Reforming North Carolina's School Finance System

10/31/2017

Lessons from Other States & Recommendations for Moving Forward

There is no single correct way to fund public schools. No matter which model is used, finance systems can still be inadequate, inequitable, or overly complex. Examining other states will allow North Carolina policymakers to avoid these pitfalls and identify school finance reforms that will provide the greatest benefit to North Carolina's students.

NCASA NORTH CAROLINA ASSOCIATION OF SCHOOL ADMINISTRATORS

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EXECUTIVE SUMMARY

Overview

The Joint Legislative Task Force on Education Finance Reform has been charged by the General Assembly with the important task of studying North Carolina's school finance system and recommending reforms to transition the state to a weighted student funding formula. The recommendations below – developed with the support of district superintendents, finance officers, and school finance experts from across the state – stem from the detailed study of weighted student funding systems in six states across the country. These recommendations should serve as guidance for the Task Force as it begins the important work of examining North Carolina's school finance system.

Goals of a high-quality school finance system

The primary goal of any school finance system should be delivering resources that are:

- **Adequate:** Provides sufficient funding to enable every school district to provide each student an equal opportunity to successfully meet state standards for college or career readiness.
- **Equitable:** Distributes funding based on student and district need, ensuring that all students have the same chance for success, regardless of zip code.
- **Transparent:** A school finance system should be easy to understand, with clear, publicly available justifications for all funding decisions.
- **Stable:** Funding should not vary wildly from year-to-year or within the school year.
- **Flexible:** Spending rules should allow local leadership to direct resources to best meet district-specific needs.

Understanding these goals is critical in assessing any recommended changes to North Carolina's school finance system.

Lessons from other states

A detailed analysis of weighted student formulas in six states (three states with well-regarded systems and three states with weak school finance systems) reveals four key lessons:

1. **Policy decisions matter more than funding models**: The existence of a weighted student funding model does not prevent a state's finance system from becoming inadequate, inequitable, or overly complicated, just as North Carolina's resource allocation model does not preclude this state from having a system that is adequate, equitable, and transparent.

2. **No state has implemented the clean, simple version of a weighted student formula pushed by advocates:** In practice, most weighted student models are quite complex, due mostly to program-specific grant funding and wealth equalization measures. Most weighted student systems contain at least as many funding elements as North Carolina's funding system.
3. **Successful weighted student models require thoughtful analysis and frequent re-evaluation:** Without regular, formal review, weighted student formulas can quickly become inadequate or inequitable.
4. **Overhauling North Carolina's school finance system would create transition costs without obvious benefits:** Transitioning to a new funding model is a complex task, requiring time, training, and resources to ensure a successful transition that avoids unintended negative consequences; however, the benefits are, at best, ambiguous.

Necessary criteria for any weighted student system

The Task Force should consider the following criteria when developing or evaluating any recommendations related to implementation of a weighted student funding model:

1. **Hold harmless:** Ensure no district receives a lesser amount of funding under any newly-proposed finance system.
2. **Maintenance of position allotments:** Position allotments allow small, rural districts to hire the best available teacher candidate without concern for budget implications, and can be incorporated into a weighted student model.
3. **Adequate level of base funding:** Base funding is the most crucial step in creating a weighted student funding formula. If it is inadequate, schools will be unable to meet the needs of their students.
4. **Include student weights for major cost drivers:** A weighted student formula must include additional weights to provide supplemental funding on behalf of students who are at-risk, gifted, disabled, and English language learners.
5. **Adjustments for district characteristics:** Additional funding should be provided for districts in low-wealth counties and small districts that are unable to take advantage of economies of scale.
6. **Maintaining certain categorical funding:** Any new model should preserve certain funding streams, such as transportation, that do not neatly correspond to student headcount.
7. **Protection for districts with declining enrollment:** Because most North Carolina LEAs are experiencing declining enrollment, any weighted student proposal should include categorical funding for fixed costs and hold-harmless funding for year-over-year declines in enrollment.
8. **Statutory requirement to annually adjust base funding:** Annually increase base funding levels in accordance with the inflationary pressures – including benefit costs – facing school systems.
9. **Statutory requirement to continually evaluate student weights:** Develop a process to quantitatively analyze the formula's weights, and increase weights if achievement gaps persist or grow.
10. **Provide weighted student funding in one program report code (PRC):** A flexible model allows districts to best direct expenditures to meet their students' unique needs.
11. **Comprehensive re-examination of school finance system every 10 years:** Other states show that even the best-designed school finance systems require periodic review and adjustment.
12. **Provide districts with the resources necessary to implement major changes:** Provide districts with the time, training, and resources necessary to ensure a smooth and successful transition to a new funding model.

Potential modifications within North Carolina's existing school finance model

Prior to taking the potentially destabilizing step of overhauling North Carolina's school finance system, the Task Force should first consider potential improvements that could be made within the existing resource allocation framework to improve the system's adequacy, equity, simplicity, and stability:

1. **Classroom teachers and instructional support:** Maintain position allotments and allow targeted class-size reduction for at-risk students.
2. **Children with disabilities:** Consider adopting recommendations of the EC Funding Stakeholders group to remove the funding cap and differentiate funding based on student disability.
3. **Low wealth:** Simplify by removing density adjustment and re-examine eligibility criteria to ensure correlation with local revenue capacity.
4. **Teacher assistants:** Restore prior allotment flexibility.
5. **At-risk & disadvantaged student supplemental funding (DSSF):** Consider combining.
6. **Central office:** Develop new formula providing base level of funding to each district, with additional amounts distributed on the basis of district size.
7. **Academically or intellectually gifted:** Restore prior allotment flexibility.
8. **Limited English proficiency:** Restore prior allotment flexibility, eliminate funding cap, and consider simplifying the formula by replacing the concentration factor with a new factor based on the number of languages primarily spoken by a district's English language learners.
9. **Textbooks & supplies:** Consider combining and restoring prior allotment flexibility.
10. **Charter schools:** Fund new and growing charters via a direct allotment.
11. **Adequacy study:** Engage with independent experts to estimate adequate per-student funding levels and develop a consensus funding goal for the state.

Continued engagement

Our state's school superintendents and finance officers are a vital resource for the state and the efforts of the Task Force. The Task Force is encouraged to draw upon their expertise throughout the process of developing a school finance system that best meets the needs of all our state's students.

INTRODUCTION

In the 2017 legislative session, the North Carolina General Assembly created the Joint Legislative Task Force on Education Finance Reform (the Task Force). The Task Force is required to "study various weighted student formula funding models and develop a new funding model for the elementary and secondary public schools of North Carolina based on a weighted student formula."[1] The Task Force will issue a final report by October1, 2018 recommending steps to overhaul North Carolina's school finance system. The Task Force has been entrusted with a difficult and important duty, and its work has the potential to greatly impact North Carolina's public education system.

This report – developed with the support of district superintendents, finance officers, and school finance experts from across the state – should serve as guidance for the Task Force as it begins the important work examining North Carolina's school finance system. This report provides the Task Force and other stakeholders with:

- Essential background information on the elements of high-quality school finance systems;
- A general understanding of North Carolina's unique school finance system;
- How weighted student formulas differ from North Carolina's system, noting the strengths and weaknesses of each approach;
- Case studies of weighted student funding systems in three states noted for having particularly weak school finance systems;
- Case studies of weighted student funding systems in three states noted for having particularly strong school finance systems;
- A summary of common lessons learned from state case studies;
- Necessary elements and criteria to be included should the Task Force recommend transition to a weighted student formula; and
- Opportunities to improve educational delivery via modifications within the state's existing school finance model.

