Common Sense and Fairness

Model Policies for State Education Funding

edbuild

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A Note from the CEO

In our years as a school funding organization, we at EdBuild have researched all states' funding policies. We've also worked with states on finding the best individual policy solutions, specific to their geographies, demographics, and economies. This report presents the knowledge gleaned from both of these projects: our perspective, developed and refined with partners in the field, on what makes the best possible state education funding formula.

Every state is different, but as we worked in more places, it became clear that the same general principles held true across the country. School funding must be equitable and transparent, and must provide for students based on their needs, with similar students funded at the same level regardless of their zip code or the wealth of their home communities. To get there, we need to pursue two basic policies. On the allocation side of school funding, a weighted student funding formula is the best model for states to hand out the money that each district needs for its students. And on the revenue side, there needs to be a strong policy to keep school dollars in balance, so that everyone pays their fair share and all students can access a well-resourced education.

The need for strong revenue-side policies is clear. Disparities in local wealth cannot be allowed to translate into unequal school funding levels for kids from different neighborhoods. Nearly all states struggle with this problem, but there are solutions, ranging from using state aid to equalize funding levels to eliminating local school taxes entirely. This report explores these ideas in detail, and we hope more states will take up the challenge of really resolving these inequalities.

On the allocation side, we've become convinced that a weighted student formula does the best job of apportioning money fairly, while also setting states up for transparency, flexibility, accountability, and continuous improvement. At its most basic, a weighted student formula ensures that every student starts at the same level of funding, and then provides greater resources for students that have special learning needs. This structure puts the policy emphasis on what students need to learn, but it doesn't prescribe what classrooms should look like or what programs should be in place—it allows districts the room to innovate, and to tailor their offerings to the student communities they serve. Moreover, these formulas are set up so that everyone is held accountable for doing the best for kids. Simple, student-driven formulas are easy to track, so when the legislature proposes changes, advocates can easily tell how they would impact students with greater needs, and hold lawmakers accountable. And at ground level, weighted student funding sets the standard that some students need greater resources in order to learn, signaling to schools and districts where they should be investing their funds. That allows parents and community members to see whether their schools are living up to the formula's expectations, and to hold local leaders accountable for their spending decisions.

Of course, no matter how fairly a formula divides school funding in a state, it is still possible that there may not be enough to go around. Funding levels in many states are inadequate to the task of providing every student with a world-class education. But this report does not advance specific recommendations for how much states should be spending. This is because while funding adequacy is important, it is even more important that education funding systems be built on an equitable foundation. There will always be "booms and busts" in state economies. But through those ups and downs, a weighted student funding formula ensures that equity priorities remain constant. All students benefit when more funding is available, and students with greater learning needs are protected from disproportionate cuts when money runs short. And that equity-focused structure has the follow-on benefit of promoting adequacy as well: When all communities benefit proportionately from a school funding formula, they are all invested in the health of that formula. This unites different constituencies around the same advocacy effort, because increased formula funding pays dividends for everyone.

In the spirit of that united effort, I want to recognize the two organizations with which EdBuild developed these recommendations: The Education Trust and Education Resource Strategies. These organizations were invaluable collaborators as we formulated these model policies. They helped us to refine our thinking and encouraged us to consider other ideas. We appreciate their partnership, and we are encouraged to see a sharpening consensus in the field around what makes for a strong funding policy.

As EdBuild closes its doors, we hope that this set of model policies will serve as a guide to those who are committed to better funding for the students of their states—and that an ever-increasing number will join that campaign.

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Introduction

I. Purpose of This Report

States seeking to improve their funding formulas, whether because of court mandates, on-the-ground policy imperatives, or a simple need to update, are always seeking the best policy models. Policymakers are interested in funding structures in other states, and often ask: Who is doing it right? The answer is that no state is doing it right—at least, not entirely. But almost all states have at least one strong policy element, and there are exemplar states in every important area of school funding policy.

This report represents EdBuild's perspectives on the best policies in each of the core areas of state funding formulas, in line with both principles and practicalities. Readers ranging from community advocates to statewide elected officials can use this report as a policymaking guide, whether they seek to change a single element of the formula or are pursuing wholesale funding reform.

II. The Principles that Guide Strong Funding Formulas

1. ***Adequacy***

The school funding allocated through the state formula should be sufficient to support a rigorous, high-quality education program for all students. Students are ill-served when the system overall lacks enough funding or when the funding allocated for any individual district is inadequate.

2. ***Equity***

Funding should be targeted to districts in accordance with the number of their students with greater needs, such as students with disabilities, economically disadvantaged students, and English-language learners. The state's funding approach should result in comparable funding levels in districts serving students with similar characteristics. District spending decisions should also be guided by students' different levels of need and by the goals of narrowing achievement and opportunity gaps.

3. ***Responsibility***

District and school leaders should be treated as responsible decision-makers when it comes to education spending. This means three things: That they are provided with sufficient resources to effectively serve their students; that they are empowered with the flexibility to operate and educate in the way that works best for their students and communities; and that they are held accountable to ensure that spending decisions are oriented towards support and success for all students, including high-need students.

4. ***Transparency***

Reporting of district and school spending should allow for a constant feedback loop between state funding and district need. If districts receive adequate funding for all students, and for each category of students, then their spending should reflect students' needs. Expenditure reporting should therefore be aligned with student need categories to hold districts accountable for supporting students commensurate with their needs and to hold legislators accountable for funding districts based the students they serve.

III. Structure of This Report

The bulk of this report is dedicated to presenting model policies for school funding allocation formulas. In the realm of allocations, recommendations are offered in three categories: formula fundamentals; student

characteristics; and district characteristics. In addition to these model policies regarding funding allocation, the report also includes recommendations in a fourth area, local revenue, to support the crafting of a policy that draws appropriately on the different revenue sources available in different communities. In nearly all areas, recommendations are offered in multiple tiers, allowing readers to weigh the pros and cons of different approaches.

Allocations

There are two areas of policy included as formula fundamentals: formula type and structure, and base amount. It is important that any state employ best practices for these foundational funding formula elements. As such, we offer only one recommendation in each of these areas and consider these recommendations to be non-negotiable elements of a strong funding formula.

In the realm of student characteristics, we provide policy recommendations for funding structures to support economically disadvantaged students, English-language learners, students with disabilities, students in different grade levels, and gifted and talented students. In the realm of district characteristics, we provide policy recommendations regarding the two most common funding formula elements in this category: adjustments for cost of living or other regional cost differences and support for districts that are sparsely populated or geographically isolated. These recommendations can guide the construction of an allocation formula for a state that is guided by the principles above.

Local Revenue

Once its allocation formula is crafted, a state must also set a policy for the revenue that powers the formula: How much of the funding burden will be placed on local school districts as opposed to the state and how the state will treat local dollars that are raised above and beyond the formula amount. These policies are as important to the overall equity of the funding system as the allocation formula, and sometimes more so. The report therefore concludes with policy recommendations regarding how to set a local share and govern local school taxes.

Recommendation Tiers

For each of the student and district characteristics and for the local share and tax rates, we provide a gold recommendation—a policy that is strong and ambitious, and that, while it may be uncommon, is still precedented in existing policy. We generally also provide a silver recommendation that is somewhat less ambitious but would still advance policy in most states.

In many areas, we also offer a third recommendation: a "moonshot" policy that offers a path for states seeking to do the work of breaking new ground in order to push further towards a policy ideal. Moonshots tend to increase the equity and precision of the funding policy but also the level of complexity. As a result, too many moonshots may diminish the transparency of the formula to the public. For that reason, states may want to consider one or two areas where they want to push for a moonshot—high-priority areas where the increased complexity is worth the benefits of the next-level policy.

Formula Fundamentals

I. Formula Type and Structure

Introduction to Formula Types

Every state uses a formula to distribute its school funding. The nature and structure of the formula are tremendously important. They determine whether equity concerns are centered in the calculation; how funding increases or cuts will be shared across the state; and how compatible the funding policy is with reporting and accountability systems.

States take different approaches to constructing these formulas. Within each of these approaches, there are a number of variations that affect the specific nature of the funding distribution.

A majority of funding formulas are primarily student-based, meaning that the formula is driven by the count of students in the district, both generally and particular categories. Distributions are made primarily in the form of per-pupil allocations. Student-based formulas, as a general category, include a base amount that represents the allocation for a student with no special needs or disadvantages. These formulas generally also include some manner of adding to that base amount to account for students who have greater learning needs.

