

# ADEQUACY BASED SCHOOL FUNDING

A Policy Brief by the Center for State Innovation

October 2008

## DISCUSSION

A large disparity exists in the performance of wealthy school districts and that of poorer districts. A study by the Institute for Research on Poverty indicates that math and reading test scores decrease as income decreases, and school districts with high concentrations of low income students consistently perform at lower levels than high income districts.

Furthermore, low income districts are generally forced to meet the same standards as high income districts without the same resources. A report by the Education Trust found that in 2005, districts with the highest concentration of students in poverty received \$938 less in state and local aid per student than districts with the lowest concentrations of poverty. In reality, this discrepancy should be reversed.

While states have consistently striven to approach equality in school funding, it is likely that equal funding would not result in equal results. Due to factors such as lower parental involvement, inadequate health and dental care, inadequate transportation options, and fewer community educational resources, children in low income neighborhoods cost much more to educate than their counterparts in high income neighborhoods.

The Center for Budget and Policy Priorities estimates that it costs at least two times as much per student to bring low-income student performance in line with that of children at higher income levels. While many states do make some effort to close the resource gap, the current scale and distribution of state aid is inadequate to address this challenge.

To rectify this inequitable system, states should implement an adequacy based school financing system that allocates each school enough funding to meet state defined educational standards. Obviously, this will be more expensive in low-income districts where the community infrastructure is not sufficient to support the educational mission. One prominent expert from the Consortium for Policy Research in Education has stated, "Eliminating ...fiscal inequalities is probably necessary but not sufficient for creating an adequate school finance structure." Indeed, some state efforts at equity have even resulted in lowering educational investment. In the 1976 case *Serrano v. Priest*, California was forced by a court order to create a more equitable school finance system, but it reached this goal by lowering its investment in high-income schools rather than increasing its investment in low-income schools.

Adequacy based school financing is the best means of providing a high performance education system for children across the socio-economic spectrum.

Adequacy models, in general, establish a standard per-pupil financing goal based on the estimated resources needed to bring schools in line with state educational performance standards. These models then set a mandated property-tax rate. Because property valuation varies across districts, some schools will start with a higher base local contribution than others will. After determining the local contribution, the state would distribute funding to bring all districts up to the overall per-pupil financing goal.

## About CSI

The Center for State Innovation (CSI) believes every state can achieve shared prosperity, environmental sustainability, and efficient democratic government. We offer evidence-based, outcome-measured, fiscally prudent strategies for doing so.

A non-partisan, not-for-profit institution, CSI provides many types of assistance to state executives interested in implementing progressive policies.

To learn about CSI's Policy Briefings, Strategy Academies, and other services offered at no cost, visit [www.stateinnovation.org](http://www.stateinnovation.org).



1180 Observatory Drive • Madison, WI 53706  
608.890.2400 • [www.stateinnovation.org](http://www.stateinnovation.org)

Another feature of adequacy based models is that the per-pupil financing goal varies across districts based on the characteristics of that district. Some models offer additional infrastructure aid to rural districts due to the lower economies of scale at smaller schools. Other models allocate higher per-pupil funding levels to disabled children or children for whom English is a second language. Finally, all models allocate additional per-pupil resources to children deemed to be low-income. Essentially the investment in each student is allowed to vary while the expected achievement level is held constant.

There are three primary types of methodologies used to determine per pupil funding rates for adequacy based financing schemes:

- Successful School Model – Finds exemplary school districts that have been successful in educating their students to desired state outcome levels. Per-pupil funding is then based on the allocation of resources within these school districts.
- Econometric Model – Uses regression analysis to determine ideal per-pupil funding based on a number of factors such as income, disability, English proficiency and desired performance outcomes.
- Expert Design Model – Assigns educational policy experts to determine ideal school resources needed based on proven educational strategies. Per-pupil spending is determined by estimating the cost of implementing these strategies.

Since each of these models derives funding guidelines from desired educational outcomes, proper implementation of these financing schemes is dependent upon the formulation of appropriate school performance measures.

## COSTS

Only Arkansas has implemented a full adequacy based funding system and so the costs of such a plan remain difficult to assess. However, numerous states have commissioned studies outlining these costs.

