

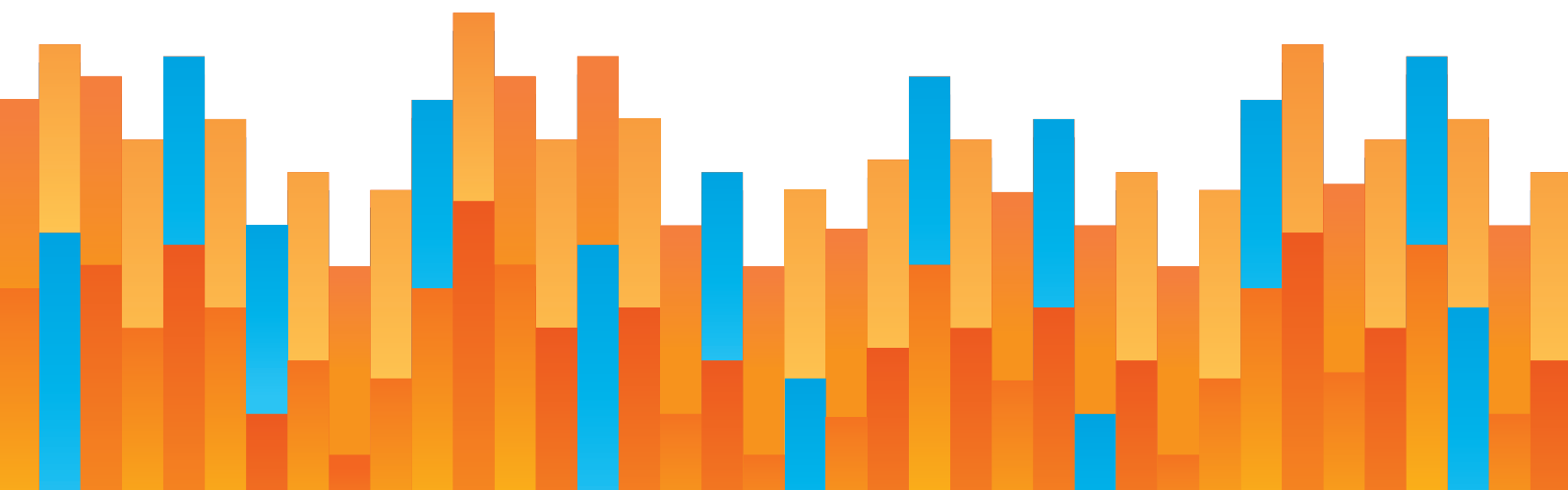


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K-12 FUNDING IN TENNESSEE: A STUDENT-CENTERED APPROACH

by Aaron Smith, Christian Barnard, and Jordan Campbell

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EXECUTIVE SUMMARY

Tennessee is one of only nine states that still employ a resource-based formula for allocating education dollars to school districts. This approach puts the focus squarely on inputs rather than students' needs and is mired in layers of complexity that reduce transparency. As a result, policymakers lack an effective lever for targeting dollars to students, and are thus unable to formulate a coherent strategy for allocating the state's \$9.655 billion in state and local funding. Our analysis of the Volunteer State's school finance system reveals five key findings:

1. Only 3% of education dollars are allocated based on student characteristics.
2. Only 16% of education dollars are flexible for district and school leaders.
3. Funding for low-income students is neither regressive nor progressive.
4. In multi-system counties, county school districts tend to be at a funding disadvantage compared to municipal and special school districts.
5. Local wealth equalization is unnecessarily complex and opaque.

Tennessee should modernize its school finance system by adopting student-centered funding, a strategic approach to K-12 education funding that involves several policy reforms that are tailored to local needs and preferences. These policies can be adopted separately over time or as part of a comprehensive overhaul. Specifically, we have four recommendations for state policymakers:

#1 Streamline dollars into a weighted student formula.

Most importantly, operating revenue should be streamlined into a weighted student formula that allocates dollars based on individual students' needs. The concept is simple: a per-pupil foundational allotment is established for regular program students, then weights are added to this amount for selected categories of need. States such as Texas, South Carolina, California, and others all use some form of weighted student funding.

#2 Reform Tennessee's approach to equalizing local education dollars.

At the very least, Tennessee could eliminate the more complex TACIR six-criteria model and fully adopt CBER, which uses only the county property tax and sales tax bases. This would improve transparency by simplifying the current redundant system of using both models at once. But policymakers could go even further to ensure that students, not local wealth, are the primary determinant of funding levels. Ultimately, the goal is to streamline all or nearly all operating dollars into one coherent funding system where state and local dollars work together.

#3 Resist the urge to add new complexities.

To the extent possible, policymakers should resist the urge to adopt policies that replace existing complexities with new ones.

#4 Leverage public school open enrollment and transparency for accountability.

One way to help ensure accountability for spending and outcomes is to adopt universal inter-district open enrollment, a policy that allows families to enroll in public schools across district boundaries. Tennessee currently lacks a robust open enrollment policy that would give families easy access to other public schools that they may, for a variety of reasons, believe to be a better fit for their child. Another pathway to stronger accountability that avoids rigid restrictions is to improve transparency in how education dollars are allocated and spent. Stakeholders and parents should have easy access to school finance data.

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PART 1

INTRODUCTION

In October, Tennessee Governor Bill Lee and Commissioner of Education Penny Schwinn announced a formal review of the state’s K-12 funding formula, including exploring options for a student-centered approach that prioritizes students over systems.¹ Gov. Lee declared, “We will pursue a rigorous review of our state’s education funding to ensure we are properly investing in students and stewarding our resources well.”² For policymakers, the task is urgent as the Volunteer State’s approach to school finance is decades old and poorly suited for allocating billions of dollars in education funding for nearly one million public school students. This policy brief provides an overview of the current system, assesses its key features with data, and gives recommendations for student-centered reforms.

¹ “Gov. Lee Calls for Review of State Education Funding Formula,” Tennessee Department of Education, October 2022, <https://www.tn.gov/education/news/2021/10/8/gov--lee-calls-for-review-of-state-education-funding-formula-.html> (11 Jan 2022)

² Ibid.

PART 2

BACKGROUND

School finance systems are notoriously complex and Tennessee’s is no exception. In fact, when all of its elements are accounted for, the Volunteer State’s approach to funding is among the most convoluted and opaque in the U.S. This section briefly summarizes the key features of its system and is not intended to be an exhaustive account of the myriad provisions and interactions that comprise it.

Tennessee’s public education system is funded by a combination of federal, state, and local revenue sources. In FY 2019, this amounted to \$10,746 per pupil, an 17.8% inflation-adjusted increase since FY 2002 as shown in Figure 1.³ Since state policymakers have limited say over how federal education dollars are allocated and spent—and federal funding only accounts for 11% of Tennessee’s K-12 education revenue—this paper focuses exclusively on state and local dollars unless otherwise noted.

