

# Understanding State School Funding

▶ The first step toward quality reforms

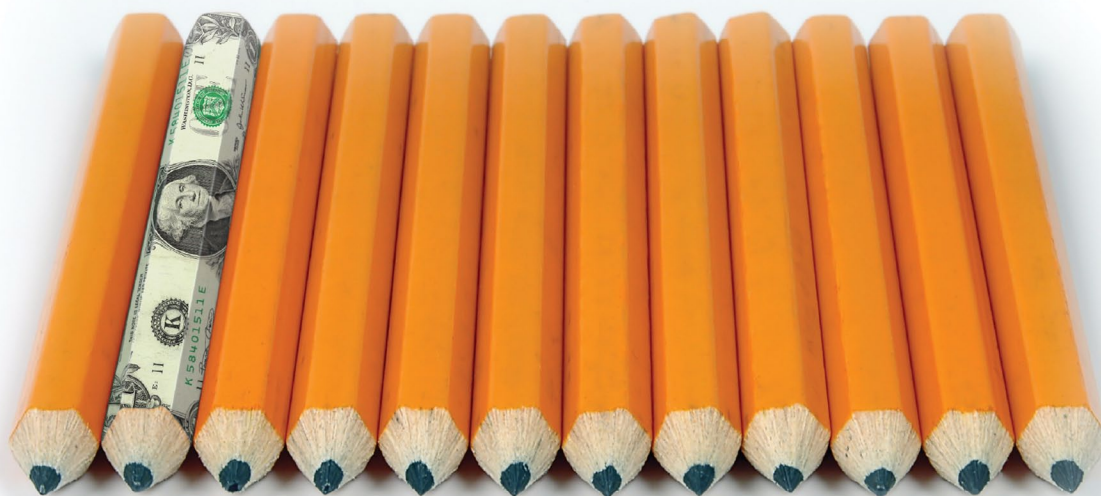
*Finance policies must be linked specifically to quality improvements (in education).<sup>1</sup>*

## What's Inside

- ▶ How do funding formulas really work?
- ▶ How do states go about counting students?
- ▶ How are high-need students funded?
- ▶ What is not included in the state's primary funding formula?

This quote, taken from a piece written by the Education Commission of the States (ECS) nearly 30 years ago, demonstrates that researchers have long recognized the relationship between quality education reform and the structure of a state's school funding system. However, many policymakers continue to view their state's school funding formula not as a tool for reform but as a barrier to change. Policymakers tend to view the way that their state funds schools as a byzantine system of rules, regulations, and formulas that is only comprehensible to a handful of people. This perception scares many policymakers away from even trying to grasp how their funding formula works. When policymakers don't understand the basics of their state's funding system, it is difficult for them to determine what changes are needed to encourage innovation.

This issue of *The Progress of Education Reform* sets out to ease some of the confusion by helping readers better understand these complex systems, with the hope that this knowledge will be used to help support education reform in the states.



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## Why school funding stopped being simple

A 1969 study from the Council of Chief State School Officers provides a detailed history of how and why state funding formulas became more complex.<sup>2</sup> It describes how the amount of state funding for education increased from \$44 million in 1900 to \$372 million by 1930—a seven-fold increase. By 1960, states were expending \$5.7 billion on public education—14 times that of 1930 levels. Such large increases in spending exacerbated issues related to the state formulas.

During the early 1900s, for example, states distributed funds to school districts based on “flat grants” that provided one basic dollar amount per student to each district regardless of its wealth or need. Because each enrolled student received the same dollar amount from the state, districts with greater needs and/or lower wealth (ability to raise local revenues) often were on unequal footing. However, flat grants were easy for the public, parents, and school administrators to understand. Conversely, more affluent districts received the same amount from the state, even though their communities generated greater local revenues for schools and might have had fewer low-income or high-need students to serve. This created funding inequities among districts. As state education funding levels began to dramatically increase, recognition of these variations ultimately pushed state leaders to revise their funding systems to take into account both a district’s need and relative wealth.

