

SOUTH CAROLINA SCHOOL FINANCE REFORM

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FOUNDATION

About Reason Foundation



Reason Foundation is a national 501(c)(3) public policy research and education organization with expertise across a range of policy areas, including public sector pensions, transportation, infrastructure, education, and criminal justice.

The Center for Student-based Budgeting at Reason Foundation helps policymakers, school district officials and other stakeholders design and implement education finance reforms that put students first.

For more information about Reason Foundation, visit reason.org.

Approach to School Finance



Fairness



Transparency



Autonomy



Agenda

- 1) Highlight key shortcomings of South Carolina's school finance formula.
- 2) Provide a case study of California's Local Control Funding Formula as a model for reform.
- 3) Review opportunities for school finance reform.



Key Questions to Consider

Who should ultimately decide how education dollars are spent?

How can financial transparency give stakeholders access to data to make more informed decisions for kids?

Are all students getting a fair share of the education funding pie?

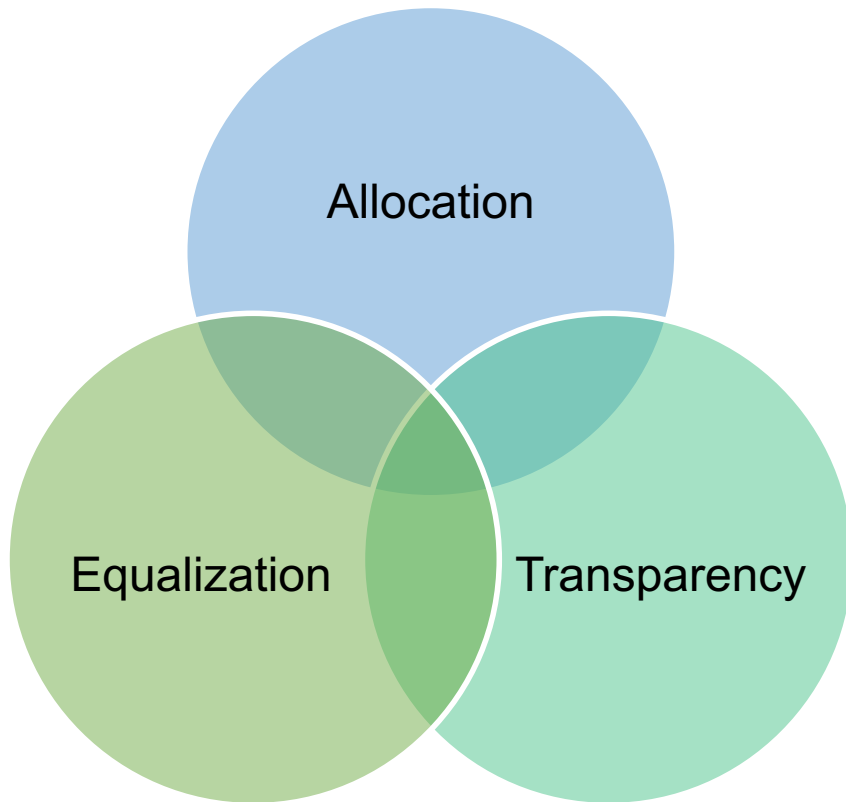
Are South Carolina's education dollars allocated strategically?

What role should local dollars play in South Carolina's school finance system?



SOUTH CAROLINA SCHOOL FINANCE: KEY SHORTCOMINGS

Analyzing School Finance Systems



- **Allocation:** How dollars are delivered to districts and schools.
- **Funding:** The mix of revenue sources and the extent to which local dollars are equalized.
- **Transparency:** A formula's level of complexity and the extent to which financial data are reported.



Types of School Finance Formulas

- **Student-based:** Allocations are based on individual students and their level of need.
- **Resource-based:** Allocations are based on a set of inputs such as staffing positions.
- **Program-based:** Dollars are allocated for specific programs such as professional development and school safety.
- **Hybrid:** Some combination of these above approaches.



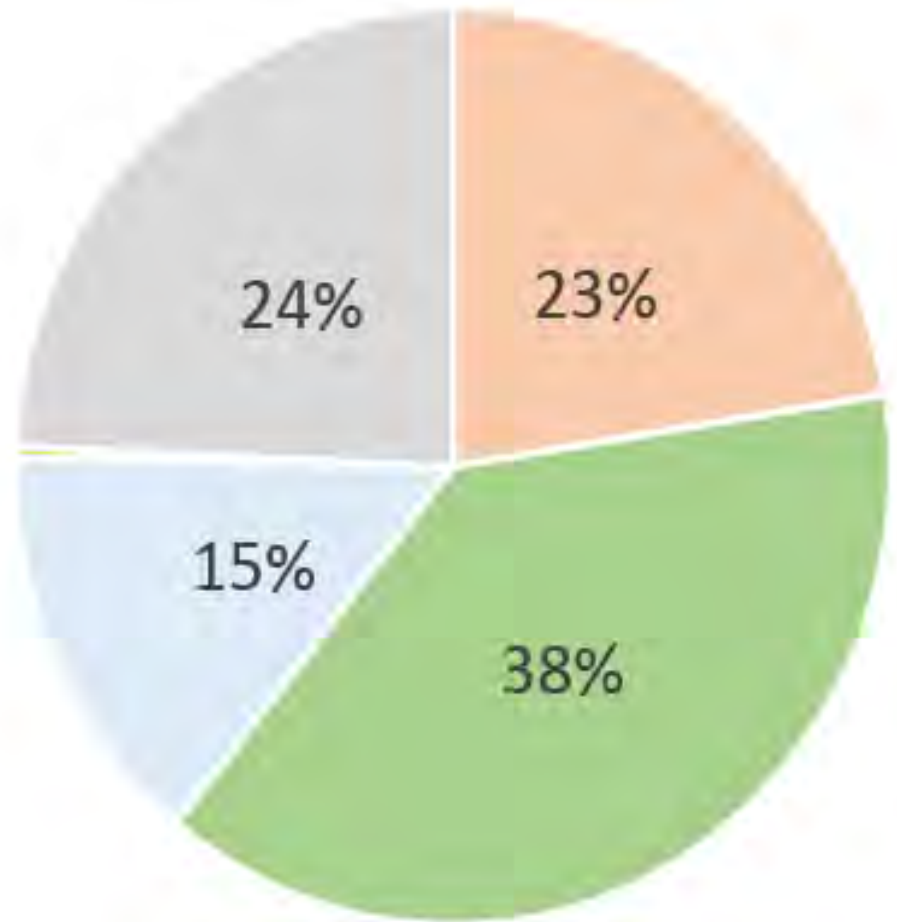
Student Based (28)	Resource Based (9)	Program Based (1)	Hybrid (10)	Other (2)
<ul style="list-style-type: none"> AK, AZ, AR, CA, CO, CT, FL, HI, IN, IA, KY, MD, MI, MN, MI, NE, NH, NJ, NM, NY, ND, OH, OK, OR, RI, TX, UT, VT 	<ul style="list-style-type: none"> AL, DE, ID, IL, SD, TN, WA, WV, WY 	<ul style="list-style-type: none"> WI 	<ul style="list-style-type: none"> GA, LA, ME, MA, MS, MT, NV, NC, SC, VA 	<ul style="list-style-type: none"> KS, PA

A red bracket is drawn under the 'Student Based' and 'Resource Based' categories, pointing towards the text below.