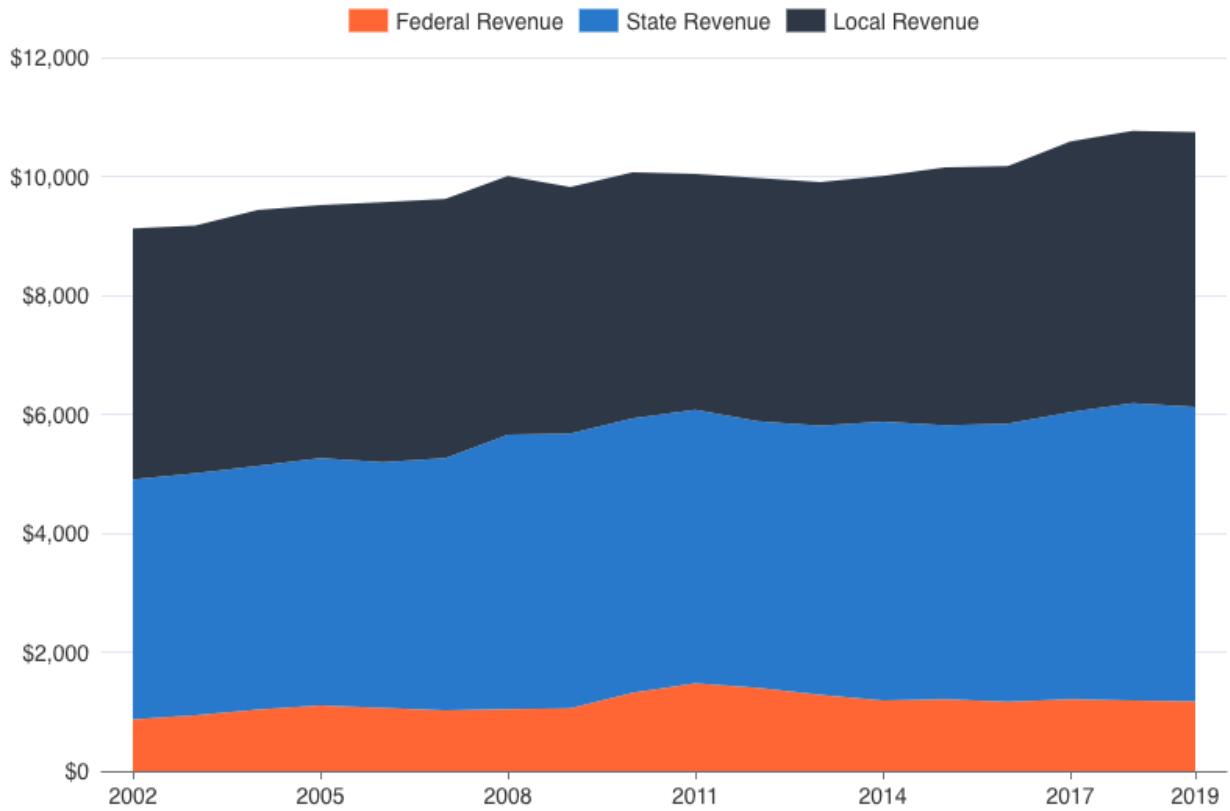
About 77.4% of Tennessee’s \$9.655 billion in non-federal revenue is allocated through its Basic Education Program (BEP), which includes \$4.92 billion in state funding and an estimated \$2.57 billion in local share funding.⁴ Notably, local property and sales taxes

³ Aaron Smith, Christian Barnard, Jude Schwalbach, and Jordan Campbell “K-12 Spending Spotlight,” Reason Foundation, 2021. <https://reason.shinyapps.io/k12-spending-spotlight/> (27 Dec. 2021).

⁴ “State of Tennessee Annual Statistical Report,” Department of Education, *TN.gov*, 2020. <https://www.tn.gov/content/dam/tn/education/documents/asr/2020%20Annual%20Statistical%20Report.pdf> (27 Dec. 2021). Note: The estimated local share contribution to BEP was calculated using assumptions provided by Tennessee Department of Education on 12/10/21. When the local share of BEP is excluded, state BEP funding accounts for about 51% of all state and local education dollars.

account for 22.4% and 17% of revenue, respectively.⁵ Table 1 summarizes these figures for the 2019-2020 school year.

FIGURE 1: TENNESSEE EDUCATION REVENUE TRENDS FROM FY 2002 TO FY 2019



Source: Aaron Smith, Christian Barnard, Jude Schwalbach, and Jordan Campbell “K-12 Spending Spotlight,” Reason Foundation, 2021. <https://reason.shinyapps.io/k12-spending-spotlight> (27 Dec. 2021).

TABLE 1: 2019-2020 STATE AND LOCAL K-12 EDUCATION REVENUE FOR TENNESSEE

State

Basic Education Program	\$4,920,119,787
School Food Service (State Matching)	\$4,003,747
Special Projects & Programs	\$2,395,728
Other State Education Funds	\$63,747,821
Career Ladder Program	\$11,375,704
Early Childhood	\$68,379,962

⁵ Ibid.

State

Vocational Education Funds	\$4,351,575
Other State Revenue	\$167,791,990
Total State Education Funds	\$5,242,166,313

Local

Property Tax	\$2,171,757,779
Payment in Lieu of Property Taxes	\$46,626,697
Local Option Taxes	\$1,645,939,644
Other Statutory Local Taxes	\$10,603,924
Appropriations from City General Fund	\$93,378,357
Licenses and Permits	\$508,251
Total County, City, and Special School District Revenue Receipts	\$3,968,814,651

Other (Non-Federal Revenue)

Tuition Received	\$18,024,269
Individual Payments for Food	\$76,142,126
Transportation Funds from Other School Systems	\$385,586
Misc. Local Total	\$350,159,553
Total Other Revenue Receipts	\$444,711,534

State, Local, and Other Non-Federal Revenue \$9,655,692,498

Source: "State of Tennessee Annual Statistical Report," Department of Education, TN.gov, 2020. <https://www.tn.gov/content/dam/tn/education/documents/asr/2020%20Annual%20Statistical%20Report.pdf> (27 Dec. 2021).

Tennessee is one of only nine states that employ a resource-based formula for allocating education dollars to school districts.⁶ Having a resource-based funding system means that a state funds school districts primarily by allocating staffing units and other inputs. Tennessee funds school districts through the BEP, which consists of four categories of resources (Instructional Salaries, Instructional Benefits, Classroom, and Non-Classroom) that have a total of 47 allotments relying on staffing ratios, average daily membership counts, and other assumptions to determine funding levels.⁷ A summary of these

⁶ "FundEd: Reports," EdBuild. <http://funded.edbuild.org/> (27 Dec. 2021).

⁷ "2021-2021 BEP Blue Book." State Board of Education, TN.gov, 2020. <https://www.tn.gov/content/dam/tn/stateboardofeducation/documents/bepcommitteeactivities/2020/BEPBlueBookFY21.pdf> (27 Dec. 2021).

calculations can be found in Appendix A. School districts generally aren't required to purchase the resources undergirding BEP's allotments, but restrictions are in place that limit how dollars generated by the Instruction and Classroom categories can be used.⁸

BEP is a shared responsibility between state and local coffers with the state being statutorily required to fund 70% of instructional revenue, 70% of instructional benefits revenue, 75% of classroom revenue, and 50% of non-classroom revenue.⁹ Importantly, these shares are determined on a statewide basis, and the actual split for each school district varies based on its ability to raise local education dollars. Local shares are calculated using a fiscal capacity index (FCI) that assigns a greater local funding burden to higher-wealth counties.¹⁰ FCI is based on two separate indices that are equally weighted. The original model, which dates back to 1992, was developed by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) and uses multiple regression analysis of six factors: per pupil own-source revenue, per pupil equalized property assessment, per pupil taxable sales, per capita income, tax burden, and service burden.¹¹ In an effort to simplify this approach and increase transparency, the UT Center for Business and Economic Research (CBER) model was adopted in 2008 and only accounts for counties' property tax and sales tax bases.¹² While CBER was meant to phase-in and replace TACIR, legislative changes in 2016 maintained the equal weighting of both methods that persists today.¹³

Lastly, another key feature of Tennessee's school finance system is how local dollars are raised and shared by its different types of school districts. In total, there are 94 county school districts, 33 municipal school districts, and 14 special school districts.¹⁴ Twenty-eight counties are multi-system, meaning they have more than one type of school district within their boundaries.

⁸ "Tennessee Basic Education Program, Handbook for Computation," Tennessee Department of Education, *TN.gov*, 2018. <https://www.tn.gov/sbe/committees-and-initiatives/the-basic-education-program.html> (27 Dec. 2021).

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² "Fiscal Capacity for Education," Tennessee Advisory Commission on Intergovernmental Relations, *TN.gov*. <https://www.tn.gov/tacir/fiscal-capacity-for-education.html> (27 Dec. 2021)

¹³ *Ibid.*

¹⁴ "Mapping Tennessee Education," Tennessee Comptroller of the Treasury, *Comptroller.TN.gov*, 2021. <https://comptroller.tn.gov/content/dam/cot/orea/advanced-search/2021/Typeofschooldistrict.pdf> (27 Dec. 2021).

