahead. We believe each educational purchase should be viewed in terms of its contribution to preparing South Carolina's students for life in the 21st century. However, technology has expanded our competition beyond the regional or national level to an international level. The next generation will need to compete for business and against business on every corner of the globe.

To fulfill this task, we have established four goals: increase the high school completion rate; increase participation and achievement in rigorous courses; reduce the achievement gap while improving academic performance of all students; and improve the efficiency with which education dollars are spent.

Governor Sanford's Goals for Improving K-12 Student Performance are to:

- ✓ Increase the high school completion rate.
- ✓ Increase participation and achievement in rigorous courses.
- ✓ Reduce the achievement gap while improving the academic performance of all students.
- ✓ Improve the efficiency with which education dollars are spent.

Increase the high school graduation rate.

South Carolina's graduation rate is unacceptable. We will not progress as a state if half of the students who start high school fail to finish four years later. In order to solve the problem, we must first be able to recognize and acknowledge where we fall short.

In June 2005, The Education Trust released a report entitled, "Getting Real About Grad Rates: How States Play the Numbers and Students Lose" which identified South Carolina's official numbers to be significantly different than criteria developed by the Urban Institute. According to this report, our graduation rate (78 percent) was inflated a full 27 percentage points above the actual graduation rate (51 percent). The adjusted calculation moved South Carolina from 40th in the nation to **dead last**.

For this reason, in 2005 Governor Sanford joined a bipartisan coalition with 49 other governors to sign the National Governors Association Compact on High School Graduation (The Compact). As part of The Compact, we have committed to calculating graduation rate as follows:

$$\text{Graduation rate} = [\text{on-time graduates in year } x] \div [(\text{first-time entering ninth graders in year } x - 4) + (\text{transfers in}) - (\text{transfers out})]$$

Second, we need to educate our students so that each child has a real chance to graduate. An Education Oversight Committee survey indicated that a leading factor

contributing to our abysmal dropout rate is a lack of preparedness among our entering freshmen. The survey found that among other problems, most of the respondents had not mastered the fundamental Math and English skills necessary to succeed in high school. They simply were not ready.

Improving our graduation rate will also require that we connect success in school, particularly high school, to a better quality of life upon graduation. This administration has committed to improving this outcome in two specific ways:

- 1) The Education and Economic Development Act – In the past two executive budgets, we proposed funding Pathways to Prosperity through the technical college system to begin funding more aggressive drop out prevention programs. In May 2005, Governor Sanford signed the Education and Economic Development Act which helps students identify career clusters and gives schools more tools in putting students on a career path. In this budget, we commit the full first-year funding for the legislation.
- 2) Jobs for South Carolina's Graduates – Through the Governor's State Workforce Investment Board at the Department of Commerce, the administration secured \$2 million of federal Workforce Investment Act money to develop Jobs for South Carolina's Graduates. The program, announced in June, established three-year pilot programs in 14 South Carolina schools to identify at-risk children and work with them on a career path. The program is based on the national affiliate, Jobs for America's Graduates, started by former Delaware Governor Pete DuPont. South Carolina became the 36th state to start this program and it enjoys support by a bipartisan group of Governors around the country.

We believe these two programs will have a positive impact on graduation rates, but there is more that needs to be done.

Increase participation and achievement in rigorous courses.

Our current and future global competitors are not racing us to the bottom. They are racing us to the top by challenging their students with a curriculum that pushes them to excel. Our competitors are able to do this in part because they lay a strong foundation early. As the Heartland Institute points out in "World Class Standards," South Korea is so committed to ensuring that all students begin learning early that starting in 2007 all parents – regardless of income – are eligible for a voucher that they can use to pay for not just childcare but state approved early developmental education programming. South Korea is willing to leverage all of the educational capacity at its disposal to prepare its students to compete.

South Carolina's position in the global economy will be determined by the rigor of the education we give our students. Our budget plan invests in activities that will help us develop a competitive advantage. To accomplish the goal of increasing participation and success in rigorous courses, we fund activities that challenge students who are

proficient, remediate students who have already fallen behind, or ensure that early childhood students have a strong foundation.