Some funding formulas are primarily resource-based, meaning that they are structured around the cost of inputs, including and especially teacher salaries. Allocations are distributed primarily in the form of "teacher units" or "resource units," which approximate the costs of a single teacher or classroom.

In a small number of states, funding formulas are program-based, meaning that they provide funding primarily to support particular programs prioritized by the state.

Policy Recommendation

Any strong funding formula should be student-based rather than resource-based or program-based. In a student-based formula, the unit of concern is the individual student, not the classroom, teacher, or program. The focus on being responsive to students' individual needs makes this the most equitable choice of formula structure. The fact that the funding attaches to the student rather than any particular program or set of inputs makes it more flexible and suited to experimentation and innovation. The ability to match the funding calculation to the counts of students with particular needs aids in transparency.

Specifically, the formula should be structured as a weighted student formula. This means two things: first, that the formula begins with a base amount that represents the standard per-pupil funding allocation; and second, that this amount is adjusted upward through the application of weights, or multipliers, for student characteristics that are associated with more resource-intensive needs. These include characteristics such as economic disadvantage, English-language learner status, and disability. Weights are the best mechanism for providing supplemental funding for students with greater needs. Unlike supplemental allocations provided as specified dollar amounts, weighted funding automatically adjusts with changes to the base amount, providing protection against both diminishment through inflation and politically motivated cuts. Additionally, in a weighted formula, the equity priorities of the system remain proportionally the same even as appropriations change over time. This reduces the incentive for intergroup fighting over limited available funds and unites different advocate groups in favor of increases to the base amount.

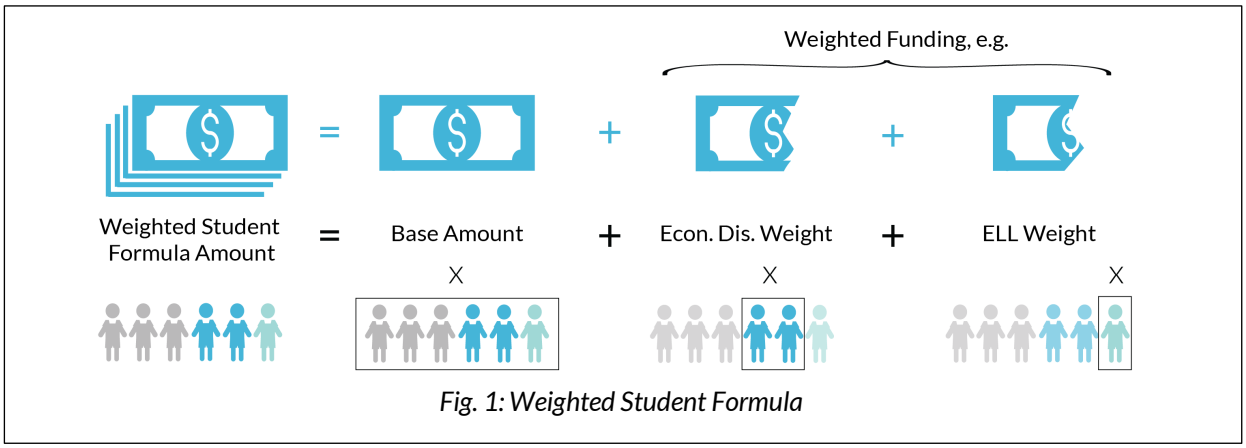

Fig. 1: Weighted Student Formula

A weighted student formula must be based, first and foremost, on a count of students. In a well-constructed formula, the count should reflect the full and actual number of students in the district and in each need category. Structurally, this means two things:

1. Student counts should be based on the full number of students enrolled in the district rather than the number of students in attendance on a given count day or set of days, which is the policy in some states. The funding formula is not an effective accountability mechanism for student attendance, and the alignment of funding to the number of students enrolled means that support is provided for the full complement of students for which the district is responsible.
2. A student who falls in multiple need categories, such as an English-language learner with a disability, should generate the full value of all the weights for which they are eligible. Weights are designed to support distinct resource needs and should not offset each other or cancel each other out.

The weighted student funding formula should provide the framework for distributing instructional dollars, which should then be available for flexible spending so that the district can make the decisions that best serve their particular student communities. Occasionally, though, states have specific education priorities that can be funded separately, through their own appropriations. These are items with large, one-time or sporadic costs, or other unique costs structures that are best handled outside the formula so as not to tie up districts' main instructional dollars. Examples include newly mandated school security measures or the purchase of equipment for career and technical education programs. Funds for initiatives like these should not be understood as part of annual education program costs. They can be handled separately, and should, to avoid becoming unfunded mandates if sufficient funding is not added to the formula to cover them.

Reference: State Policies Approximating Part or All of this Recommendation

- Hawaii: See Haw. Rev. Stat. Ann. § 302A-1303.5-302A-1303.6 and related statutes and regulations.
- Kentucky: See Ky. Rev. Stat. Ann. § 157.360 and related statutes and regulations.
- North Dakota: See N.D. Cent. Code Ann. § 15.1-27-03.1 and related statutes and regulations.
- Oklahoma: See Okla. Stat. tit. 70, § 18-201.1 and related statutes and regulations.

II. Base Amount

Introduction to Formula Element

Within student-based funding systems, the first step of the formula is a base amount, or as it is sometimes appropriately called, a "foundation" amount. This amount reflects the basic per-pupil dollar amount in the

calculation. In a weighted student formula, this is the amount that is weighted for students in particular need categories. A student with no special needs or disadvantages would be funded at the base amount, while a student falling into a weighted category (such as an English-language learner, an economically disadvantaged student, or a student with a disability) would be funded at a multiple of the base amount.

The base amount is the fundamental building block of the formula, so it is important that it provide a strong foundation. Additionally, because each student with a special need is funded at a multiple of the base amount, that amount is very important for determining the overall equity equation of the school funding formula.

Policy Recommendation

The base must meaningfully reflect the costs of educating non-disadvantaged students. As such, the base should be sufficient to cover a per-student share of education expenses such as a competitive statewide teacher salary, instructional materials, student support services, and modern classroom technology. Additionally, if the state introduces a mandate that will impose new costs on districts, it should increase the base amount appropriately.

The base amount used in the weighted student funding formula should be uniform statewide. It should not vary based on historical factors, such as hold-harmless provisions or exemptions to new legislation, except on a temporary, transitional basis. The base amount itself also should not vary based on district characteristics such as concentrated poverty, sparsity, or grade levels served. Any adjustments for these traits should be handled through the application of weights for students enrolled in districts meeting certain criteria, not through changes made directly to those districts' base amounts before other weights are applied. This would weaken the structure of the formula: One of the core benefits of a weighted student funding formula is that funding is dependent, first and foremost, on students' needs. The use of weights to determine supplemental funding ensures that the state's equity priorities, the proportions of funding dedicated for different students need categories, remain consistent over time unless purposefully changed. These benefits are lost, however, if the base amount is not constant across the state. When states vary base amounts, they undermine the student-based calculation, because the value of the weights will differ from district to district.

Any state's base amount should align with these guidelines. However, we are not advancing a single, numerical recommendation for the proper base amount. This is for two reasons. First, both costs and economic conditions vary from state to state, and it would be unrealistic to suggest a base amount figure that would be applicable to all states. Second, setting a single target amount can actually be counterproductive to the policymaking process. Divorced from information about the state's financial situation, such a recommendation risks focusing the school funding conversation only on whether a state is meeting that particular goal (even if the goal is inappropriate to the state context) and away from important discussions of how to equitably apportion available funds. The base amount should be set at a level that serves the individual state well and provides an appropriate foundation for an equitable overall formula.

Reference: State Policies Approximating Part or All of this Recommendation

- Connecticut: See Conn. Gen. Stat. Ann. § 10-262f(9) and related statutes and regulations.
- North Dakota: See N.D. Cent. Code Ann. § 15.1-27-04.1(3) and related statutes and regulations.

Student Characteristics

I. Economic Disadvantage

Introduction to Formula Element

There is a broad consensus across researchers, policymakers, and practitioners that students from low-income homes need more resources to succeed. Therefore, increased funding for economically disadvantaged students should be considered a non-negotiable element of an equitable formula. Moreover, there is a strong and growing research base establishing that the additional investment yields significant returns in academic and long-term life outcomes for these students.[1] These benefits range from higher test scores and high school graduation rates to better future employment rates, earnings, and intergenerational mobility.[2]

Additionally, a high concentration of poverty in a district poses a particular challenge, as resources must stretch to support many high-need students. Socioeconomic segregation is a barrier to achievement in its own right, separate and apart from a student's own economic station; the same economically disadvantaged student is less likely to succeed academically in a high-poverty district than in an economically diverse one.[3] These concerns are worthy of consideration as states construct their funding policies.