The primary source of local operating dollars is property tax revenue, which multi-system counties must share with municipal and special school districts based on Weighted Average Daily Attendance counts.¹⁵ Similarly, multi-system counties must also split revenue derived from voter-approved bond levies unless they establish a special tax jurisdiction that excludes other districts within their boundaries.¹⁶ For their part, municipal and special school districts can also tap into property tax revenue, but aren't required to share these dollars with their respective counties.¹⁷ Special school districts do this through the state's general assembly, while municipal school districts can get a share of municipal property taxes as decided by the municipality's governing body.¹⁸

Another important source of local dollars is the sales tax, which can be levied by both counties and municipalities provided the combined rate doesn't exceed 2.75%.¹⁹ Counties are required to allocate 50% of countywide sales tax revenue in the same manner as the county property tax for school purposes, with the remaining 50% either going to the county or distributed to municipal governments if it was collected within their boundaries.²⁰

¹⁵ Tenn. Code Ann. § 49-3-315

¹⁶ Tenn. Code Ann. § 49-3-1003 and Tenn. Code Ann. § 49-3-1005

¹⁷ Tenn. Code Ann. § 67-5-103 and Tenn. Code Ann. § 67-5-1704

¹⁸ Tenn. Code Ann. § 67-5-1704

¹⁹ Tenn. Code Ann. § 67-6-702

²⁰ Tenn. Code Ann. § 67-6-712

PART 3

ANALYSIS

The following section provides key takeaways from our analysis of Tennessee's school finance data. While there are numerous ways to assess the effectiveness of a funding system, we believe the findings presented below are the most critical in measuring the degree to which education dollars are student-centered.

3.1

AN ESTIMATED 3.3% OF EDUCATION DOLLARS ARE ALLOCATED BASED ON STUDENT CHARACTERISTICS.

One way to assess the effectiveness of a state's funding system is to estimate the share of education dollars that are allocated based on students, an approach pioneered by Marguerite Roza at Georgetown University's Edunomics Lab. The Student-Centered Funding (SCF) metric indicates the extent to which funding is targeted to the needs of students and delivered transparently to school districts. Generally, a higher SCF means that a state's school finance system is more student-centric with other factors having less effect on how dollars are divvied up.

To estimate this figure for Tennessee, we analyzed how all state and local funding streams were allocated in the 2019-2020 school year and calculated an SCF of about 3%.²¹ In comparison, our previous research indicates that this figure is approximately 75% for Oklahoma, 52% for New Hampshire, and 2% for Idaho. Of these three states, Idaho is the only one that employs a resource-based formula similar to Tennessee's. Roza's research reveals that states with high SCF levels include California, Texas, and Colorado, with Tennessee's among the lowest evaluated.²²

Tennessee's low SCF share is the result of two key drivers. First, while most BEP allotments account for student enrollment, they largely do so using staffing ratios and other assumptions about how schools should be arranged to serve students. The key here is not that funding is necessarily unresponsive to enrollment levels, but that student needs are not the focus of how dollars are delivered. The other driver is the role of local dollars in Tennessee's funding system, which we estimate to have roughly \$1.4 billion in excess local funding.²³ These are local dollars raised above and beyond school districts' local share of BEP and are unrelated to student enrollment levels or need. Unlike other states, Tennessee places few limitations on how much revenue school districts can raise locally.

Tennessee policymakers can learn from California's bi-partisan funding reform. In 2013 California enacted its Local Control Funding Formula (LCFF), which sought to increase funding equity and give school districts greater autonomy over spending decisions. To do this, LCFF eliminated about three-quarters of the state's categorical programs—nearly half of all categorical funding—and streamlined dollars into a weighted student formula that delivers unrestricted funds to districts based on students.²⁴ The concept is simple: a per-pupil foundational allotment is established for regular program students, then weights are

²¹ See Appendix B for a description of our SBA calculation methodology. Note, that this approach may not be identical to the methodology employed by researchers at Edunomics Lab, but our findings for Tennessee are similar. Using FY16 data, Marguerite Roza estimated an SBA of 5%. For more information, see Marguerite Roza, "Funding for Students' Sake: How to Stop Financing Tomorrow's Schools Based on Yesterday's Priorities," Edunomics Lab, 2019. https://edunomicslab.org/wp-content/uploads/2019/09/Funding-for-students_R9_2019.pdf (31 Dec. 2021).

²² Ibid.

²³ This figure was calculated using 2019-2020 funding data and assumptions provided by Tennessee Department of Education staff via e-mail on December 10, 2021. Note, that this figure includes local revenue used for capital expenditures.

²⁴ Aaron Garth Smith, "California's Local Control Funding Formula Provides a Model For K-12 School Finance Reform," Reason Foundation, 2020. <https://reason.org/commentary/californias-local-control-funding-formula-provides-a-model-for-k-12-school-finance-reform/> (12 Jan 2022).

added to this amount for selected categories of need. Early research has given LCFF high marks. There are several emerging themes.

First, there is widespread support among school districts and local officials. In a survey of superintendents, 82% agreed that LCFF allows them to better align goals, strategies, and resource allocation decisions. Researchers have also found “little enthusiasm” among district officials for returning to categorical funding.²⁵ A separate survey found that, of those familiar with the law, 72% of likely voters and 84% of parents viewed it positively.²⁶

Next, there have been positive cultural shifts within school districts with evidence of greater collaboration between fiscal and academic leaders in developing budgets. According to one official, “We’re finally [asking] who are the students with the highest need and how do we address those needs?”²⁷

There is also evidence of customization with researchers at Edunomics Lab finding that districts have used flexibility to customize without radical shifts in spending.²⁸ For example, some districts are prioritizing things such as staff development and health services, while others deprioritize them. While Edunomics also found evidence that many districts beefed up their teaching staffs with their additional dollars, it appears that they didn’t simply bargain away their new dollars with across-the-board salary increases, another concern that policymakers sometimes have with local flexibility.

Lastly, there is also a greater focus on fairness, with research by The Education Trust-West showing a “dramatic” improvement in funding equity.²⁹

²⁵ Julie A. Marsh and Julia E. Koppich, “Superintendents Speak: Implementing the Local Control Funding Formula (LCFF),” Local Control Funding Formula Research Collaborative, 2018. www.edpolicyinca.org/sites/default/files/LCFF_Superintendents_Survey.pdf (4 Jan 2022).

²⁶ Julia E. Koppich and Daniel C. Humphrey, “The Local Control Funding Formula (LCFF): What Have We Learned After Four Years of Implementation?” Stanford University, 2018. <https://files.eric.ed.gov/fulltext/ED594756.pdf> (12 Jan 2022).

²⁷ Rebecca Wolf and Janelle Sands, “A preliminary analysis of California’s New Local Control Funding Formula,” Education Policy Analysis Archives, 2016. <https://eric.ed.gov/?id=EJ1100156> (4 Jan 2022).

²⁸ Marguerite Roza et al., “Analyzing Early Impacts Of California’s Local Control Funding Formula,” Edunomics Lab, December 2017. <https://edunomicslab.org/2017/12/20/analyzing-early-impacts-californias-local-control-funding-formula/>(4 Jan 2022).

²⁹ “The Steep Road to Resource Equity in California Education,” Education Trust-West, April 2017. <https://west.edtrust.org/resource/the-steep-road-to-resource-equity-in-california-education/> (4 Jan 2022).

3.2

AN ESTIMATED 16% OF EDUCATION DOLLARS ARE FLEXIBLE FOR DISTRICT AND SCHOOL LEADERS.

We estimate that the vast majority of Tennessee’s education dollars, about 84%, have explicit or implied restrictions.³⁰ While districts aren’t technically required to purchase the resources specified by BEP, the top-down nature of the funding formula could make district and school leaders reluctant to deviate from the intended uses outlined by its numerous funding streams. Ultimately, this fosters a compliance mindset and a false sense of specificity about the best way to spend education dollars. It’s also important to highlight that dollars generated by BEP’s Instruction and Classroom components are, in fact, accompanied by explicit restrictions. This could have the unintended consequence of eliminating tradeoffs with spending decisions and thus limiting what innovative approaches to education might look like. For example, a school district might want more robust investments in technology, but could find it difficult to reprioritize dollars that are currently used for other purposes.