The goals of this report include:

- Establishing a baseline understanding of how school funding works in North Carolina and other states;
- Providing policymakers a shared language and set of metrics for assessing school finance reforms;
- Demonstrating that no matter which funding model a state uses, the success or failure of a school finance system is determined by the policy decisions made within the model's framework; and
- Providing the Task Force with vital, evidence-based direction in developing recommendations or legislation

The Task Force has been entrusted with a difficult and important task. It is essential they consider the input from the creators of this report. Our state's superintendents and finance officers are best equipped to understand the strengths and weaknesses of the current school finance system, and their support will be critical for the successful implementation of any future modifications to North Carolina's school finance system. Incorporating this report's guidance will allow the Task Force to avoid unintended pitfalls and develop a school finance system that successfully meets the needs for all of North Carolina's students.

[1] S.L. 2017-57, Section 7.23D

GOALS OF A HIGH-QUALITY SCHOOL FINANCE SYSTEM

A high-quality and successful school finance system should provide each district with sufficient resources according to each district's level of need. Ultimately, a school finance system should allow all students to succeed. A student's chances for academic success should not depend on where a student is born or how much his or her parents earn.

The primary goal of any school finance system should be delivering resources that are both adequate and equitable:

- **Adequacy** refers to whether available funding is sufficient to enable every school district to provide each student an equal opportunity to successfully meet state standards for college or career readiness. More specifically, adequacy tells us what it costs to have high-quality curriculum, taught by effective teachers, utilizing the necessary textbooks and supplies, in a supportive learning environment that would allow all students to graduate from high school ready for college or a career.
- **Equity** reflects that districts have varying levels of need, and that school funding should be distributed in relation to that need. For example, districts have varying levels of students with disabilities, who have limited-English proficiency, and who come from low-income families. Additionally, a district's size or local tax base can affect its ability to provide services for its students. Equity ensures that all students have the same chance for success, regardless of zip code.

Additionally, school finance systems should aim to be **simple**, **transparent**, **stable**, and **flexible**. A school finance system should be easy to understand, with clear, publicly available justifications for all funding decisions. The finance system should provide districts with an amount that doesn't vary wildly from year-to-year (or within the school year), yet allows local leadership the flexibility to direct resources to best meet district-specific needs.

Most states' school finance systems attempt to deliver adequate and equitable resources to students by providing funding to districts via four broad funding categories:

1. **Base funding** provides a certain level of resources to all students, regardless of student characteristics.
2. **Student characteristic funding** provides additional resources according to each district's population of certain students – such as those with disabilities, low-income students, or English language learners.
3. **District-based funding** compensates for district-specific characteristics, such as an inability to generate adequate local revenue, or inability to take advantage of economies of scale.
4. **Program-specific grants** fund discrete programs or state initiatives, such as funding for cooperative innovative high schools or school bus replacement. Program-specific grants may not be implemented evenly across districts and may be distributed on a basis other than student or district characteristics.

It is important to note that the Task Force is not required to consider adequacy, equity, simplicity, transparency, stability, or flexibility. As a result, it is unclear which criteria the Task Force will be using to assess new school finance models for North Carolina. One goal of this report is to fill that gap, and provide policymakers a common language and set of metrics for assessing school finance reforms.

NORTH CAROLINA'S SCHOOL FUNDING MODEL

North Carolina uses what some call a "resource allocation" model. Under this model, the state provides funding to its 115 school districts via a series of allotments. Each allotment has its own formula to distribute funds across districts. It's intended that these allotments are utilized together to provide Local Education

Agencies (LEAs) with a pool of resources to distribute across schools. Depending on how you count, there are between 19 and 37 allotments.[2]

Each year through the state budget process, General Assembly policymakers examine the size of each allotment, the formulas governing how the funds in each allotment will be distributed to school districts, and the rules on how districts may spend the funds in each allotment. In most cases, state allotments are used to provide a pool of resources at the district level. It is then up to the local school board and superintendent to determine how to distribute these funds across schools and which types of expenditures (e.g. personnel, goods, services) to make. In short, allotments are simply how money goes out the door and do not always correspond with how districts must spend their state funds.

Like most states, North Carolina's school finance system includes base funding; funding based on student characteristics; funding based on school district characteristics; and program-specific grants:

- **Base allotments:** Examples include funding for classroom teachers and textbooks. Funding for these resources is distributed to all school districts equally, based on their number of students.
- **Student-based allotments:** Examples include funding for students with limited English proficiency and at-risk students. These allotments are provided on the basis of the population of such students within each district.
- **District-based allotments:** Examples include supplemental funding for low-wealth and small counties.
- **Program-specific grants:** Examples include funding for Cooperative Innovative High Schools and school-based child and family support teams. Not all districts receive these funds.

Position allotments and dollar allotments

Alternatively, allotments can be categorized based on the manner in which they provide resources to LEAs. **Dollar allotments** provide LEAs a fixed pot of funds from which to spend funds. In contrast, **position allotments** provide LEAs with a given number of positions, with the state taking responsibility for paying the appropriate salary and associated benefits for the given position. In North Carolina, approximately 60 percent of school funding is provided via position allotments and 40 percent via dollar allotments.

FIGURE 1: NORTH CAROLINA ALLOTMENT TYPES BY FUNCTION

Position Allotments	Dollar Allotments
• LEA provided a set number of positions or "months of employment"	• LEA provided a set dollar amount
• State guarantees to pay salaries and benefits of position based on state salary schedule	• LEA must manage budget to keep purchases within allotted funds
• Example: classroom teachers	• Example: teacher assistants

[2] Certain funding streams can be considered together with other streams, or separately. Additionally, certain steams that could also be described as competitive grants may or may not be defined as "allotments."

Classroom teachers, instructional support (nurses, librarians, counselors, instructional coaches, etc.), assistant principals, and principals are all provided to North Carolina school districts via position allotments. Position allotments allow districts to hire the best candidates for such positions without having to weigh salary considerations. A district deciding between a new teacher just out of college (state-mandated salary of $35,000) and a teacher with 25 years of experience and National Board Certification (state-mandated salary of $57,120) can choose between the two candidates based on their ability, rather than budgetary impact. Position allotments also eliminate barriers for teachers seeking advanced degrees or National Board certification. Such advanced credentials provide teachers with increased salaries. Position allotments allow districts to work with teachers seeking career advancement since the additional salary costs are not borne by local budgets.

The argument against position allotments is that they can result in situations where more dollars are allocated to districts with less need. According to the General Assembly's Program Evaluation Division (PED), wealthier districts in North Carolina tend to have more experienced teachers on average. According to this argument, on a dollars-per-student basis, position allotments can be seen as directing more funds to wealthy districts than poorer districts. This is perhaps the main criticism levied by PED's November 2016 report criticizing North Carolina's school finance system.[3] It is important to note, however, more experienced teachers are found in wealthy districts even in states that do not have position allotments. Further, the relationship between district wealth and average salary in North Carolina is extremely weak. Ultimately, it is unclear which system – position allotments or dollar allotments – is optimal for directing high-quality teachers to areas of greatest need.

Recent trends in state funding

During the Great Recession, lack of state revenue caused many allotments to be reduced, arguably harming the adequacy of North Carolina's funding system. However, policymakers initially relaxed spending rules, making North Carolina's system more flexible.

Despite North Carolina's economic recovery, funding for most state allotments has not been fully restored. When adjusted for inflation and enrollment growth 17 of the 22 largest state allotments remain below where they were in FY 10-11 at the depth of the Great Recession. An additional two allotments for professional development and mentors for beginning teachers were eliminated permanently. While funding for textbooks has increased since FY 10-11, the funding remains below pre-Recession levels.