In order to measure South Carolina's progress towards this goal, we will evaluate participation rates in college preparatory courses, dual enrollment programs and Advanced Placement courses. In addition to measuring high school rigor, we will track middle school enrollment in credit bearing courses. We will also analyze student performance on the SAT, ACT and AP exams as indicators of success.

Reduce the achievement gap while raising the performance of all students.

In education there are two achievement gaps to overcome. One is represented in performance differences between more affluent students and students who come from low-income households. Another achievement gap is represented by the differences in the performance of Caucasian and Asian American students compared to African American and Hispanic students. These gaps present two key challenges, the first being that the reasons for these gaps are complex. For example, in "The Performance of Historically Underachieving Groups of Students," the Education Oversight Committee highlights the fact that 25 percent of African American students enrolled in PACT grades attend schools where 90 percent or more of the students are in poverty. In such schools the achievement gaps work together to compound the difficulties associated with raising student achievement.

The second challenge of closing the achievement gap is the balancing act necessary to reduce the gap in a manner that represents true improvement in student achievement and not just a statistical phenomenon. A school could close the achievement gap between poor and affluent students by allocating its resources in a manner that causes a drastic drop in the performance of affluent students without raising the performance of impoverished students. This unintended incentive is one of many that can result from focusing on closing the achievement gap.

To avoid the unintended incentives of a poorly thought out goal, we purchase activities that contribute to closing the achievement gap while raising the performance of all students. What we aspire to accomplish is no small task. However, schools like those that are part of the nationwide Knowledge is Power Program show that the hard work of parents and teachers can combine with strong school leadership to nullify the impact ethnicity and poverty have on student achievement.

Progress toward this goal will be measured using scores on SAT, ACT, PACT and HSAP. We will also track state performance on the Nation's Report Card though it relies on testing a representative sample of students rather than the entire student population. The last statistical measure will be used to evaluate the time spent away from school due to disciplinary actions; our focus will be on expulsion rates, particularly among lower performing subgroups.

Improving the efficiency with which education dollars are spent.

Efficiencies are gained by eliminating expenditures on services that are not linked to a specific goal; reducing or eliminating expenditures that are associated with activities that have weak outcomes; minimizing duplicative services; or improving productivity. In education the purpose of increasing efficiency is to maximize the percentage of educational spending that is directed at the classroom. To increase our chances at reaching this goal, our budget focuses on funding the educational needs that are represented by student performance rather than on sustaining programs. Our decision to purchase educational activities is driven by a commitment to funding what works. There are activities that while inherently good are not essential to reaching the goals we have established.

For this reason, we recommend an increase of \$119,837,617 in new recurring dollars from general funds toward K-12 education. We believe these additional dollars should be directed to the frontline of education – teachers and classrooms – which is why we are funding teacher salaries at \$300 above the Southeastern average. Rather than offering an across the board salary increase, we believe students will be best served by requiring that districts institute a merit-pay system to determine the salary increase each teacher receives.

We are also recommending a Base Student Cost of \$2,367. It is important to emphasize that this number does not represent all funding dollars. Including local, state, and federal dollars, the Board of Economic Advisors has estimated total funding per student to be \$10,846 in FY 2006-07 – which is \$1,020 more than the FY 2005-06 estimate. Though the Base Student Cost is sometimes used as the ultimate measurement of education funding, we believe it is more important to consider all types of funding when making this analysis.

Although we have made some progress in educational performance due to the tremendous efforts of teachers, students, and parents on the frontlines, we should not ignore the achievement gaps that exist among South Carolina students, the rest of the nation, and even many parts of the world. We also recognize the need to reduce the achievement gaps that exist among minority students and other students in our state. To this end, bold changes are necessary to realize greater progress in achievement levels for all of South Carolina students.