In order to implement a policy of increased funding for economically disadvantaged students, the state must have a way to measure economic disadvantage. While students with disabilities or those who are learning English as a second language are identified directly for education purposes, economically disadvantaged students have traditionally been identified through proxy data, including and especially data from the National School Lunch Program. However, recent changes to federal eligibility rules for this program have reduced both the need to collect individual students' household income data and the federal supports available for states and districts seeking to do so.[4] As a result, new data solutions are needed. Any policy in this area should include a method for counting eligible students.

Silver

Policy Recommendation

A generous weight should be applied to the base amount for every student counted as economically disadvantaged. This will provide districts with a substantial amount of supplemental, flexible funding with which to address these students' needs.

To arrive at a count of students eligible for this funding, the state should directly certify students as economically disadvantaged based on their inclusion in the maximum number of existing state and federal programs and designations. These should include Medicaid, the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and the Food Distribution Program on Indian Reservations (FDPIR), as well as the categories of homeless, foster, and refugee students. This approach allows the state to draw on data sources that already exist. That eliminates the administrative burden of counting students separately for this purpose. Using the broadest possible range of program data makes the measure more robust, and helps it withstand changes in federal and state eligibility rules and definitions for individual programs. Generally, this approach also avoids the problem of using numbers from the National School Lunch Program, a longtime data source that has now become less reliable, as discussed under "Introduction to Formula Element" above.

Reference: State Policies Approximating Part or All of this Recommendation

- Oregon: See Ore. Rev. Stat. Ann. § 327.013(1)(c)(A)(v) and related statutes and regulations.
- South Carolina: See S.C. Code Ann. § 11-11-156(A)(2) and related statutes and regulations.

Gold

Policy Recommendation

Generous weights should be applied to the base amount for economically disadvantaged students, with funding increasing based on the concentration of such students in the district. This funding approach recognizes that the challenges of serving students in poverty are nonlinear; communities with high rates of poverty face additional challenges. As a result, while every student from a low-income background needs greater support to succeed, that support should increase in districts where levels of economic disadvantage are high. This can take one of two forms, depending on the specific situation in the state:

1. Apply a sliding-scale weight to the base amount for each student counted as economically disadvantaged. The weight should have a generous minimum value. It should be lowest in districts with the lowest concentrations of disadvantaged students and higher in districts with higher concentrations of such students.

2. Provide funding for economically disadvantaged students using two weights. First, apply a generous, initial weight to the base amount for every economically disadvantaged student in the state. Additionally, in districts where the percentage of economically disadvantaged students exceeds a specified threshold, apply a further weight (effectively increasing the first weight) for every economically disadvantaged student above that threshold.

To arrive at a count of students eligible for this funding and to calculate the concentration of disadvantaged students in each district, the state should directly certify students as economically disadvantaged based on their inclusion in the maximum number of existing state and federal programs and designations. These should include Medicaid, SNAP, TANF, FDPIR, and homeless, foster, and refugee students. In states with high costs of living, special care should be taken to include programs with higher income eligibility thresholds, such as the expanded Medicaid program and Children's Health Insurance Program (CHIP). This will ensure that students are counted if their family incomes are low relative to their states, even if they are higher than those of disadvantaged students elsewhere.

Using a direct certification approach to identifying students has significant benefits, as discussed under the Silver recommendation above. However, this measure relies on state and federal programs' success in enrolling the maximum number of economically disadvantaged participants. It is possible this may undercount economically disadvantaged students in some districts, including those serving immigrant communities and certain rural areas. For districts concerned that direct certification under-reports their need levels due to the nature of the local population, the state should offer an option to administer a state-funded income survey and permit districts to use those results if they reveal a higher count of disadvantaged students.

Reference: State Policies Approximating Part or All of this Recommendation

- California: See Cal. Ed. Code § 42238.02(e-f) and related statutes and regulations.
- Colorado: See Colo. Rev. Stat. Ann. § 4-1-101 22-54-104(4) and related statutes and regulations.

Policy Recommendation

A weight should be applied to the base amount for every student counted as economically disadvantaged. The weight should be set high enough to provide at least double the amount of funding for these students as the base amount does for students with no special needs or disadvantages, in line with research recommendations.[5] Additional funding for those in districts with higher concentrations of economically disadvantaged students (see the Gold recommendation above for a more detailed description of this approach) should build up from this generous floor.

All existing methods of identifying economically disadvantaged students for school funding currently rely on proxies for the measurement of household income—eligibility for other programs, such as the National School Lunch Program, SNAP, and TANF. In addition to the pros and cons described under the Silver and Gold recommendations above, these programs, while useful for identifying the lowest-income students, are binary measures: Students are either eligible or ineligible. Those who are only moderately disadvantaged may not be captured at all, and there is no way to differentiate students at different income levels. States should seek to find ways to use actual household income data from income tax records to more finely assess student and/or community economic disadvantage. This would require new efforts to link different data systems, and given the new data sources in play, states may find that different approaches are worth exploring given their particular policies, geographies, and demographics.

The linkages between data systems could take a number of forms, such as:

1. In states that levy a state income tax, the legislature could direct the state departments of education and revenue to collaborate on the project of linking student address records with the household income information captured in state tax returns. This could provide the state with an anonymized tally of students from homes below a given income threshold (so as to count the students eligible for weighted funding) or numbers of students falling within specified income bands (so as to allow the state to apply different weights to students with different levels of economic need).
2. Any state, even one without a state income tax, could seek a partnership with the federal Treasury Department to link its student address records with the household income information captured in federal tax returns. Like state tax data, this information could yield either a count of students from homes below a given income threshold or counts of students falling within specified income bands, which would be useful for the weighting schemes described in (1) above.
3. Another, more modest, possible partnership with the federal Treasury Department would be one in which state departments of education were provided with anonymized household income data for home addresses falling within each of their school districts, unlinked to student records. This would provide a less granular picture of the economic circumstances of individual students and would be less useful in districts where a smaller share of children are enrolled in the school system, but for most school districts, it would offer a clear perspective on the economic circumstances of the community served. This information could be used to determine a weighting approach, such as providing all students with weighted funding in certain disadvantaged districts.

Note that different data sources have different strengths and weaknesses, and tax data may not resolve all accuracy challenges. States exploring new approaches could consider using multiple data sources to arrive at the best measure of student disadvantage. For example:

1. Different data sources may prove better for identifying economically disadvantaged students at different income levels. Safety net program data is most likely to capture the lowest-income students, while tax

data is more likely to accurately capture those with somewhat higher incomes who more regularly file income tax returns. By using both data sources, states can do more to identify students at different need levels and provide weighted funding accordingly.

2. Different data sources may prove better for identifying economically disadvantaged students in different geographic contexts. For example, the Census Bureau's American Community Survey includes counts of households with school-aged children in each district at different income levels. These counts are derived from sampling and are estimates rather than precise tallies, so they are likely to be more accurate in larger, more populous districts and less so in smaller, more sparse districts. Meanwhile, tax data provides household-level information about students' family incomes, but it may be less accurate in large, urban districts: Because of higher numbers of non-filing immigrant households, as well as because students may experience frequent changes in home address or parent employment, a single annual tax filing may be a less precise reflection of urban students' circumstances. Tax data is more likely to be representative of actual family incomes in rural or suburban areas where these issues tend to be less present. By using both data sources, states may be able to obtain a more accurate picture of economic disadvantage in different types of communities.
3. If tax data is most easily obtained at the community level rather than the student level, as described in (3) above, then the state could use a combined approach: Existing safety net program data could be used to identify students for individual weights, and place-based tax data regarding income levels in the local community could be used to determine where high concentrations of economic disadvantage also call for an additional level of weighted funding.

II. English-Language Learners

Introduction to Formula Element

There is a clear need for students who are learning English to receive specific instruction and additional supports in order to achieve academically. To serve these students effectively, districts need to recruit and/or train specialized staff, establish designated programs either within or alongside the general classroom, provide appropriate materials, and the like. Unsurprisingly, there is a broad research consensus that the cost of educating an English-language learner (ELL) carries costs beyond those associated with students whose native language is English, though specific estimates vary.[6] Therefore, funding targeted for ELLs should be considered a non-negotiable element of an equitable formula.

