



1001 Connecticut Avenue, NW  
Suite 204 • Washington, DC 20036

Tel 202-822-9000  
Fax 202-822-5077

February 1997

## **PERFORMANCE CONTRACTING: HIGH STAKES HIRING**

Across the country, education leaders and private citizens are searching for ways to improve student performance and increase accountability in schools. Standardized test scores, graduation rates and classroom attendance have remained poor over the last decade, especially in urban school districts. According to the Digest of Education Statistics 1995, 26% of 9th grade students will not graduate from high school on time. Statistics from the US Department of Education cite that on any given day, twelve percent of public school students in "central city" environments are absent from class. As for mastering even the basics, according to 1994 NAEP reading results, 30% of high school seniors fail to reach even a basic level of reading skill, while just 34% demonstrated proficiency or better. Meanwhile, public school spending levels have continued to rise steadily, from \$5,293 per student in 1984-85 to \$6,857 per student in 1994-95 (figures adjusted for inflation).

Meanwhile, teachers and school administrators, those most directly responsible for the education of our nation's children in the classroom, have been encouraged to shift blame elsewhere -- to things like social ills or funding issues -- and discouraged from trying to make a difference through innovation or reform. Those working in the trenches have too often lacked the incentive, the authority and the accountability to push for substantive change and improvement of the system.

Recently, however, maverick educators, administrators and elected officials have launched an entrepreneurial attack on this stagnating status quo. The means: performance contracting, a method of linking educators' pay directly to student performance. For school employees from the classroom to the superintendent's office, performance contracting has provided a real professional impetus to measurably improve educational delivery; for public officials and communities it has offered greater leverage in demanding and getting higher achievement from students and schools.

## Setting Expectations

School officials nationwide are beginning to adopt pay-for-performance policies designed to increase individual accountability by linking compensation and job security directly to operational and academic outcomes. Salaries and work contracts of teachers and school officials are dependent on student outcome measures such as attendance and test scores. Educators from high performing schools are financially rewarded, while those from schools that do not show improvement may face sanctions ranging from a simple reprimand to reassignment to, in the most egregious cases, dismissal.

The particulars of performance contracting vary from district to district, and from position to position. In some cases, success is matched to financial bonuses, but there are no sanctions for failure to meet proposed goals. In others, payment is linked to the achievement of designated outcomes, and compensation is determined entirely by goals met, while failure to reach a certain level of success may result in termination. Incentive programs can be implemented on an individual level from teacher to teacher, from school to school, or across the district. Variations on pay-for-performance plans include those that do not directly impact salary, but may effect job security, such as stricter licensing and certification measures, and tenure reform. The most successful programs are those in which accountability is coupled with the autonomy necessary for teachers, principals and administrators to meet their goals in the way they think best. Improved achievement often hinges on the ability to introduce real and substantive reforms and innovations.

## Gains for Hire

Here are just a few examples of the variety of performance contracting initiatives being implemented across the country, some more successfully structured than others:

- **Rochester, NY:** In September 1996, a three year contract was approved that provides bonuses of up to \$950 and a 3.25% raise for principals and other employees whose performance is exemplary. For those who meet job expectations, a \$700 bonus is awarded, and for those who do not meet job requirements, there is no bonus or raise. Panels are set up for administrators and teachers that monitor career development. Through periodic reviews, by both supervisors and designated reviewers, an employee's performance is evaluated. Should an employee's performance be in need of improvement, there will be no bonus, only the negotiated salary increase and guidance in improving performance. Should performance be abysmal, there will be no raise or bonus, and the employee will be required to go through an instructional program.
- **Hartford, CT:** In February, 1995, the school board won a contract arbitration award on principals' contracts allowing administrators to earn bonuses if their students' test scores increase by a certain percentage. The local union was

unsuccessful in blocking the deal, but did manage to kill similar negotiations to establish a merit pay system for teachers.