[3] North Carolina General Assembly Program Evaluation Division, "Allotment-Specific and System-Level Issues Adversely Affect North Carolina's Distribution of K-12 Resources," November 2016, as found at: http://www.ncleg.net/PED/Reports/2016/K12Funding.html.

FIGURE 2: NORTH CAROLINA ALLOTMENT TRENDS

Major Categorical Allotment Changes (per-student, inflation-adjusted)

	2010-11	2017-18	Change
Children with Disabilities	$527.97	$541.94	2.65%
Transportation	$306.67	$288.72	-5.85%
Noninstructional Support	$300.51	$244.92	-18.50%
Teacher Assistants	$401.87	$242.76	-39.59%
At-Risk Student Services	$179.47	$187.31	4.37%
Low Wealth	$169.93	$141.94	-16.47%
DSSF	$59.92	$57.88	-3.40%
Central Office	$81.76	$56.70	-30.65%
AIG	$53.58	$52.44	-2.13%

	2010-11	2017-18	Change
Limited English Proficiency	$58.24	$51.51	-11.55%
Textbooks	$1.90	$47.10	2375.97%
School Bus Replacement	$34.20	$38.68	13.08%
Supplies & Materials	$50.16	$30.55	-39.10%
Small County	$33.53	$29.37	-12.42%
Learn & Earn	$20.93	$20.30	-3.01%
Driver Training	$24.36	$17.64	-27.59%
CTE Program Sppt	$14.65	$13.73	-6.26%
School Technology	$14.46	$11.59	-19.81%

Major Position Allotments (per 1,000 students)

	2010-11	2017-18	Change
Classroom Teachers	47.11	45.53	-3.36%
Instructional Support	5.04	4.61	-8.53%

	2010-11	2017-18	Change
School Building Admin	2.92	2.66	-8.88%
CTE Teachers	4.45	4.57	2.68%

Since the state's economic recovery, the General Assembly has also created new rules limiting how school districts spend their money. In recent years, new restrictions have been placed on the following allotments, substantially reducing the funding system's flexibility:

- Teacher assistants
- Children with disabilities
- Academically or intellectually gifted
- Limited English proficiency
- Textbooks

Local funds

State law places the responsibility for school funding of current operations entirely with the state.[4] Districts are responsible for facilities, including the cost of maintenance and utilities. All districts supplement current operations expenditures with local funds. Districts have considerable flexibility in how they use these local funds.

Of course, local funding varies dramatically between school districts in both amount, and share of total funds. In FY 15-16, students in Chapel Hill/Carrboro City Schools benefitted from a local allocation of $5,710 per pupil. In contrast, Swain County students received only $415 per student in local funding. 50 percent of Chapel Hill/Carrboro City Schools' total spending in FY 15-16 came from local sources, compared to just 8 percent in Robeson County.

Analysis from the Public School Forum of North Carolina indicates that disparities in local spending have been increasing in recent years, mostly because of the variation in property wealth across the state.[5] State allotments, such as low wealth and small county, attempt to compensate for these differences. North Carolina

[4] See G.S. 115C-408. The law allows school districts to supplement state funding for current operations and places responsibility for capital funding at the county level.

[5] Public School Forum of North Carolina "2016 Local School Finance Study." As found at: https://www.ncforum.org/wp-content/uploads/2016/04/PSF_LocalSchoolFinanceStudy_2016.pdf

is one of 18 states with a system that – on average – directs more resources to poor districts than rich districts. Despite these efforts, differences in local wealth allow certain districts to supplement their school funding to levels not afforded to most districts.

THE DIFFERENCE BETWEEN RESOURCE ALLOCATION AND WEIGHTED STUDENT FUNDING MODELS

How do weighted student formulas work?

A weighted student funding model would be a significant shift for North Carolina's school districts. Under a weighted student model:

- A base dollar amount is provided for each student that is intended to cover the cost of educating a general student.
- Weighted categories are established to provide additional funding for certain students such as special education, limited English proficiency (LEP), or disadvantaged students. The weighted student count is then multiplied by the base amount per student to determine total funding.
- Funding is distributed to districts and charter schools in the form of dollars rather than as positions.

In its most basic form, a weighted student funding model may work as follows. Consider two hypothetical school districts with the following demographics:

FIGURE 3: WEIGHTED STUDENT FORMULA EXAMPLE SCHOOL DISTRICTS

	School A	School B
Total Students	1,000	1,000
Low-Income	50%	30%
Special Education	15%	10%
English Language Learners	10%	5%

Under a weighted student formula, the state would determine the base dollar amount that districts would receive on behalf of all students and the additional supplemental funding that would be provided on the basis of students who meet the definition of low-income, special education, and English language learners.

For example, the state might provide districts base funding of $5,000 per student. Then, districts may receive weights of 0.4 on the basis of all low-income students, 1.0 on the basis of all special education students, and 0.8 on the basis of all English language learners. Under this example, a student who is low-income, requires special education services, and is an English language learner would generate $16,000 [$5,000 + ($5,000*0.4) + ($5,000*1.0) + ($5,000*0.8)]. A student who is low-income but is **not** a special education or English language learner student would generate $7,000 [$5,000 + ($5,000*0.4)].

Returning to the hypothetical schools considered in Figure 3 allows us to see the funding each district would receive under this hypothetical example:

FIGURE 4: HYPOTHETICAL FUNDING UNDER A WEIGHTED STUDENT FORMULA

	Demographics			Funding	
	District A	District B	Weight	District A	District B
Total Students	1,000	1,000	$5,000 (base)	$5,000,000	$5,000,000
Low-Income	50%	30%	0.4	$1,000,000	$600,000
Special Education	15%	10%	1.0	$750,000	$500,000
English Language Learners	10%	5%	0.8	$400,000	$200,000
			Total Funding	$7,150,000	$6,300,000

What are the benefits of a weighted student formula?

The above example shows that, at least in theory, a weighted student formula can meet all of the elements of a high-quality school finance system.

- **Adequacy** can be addressed by adjusting the base funding amount and the weights.
- **Equity** can be addressed by adjusting the weights, or making additional adjustments for each county's ability to generate local revenue (i.e., wealth equalization).
- By eliminating several individual allotment formulas, a weighted student formula can theoretically better resource allocation models in terms **simplicity** and **transparency**.
- In its most basic form, a weighted student formula might reduce funding **stability** as funding shifts with student enrollment, though one could develop hold-harmless mechanisms to avoid this issue.
- Proponents would also argue that weighted student formulas improve **flexibility** by allocating each district a dollar amount that the district can use as it pleases to best meet the educational needs of its students.[6]

Of course, in practice, weighted student formulas can be much more complicated than the above hypothetical. As shown in the state case studies below, few (if any) states have implemented weighted student formulas that are adequate, equitable, transparent, stable, and flexible. Many states have complicated wealth equalization formulas and supplemental grants falling outside the weighted student formula that operate exactly like allotments under North Carolina's finance system.

Another commonly cited advantage of weighted student formulas is that it facilitates systems where "money follows the child." Such a system is frequently championed by school choice advocates. Under this system, the funding generated by a student would follow that student no matter where he or she is enrolled and even if the student transfers mid-year. For example, if an individual student who generated $8,000 under a weighted student formula were to transfer to a charter school halfway through the school year, the traditional school system's budget would be reduced by $4,000 and the charter school's budget would be increased by $4,000. According to advocates, such a system "better ensures that funding can be more accurately adjusted to meet the actual costs to schools of all sizes and locations of educating various students based on their unique characteristics."[7] Of course, money can also "follow the child" under a resource allocation model if policymakers so desire.