South Carolina employs a hybrid school finance system that relies heavily on categorical allotments.

State Education Revenue

- Restricted State Funding
- Education Finance Act (EFA)
- Education Improvement Act
- Education Lottery Act Revenue
- State Revenue in Lieu of Taxes



Education Finance Act Weights

Kindergarten 1.00

Primary 1.00

Elementary 1.00

High School 1.00

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

Vocational (Grades 9-12) 1.29

Autism 2.57

High Achieving .15

Limited English Proficiency .20

Academic Assistance .15

Pupils in Poverty .20

Dual Credit Enrollment .15

Education Improvement Act

Adept

Aid to Districts – Technology

Arts in Education

Adoption List of Formative Assessment

Refurbished K-8 Science Kits

Industry Certification Credentials

Career and Technology Education

National Board Salary Supplement

Teacher of the Year Award

Reading Coaches

Students at Risk of School Failure

Four-Year-Old Early Childhood Program

Child Early Reading Development and
Education Program

Teacher Salary Increase

Teacher Salary Fringe

Adult Education

Summer Reading Program

Technical Assistance – State Priority
Schools

Teacher Supplies

Special Education – MOE

EEEDA – Supplies and Materials – Career
Awareness

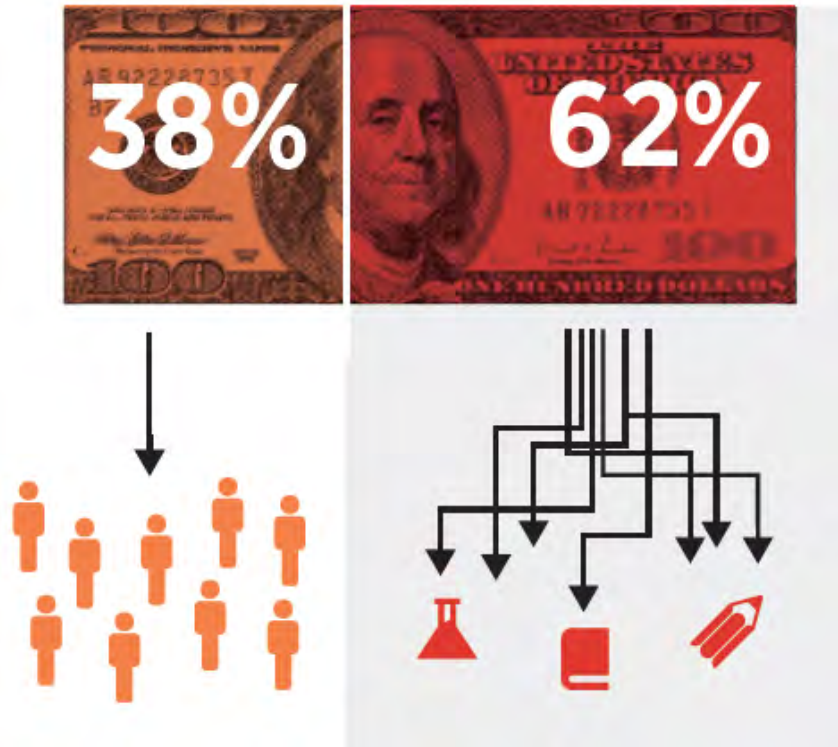
EEDA Career Specialists

Aid to Districts

Restricted State Funding

EEDA Career Specialists
 Student Health and Fitness
 Handicapped Transportation –Bus Driver Aides
 Handicapped Transportation –Special Needs Students Contract Reimbursement
 Home Schooling
 Child Early Reading Development and Education Program
 Reading Coaches
 Student Health and Fitness – Nurses
 DSS SNAP E&T Program
 School Bus Driver Salary
 EAA Bus Driver Salary and Fringe
 Transportation Workers Compensation

Fringe Benefits Employer Contributions
 Retiree Insurance
 Teacher Supply
 Education License Plates
 Residential Treatment Facilities
 Maintenance of State Financial Support (MFS) -Tier I Maintenance of State Financial Support (MFS) - Tier II



Problems with Categorical Funding

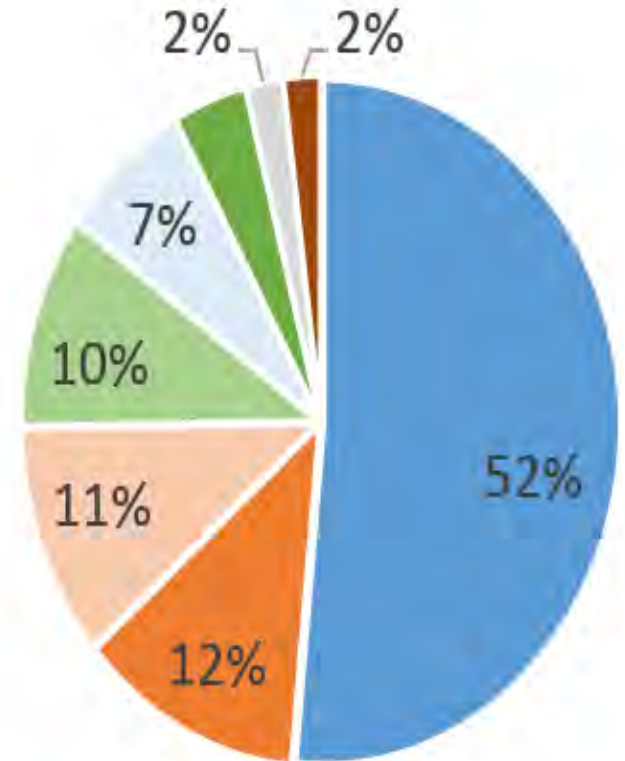
- One-size-fits-all solution
- Compliance culture over innovation
- Can cause funding inequities
- Diminishes transparency
- Diminishes accountability

States are moving toward local autonomy over education dollars.

Districts are increasingly adopting funding models that give school leaders more say over spending decisions.

Who is the biggest obstacle to making spending decisions that best address your students' needs?