Developing Our Purchasing Priorities

In order to develop our educational purchasing priorities, we first looked at the major indicators of success to determine whether our state is reaching its goal to see every child make academic gains in K-12 and attain a high school diploma. We have found that South Carolina is making some progress; however, there are many opportunities for improvement.

Having determined where opportunities for improvement exist, we next identified some proven or promising strategies that will enable us to set priorities for our purchasing plan and how best to achieve our goal. The strategies we identified are as follows:

Provide all students a customized learning experience. Before the school system can even begin to provide a student with the skill set they need, the child's mind has already been shaped by key forces, each varying in influence from one child to another. According to *A Mind At A Time*, these forces – genes, family life and stress level, cultural factors, friends, health, emotions, and educational experience – work together to shape how a child's mind works. Knowing that there are so many factors that shape how, when, and whether a child learns any given lesson, it stands to reason that an effective school system is one that offers a multitude of learning environments so that all parents have the options they need to find the right fit for their child.

Provide cost-effective service delivery. The extent to which quality education will be available for all children will be partially a function of the efficiency with which the educational dollar is spent. Money spent on administrative overhead and operating expenses strangles the flow of resources to the place where they are most needed – in the frontline classroom. An effective education system optimizes the balance between allocating resources to the classroom and to support services that have an indirect impact on student achievement.

Provide high-quality early childhood developmental education. Making certain that all children are well-prepared for formal schooling requires that developmental deficits are addressed by early childhood educational experiences. Academically focused pre-kindergarten programs, whether public or private, are crucial for children whose home environments are not preparing them for a successful early childhood experience. High quality early childhood developmental education will evolve as standards for developmental education are more clearly defined and communicated.

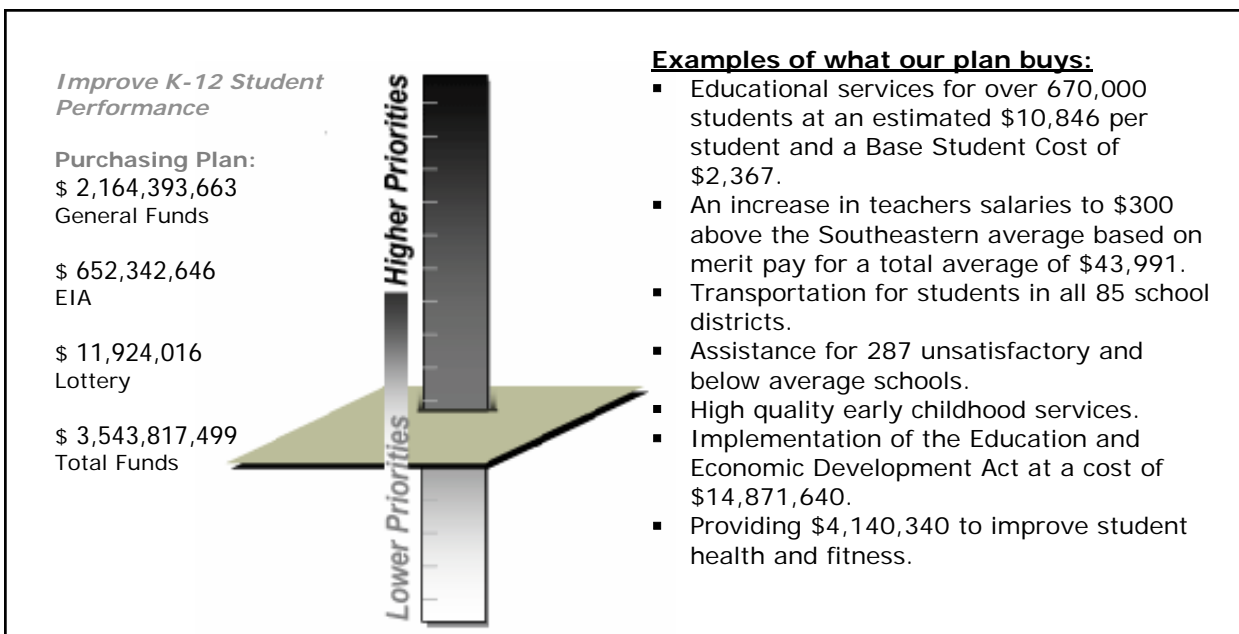
Provide valuable professional development. Professional development should be focused on improving student achievement. Ineffective professional development wastes the time of educators, exhausts resources of districts and schools, and unnecessarily drives up the cost of educating students. Effective professional development equips individual teachers with the specific skills they need to raise student achievement.

