



DESIRED FEATURES OF A STATE FUNDING SYSTEM



One of a state's primary responsibilities is to divvy up the public funds for K-12 schooling. A set of finance policies determines how the state and local funds are apportioned—and what is expected in return—so that districts and other providers can then apply them to schools and classrooms. While each state formula varies, there are “desired” features and key decisions for consideration.

As important as state allocation formulas are, they don't change much over time, even as what we know about education evolves. While states might tweak their models from year to year, states tend to make major changes only once every two decades. As such, when the opportunity arises for a formula change, leaders will want to think carefully about the long-term implications, keeping [students at the center](#) of decision making.



KEY DECISIONS

- 1 How to structure allocations
- 2 Adjustments to allocations
- 3 How and whether to involve local revenue
- 4 Constraints and accountability
- 5 Data systems, tools, and training
- 6 Transitioning to a new formula

For a slew of fiscal, operational, and educational reasons state leaders typically search for a funding structure that has the following qualities:

Simple and transparent to yield predictable, understandable allocations that can be summarized on a single page and provide clarity around how much money flows to which districts and why.

Equitable for students such that students with higher needs generate higher dollar amounts. Students with equal needs have access to equal dollars regardless of where they are schooled.

Financially sustainable so it can deliver ample resources over time regardless of economic shifts.

Outcome-focused in that it drives districts and schools to seek the greatest outcomes possible with available funds, inviting innovation to do so. It provides public data that show spending and outcomes by school to benchmark progress.

Flexible and adaptable so it can remain in place even as schooling delivery models and student needs change over time.



HOW TO STRUCTURE ALLOCATIONS



There are three basic mechanisms most states use to deploy funds, each with multiple factors on which to base funding adjustments. Most states use a hybrid of these three models.



STUDENT-BASED

- ▶ Viewed as being simple and transparent
- ▶ Offers clear dollar allocation for higher-need students
- ▶ Provides flexibility across delivery models

Dollars follow students — smaller schools would have fewer total dollars and likely fewer staff positions than larger schools



STAFFING OR RESOURCE-BASED

- ▶ Intended to provide uniform allotments of resources
- ▶ Focuses on providing consistency in staffing and resources across schools and districts

Aims to create more uniform staffing or structures across all schools. Dollar allocations can be uneven on a per-student basis (i.e., 27 students generate 2 teachers; 26 students generate 1)



CATEGORICAL OR PROGRAM-BASED

- ▶ Intended to make sure dollars are tied to and used for specific programs and services

Aims to ensure delivery of specific programs or services. Dollars allocated may be uneven on a per-student basis

[EdBuild](#) describes these three primary models as follows:

Student-based allocations: The formula assigns a base cost to the education of an average student and calculates state funding for districts primarily by multiplying that cost by districts' enrollment figures. The state accounts for the additional cost of educating specific categories of students by adjusting its distributions by applying multipliers to the base cost; by adding flat, per-student dollar amounts to the base cost; and/or through program-specific allocations.

Resource-based allocations: The formula determines the cost of delivering education in a district based on the cost of the resources, such as staff salaries and course materials, required to do so. The state may separately account for the additional cost of educating specific categories of students by distributing flat, per-student dollar amounts and/or through program-specific allocations.

Program-based allocations: The formula determines the cost of delivering education in a district based on the cost of specific programs and initiatives, and it generally does not itemize either the costs related to particular resources or the costs of delivering education to specific categories of students.



ADJUSTMENTS TO ALLOCATIONS



Within each allocation structure, there are a variety of ways for states to direct dollars to reflect their priorities.



In student-based allocation models, states can adjust funding by tying different dollar amounts to [student types](#) who require more resources. States must decide which students generate higher dollar amounts based on need, [as determined by the outcomes of those student types](#) in the state. Such “weights” linked to student characteristics are designed to incentivize the district to serve high-needs students well.

In staffing or resource-based models, states can adjust funding based on district type (such as [charter](#) or [virtual](#)) and through decisions about class size, staffing ratios, and staffing minimums.

In categorical or program-based models, states must decide the types of programs offered to districts and their cost.

Hold harmless provisions are sometimes tacked on to formulas to protect districts from losing funds from one year to the next with a change in formula or a [decrease in enrollment](#). Depending on the hold harmless terms, these provisions can work at odds with the formula and may be expensive for the state.



HOW AND WHETHER TO INVOLVE LOCAL REVENUE



Many states [factor in local money](#) when determining state aid amounts. Depending on the state, local funds can play a substantial role in school funding—sometimes amounting to more than half a district’s total revenue.



WHY TAP LOCAL FUNDS

- + Important source of revenue
- + Stable source of revenue even in economic downturns
- + More popular with taxpayers
- + Competes with fewer priorities than state dollars



WHY TAME LOCAL FUNDS (TO MITIGATE INEQUITIES)

- Uneven property values or appetite for local taxes drives inequities

STRATEGIES TO TAP AND TAME LOCAL FUNDING CONTRIBUTIONS



Count some local efforts toward state allocation



Cap local revenue



State matches local effort to create equitable yield per-pupil



Redistributive (a.k.a Robin Hood) policies work to redistribute local money

Generally, states want to both **tap** and **tame** local revenue:

States want to **tap** local funding to help create a **financially sustainable** formula, adding more money to the system to support adequate spending. Tax payers typically view local taxes more favorably than state taxes. The chief revenue source for local money (property tax) is more stable than that for state dollars (typically sales taxes or other taxes that are highly sensitive to economic shifts).

Most states do tap local funds with an expected local contribution to the state formula (per the top option above).