- State legislators
- Superintendent and central office
- Federal legislators
- School board members
- Other local elected officials
- U.S. secretary of education
- State school board members
- Chief state school officer



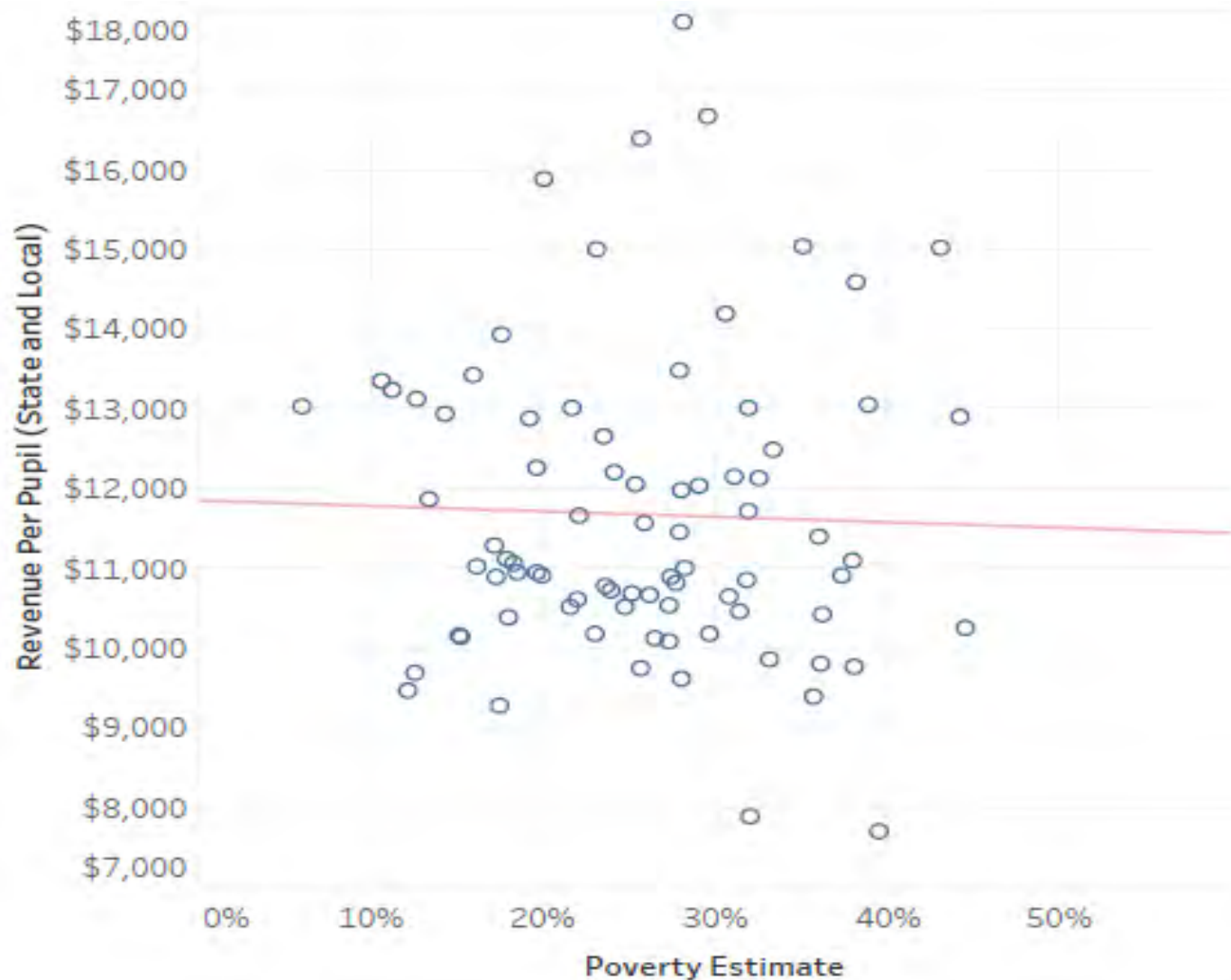


Other Shortcomings to Note

District Comparison: Revenue vs. Assessed Valuation



District Comparison: Revenue vs. Poverty Estimates



Source: 2017-18 revenue data based on figures obtained from South Carolina Department of Education's website. <https://ed.sc.gov/>. 2017 poverty estimates for districts obtained from U.S. Census Bureau's Small Area Income and Poverty Program (SAIPE)



CASE STUDY: CALIFORNIA'S LOCAL CONTROL FUNDING FORMULA

LCFF: Background



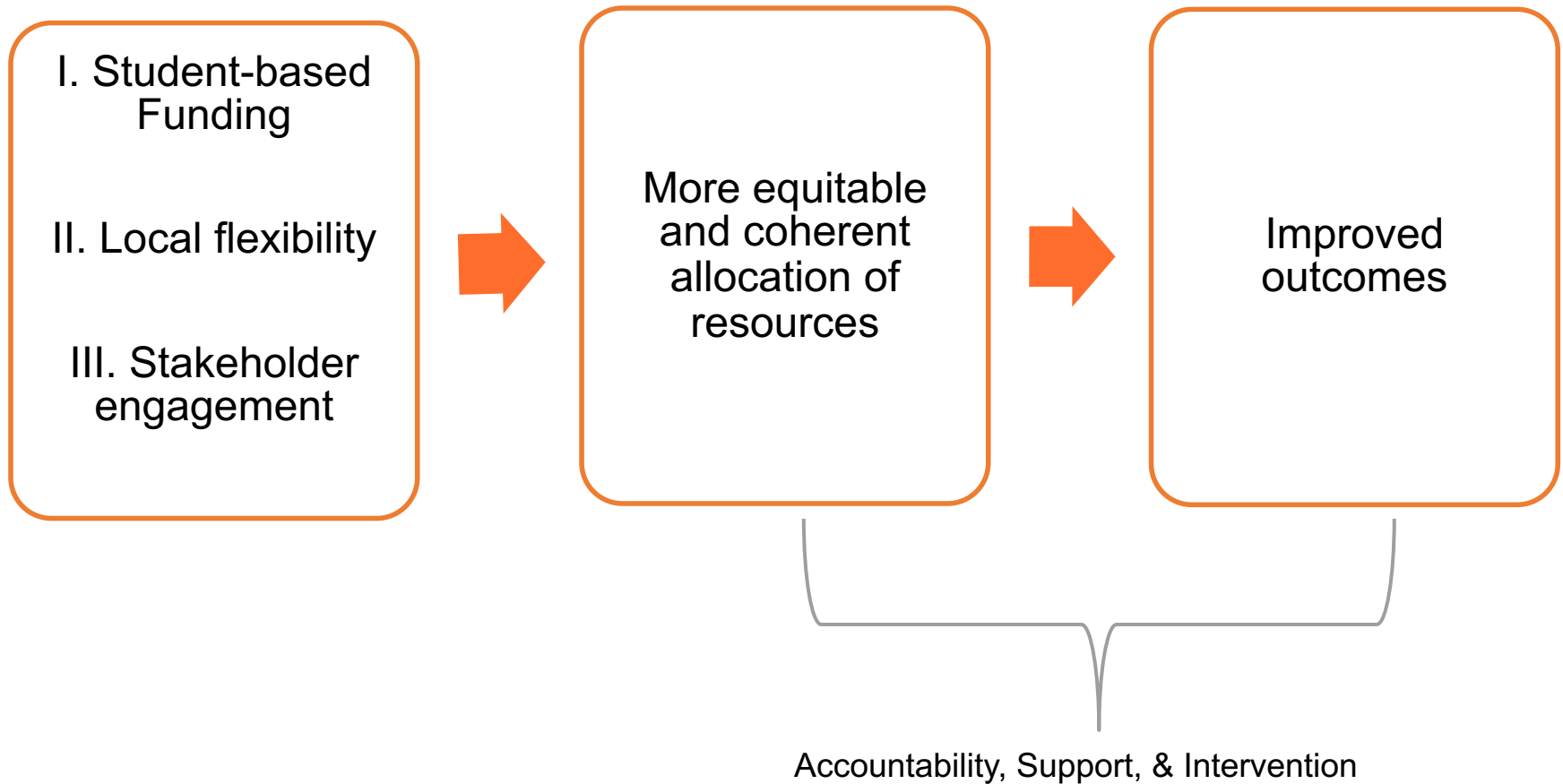
2013: *Local Control Funding Formula* signed into law with bipartisan support.