Provide a high-quality education experience. A quality education is one that challenges students to meet high expectations while engaging them in experiences that are relevant to the real-world. Irrelevant experiences or low expectations disengage students, contributing to low student performance.

Governor's Purchasing Plan – Highlights

We address the needs of K-12 education by purchasing the education services that are most needed by our students. While there are many activities within the education budget that have value, we think that most of our dollars are best spent following the student.

The following table identifies key purchases within our executive budget's total state K-12 purchasing plan. Detailed highlights of our purchasing plan are provided below the table.



Our Plan Buys:

Basic frontline education services for over 670,000 students served in the 85 school districts throughout the state. Our plan provides the required amount of funding per student according to the EFA. With funding of \$2,367 per weighted pupil unit distributed through the Base Student Cost formula, local school districts will be able to provide education services required for kindergarten through 12th grade students. As mentioned earlier, it is important to note that the total statewide funding per student will be much higher when considering total dollars allocated from outside of the EFA as well. We propose **EFA funding for this activity of \$1.8 billion.**

Funding the Education and Economic Development Act. Recently Microsoft Founder and CEO Bill Gates captured the attention of the education and business communities when he astutely pointed out that America's education system is obsolete. He argues that training students for the 21st century's global economy with an education system that was created during the early part of the 20th century is akin to trying to

teach a person about today's computers using mainframes from 50 years ago. Contrary to what a 20th century education would provide, today's global economy requires that every student receive a rigorous education that prepares them for life and work, one that is relevant to their individual goals and interests, and that provides them with the personal relationships they need to feel supported. The Education and Economic Development Act has the potential to offer each student in South Carolina an education that approaches what Bill Gates describes.

The Education and Economic Development Act is an effort to restructure elementary and secondary school curricula so that they are more focused on preparing students to participate in an increasingly competitive global economy. Its primary objective is to prepare every student to transition from K-12 education into the postsecondary world. By centering students' education around 16 career clusters, the Education and Economic Development Act can make it easier for students to find relevance in their coursework.

A key component in the implementation of the Education and Economic Development Act is the reduction of the guidance counselor to student ratio from its current level of 700:1 to 300:1. Combined with eliminating some of the administrative responsibilities guidance counselors bear, improving the guidance counselor to student ratio increases the likelihood that students receive the input they need in making decisions that will impact their life after high school graduation.

The Education and Economic Development Act can increase the chances that more students in South Carolina will receive a competitive education. To support the objective of the Education and Economic Development Act, we **recommend appropriating \$14,871,640** to implement the first phase of the legislation.

High Schools that Work is a school-wide improvement model in which more than 1,000 schools participate nationally. Each participant school focuses on implementing at least one of the High Schools That Work Key Practices. These practices include a rigorous curriculum, high expectations, instruction that is relevant to students' lives, research-based teaching strategies, and valuable professional development for leadership and teachers. Schools that participate in the High Schools That Work model improve student achievement on state and national standardized tests. The impact of the High Schools That Work model is so significant that the Education and Economic Development Act adopts its best practices for all high schools in South Carolina. We believe this program can continue to improve the performance of South Carolina's high schools that are currently participating in the program. We propose **\$1,000,000 in funding for High Schools that Work**.

Average teacher salary funding above the Southeastern average.

