Funding Formula Policy: Moonshot Recommendations

The report *Common Sense and Fairness: Model Policies for State Education Funding* and its companion website **EdBuilder** offer model policies for the important components of school funding formulas. Recommendations are offered in multiple tiers, allowing readers to weigh the pros and cons of different approaches. Recommendations are generally offered at the Silver level (strong enough to advance policy in most states) and Gold level (especially strong and ambitious). In several areas, a Moonshot recommendation is also offered 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, which can make the formula less transparent to the public. For that reason, states should consider which high-priority policy areas call for that tradeoff.

This report presents the Moonshot recommendations for all formula components. Where there is no Moonshot recommendation, the Gold recommendation is included instead.

Formula Fundamentals

There are two fundamental elements of a funding formula: The basic structure and approach of the formula calculation and the nature of the per-pupil base amount. These foundational elements set the parameters for much of the rest of the funding policy and are considered non-negotiable. As such, only one policy recommendation is offered in each of these areas.

I. Formula Type

Every state uses a formula to distribute its school funding. States take different approaches to constructing these formulas. The overall structure of the formula is tremendously important. It determines whether or not the funding allocation is focused on students and their needs; how funding increases or cuts will impact individual education priorities; and how responsive state funding will be to differences in student and community need.

There is one recommended way of structuring a funding formula. This gold-level recommended structure is a prerequisite for the moonshot policies included in this report.

The recommended structure is a weighted student formula. The calculation begins with a base amount—the standard per-pupil allocation. The base is adjusted upward through the application of weights, or multipliers, for categories of students with greater needs (e.g. English-language learners, economically disadvantaged students, and those with disabilities). This approach aligns with key principles: adequacy, through endeavoring to give districts enough for all students; equity, through the responsiveness to differing needs; responsibility, because districts can choose how to spend when funding attaches to the student rather than a program or input; and transparency, which is aided by the ability to match the calculation to counts of students with particular needs. Funding counts should be based on the number of students enrolled in the district—that is, all students for which the district is responsible, not just those in attendance. A student with multiple special needs should generate the full value of all the weights for which they

are eligible.

II. Base Amount

Within student-based funding systems, the first step of the formula is a base 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.

There is one recommended policy regarding the base amount. This gold-level recommended policy is a prerequisite for the moonshot policies included in this report.

The base amount must meaningfully reflect the costs of educating a student with no special needs (including staffing, materials, support services, etc.). The base amount must be uniform statewide: In a weighted student formula, special needs are addressed through the application of weights to the base amount. In order for this system to be transparent and equitable, the base amount cannot differ across districts before weights are applied. Beyond these guidelines, however, no single, numerical recommendation should be made for the proper base amount. Costs and economic conditions vary from state to state, and it would be unrealistic to suggest one figure for all states. A base amount should be set at a level that serves the individual state well and provides an appropriate foundation for an equitable overall formula, within the context of the state's financial realities.

Student Characteristics

Though the base amount is meant to capture the basic costs of educating a student, many students have additional needs that must be met with greater resources. A strong funding policy will take students' circumstances into consideration and will provide funding for those who may require additional supports, different instructional materials, specially trained teachers and staff, or other resource-intensive arrangements. This section provides options for constructing a funding formula that supports students in several different need categories.

I. Economic Disadvantage

Economically disadvantaged students face specific challenges to their wellbeing and academic success. Serving these students well requires increased resources. The formula therefore must include increased funding for economic disadvantage. High concentrations of poverty in a district also pose particular challenges that states should consider.

There are three recommended ways of providing funding for economically disadvantaged students, including the following Moonshot recommendation.

The minimum weight applied to the base amount for each economically disadvantaged student should at least double the amount of funding for these students relative to students with no special needs or disadvantages, in line with research recommendations. Funding should increase from this floor based on the concentration of disadvantaged students in the district. This approach both recognizes the needs of individual disadvantaged students and provides appropriate support

for districts serving high-poverty populations.