A Wisconsin School Finance Adequacy Initiative report on the state of Wisconsin's school funding methodology found that expenditures would need to increase by 35 percent in that state to fully fund an evidence-based adequacy model. A report for the Maryland Commission on Education Finance, Equity, and Excellence found that costs would increase between 22 and 34 percent based if it moved to adequacy based funding. Finally, a Texas study found that its state expenditures on education would increase between 6.2 and 19.8 percent if it moved to adequacy based school funding.

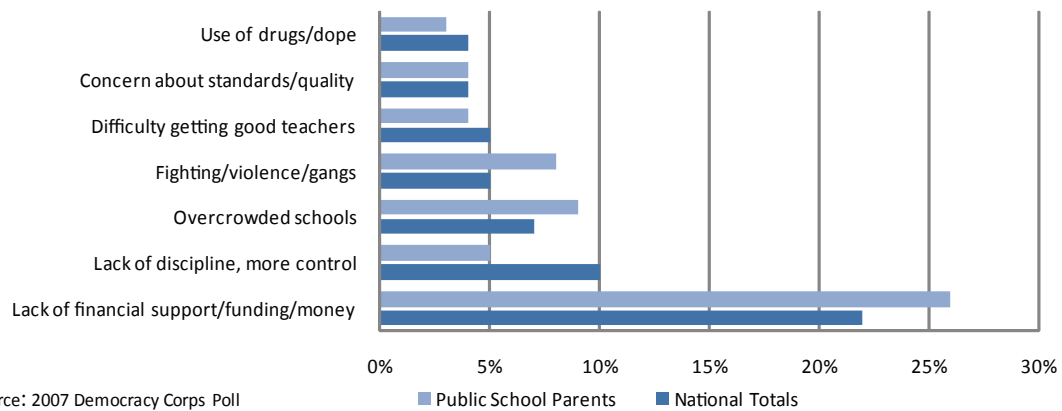
In all cases, moving to a meaningful adequacy based system would require a significant investment of state resources.

## PUBLIC PERCEPTION

Americans are worried about the state of education in this nation. According to a recent Gallup poll 80 percent of the American public gives the nation's public school system a grade of C or below. In addition, more Americans (22 percent) believe that a lack of financial support is the biggest problem the public schools of their community must deal with compared to school overcrowding, gangs, or teacher quality (see chart on next page). Yet despite these dire economic prognostications, the public remains committed to education, and even expresses willingness to increase the nation's investment in K-12 school systems. Indeed, according to an Education Week poll, 62 percent of those asked stated that they would be willing to pay higher taxes in order to increase spending for schools. In fact, lack of school funding has consistently been seen as the biggest problem.

## CHART

**What do you think are the biggest problems the public schools of your community must deal with?**



## TALKING POINTS

***Why not just equalize school funding across districts? Isn't that the fairest way of distributing state funding?***

As pointed out above, equalization doesn't always result in an increased investment in the schools that need it. When California was forced to equalize education funding it accomplished equality by cutting its investment in education not increasing it.

In addition, numerous studies assert that low-income students cost more to educate than their middle and high-income counterparts. Merely equalizing per-pupil funding is not sufficient to ensure adequate educational outcomes in all schools.

Ensuring equality of opportunity for all students means spending more on some districts than others.