Primary policy aims:

- 1) Increase local flexibility over dollars.
- 2) Improve funding equity.



LCFF Theory of Action



Eliminated Programs

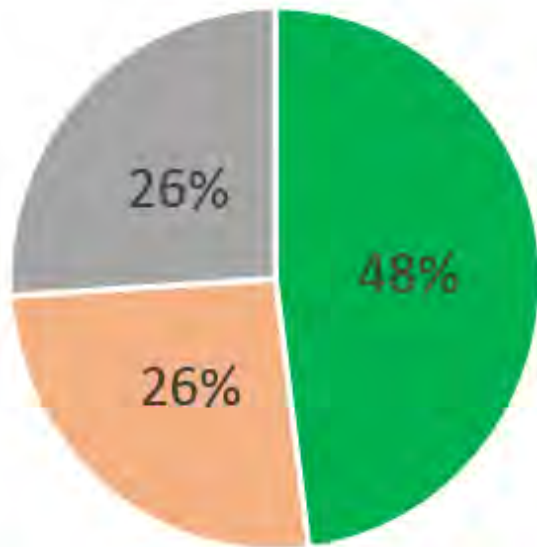
AP Fee Waiver
Alternative Credentialing
High School Exit Exam Tutoring
School Age Families
Categorical Programs for New Schools
Certificated Staff Mentoring
Charter School Block Grant
Civic Education
Community-Based English Tutoring
Community Day School
Deferred Maintenance
Economic Impact Aid
Educational Technology
Gift and Talented Education
Grade 7-12 Counselling
High School Class Size Reduction
Instructional Materials Block Grant
International Baccalaureate Diploma Program
National Board Certification Incentives
Oral Health Assessments
Physical Education Block Grant
Principal Training
Professional Development Block Grant
Professional Development for Math and English
School and Library Improvement Block Grant
School Safety
School Safety Competitive Grant
Staff Development
Student Councils
Summer School Programs
Teacher Credentialing Block Grant
Teacher Dismissal

Retained Programs

Adults in Correctional Facilities
After School Education and Safety
Agricultural Vocational Education
American Indian Education Centers
Assessments
Child Nutrition
Foster Youth Services
Mandates Block Grant
Partnership Academies
Quality Education Improvement Act
Special Education
Specialized Secondary Programs
State Preschool

Local Control Funding Formula

■ Unrestricted ■ Special Education ■ Categorical Funding



Grade Level	Base Funding/ADA
K-3	\$8,235
4-6	\$7,571
7-8	\$7,796
9-12	\$9,269

Category	Weight
English Learner	20%
Low Income	20%
Foster	20%

Concentration weight added for unduplicated pupils above 55%.

48% of categorical funds became unrestricted.



Local Control Funding Formula: Requirements

Base, supplemental, and concentration funds are all unrestricted—no spending requirements. But LCFF had some guidance:

