STREAMLINE: ALLOCATE EDUCATION DOLLARS STRATEGICALLY

By Aaron Smith and Christian Barnard

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BRIEFS IN THIS SERIES

Reason's series of policy briefs on the *Student-Centered Funding Roadmap for Policymakers* includes:

- *Student-Centered Funding Roadmap for Policymakers*
- *Streamline: Allocate Education Dollars Strategically*
- *Equalize: Put All Kids on a Level Playing Field*
- *Empower: Put Families and School Leaders in the Driver's Seat*
- *Inform: Give Stakeholders the Information They Need to Make Sound Decisions*

EDUCATION DOLLARS SHOULD BE STREAMLINED AND ALLOCATED BASED ON STUDENTS' NEEDS USING A WEIGHTED STUDENT FORMULA SO THAT FUNDING IS FAIR, PORTABLE, AND TRANSPARENT.

Most school finance formulas contain arbitrary and restrictive provisions that cause inequities and limit local discretion. Such funding streams should be eliminated so that dollars can be freed up and used more productively. The best way for state policymakers to do this is to streamline operating revenue 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. For example, California's Local Control Funding Formula (LCFF) allocates a per-pupil foundational amount based on students' grade level and adds a 20% weight for unduplicated counts of English Learner, Low Income, and Foster Care students. As a result, additional dollars are targeted in a fair and transparent manner to individual students who are costlier to educate.

COMMON UNFAIR AND RESTRICTIVE FEATURES

An important first step is to identify and eliminate funding streams that can undermine the goal of streamlining education dollars. Here are some of the most common examples:

- **Non-equalized local revenues:** Many state funding systems allow districts both to raise local dollars beyond their formula amount and to tax at above formula-assumed rates. This creates funding inequities, restricts school choice by making dollars less portable, and makes competing for talented teachers more difficult for neighboring districts that can't access the same dollars.
- **Non-equalized state grants:** Many states—outside of their equalized funding formulas—also disburse funds to schools via grants that do not factor in available district resources. This creates inequities by allocating state dollars to districts that may already have excess local resources. It also can be inefficient because it puts the full funding burden for certain purposes on the state in cases where, if the funding were instead disbursed in an equalized formula, the funding responsibility could be shared between state and local sources, and greater state funding could go to districts with less local wealth. For example, in Arkansas, funding for low-income students and

teacher professional development is disbursed as pupil-based block grants that aren't part of districts' equalized formula.

- **Categorical grants:** Often disbursed as non-equalized grants, categorical funding has restrictions around its use that prevent districts from repurposing those dollars for more-pressing local needs. This means that districts with varying amounts of property wealth are getting the same funding from the state, and the dollars can only be spent on specific, state-approved programs or purposes. South Carolina is an example, with many categorical grants for early childhood programs, reading programs, and the like.
- **Hold harmless provisions:** These are school funding mechanisms intended to ensure that certain districts don't lose funding or go below a historical funding level. They are common in many funding systems, but some states rely more on them than others. For example, Pennsylvania has a large hold harmless function in its funding formula where, by some estimates, more than half of its total basic education funding is disbursed based on 1990–1991 district enrollment numbers.[1]
- **Minimum state aid requirements:** This kind of provision effectively establishes a funding floor for state supports, so that even the wealthiest districts still receive it even if they already have excess resources. In New York, for example, districts can't receive less than $500 per pupil in foundation aid, even if their local revenue contribution is enough or nearly enough to cover their total revenue entitlement.[2]
- **Resource-based allotments:** Some states primarily disburse funding via a "resource-based" model, or a model where funding amounts are based on staffing costs to serve certain types of students or deliver certain programs, or to specific types of resources like technology or supplies. These allotments are generally restricted in use. Delaware is an example of this, because it doesn't use a per-pupil funding amount to determine district funding but instead mandates staffing ratios to deliver general education services, as well as services for low-income and special needs students.
- **Adjustments for district size, costs, and sparsity:** States often build in special allocations, both inside and outside of their main formulas. While these are intended to account for unique cost and economies-of-scale challenges faced by some districts, they undermine student-based equity. For example, Arizona uses several adjustments

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1 McCorry, Kevin. "Everything you wanted to know about Pennsylvania's new education formula." www.whyy.org, PBS/NPR. 9 June 2016. Web. <www.whyy.org/articles/everything-you-wanted-to-know-about-pennsylvanias-new-education-formula/> 26 Aug 2020.

2 "State Aid to Schools, A Primer." Fiscal Analysis and Research Unit. www.oms.nysed.gov/ July 2017. Web. <www.oms.nysed.gov/faru/PDFDocuments/Primer17-18A.pdf> 25 Aug 2020.

in its main formula that place higher funding weights on students living in small and isolated districts, and also grants special taxing authority for these districts to raise additional money without voter approval.

DEVELOPING A WEIGHTED STUDENT FORMULA

As non-optimal funding streams are eliminated, those dollars can then be collapsed into a weighted student formula (WSF). While there isn't one right way to structure a WSF, policymakers can customize a formula to their students' needs by applying the following principles.

