

Big State Policy Question 4: FUNDING

Does state policy allow or encourage the use of student-based allocation such that funds may be distributed across schools based on the students actually attending those schools?

In general, states either do not allow or do not incentivize local school systems to devolve funding to the school site, nor do they enable school systems to make most of their financial decisions and expenditures at the school level. Rather, existing funding systems in the 14 states studied for this report¹ are designed to do nearly the opposite—centralize finances and decision-making outside the school. As discussed in the previous Big State Policy Questions, funding is interrelated with the other issues affecting systems, schools, and families. A shift in funding might require a shift in another area for it to be meaningful. For example, allocating a greater portion of funds to the school level for the school to manage becomes meaningful only if the shift in funding comes with reductions in costly central office requirements and flexibilities on how and what the school can buy.

Funding: Summary of Barriers to Funding Strategies Under Empowerment Options

In most of the studied states, state school finance laws are designed to support traditional public schools under a centralized system, rather than to support a decentralized, flexible system that encourages tailored, creative responsiveness across a set of autonomous schools. State finance laws have impeded development of Empowerment Options in the following ways:

- State funding to districts is convoluted and unpredictable, making planning difficult for any school or school system under any strategy.
- State funding flows to the district and has a number of restrictions; it seldom is unrestricted or allowed to follow students to the school they actually attend.
- Charter schools are at a disadvantage in terms of funding, compared to their traditional public school counterparts. Rarely do charter schools receive comparable per-pupil funds, including for categorical programs, facilities, and transportation.
- States do not monitor or expect school-based budgeting, and this makes it difficult for them to ensure that targeted resources benefit their intended students; it also prevents states from examining the cost-effectiveness of their investments in K-12.

Background

The theory of change for cities implementing Empowerment Options requires that cities distribute significant funds to the school level without placing major restrictions on how that money may be used. The amount of funds to be distributed would depend on the characteristics of students enrolled in the school. School leaders would then be free to allocate funds based on student needs rather than on state or local directives.

Ideally, school leaders decide what funds are needed for staff, programming, and school services, and are relatively free to select from a competitive supply market. But state school finance structures typically make it difficult for school systems and schools to operate this way.

In addition, states set up their education funding in large part to meet federal requirements for funding targeted at disadvantaged student populations, such as the requirements of Title I of the Elementary and Secondary Education Act and the Individuals with Disabilities Act. If a state complies with the federal requirements, it is easier for districts to also be in compliance. Typically, the state will devise a basic funding formula for calculating each district's share of funding using a guaranteed amount per student that is then adjusted for various district, program, and student characteristics. This funding is then distributed to districts, and the districts retain funds for administration and allocate the rest to schools in the form of personnel assignments and district-provided programs and services (calculated by aggregate student enrollment and average staff salaries in the district). The remaining funds, if any, are sent to school leaders. This compliance-oriented framework leaves school leaders with only a limited amount of discretionary funds within their control, which results in disempowering financial decision-making at the school level.

This review of state policies relevant to Big State Policy Question 4 was guided by the following questions, selected for their focus on advancing Empowerment Options:

- 4.1 Is the amount and method of district funding simple and understandable?
- 4.2 Do education funds follow students to the school they attend, with few restrictions?
- 4.3 Are charter schools treated fairly and equivalently to traditional public schools with respect to funding?
- 4.4 Is school reporting on expenditures both manageable and expected?

We discuss each in turn.

4.1 Is the amount and method of district funding simple and understandable?

It is much easier for districts to plan if they know how much funding they will receive from the state and how that amount of funding will be calculated. This is likely true irrespective of whether a district pursues Empowerment Options.

States' funding formulas are not simple. Their school finance statutes are notoriously byzantine, and even experts admit to confusion.² One state that stands out for its lack of clarity is Pennsylvania. Districts in Pennsylvania do not know from year to year how much money they will receive because the state lacks a fully pre-set formula. Instead, the amount is determined anew each year through state leadership budget negotiations concerning "education subsidies."

Even in states where formulas are pre-set, it is difficult to predict how much money will go to a district, because the state relies on inaccurate student enrollment estimates. Some of the states studied here³ calculate student enrollment on single "count days," and then base annual funding on the number of students enrolled in a district on a single day of the year. Count days can result in undercounting or

overcounting and can create perverse incentives for districts to pay attention to enrollment only on count days. (The use of count days also foments concerns—real or perceived—that charter schools may counsel their students out after the count day. In Empowerment Options, movement among schools is to be expected to some degree, and a count day approach does not take this into account.)