English-language learners have a range of needs. Some are new arrivals from abroad, while others—the large majority—were born in the United States.[7] Foreign-born ELLs have varied backgrounds: Some come to U.S. schools after uninterrupted, high-quality education experiences, while others have had interrupted or limited schooling in their home countries.[8] Even U.S.-born English-language learners vary in levels of English proficiency, and they require different supports. Some ELLs are new to English instruction, while others have been classified as English learners for years without successfully achieving fluency.[9] Additionally, in some districts, the English-learning population has largely the same native language, but in others, there are many different native languages, posing economy-of-scale challenges to the establishment of targeted instruction programs.[10] Given the diversity of the population, effective ELL instruction may require different levels of resources from district to district. These factors are worthy of state consideration.

Silver

Policy Recommendation

A generous weight should be applied to the base amount for every student counted as an English-language learner under Title III of the federal Elementary and Secondary Education Act.[11] The weight provides districts with a substantial amount of supplemental, flexible funding to support appropriate instruction, including obtaining materials, developing programs, hiring staff, and providing training. Aligning definitions with federal rules provides for consistency between state and federal reporting and funding eligibility.

Reference: State Policies Approximating Part or All of this Recommendation

- Georgia: See Ga. Code Ann. § 20-2-161(b)(18) and related statutes and regulations.
- New Mexico: See N.M. Stat. Ann. § 22-8-22 and related statutes and regulations.

Gold

Policy Recommendation

Generous weights should be applied to the base amount for English-language learners in three tiers, with greater levels of funding provided for students with lower levels of current English language proficiency, as determined using uniform, statewide assessments. This multiple-weights approach allows the state to provide different levels of resources for ELLs with different needs. Additionally, it recognizes the high-cost challenges facing districts (such as those in large cities, locales that employ many migrant workers, and refugee resettlement areas) that enroll a higher proportion of low-English-proficiency students.

The ELL funding policy should also include a mechanism to account for the challenges associated with serving a small number of ELLs overall, such as an inability to hire a designated teacher based on per-pupil funding alone when there are few eligible pupils. There are a number of ways to craft such a mechanism. Examples include:

1. Set a minimum ELL count for districts with few ELL students and provide funding on that inflated basis to ensure sufficient scale to provide a program.
2. Increase the ELL weight for districts enrolling few ELL students.
3. Provide per-pupil funding for districts to participate in a regional ELL program rather than providing for district-level instruction.

Reference: State Policies Approximating Part or All of this Recommendation

- Maine: See Me. Rev. Stat. Ann. tit. 20-A, § 15675(1) and related statutes and regulations.
- Michigan: See Mich. Comp. Laws Ann. § 388.1641 and related statutes and regulations.
- North Dakota: See N.D. Cent. Code Ann. § 15.1-27-03.1 and related statutes and regulations.

Moonshot

Policy Recommendation

Generous weights should be applied to the base amount for English-language learners in multiple tiers, with students assigned to tiers based on two factors: (1) their current level of English language proficiency, with greater levels of funding provided for students at lower proficiency levels; and (2) the prevalence of their native language in the district, with students whose native language is less common assigned higher weights. This scheme not only provides different levels of resources for ELLs with different needs, but also accounts for the

challenges of effectively serving a district population with a range of native languages and a small number of students speaking each one.

In addition to English proficiency and native language, ELLs also vary in their educational backgrounds. Some face the particular challenge of being students with limited or interrupted formal education (SLIFE). However, while it is possible, based on current data collection and assessment practices, to assign students to funded tiers based on English proficiency and native language, very few states systematically track SLIFEs. States should begin to collect data on the enrollment of SLIFEs in their districts. This would lay the groundwork for including SLIFE status in the ELL funding tiers so that the state can systematically provide higher levels of funding for these students. States that do have high-quality systems in place to identify and track these students should begin to provide weighted funding for them.

The state should also employ a mechanism to account for the diseconomies of scale associated with serving a small number of English-language learners overall, as described under the Gold recommendation above.

III. Special Education

Introduction to Formula Element

There is overwhelming agreement—in the education community, among researchers, and in law—that students with disabilities require special services and accommodations in school.[12] Accordingly, districts need additional resources in order to serve these students appropriately.

Properly calibrating funding levels to student needs is especially vital in the area of special education. This is both for the sake of the student, to ensure that their right to a free and appropriate public education is upheld, and for the sake of the district overall, which can have great difficulty absorbing costs for particular high-cost special education students and may be forced to cut spending on other groups of students if special education is underfunded.[13] However, students with disabilities have a broad range of diagnoses and service needs, and targeting funding properly for these diverse students is a challenge. This makes the design of the special education funding mechanism particularly important.

Silver

Policy Recommendation

The state should employ a multiple-weights system to provide funding for students receiving special education services. Students should be assigned to different tiers based on their diagnoses. Those with diagnoses that are typically associated with lower instructional costs, such as speech disorders, should be assigned to lower-funded tiers, while those with diagnoses that tend to carry higher instructional costs, such as traumatic brain injury, should be assigned to higher-funded tiers. If it is appropriate for the state's particular population, diagnoses that reflect a spectrum of ability, such as autism or orthopedic impairment, can be divided into categories such as "high-need" and "low-need" and assigned to two different tiers.

A system of three to five funding tiers is recommended. This degree of differentiation allows states to target funding appropriately without imposing too great an administrative burden on school or district officials and avoids creating the false specificity that can arise when the state attempts to calibrate distinct funding levels for a great number of disability tiers.

Separate from the system of weighted funding, the state should maintain a high-cost fund specifically to support individual students whose resource needs are especially high. When a district enrolls a student with particularly resource-intensive accommodation needs, the budgetary impact can be considerable, especially in small, low-enrollment districts. The state should make funding available by application when a student's costs exceed a specified threshold. This will help ensure that high-need students with disabilities receive needed services while insulating districts against budget shocks.

Reference: State Policies Approximating Part or All of this Recommendation

- Colo. Rev. Stat. Ann. § 22-20-114.7 and related statutes and regulations.
- Georgia: See Ga. Code Ann. § 20-2-161(10-14) and related statutes and regulations.
- Iowa: See Iowa Code Ann. §256B.9 and related statutes and regulations.
- New York: See NY E.D.N. Law § 3602(5) and related statutes and regulations.

Gold

Policy Recommendation

The state should employ a multiple-weights system to provide funding for students receiving special education services. The system should include five tiers, and students should be assigned to different tiers based on a hybrid system incorporating both diagnoses and students' abilities as listed in their Individualized Education Programs (IEPs). Specifically, students with a specified set of diagnoses that tend to be associated with less intensive supports and accommodations are assigned to one of the three lower-funded tiers based on their diagnoses. Students whose diagnoses are generally associated with more intensive supports and accommodations, or those whose diagnoses are more variable, are assigned to one of the five tiers based on the specific abilities and skills listed in their IEPs. This can be done using a state matrix of abilities—a scoring system that assigns point values to individual student abilities and skills that might appear in the descriptive portions of an IEP. Each student's IEP is scored and the point total translates into one of the weighted tiers.

This system does add complexity to a purely diagnosis-based assignment scheme, but it allows for better, more accurate targeting of funds than diagnosis-based funding, since each diagnosis can connote a range of needs. By employing the more complex system only for students with high-cost or variable-cost diagnoses, the state can strike a reasonable balance between simplicity and precision.

Separate from the system of weighted funding, the state should maintain a high-cost fund specifically to support individual students whose resource needs are especially high. The state should make funding available by application when a student's costs exceed a specified threshold, as described under the Silver Policy Recommendation above.

Reference: State Policies Approximating Part or All of this Recommendation

- Colo. Rev. Stat. Ann. § 22-20-114.7 and related statutes and regulations.
- Florida: See Fla. Stat. Ann. § 1011.62(1)(c) and related statutes and regulations.
- New York: See NY E.D.N. Law § 3602(5) and related statutes and regulations.

Moonshot

Policy Recommendation

The state should employ a multiple-weights system to provide funding for students receiving special education services. The system should include five tiers, and all students with disabilities should be assigned to different tiers based on the specific abilities and skills listed in students' IEPs, in accordance with a scoring system like the one described under the Gold recommendation above. By using the scoring system and IEP-based assignment model for *all* students with disabilities rather than assigning some or all students based on their diagnoses, the state can take the guesswork out of assigning funding levels to students and achieve the greatest level of precision in targeting funds to needs.

An ancillary benefit of using this process across all cases is that it creates a layer of state review for IEPs. This will add a level of accountability for the over- or under-identification of students of color and English-language learners as disabled, which have been identified by researchers as issues of concern.[14] The accountability could also offset any perverse monetary incentive to design education programs that are more restrictive in order to secure higher levels of funding, should that be a concern.