All of our policies are dedicated to providing the most resources to the front line of education – teacher pay and the classroom. However, as with all other areas of government, we believe that we should invest dollars in outcomes. So with this budget, we commit **an increase of \$63.0 million in total funding devoted to increasing teacher pay through a merit pay system**. The funding is equivalent to maintaining

the standard \$300 above the Southeastern average. School leaders that wish to increase teacher pay will be issued block grants that they can use to establish a pay for performance program in their schools. Leaders may choose to implement the Teacher Advancement Program that is already operational in districts in the state. They may also create their own model. Salary increases must be based on increased student performance on a nationally recognized standardized test as well as demonstrated teaching practices evaluated through classroom observations. By tying teacher pay increases to student achievement, South Carolina can more effectively reward teachers based on the quality of the work they provide.

Providing transportation for students to and from school. We understand the need to provide support for a state school transportation system which is crucial for those students that are unable to provide their own means of transportation. We propose to **increase funding for the transportation needs of our students by \$24 million amounting to \$114,687,501** in next year's budget. The increase in transportation spending is intended to fund fuel, parts and supplies so that our buses run more reliably. We base the proposed spending increase on the Budget and Control Board projected \$2.25 price per gallon for fuel in the 2006-07 fiscal year. We believe that once these needs are met, any remaining portion of the increased funding should be devoted to new bus purchases.

Despite our recommended funding increases in this area, we still feel school transportation can be provided more efficiently if it were competitively sourced from a private company. South Carolina is the only state in the nation that owns its own school bus fleet – a fleet of buses larger than Greyhound's. As a matter of fact, over 40 percent of the employees at the State Department of Education have jobs related to student transportation. While student transportation is certainly an important component of education, we do not think that it warrants 40 percent of the attention of the department. We believe that allowing the local districts and the private sector to provide transportation would allow our State Department of Education to better focus on educating students rather than transporting them as well.

In January 2005, a legislatively-created committee began considering following the lead of every other state in the country by transferring school buses, funding for school buses, and bus maintenance facilities to the local school districts. They are also considering issuing a request for proposals to see what private operators would charge to operate school transportation in each district of the state.

Unfortunately, the state has traditionally paid a higher price for school buses than the private sector. According to testimony before the school bus privatization committee, private operators typically purchase buses for \$46,000 to \$49,000 each – about \$10,000 less than we pay in South Carolina. It is our stance that the funds we provide during FY 2006-07 would be better used going to the districts to contract with private providers. Until the committee studying this issue and the General Assembly agree to implement private contracting for our buses, carry-forward dollars added to our recommended increase in bus funding could allow for a total of \$25 million to be spent on buses next year.

Funding the Student Health and Fitness Act of 2005. The growing obesity epidemic amongst the youth of our country and our state is an area in need of improvement. While recess and Physical Education (P.E.) classes used to provide some exercise for students, our state no longer requires recess or P.E. in kindergarten through the 8th grade according to the State Department of Education Task Force on Student Nutrition and Physical Activity. The State Department of Education issued a task force report on the need to improve the nutrition and increase the physical activity of our students. The Student Health and Fitness Act is an effort to combat the

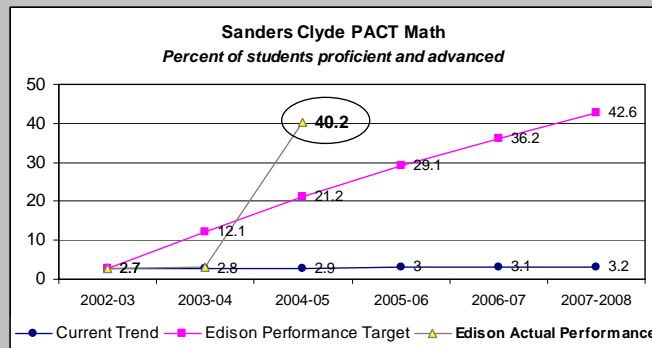
Partnering for Student Improvement

An exciting partnership with the Edison Alliance is in the process of turning around 13 of our state's historically under-performing schools. Over the last ten years, Edison has proven its ability to raise student achievement. In fact, over the last two years, over 61,000 students in the 25 states that work with Edison nationwide have improved their test scores by an average of 10%. Edison schools raise average test scores while closing the achievement gap that exists between African American and Caucasian students. Test scores of African American students in Edison schools improve at twice the rate of students in comparable schools.