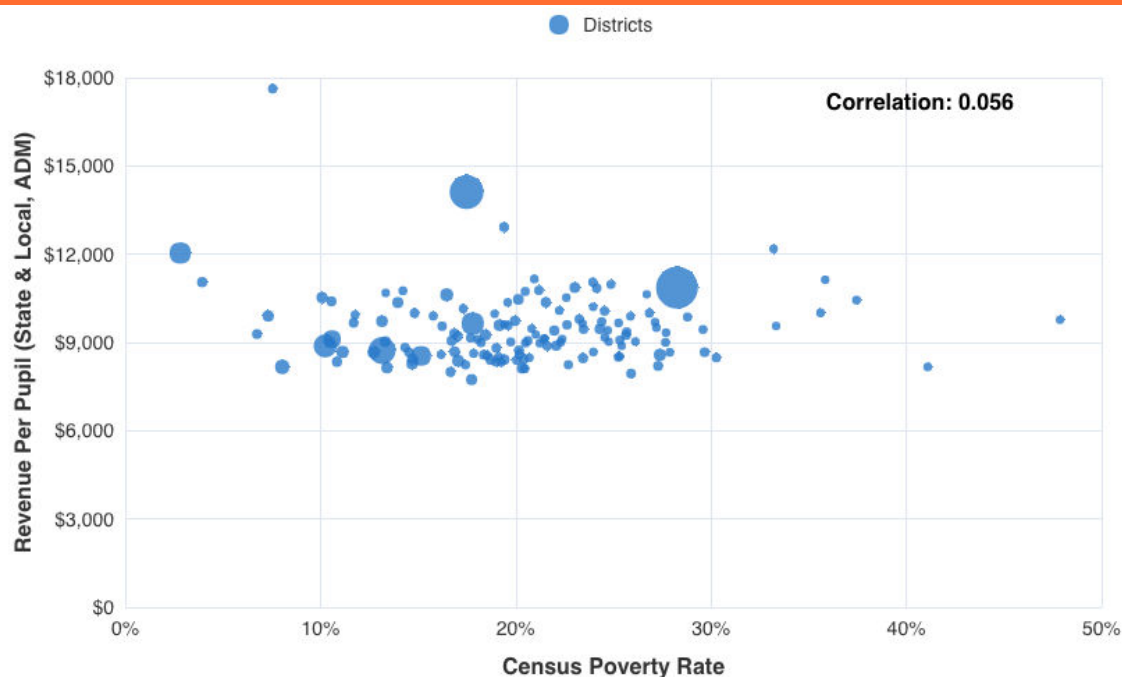
3.3

FUNDING FOR LOW-INCOME STUDENTS IS NEITHER REGRESSIVE NOR PROGRESSIVE.

There is a weak and statistically insignificant relationship between districts’ per-pupil revenue and Census poverty rates as displayed in Figure 2.³¹ In other words, districts with higher concentrations of student poverty do not typically receive more or less funding than those with lower concentrations of student poverty when all state and local dollars are accounted for.

³⁰ See Appendix B for a description of our restricted funding calculation methodology. As with our SCF metric, these are only estimates.

³¹ Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/?utm_medium=email (27 Dec. 2021). Note: There are different ways to calculate correlation. The method chosen for this analysis is Kendall’s tau-b, which tends to be less sensitive to outliers and requires fewer assumptions about the underlying data.

FIGURE 2: DISTRICT PER-PUPIL REVENUE VS. CENSUS POVERTY RATE

Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

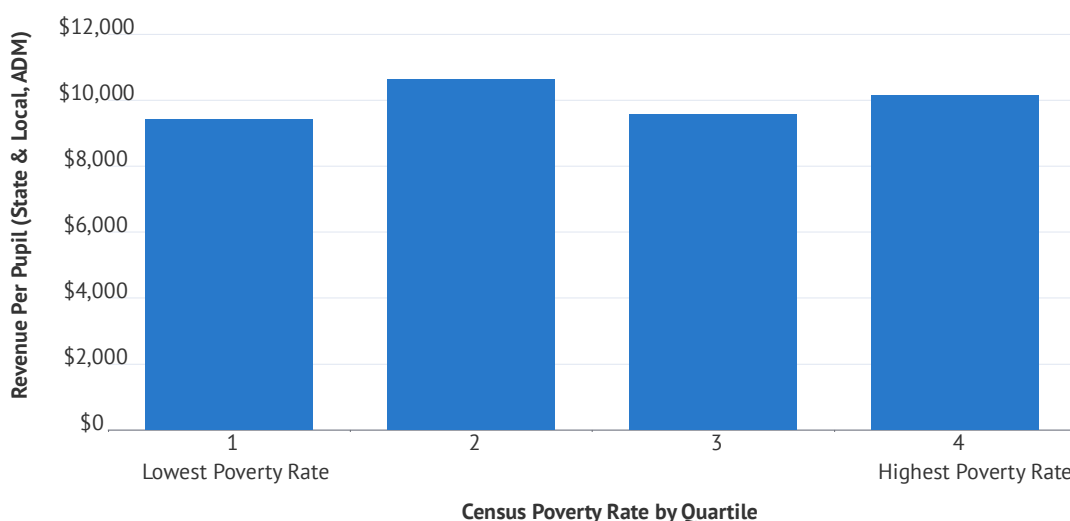
To further examine this dynamic, we grouped districts into quartiles based on Census poverty levels and found that, on average, districts with the highest concentration of students in poverty (i.e. 4th quartile districts) receive \$734 more per pupil than the lowest-poverty districts (i.e. 1st quartile districts).³² However, both of these groups receive less on average than the 2nd quartile districts, which generated the most funding at \$10,643 per pupil, as shown in Figure 3.³³ Note that our findings align with an Urban Institute analysis of Tennessee’s 2013-2014 funding data, which also showed a neutral relationship between funding and poverty.³⁴ Using a different methodology, the Urban Institute found that districts attended by poor students generated about \$168 more in cost-adjusted state and local per-pupil funding than those attended by non-poor students.³⁵

³² Ibid.

³³ Ibid.

³⁴ Matthew M. Chingos and Kristin Blagg, “Do Poor Kids Get their Fair Share of School Funding?” Urban Institute, 2017. https://www.urban.org/sites/default/files/publication/90586/school_funding_brief_1.pdf (1 Jan. 2022).

³⁵ Ibid.

FIGURE 3: DISTRICT PER-PUPIL REVENUE BY CENSUS POVERTY QUARTILE

Source: Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

For some, the fact that Tennessee’s funding system is neutral with respect to student poverty might be seen as a positive, especially since federal dollars—which these figures don’t include—are generally targeted to disadvantaged student groups via programs such as Title I. To be sure, including federal dollars in these calculations would indicate a more progressive funding system.³⁶ However, for those who wish to see a more progressive distribution of state and local education dollars, it’s a clear sign that there’s work to be done in terms of targeting a greater share of funding to low-income students.

3.4

COUNTY DISTRICTS ARE AT A FUNDING DISADVANTAGE COMPARED TO MUNICIPAL AND SPECIAL SCHOOL DISTRICTS WITHIN THEIR BOUNDARIES.

On average, multiple-system county districts generate about \$488 less per pupil than the municipal and special school districts within their boundaries (see Figure 4).³⁷ Digging deeper into the data in Table 2, it’s evident that the vast majority of municipal and special school districts—29 out of 37—raise more revenue per pupil than their respective county school districts.³⁸ However, while these districts tend to raise more funding, 29 out of 37

³⁶ Ibid.

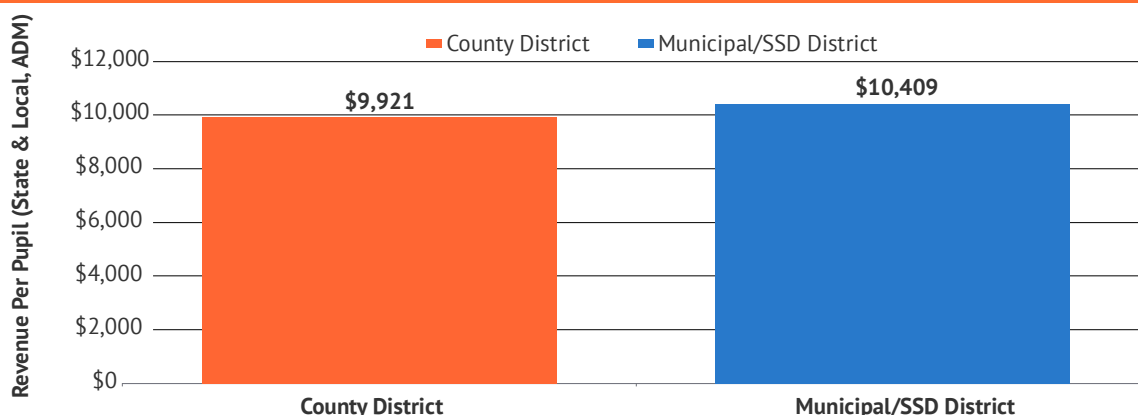
³⁷ Campbell, “Tennessee School Finance Analysis.”