A more accurate way to calculate actual enrollment is average daily membership, in which enrollment is counted on multiple occasions and then averaged.⁴ Minnesota uses this approach. Surprisingly, Pennsylvania does too, but its version is undermined by the unpredictable negotiation of subsidies discussed earlier in this section.

Even when a state formula is fully pre-set and based on accurate enrollment estimates, funding to districts is still made complex by way of the other major funding source—local property taxes. A state’s school finance act determines how *state* funding is calculated and distributed and may dictate the purposes for which it may be used, but local property tax revenue is another beast entirely. Some states can control the levels at which local taxes might contribute to district coffers, but state influence over local dollars is an area of legal flux, and it is difficult to draw consistent trends across states.

4.2 Do education funds follow students to the school they attend, with few restrictions?

Most of the surveyed states’ funding formulas result in per-pupil funding amounts, which are then multiplied by the number of students enrolled in the district to yield a district’s basic funding amount. But few states’ funds follow district students to the district schools they attend. Rather, the district decides how each student’s per-pupil allotment will be spent, typically through a completely different funding formula that holds back a significant portion for the district central office.

Some of the studied states (Colorado, Illinois, and Ohio) do directly distribute certain funding to the school level, thereby encouraging student-based allocation, but such distribution is mostly limited to at-risk students. In 2009, Louisiana legislation required the state board of education to set up a pilot program for student-based allocation at the local level.⁵

Just two of the states studied, New York and Illinois, mandate that specific cities allocate funds directly to schools, but this requirement is required only for the major urban areas: New York City and Chicago. The Recovery School District in New Orleans and the Tennessee Achievement School District in Memphis both have a *de facto* form of student-based budgeting, simply because there is no local district intermediary through which funds flow to the schools. Though it is possible for cities to pursue site-based allocation on their own to some extent,⁶ it helps when the state sets up funding accordingly.

Weighted Funding

Most states weight the basic student funding amounts based on student need, but these additional funds also fail to follow district students to the schools they attend. Typically, the amounts added for student need are meant to alleviate the higher costs of educating these students. For example, a formula can allocate additional funding for educating English language learners or students who are far below proficient on state tests. This additional funding might be generated on a per-student basis or as a lump sum, or as funding for programs intended to serve the at-risk population. Inevitably, state weights overlook the specific needs of any local system or school. Some schools and systems might need more to educate, say, foster children or children with interrupted schooling, while others might need more for students in special education or who are in severe poverty.

Funding for Categorical Programs

Furthermore, most states impose categorical restrictions on education dollars, such that funding must be used only for programs in a specific category or for a limited purpose. The extent to which funding is tied up in mandatory categories of spending will affect the system’s ability to use student-based allocation. States with many categorical programs make it difficult for districts to use student-based

allocation and still be in compliance with state law. Ideally, a state provides funds tied to a reasonable calculation of the costs of educating particular students, and then allows districts and schools to determine how best to spend that money.

California exemplifies a state that has shifted away from the use of categoricals. With the advent of its local control funding formula, the state dramatically reduced its previous categorical spending that tied up a significant portion of funding in dozens of fragmented funding streams. Louisiana’s school finance system is also notable for its very low number of categorical programs. At the other end of the spectrum, Pennsylvania continues to maintain separate categorical funding in many programs that collectively account for more than 40 percent of total state education spending.

It is possible for districts to devise their own weighted student funding formula that follows district students to the schools they attend. But most districts comport with the traditional state funding model. Again, it is easier to design local systems to speak the same language as the state. It costs money for school systems to change their traditional approach, both in terms of new accounting and financial management systems and in terms of training personnel.⁷

4.3 Are charter schools treated fairly and equivalently to traditional public schools with respect to funding?

This section focuses on charter schools and charter school funding because while other school models exist, under current state policies many autonomous schools are likely to be charter or charter-like schools. A viable way to ensure fair allocation of state education dollars is to have states fund such schools directly, with charter school funding generated by the same per-pupil formula applied to traditional school system funding.⁸ Separate funding formulas for charter schools, which in some cases are based on average per-pupil district funding, do not necessarily provide similar funding for similar students. For example, if a charter school serves a greater percentage of at-risk students than the district overall but receives only the districtwide average funding, it will receive less money than district schools serving similar students.

Weighted Funding

As discussed in Big State Policy Question 1, the charter school funding policies in many states set up an adversarial relationship between charter schools and districts, with schools and districts haggling over the amount of funding and frequently settling on amounts for charter schools that fall far short of the funding available on a per-student basis for other district schools. State policy that supports Empowerment Options provides for equivalent funding across types of schools so that districts are not forced to play favorites with respect to funding. If education funding is sparse (seemingly a universal theme across all states), then it would be worth considering whether funding levels could vary by age or grade level (i.e., weighted funding) rather than by school type. For example, perhaps it takes more to educate “transitional” grades and ages—such as students shifting from elementary to middle school or children who are shifting from “learning to read” to “reading to learn”—compared to other grades and ages.