Be strategic: Weighted student categories should be selected based on a state's unique needs, accounting for things such as student demographics and current performance levels. States must also ensure that accurate data exist for these categories and that good projections of student counts can be made.

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

Consider all funding: Policymakers should aim to allocate all or nearly all dollars through a WSF. Some states will need to create one from scratch, while those that already have a WSF in place might need to eliminate outside-the-formula provisions so that all revenue is streamlined.

Phase-in changes: Because districts need to be able to adjust to funding changes, it's sometimes helpful for large-scale reforms to be introduced gradually. But it is also important to ensure that transitional funding amounts are temporary and don't become locked into the formula in the long run.

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. Such a system makes schools accountable for outcomes, not inputs. Financial reporting tools should be created so that stakeholders know exactly how dollars are allocated and spent.

BENEFITS

- ✓ **Better alignment between spending and strategy:** District and school leaders are given the flexibility to make tradeoffs over how resources are used, which allows them to respond to the unique needs of students, staffs, and communities.
- ✓ **More equity:** Education funding is targeted to students who are costlier to educate without complex and restrictive formulas.
- ✓ **Portable dollars:** Tying education dollars to individual students makes it easier for funding to follow students outside of their residentially assigned school districts, which is especially crucial for open enrollment policies.
- ✓ **Increased transparency:** This increases the understanding of exactly how funding is allocated, while also giving policymakers a lever to prioritize scarce resources.
- ✓ **Responsive funding:** Because funding levels automatically adjust to a district or school's student population, dollars are directed to where they're needed most.

STATE MODELS TO LEARN FROM

California

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. LCFF streamlined more than 30 categorical grants into a weighted student formula that delivers dollars with fewer strings attached, including additional funding for three categories of at-risk students. Early research has given LCFF high marks. There are several emerging themes.

- ✓ **Widespread support**: 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.[3]
- ✓ **Cultural shifts within school districts***:* There is evidence of greater collaboration between fiscal and academic leaders in developing budgets as silos. According to

[3] Marsh, Julie A. and Julia E. Koppich. "Superintendents Speak: Implementing the Local Control Funding Formula (LCFF)." Local Control Funding Formula Research Collaborative, 2018. Web. <www.edpolicyinca.org/sites/default/files/LCFF_Superintendents_Survey.pdf> 26 Aug 2020.

one official, "We're finally [asking] who are the students with the highest need and how do we address those needs?"[4]

- ✓ **Evidence of customization**: Research by Edunomics Lab found evidence that districts have used flexibility to customize without radical shifts in spending.[5]
- ✓ **Greater focus on equity***:* Research by The Education Trust-West found a substantial improvement in equity. By 2015–2016 the state's highest poverty districts received on average $334 per pupil more than its lowest poverty districts.[6]

Hawaii

Hawaii adopted a weighted student formula (WSF) in the 2006–2007 school year, with the goal of increasing both funding equity and school-level flexibility. The state had already introduced several programs in past decades to boost school autonomy, and the adoption of WSF expanded upon those efforts by aiming to deliver at least 70% of state funds directly to schools. Hawaii also required that every school develop a community council with teachers, principals, and parents who had broad authority to develop school budgets.

Empirical evidence shows that Hawaii has significantly boosted funding equity through WSF, and that the funding system has earned the support of the community. WSF has been successful because central administrators re-evaluate formula weights each year and have been committed to keeping the formula simple. Moreover, school leaders have continued to push for more flexibility over school funds—further showing that the WSF pathway has been effective.[7]

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4 Wolf, Rebecca and Janelle Sands. "A preliminary analysis of California's New Local Control Funding Formula." Education Policy Analysis Archives, 2016. Web. < www.//epaa.asu.edu/ojs/article/view/2194/1757> 25 Aug 2020.

5 Roza, Marguerite et al. "Analyzing Early Impacts Of California's Local Control Funding Formula." Edunomics Lab, December 2017. Web. <www.edunomicslab.org/2017/12/20/analyzing-early-impacts-californias-local-control-funding-formula/> 26 Aug 2020.

6 "The Steep Road to Resource Equity in California Education." Education Trust-West, April 2017. Web. <www.west.edtrust.org/wp-content/uploads/sites/3/2015/11/ETW_Steep-Road-to-Resource-Equity-in-CA_Final_Report_April_11_2017.pdf> 26 Aug. 2020.

7 Marar, Satya. "Hawaii's Successful Experience with Weighted-Student Formula Has Improved Funding Equity." www.reason.org, Reason Foundation. 31 March 2020. Web. <www.reason.org/commentary/hawaiis-successful-experience-with-weighted-student-formula-has-improved-funding-equity/> 26 Aug 2020.

ABOUT THE AUTHORS

Aaron Garth Smith is director of education reform at Reason Foundation. He can be reached at: aaron.smith@reason.org.

Christian Barnard is an education policy analyst at Reason Foundation. He can be reached at: christian.barnard@reason.org.