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[6] Larry Miller, Marguerite Roza, Suzanne Simburg, "Funding for Students' Sake: How to Stop Financing Tomorrow's Schools Based on Yesterday's Priorities," *Building State Capacity and Productivity Center*, May 2014, as found at: http://www.bscpcenter.org/resources/publications/HowtoStopFinancingTomorrowsSchoolsBasedonYesterdaysPriorities.pdf

[7] American Legislative Exchange Council, "The Student-Centered Funding Act," January 8, 2010, as found at: https://www.alec.org/model-policy/the-student-centered-funding-act/

What are the disadvantages of a weighted student formula?

Under a weighted student model, **the General Assembly would forego some of its authority to direct spending for specific activities**. In recent years, new restrictions have been placed on several state allotments. For example, the General Assembly now requires school districts to spend $369 million on teacher assistants or forego the money. Similar restrictions have been placed on funding for children with disabilities, textbooks, academically or intellectually gifted, and limited English proficiency.[8] General Assembly policymakers would have a more difficult time mandating specific expenditure levels under a weighted student formula since these funds would not be accounted for separately, but be a part of a district's total pot of funds.

Weighted student formulas also disadvantage school districts with declining enrollment levels. While North Carolina's population continues to grow, the growth is concentrated in urban areas. The vast majority of North Carolina's school districts are actually experiencing falling student enrollment. Student enrollment fell in 85 of North Carolina's 115 school districts in FY 17-18.[9]

A weighted student model would disadvantage these districts in two ways:

1. In their purest form, **weighted student models do not include hold-harmless funding** to provide districts a transition year when their enrollment decreases. Certain weighted student advocates even argue that school budgets should be adjusted in real-time as students make mid-year transfers or drop-out.[10] By contrast, North Carolina's funding model calculates funding on the higher of current year or prior year enrollment, providing districts a year to transition towards lower funding levels when enrollment falls.
2. Districts face many fixed costs that remain constant even if a student leaves the school system. For example, all districts require a superintendent and other central administrative staff. Each school requires a principal. These requirements do not go away when a student leaves the school system. North Carolina's resource allocation model recognizes this reality with several allotments containing a minimum funding level that is distributed to all districts regardless of enrollment. Similarly, North Carolina provides funding for principals based on the number of schools, rather than enrollment figures. In contrast, **a weighted student model assumes that school districts face zero fixed costs** and that budgets can readily be reduced commensurate with enrollment decreases.

The "money follows the child" form of weighted student formulas could have further negative consequences for schools. Such a system would require **increased investment in state administrative staff** to more closely monitor and verify student enrollment changes and make the resulting real-time changes to district or charter budgets.

The "money follows the child" model would **negatively impact most charter schools** in North Carolina. Most schools, charter and traditional, tend to shed enrollment during the school year. In FY 16-17, charter school enrollment fell by 1,422 students during the school year. That year, enrollment fell for 128 charter schools,

[8] North Carolina school districts retain limited ability to carry-over unspent textbook funds to the subsequent fiscal year.
[9] North Carolina Department of Public Instruction, "Average Daily Membership for LEAs and Charter Schools." As found at: http://www.ncpublicschools.org/fbs/allotments/support/
[10] Larry Miller, Marguerite Roza, Suzanne Simburg, "Funding for Students' Sake: How to Stop Financing Tomorrow's Schools Based on Yesterday's Priorities," *Building State Capacity and Productivity Center*, May 2014, as found at: http://www.bscpcenter.org/resources/publications/HowtoStopFinancingTomorrowsSchoolsBasedonYesterdaysPriorities.pdf

and grew in just 32 charter schools. On average, the "money follows the child" model would lead to unstable, declining budgets for most charter schools.[11]

Additionally, the "money follows the child" argument **undermines the long-standing foundational premise of public schools being a public good** benefiting society at large, regardless of whether one has a child. The property owner reaps the benefits of a strong public school system through increased property values; the business owner benefits from having a skilled workforce; the laborer benefits from skill-based wage increases. All benefit – whether they have children or not – from an informed, engaged electorate shaping community policy decisions. Given the important public benefits of strong education systems, finance models that determine budgets solely via the individual enrollment decisions of parents of school-aged children become inherently undemocratic.

Similarities between weighted student and resource allocation models

Despite the technical differences between weighted student and resource allocation models, the end results of both models can be quite similar. Both models:

- Distribute base funding on account of all students, student-based funding to account for between-district differences in student demographics, and district-based funding to account for differing district characteristics;
- When paired with thoughtful, high-quality policy decisions, can be structured to provide adequacy, equity, transparency, stability, and flexibility;
- When paired with careless, poor policy decisions can be structured in ways that fail to provide adequacy, equity, transparency, stability, or flexibility; and
- Ultimately provide districts with a pot of resources that the district can deploy across its schools.

From an individual school district or charter school's perspective, the main concerns are: whether or not they have adequate resources to educate all of their students to state standards, and whether state rules allow districts to best allocate funds to meet student needs. There is nothing inherent about either model that helps schools meet these goals. Ultimately, it is policy decisions made by legislators that will determine whether North Carolina's school finance system is adequate, equitable, and allows schools to meet the needs of all students.

STATE CASE STUDIES: FINANCE SYSTEMS WITH SHORTCOMINGS

A weighted student formula does not guarantee that a state will have a high-quality school finance system. A weighted student formula can still result in finance systems that are inadequate, inequitable, or overly complex. Utah, Illinois, and Vermont provide examples of weighted student funding formulas that are, respectively, inadequate, inequitable, and overly complex. It is important for North Carolina policymakers to be aware of the potential pitfalls of a weighted student formula.

Each of these poorly designed weighted student formula systems make clear that the type of school finance system is much less important than the policy decisions made within any given system.

[11] The same general patterns also hold for traditional inclusive school districts. In FY 16-17, within-year enrollment fell in 93 school districts and increased in just 21 districts.

Illinois: A lesson in inequity

A 2013 analysis of Illinois' school finance system conducted by Augenblick, Palaich and Associates concluded that the "system is inequitable for both students and taxpayers."[12] While the Illinois funding model includes certain components tied to wealth or student needs, these components are inadequate to meet either such needs or offset the impact of inequitable local revenue capacity. By some measures, Illinois has the most inequitable school funding system in the country.[13]

The state is a prime example that simply having a weighted student formula with wealth and student need components does not mean the system will meet those needs.

Overview of funding in Illinois

In Illinois, state revenue comprises just 26 percent of the school system's total revenue. The majority of school funding in Illinois, 66 percent, comes from local sources. The state's revenue sources are nearly a mirror image to that of North Carolina, where approximately 62 percent of revenue comes from state sources, and just 26 percent from local sources.[14] This highly-localized funding structure is the source of many of the inequalities in Illinois' school finance system.