Per-Pupil Funding

Although both New York and Pennsylvania have state statutes that provide for 100 percent of the level of district per-pupil funding to be allocated to charter schools according to student count, this per-pupil amount is calculated at the district level and is an average of total district per-pupil funding. In New York, this approach shortchanges charter schools that take students with higher needs, students who would otherwise receive higher per-pupil amounts. But Pennsylvania’s approach might actually hurt the district by overfunding charter schools on special education. Either way, it’s a funding mismatch. In contrast, Indiana and Ohio provide for per-pupil state funding to be calculated in the same manner as in districts and to be distributed directly to the charter schools.

In some states, adopting a “fully fund” approach will mean an immediate and significant decline in some district revenues, as their prior state formula meant funding those districts at higher levels. States with this issue may wish to provide hold-harmless funding for districts during a set transition period.

Funding for Categorical Programs

Categorical programs do not provide the flexibility necessary to fully support Empowerment Options. If states continue to support certain categorical programs, then, a proportionate amount of those funds should also be distributed by the state directly to charter schools, using the same calculations that generate district categorical funding. Several of the studied states, including Illinois, Connecticut, and New Jersey, include provisions on state categorical funding to charter schools.

Federal funding can also provide significant opportunities to charter schools, as LEAs should be receiving a proportionate share of federal funding directly from the state. Indiana and Ohio state statutes provide for this direct distribution of federal funds from the state. Other states, like Connecticut, reach a similar result by requiring districts to distribute federal dollars to charter schools according to the students they serve. Treating charter schools or charter management organizations as LEAs also makes them eligible for competitive grants that they would otherwise be excluded from pursuing.

In addition to state and federal funding, charter schools should receive a proportionate share of additional local funding. Many states allow districts to ask voters for additional local funding in addition to the local contribution to the state formula funding. In most cases, districts are able to use and distribute these additional local funds at their discretion, and this frequently results in lower per-pupil funding for charter schools. The states should require districts to share local revenues with charter schools. Tennessee explicitly requires this; at least four other states in the study (California, Colorado, Connecticut, and Louisiana) approximate this policy.⁹

Many states treat transportation and facilities funding differently from state formula funding. In many cases, state funding for these elements is not calculated on a per-pupil basis and is not provided to charter schools. This policy forces charter schools to cut into educational programs in order to fund school buildings and buses. State finance statutes should instead provide for equal funding of state transportation and facilities programs for charter schools. Although statewide per-pupil allocation for these needs is the best mechanism for fair distribution of transportation and facilities support, states that provide funding for non-pupil-based programs (for example, competitive grant programs for facilities) should include charter schools on equal footing as districts and traditional public schools.

4.4 Is school reporting on expenditures both manageable and expected?

It makes sense that if the school site is the locus for financial decision making—as in autonomous schools—then it should also be the unit for financial reporting. A few of the studied states do include school-level reports (Minnesota, Ohio, Pennsylvania), but this is not the norm.

Public information on school-level expenditures provides necessary public accountability as well as additional information for families’ school choice decisions. It speaks to the importance of a level playing field. Since curriculum and other educational choices are so closely tied to budget and expenditures, parents need to see what financial decisions a school is making. This helps inform their decisions about the best setting for their children. Transparency also enables policymakers to decide whether a particular school model is a good return on investment relative to others. With school-level information made available to the public, suspicions of inequity driven by black-box distribution decisions should decrease as well.

Personnel expenditures account for 80 percent or more of total education spending for all school systems nationally, and thus accessible data on personnel costs is an essential element for full transparency at the school-site level. District level reporting that masks actual personnel costs by

allocating funds according to average salary does not accurately report the relative resource allocation at schools. Schools in more affluent neighborhoods are more likely to attract senior staff with higher salaries, while schools in poorer neighborhoods tend to have newer staff and therefore lower salaries. In such circumstances, reporting on average salaries distorts the picture, hiding information on whether equitable funding has been distributed, and therefore violates a principle of transparency and risks the public trust.

In addition, the budget authority granted to autonomous schools enables them to make personnel decisions, including decisions about cost of staff. Omitting actual salaries from school-site expenditure reporting at the district level interferes with the ability of schools to accurately report budgetary decisions.