South Carolina's partnership began in Allendale and Charleston with overall evaluations of the schools and agreed upon "Plans for Achievement" for each school. All classroom teachers were offered extensive summer training and will continue to receive intensive on-site training as well.

A critical element to the Edison plan is ongoing feedback on individual student performance through monthly computerized testing. Teachers are provided with continuous feedback and intensive support on using the data to adjust daily classroom practices to meet their student's needs.

This consistent tracking of outcomes also helps the districts hold Edison accountable for student results. As the contracts are based upon student achievement, the relationship with Edison can be terminated if the guaranteed results are not reached. The graph below provides an example from Sanders Clyde Elementary School showing the increased expectations for student improvement versus our previous trend. During the 2004-2005 school year students at Sanders Clyde elementary surpassed the Edison target by having 40.2 percent of the students scoring proficient or advanced on the math component of PACT.



We are fully committed to supporting innovative and effective results-based partnerships and would like to acknowledge both Charleston and Allendale for their willingness to think and act "outside the box" to provide better learning opportunities for their students.

growing health concerns that are emerging as a result of the declining health of the students in South Carolina. Starting at an early age, increasing the awareness of citizens about health choices can lead to a healthier South Carolina. We are encouraged by the passage of this legislation and propose **appropriating \$4,140,340** for its implementation.

Textbooks for over 670,000 students throughout K-12. While we recognize the crucial role high-quality instructional materials play in the education of a student, we are concerned that the textbook spending is increasing more rapidly than can be explained by student enrollment increases or inflationary increases. Considering the rising costs of textbooks, South Carolina needs to consider measures that will curb the growth in textbook spending. Many states are moving towards digitizing their textbook inventory. Doing so reduces the time and costs associated with updating textbooks. Digital textbooks can improve the efficiency with which teachers and students use instructional materials by providing a more interactive format that is a better fit with the ways in which students acquire information in today's technology driven world. We are providing the dollars to purchase the necessary materials that will meet state academic standards. We propose **funding this activity with \$51,350,587** in total funds, \$4.2 million of which we set aside to provide school districts an incentive to digitize a portion of their textbook inventory.

Assistance and accountability to the 222 "below average" and 65 "unsatisfactory" schools. We realize that all schools within South Carolina are not at the same level regarding academic performance. As such, many of the activities that we are purchasing during FY 2006-07 provide for the educational improvement of low performing schools. Programs such as the Teacher and Principal specialists programs as well as the Retraining Grants that have been issued under the Education Accountability Act have the potential to assist some of our lower-performing schools in improving the services they provide. Similarly after-school Homework Centers can be beneficial for students needing more attention than is given during regular school hours. While we certainly think it is important to give funding for additional assistance to below average and unsatisfactory schools, we question whether these programs are the most efficient and effective means of improving the academic performance for all schools. It is our goal to give schools performing below average or unsatisfactorily more alternatives so that they can close the educational gap between the schools that receive an Excellent rating and those that are rated Unsatisfactory or Below Average.

The 2005 Annual School Report Cards make it clear that our lower-performing schools need more technical assistance options than are currently being offered. These school ratings show that 32 percent of the schools in South Carolina received ratings that were lower than those earned in 2004. The number of schools rated unsatisfactory or below average rose from 188 in 2004 to 287 in 2005, representing a 52 percent increase in one year. While 57 schools in South Carolina improved their ratings, there remain several schools that are simply not improving at the rate necessary to reach the goals established by the Education Accountability Act.