Illinois' state funding for public schools is distributed largely through two formulas:

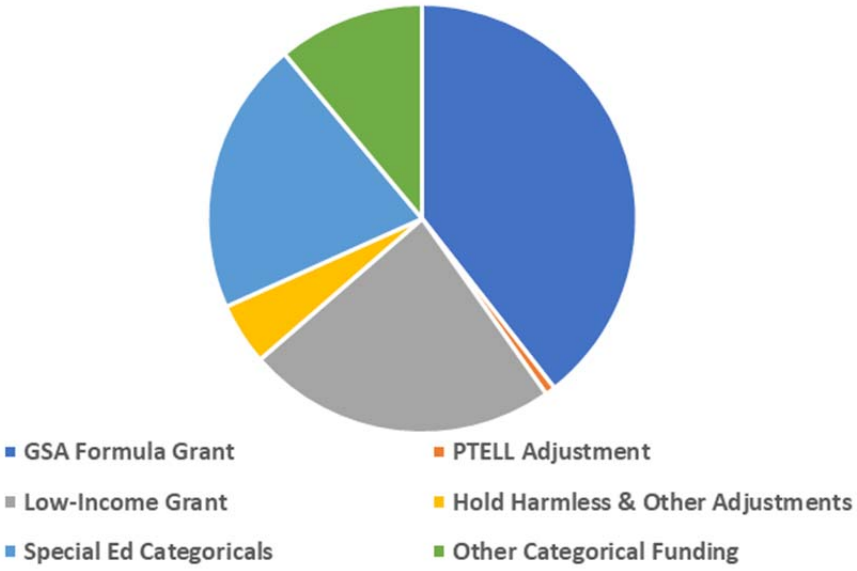
- The Equalization Formula Grant provides a degree of wealth equalization by providing school districts the difference between a targeted level of revenue per student and the amount generated at a uniform property tax rate.
- The Supplemental Low-Income Grant provides each district an equal per-student amount based on the number of low-income families in a district.

Other state funds, such as funding for special education, are provided on a categorical basis.

[12] Augenblick, Palaich and Associates, "Overview of the Structure of the Illinois School Finance System." September 2013, as found at: http://apaconsulting.net/wp-content/uploads/2014/07/130924-apa-rpt.pdf
[13] The Education Trust, "Funding Gaps 2015," March 2015, as found at: https://edtrust.org/wp-content/uploads/2014/09/FundingGaps2015_TheEducationTrust1.pdf
[14] National Center for Education Statistics, "2016 Digest of Education Statistics," Table 235.20, as found at: https://nces.ed.gov/programs/digest/d16/tables/dt16_235.20.asp?current=yes

Figure 5 summarizes Illinois sources of state funding for FY 16-17:

FIGURE 5: FY 16-17 STATE SOURCES OF PUBLIC SCHOOL FUNDING



Illinois Equalization Formula Grant

The Equalization Formula Grant comprises approximately 40 percent of state funding for public schools in Illinois, or 10 percent of total revenue.

The first step is setting the Foundation Level. The Foundation Level is a targeted level of per-student school revenue that is equal across all school districts. For the 09-10 fiscal year, the Illinois Foundation Level was set at $6,119. It has remained at this level in subsequent fiscal years.

FOUNDATION DISTRICTS

Two-thirds of Illinois school districts are called "foundation" districts. A foundation district is defined as having local resources per-pupil of less than 93 percent of the Foundation Level. Approximately two-thirds of Illinois' school districts are Foundation Districts. For these districts, local per-pupil resources (or Local Wealth) is defined as the sum of Property Wealth and revenue from the Corporate Personal Property Replacement Tax:

- Property Wealth is defined as the equalized assessed property value (EAV) in each district multiplied by an assumed tax rate. The assumed tax rate varies by district type.[15]
- The Corporate Personal Property Replacement Tax (CPPRT) is calculated annually by the Illinois Department of Revenue. It is intended to replace money that was lost by local governments when their powers to impose personal property taxes were taken away in 1979.[16]

Once Local Wealth is calculated, it is compared to the Foundation Level. Foundation Districts receive state funding equal to the difference between the Foundation Level and their Local Wealth.

It is important to note that the state has frequently failed to fully-fund this grant. For example, in FY 15-16, the state funded only 92 percent of the Equalization Grant.

[15] In Illinois, certain districts apparently may contain only elementary schools or only high schools. These districts have a lower assumed tax rate than comprehensive school districts.

[16] Allocations of the CPPRT are made to taxing districts on the basis of actual collections in either 1976 or 1977 depending on location of the district.

ALTERNATE METHOD

Illinois districts with Local Wealth between 93 percent and 175 percent of the Foundation Level are provided state funding via the Alternative Method. These districts comprise approximately 20 percent of Illinois school districts. Alternate Method districts receive state funding equal to between 5 and 7 percent of the Foundation Level. The Alternative Method formula provides districts a sliding scale of state support that decreases slightly as wealth increases. The formula is as follows:

Foundation Level x Average Daily Attendance (ADA) x
(.07 - [(Local Wealth Percentage - .93) / .82] x .02)

FLAT GRANT METHOD

Districts with Local Wealth that's over 175 percent of the Foundation Level receive a flat per-student amount. For FY 16-17, the Flat Grant amount was $218 per student. Approximately 6 percent of districts receive funding via the Flat Grant method.[17]

PROPERTY TAX EXTENSION LIMITATION LAW (PTELL) ADJUSTMENT

Beginning in the early 1990s, a number of Illinois counties enacted PTELLs, which limit annual local revenue growth by the lesser of the CPI or 5 percent. As a result, the assumed tax rates used to estimate Local Wealth began to exceed actual tax rates in PTELL counties. In other words, the PTELL made it impossible for these districts to generate the level of local revenue assumed by the Equalization Formula.

Beginning with the 99-00 fiscal year Illinois introduced the PTELL Adjustment to its Equalization Formula Grant. For districts subject to a PTELL, the EAV used to calculate Equalization Grant amounts is the lesser of the district's actual EAV and the prior year EAV, inflated by the amount by which their tax extension was allowed to grow.

A little over half of Illinois' school districts are subject to the PTELL, but only about 10 percent benefitted from the PTELL Adjustment in FY 16-17.

Supplemental Low-Income Grant

The Supplemental Low-Income Grant comprises approximately 23 percent of state funding for public schools in Illinois, or 6 percent of total revenue.

For the purposes of the Low-Income Grant, the state defines Low-Income Students as the three-year average, non-duplicated count of students aged 5 through 17 receiving services through:

- Medicaid
- Supplemental Nutritional Assistance Program (SNAP)
- Children's Health Insurance Program (CHIP)
- Temporary Assistance for Needy Families (TANF)

The Low-Income Grant provides districts with an increasing level of per-student support based on the concentration of Low-Income students. Districts with a Low-Income Concentration of 15 percent or less receive a flat $355 for each Low-Income Student. For districts with a Low-Income Concentration above 15 percent, the per-student appropriation is determined by the following formula:

[17] Percentage of Foundation, Alternate, and Flat Grant districts fails to add to 100 percent due to 70 lab & alternative schools that receive funding outside of the formula.

[$294.25 + $2,700 x (Concentration %)^2] x #Low-Income Students

The formula creates a convex, upward-sloping curve that increases the per-student appropriation as the Low-Income Concentration increases.

Other categorical funds

The remainder of state support for public schools in Illinois comes from categorical funds, which include funding for special education, career and technical education, and child nutrition. For the most part, these funds are earmarked and mandated by statute for a particular purpose or population and can only be used as such.[18]

For **special education**, Chicago receives a block grant based on its expenditures in FY 94-95. All other districts receive funding via a formula. The formula block grant is comprised of two elements:

1. 85 percent of the funds are distributed based on each district's best three months average daily attendance
2. 15 percent distributed via the poverty measurement used in General State Aid

Districts also receive partial reimbursement for staff exclusively serving students with disabilities and transportation of students with disabilities. For the most part, certified staff are reimbursed at $9,000 per FTE and noncertified staff are reimbursed at $3,500 per FTE. Districts are reimbursed for up to 80 percent of their costs of transporting students with disabilities.

Additionally, funding for students with disabilities includes partial reimbursement for tuition of special education students placed in private schools, a mechanism for districts to claim special needs students with "excess costs," and summer school for special needs students.

For **regular transportation costs**, districts are reimbursed for eligible expenses. The reimbursement rate is partially based on the district's wealth.