³⁸ Calculations based on data obtained from Campbell, “Tennessee School Finance.”

also have higher poverty rates. One notable exception to these overall trends is Shelby County Schools, which raises an average of \$606 more per pupil than the six districts within its boundaries, but also has a substantially higher poverty rate at 28.3% compared to an average of 8.7% for the others.

These findings are unsurprising given how local revenues are shared within multiple-district counties. As noted in the previous section, counties are largely obligated to share local dollars, while municipal and special school districts can tap into local funding sources without such a requirement. In 2019-2020, municipal governments appropriated over \$93.3 million in general funding revenue to K-12 education funding.

FIGURE 4: MULTI-SYSTEM PER-PUPIL REVENUE COMPARISONS



Source: Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

Note: These figures include school districts within Gibson County, which does not operate a county-level school district.

TABLE 2: COMPARING MUNICIPAL AND SPECIAL SCHOOL DISTRICTS WITH THEIR COUNTY SCHOOL DISTRICTS

	Total	Greater Poverty	Greater Revenue	Greater Local Assessment
Municipal School Districts	32	24	26	10
Special School Districts	5	5	3	2
Combined	37	29	29	12

Source: Calculations based on data obtained from Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

Note: These figures exclude school districts within Gibson County and Carrol County since they do not operate traditional county-level school districts and thus comparisons are not possible.

3.5

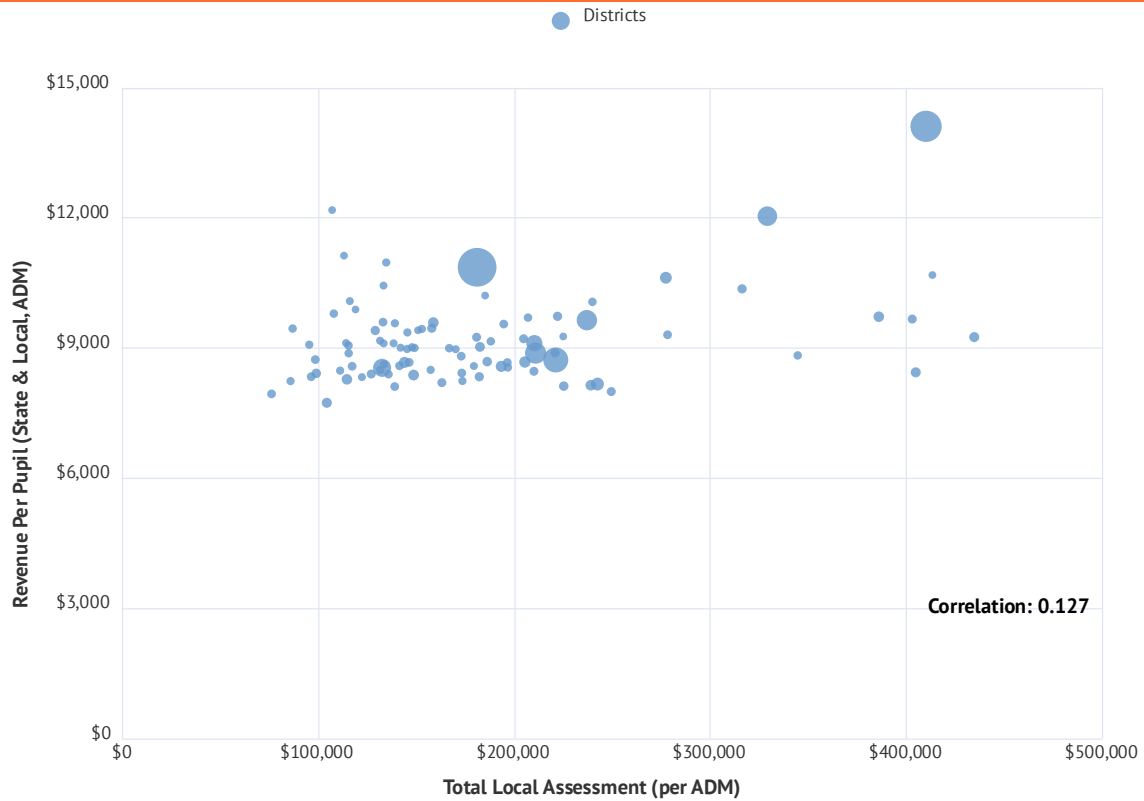
LOCAL WEALTH EQUALIZATION IS UNNECESSARILY COMPLEX AND OPAQUE.

Tennessee's approach to equalizing local wealth is unique in several respects. Most notably, it sets statewide shares of funding for BEP's four components and employs two relatively complex data models (TACIR and CBER) to calculate local shares for districts. The Volunteer State relies more on local sales tax revenue compared to other states (and thus less reliance on property tax revenue), meaning that a more standard one-factor foundation formula that solely focuses on property wealth doesn't fully capture local capacity to raise education dollars. Nevertheless, there's no clear rationale for using two equalization models and doing so only adds to the labyrinth that is Tennessee's school finance system.

Additionally, while Tennessee doesn't appear to have gaping funding discrepancies among school districts that are sometimes observed in other states, our research shows a moderate positive correlation between per-pupil revenue and property wealth when looking at county school districts only.³⁹ In other words, districts with greater property wealth tend to raise more dollars than districts with less property wealth, as shown in Figures 5 and 6. This trend is apparent when grouping districts by property wealth quartile. On average, county districts with higher property wealth (i.e. 4th quartile districts) receive \$1,657 more per student than the lower property wealth county districts (i.e. 1st quartile districts). Of course, many factors might contribute to this, but a consistent relationship is observed across quartiles as revenue increases in lock-step with property wealth.

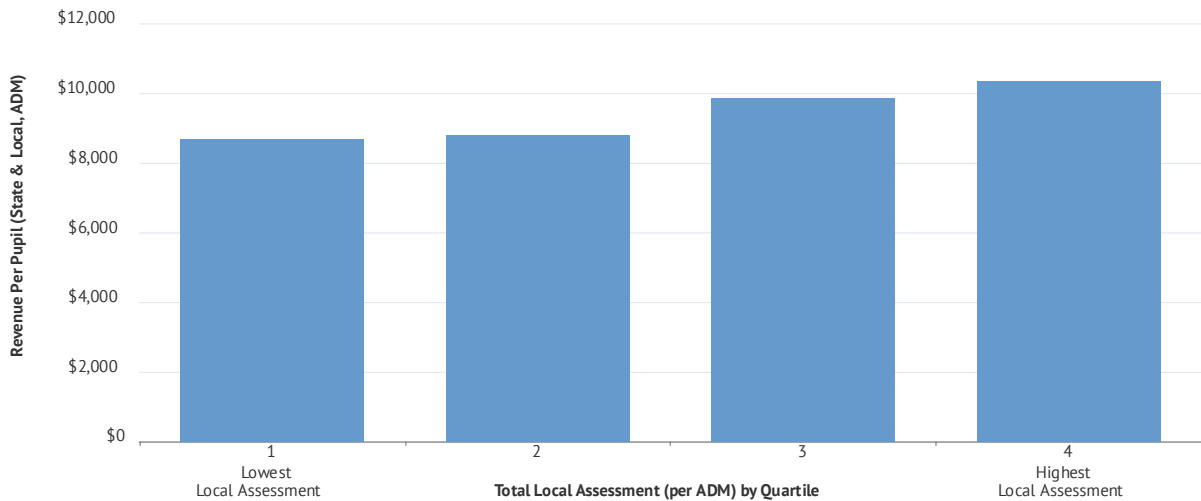
³⁹ Municipal and special school districts are excluded from consideration due to data constraints.

FIGURE 5: REVENUE VS. PROPERTY WEALTH



Source: Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

FIGURE 6: REVENUE BY PROPERTY WEALTH QUARTILE



Source: Jordan Campbell, Ari DeWolf, Aaron Smith, and Christian Barnard, “Tennessee School Finance Analysis,” Reason Foundation, 2021. https://reason.shinyapps.io/tennessee_supplementary_metrics/ (27 Dec. 2021).

