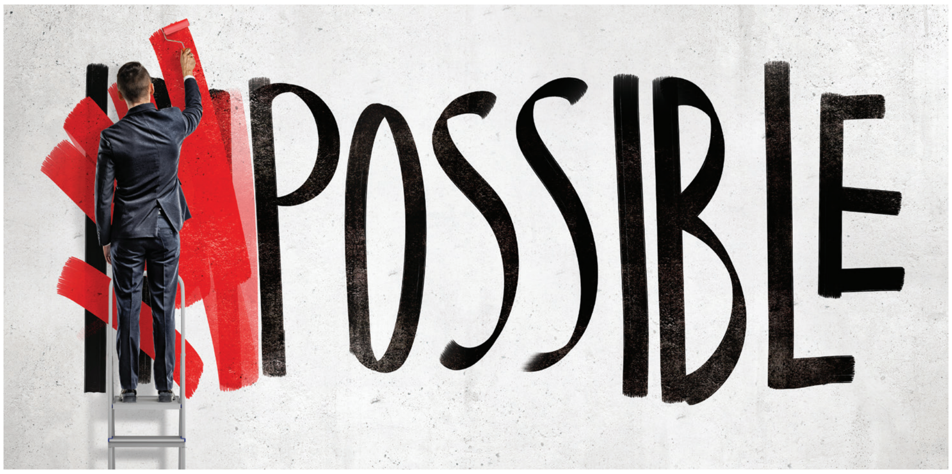
SCHOOL FINANCE

# MOVING MOUNTAINS

Six things to consider when updating your K-12 school finance formulas.

BY DANIEL THATCHER




Twenty-five. That's the average age of states' education funding formulas—the complex math used by states to determine how much money each school district gets to spend on teachers, textbooks and the like for the school year. Yet, while much changes in 25 years—demographics, educational priorities, state economies, the cost of living, what's hot on the Top 40—it may be easier to move a mountain than to update, let alone replace, a funding formula. Many states have tried in recent years. Only a few have succeeded.

What obstacles did they face? And what lessons can other states draw from their experiences?

## We're Talking Big Amounts

To appreciate the difficulty of changing education funding systems is to appreciate the scale of the endeavor. For the 2018-19 school year, legislatures appropriated more than $345 billion for K-12 education, by far every state's largest budget item. Local governments, for their part, raised an estimated $332 billion. Federal revenue added another $53 billion, for a grand total of $730 billion. For comparison, that's $44 billion more than the entire U.S. Department of Defense budget in FY 2019.

Owing to the magnitude of states' education spending, any legislative proposal calling for a funding increase can incite sticker shock.

The California Legislature, for instance, increased its spending by an estimated $18 billion over eight years to replace its 40-year-old funding formula in 2013. And in Illinois, lawmakers committed $336 million in new state money to make changes in the state's funding formula for the 2017-18 school year.

The potential cost of replacing a funding formula is just the beginning. (There may also be a price tag attached to the status quo. See the sidebar: "The Cost of Education.") The next hurdle comes with the politically fraught division of state revenue across school districts. The call for a new funding formula, after all, often comes from school districts agitated by either a perceived lack of fairness in the existing formula or an inability to raise additional revenue from their own sources.

Regardless of the amounts, there remains the compelling quest to ensure that all money, be it from state or local sources, is working where it is most needed to benefit all students. So how did these two states, and others, move mountains? They took different paths, but the initial pressures and conditions compelling them to move are remarkably similar. Six themes are highlighted here.

**1. The Locals Have It.** The localized nature of education politics is one common pressure. Attending public schools gives most Americans their first and most intimate contact with government. As students turn into parents, their experiences as school children, along with deeply held opinions, make them experts on school policy. When legislative proposals contradict parents' experiences, a hailstorm of criticism may occur.

Retired Colorado Senator Norma Anderson (R), who steered the adoption of a new funding formula in her state in 1994, notes that the most parochial issue legislatures face is public school funding. She cites a familiar adage: "All politics is local; school politics is localer."

**2. External Stimuli Bring Change.** The equilibrium among policy decisions, budgetary commitments and interest-group politics is so powerful that unusual circumstances may be necessary to permit legislators to tip this balance in a meaningful way. An economic or educational crisis, for instance, or litigation challenging a state's funding system, often compel legislative responses.