The state provides additional appropriations for **early childhood education, bilingual education, career and technical education (CTE), school breakfast and lunch, after-school programs**, and students in **orphanages.**

Weaknesses of Illinois' school funding model

The most notable weakness of Illinois' school funding model is its degree of inequality. In Illinois, wealthy districts have substantially more funding than high-poverty districts. Upon first blush, this might seem surprising. After all, the major components of Illinois' school funding model are the wealth-equalizing Equalization Grants and the progressive Low-Income Grant. However, these seemingly progressive measures are insufficient when it comes to providing equitable funding across Illinois' school districts.

The biggest barrier to equitable funding in Illinois is the state's low level of state support for public schools. State revenues comprise just 26 percent of its public school revenues. At that low level of state funding, even the most progressive systems will be insufficient to negate the impact of local wealth disparities.

Given the high level of inequity in Illinois' system, other formula changes could also improve equity in the state. For example, the state could eliminate Equalization Grant Funding to Flat Grant and Alternative Method districts, or change the eligibility requirements for receiving funds via these methods. The state could also look at increasing the size of either the Equalization Grant or Low-Income Grant.

[18] Illinois State Board of Education Division of Funding and Disbursement Services, "Overview of Mandated Categorical Program Funding," January 2017, as found at: https://www.isbe.net/Documents/mcat-narrative.pdf

Final thoughts on Illinois

Illinois' school finance model provides two key takeaways:

1. Equity is nearly impossible to achieve when state funding is inadequate
2. Formulas require consistent updating to ensure problems don't arise over time

Despite a relatively progressive model of distributing state funds, Illinois has one of the most inequitable school finance systems in the country. State leaders must also consider how local funding and revenue capacity can exacerbate school funding disparities.

Illinois lawmakers could have helped offset these trends by simply updating its formula in simple ways. The state's Foundation Level has been set at $6,119 for eight years. For most of that time, the state failed to fully-fund the Equalization Grant based on this Foundation Level. If the Foundation Level were fully-funded and increased annually, the formula would have helped direct additional funding towards lower-wealth districts. Unfortunately, such measures have been avoided, as they would have increased the state's burden of financing the school system.

Utah: A lesson in inadequacy

Utah's school finance system is most notable for the low level of funding provided to the state's districts. Utah has ranked 50th in terms of per-student spending in the past two years. In FY 15-16, Utah's per-student spending was just 76 percent of per-student spending in North Carolina.[19] Utah serves as a prime example that a weighted student formula does nothing to ensure the adequacy of school funding. Their funding system is also quite complex, containing nearly as many individual allotment formulas as North Carolina, despite the presence of a weighted student formula to distribute the majority of school funding.

Elements of Utah's school finance model

School funding in Utah is driven almost entirely from the state's **Minimum School Program (MSP)**. The MSP is a collection of nearly 50 categorical sub-programs designed to distribute state appropriations on a formula basis to school districts and charter schools. The MSP's categorical programs are divided into three parts:

1. **Basic School Program (BSP)** is the largest funding section of the MSP, distributing approximately $2.7 billion towards 15 categorical programs. The BSP is based on weighted pupil units (WPUs) with add-on funding for certain students or activities, and also includes wealth equalization adjustments. The BSP is divided in two sections:
    - **Regular programs**: Districts are provided flexibility to move regular programs' funds across the six regular programs, which include Kindergarten, Grades 1-12, Foreign Exchange, Professional Staff, Administrative Costs, and Necessarily Existent Small Schools.
    - **Restricted programs**: For nine programs, the use of funding is restricted to the functions defined in statute for each sub-program. Restricted programs include Special Education, Career and Technical Education, and Class-Size Reduction.[20]
2. **Related to Basic School Program**: These categorical programs support the BSP. They address specific student or district needs and are entirely state funded. These programs function similarly to categorical dollar allotments under North Carolina's system. For FY 17-18, total appropriations for Related to Basic School Program items are $637 million.

[19] National Education Association, "Rankings & Estimates: Rankings of the States 2016 and Estimates of School Statistics 2017," May 2017, Table H-9, as found at: http://www.nea.org/assets/docs/2017_Rankings_and_Estimates_Report-FINAL-SECURED.pdf

[20] Utah State Legislature, *Compendium of Budget Information for the 2017 General Session*, as found at:

3. **Voted & Board Local Levy Programs**: These funds provide state support to supplement local property tax revenues generated by school districts with limited revenue capacity. State funds are used to pay the difference between the amount of property tax revenue generated per WPU and the state guarantee amount (as set by the Legislature). Voted & Board Local Levy Programs total $595 million in FY 17-18.

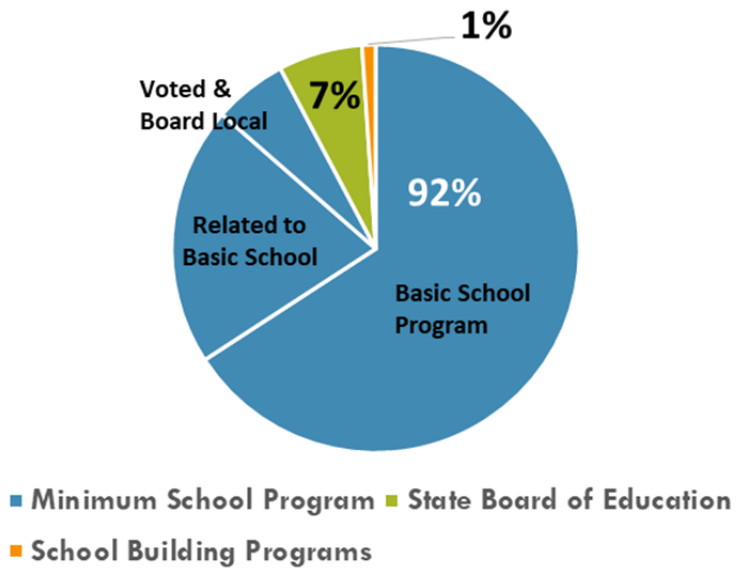
For FY 17-18, Utah appropriated approximately $4.1 billion to the MSP. Approximately 80 percent of MSP revenue comes from state sources, with the other 20 percent – about $814 million – generated through local school district property taxes.[21]

Federal funds, statewide administration, support programs, and contracted services can be found under the **State Board of Education** section of the budget. For FY 17-18, Utah appropriated $726 million towards this funding category.

Finally, the state also provides support for school capital via an appropriation of $33 million in the **School Building Programs**.

Figure 6 summarizes the major elements of Utah's school funding model.

FIGURE 6: ELEMENTS OF UTAH'S SCHOOL FUNDING MODEL – STATE FUNDING ONLY



Minimum School Program

BASIC SCHOOL PROGRAM

Approximately 84 percent of Utah's MSP school funding is distributed via the state's BSP. The BSP distributes funds to each district based on their number of weighted pupil units (WPUs) in specific categories. Current year WPUs are based on the actual average daily membership (ADM) of the prior school year, plus a growth factor based on year-over-year enrollment growth. Districts with declining enrollment are held harmless at their prior-year ADM.

[21] Utah Office of the Legislative Fiscal Analyst, "Budget of the State of Utah and Related Appropriations 2017-2018," May 2017, as found at: https://treasurer.utah.gov/wp-content/uploads/sites/10/2017/06/Legislative-Analyst-Appropriation-Report-2017-18.pdf

These WPUs are multiplied by the WPU Value, which is set annually by the Utah Legislature. For FY 17-18, the WPU Value has been set at $3,311.

For each program, the program cost is simply the number of WPUs multiplied by the WPU Value. Figure 7 shows how WPUs are generated under each program.