In the 1920s, states began to make use of a new education funding system known as “foundation formulas,” whereby funding is provided to districts on a sliding scale based on their relative wealth. In the 1930s, states began to further adjust these formulas to address the extra costs associated with student populations that required a higher level of resources based on their needs, including those considered “at-risk” of failing, students with disabilities, and students for whom English was not their primary language.

Starting in the 1960s, states began further adjusting their funding formulas with the goal of creating greater equity in funding among districts. In the 1980s, and continuing to today, there has been a movement to adjust funding formulas further for such things as regional costs, district size, and performance incentives. Each of the changes made since 1900 was designed to improve the educational experience of students, especially those from disadvantaged socioeconomic backgrounds. As a consequence, each brought with it a new level of complexity to state funding systems. Now, instead of receiving a set dollar amount per student as they did prior to the 1920s, districts receive funding from the state based on a series of complex and overlapping formulas.

### Understanding State Education Funding Systems

While each of the 50 states uses a different system, there are more similarities than one might expect. If you understand these similarities—and know where to look for them in the formula—you will be better equipped to understand what your state’s formula is capable or incapable of doing.



## Two Basic Ways to Fund Schools

States fund public education either by 1) providing a school district/charter school with a set amount of funding per pupil or 2) by funding a number of positions (teachers, principals, counselors, librarians, etc.) per school. A study of school funding systems by ECS found that 42 states fund schools based on dollar amounts per pupil while seven states make use of systems that fund based on the number of positions. (The state of Hawaii operates as a single school district so it does not require a funding system that distributes dollars to school districts.)

This of *The Progress of Education Reform* concentrates on the first model of state funding and explains how state systems that provide funding on a per-pupil basis function. A separate companion piece will review systems that base their funding on the number of positions per school.

### Step 1: Starting with a foundation

There are many names for funding systems that provide a dollar amount per student, the most common of which is “foundation funding.” A foundation formula begins with a per-pupil funding amount that is deemed sufficient to educate a general education student to state standards (also known as the “foundation” or “base” funding amount). Some states like Arkansas, Maryland, and Wyoming make use of a foundation amount that has been determined through studies conducted by outside organizations. In most states, however, the legislature sets a foundation amount based on the available funding at that time.

### Step 2: Counting the kids

Each state needs to have a system to determine how it will count students for funding purposes. The following represent the variations across states:

- ▶ **Single day counts (13 states):** Students are counted on a single day each year.
  - **Positives:** Easy to administer.
  - **Negatives:** Potential unwarranted district penalties and potential unwarranted district rewards.
    - If students are not in attendance for that single day, the school district does not receive funding from the state.
    - If students transfer during the year, districts continue to receive full funding for those students.
- ▶ **Multiple single-count days (seven states):** Students are counted on a single day during multiple times throughout the year, often one day in the fall and one day in the spring. The state then funds the average of these two counts.
  - **Positives:** Relatively easy to administer; attempts to take into account shifting student populations.
  - **Negatives:** Puts a great deal of pressure on districts to have their students attend on the count days; districts lose an incentive to ensure students attend on other dates.
- ▶ **Counting Periods (six states):** Some states count students during longer or multiple periods during the school year. Systems range in states from a single-week count period (Washington) to 40 days (New Mexico and Wyoming).
  - **Positives:** Provides a clearer picture of student attendance than single-count day systems.
  - **Negatives:** Counting periods might not align with shifts in student populations. For instance, if the counting period does not take place during the late fall or early spring, it might not take into account students who migrate to new communities during farming season.
- ▶ **Average Daily Membership (16 states):** Students are counted for funding purposes if they are enrolled in the district for all—or in some cases, almost all—of the school year.
  - **Positives:** Takes into account student enrollment during the whole school year.
  - **Negatives:** This system only counts students who are enrolled in the districts—not necessarily those students who are actually attending classes on a daily basis, which eliminates financial incentives for encouraging students to attend school.
- ▶ **Average Daily Attendance (seven states):** Attendance is taken each day—or in some states on the majority of school days—and the district’s annual student count is the average of these daily attendance numbers. Most states that use this system have some provisions to take into account excused absence for legitimate reasons such as student illnesses.
  - **Positives:** The most accurate way to measure student attendance.
  - **Negatives:** Many state and/or district data systems might not be capable of capturing daily student counts.

