

State Funding Issues for Small and Isolated Schools and Districts

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September 2005

All states have devised funding programs and policies that address the unique geographic and demographic conditions within the state. In the case of Montana, with its miles and miles of open space and relatively small population, the issue of how best to fund both its small schools and districts as well as those that are isolated is an important component to the state's overall funding program. Small and isolated schools often have different needs and face costs that mid- and large-size districts do not have. To help school leaders in Montana better understand how to provide adequate and effective funding to these districts, staff from the Education Commission of the States (ECS) reviewed the funding formulas in 11 different states to determine what, if any, additional funding is provided to small and isolated schools and districts. The states chosen for this study were: Alaska, Arkansas, Idaho, Minnesota, North Dakota, Oregon, South Dakota, Vermont, Washington, West Virginia and Wyoming. These 11 states were chosen for review due to the preponderance of small schools and districts within their systems.

Isolated Versus Small Schools

The term "small schools/districts" in state education funding formulas simply means those schools/districts with student enrollment numbers that fall within a legislatively defined range – often under 50 or 100 students. The term "isolated schools" is used to refer to schools that are geographically isolated and require additional resources to provide an adequate education for students. Some states use terms other than isolated such as "remote and necessary schools," "small and remote schools" and "separate schools." These isolated schools often, but not always, have low student enrollment numbers that would also define them as small schools.

Funding Small Schools

Four of the states reviewed in this study (Alaska, Idaho, North Dakota and South Dakota) have adjustments within their school funding formulas for small schools or districts regardless of whether they are geographically isolated or not. Each of these four states uses different formulas to provide additional funding to small schools:

- **Alaska** provides additional funding for schools with student enrollments of 250 students or less. This additional funding is given to schools by allowing them to increase their student count numbers. Schools with real student enrollments of less than 20 students are allowed to report an enrollment of 39.6 students. This increase in reported student enrollment decreases until there is no benefit for schools of over 250 students.
- **Idaho** distributes funds to districts by funding teaching positions, which are based on a set teacher-student ratio. In the state's formula the smallest districts (those under 33.5 students) receive one paid teacher position for every 12 students while the largest districts (those with 300 students or more) receive one paid teacher position for every 20 to 23 students (based on the students' grade level).

- **North Dakota** provides additional funding to small districts by allowing them to increase their student counts for school funding purposes. High school districts with fewer than 75 students can increase student-funding counts by up to 62.5%. One-room elementary schools can increase their student counts by up to 28% for funding purposes, while other elementary districts with fewer than 100 students can increase student counts by up to 9%. Those high school districts with between 75 and 149 students can increase their student counts by up to 33.5%.
- **South Dakota** provides additional funding to small districts also by allowing an increase in student counts. Districts with fewer than 200 students can increase their student counts by 20% for the purpose of school funding.

Identification of Isolated Schools

Nine of the states reviewed for this survey have special provisions for isolated schools in their funding formulas. They are: Arkansas, Idaho, Minnesota, North Dakota, Oregon, Vermont, Washington, West Virginia and Wyoming. Each of these nine states uses a combination of factors to define an isolated school, including: geographic distance from one school to the next; presence of a geographic barrier; size of the school or district, or even the density of the local population. In addition to measurable factors, some states rely on the judgment of state policy leaders to determine if a district should qualify as isolated in the state's funding formula.

Geographic Considerations

Six of the states in this study use physical distance from other schools as an identifier of an isolated school. Of these, five use mileage from one school to the next as the identifier of isolated schools. In these five states the distances range from eight miles from the nearest school (Oregon) to 20 miles (North Dakota). The state of Washington uses a slightly different approach: a school is defined as being isolated if a student has to travel a distance of one hour or more to get to school. Following are the measures used in each of these six states:

- Arkansas requires a distance of 12 miles to the nearest school
- Idaho requires a distance of 10 miles (elementary) or 15 miles (secondary) to the nearest school
- Minnesota requires a distance of 19 miles (elementary) to the nearest school
- North Dakota requires a distance of 15 miles (elementary) or 20 miles (secondary) to the nearest school
- Oregon requires a distance of eight miles to the nearest school (K-8)
- Washington – travel time must be one hour or more for students.

Other Considerations

Three states (Arkansas, Minnesota and Washington) that use distance as part of their definition of isolated schools also use other criteria as identifiers. Arkansas requires a school district to meet all the following requirements, in addition to the set distance from other schools, to be defined as isolated: that it fits within a defined geographic size; that it have a "density ratio" of below 1.5 students per square mile; that less than 50% of the roads in the district are paved; and that there is a geographic barrier to the transportation of students between the district and neighboring schools.

In Minnesota, the state uses a formula for identifying secondary schools as isolated. This formula uses a combination of district size and distance from other schools and is referred to as the "Isolation Index."

For a school to be defined as isolated in Washington State, it must not only meet the geographic isolation definition listed above, but also have the presence of an "intact and permanent community."

State Approval

In West Virginia and Wyoming, schools/districts do not need to meet any pre-set definitions to qualify as isolated, they simply need the approval of the state superintendent. In Idaho and Washington, districts need to meet both the pre-set definitions of an isolated school, and they need the approval of the state board of education.