FIGURE 7: BASIC SCHOOL PROGRAM WPU FORMULAS

Program	WPU Calculation	Allotment Type
Grades K-12	1 WPU for every student in prior year ADM + growth factor	Unrestricted
Nec. Existent Small Rural Schools	Ranges based on regression fromula from 54.8 to 150.4 WPUs, depending on school type and enrollment	Unrestricted
Professional Staff	(1) multiply the number of FTE licensed staff in each applicable experience category by the applicable weight, which is given in statute. (2) Divide the product from #1 by the number of licensed staff included in #1 and reduce the quotient by 1.00. (3) Multiply the result from #2 by one-fourth of the total WPUs generated by Kindergarten, Grades 1-12, and Necessarily Existent Small Schools programs. 1 WPU for a teacher with a bachelor's degree and one-year of service to 1.7 WPUs for a teacher with a doctorate degree and eleven-years of service.	Unrestricted
Administrative Costs	Districts with < 5,000 students receive sliding scale of 60 to 95 WPUs, with the smallest districts generating the most WPUs.	Unrestricted
Foreign Exchange Students	328 WPUs are provided based on each district's prior-year enrollment of foreign exchange students	Unrestricted
Special Ed - Add-on	(5-Year Average ADM + Growth) x 1.53. Note that eligible ADM capped at 12.18%	Restricted
Special Ed - Self-contained	Qualifying Student ADM (2-years Prior)	Restricted
Special Ed - PreSchool	Special education preschool enrollment (aged 3 through 5 excluding 5-year-old special education students enrolled in Kindergarten) as of December 1 multiplied by 1.47, with annual growth capped at 8%	Restricted
Extended Year - Severely Disabled	Base + % of Statewide Prior-Year Special Education Enrollment	Restricted
Special Ed - Impact Aid	2,016 WPUs distributed to school districts and charter schools based on their percentage enrollment of students with disabilities in the state	Restricted
Special Ed - State Programs Extend Year	909 WPUs distributed based on the total number of qualifying teachers multiplied by the total number of contract days.	Restricted
Special Ed - State Programs-Intensive Services	50% of the appropriation based on the highest cost students with disabilities; and 50% of the appropriation based on the highest impact LEA due to high cost students with disabilities.	Restricted
CTE - Add-on	Prior-year plus growth in grades 9-12 ADM.	Restricted
Class-Size Reduction K-8	Prior-year plus growth in grades K-8 ADM.	Restricted

Utah uses wealth equalization to ensure a greater share of state funding is allocated to low-wealth school districts. To accomplish this, Utah sets a minimum basic property tax levy to contribute to the BSP. All of Utah's 41 school districts assess the same Basic Levy, which for FY 17-18 was set at 0.001596.

State funding is simply the difference between the program cost and the amount of revenue generated by the Basic Levy. For example, if the Grades K-12 program of the BSP has a program cost of $10 million, and the district's Basic Levy generates $8 million, then state funding would be $2 million. If the funds generated by the Basic Levy exceed the BSP cost, the funds are "recaptured," deposited in state coffers, and used to support school funding in other districts.

Due to the complexity of adjusting state/local contribution amounts for 41 school districts and 14 categorical programs, the local property tax contribution to the program is accounted for in the Grades K-12 program only.

RELATED TO BASIC SCHOOL PROGRAM

Related to Basic Programs are line-items that receive specific appropriation amounts from the Utah Legislature, similar to categorical dollar allotments in North Carolina's school finance system. The number of Related to Basic Programs and their funding formulas can change from year-to-year. In general, funding for Related to Basic Programs is restricted to meet the specific programmatic requirements.

These programs can be divided into four general groupings based on formula type:

1. **Base +** programs include Enhancement for At-Risk Students, Adult education, School LAND Trust Program, K-3 Reading Improvement, and Library Books & Electronic Resources. These programs are provided a base level of funding to each district, with remaining funds distributed on another factor such as ADM or WPUs.
2. **Simple Per-Student or Per WPU** programs are simply distributed proportionally based on enrollment or WPUs. Simple Per-Student or Per WPU programs include Flexible Allocation, Charter Schools Local Replacement, and Charter School Administration.
3. **Qualification** programs distribute funds only to districts meeting specifically determined criteria outlined in the program objectives. Examples include Pupil Transportation, Guarantee Transportation Levy, Youth-in-Custody, Enhancement for Accelerated Students, Concurrent Enrollment, Educator Salary Adjustments, and Teachers Supplies & Materials.
4. **Grants** are provided via application or RFP. In recent years, this has become the primary mechanism to distribute funding. Example grants include Teacher Salary Supplement, Matching Fund for School Nurses, Critical Languages & Dual Immersion, Year-Round Math & Science, Beverley Taylor Sorenson Arts Learning, and Early Intervention.

For FY 17-18, there are 28 programs classified as Related to Basic School Program. The five largest such programs are:

FIGURE 8: MAJOR RELATED TO BASIC SCHOOL PROGRAMS FY 17-18

Program Name	FY 18 Appropriation	Purpose	Basic Formula
Educator Salary Adjustments	$171,089,400	Salary & benefit increases for certain targeted educator salary increases	Proportionately based on the number of qualifying educators
Charter School Local Replacement	$170,579,200	Capital funding for charter schools	Provides the state-average per student Debt Service Revenues for each student enrolled in a charter school
To and From School Transportation	$83,730,200	Transportation to and from school	Funding is distributed based on bus routes approved by the State Board of Education
School LAND Trust Program	$50,400,000	Implementation of school improvement plans	10% of revenues provide base to each LEA, then proportionately based on number of students
Enhancement for At-Risk Students	$28,034,600	Programs for students at risk of not achieving academically	Based on low performance on U-PASS tests, poverty, mobility, and limited English Proficiency

VOTED AND BOARD LOCAL LEVY

Voted and Board Local Levy programs are the second way in which Utah's school finance formula provides wealth equalization. Much like the wealth equalization of the BSP, the Voted and Board Local Levy programs provides a state appropriation for districts where the local property tax generates less revenue per WPU than the amount guaranteed by the state.

For FY 17-18, of the $595 million distributed via Voted and Board Local Levy, $415 million comes from local funds. These total funds are distributed as follows:

- $445 million via the **Local Levy Program**: Since 1954, Utah has permitted districts to impose a Voted Levy rate of up to 0.002. The state provides the guarantee amount of $38.54 for each 0.0001 of tax rate per WPU.

- $135 million via the **Board Local Levy Program**: Utah permits local school boards to levy an additional property tax rate to support the district's General Fund, restricted to 0.0018 or 0.0025 per dollar of taxable value. The state provides the guarantee amount of $38.54 for each 0.0001 tax increment up to a maximum of 0.0004.
- $15 million via the **Board Local Levy – Reading Improvement Program**: This program represents local matching funds for the K-3 Reading Improvement Program that is classified as a Related to Basic School Program. Districts receive a base amount, a guarantee amount, and a low-income amount based on $21 per WPU minus the amount raised by a tax levy of 0.000065.

State Board of Education

A number of activities are funded under Utah's State Board of Education. For FY 17-18, Utah has appropriated $206 million towards State Board of Education line items. This funding is supplemented with $520 million of federal funds, the vast majority of which are ultimately distributed to local school districts.

Major line items under the State Board of Education include the State Administrative Office, Child Nutrition, Initiative Programs, and Utah Schools for the Deaf and Blind.

School Building Programs

For FY 17-18, School Building Programs provide Utah's school districts with $33 million of supplemental funding for capital projects. The School Building Program is composed of two elements:

1. The Capital Outlay Foundation Program: $28 million of capital funding is distributed equally across all school districts on the basis of student enrollment.
2. The Capital Outlay Enrollment Growth Program: $6 million of capital funding is distributed to districts that have experienced growing enrolment over the past three years, and district wealth per student is less than two times the prior year's statewide average per-student wealth. Allotments are made on the basis of student enrollment to the 18 eligible districts.