PART 4

RECOMMENDATIONS AND CONCLUSION

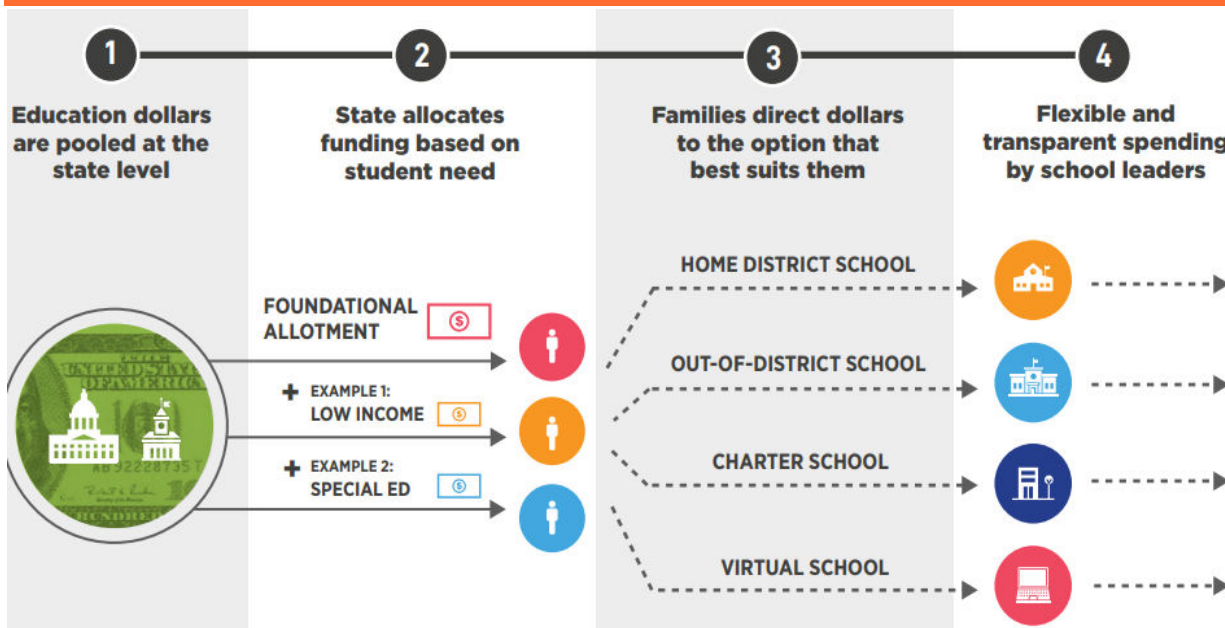
School finance policy is the bedrock of K-12 public education. Not only does it determine funding levels, but it also affects how districts and schools organize themselves and their learning environments. When there are cracks in the foundation, dollars aren't used as effectively as they could be to meet the unique needs of kids. In Tennessee's case, the core problem with its funding system is that it puts the focus squarely on inputs rather than students and is mired in layers of complexity that reduces transparency. As a result, policymakers lack an effective lever for targeting dollars to students, and are thus unable to formulate a coherent strategy for allocating the state's \$9.655 billion in state and local funding. To address these problems, Tennessee should move away from its antiquated resource-based model by adopting student-centered funding, which has several key advantages that are outlined in Figure 7.

FIGURE 7: COMPARING FUNDING MODELS

OUTDATED FUNDING MODELS	STUDENT-CENTERED FUNDING MODEL
✗ Funding is based on programs and resources	✓ Funding is based on student enrollment
✗ Funding accounts for district needs	✓ Funding accounts for student needs
✗ Local property wealth affects funding levels	✓ Funding has no relation to property wealth
✗ Dollars have strings attached	✓ Dollars are flexible
✗ Requires a compliance mindset	✓ Encourages a strategic mindset
✗ Dollars are fixed	✓ Dollars can be unbundled
✗ Important financial data are difficult to obtain	✓ Robust financial transparency
✗ Education is determined by zip code	✓ Families are empowered with options

Student-centered funding is a strategic approach to school finance that involves several policy reforms that are tailored to a state’s needs. These policies can be adopted separately over time or as part of a comprehensive overhaul. Figure 8 shows a high-level view of what a student-centered model looks like.

FIGURE 8: STUDENT-CENTERED FUNDING



To adopt student-centered funding, school finance policy decisions should be driven by four principles:

1. **Fairness:** Dollars should be allocated based on the needs of individual students.
2. **Transparency:** School finance formulas should be streamlined and easy to understand.
3. **Portability:** Funding should not be tethered to zip code and should follow the child across district boundaries.
4. **Flexibility:** Families and education leaders who are closest to kids are in the best position to decide how education dollars are spent.

4.1

RECOMMENDATIONS

Based on these principles and our analysis of Tennessee’s funding system, we have four key recommendations for state policymakers.

#1: STREAMLINE DOLLARS INTO A WEIGHTED STUDENT FORMULA.

Most importantly, operating revenue should be streamlined into a weighted student formula (WSF) that allocates dollars based on individual students’ needs. The concept is simple: a per-pupil foundational allotment is established for regular program students, then weights are added to this amount for selected categories of need. Ultimately, this would help improve Tennessee’s SCF metric and, if structured effectively, also reduce the share of education dollars that have explicit or implied spending restrictions. This would also give Tennessee a more reliable mechanism for targeting dollars to selected categories of student need including low-income students.

There isn’t one way to structure a weighted student formula and we’ve included three examples in Appendix C: California, South Carolina, and Texas. Policymakers can learn from these approaches but it’s important to note that all school finance systems have flaws. For example, South Carolina allocates a relatively small share of its funding pot through its WSF, and Texas’ special education weights only consider disability categories without accounting for intensity of services. Nevertheless, examining other approaches to WSF is a good starting point for Tennessee’s policymakers, with several best practices to consider as follows. Ultimately, a WSF will help foster a school finance system that is equitable for students, transparent for taxpayers, and flexible for families and educators.

Keep it simple: Generally, it is best to employ a straightforward formula that avoids overlap among categories.

Be strategic: Weighted student categories should be selected based on Tennessee's unique needs, accounting for things such as student demographics and current performance levels. To do this, several of Tennessee's current funding streams could be translated into weights, including funding for at-risk students, English language learners, career and technical education, and special education.

Consider all funding: Policymakers should aim to allocate all or nearly all operating dollars through a WSF.

Examine allocation patterns: While it's clear that some students are costlier to educate than others, it's difficult to determine exactly how much more they should receive. When setting weights, policymakers should start by examining current allocation patterns for various student sub-groups and model how changes to the formula would affect these distributions.

Don't attach strings: Dollars should be delivered as unrestricted revenue so that district leaders are empowered to make spending decisions. Ultimately, such a system makes schools accountable for outcomes, not inputs. If policymakers are concerned about how districts are using education funding (e.g. spending on administration) financial reporting tools should be created so that stakeholders know exactly how dollars are allocated and spent.

#2: REFORM TENNESSEE'S APPROACH TO EQUALIZING LOCAL EDUCATION DOLLARS

Tennessee's approach to equalizing education dollars via two separate models, TACIR and CBER, diminishes transparency and serves no practical purpose. Moreover, it makes little sense for school districts to operate under separate policies whereby individual students in the same county but different districts receive different funding amounts. This is incompatible with student-centered funding in which dollars should be based on students rather than local wealth, school district type, or other factors. Overhauling Tennessee's approach to school finance equalization might present political challenges, but this is

central to fully adopting student-centered funding. The good news is that there are several ways to do this that align with the principles outlined previously.

At the very least, Tennessee could eliminate TACIR and fully adopt CBER. While this reform's overall effect might be limited, it would help improve transparency by simplifying a redundant system. But policymakers could go even further to ensure that students, not local wealth, are the primary determinant of funding levels. Ideally, this would entail moving to a full-state funding model for operating revenue, as Indiana has largely done.⁴⁰ Short of that, it could also mean tweaking current policy features by establishing assumed local tax rates, eliminating statewide share requirements, and restricting local excess revenue. Ultimately, the goal is to streamline all or nearly all operating dollars into one coherent funding system where state and local dollars work together. Conceptually, this is similar to how most states already fund charter schools and would complement a weighted student formula.