With regard to counting eligible students, the state should seek to measure students' actual household income levels using data from income tax records rather than relying on proxy data from other programs. This would require new efforts to link data systems, and states may explore different approaches, such as: linking student address records with income information from state tax returns; partnering with the federal Treasury Department to link student address records with income information from federal tax returns; or seeking anonymized household income data from the federal Treasury Department for home addresses located in each school district. States could also consider using multiple data sources to arrive at the most accurate measure of student disadvantage. Different counting approaches would lend themselves to different methods for distributing weighted funding.

II. English-Language Learners

Students who are learning English require specific instruction and additional supports. The formula must therefore include increased funding for English-language learners. Additionally, these students have a range of needs, including different education histories and levels of English proficiency; this variation is worthy of state consideration.

There are three recommended ways of providing funding for English-language learners, including the following Moonshot recommendation.

Weights should be applied to the base amount for English-language learners (ELLs) in multiple tiers, with students assigned to tiers based on (1) their level of English language proficiency, with more funding for students at lower proficiency levels; and (2) the prevalence of their native language in the district, with more funding for students speaking less common languages. This approach targets funding to students' need levels and accounts for the challenges of effectively serving a district population with a range of native languages. Additionally, the state should lay the groundwork for a funding system that accounts for students' educational histories by beginning to collect data on the enrollment of students with limited or interrupted formal education. Finally, the state should address the diseconomies of scale in districts serving a small number of ELLs, e.g. by inflating the count of ELLs, increasing the ELL weight, or providing funding for regional rather than district-level programming.

III. Special Education

Students with disabilities require, and have a legal right to, special services and accommodations tailored to their diagnoses and abilities. Accordingly, the formula must provide additional resources for these students. Properly calibrating funding levels to the needs of students with disabilities is both important and difficult, making the design of the special education funding mechanism particularly critical.

There are three recommended ways of providing funding for special education, including the following Moonshot recommendation.

The state should provide funding for students with disabilities in 5 weighted tiers. Students should be assigned to different tiers based on the specific abilities and skills listed in students' IEPs. This

can be done using a scoring system that assigns point values to particular abilities and skills; each IEP is scored and the point total translates into one of the weighted tiers. By using the scoring system and IEP-based assignment model for all students with disabilities instead of 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. 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.

IV. Grade Level

Some states' funding formulas include funding adjustments for students in different grade levels. These can be used to signal support for grade-specific initiatives or to reflect notions of appropriate class sizes in different grade levels. However, beyond symbolic impact, these adjustments are unlikely to have a significant effect, because population sizes do not differ substantially by grade level in most districts. Additionally, state practices vary regarding whether prekindergarten and full-day kindergarten should be funded through the main funding formula.

There are two recommended ways of providing funding for students in different grade levels, including Silver and Gold recommendations. The following is the Gold recommendation.

The state should include prekindergarten and full-day kindergarten as funded grades in the state funding formula. Treating these grades in the same manner as all the others provides important support for a PK-12 public school system. 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, such as a K-3 weight to support early learning and literacy or a 9-12 weight to support college- and career-readiness programming. (These weights will have more practical effect in states where elementary and secondary grades tend to be separated into different school districts and in districts where high student mobility rates cause student populations to fluctuate from grade to grade.)

V. Gifted

Some state formulas include specific funding for gifted and talented students. However, methods for identifying gifted students can vary not only between states but even between and within districts. Identification procedures often favor families and communities with means, and as a result, students in high-poverty schools are less likely to participate in gifted education. Any approach to gifted funding must reckon with this issue and guard against inequity.

There are two recommended ways of providing funding for gifted education, including Silver and Gold recommendations. The following is the Gold 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. Instead, 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.

District Characteristics

Some states will want to consider that districts' differing circumstances may carry different costs. Geographic factors in particular can affect districts' resource needs, and state funding formulas can be structured to account for these differences. This section provides policy recommendations for constructing a funding formula that is responsive to specific and important local cost drivers.

I. Sparsity and Isolation

Districts that are sparsely populated or geographically remote face increased costs. Some of their specific functions, like transportation and teacher recruitment, carry greater inherent costs. Sparse districts also deal with general diseconomies of scale. These challenges should be considered in the formula calculation. (It is true that low-enrollment districts in densely populated areas also face diseconomies of scale. However, when communities maintain small districts in these areas, they do so by choice rather than by necessity and must bear the costs of that choice.)