Maximum Size of an Isolated School/District

Eight of the nine states that allow for additional funding for isolated schools have created a cap on how large a school or district can be and still qualify as isolated (Idaho is the exception). Four of the states in this study (Arkansas, Minnesota, Vermont and West Virginia) have maximum size limits for isolated districts. These size limits range from 100 (Vermont) to 1,400 (West Virginia) students per district. The other four states (North Dakota, Oregon, Washington and Wyoming) have school-size caps for the definition of isolated. These size caps range from 35 (North Dakota) to 599 (Wyoming) students per school. The following are the caps that each of the eight states has developed:

- Arkansas – a district's average daily membership is less than 350 students
- Minnesota – a district's average daily membership is no more than 140 for elementary schools and no more than 400 for secondary schools
- North Dakota – average daily membership of no more than 50 students for elementary schools and no more than 35 students for secondary schools
- Oregon – average daily membership per school of no more than 350 for high schools or 224 for K-8 schools
- Vermont – average daily membership below 100 students per district (based on a two-year average)
- Washington – average daily membership per school of no more than 300 for a secondary school or 100 for a K-8 school
- West Virginia – average daily membership of less than 1,400 per county/district
- Wyoming – average daily membership per school of no more than 599 for a high school, 299 for a middle school or 263 for an elementary school.

Additional Funding for Isolated Schools

Once a state has designated a school or district as isolated, the amount of additional funds it is entitled to, and the way those funds are distributed, varies from state to state. In three states (Idaho, West Virginia and Wyoming), the amount of additional funding provided to an isolated school or district is at the discretion of state policymakers. In Idaho, any additional funding for isolated schools is determined by the state board of education as needed to provide students with an adequate education in the district. In both West Virginia and Wyoming, any supplemental grants for isolated schools and districts are left to the discretion of the state's superintendent of public education. The remaining six states provide funding to isolated schools or districts on a sliding scale based on the school or district's size. The details of each state's funding system are as follows:

- Arkansas – modification of funding formula to provide additional funds based on school size
- Minnesota – supplemental grant increasing the per-student allowance by 1%-100%, depending on school size
- North Dakota – modification of funding formula, increasing the per-student weighting factor by 20%
- Oregon – supplemental grant increasing the per-student allowance by 0.3%-100%, depending on school size
- Vermont – supplemental grant of up to \$2,500 per student based on school size

- Washington – modification of funding formula to provide additional funding for full-time teacher positions.

Recommendations

In Montana, 54.4% of the public schools have enrollments under 100 students – nationally only South Dakota (54.6%) has a higher percentage of small schools.¹ The percentage of schools across the United States with student enrollments under 100 is 10.8%, which is 43.6% lower than Montana. Comparing national student enrollment numbers to Montana, however, may not be as telling as comparing Montana's school numbers with other rural western states. The seven rural western states that have comparable demographics to Montana (Alaska, Idaho, Nebraska, Kansas, North Dakota, South Dakota and Wyoming) have 32.1% of schools with enrollments of less than 100 students. To put these numbers in perspective, if Montana wanted to have the same percentage of small schools as the other rural western states, it would have to consolidate 285 of its smallest schools, which, of course, is not recommended. However, state policymakers and school leaders should examine the state's school funding system so it does not provide incentive for the creation and retention of small schools.

One reason for the disproportionately high number of small schools in Montana may be the state's current funding structure. The state guarantees a "basic entitlement" of \$19,859 to elementary school districts and \$220,646 to high school districts. This guaranteed amount of funding to high school districts actually provides an incentive to keep student enrollment low. For example, a high school district with 50 students and one with five students would receive the same amount of funding. The five-student district would actually be receiving over \$44,000 per student while the 50-student school would only receive approximately \$4,400 per student. The current system for funding high school districts may explain why 70% of the state's high schools have 50 students or less while only 40% of the state's elementary schools have enrollments that low. The state could lower the number of small high schools – and thus reduce their education cost – through one of three strategies:

1. *Lower the basic entitlement amount for high schools to a number closer to the elementary entitlement amount.* By lowering the "basic entitlement" to high school districts from \$220,646 to an amount closer to \$19,859, high schools around the state would have a greater incentive to look for efficiencies through consolidation. A negative impact of this recommendation could be the closure of some small high schools that are geographically isolated. The lower base-funding amount may prove to be insufficient to allow isolated schools to remain open – which would leave some students without any viable education options.
2. *Provide a financial incentive to schools that voluntarily consolidate with another school/district.* Providing schools and districts with additional funding for consolidation might encourage them to consolidate, however, it would produce little to no financial benefit to the state. Several states have attempted to hold schools/districts financially harmless in the first years of consolidation only to have this benefit phase out after a period of time. While this type of a phased-out system would provide a financial benefit to the state after several years, it also would be unlikely that many schools/districts would take advantage of this option.
3. *Create an "isolated school" entitlement amount that continues to provide a large basic entitlement to small schools – but only if they meet the state's definition of isolated.* This type of change to the funding system would allow the state to continue to provide isolated high school districts with a large basic entitlement guarantee but would lower that guarantee for schools that are smaller by choice and not by necessity. It would not necessarily force non-isolated small schools to consolidate, but it would reduce the financial benefit they have to remain small.

¹ National Center for Educational Statistics, *Overview of Elementary and Secondary Schools and Districts: 2001-2002*. Washington, DC: NCES, May 2003.

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