One issue the state needs to address is the effectiveness of technical assistance programs in improving student academic achievement and in building local capacity to affect long term education reform. In 2005, the Education Oversight Committee issued reports evaluating the effectiveness of the Teacher Specialist program as well as the Retraining Grant program. Both programs represent massive investments made by the state in an attempt to improve the ratings of persistently low-performing schools. Each report pointed to the limited ability of the Teacher Specialist or the Retraining Grant programs to lead to sustained improvements in student achievement. Both programs were limited by the fact that low-performing schools suffer from high teacher, principal, and superintendent turnover rates. For instance, among schools receiving retraining grants, 50 percent of the teachers had been employed by their current school for less than five years. Furthermore 30 percent of the teachers had been teaching for less than five years. Both the Retraining Grants Program and the Teacher Specialist Program suffer from the fact that the investments made in professional development fail to become institutionalized because so many teachers take the training they receive to other schools.

Sustained improvements in schools that are in need of technical assistance will not occur unless the teacher and leadership turnover issues are addressed. Intermittent exposure to quality teaching will not improve the student achievement in our below average and unsatisfactory schools. We are recommending that additional choices will ultimately move these underperforming schools in the right direction. In order to assist these schools in overcoming the obstacles that have limited their success, we **fund technical assistance with \$43,000,000**. Our funding supports these schools in the following manner:

- Funding the 65 unsatisfactory schools at \$320,000 each – total funding – **\$20.8 million EIA dollars.**
- Funding the 222 below average schools at \$100,000 each – total funding – **\$22.2 million in EIA dollars.**
- Funding External Review Teams for low-performing schools – **\$826,800 in EIA dollars.**
- Funding Alternative Technical Assistance, which includes the contractual agreement between Allendale and Charleston schools and their school management provider- **\$2.4 million in EIA dollars.**

Rather than funding the Teacher Specialist, Principal Specialist, Homework Centers and Retraining Grants specifically, we propose that the portion of the technical assistance funding designated for those programs be provided in a more flexible manner. In our budget, we propose a more flexible system that will allow the school to decide which technical assistance program will be the most effective for them. Along those lines, we are excited about the positive gains that are occurring within the existing curriculum of the Teacher Advancement Program as well as the partnership between Allendale and Charleston schools and a school management provider. We feel that by providing options such as these, in addition to the current Teacher and Principal Specialist

Programs, more efficient alternatives will be available for schools with the greatest needs.

K-12 services provided through Educational Television. It is important that ETV continue to provide programs and services that educate our children. Many of these services are not just valuable to our children, but also to the parents and teachers who use them. In particular, we purchase Pre-K-12 Educational Services that train parents and provide programs for pre-school children to prepare them for school. We propose to **fund this activity with \$3,023,720** in general fund dollars.

Gifted and Talented Instructional funding for over 71,000 academically gifted and talented students. We feel that students who are academically or artistically gifted should benefit from a differentiated curriculum that provides them the opportunity to cultivate their talents. By providing these students with the individualized attention they need, we can increase the likelihood that our most talented students will be engaged by the curriculum that our schools offer. Challenging these students with innovative educational activities will help them reach their full potential, making them better suited to compete in today's global economy. It is our recommendation that we provide the resources to the 85 school districts to maintain this program. To fund this activity, we propose **allocating \$29,497,533** in EIA dollars.

Classroom supplies to 47,000 teachers throughout the state. It is important that our teachers are given the resources to educate their students. Providing them with the financial resources for classroom supplies will relieve many teachers from out-of-pocket expenses that may otherwise result. To fund this activity, we propose **to allocate \$12,500,000** in EIA dollars to the local school districts.

High quality pre-school programs that provide direct services for almost 25,000 children throughout the state. We feel that early education is an investment in a brighter future for South Carolina. First Steps works across our state to get kids prepared for school. Although it is a program that was started by the previous executive administration, we feel that by coordinating the services that are provided by state agencies and by fostering public private community partnerships, First Steps can help prepare our children for the challenges they may face in the future education system. For this reason, we strongly support the reauthorization of First Steps and recommend **appropriating \$25,739,409** to support its efforts.

Please see the Appendices for a complete listing of the Governor's Purchase Plan for this goal area and for a detailed listing of what our plan saves and what our plan does not buy.