The Great Recession led to major disruptions in education funding that still reverberate today. Local schools have 116,100 fewer jobs than at the beginning of the recession. In many states, the recession also blew up the careful balance between state funding and restrictions to local funding designed to mitigate the sometimes major differences in per pupil spending between rich and poor school districts. Where they could, richer districts overrode local revenue-raising restrictions to make up for decreases in state spending.

As state economies emerged from the recession, so too did calls for increases in education spending, evidenced by the #Red4Ed teacher movements in Arizona, Colorado, Kentucky, Oklahoma, North Carolina and West Virginia.

Elsewhere, 25 state courts have ruled that the statewide education funding system violates their state's constitution and requires legislative fixes. In each instance, legislatures were compelled to produce bills to right the constitutional wrongs.

**3. Change Requires a Legislative Focus.** Lawmakers with legislative focus have the technical and political know-how, resources and political will to work through the budget process and get results. Focus involves working with the handful of members who control or substantially influence educational policy—including "the one with the gavel"—and with sufficient evidence to make the case for change. This is not easy in term-limited settings.

Illinois Senator Kimberly Lightford (D) embodies legislative focus. "I can finally say I am proud of the education funding strategies in Illinois after a decades-long battle," she says.

**4. Coalitions and Consensus Can Work.** Creating the opportunity for change by building an external coalition is as important as generating specific policy proposals. In some contexts, gubernatorial leadership is key. In all contexts, change is facilitated when there is consensus among administrators, school boards, teachers unions, and student and parent organizations. If taxes are on the table, business representatives must be there, too.

## Agents of Change

Since the 1990s, at least 30 states have made major changes to the way they fund K-12 education. To cull observations and possible lessons from its work with legislatures, NCSL collaborated with Jacob Adams, the former director of the School Finance Redesign Project, to interview legislators who shepherded school funding changes through their legislatures. The initial interviews were conducted more than 10 years ago. NCSL has done additional interviews in the years since and identified many more themes and lessons than the six highlighted here. For more, email Dan at daniel.thatcher@ncsl.org.

**5. Avoid Creating Winners and Losers.** The public's interest in improving students' learning sometimes conflicts with the narrower interests of politically vocal constituents or organized groups. In peddling a narrative suited to their interests, these groups are more likely to promote the perception that shifting money around will create winners and losers.

For instance, proposals to change the funding formula may result in some school districts receiving more state money than others. If a politically powerful district perceives this proposal as a net loss to its budget, it may move to quash the proposal, even though it benefits other long-neglected districts in the state. Proposals that include new state money, like those in California and Illinois, can alleviate these negative perceptions. Including all interested stakeholders early in development of the funding formula is also helpful.

**6. Compromise Is Part of the Process.** Every state can claim a diverse range of school districts, each with a unique set of characteristics affecting their budget needs. Shifting student populations, concentrations of poverty, eroding tax bases, lack of access to labor markets, remoteness and even topography—all these pull on district budgets. Crafting a new funding formula requires listening to the needs from every corner of the state and adjusting—or compromising—accordingly. Ultimately, compromise often requires altering the initial policy proposal.

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Senator Kimberly Lightford, Illinois

If changes are phased in over time, they may alter the practical effect of what can be accomplished long term.

For instance, if a new formula is designed to improve greater funding fairness among rich and poor districts, a wealthy school district, which may have been enjoying a disproportionate share of state aid under the existing formula, may have to give up claim to some of that aid. The district's reduction in state aid can be implemented over the course of several budget cycles. Drawn-out implementation essentially holds the district harmless to the policy change.

Hold-harmless provisions may be used as a carrot to bring reluctant districts to the table, but they can sometimes frustrate other worthy objectives, like funding fairness. Education economists are not always keen on them, either. Balancing the interests of all school districts against the policy objectives of a new formula lies at the heart compromise.

## The Mountain Range Ahead

Education funding innovations require new policy tools that serve both fiduciary and student learning goals. Legislators apprehensive about changing education funding commonly raise concerns over fiscal transparency and accountability. Why add new money or change how it is distributed if we do not have good data on where existing money flows or how it's being spent?

Next year, lawmakers will have some data to answer these questions. A provision of the federal Every Student Succeeds Act goes into effect this school year requiring states to report the per-pupil expenditures of federal, state and local money for each school in the state. The per-pupil expenditures must also include actual expenditures on personnel salaries. Observers hope this new requirement will lead to a clearer understanding of where the money is (or is not) going.