There are three recommended ways of providing funding for sparsity and isolation, including the following Moonshot recommendation.

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. Cost of Living

Some states 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, high-cost areas are often also high-wealth areas. As a result, such adjustments can have the inequitable effect of sending additional money to areas that are already well-off.

There is one recommended way of addressing within-state cost differences.

Generally speaking, no adjustment to funding should be made for general within-state cost differences. While adjustments can be made for specific cost drivers, an adjustment that is driven only by general local cost of living or local wage data is more likely to worsen inequities than resolve them. This is because high-cost areas generally have healthy local tax bases that yield ample school dollars. 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. Rather than address this challenge through a cost adjustment on the allocation side of the funding formula, however, it should be

handled by 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 the Local Revenue section.

Local Revenue

All the policies discussed up to this point have related to the allocation side of the formula, which calculates the amount of funding necessary for each district. Allocation, though, is not the only aspect of funding policy. The state must also set policy regarding revenues: where the money for the formula is raised and whether any funds may be raised for education in addition to formula funding. These policies are vital for both adequacy and equity. They determine how much money is available in each district; how per-pupil funding levels in different districts will compare to each other; and whether each districts' residents are paying their fair share for education. This section provides recommendations for how to apportion the responsibility for funding the formula amount between the state and the district and how to govern local revenue both inside and outside the formula.

I. Local Share and Property Taxes

Nearly all states have a local share policy that determines how much formula funding will come from local property tax dollars and how much from the state. Many also have rules that govern what local school districts may raise outside the formula. If these policies are properly constructed, they can ensure that districts have the funding they need instead of the funding that their local wealth levels can support.

There are three recommended ways of setting a local share of the formula and handling local property taxes, including the following Moonshot recommendation.

Rather than splitting the responsibility for funding the formula between state funds and local taxes, the state should levy a state property tax for education. No school property taxes are raised locally. Districts' spending decisions should determine the state education tax rate paid by their residents. There should be a base education tax rate, and every district spending at their formula amount would see its residents pay the base rate. Districts spending above their formula amounts would see their residents pay a proportionally higher state tax rate. For example, consider two districts with different spending levels when the base education tax rate is set at 2%. District A's budget calls for spending its formula amount, so residents of District A pay the base 2% property tax into the state education fund, and the district receives its formula amount from the fund. District B's budget calls for spending 10% more than its formula amount, so residents of District B pay a state education tax rate that is 10% higher (2.2% in this example) and the district receives 110% of its formula amount from the state education fund. This is true regardless of how much revenue the 2.2% 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.

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. Additionally, to ensure that districts' spending levels remain within a reasonable range, the state

should set an overall cap on district funding, defined as a percentage of the district's formula amount.

II. Other Local Revenues

In many states, districts may draw upon local revenue sources other than property taxes. These may include local government fees as well as taxes on sales, income, and natural resource extraction. If this funding is not considered in the formula calculation, then it can be a serious driver of inequity.

There are two recommended ways of providing funding for students in different grade levels, including Silver and Gold recommendations. The following is the Gold recommendation.

States should not allow local school taxes, apart from the property taxes discussed under "Local Share and Property Taxes." Most local taxes fall short of equity on both sides of the funding calculus (the funding distribution and the apportionment of the funding burden). Regarding distribution, districts see greater revenues if they happen to contain certain taxable assets and are unfairly disadvantaged if not. Regarding the funding burden, local taxes tend to demand too much of low-income payers. Other than property, the most common local tax for education is sales. Sales taxes are regressive generally, because lower-income families spend a larger share of their income on sales-taxable goods. Local sales taxes tend to be especially regressive, lacking grocery exemptions and other mechanisms for mitigating regressiveness. Even income taxes are generally flat taxes at the local level. States should not allow districts to rely on these inequitable local taxes. Instead, they should seek to raise education revenue progressively, at the state level.

To explore these and other funding formula policy recommendations, visit https://edbuild.org/content/edbuilder.