The Colorado Children’s Campaign has collected and summarized how each state counts students for funding purposes. Access the paper on their [website](#).



### Step 3: Weighting the Students

Most states recognize that certain student populations require additional funding to meet state achievement expectations or standards. A recent study by Deborah Verstegen found that 49 states provide additional funding for special education students, 37 provide funding for English Language Learners (ELLs), and 34 for compensatory/at-risk students.<sup>3</sup> Many states choose to supply districts with this additional funding by providing these needier students with additional weights in the funding formula. For example, if a state determines that it would cost districts 20% more to educate an English Language Learner, the formula would provide ELL students with an additional weight of 0.2. Some states determine the additional weights for high-needs students through studies either run by the state or through third parties. However, most states establish their weights through the political process based on the availability of funding.

#### What is “Compound Weighting”?

Let’s say a state provides an additional weight of 0.3 for “At-Risk” students and 0.2 for “ELL” students. What happens to an At-Risk student who qualifies for ELL services? Does he/she receive only one of the additional weights or both? In some states a student can only have one additional weight—usually the higher of the two (i.e., the At-Risk factor funding weight). However, some states allow for students to have both the additional weights for At-Risk and ELL—thus providing them with a total additional weight of 0.5 (or 50% more than a general education student). When states allow students to qualify for both weights, this is known as “compound weighting.” There is little research on this, and the decision whether to use compound weighting tends to rest on internal political decisions and available funding.

#### The Weighted Student Count

When states add the weights to the student count number, they get the “weighted student count” (WSC) for each school district. It’s easier to understand this with an example: Let’s say there’s a school district that has 1,000 students—200 of whom are at-risk, 100 who require ELL services, and 20 who are special education students. The state provides an additional weight of 0.30 for at-risk, 0.20 for ELL, and 1.0 for special education. In this case the WSC would be calculated in the following way:

Classification	Students	Weight	Total
General Education	1,000	1.0	1,000
At-Risk	200	0.3	60
ELL	100	0.2	20
Special Education	20	1.0	20
<b>Weighted Student Count for Funding Purposes (WSC)</b>			<b>1,100</b>

### Special Education - Texas

Texas has one of the most robust systems for funding special education. The following are the different categories of special education that Texas recognizes and the weights that they provide to them in the funding formula:

Instructional Arrangement	Weight
Homebound students	5.0
Speech therapy	5.0
Residential care and treatment	4.0
Hospital class	3.0
Resource room	3.0
Self-contained mild/ moderate	3.0
Self-contained severe	3.0
State schools	2.8
Off home campus	2.7
Vocational adjustment class	2.3
Nonpublic contracts	1.7
Mainstream	1.1

## Step 4: Determining the total foundation amount

This is an easy step: to determine the total foundation amount you simply multiply the per-pupil foundation amount by the “Weighted Student Count.” So, if the state’s per-pupil foundation amount is \$5,000 and the WSC is 1,100 students (like the example above), the total foundation amount would be \$5.5 million.

## Step 5: Adding Up the tab & splitting the costs

One point that tends to confuse the media and the general public is who pays the tab for the total foundation amount. Very often people assume that if the total foundation amount equals \$5.5 million (like the above example), it represents the amount of funding that the district can expect to receive from the state. However, that is not the case. States split the cost of the total foundation amount between state education funding coffers (themselves) and the local districts, based on each district’s relative wealth. In theory, a mid-level wealth school district could expect to get 50% of the total foundation amount from the state and they would have to fund the other 50% through local revenues. As a district’s wealth increases, it is expected to pay a higher percentage of the total foundation amount. Conversely, lower-wealth districts could expect to receive a higher percentage from the state.

### *What makes a district wealthy?*

Most states measure a district’s wealth based on its taxable property value per student. However, some states like Maryland look at both the property value and the amount of personal income in a district. This latter option can be beneficial to those school districts that have a high amount of property wealth but their residents have below average incomes. This is often the case in seaside vacation towns. Some states have found that it is unfair to label these districts as “wealthy,” so they attempt to adjust the wealth number by taking income into account.