#3: RESIST THE URGE TO ADD NEW COMPLEXITIES.

To the extent possible, policymakers should resist the urge to adopt policies that replace existing complexities with new ones. Undoubtedly, there will be groups advocating for staffing guarantees, categoricals, or other funding schemes that allocate education dollars based on things other than students. While it's unlikely that all outside-the-formula dollars will be collapsed into a weighted student formula, policymakers should be skeptical of proposals that maintain or create these types of carve outs. Student-centered funding is a straightforward concept: allocate education dollars based on kids, without the myriad layers of complexity that characterize Tennessee's current school finance system.

#4: LEVERAGE PUBLIC SCHOOL OPEN ENROLLMENT AND TRANSPARENCY FOR ACCOUNTABILITY

One way to help ensure accountability for spending and outcomes is to adopt universal inter-district open enrollment, a policy that allows families to enroll in public schools across district boundaries. Currently, families in Tennessee aren't always given this

⁴⁰ For details on Indiana's local revenue reform see Dale Chut and Benjamin Scafidi, "Indiana's Property Tax, Choice, and Accountability Reforms: Their Consequences for Funding and Student Achievement," Institute for Education Policy at Johns Hopkins University, 2019. <https://edpolicy.education.jhu.edu/indianas-property-tax-choice-and-accountability-reforms-their-consequences-for-funding-and-student-achievement-by-dale-chu-and-with-contributions-from-benjamin-scafidi/> (6 Jan 2022).

opportunity and many are even charged transfer tuition by receiving districts.⁴¹ In fact, in 2019-2020 districts collected about \$5.255 million in tuition for out-of-district students.⁴²

Evidence from other states suggests that families use open enrollment for diverse reasons—such as to access specialized academic programs or to escape bullying—and that students tend to transfer into higher-performing school districts.⁴³ For example, Randall Rebeck found that student achievement levels are stronger predictors of transfer demand than socio-economic characteristics.⁴⁴ Other research has found evidence that academic quality is the largest determinant of open enrollment flows.⁴⁵

Tennessee currently lacks a robust open enrollment policy that would give families easy access to other public schools that they may, for a variety of reasons, believe to be a better fit for their child. Policymakers could look toward Florida, which adopted the state's Controlled Open Enrollment policy in 2016.⁴⁶ Data obtained by Reason Foundation in 2020 show that the young program is already very popular. More than 273,475 students participated in COE in 2019 with over 5,000 transferring between school districts.⁴⁷

⁴¹ For an example, see “Collierville Schools approves annual tuition for students who live outside district” *Fox 13 Memphis*, 26 May 2021. *Fox13Memphis.com*. <https://www.fox13memphis.com/news/local/collierville-schools-approves-annual-tuition-students-who-live-outside-district/J2VWJ2K35NAY3FKLE5AMZUXIJ/>

⁴² Based on data reported in the 2019-2020 Annual Statistical Report and correspondence with Tennessee Department of Education officials. That year \$18.024 million was reported as Tuition Received of which \$5.255 million was for Regular Day Students (code 43511). This reflects tuition payments for students who attend schools outside of their district, although it is unclear what share, if any, was not covered by families directly.

⁴³ “Evaluation of the District of Choice Program.” California Legislature, Legislative Analyst’s Office, 2016. <https://lao.ca.gov/Publications/Report/3331> (6 Jan 2022). See also Luke Ragland and Craig Hulse, “Open Doors, Open Districts: School Choice in Colorado’s Traditional Public Schools,” Ready Colorado, 2018. <https://readycolo.org/wp-content/uploads/2018/10/ODODfinal.pdf> (6 Jan 2022).

⁴⁴ Randall Rebeck, “Demand (and supply) in an inter-district public school choice program,” *Economics of Education Review*, Volume 27, Issue 4, August 2008. <https://www.sciencedirect.com/science/article/abs/pii/S0272775708000034> (6 Jan 2022)

⁴⁵ Deven Carlson, Lesley Lavery, and John F. Witte, “The Determinations of Interdistrict Open Enrollment Flows: Evidence from Two States,” *Journal of Educational Evaluation and Policy Analysis*, 2011. <https://journals.sagepub.com/doi/abs/10.3102/0162373710388643?journalCode=epaa&> (6 Jan 2022)

⁴⁶ Vittorio Nastasi, “Florida’s Open Enrollment Policy Can Serve As a School Choice Model” Reason Foundation, 2020. <https://reason.org/commentary/floridas-open-enrollment-policy-can-serve-as-a-school-choice-model/>(6 Jan 2022).

⁴⁷ Ibid.

Another pathway to stronger accountability that avoids rigid restrictions is to improve transparency in how education dollars are allocated and spent. Stakeholders and parents should have easy access to information, such as how much state and local education funding their district receives per pupil, how much funding local governments are collecting from taxpayers outside of the BEP, and school-level expenditure comparisons. Currently, some of this information is difficult to find or is reported in a way that makes useful comparisons difficult. The best way to ensure accountability while preserving local autonomy over spending decisions is robust transparency.

4.2

CONCLUSION

Policymakers have a historic opportunity to modernize Tennessee's antiquated school finance system. By placing the focus squarely on students, rather than inputs, policymakers can improve transparency and create an effective lever for aligning education dollars with strategy. Student-centered funding can move the Volunteer State toward a school finance system that is more equitable for students, transparent for taxpayers, and flexible for educators and families.

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APPENDICES

APPENDIX A: TENNESSEE'S BASIC EDUCATION PROGRAM

Category	Component	Description
Instructional Salary Components (State Share: 70%)	Regular Education	1 per 20 ADM K-3 1 per 25 ADM 4-6 1 per 25 ADM 7-9 1 per 22.08 ADM 10-12
	Career & Technical Education	1 per 16.67 career and technical education FTEADM
	Special Education	Option 1 91.0 Options 2 and 3 58.5 Options 4, 5 and 6 16.5 Options 7, 8, 9 and 10 8.5
	Elementary Counselor	1 per 500 ADM K-6
	Secondary Counselor	1 per 350 ADM 7-12 (including CTE)
	Elementary Art	1 per 525 ADM K-6
	Elementary Music	1 per 525 ADM K-6
	Elementary Physical Education	1 per 350 ADM K-4 1 per 265 ADM 5-6
	Elementary Librarians (K-8)	.5 per school < 265 1 per school 265-439 1 per school 440-659 (+.5 assistant) 1 per school > 660 (+1 assistant)
	Secondary Librarians (9-12)	.5 per school < 300 1 per school 300-999 2 per school 1,000-1,499 2 per school > 1,500 (+1 per additional 750)

	ELL Instructors	1 per 20 EL Students
	ELL Translators	1 per 200 EL Students
	Principals	.5 per school < 225 1 per school > 225
	Assistant Principals Elementary	.5 per school 660-879 1 per school 880-1,099 1.5 per school 1,100-1,319 2 per school > 1,320
	Assistant Principals Secondary	.5 per school 300-649 1 per school 650-999 1.5 per school 1,000-1,249 2 per school > 1,250 (+ 1 per additional 250)
	System-wide Instructional Supervisors	1 per < 500 total ADM 2 per 500-999 total ADM 3 per 1,000-1,999 total ADM 3 per > 2,000 total ADM (+ 1 per additional 1,000)
	Special Education Supervisors	1 per 750 special education
	Career & Technical Education Supervisors	1 per 1,000 career & technical education FTEADM
	Special Education Assessment Personnel	1 per 600 special education I & S
	Social Workers	1 per 2,000 total ADM
	Psychologists	1 per 2,500 total ADM
	Response to Intervention (RTI)	1 per 2,750 total ADM (minimum 1 per system)
Instructional Benefits Components (State Share: 70%)	Staff Insurance	\$7,236.26 per BEP position for insurance
	Staff Benefits	7.65% of BEP salary for FICA and Medicare
	Staff Retirement	10.30% of BEP salary per licensed position OR 7.54% of BEP salary per classified position for TCRS
Classroom Components (State Share: 75%)	K-12 At-Risk	\$940.00 per identified at-risk ADM
	Duty-Free Lunch	\$13.00 per total ADM
	Textbooks	\$79.00 per total ADM
	Classroom Materials & Supplies	\$89.75 per regular ADM \$157.75 per career & technical education FTEADM \$36.50 per special education \$62.96 per academic exit exam (12th grade) \$18.45 per technical exit exam (1/4 CTE)
	Instructional Equipment	\$77.00 per regular ADM \$99.75 per career & technical education FTEADM \$17.00 per special education
	Classroom Related Travel	\$16.00 per regular ADM \$50.50 per career & technical education FTEADM \$17.25 per special education