- **Minneapolis, MN:** In 1993, the private firm Public Strategies Group was hired to serve as superintendent and manage the daily operation of the school district. PSG's compensation is determined by how well they meet performance objectives set out in their contract. In its first two years, the company earned 63% of possible compensation. For the 1995-96 school year they earned \$323,000 out of a possible \$366,000. Increased compensation was due to increased success in meeting delineated district goals, including improved test scores, increased student attendance and reduced student suspensions.
- **Pennsylvania:** A handful of districts in the state have instituted various pay-for-performance programs: Palisades School District teachers must receive an outstanding evaluation to get into the highest pay scale. Their contract, as well as those for teachers in Parkland and Whitehall-Copely, provides for the withholding of standard pay raises from teachers who receive an unsatisfactory job-performance rating. The Pennsbury School District gives its best teachers a 2 percent salary boost. A maximum of 35 teachers could be eligible for the program at any one time. Most recently, only 7 out of over 700 district employees qualified.
- **Philadelphia, PA:** Superintendent David Hornbeck works under a pay-for-performance plan in which he can receive salary bonuses or penalties based on his achievement of 36 goals for the district. Following his most recent evaluation by the school board, Hornbeck could be subject to a 5% cut in his \$160,000 salary. Tests scores in the district remain low, and Hornbeck was unsuccessful in establishing a more stringent teacher evaluation and accountability system during recent union contract negotiations, although he was able to negotiate pay freezes for teachers rated unsatisfactory, a move that would effect 30-40 teachers a year (out of over 4,000). Hornbeck plans to put in place a system to reward high-performing schools, but is barred by the current union contract from levying any penalties against poorly performing schools.
- **Maryland:** In 1994, the State Board of Education adopted a teacher evaluation plan linking teacher licensure renewal to performance evaluations, and tightening teacher recertification requirements. In response to state mandates, and the threatened loss of up to \$5.9 million in state aid, the Baltimore city school district is working on a plan to rate teachers based on frequent classroom evaluations and students' standardized test scores. Baltimore consistently has the lowest standardized test scores in the state. In a proposal made at the beginning of this year, teachers would be evaluated annually and could be dismissed if they continue receive unsatisfactory classroom evaluations even after remedial training, or if their students' scores fails to improve during the first three years of their employment.

- **East Islip, Long Island, NY:** The district has implemented a policy in which teachers are hired only if they agree to waive the right to tenure. According to Superintendent Michael Capozzi, just since July, 1996, the district hired 21 teachers under the program, including two teachers who had tenure in other districts. At the state level, however, the school boards' association is having difficulty even securing a Senate sponsor for its reform bill to replace guaranteed tenure with renewable teacher contracts.
- **Kentucky:** After the State Supreme Court ruled Kentucky's system of school funding "unconstitutionally inadequate" in 1989, the legislature passed the Kentucky Education Reform Act (KERA) of 1990, which included provisions for cash incentives to improving schools and districts. Schools are evaluated and rated every two years according to a variety of factors including retention rates, attendance, dropout rates and test scores. Those improving their score by ten percent or more beyond the previous evaluation share in a reward fund: 38% of Kentucky schools met this goal in 1995, earning each of them a portion of the \$26 million reward fund. Once the bonuses are earmarked for each school, teachers vote on how the money is to be spent -- as a pay bonus for teachers and/or staff, for specific program expenditures, to supplement the school budget, etc. The Kentucky plan originally called for the use of sanction against schools whose performance rating declined, but legislators have since postponed those measures until 1997.

### **Dodging the Bullet**

Opponents of pay-for-performance measures will go to great lengths to discredit their effectiveness, even going so far as to abdicate all responsibility for academic outcomes. The idea of performance contracting has drawn the heaviest criticism from teachers' unions. The Hartford Federation of Teachers, in representing principals and administrators now subject to a merit pay program, claims that "independent research has never found such a link between teacher performance and student test scores." They quickly add that "there is little hard evidence that money is a substantial motivator for [educators'] performance." The logical end of such illogic: if student achievement is beyond an educator's influence, he or she should be guaranteed compensation and job security regardless of student success or, more to the point, student failure.