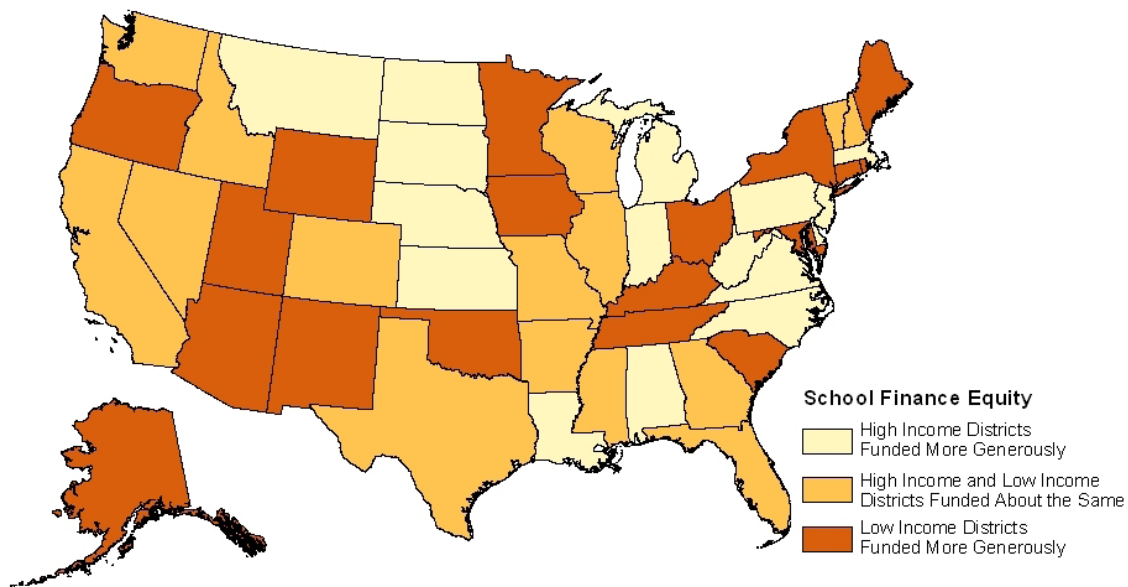
***Why just send more good money after bad? Increases in school funding don't necessarily lead to increases in performance.***

Studies actually show that increasing per-pupil spending does increase performance across a range of school subjects. A North Carolina Institute for Public Policy report found that an increase of \$500 per-pupil had a significant increase on student test scores.

We agree that increasing educational funding won't solve problems by itself, but smart investments can have a huge impact. Without additional funding, schools are incapable of making those investments.

## WHO ELSE IS DOING IT?

Though funding equity should not be the final goal of a state's school funding formula, it does serve as a proxy for the adequacy of this the state's K-12 financing system. The map below shows the per-pupil funding discrepancies between high poverty districts and low poverty districts in each state. Currently, according to a report from The Education Trust, 18 states spend more per student in high poverty districts, 15 spend roughly the same on high and low poverty districts, and 16 actually spend more on low poverty districts.



## SPOTLIGHT ON INNOVATION

Currently, only Arkansas has implemented a fully adequacy based funding system (started by 2003 Arkansas 2nd Special Session Act 59). In the face of a number of court orders, the state implemented an evidence-based adequacy financing formula in 2007. Nevertheless, the tide of legal opinion seems to be leading states towards an adequacy based financing system. Wisconsin, Washington, New Jersey, Wyoming, Texas, Maryland, and Kentucky have all commissioned studies regarding the adequacy of their financing systems, and a number of states have published reports outlining the feasibility and expense of such a change.

## WHAT CAN YOU DO?

Any changes to the state K-12 funding formula would require legislative changes.

The Future of Children provided several guidelines to reform the K-12 funding formula to an adequacy based formula:

- Base the funding formula on a rational assessment of state defined educational goals and student need
- Guarantee that each school district will receive a foundation level of per-pupil funding to meet these state-defined goals
- The state and school districts should distribute funds to schools based on need informed by the number of at-risk or special need students and other school characteristics
- Provide incentives for districts that raise additional revenues through local support by allocating comparable per-pupil funding
- Support the construction and renovation of school facilities
- Reward schools that surpass state-defined school performance goals
- Hold schools accountable for their performance.

Absent the political will to initiate legislative change, Governors or State Superintendents can catalyze funding formula changes by commissioning studies on the adequacy or equity of the state K-12 funding formula. The publicizing of equity or adequacy shortcomings could have the effect of either galvanizing public opinion to push for legislative changes or inspiring lawsuits that could force the legislature's hand.