	Career & Technical Center Transportation	For participating systems to transport students to career & technical center attended part of the day
	Technology	\$40.96 per funded ADM \$40 M distributed on ADM basis
	Nurses	1 per 3,000 total ADM (minimum one per system)
	Instructional Assistants	1 per 75 ADM K-6
	Special Education Assistants	1 per 60 special education in Options 5,7,8
	Substitute Teachers	\$68.00 per total ADM
	Alternative Schools	\$3.75 per total ADM K-12 plus \$35.25 per ADM 7-12 (including CTE)
Non Classroom Components (State Share: 50%)	Superintendent	1 per county
	Superintendent System Secretarial Support	1 per system < 500 2 per system 500-1,250 3 per system 1,251-1,999 3 per system 1,999 and above, plus 1 for each additional 1,000 ADM
	Technology Coordinators	1 per system with one additional for each 6,400 ADM
	School Secretaries	.5 per school < 225 1 per school 225-374 1 per 375 per school > 375 (plus 1 per each additional 375)
	Maintenance & Operations	100 square feet per total K-4 ADM 110 square feet per total 5-8 ADM 130 square feet per total 9-12 ADM Total sq ft x \$3.55/sq ft 1 custodian per 22,376 calculated sq ft
	Non-Instructional Equipment	\$26.50 per total ADM
	Pupil Transportation	Allocated to systems that provide transportation via a formula established by Commissioner of Education. Based on number of pupils transported, miles transported, and density of pupils per route mile.
	Staff Benefits and Insurance	\$6,753.85 per BEP position for insurance OR \$10,130.77 for superintendent and technology coordinator; plus 7.65% of BEP salary for FICA and Medicare. Add 9.86% of BEP salary per superintendent and technology coordinator OR 7.44% of BEP salary per classified position for TCRS
	Capital Outlay	100 sq ft per total K-4 ADM x \$139.41/sq. ft. 110 sq ft per total 5-8 ADM x \$140.00/sq. ft. 130 sq ft per total 9-12 ADM x \$149.93/sq. ft. Add equipment (10% of sq ft cost) Add architect's fee (7% of sq ft cost) Add debt service (20 yrs @ 6.00%) Divide total by 40 yrs = annual amount

Salaries Used in BEP Calculations	<p>Teachers and Other Licensed Personnel</p> <p>The BEP allocation for salaries for each school system is based on:</p> <p>The number of each type of position generated by the cost components</p> <p>The current salary unit cost for instructional personnel = \$48,330</p> <p>Average annual superintendent salary = \$115,700 per county</p> <p>Other Personnel</p> <p>Average annual library/instructional assistant salary = \$24,100</p> <p>Average annual custodian salary = \$25,900</p> <p>Average annual school secretary salary = \$33,800</p> <p>Average annual system secretary salary = \$43,200</p>
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Source: “2021-2021 BEP Blue Book,” State Board of Education.

APPENDIX B: METRIC CALCULATIONS METHODOLOGY

The guidelines below were used to calculate our Student-Centered Funding and Flexible Funding metrics. Some of the SCF guidelines were adopted from Edunomics Lab’s methodology, but our approaches and calculations are likely not identical. Importantly, these calculations require substantive research and analysis and there are often gray areas that require judgment calls. Nevertheless, we believe they effectively convey the degree to which a state’s funding system is student-centered and flexible.

Student-Centered Funding Metric Guidelines	Flexible Funding Metric Guidelines
<ul style="list-style-type: none"> ● Must be based on enrollment counts of individual students. 	<ul style="list-style-type: none"> ● Must have limited or no requirements. An example of an acceptable requirement is a broad guideline that dollars must be expended to support the student(s) they are intended for.
<ul style="list-style-type: none"> ● Must fund general operating expenses and/or specific student characteristics. 	<ul style="list-style-type: none"> ● Dollars are restricted even if you have the ability to move them around or even if an appropriations bill gives them flexibility (i.e. temporary flexibility is not actual flexibility).
<ul style="list-style-type: none"> ● Must be a fixed amount per pupil or weight (e.g. reimbursements don’t qualify). 	<ul style="list-style-type: none"> ● A stand-alone allocation that funds a specific resource or program is not flexible, even if there is no specific spending requirement(s) in place or

Student-Centered Funding Metric Guidelines	Flexible Funding Metric Guidelines
<ul style="list-style-type: none"> ● Include all state and local dollars except funding for long-term obligations, such as facilities debt and large capital expenditures. 	<p>associated reporting requirements. These dollars are considered to be implicitly restricted.</p> <ul style="list-style-type: none"> ● Reimbursements are not flexible.
<ul style="list-style-type: none"> ● Must be broadly available and not limited to a subset of schools or districts even if it's based on enrollment (e.g. a pilot program, outcomes-based funding, etc.). 	<ul style="list-style-type: none"> ● A calculation that is based on a combination of resources, programs, and other assumptions that rolls up to one fixed per-pupil allocation amount is not treated as an allocation for a specific resource or program. As such, it <i>could</i> qualify as flexible.
<ul style="list-style-type: none"> ● Allocation methodology must be specified in statute (e.g. not “as determined by Superintendent of Public Instruction”). 	<ul style="list-style-type: none"> ● Includes all state and local dollars except funding for long-term obligations such as facilities debt and large capital expenditures.
<ul style="list-style-type: none"> ● Accounts for charter school funding, if applicable. 	<ul style="list-style-type: none"> ● Dollars that families or students can direct can also qualify as flexible.
<ul style="list-style-type: none"> ● Dollars that families or students can direct can also qualify as SCF. 	

APPENDIX C: WEIGHTED STUDENT FORMULA EXAMPLES

CALIFORNIA

Category	Weight or Amount
<u>Base</u>	
Grades K-3	\$8,935 per ADA
Grades 4-6	\$8,215 per ADA
Grades 7-8	\$8,458 per ADA
Grades 9-12	\$10,057 per ADA

Category	Weight or Amount
Supplemental (unduplicated counts of EL, FRPM, or foster youth)	20%
Concentration	65% (applies to any portion of unduplicated counts above 55%)

Source: “Funding Rates and Information, Fiscal Year 2021–22,” California Department of Education. <https://www.cde.ca.gov/fg/aa/pa/pa2122rates.asp#sdandcslcff> (12 Jan 2022). See also “Local Control Funding Formula Overview,” California Department of Education. <https://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp> (12 Jan. 2022)

SOUTH CAROLINA

Category	Weight or Amount
Trainable Mentally Handicapped	2.04
Speech Handicapped	1.90
Homebound	1.00
Emotionally Handicapped	2.04
Educable Mentally Handicapped	1.74
Learning Disabilities	1.74
Hearing Handicapped	2.57
Visually Handicapped	2.57
Orthopedically Handicapped	2.04
Pre-career and Career Technology	1.29
Autism	2.57
High Achieving	.15
Limited English Proficiency	.20
Academic Assistance	.15
Pupils in Poverty	.20
Dual Credit Enrollment	.15

Source: “2020-2021 Funding Manual,” South Carolina Department of Education. <https://ed.sc.gov/finance/financial-services/manual-handbooks-and-guidelines/funding-manuals/fiscal-year-2020-2021-funding-manual/> (12 Jan. 2022).

TEXAS

Category	Weight or Amount
Career & Technology	1.35
Homebound	5.0
Hospital Class	3.0
Speech Therapy	5.0
Resource Room	3.0
Self-Contained	3.0
Off Home Campus	2.70
VAC	2.30
State School Students	2.80
Residential Care and Treatment (RCT) Facility	4.0
Mainstream	1.15
Pregnancy Related	2.41
Bilingual Education	0.05 or 0.10 or 0.15
Dyslexia Instruction/Services	0.1
Early Education Allotment	0.1
Compensatory Education	0.225-0.275

Source: "Weighted Student Funding," Texas Education Agency, 2020. https://tea.texas.gov/sites/default/files/student_weighting_one_pager.pdf (12 Jan. 2022).