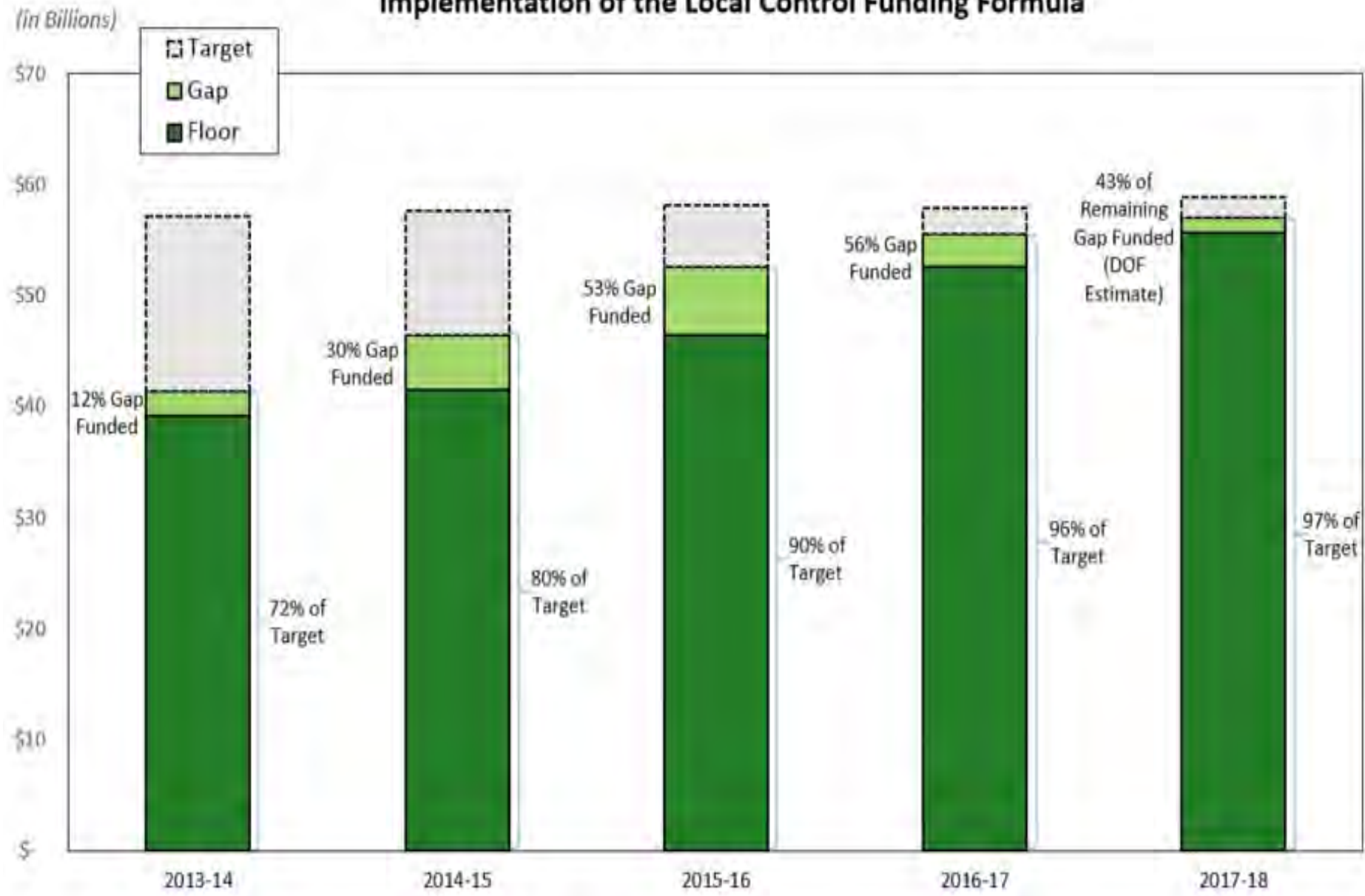
- **Proportionality Requirement:** Districts must “increase or improve services” for targeted students in proportion to the increase in funds for these students.
- **Engagement:** Must engage parents, community members, students, and educators for input on spending.
- **Local Control Accountability Plan:** Each district must have a three-year plan (LCAP) that “describes the goals, actions, services and expenditures...that address state and local priorities.”

Transition

- Estimated to take eight years.
- Funding during phase-in based on prior year funding as well as the new “target” amount.
- Difference between these amounts is the “need” or “gap.”
- Districts not funded at target received a percentage of its gap based on appropriations.



Implementation of the Local Control Funding Formula



Source: California Department of Education website.

Local Control Funding Formula Research Collaborative (LCFFRC)



Including researchers from:

University of Southern California
Loyola Marymount University
Stanford University

Studies Include:

[*Superintendents Speak: Implementing the Local Control Funding Formula*](#)

[*The Local Control Funding Formula \(LCFF\): What Have We Learned After Four Years of Implementation?*](#)

[*How Stakeholder Engagement Fuels Improvement Efforts in Three California School Districts*](#)

[*Paving the Way to Equity and Coherence? The Local Control Funding Formula in Year 3*](#)

Key Studies by Other Researchers:

[*Toward a Grand Vision: Early Implementation of California's Local Control Funding Formula*](#) (SRI International, J. Koppich & Associates)

[*The Steep Road to Resource Equity in California Education: The Local Control Funding Formula After Three Years*](#) (The Education Trust-West)

[*Taking Stock of California's Weighted Student Funding Overhaul: What Have Districts Done with their Spending Flexibility?*](#) (Edunomics Lab at Georgetown University)

[*Money and Freedom: The Impact of California's School Finance Reform*](#) (Learning Policy Institute)

[*A Preliminary Analysis of California's New Local Control Funding Formula*](#) (SRI International)



LCFF Research: Emerging Themes

- 1) Widespread support for the new funding system.
- 2) Cultural shifts within school districts.
- 3) Increased community engagement.
- 4) Evidence of customization.
- 5) Focus on equity.
- 6) Challenges.