Not surprisingly, the performance contracting measures often go hand-in-hand with reform legislation that curtails union power, including the loss of authority over teacher transfers, the filing of grievances and contract negotiations. In the wake of reform efforts in Chicago and Indianapolis, teacher strikes have been banned in those cities. It was under a 1995 mandate from the state legislature that Indianapolis principals and teachers began to be regularly evaluated by local councils on outcomes such as student and staff attendance rates, proficiency test scores and graduation rates. In addition to barring strikes, Illinois' law prevents Chicago management employees from having union membership, subjects the district's schools to "academic accountability councils" that will evaluate performance and

identify failing schools, and puts the mayor at the top of the accountability totem pole. Local school councils, composed of community members, parents, teachers and principals and established by the state's 1988 school reform law, continue to maintain the power to hire -- and fire -- principals at their discretion.

Overall, however, union influence has been highly successful in limiting performance contracting to only a few of the most embattled school districts around the country. Cities such as Dallas, Philadelphia, Cincinnati, Chicago and Indianapolis have been able to implement performance contracting -- often limited at that -- only in the wake of abysmal student achievement, chronic school problems, and vocal community demands for action.

Implementing a performance contracting plan is sometimes all but impossible. In South Carolina, education reformers ran into solid opposition this year when they unveiled an Education Accountability Act which would rank the state's 1,100 schools, financially penalize poorly performing schools, and provide for the firing of superintendents and principals whose schools failed to reach predetermined goals. Union pressure, backed by deep pockets, took on added weight in the light of coming state legislature elections. The proposal was defeated, but the bill's author, State Superintendent Barbara Stock Nielsen, plans to introduce new accountability legislation this year.

### **Mavericks with a Mission**

The fact that educators have a demanding job is not lost on proponents of performance contracting, but neither is the weight of responsibility that each must accept. It is educators, in fact, who are often the strongest proponents for performance contracting and other accountability proposals. They are equally ready to take the credit or the blame in their quest for better schools for all children.

Consider, for example:

- **Esperanza Zendejas** came on as superintendent of the Indianapolis public schools under a mandate from state lawmakers and Mayor Steven Goldsmith to improve test scores, attendance and teacher performance in the troubled school district. She has placed 51 of the district's 85 schools on probation, evaluated teachers based on attendance and test scores and instituted incentive pay provisions for educators whose students show improvement. She regularly inspects schools' progress by arriving at a principal's office unannounced, and has dismissed principals who are not performing. She operates on the simple mission of "accepting the problems that we have and showing that we're doing something about it."
- **Swanton, Ohio Superintendent Roger Barnes** hung his job on the promise that student scores would increase by 10 percent. When scores went up only three percent, he resigned in January of 1995. "Somebody has to say, 'I'm

accountable," said Barnes. Eventually, at the school board's urging, Barnes agreed to resume his role as superintendent, but has hinted that he may leave again if scores do not improve in the future.

Pay-for-performance is at the foundation of the charter school concept, and with 480 schools operating in 16 states and the District of Columbia, charter schools are blazing an ever-widening trail of teacher and administrator accountability. The Vaughn Next Century Learning Center has held attendance at over 99% consistently since it opened in 1993, and used the increased average daily attendance funds to reward teachers -- who have also consistently boosted test scores -- with pay hikes and other perks.

### **A Basic Tenet**

Indeed, it is only when pay-for-performance becomes a de facto part of school operations, rather than an innovative and radical reform concept, and accountability among educators and administrators is considered a basic tenet of job security, rather than an insult and an impossibility, that schools across the country will begin to improve, and bring themselves and students up to the high standards necessary to succeed in the 21st Century.