Separate from the system of weighted funding, the state should maintain a high-cost fund to support individual students whose costs exceed a specified threshold, as described under the Silver and Gold Policy recommendations above.

IV. Grade Level

Introduction to Formula Element

Adjustments to school district funding for students in different grade levels are common, but by no means universal, in state funding formulas. These adjustments are sometimes used to signal state support for particular grade-specific initiatives and programs or to reflect notions of appropriate class sizes in different grade levels. However, these adjustments have little impact beyond their communicative or symbolic effect, because population sizes do not differ substantially from grade to grade in most districts.

Another grade-level-related consideration in the realm of school funding is which grades to include in the funding formula. Different states have different approaches to funding early childhood education. In some cases, the state funding formula only provides support for half-day rather than full-day kindergarten, and in many states, the formula only extends from K-12 and does not include prekindergarten, but there are states that include all grades PK-12 in the school funding formula. These choices have ramifications for how districts administer their early education programs.

Silver

Policy Recommendation

The state should include prekindergarten and full-day kindergarten as funded grades in the state funding formula. Treating prekindergarten and full-day kindergarten as grades along with all the others provides important support for a PK-12 public school system. It allows for better integration of educational goals from grade to grade than systems that fund prekindergarten through funds that are governed by state departments

other than the education department. Additionally, by applying the same funding weights to per-pupil allocations in prekindergarten and full-day kindergarten as in other grades, the state can extend its commitment to resource equity to its youngest students as well.

Within the K-12 system, there is no need to differentiate funding by grade level. Population sizes are unlikely to differ substantially by grade level in most districts, and therefore, any weights are most likely to just increase all districts' funding in a non-targeted manner. As a result, the state can choose not to apply any grade-level weights and to prioritize simplicity in this part of the funding formula.

Reference: State Policies Approximating Part or All of this Recommendation

- Maine: See Me. Rev. Stat. Ann. tit. 20-A, § 15672(6) and related statutes and regulations.

Gold

Policy Recommendation

The state should include prekindergarten and full-day kindergarten as funded grades in the state funding formula. Treating prekindergarten and full-day kindergarten as grades along with all the others provides important support for a PK-12 public school system, as discussed under the Silver recommendation above.

Within the K-12 system, while unified districts are unlikely to see a significant funding impact from grade-level weights, the state can use these weights to signal its support for particular educational priorities. (These weights will have more practical effect in states where elementary and secondary grades tend to be separated into different school districts and where high student mobility rates cause student population sizes to fluctuate from grade to grade.) Specifically, a weight that increases funding in grades K-3 can indicate support for early learning and literacy. Similarly, a weight that boosts funding in grades 9-12 can show support for college- and career-readiness programming. This general weight for high school grades can aid districts in providing both career and technical education and college preparatory coursework, and it avoids the incentives to separate students into one pathway or the other that may come of providing program-specific weighted funding.

Grade-level weights may be of particular use in Hawaii and Puerto Rico, which operate as single school districts and fund schools directly.

Reference: State Policies Approximating Part or All of this Recommendation

- Maine: See Me. Rev. Stat. Ann. tit. 20-A, § 15672(6) and 15675(3) and related statutes and regulations.
- California: See Cal. Ed. Code § 42238.02(d)(3-4) and related statutes and regulations.

V. Gifted

Introduction to Formula Element

Many states' funding systems include specific funding for gifted and talented students or gifted education programs. Such programs are very widespread; over two-thirds of elementary and middle schools have gifted programs.[15]

While there is a federal definition of giftedness, it is quite general—the Elementary and Secondary Education Act describes students who "give evidence of high achievement capability in areas such as intellectual, creative,

artistic, or leadership capacity, or in specific academic fields."[16] As a result, there is no universal standard for identifying gifted students. Eligibility criteria vary from state to state, and in some cases, are broad enough that identification practices vary significantly between and within districts as well. Enrollment in gifted education programming is therefore sometimes driven by factors other than the student's aptitude. In the words of the National Association for Gifted Children, "In many instances, gifted students must rely on a persistent parent, a responsive teacher, or an innovative school administrator to ensure that they are adequately challenged in the classroom."[17] Given that this kind of persistence or responsiveness depends on adults having the time and resources to devote to the needs of individual gifted students, it is perhaps unsurprising that students in high-poverty schools are less than half as likely to participate in gifted programs than students in low-poverty schools.[18] As a result, designated funding for individual students identified as gifted poses a potential equity problem. Any approach to funding gifted education should be mindful of this issue.

Silver

Policy Recommendation

Where there is an imperative to provide designated funding for gifted students, the state should do so on a "census" basis—that is, it should assume that a standard percentage of every district's enrollment is gifted and provide weighted funding for that number of students. Though giftedness should logically bear no relationship to economic status, in practice, the lack of a uniform federal definition for giftedness and the economic resources required to test students' aptitude can lead to higher numbers of students identified as gifted in more affluent districts. If weighted funding were provided for students specifically identified as gifted, that would only compound the inequity of uneven identification practices. Given that giftedness can be assumed to be uniformly distributed across the population, this approach provides funding for gifted students without creating an inequitable funding distribution.

Reference: State Policies Approximating Part or All of this Recommendation

- Arizona: See Ariz. Rev. Stat. Ann. § 15-779.03 and related statutes and regulations.

Gold

Policy Recommendation

Absent a strong political imperative, there is no particular need to provide specific funding for gifted students. If gifted students are appropriately identified, they will make up roughly the same proportion of every district, and any weights are likely to just increase all districts' funding to the same degree, with no differentiating effect. If gifted students are unevenly identified, weighted funding for identified students would likely only compound that inequity, rewarding higher identification rates in affluent districts. As such, the base amount should simply be set high enough to account for gifted instruction, and these programs should be funded out of general instructional dollars.

Reference: State Policies Approximating Part or All of this Recommendation

- Texas: See Tex. Educ. Code Ann. § 42.156 (2018), as repealed by TX H.B. 3, 86th Legislature, § 4.001(a)(36), paired with the base amount increase in TX H.B. 3, 86th Legislature, § 1.021(a).
- While no specific statutory language is required to implement this recommendation, states that do not provide specific funding for gifted students include Massachusetts, Michigan, New Jersey, and South Dakota, among several other states.

District Characteristics

I. Sparsity and Isolation

Introduction to Formula Element

Districts that are sparsely populated and/or geographically remote face costs that other districts do not. Sparsely populated districts face expensive logistical challenges in the realms of transportation and food service.[19] Remote and rural districts have additional difficulties attracting and retaining qualified and highly credentialed teaching staff.[20] And sparse districts must deal with the general diseconomies of scale that come with low enrollment, which affect the costs of staffing, contracted services, and facilities, among others, and makes it difficult to offer special programs. These challenges must be considered by the state in its funding policy.

It should be noted that low-enrollment, non-sparse districts also face diseconomies of scale, and those with especially small schools will face higher fixed costs. However, unlike school systems in sparse or remote areas, when communities in densely populated areas maintain small districts or operate particularly small schools, they do so by choice rather than out of necessity. That policy choice carries costs that districts should absorb without additional state support.

Silver

Policy Recommendation

While a small number of states are sufficiently dense as to not require any funding for sparse or isolated districts, most states contain at least a small number of districts for which sparsity and/or isolation pose significant challenges. In these states, a sliding-scale weight should be applied to the base amount for each student enrolled in a sparse district. The weight should be applied for individual students rather than to the district's overall funding, just as the weights for student characteristics are, to keep to a uniform formula structure. The weight should be higher in districts with fewer students per square mile and phase out entirely at greater student densities. Since this funding is provided on a per-pupil basis, the upper limit of the sliding scale should be quite generous so as to properly provide for the funding needs of sparse districts with very low enrollments. For instance, a 400-square-mile district tasked with serving fewer than fifty students across three school sites will face extreme diseconomies of scale. In such a district, the sparsity weight should multiply the base amount by four to five times to account for those challenges.

Reference: State Policies Approximating Part or All of this Recommendation

- South Dakota: See S.D. Codified Laws § 13-13-78 and related statutes and regulations.

Gold

Policy Recommendation

While some states are sufficiently dense as to not require any funding for sparse or isolated districts, most states contain at least a small number of districts for which sparsity and/or isolation pose significant challenges. In these states, funding should be provided through two separate weights that are applied to the base amount: One for sparsity and one for isolation.