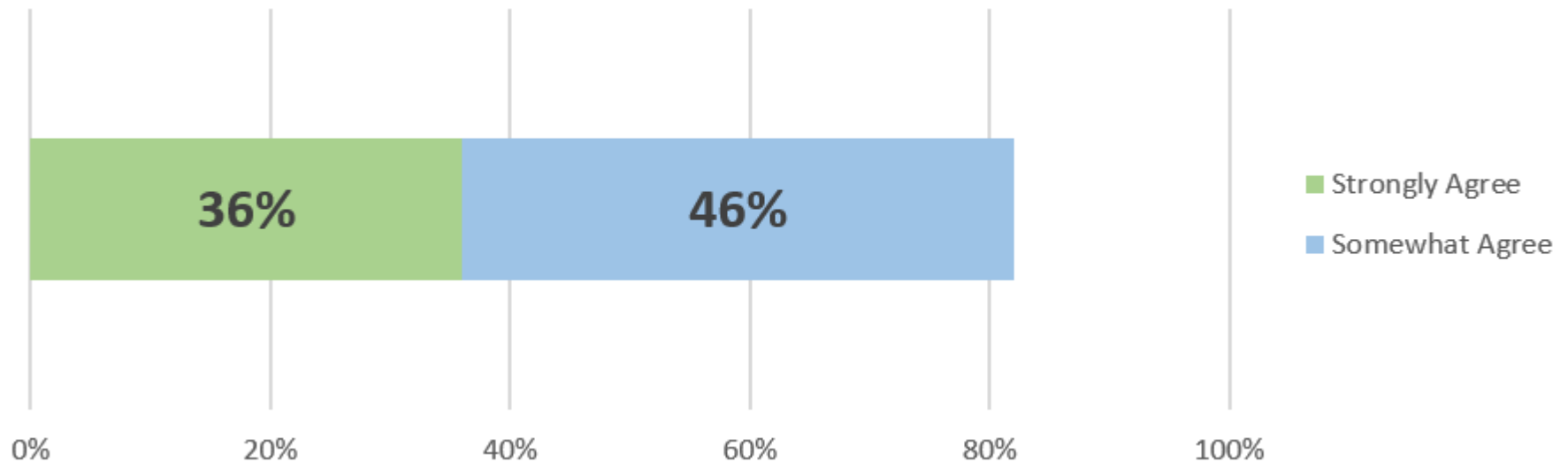


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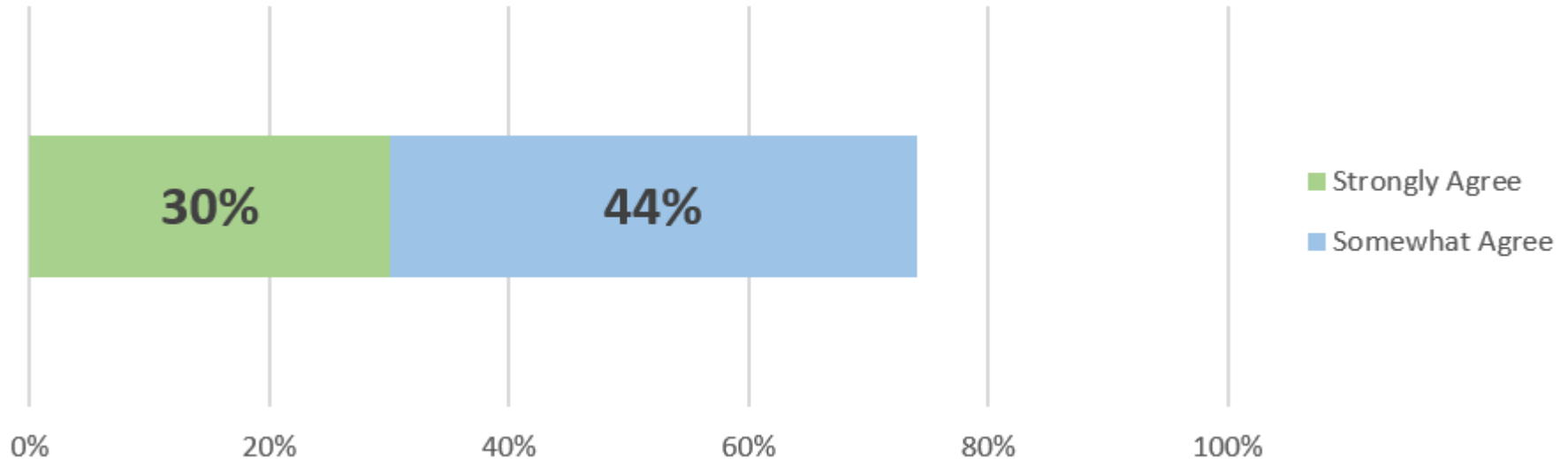


***82%** of superintendents strongly or somewhat agree that the LCFF is leading to greater alignment among goals, strategies, and resource allocation decisions.*



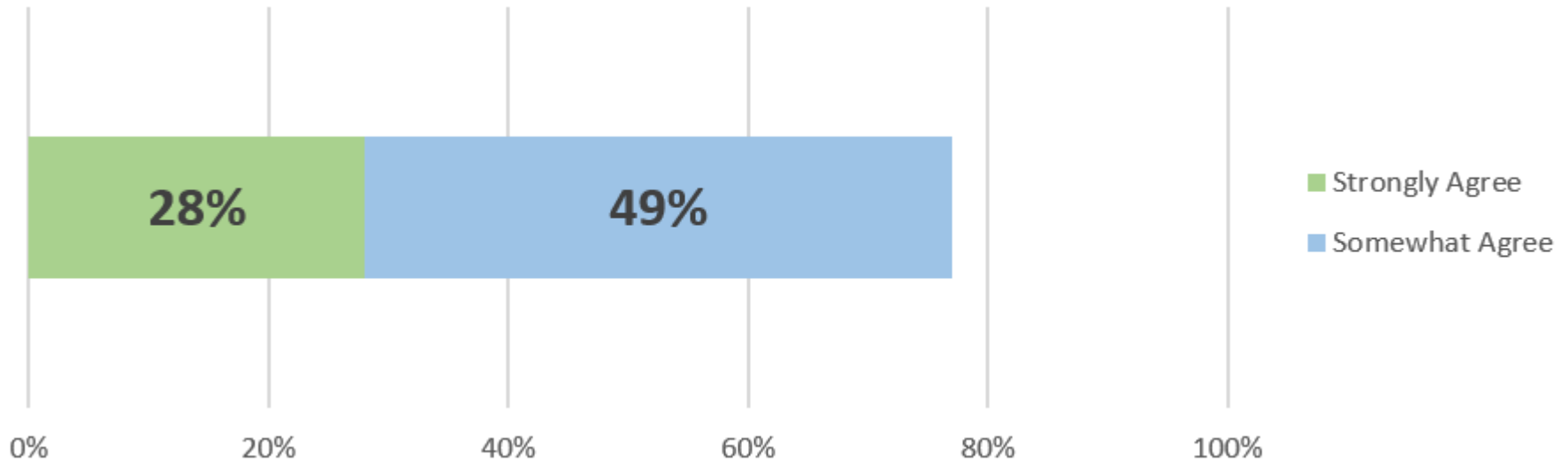


***74%** of superintendents strongly or somewhat agree that the fiscal flexibility granted by LCFF has enabled their district to spend in ways that match local needs.*





77% of superintendents strongly or somewhat agree that the LCFF has enabled their district to rethink budget priorities.



Widespread Support

"I think [the LCFF] is a wonderful direction. I wholeheartedly support what it aspires to do in terms of local control, bringing in the community to write their story [about] what they want for their kids."

- LCFFRC researchers found “little enthusiasm” among district officials for returning to categorical funding.
- Of those familiar with law 72% of likely voters and 84% of parents viewed it positively.



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Cultural Shifts within School Districts

“We’re finally [asking] who are the students with the highest need and how do we address those needs?”

“This year we began the [budget development] process from ‘What do we need? ’rather than from ‘What can we afford?’”

What’s changing?

- Breaking down central office budgeting silos
- Some districts pushing decisions down to schools



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Increased Community Engagement



- Parents have been primary focus of stakeholder engagement
- Principal and teacher surveys/meetings
- Signs that spending decisions reflect input



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Evidence of Customization

“One benefit is that the [leader] can say, this is a need in my community and this is where I want to put the money. That flexibility has been nice.”

- Edunomics Lab: Districts have used flexibility to customize without radical shifts in spending.
- Palmdale Elementary School District: Investments in extended school day, new curriculum, special programs for EL and foster youth.



LCFF Research: Emerging Themes

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- 5) **Focus on equity.**
- 6) Challenges.



Focus on Equity

- **The Education Trust-West:** Dramatic swing from a funding gap to funding equity. By 2015-16 highest poverty districts received on average \$334 per pupil more than lowest poverty districts.
- **Edunomics Lab:** FTE growth in services that tend to support disadvantaged students suggesting effort to target high-needs students.
- **LCFFRC:** Case study districts showed alignment with law's intent to close opportunity gaps by distributing resources to students with greater needs.

“LCFF shines a light on ELs [and] causes us to focus on figuring out their needs and try to serve them. [Before LCFF] we didn’t have a way to put money toward their needs. We do now.”



