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# Changing a State Finance Formula

Colorado School Finance Project

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# Presentation

- Review the components of a school finance system
- Examine the approaches to evaluate finance systems
- Review of the Colorado RFP
- Dive into some emerging issues in school finance
- Recent case studies of how states have changed their formulas

# Components of a Funding System

- There are two parts to a school finance formula
- First, the amount of funding needed to meet the state expectations identified for each district
  - This includes adjustments for student and district characteristics
  - Decisions are made on how/when to count students and the level of adjustment needed for the different characteristics
- Second, how the amount of state and local funding is determined
  - This is supported by the state's tax structure/policy goal
  - When designing this aspect of the system, taxpayer equity and fiscal neutrality need to be considered
- States can review/modify one or both components

# Types of School Finance Studies

- Three types of studies are often conducted across the country:
  - Structural Review,
  - Equity Study, and
  - Adequacy Study.

# Structural Review

- A structural review of a state's finance system is focused on understanding *how a state's system works and determining if the funding system is meeting the needs of the state.*
- This can include looking at the types of adjustments made in the system for students and districts and the inherent incentives built into the system. It can also include examining how funding is split between state and local revenue.
- Most of these studies have been done in conjunction with an equity or adequacy study.

# Equity Study

- An equity study examines the horizontal equity, vertical equity, and fiscal neutrality of a finance system. It works to understand *how districts, students, and taxpayers are treated by the funding formula.*
- It is important to undertake with either type of funding reform.

# Horizontal Equity

- Horizontal Equity examines how funds are distributed across districts, determining if like districts are treated similarly.
- It does not take into account student characteristic differences between districts.
- Focus is on if similar districts receive the same amount per student.

# Vertical Equity

- A vertical equity analysis explores how well the finance system is addressing differences districts face that they cannot control.
  - This includes student need differences such as special education, economically disadvantaged students, and English Learner students.
- Analysis examines if per pupil funding is higher in districts/schools that have student needs.



# Fiscal Neutrality

- Fiscal Neutrality measures the relationship between the wealth of a district and the amount of resources available to serve students.
  - A fiscally equitable system would see a low relationship between resource levels and the wealth of a district.
  - This analysis also measures how equitable the amount of tax effort is across the state.
  - Measures if the wealth of where a student lives is a strong predictor of how much per pupil is available to serve the student.

# Adequacy or Costing Out Studies

- Adequacy/Costing Out studies *measure the level of resource needed for districts and students to meet state standards.*
- They focus on determining a base funding level and the adjustments needed for special needs students and uncontrollable district characteristics.
- These studies are focused on the amount of funding needed and don't examine who pays for it.

# Implementing Costing Out Approaches

	<b>Professional Judgment (PJ)</b>	<b>Successful School District (SSD)</b>	<b>Education Cost Function (ECF)</b>	<b>Evidence-Based (EB)</b>
<b>Benchmark of Success</b>	Ensuring students can meet all state standards	Currently outperforming other school districts	Current performance; extrapolates to meeting all standards	Ensuring students can meet all state standards
<b>Data Requirements</b>	Expertise of educators serving on PJ panels; uses research as a starting point, but defers to educators when conflict arises in resource recommendations based on their understanding of state standards	Expenditure data from selected successful schools or districts	Performance, student and district characteristics and expenditure data	Best-practice research, reviewed by educators; when conflict arises in resource recommendations, the EB approach defers to the research
<b>Resulting Information</b>				
<b>Base</b>	Yes	Yes	Yes	Yes
<b>Student Adjustments (Weights)</b>	Yes	No	Yes	Yes
<b>Resource Model</b>	Yes	Yes (case studies)	No	Yes

# Using Multiple Approaches

- Allows for triangulation of results
- Allows multiple performance benchmarks to be considered
  - Current versus future expectations
- Approaches are strengthened by incorporating components of others
  - Using ECF to identify schools for SSD case studies
  - Using evidence-based information as starting point for PJ panels
  - SSD case studies provide resource model information not gathered by ECF
  - ECF provides deep analysis of existing data not examined through other approaches
  - PJ allows for educator voice and buy-in
- Allows for detailed examination of both expenditures and resource models

# Colorado RFP

- Two different studies both ask for same components:
  - Adequacy Study (PJ/EB – Input, ECF – Output)
  - Structural Review
    - Includes impacts of wealth and income, cost of living/doing business, BSF factor, COVID
  - Does not ask for an equity analysis

# Emerging Issues

- Deciding how prescriptive to be with targeted funds for special needs populations
- Identifying the appropriate student count for poverty/at-risk students due to impacts of community eligibility provision and other issues

# Prescriptive Funding Policies

- States have long tried to balance providing districts with flexibility and ensuring students are receiving high quality interventions
- This is especially true for at-risk and English Learner (EL) students
  - States tend to fund these populations either through student weights or categorical funding
  - Historically, categorical funding streams have been more likely to require specific interventions