Of the states that do require school-level reporting of financial data, Minnesota is the only one among those studied here that includes a state requirement for school-level reporting of actual salaries as opposed to averaged salaries.¹⁰ We expect a significant change in this area, given that ESSA will require data reporting transparency for districts down to the school level.¹¹

Every state and many districts have searchable websites that provide school-level data about student populations and student outcomes, but these data paint only half the picture. How much did it cost to produce those student outcomes? In the same way that schools, policymakers, and the public are currently able to compare student outcomes in schools with similar demographics, and identify those schools that are more successful, they should also be able to compare schools with similar resources and evaluate the various spending decisions that may be contributing to different student outcomes.

That said, schools do not have the same capacity as districts to report accessible financial data. Ideally, fiscal accounting and reporting requirements placed on schools should be sufficient to ensure that public funds are being used wisely, but should not be so onerous as to completely overwhelm staff at the school. State statutes and district policies could provide for capacity support to assist schools with reporting, including public transparency reporting as well as the financial reporting required by annual audits and federal regulations. In addition, not all schools have independent websites, so financial reporting could be published on a district and/or state-level website to alleviate additional technology expenses at the school site.

Table 1 outlines different levels of support in state policy, from poor support to an ideal policy environment, for development of state policies that support student-based resource allocation. Please note that support levels are not cumulative.

TABLE 1. Levels of State Policy Support for Key Policy Areas—FUNDING

KEY POLICY AREA	LEVEL OF SUPPORT			
	Poor	Good	Better	Ideal
District funding is simple and understandable.	State education funding is not pre-set. (Ex. PA)	State education funding is pre-set, but the amount is not based on accurate calculations. (Ex. CO, IL)	No good example	State education funding is pre-set, and the amount is based on accurate calculations. (Ex. MN, TN)
Education funds follow students to the schools they attend, with few restrictions.	State-level categorical funding is substantial and not directed at the school level. (Ex. PA)	(A) State provides school-level funding for at-risk youth. (Ex. CO, IL, OH) (B) State mandates school-level funding for major urban areas. (Ex. IL, NY)	State-level categorical restrictions are removed or minimized. (Ex. CA, LA)	State mandates school-level funding or direct funding of schools.
Charter schools are treated fairly and equivalently to traditional public schools with respect to funding.	Charter schools receive separate, often lower funding compared to traditional public schools.	Charter schools receive per-pupil funding based on 100% of districtwide averages. (Ex. NY, PA)	Charter schools are directly funded autonomous 100% as their individual LEAs. (Ex. OH, IN) Provide autonomous schools comparable funds for state categoricals, if any.	Federal and local dollars are allocated to charter schools in comparable ways to traditional public schools in the district. (Ex. OH, IN, federal funds; TN, local funds)
School reporting on expenditures is manageable and expected.	School-level reporting is not encouraged or required. (Ex. CA)	No good example	School-level reporting is required, but needn't include actual staff salaries. (Ex. OH, PA)	School-level reporting is required, including each building's actual staff salaries (Ex. MN)

Endnotes

- 1 California, Colorado, Connecticut, Illinois, Indiana, Louisiana, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Tennessee, and Wisconsin.
- 2 See for example Kevin Carey, [“Overview of K-12 Education Finance”](#) (Washington, DC: Center on Budget and Policy Priorities, 2002).
- 3 Colorado, Connecticut, Indiana, and New Jersey.
- 4 Computerized enrollment systems could allow for even more frequent counts and adjustments.
- 5 In 2009, Louisiana enacted Act 491, setting up the Commission on Streamlining Government, which recommended that the state Board of Elementary and Secondary Education (BESE) set up student-based allocation pilots across several parishes.
- 6 See for example Cleveland, Denver, or Baltimore.
- 7 Eventually, an innovative and willing state might even consider direct funding of all schools, with a chargeback protocol set up between schools and districts.
- 8 In this way, charters could be a promising way to expand access to early childhood education options. The District of Columbia did this by leveraging its portfolio of charter schools and district schools. Because its funding formula flowed to both types of schools equally, they were able to expand pre-K simply by adding it in as a grade in the formula, and then schools could enroll students as they created the programs.
- 9 [“Charter schools—How is funding for a charter school determined?”](#) Education Commission of the States, January 2016, accessed January 13, 2017.
- 10 “Salary expenditures reported by building must reflect actual salaries for staff at the building and must not be based on districtwide averages.” Minnesota Statute 123B.76, Subdivision 2.
- 11 Marguerite Roza, [“The sunlight effect: More equitable spending on its way regardless of rulemaking,”](#) *Brown Center Chalkboard* (blog), Brookings Institution, April 27, 2016.