LCFF Research: Emerging Themes

- 1) Widespread support for the new funding system.
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Challenges

- Highest-needs schools not always getting their fair share of resources.
- “Loudest Voices” phenomenon with parent engagement.
- Actual restrictions vs. Perceived restrictions
- Local Control Accountability Plan is an administrative burden
- Paradigm shift—variation in local capacity

"It's a challenge for us to discard our categorical mindset. We're moving from an accounting system to accountability. That's a tough shift."

"We have a whole generation of education] services administrators who have been geared, programed, and fine tuned to do one thing—be in compliance. They are compliance thinkers."



SCHOOL FINANCE REFORM OPPORTUNITIES

Opportunity #1:

Streamline Funding into a Robust Weighted- student Formula

The Education Finance Act provides a solid foundation to do this.

Key Considerations for Policymakers:

- What allotments should be included?
- How should the transition be structured?
- Do the student categories and weights need to be adjusted?
- How to support district and school officials?
- How to push dollars down to school level and give school leaders more control over spending decisions?

Opportunity #2:

Pair funding flexibility with a robust system of financial transparency.

Financial transparency can be a valuable tool for stakeholders including school board members, superintendents, principals, and policymakers.

Provide accessible, meaningful, and comparable per-pupil spending data at two levels:

- 1) District Reports
- 2) School Reports

Now is the perfect time to think about financial transparency: federal law (ESSA) will soon require states to report school-level spending data for the first time!



District Financial Report by Function (Texas)

Total Operating Expenditures	1,715,708,637	100.00%	8,035
Instruction (11,95)	1,013,285,075	59.06%	4,745
Instructional Res Media (12)	9,110,780	0.53%	43
Curriculum/Staff Develop (13)	26,994,866	1.57%	126
Instructional Leadership (21)	20,236,431	1.18%	95
School Leadership (23)	148,075,733	8.63%	693
Guidance Counseling Svcs (31)	47,412,822	2.76%	222
Social Work Services (32)	1,699,272	0.10%	8
Health Services (33)	18,653,686	1.09%	87
Transportation (34)	62,299,305	3.63%	292
Food (35)	0	0.00%	0
Extracurricular (36)	19,241,937	1.12%	90
General Administration (41,92)	37,676,235	2.20%	176
Plant Maint/Operation (51)	221,676,748	12.92%	1,038
Security/Monitoring (52)	24,805,023	1.45%	116
Data Processing Services (53)	62,248,490	3.63%	292
Community Services (61)	2,292,234	0.13%	11



District Financial Report by Program (Texas)

Program Expenditures

<u>Operating Expenditures - Program</u>	1,306,183,436	100.00%	6,117
Regular	813,738,079	62.30%	3,811
Gifted and Talented	8,955,002	0.69%	42
Career and Technical	36,894,848	2.82%	173
Students with Disabilities	157,326,566	12.04%	737
Accelerated Education	4,380,679	0.34%	21
Bilingual	37,929,417	2.90%	178
Nondisc Alt Ed-AEP Basic Serv	0	0.00%	0
Disc Alt Ed-DAEP Basic Serv	9,858,273	0.75%	46
Disc Alt Ed-DAEP Supplemental	79,130	0.01%	0
T1 A Schoolwide-St Comp>=40%	116,052,531	8.88%	544
Athletics/Related Activities	12,563,532	0.96%	59
High School Allotment	26,942,989	2.06%	126
Prekindergarten	81,462,390	6.24%	382

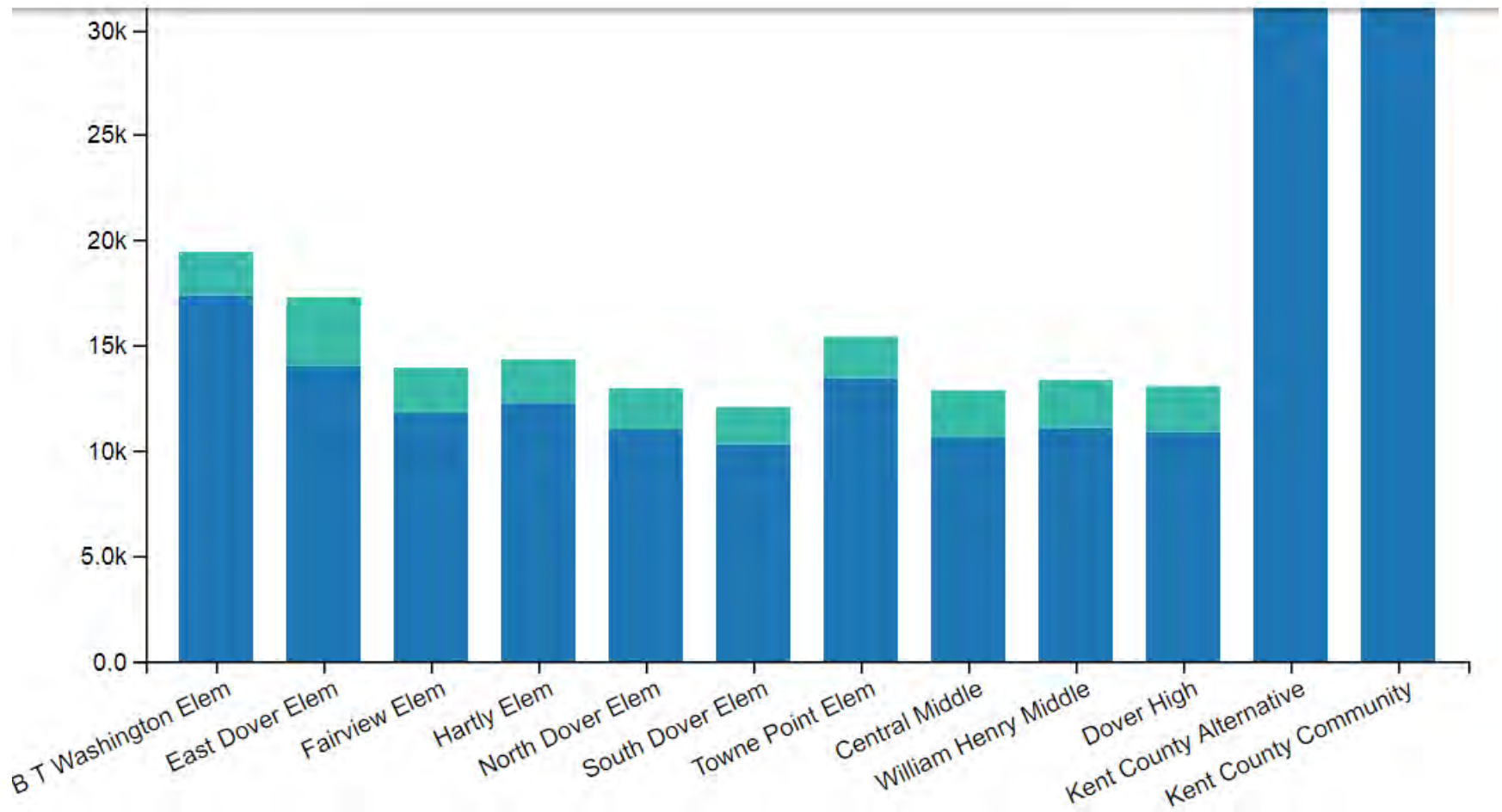


School-level Financial Report (Edunomics Lab)