First, the state should apply a sliding-scale weight to the base amount for each district enrolled in a sparse district. The weight should be higher in districts with fewer students per square mile, as described in the Silver recommendation above.

Second, the state should apply a flat weight to the base amount for students in districts that are isolated. Districts with a United States Census designation of "rural-remote" should be automatically considered isolated for the purposes of this funding.[21] The state may also extend the isolated designation to districts that apply for it if they are isolated from other districts by geographic barriers such as mountain ranges, rivers, unpaved roadways, and other features that make travel challenging.

In addition to the funding that is provided specifically for sparsity and isolation, the state should also account for the increased per-pupil costs of serving English-language learners in districts where few such students are enrolled (see the Gold recommendation under "English-language learners," above).

Reference: State Policies Approximating Part or All of this Recommendation

- Arkansas: Ark. Code Ann. § 6-20-601(a)(5) and related statutes and regulations.
- New Mexico: See N.M. Stat. Ann. § 22-8-23(E) and N.M. Stat. Ann. § 22-8-2(P) and related statutes and regulations.
- South Dakota: See S.D. Codified Laws § 13-13-78 and related statutes and regulations.

Moonshot

Policy Recommendation

While this report attempts to provide manageable frameworks for addressing the challenges of sparsity and isolation through the Gold and Silver recommendations, sparsity is a difficult area to address through generally applicable policy templates. Different states have very different geographies. Some are simply geographically large, with small populations, while others are populous, but contain just one or two very dense population centers and a great deal of sparsely occupied territory. Some are mountainous or divided by bodies of water; some face seasonal, weather-related transportation challenges that do not affect districts during other parts of the year. Depending on the division of districts into attendance zones, density issues may affect secondary students more than elementary students. In other words, the ideal funding solution for sparse or isolated districts is likely to be one that is specific to the individual state. As such, states seeking the best funding structure in this area of policy should craft a bespoke policy that considers its particular geography and circumstances.

II. Within-State Cost Differences

Introduction to Formula Element

It is not uncommon for states to include an adjustment in the funding formula for regional cost of living or for differences in regional labor markets. These adjustments are meant to respond to the different resource costs facing districts in different areas. However, these policies generally fail to consider that areas where living costs are high are generally also areas with strong property values, and their districts tend to have ample local funding. As a result, adjustments for within-state cost differences may have the effect of providing additional support to those districts that need it the least.

Gold

Policy Recommendation

Generally speaking, no adjustment to funding should be made for general within-state cost differences. While adjustments can be made for specific and genuine local cost drivers (like those discussed under "Sparsity and Isolation," above) an adjustment that is driven only by general local costs of living or local wage data is more likely to worsen inequities than resolve them. This is because high-cost areas benefit from a virtuous cycle: costs are higher in areas that are desirable—by definition, areas with strong property values, and therefore, with healthy local tax bases that yield ample school dollars. Moreover, these sought-after locales probably have little trouble attracting teachers. Extra support for these areas is not an effective use of limited state funds.

There may sometimes be districts that do not fit this description—districts where the cost of living is high but the per-student value of tax base is relatively low. For example, some urban school districts face revenue challenges because so much of the potential property tax base is made of tax-exempt universities, hospitals, and the like. Rather than address this challenge through a cost adjustment on the allocation side of the funding formula, however, states should instead focus on setting revenue-side policies that do an effective job of decoupling districts' ultimate funding amounts from their local wealth levels. For recommendations in this area, see "Local Share and Property Tax Rates" below.

There is a possible exception to the recommendation that states not make adjustments specifically for differences in local costs. In some states, there are extreme economic disparities between neighboring districts. In these cases, vastly different districts must seek to recruit and retain teachers within the same high-cost labor market, severely disadvantaging the district that is lower-wealth and higher-need. States where this problem exists can consider offering a funding increase for districts that face this very deep disadvantage relative to their neighbors.

Reference: State Policies Approximating Part or All of this Recommendation

- Texas: See Tex. Educ. Code Ann. § 42.102 (2018), as repealed by TX H.B. 3, 86th Legislature, § 4.001(a)(31)

Local Revenue

I. Local Share and Property Tax Rates

Introduction to Formula Element

In nearly every state, education funding is drawn from a combination of state and local dollars. This need not be the case; two states, Hawaii and Vermont, fund their schools entirely out of state revenue, and when all education dollars are pooled at the state level, the state has the greatest ability to ensure that funding is equitable and that students' resources are not dependent on the wealth of the local community. However, local revenue is a major factor in almost all states, and the school finance policy must address these funds.

Generally speaking, states do so by setting a local share policy. The state first sets its allocation formula, comprised of policies like the ones described in the sections above. Then, the state apportions responsibility for funding each district's formula amount between the state and the district. To do so, the state sets an expected or required local contribution. In the most common policy structure, the local share is expressed as a property tax rate; the specified rate is applied to the district's assessed local property value to calculate the amount that the district is expected to raise. This standard tax rate will yield a larger local share in property-rich districts than in property-poor ones. The state deducts this local share from the district's calculated formula amount and provides the balance as state aid—and accordingly, sends more state aid to property-poor districts than to property-rich ones. This is often referred to as "equalization."

The local share calculation is vital for both adequacy and equity. The rate set for the local share dictates how much local funding will be included in the formula distribution and how much the state is expected to provide, both in total and to districts of different means. It determines whether the contribution asked of high-wealth districts is an appropriate fair share and whether the funding burden borne by low-wealth districts is reasonable.

However, the local share of the formula amount is generally not the only local revenue available to school districts. In the vast majority of states, districts may also raise additional local dollars, either in unrestricted amounts or up to a defined ceiling. Because these collections are considered optional, they are generally not factored into the formula calculation. Thus, in most states, a district may pay its local share of the formula, receive state aid to fill out its formula amount, and also raise and keep extra local funds. These additional dollars are rarely subject to any state equalization efforts. This is a main driver of funding inequity in many states as property-rich districts add to their funding totals in amounts that poorer districts cannot hope to match—or must tax themselves at exorbitant rates to do so. States can combat this inequity by placing appropriate limits on districts' local taxing ability and/or by considering steps that can be taken to equalize dollars raised outside the funding formula. Effectively equalizing both within- and outside-formula dollars is necessary if states are to truly sever the link between local wealth and school funding levels.

In a small number of states, such as Delaware, Indiana, and Idaho, the formula amount is fully funded by the state, but there are still local dollars in the system: Districts are allowed to raise and keep local funds, all of which are separate from the formula amount. Such dollars are subject to little or no equalization by the state. These states face a steep equity challenge. The funding formula is covered out of state revenue even in very wealthy districts, tying up state dollars in districts that do not need the support. Meanwhile, above-formula dollars can push funding totals higher in those same property-rich districts. The result is likely to be a deeply inequitable system in

which wealthy districts have far more money per student. Without equalization, the state can fight this inequity only by establishing an extremely generous and progressive allocation formula, at great expense—and even this is no guarantee of equity over the long term.

A properly crafted policy regarding local share and tax rates must aim to match funding responsibility to districts' ability to pay; to decouple districts' total funding amounts from their local wealth levels to the greatest degree possible; and to achieve these ends without eliminating all local discretion and flexibility in spending.

Silver

Policy Recommendation

The state should specify a required local share tax rate. Districts must levy this tax rate to fund the local share of the formula. This share is deducted from the total formula amount, and the state provides the balance as state aid. This provides for funding equity within the formula amount.

Beyond the state and local division of responsibility for funding the formula itself, the state should set an overall cap on district funding. This should be defined as a percentage of the district's formula amount rather than as a dollar amount or tax rate; for example, the state might choose to set the limit above-formula spending to 15% of the formula amount. Districts may choose to levy taxes beyond the required local share tax rate in order to raise extra dollars up to this limit. This affords districts a modicum of flexibility without allowing high-wealth districts to spend far beyond the means of low-wealth districts. Specifically, setting the limit at a percentage of the formula amount rather than at a given tax rate means that districts' spending must stay within a certain band—one that is related to need rather than to property tax capacity.

In cases of districts with extremely high property values, the required local share tax rate may yield an amount of revenue that exceeds the funding cap. (If the local share tax rate is set at a reasonable level, these cases will be rare.) It is important that districts' ultimate funding levels remain within the same boundaries. To that end, these districts should be limited to raising and spending only up to the funding cap, even if it requires reducing tax rates.