## RESOURCES

### Policy Reports

Center on Budget and Policy Priorities

- "Education Funding and Low-Income Children: A Review of Current Research"  
[www.cbpp.org/11-7-02sfp3.pdf](http://www.cbpp.org/11-7-02sfp3.pdf)

Education Trust

- "The Funding Gap"  
[www2.edtrust.org/NR/rdonlyres/5AF8F288-949D-4677-82CF-5A867A8E9153/O/FundingGap2007.pdf](http://www2.edtrust.org/NR/rdonlyres/5AF8F288-949D-4677-82CF-5A867A8E9153/O/FundingGap2007.pdf)

The Future of Children

- "Equity and Adequacy in School Funding"  
[www.futureofchildren.org/usr\\_doc/vol7no3ART5.pdf](http://www.futureofchildren.org/usr_doc/vol7no3ART5.pdf)

Mid Continent Research for Education and Learning

- "School Finance: From Equity to Adequacy"  
[www.mcrel.org/PDF/PolicyBriefs/5042PI.PBSchoolFinanceBrief.pdf](http://www.mcrel.org/PDF/PolicyBriefs/5042PI.PBSchoolFinanceBrief.pdf)

Phi Delta Kappan International

- "Equity and Adequacy in School Finance Today"

## Opinion Polls

### Education Week

- “Education Week Poll Results”  
[www.edweek.org/apps/poll/all\\_results.html?category=EW\\_HOME](http://www.edweek.org/apps/poll/all_results.html?category=EW_HOME)

### Gallup

- “The 39th Annual Phi Delta Kappa/Gallup Poll Of the Public’s Attitudes Toward The Public Schools”  
[www.pdkmembers.org/members\\_online/publications/e-GALLUP/kpoll\\_pdfs/pdkpoll39\\_2007.pdf](http://www.pdkmembers.org/members_online/publications/e-GALLUP/kpoll_pdfs/pdkpoll39_2007.pdf)

## State Reports

### Arkansas

- University of Arkansas Office for Education Policy, “The State of Education in Arkansas 2008”  
[www.uark.edu/ua/oep/AER/5.1.State\\_of\\_Education.pdf](http://www.uark.edu/ua/oep/AER/5.1.State_of_Education.pdf)
- Arkansas Legislation, 2003 Arkansas 2nd Special Session Act 59  
[www.arkleg.state.ar.us/ftproot/acts/2003s2/public/act59.pdf](http://www.arkleg.state.ar.us/ftproot/acts/2003s2/public/act59.pdf)

### Kansas

- The University of Kansas - Education Leadership and Policy Studies,  
“Estimating the Costs of Meeting the Texas Educational Accountability Standards”  
[web.ku.edu/~bdbaker/finance/tx\\_randi.pdf](http://web.ku.edu/~bdbaker/finance/tx_randi.pdf)

### Maryland

#### The JL Myers Group

- “Calculation of the Cost of an Adequate Education in Maryland in 1999-2000 Using Two Different Analytic Approaches”  
[www.jlmyersgroup.com/MarylandAdequacyStudysummary.pdf](http://www.jlmyersgroup.com/MarylandAdequacyStudysummary.pdf)

### North Carolina

- Carolina Institute for Public Policy, “North Carolina High School Resource Allocation Study.”  
[publicpolicy.unc.edu/files/HSRA%20Final%20v10.pdf](http://publicpolicy.unc.edu/files/HSRA%20Final%20v10.pdf)

### Washington

- Washington Learns: World Class, Learner Focused, Seamless Education  
[www.washingtonlearns.wa.gov/report/FinalReport.pdf](http://www.washingtonlearns.wa.gov/report/FinalReport.pdf)
- An Evidenced-Based Approach to School Finance Adequacy in Washington  
[www.washingtonlearns.wa.gov/materials/PJPPanelSummaryMay1220061.pdf](http://www.washingtonlearns.wa.gov/materials/PJPPanelSummaryMay1220061.pdf)

### Wisconsin

- Wisconsin Alliance for Excellent Schools, Funding our Future: An Adequacy Model for Wisconsin School Finance  
[www.excellentschools.org/resources/CostOut.pdf](http://www.excellentschools.org/resources/CostOut.pdf)
- Consortium for Policy Research in Education,  
“Moving From Good to Great in Wisconsin: Funding Schools Adequately and Doubling School Performance”  
[cpre.wceruw.org/finance/WI%20March%201%202007%20Adequacy%20Report1.pdf](http://cpre.wceruw.org/finance/WI%20March%201%202007%20Adequacy%20Report1.pdf)