### *What if a district wants to spend more?*

Most states allow school districts to spend above the foundation amount set by the state. However, all states now have some cap or restraint in place to limit how much a district can expend above the foundation amount (see a list of [each state’s restrictions](#)).

## Funding outside the formula

While the majority of state education funding flows through the state’s primary formula, there are other pockets of money that flow from the state to school districts. These additional funding sources are referred to as “categorical funds.” Categorical funds are often used to fund particular student groups (when not included in the primary formula), school functions (transportation, building construction, food services), or regions of the state (rural districts, isolated schools). Most states make use of a half dozen to a dozen different categorical funding programs, and these programs tend to account for only a small percentage of total education spending. However, some states—like California, which makes use of over 60 different categorical programs—are more reliant on this type of funding. No research exists on what number of categorical programs is optimal. The only real problem that policymakers should watch for is creating so many categorical programs that they make the funding formula unnecessarily complex and confusing.

### *Why are transportation costs paid for outside the formula?*

The cost of transporting a student varies greatly from state-to-state and from district-to-district. Transportation costs are impacted by the number of students per square mile, the location of schools (i.e., isolated), various rules and regulations set by the state, and even by certain state court rulings. The difference in transportation spending per pupil can be stark. According to the [National Center for Education Statistics](#), Delaware spends \$777 per student, more than three times that of Oklahoma (\$245), which is the lowest spending state. In almost every state, policymakers have found that it is easier to deal with transportation costs separately from other educational costs. That is why transportation funding often has a funding formula all its own.

### Adjusting for Special Circumstances

Some states adjust their districts’ foundation amounts to take into account certain high-cost circumstances. The most common are:

- Differences in regional costs
- Disproportionately large or small districts
- High poverty areas
- Isolated school districts

[\(Click on any of the above topics to learn more.\)](#)

## Connecting school funding and education reform

State policymakers need to recognize that it is essential to consider their state funding formula when making decisions on policy changes. They need to understand not only the cost of the new reform, but how that cost can and will be accommodated in the current formula. For example, advocates of digital learning assert that until funding can be targeted and tracked to the course level, growth in access to online courses will be difficult.

*For better or worse, meaningful education reform hinges on a state's school funding system...*

An older report from the Consortium for Policy Research in Education can help policymakers understand and plan for the cost implications to education reform. [How Schools Can Reallocate Resources to Boost Student Achievement](#)<sup>4</sup> provides information on how schools can find "... sufficient resources (through reallocation) to implement a wide variety of comprehensive school improvement strategies, including all the specific comprehensive school designs developed by the New American Schools, as well as several others." Included is an interactive tool that district and state level policymakers can use to determine the cost implications of these new school improvement strategies. Such tools are helpful when considering changes to a state's education system. However, understanding the formula for allocating state dollars is critical. Without such an understanding, one cannot successfully change the formula—the ultimate driver that will cause policies to fail or help them succeed.

## ECS Resources

ECS state policy tracking database on funding formulas

<http://www.ecs.org/ecs/ecscat.nsf/WebTopicView?OpenView&count=-1&RestrictToCategory=Finance--Funding+Formulas>

ECS issue site on State Funding Formulas:

<http://www.ecs.org/html/issue.asp?issueid=48&issubID=43>

## Endnotes

- 1 Alan Odden, *School Finance Reform: Past, Present and Future* (Denver, Colorado: Education Commission of the States, 1983) p. 5.
- 2 Edgar Fuller and Jim B. Pearson, *Education in the States: Nationwide Development Since 1900* (Washington, D.C.: Council of Chief State School Officers, 1969) p. 180-192.
- 3 D. A. Verstegen, "Public education finance systems in the United States and funding policies for populations with special educational needs," *Education Policy Analysis Archives*, 19 (21), 2011, <http://epaa.asu.edu/ojs/article/view/769> (Accessed April 30, 2012).
- 4 Alan Odden, Lawrence O. Picus, "School Finance Redesign Reports," (Madison, Wisconsin: Consortium for Public Research in Education – University of Wisconsin), <http://cpre.wceruw.org/finance/reports.php> (Accessed May 15, 2012).

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