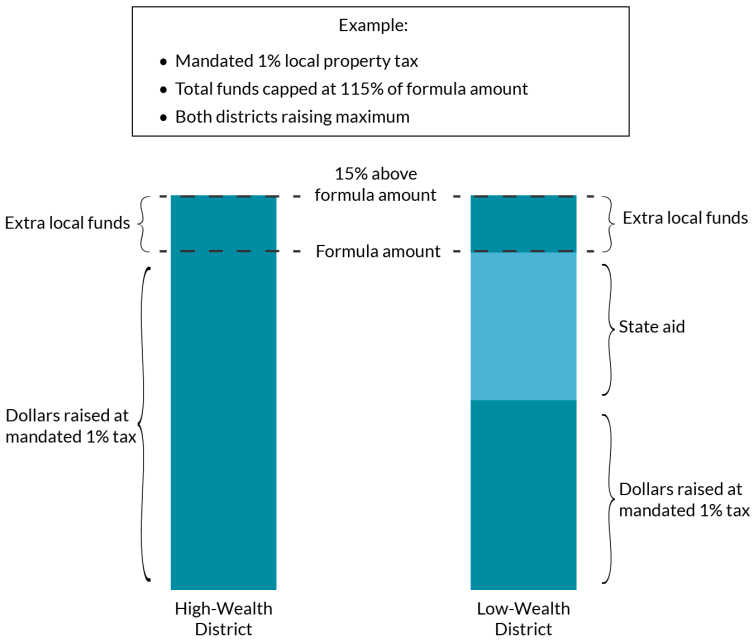

Fig. 2: Silver Recommendation, Local Share and Property Tax Rates

Reference: State Policies Approximating Part or All of this Recommendation

- Alaska: See Alaska Stat. § 14.17.410(b)(2) and (c)(2) and related statutes and regulations.
- Arizona: See Ariz. Rev. Stat. Ann. § 15-481(G) and related statutes and regulations.
- Michigan: See M.I. Const. art. IX, § 6 and related statutes and regulations.

Policy Recommendation

The state should specify a required local share tax rate. Districts must levy this tax rate to fund the local share of the formula. This share is deducted from the total formula amount, and the state provides the balance as state aid. If the local share tax rate yields more than the formula amount for any districts, the excess raised from the required taxes should not be retained by the district; it must be remitted to the state and used to support state education aid distributions to other districts. This structure provides for funding equity within the formula amount and also preserves fairness with regard to the return that districts receive on their tax effort.

If a district wishes to spend more than its formula amount, it should be able to do so by levying taxes over and above the required local share tax rate. Districts that choose this route should have to provide matching dollars to the state to support education aid distributions to other districts: For every above-formula dollar a district raises and spends locally, it should have to remit a second dollar to the state. Additionally, to ensure that districts' spending levels remain within a reasonable distance of each other, the state should set an overall cap on district funding, defined as a percentage of the district's formula amount, as described under the Silver Policy Recommendation above.

This addition of the matching requirement to the spending cap allows districts some latitude in local spending but ensures that no district can self-finance higher budgets without also supporting the spending of other districts. The requirement to provide matching dollars may also disincentivize too-high spending by high-wealth districts.

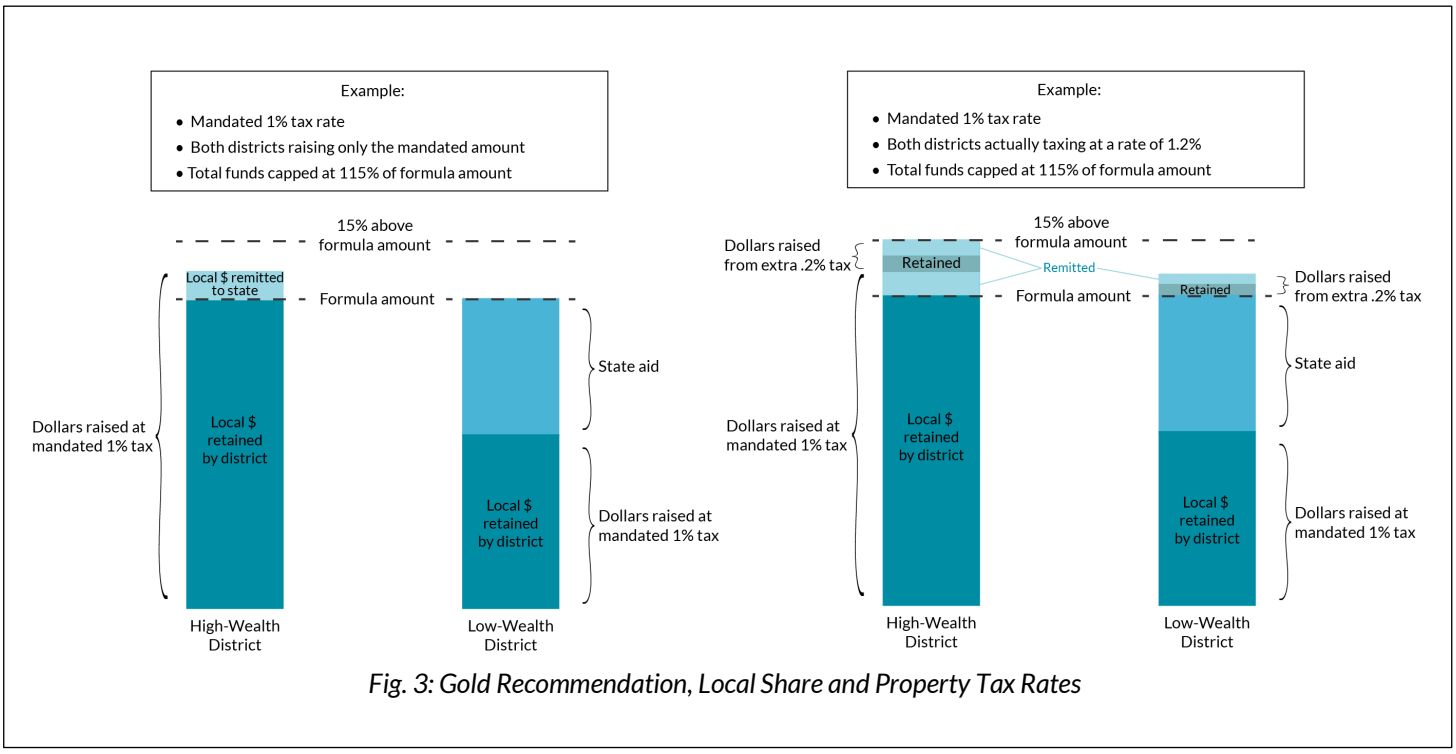

Fig. 3: Gold Recommendation, Local Share and Property Tax Rates

Reference: State Policies Approximating Part or All of this Recommendation

- Wyoming: See Wyo. Stat. Ann. § 21-13-102 and related statutes and regulations.
- Vermont: See Vt. Stat. Ann. tit. 32, § 5401(12-13) and related statutes and regulations.

Moonshot

Policy Recommendation

Rather than splitting the responsibility for funding the formula between state funds and local taxes, the state should levy a designated education tax—a state property tax, the proceeds of which are collected in a state education fund that is used to fund all districts. No school property taxes are raised locally. This full pooling of education dollars at the state level completely cuts the tie between funding amounts and local wealth levels, providing for funding equity without complicated systems for transferring local dollars between districts.

Full state pooling of education dollars need not mean state-dictated spending levels. Instead, districts' spending decisions should determine the state education tax rate paid by their residents. Specifically, there should be a base education tax rate, and every district spending at their formula amount would have its residents pay only the base rate into the state education fund. Districts spending above their formula amounts would see their residents pay a state education tax that is higher than the base rate, in proportion to the degree by which the spending levels exceed the formula amount. (To ensure that the state has enough funding to cover the necessary distributions, the base education tax rate should be set annually, taking into account districts' approved budgets.)

