

# Funding Formula Policy Recommendations: Executive Summary

## 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.

#### Gold Policy Recommendation

The recommended structure is a weighted student formula: a base per-pupil amount that is adjusted upward through the application of weights for categories of students with more resource-intensive needs. Funding counts should be based on the number of students enrolled in the district. A student with multiple special needs should generate the full value of all 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.

#### Gold Policy Recommendation

The base amount should reflect the costs of educating a single student. It must be uniform statewide. Adjustments will be made by applying weights to the base amount, so the base itself cannot differ across districts before weighting. No single recommendation should be made for the

size of the base amount. Costs and conditions vary, and the base should be set at a level that serves each individual state.

## 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.

#### Silver Policy Recommendation

A generous weight should be applied to the base amount for every student counted as economically disadvantaged. To arrive at a count of eligible students, the state should directly certify students as economically disadvantaged based on their inclusion in existing programs and designations. These should include Medicaid, SNAP, TANF, and FDPIR, as well as homeless, foster, and refugee students.

#### 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. To arrive at a count of eligible students, the state should directly certify students as economically disadvantaged based on their inclusion in existing state and federal programs and designations, including Medicaid, SNAP, TANF, and FDPIR, as well as homeless, foster, and refugee students. States with high costs of living should include the expanded Medicaid program and CHIP as well. Because safety-net programs may enroll fewer disadvantaged students in certain districts, the state should offer districts the option to administer a state-funded income survey instead.

#### Moonshot Policy Recommendation

The minimum weight applied for each economically disadvantaged student should at least double the base amount for these students. Funding should increase from this floor based on the concentration of disadvantaged students in the district. With regard to counting eligible students,

the state should seek to measure students' actual household income levels rather than relying on proxy data from other programs. This would require new data system linkages, and states may explore the benefits of using either state or federal tax data, and of using multiple data sources to arrive at the most accurate counts. Different approaches would lend themselves to different methods for distributing 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.

### Silver Policy Recommendation

A generous weight should be applied to the base amount for every English-language learner to generate supplemental, flexible funding.

### Gold Policy Recommendation

Weights should be applied to the base amount for English-language learners (ELLs) in three tiers, with more funding provided for students with lower levels of English proficiency. The state should also address the diseconomies of scale in districts serving a small number of ELLs, e.g. by inflating the count of ELL students, increasing the ELL weight for such districts, or providing funding for regional rather than district-level programming.

### Moonshot Policy Recommendation

Weights should be applied to the base amount for English-language learners (ELLs) in multiple tiers, with more funding for students at lower levels of English proficiency and those whose native language is less common in the district. The state should also begin to collect data on students with limited/interrupted formal education. Finally, the state should address the diseconomies of scale in districts serving a small number of ELLs.

## 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.

### Silver Policy Recommendation

The state should provide funding for students with disabilities in 3-5 weighted tiers. Students should be assigned to different tiers based on their diagnoses. Additionally, the state should maintain a high-cost fund specifically to support individual students whose resource needs are especially high.

### Gold Policy Recommendation

The state should fund students with disabilities in 5 weighted tiers. Students should be assigned to tiers using a hybrid system. Students with lower-cost diagnoses are assigned to the lower-funded tiers. Students with higher-cost or variable diagnoses are assigned to tiers based on their abilities. Separately, the state should maintain a high-cost fund to support students whose resource needs are especially high.

### Moonshot Policy Recommendation

The state should provide funding for students with disabilities in 5 weighted tiers. Students with disabilities should be assigned to different tiers based on their specific abilities and skills. By using this model for all students with disabilities, the state best targets funds to needs. Separately, the state should maintain a high-cost fund to support 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.

### Silver Policy Recommendation

The state should include prekindergarten and full-day kindergarten as funded grades in the state funding formula. Within the K-12 system, though, there is no need to differentiate funding by grade level. Population usually does not differ substantially by grade level, so weights are unlikely to offer real funding differentiation.

### Gold Policy Recommendation

The state should include prekindergarten and full-day kindergarten as funded grades in the state funding formula. Within the K-12 system, while most districts are unlikely to see a significant funding impact from grade-level weights, the state can still use these weights to signal its support

for grade-specific educational priorities.

## 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.

### Silver Policy Recommendation

A state that wishes to provide designated funding for gifted students should do so on a “census” basis, assuming that a standard percentage of every district’s enrollment is gifted and provide weighted funding for that number of students.

### Gold Policy Recommendation

Given that gifted students, if appropriately identified, will make up roughly the same proportion of every district, there is no particular need to account for these students specifically in calculating districts’ funding. Instead, 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.

### Silver Policy Recommendation

Most states contain 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 higher in districts with fewer students per square mile and phase out entirely at greater student densities.

### Gold Policy Recommendation

Most states contain 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:

1. A sliding-scale weight to the base amount for each student enrolled in a sparse district that is higher in districts with fewer students per square mile.
2. A flat weight to the base amount for students in districts that are isolated.

### Moonshot Policy Recommendation

Different states have very different geographies. 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.

### Gold Policy Recommendation

Generally speaking, no adjustment to funding should be made for general within-state cost differences. 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 funds. In most cases, an adjustment based on local cost of living or local wage data is more likely to worsen inequities than resolve them.

## 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.

### Silver Policy Recommendation

The state should specify a required local share tax rate that districts must levy to fund the local share of the formula. This share is deducted from the total formula amount, and the state provides the balance. Separate from the formula, the districts may levy optional taxes in order to raise extra dollars, up to a limit that is set at a percentage of the formula amount.

### Gold 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. If the required tax rate yields more than the formula amount, the excess raised must be remitted to the state to support education aid for other districts. Separate from the formula, districts may levy optional taxes in order to raise extra dollars, up to a limit that is set at a percentage of the formula amount. Districts doing this should have to provide matching dollars to the state to support state aid for other districts: For every above-formula dollar a district raises locally, it must remit a second dollar to the state.

### Moonshot Policy Recommendation

The state should levy a state property tax for education, with no school property taxes raised locally. Districts' spending decisions determine the state education tax rate paid by their residents: Districts spending their formula amount would see residents pay a base tax rate, and districts spending above their formula amounts would see their residents pay a proportionally higher state tax rate. Keeping tax effort in proportion to spending levels means 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, 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 handling other local revenues.

### Silver Policy Recommendation

All local revenues that are collected for education should be considered part of the local share of the formula, whether these are sales taxes, income taxes, severance taxes, fees, or any other type of local revenue. That way, they can be appropriately considered in the state's assessment of how able a district is to self-fund its formula amount and how much state support it needs.

### Gold Policy Recommendation

States should not allow local school taxes, apart from the property taxes discussed under “Local Share and Property Taxes.” These taxes unfairly advantage districts that happen to contain certain taxable assets and tend to place too great a burden on low-income payers. Instead, states should seek to raise education revenue progressively and at the state level.

To explore these funding formula policy recommendations, visit <https://edbuild.org/content/edbuidler>.