Studying education funding redesign and policy innovations—and broadcasting those findings with legislative colleagues and the public—sets up states and school districts to take advantage of future opportunities, regardless of the short-term prospects for change.

Before California replaced its funding formula in 2013, it benefited from a multiyear "Getting Down to Facts" project, which hired top researches to study what was working in state education funding systems around the nation. Many of the project's findings formed the basis of the state's new funding formula.

Acquiring the kind of knowledge California did, creating a logical sequence of policy proposals and preparing for the next crisis are a few of the steps lawmakers can take to create legislative opportunities to move the seemingly immovable.

Knowing the steps to take won't make the job of changing easy, but it's a start.

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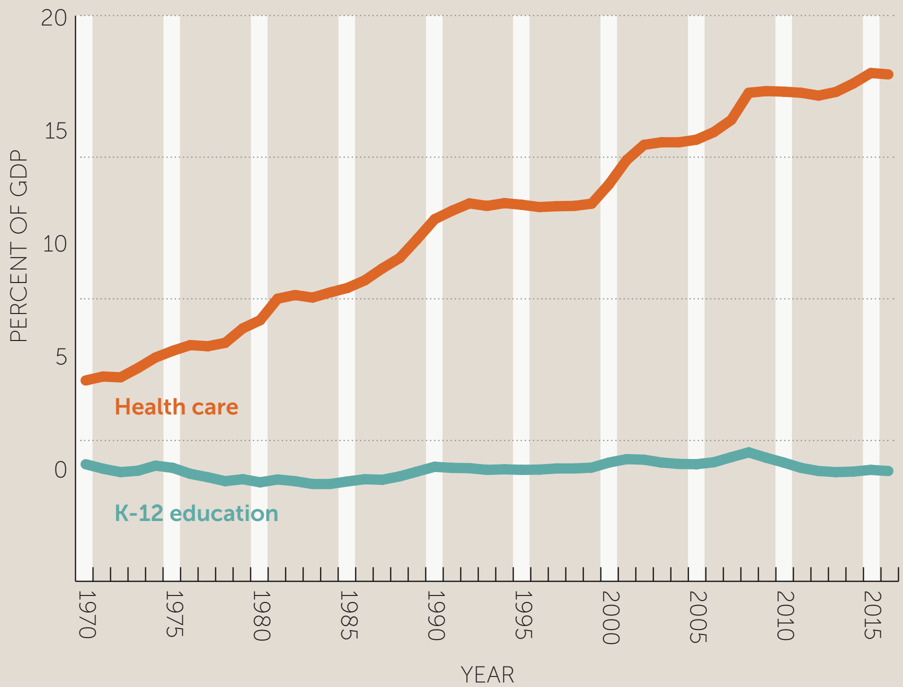
### Health Care and Education Spending in the United States

1970-2016




*Source: Bureau of Economic Analysis, 2019; National Center for Education Statistics, 2019; U.S. Centers for Medicare & Medicaid Services, 2018*

# The Cost of Education

Among the costs associated with K-12 education are those of providing it and those of not providing enough of it. Data reliably can tell us what it costs to provide it. The United States spends, on average, 4% of its GDP on K-12 education (compared with nearly 18% on health care).

Trickier is estimating the broader societal costs when education is underprovided. Recently, researchers have looked at the question differently by estimating long-term economic gains that accrue from strategic investments in K-12 systems.

A 2015 analysis of longitudinal data from states that retooled their funding formulas to target low-income students suggests that, for these students, 10% greater funding over all 12 grades can lead to:

- Half a year of additional educational attainment.
- 20% increased odds of graduating high school.
- 17% increase in family income.
- 6% decrease in incidences of poverty.
- 10% internal rate of return based on these investments targeting low-income students.

Other research estimates the benefit to state economies if they boost student achievement. At the low end, gross domestic product could increase an estimated $32 trillion nationally over the course of students' working adult lifetimes by bringing all students to basic proficiency levels (as measured by the National Assessment of Educational Progress). On the high end, if all states performed at the same level as Minnesota—the "Lake Wobegon effect"—the estimated increase would be $76 trillion.

*—Daniel Thatcher*