# Prescriptive Funding Policies

- More states are putting guardrails on targeted funding streams
- Some states are requiring a specific percentage of funds follow students to the schools
- States may also require specific interventions



# At-Risk/Poverty Count

- Many states have used eligibility for free or reduced-price lunches (FRL) as the proxy for at-risk/poverty funding
- With the introduction of the Community Eligibility Provision, actual FRL counts have been impacted in all states
  - These counts were further impacted by free meals for all during the pandemic

# At-Risk/Poverty Count

- Some states are moving toward a direct certification approach utilizing eligibility for other federal programs including TANF, SNAP, and Medicaid
  - These counts generally produce lower total at-risk counts than FRL
  - The federal government encourages the use of a multiplier when using direct certification

# At-Risk/Poverty Count

- Several states are using or looking at using census block information as part of their at-risk/poverty funding
  - The data is student specific and identifies the level of need of where they reside
  - Texas uses this approach to set student weights, with students from higher need communities getting a higher weight
- States looking at alternative measures including machine learning

# Recent State Changes

- Will examine the changes in Maryland, Nevada, and Tennessee
- For each state will examine:
  - Type of finance study used, if any
  - Structure of new formula
  - Prescriptive nature of funding
  - At-risk/Poverty funding count
  - Changes to overall funding levels for the state

# Maryland

- State implemented a large-scale education reform that included a new finance formula
- The formula is built on aspects of adequacy, equity, and structural reviews.
  - Weights are based on adequacy study
- Bulk of changes are related to the new initiatives implemented as part of the Blueprint including career ladders, expanded pre-K, college and career readiness, CTE, and services for concentrated poverty.

# Maryland

- The new formula is a foundation formula with adjustments for compensatory aid, special education, EL, and concentrated poverty
  - The weights are changing over time, decreasing as foundation (base) funding increases
  - Implementation assumption is that special education counts will decrease as Blueprint is implemented
  - MD thinks of weighted funding as separate formulas

# Maryland

- Has several targeted funding streams outside of the formula:
  - Health and social work professionals for all schools with over 55% concentration of poverty
  - Funding for National Board Certified teachers, with additional funding for those teachers in high poverty schools
  - College and Career funding for students who meet standards by the end of 10<sup>th</sup> grade

# Maryland

- New formula shifted local funding requirements, MD has dependent districts
- Previously local counties/city were only required to provide the local match for foundation funding
  - Many districts did not receive full funding for student adjustments
- Locals must now fully fund local match for all formula components



# Maryland

- Seventy-five percent of all formulas must follow student to the school
  - 100% of concentrated poverty funding
- State is working on an alternative measure of economically disadvantaged students but currently using FRPM
- Implementation is over a decade and will require over \$3B in new funding

# Tennessee

- Tennessee's Investment in Student Achievement Act (TISA) came about very quickly, with work done in around six months
- Though equity was talked about as a key focus, there does not appear to be a specific equity study published on the impacts of the new formula
- Parameters are not based on an adequacy study

# Tennessee

- The new formula is referred to as a “student-based” formula and is consistent with many foundation formulas from across the country.
- It includes a foundation amount per pupil and weights for:
  - Economically disadvantaged students: 25%
  - Students in concentrated poverty: 5%
  - Students in smaller districts: 5%
  - EL and Special education students: 15% - 150%

# Tennessee

- District funding model, dollars do not have to follow the student
- Economically disadvantaged students include directly certified students in SNAP and TANF, those experiencing homelessness or in the foster care system
- Governor agreed to increase funding by \$1 billion dollars if the new formula was passed

# Nevada

- Nevada replaced a formula from 1969 known as the Nevada Plan
- The new Pupil Centered Funding Plan (PCFP) is in part based on a 2018 finance study that included an adequacy study and structural review

# Nevada

- The PCFP is a weighted student formula with a foundation amount and adjustments for at-risk (.3), EL (currently .48 with a target of .5), and gifted (currently .14 with a target of .29)
  - Students only receive the highest weight they qualify for if included in more than category
- The new formula also changes how local dollars are considered, previously only 2/3 of local dollars were part of the formula, now all dollars are included in the calculation

# Nevada

- Dollars are required to follow students to the schools.
  - A set percentage of foundation can be held for central office, the percentage ranges by size of district
  - 100% of At-risk, EL and gifted dollars must follow the student to the school
    - At-risk and EL dollars must be spent on specific interventions that are related to previous funding mechanism, Zoom and Victory schools

# Nevada

- Nevada is using a machine learning tool from Infinite Campus to identify at-risk students through a score predicting likelihood of not graduating high school with their cohort
- The state has set the adequacy base as a target to reach over time
  - The goal was to set the adequacy weights and then have the funding increase through foundation increases



# Other States

- Ohio recently changed finance system using a state-run PJ process
  - Funding was only guaranteed for 2 years but has been renewed
  - Original work focused on base costs, additional independent studies done on EL, gifted and at-risk
- Mississippi has bills being moved to get rid of an adequacy-based system
  - Legislature has historically failed to fund the adequacy-based system

# Questions?

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