

Funding Formula Policy: Gold 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. In every area of policy, a Gold-level recommendation is offered. These policies are strong and ambitious, and while they may be uncommon, they are still preceded in existing state practices. This report presents the Gold recommendations for all formula components.

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.

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.

Similar State Policies:

Hawaii: See Haw. Rev. Stat. Ann. § 302A-1303.5-302A-1303.6 (2020).

Kentucky: See Ky. Rev. Stat. Ann. § 157.360 (2020).

North Dakota: See N.D. Cent. Code Ann. § 15.1-27-03.1 (2020).

Oklahoma: See Okla. Stat. tit. 70, § 18-201.1 (2020).

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.

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.

Similar State Policies:

Connecticut: See Conn. Gen. Stat. Ann. § 10-262f(9) (2020).

North Dakota: See N.D. Cent. Code Ann. § 15.1-27-04.1(3) (2020).

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.

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 can be done either with a single, sliding-scale weight, or with two weights: an initial weight applied for every disadvantaged student and an add-on weight applied for disadvantaged students that make up more than a given percentage of district enrollment. This approach both recognizes the needs of individual disadvantaged students and provides appropriate support for districts serving high-poverty populations.

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.

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 homeless, foster, and refugee students. States with high costs of living should also include programs with higher income eligibility thresholds, such as the expanded Medicaid program and Children’s Health Insurance Program (CHIP). Additionally, because safety-net programs may enroll fewer disadvantaged students in certain districts, including those serving immigrant communities and some rural areas, the state should offer districts the option to administer a state-funded income survey and to use those results if they reveal a higher count of disadvantaged students.

Similar State Policies:

California: See Cal. Ed. Code § 42238.02(e-f) (2020).

Colorado: See Colo. Rev. Stat. Ann. § 4-1-101 22-54-104(4) (2020).

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.

Generous weights should be applied to the base amount for English-language learners (ELLs) in three tiers, with greater levels of funding provided for students with lower levels of current English language proficiency. This approach allows the state to provide different levels of resources for ELLs with different needs and recognizes the costs facing districts that enroll a higher proportion of low-English-proficiency students. The state should also employ a mechanism to account for the diseconomies of scale associated with serving a small number of ELLs overall.

Examples include:

1. Set a minimum ELL count for districts with few ELL students and provide funding on that inflated basis.
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.

Similar State Policies:

Maine: See Me. Rev. Stat. Ann. tit. 20-A, § 15675(1) (2020).

Michigan: See Mich. Comp. Laws Ann. § 388.1641 (2020).

North Dakota: See N.D. Cent. Code Ann. § 15.1-27-03.1 (2020).

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.

The state should provide funding for students with disabilities in 5 weighted tiers. Students should

be assigned to different tiers using a hybrid system incorporating both diagnoses and students' abilities. Students whose diagnoses tend to carry lower instructional costs are assigned to one of the three lower-funded tiers based on their diagnoses. Students whose diagnoses are either more variable or tend to carry higher costs are assigned to tiers based on the abilities listed in their Individualized Education Programs (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. This hybrid system is more complex than a purely diagnosis-based assignment scheme, but it allows for better targeting of funds for the students with the most complex diagnoses. 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.

Similar State Policies:

Colorado: Colo. Rev. Stat. Ann. § 22-20-114.7 (2020).

Florida: See Fla. Stat. Ann. § 1011.62(1)(c) (2020).

New York: See NY E.D.N. Law § 3602(5) (2020).

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.

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.)

Similar State Policies:

Maine: See Me. Rev. Stat. Ann. tit. 20-A, § 15672(6) (2020).

California: See Cal. Ed. Code § 42238.02(d)(3-4) (2020).

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.

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.

Similar State Policies:

Texas: See Tex. Educ. Code Ann. § 42.156 (2018) and TX H.B. 3, 86th Legislature, § 4.001(a)(36) and § 1.021(a).

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.)

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: One for sparsity and one for isolation. First, the state should apply a sliding-scale weight 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. Second, the state should apply a flat weight to the base amount for students in districts that are isolated—those with a U.S. Census designation of “rural-remote,” as well as districts that the state considers isolated because they are separated from other districts by geographic barriers that make travel challenging.

Similar State Policies:

Arkansas: Ark. Code Ann. § 6-20-601(a)(5) (2020).

New Mexico: See N.M. Stat. Ann. § 22-8-23(E) (2020).

South Dakota: See S.D. Codified Laws § 13-13-78 (2020).

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.

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.

Similar State Policies:

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

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.

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 required tax rate yields more than the formula amount, the excess raised 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 required tax effort. A district wishing to spend more than its formula amount may levy optional taxes to raise extra dollars, up to an overall funding cap 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 education aid

distributions to other districts: For every above-formula dollar a district raises and spends locally, it must remit a second dollar to the state. This pairing of a spending cap with a matching requirement 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.

Similar State Policies:

Wyoming: See Wyo. Stat. Ann. § 21-13-102 (2020).

Vermont: See Vt. Stat. Ann. tit. 32, § 5401(12-13) (2020).

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.

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.

Similar State Policies:

States that do not allow other taxes for education include Arizona, Delaware, Idaho, Texas, and West Virginia, among others.

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