• Minimum IFR+ •		• District 1 •			• Charter •
Criteria		Elementary School #11	Elementary School #12	Middle School #17	Elementary School #13
A	Enrollment	375	511	992	442
Site-Level Expenditures					
	Teacher Salaries	\$4,956	\$3,323	\$4,123	\$8,769
	Benefits	\$552	\$313	\$441	\$232
B	Federal	\$456	\$209	\$164	\$818
C	State/Local	\$6,111	\$4,756	\$5,998	\$11,887
D	Site-Level Total	\$6,567	\$4,965	\$6,162	\$12,705
Site Share of Central Expenditures					
	Special Education	\$964	\$964	\$964	\$1,121
	Transportation	\$566	\$566	\$566	\$0
E	Federal	\$161	\$161	\$161	\$0
F	State/Local	\$5,378	\$5,378	\$5,378	\$0
G	Site Share of Central Total	\$5,539	\$5,539	\$5,539	\$0
H	Total School Expenditures	\$12,106	\$10,504	\$11,701	\$12,705
I	Total District Exclusions	\$2,416,986			\$5,531,868
J	Excluded Expenditures	<i>Debt, capital, equipment, special education transfers to private schools, adult education, pre-K</i>			<i>Debt, capital, equipment, special education transfers to private schools, adult education</i>
K	Enrollment Count Procedure	<i>ADA, student count October 1</i>			<i>ADA, student count October 1</i>



School-level Financial Report (Delaware)



Source: [Delaware Department of Education](#)

Opportunity #3:

Equalize local dollars more effectively.

There are different approaches to consider. States reforms to study:

Tax Swap: Indiana, Michigan

Recapture: Wyoming, Texas

Local Revenue Restrictions: California

Statewide Property Tax: Vermont



THANK YOU



APPENDIX

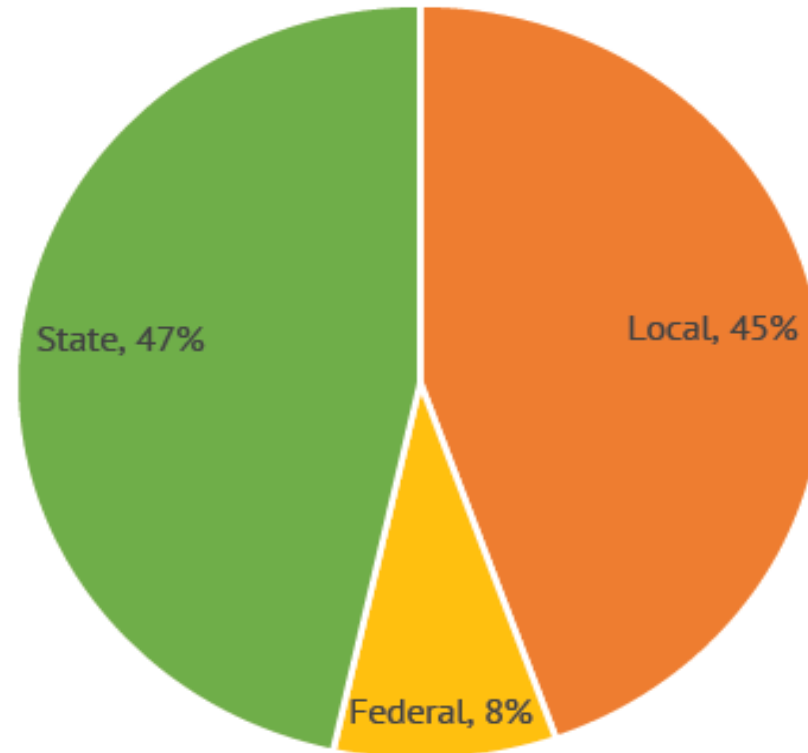


Hawaii's Transition to Weighted-student Funding

The transition plan for the implementation of the WSF in Hawaii included a scaled approach to the Board-adopted WSF. Schools losing funds under WSF would be compensated for lost funds according to the following percentages during the first three years of the program:

- 90% of the difference
- 75% of the difference
- 50% of the difference
- None of the difference

U.S. Education Revenue by Source



Source: "2016 Public Elementary-Secondary Education Finance Data."

State	Local	State	Federal	State	Local	State	Federal
Alabama	35%	55%	11%	North Dakota	35%	56%	9%
Alaska	23%	65%	12%	Ohio	52%	41%	7%
Arizona	45%	41%	14%	Oklahoma	41%	48%	11%
Arkansas	12%	77%	11%	Oregon	40%	52%	8%
California	32%	59%	9%	Pennsylvania	56%	38%	6%
Colorado	50%	43%	7%	Rhode Island	53%	40%	7%
Connecticut	56%	40%	4%	South Carolina	44%	47%	9%
Delaware	35%	59%	7%	South Dakota	56%	30%	14%
District of Columbia	88%		11%	Tennessee	43%	46%	12%
Florida	50%	39%	11%	Texas	52%	38%	10%
Georgia	46%	45%	9%	United States	45%	47%	8%
Hawaii	2%	89%	9%	Utah	41%	51%	8%
Idaho	25%	64%	11%	Vermont	4%	90%	6%
Illinois	55%	38%	7%	Virginia	54%	39%	7%
Indiana	30%	62%	8%	Washington	31%	62%	7%
Iowa	39%	54%	7%	West Virginia	34%	55%	11%
Kansas	27%	65%	8%	Wisconsin	40%	53%	7%
Kentucky	34%	55%	11%	Wyoming	36%	58%	6%
Louisiana	46%	42%	12%				
Maine	55%	39%	7%				
Maryland	50%	44%	6%				
Massachusetts	57%	39%	4%				
Michigan	54%	58%	8%				
Minnesota	29%	66%	5%				
Mississippi	35%	51%	15%				
Missouri	49%	42%	9%				
Montana	40%	47%	12%				
Nebraska	59%	33%	8%				
Nevada	28%	63%	9%				
New Hampshire	62%	33%	6%				
New Jersey	56%	40%	4%				
New Mexico	18%	69%	14%				
New York	54%	41%	5%				
North Carolina	27%	62%	12%				

Note: Numbers may not add up to 100% due to rounding.
Source: "Public Education Finances: FY2016." United States Census Bureau.