States want to **tame** local funding to **curb inequity** due to [uneven property values](#) and uneven appetite for local taxes. Where states permit locales to determine the extent to which they levy funds, those monies may reflect local property wealth, population demographics, or other non-student factors, and thus drive uneven revenues across districts. State formulas often layer on to local money (or restrict it) to drive equity.

Capping local revenue has challenges, in part because it may limit urban districts from fully tapping funds approved by voters, but it is also one of the only ways to prevent wealthy districts from creating inequities with runaway local spending.

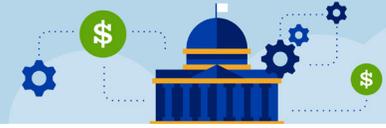
Several states include matches as a strategy to incentivize additional local taxes. Some have local revenue caps as a way to limit local funding.

Redistributive policies offer promise in that they spread local revenues across districts. They tend to be politically infeasible as local communities prefer their dollars to stay local.

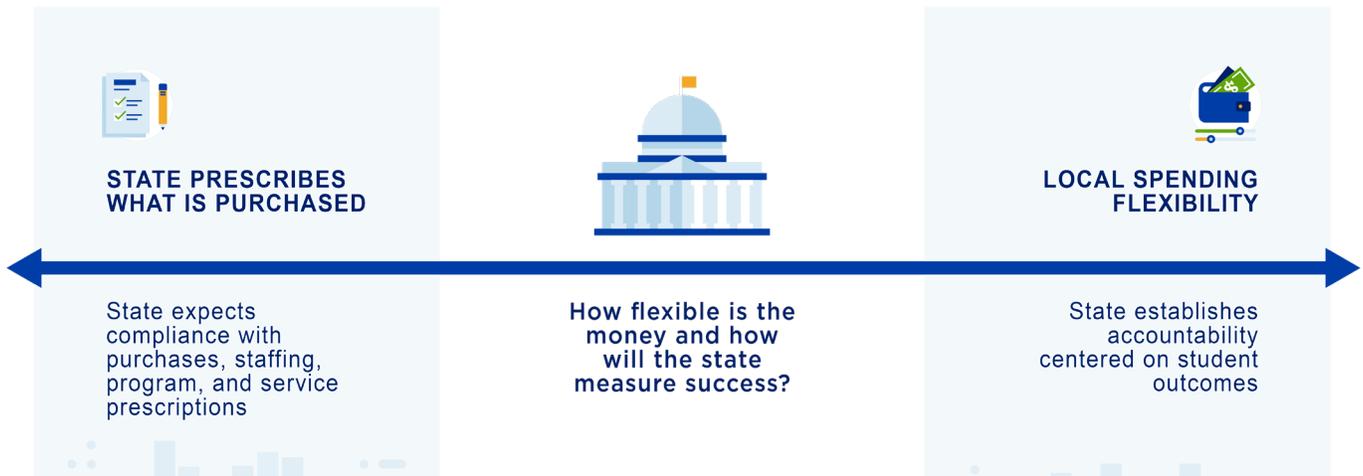
The range of strategies that states choose to **tap and tame** local funding will depend on their own contexts and priorities.



CONSTRAINTS AND ACCOUNTABILITY



States put certain conditions on the dollars they send to districts, either prescribing what districts should purchase or determining expected outcomes for dollars spent (or some combination).



The state's oversight role in school finance has traditionally been conceptualized as compliance monitoring. States can ensure that certain dollars are only spent on certain students or used to purchase pre-approved services or particular staff, but these prescriptions do not ensure outcomes.

States can also provide local spending flexibility [with accountability based on student outcomes](#). The state can require that an allocation meant to support a particular student type flow to schools in proportion to their population of those students or require districts to report outcomes for that subset of students by school.



DATA SYSTEMS, TOOLS, AND TRAINING



States are uniquely positioned to make spending data useful and usable, and intentionally build district leaders' strategic finance skills and capacity—all with the goal of improving schooling.



Organize data into actionable insights: Despite expanded data systems from the NCLB era and the ESSA requirement to publish [school-by-school spending data](#), many state education agency (SEA) data systems don't pair spending and outcomes data in ways that push districts and schools to make the system more productive. The data should be public as well as easily accessed and understood by all stakeholders, including community groups, advocates, parents, and media.

Require strategic financial training: When leaders understand the data, they are better able to use it to make smart choices about resource allocation and service delivery. SEAs could require administrators to be trained on productivity concepts and analysis as a condition of certification. [School boards too could be required to receive training](#) on how their districts and schools stack up on productivity comparisons. Partnerships with school board associations or regional education service agencies could support such trainings.

Support data use for continuous improvement: SEAs can use their communication platforms to draw attention to variations in spending and outcomes, and to [celebrate highly productive schools](#). SEAs can challenge districts to explore tradeoffs with new funds or budget cuts. Districts and communities can also use these data to make the case for certain initiatives or additional funding.



TRANSITIONING TO A NEW FORMULA



States have levers to ease the transition for districts that will lose money under the new formula.



Clarify how much each district will gain or lose



Leverage flexibility and staff attrition to mitigate disruption



Consider a temporary hold harmless agreement during phase-in

Clarifying how much districts will gain or lose helps districts plan for change.

Granting districts flexibility in resource use allows them to mitigate disruptions from funding loss and leverage attrition to reduce costs.

Enacting temporary hold harmless policy can limit dollar losses in the near term.

Edunomics Lab is a university-based research center dedicated to exploring and modeling complex education fiscal decisions and growing the capacity of education leaders on the topic of education finance. The Edunomics Lab is affiliated with the McCourt School of Public Policy at Georgetown University.

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