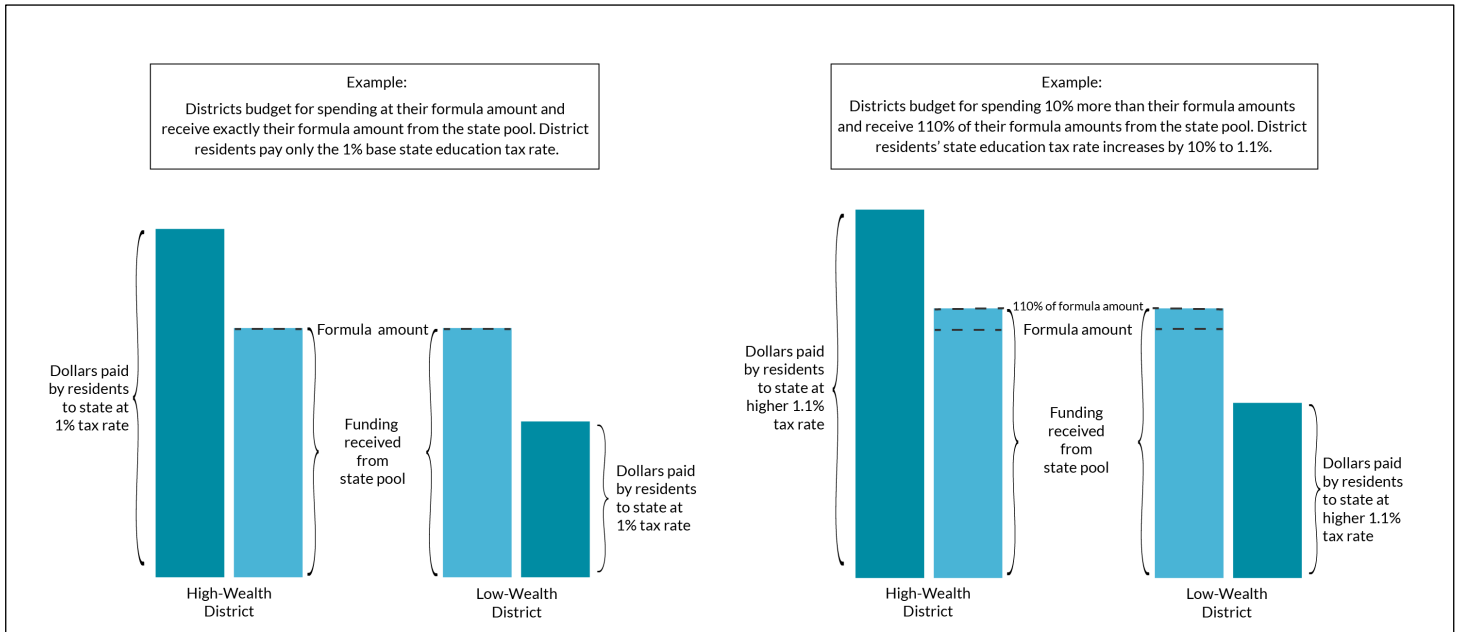

Fig. 4: Moonshot Recommendation, Local Share and Property Tax Rates

For example, consider two districts with different spending levels: District A, with a budget that calls for spending its formula amount, and District B, whose budget calls for spending 10% more than its formula amount. If, after all district budgets are approved, the state sets the base education tax rate at 1%, then residents of District A would

pay that 1% property tax into the state education fund, and the district would receive its formula amount from the state education fund. District B, though, would see its residents pay a state education tax rate that is 10% higher than the base rate—in this example, 1.1%—and the district would receive 110% of its formula amount from the state education fund. This is true regardless of how much revenue the 1.1% tax raises from the district's residents; thus, low-wealth districts would likely draw more money from the fund than their residents paid in, and high-wealth districts would see the reverse. In all cases, though, tax effort would remain in proportion to spending levels: a true fair share.

This arrangement preserves local discretion in spending without sacrificing equity. Equity within the formula amount is assured by the fact that all districts, no matter how property-rich or property-poor, receive their formula amount when residents pay the base rate. By increasing tax rates in proportion to district budgets, the state applies the notion of equitable burden-sharing even to discretionary, above-formula dollars. Tax effort is proportionally aligned to spending, and the value of the district's individual tax base has no effect on what it is able to spend.

To ensure that districts' spending levels remain within a reasonable distance of each other, the state should set an overall cap on district funding, defined as a percentage of the district's formula amount, as described under the Silver Policy Recommendation above.

Reference: State Policies Approximating Part or All of this Recommendation

- Vermont: See Vt. Stat. Ann. tit. 32, § 5402 and related statutes and regulations.

II. Other Local Revenues

Introduction to Formula Element

In many states, districts are permitted to draw upon local revenue sources other than property taxes. These may include local sales or income taxes, fees such as those for motor vehicle registration, or taxes on natural resources such as those for oil extraction or timber harvesting. States differ in how they treat these revenues in the funding formula. Some count these dollars towards the district's local share of the formula amount and consider them in the equalization formula, but more classify them as outside-formula funds and do not subject them to equalization. If not properly addressed in the funding policy, these local revenues can undermine the state's efforts to ensure funding equity across districts.

Silver

Policy Recommendation

Any local revenue sources that districts collect should be considered part of the local share of the formula so that they can be included in the equalization calculation. Local funds of any kind are reflective of the fortunes of the local community. This concept is familiar in the realm of property taxes, because property values are higher in more affluent areas, but it applies to other taxes as well: Districts that happen to include retail areas benefit more from local sales taxes than districts that do not, and districts with the good fortune to contain natural resource deposits may reap the profits of natural resource taxes. These local assets should no more be determinative of a student's education experience than the value of their parent's home. As such, states that permit districts to collect these local taxes should consider their proceeds in the local share calculation. If the state deducts a local

share from each district's formula amount and provides the balance as state aid, it should deduct these revenues as well, so as to ensure that they do not undermine the equity of the funding calculation.

Reference: State Policies Approximating Part or All of this Recommendation

- Arkansas: Ark. Code Ann. § 6-20-2305(a)(1)(A) and 6-20-2303(12) and related statutes and regulations.

Gold

Policy Recommendation

States should not allow districts to raise local revenues, apart from the property taxes that are discussed above (see "Local Share and Property Tax Rates"). States must be concerned with the equity of the school funding system from all sides: whether funding is distributed fairly, and also how the funding burden is apportioned. Most local taxes fall short of equity on both counts.

When it comes to receiving funds, districts will see greater revenues if they happen to contain certain assets—retail areas in the case of sales taxes, high-income neighborhoods in the case of income taxes, etc.—and will be unfairly disadvantaged if they do not, as discussed under the Silver Policy Recommendation. When it comes to the apportionment of the funding burden, local taxes tend to be flat or regressive, demanding too great a contribution from low-income payers. Other than property taxes, the most common local tax type permitted by states for education funding is sales taxes. This is especially concerning from an equity standpoint; sales taxes are regressive, because lower-income families spend a larger share of their income on sales-taxable goods than higher-income families. Moreover, local sales taxes tend to be even more regressive than state sales taxes, since the local taxes often lack grocery exemptions and other policy mechanisms for mitigating the burden that these taxes place on poorer consumers.[22] And even income taxes, which are progressive at the federal level and sometimes at the state level, are generally flat taxes at the local level. States should not allow districts to raise or rely on these inequitable local taxes. Instead, they should focus on raising as much education revenue as possible progressively, and at the state level.

Reference: State Policies Approximating Part or All of this Recommendation

- While no specific statutory language is required to implement this recommendation, states that do not allow the local collection of any non-property taxes for education include Arizona, Delaware, Idaho, Texas, and West Virginia, among several other states.

Conclusion

School funding is a perennial focus for state policymakers, and no wonder. Without a modern, adequate, and equitable funding system, school districts cannot effectively educate students to succeed, whether as citizens of a changing society or as members of an evolving workforce. A close look at per-pupil revenues, though, reveals that in nearly every state, funding for some or all students falls short of what is needed. Often, the students getting the least are the ones with the greatest resource needs, creating wide opportunity gaps and laying the groundwork for persistent social and economic inequality. Meanwhile, public education is one of the largest expenditure categories in every state budget and the largest in many. It is extremely important that the money is spent well. A strong funding formula policy must be structured so that every school district has adequate funding; dollars are allocated equitably and matched to the needs of students and communities; districts are able to use funds in the ways that best serve their student populations; and funding systems are suited to transparency and accountability.

In service of these goals, this guide outlines policy options for each of the core areas of a school funding formula. The following themes emerge from these recommendations:

- Funding should be student-driven. The formula as a whole should be structured around counts of students (both generally, and in particular need categories). Within funding categories, it is often best practice to differentiate funding based on degrees of student need.
- Community conditions matter. Districts must operate within particular contexts, and the funding formula should address specific and genuine local cost drivers. These include both geographic factors and resource needs associated with community demographics.
- States must be vigilant about equity pitfalls. When a policy has the unintended consequence of undermining the equity of the funding distribution, it should be revised or repealed.
- States cannot ensure a fair funding picture solely through the allocation of state funds. State policies must address local revenues as well if the funding burden is to be apportioned fairly and if overall district funding levels are to be equitable.

It is our hope that the policy recommendations offered in this document will serve as a road map for those working to improve school funding formulas in their states.

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