Weaknesses of Utah's school funding model

Utah's school funding model demonstrates that a weighted student formula does nothing to ensure schools will have adequate funding. On a per-student basis, Utah's formula provides districts just 76 percent of the funding provided to North Carolina's school districts.

The primary barrier to adequate funding in Utah appears to be lack of political will. If Utah's policymakers wanted to provide adequate funding, they could. Analysis from the Education Law Center gives Utah a grade of "D" for its school funding effort, a measure comparing school funding levels to the state's fiscal capacity (it's important to note, the same report gives North Carolina a grade of "F" for school funding effort).[22]

Additionally, Utah's funding system is quite complex. There are 14 programs under the BSP, each with their own method for generating WPUs. There are 28 programs classified as Related to Basic School Program, and another three Voted and Board Local Levy programs. There is supplemental funding for State Board of Education programs and additional funding streams for school capital. The number of funding streams and the formula complexity far outstrips the number of allotments or complexity of formulas in North Carolina's system.

[22] Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card: Sixth Edition," *Education Law Center*, January 2017, as found at: http://www.schoolfundingfairness.org/is-school-funding-fair/reports

Final thoughts on Utah's school funding model

Utah is proof positive that weighted student formulas do nothing to guarantee that a finance system will provide adequate funding to school districts, or be a simple, transparent system. It is clear that the policy decisions made by legislators are far more important than the type of model chosen by the state. Ultimately, it is the responsibility of policymakers, not a model, to deliver a school finance system that is adequate, equitable, simple, transparent, stable, and flexible.

That said, the state performs admirably in terms of funding equity. The same 2017 Education Law Center study awarding the state a "D" for effort gives the state an "A" for the fairness of its state funding distribution, ranking only behind Delaware.[23] That is, the state's formula appropriately delivers more funding to high-poverty districts than low-poverty districts.

Despite the funding system's admirable degree of equity, few would look to Utah as a positive model for North Carolina. Utah's school finance system does, however, demonstrate the importance of considering multiple criteria (adequacy, equity, simplicity, transparency, stability, and flexibility) when considering any funding system reforms, as well as underscoring the degree to which policy decisions are vastly more important than choice of funding model.

Vermont: A lesson in complexity

Vermont is regarded as having one of the more complex weighted student formulas. The state's school finance system is also notable for its high level of per-pupil funding, and its small school districts. According to the most recent data available from the National Association of Educators, Vermont has 337 school districts educating just 82,036 students. These students benefitted from per-student expenditures of $20,787 in FY 15-16, the fourth-highest level in the nation.[24]

Development of Vermont's school finance model

Like many states in the Northeast in the 1990s, responsibility for funding public schools in Vermont fell largely on towns, rather than the state. That changed in 1997 when the Vermont Supreme Court declared the state's school finance system unconstitutional.[25] In response, the Vermont General Assembly passed Acts 60 and 68 of 1997, placing the sole responsibility for funding education with the state. Additionally, the laws instituted a new state property tax system conditioned on household income, split the property tax base between residential and non-residential properties, and created the Education Fund. The aim of these reforms was to equalize property tax burdens and individual taxpayer liability on the basis of household income.

[23] Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card: Sixth Edition," *Education Law Center*, January 2017, as found at: http://www.schoolfundingfairness.org/is-school-funding-fair/reports

[24] National Education Association, "Rankings & Estimates: Rankings of the States 2016 and Estimates of School Statistics 2017," May 2017, as found at: http://www.nea.org/assets/docs/2017_Rankings_and_Estimates_Report-FINAL-SECURED.pdf

[25] *Brigham vs. State, 1997*, as found at: http://law.justia.com/cases/vermont/supreme-court/1997/96-502op.html

Vermont's unique revenue model

Vermont has a unique revenue model for raising funds for its public schools. Vermont's system uses a complex system of taxation to effectively allow each town to determine the spending level for their schools and the state. The underlying philosophy behind Vermont's school finance system is that it is designed to treat all taxpayers the same based on the level of school spending chosen by that community.

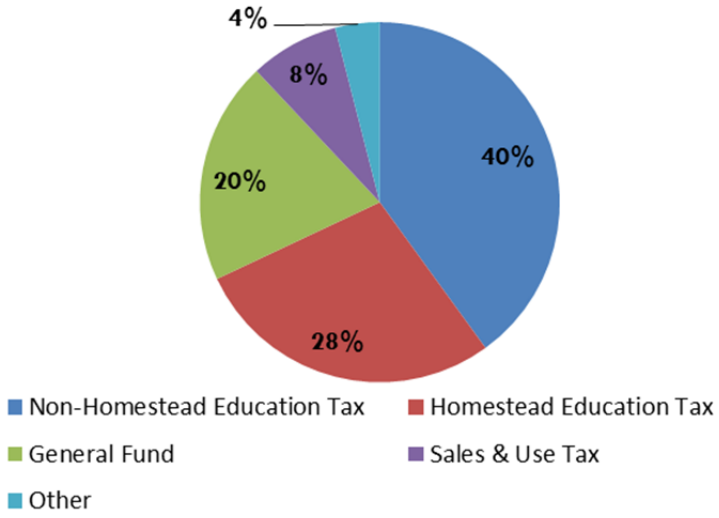
The state has several revenue sources that are earmarked specifically for education, unlike here in North Carolina which comparatively has very few. Only the Education Lottery, the Civil Penalty and Forfeiture Fund, and the Indian Gaming Fund are earmarked for educational purposes. Combined, these three revenue sources comprise just under 6 percent of North Carolina schools' state revenue for current operations. The vast majority of state funding in North Carolina – over 93 percent in FY 2016-17 – comes from the state's General Fund.

Vermont's Education Fund receives the majority of its funding from two earmarked sources:

- **Homestead Education Tax**: The Homestead Education Tax is a property tax accounting for approximately 28 percent of revenue for Vermont's public schools. This tax is conditional upon the taxpayer's income level.
- **Non-Homestead Education Tax**: Approximately 40 percent of revenue comes from the Non-Homestead Education Tax, a non-residential property tax levied uniformly across the state.

In addition, Vermont schools receive a share of their state revenue from a portion of the sales & use tax (8 percent), the purchase & use tax (2 percent), a transfer from the state lottery (less than 2 percent), and a Medicaid transfer (less than 1 percent). Remaining funds are provided via a transfer from the state's General Fund (approximately 20 percent).

FIGURE 9: VERMONT PUBLIC SCHOOL REVENUE FUNDING SOURCES



Much of the complexity of Vermont's system stems from how the state generates revenue from these sources.

Vermont's Homestead Education Tax

Vermont's residential property tax rate is computed annually by the state. It is determined by a base funding level for schools and the total homestead property valuation.

The base rate is adjusted each year using an inflation factor estimated by the state and approved by the Legislature. The base rate is not necessarily related to education spending needs. It is simply a number computed to fund this part of Vermont's education system.[26]

The Homestead Education Tax payment is capped at a percentage of household income for households with income below about $141,000 in 2016.[27] Households with incomes below $47,000 qualify for additional "super circuit breaker" property tax relief. The circuit breaker payment caps total property taxes to 5 percent of household income. For households with income between $47,000 and $141,000 residing in towns spending at the base amount, tax payments are capped at the lower of their property tax bill, or 1.8 percent of household income. If the town elects to spend above the base amount, the income limit is increased along with the residential property tax rates.

Additional adjustments are then made to account for differences in assessment practices across the state. The Vermont Department of Taxes analyzes actual home sales data to calculate a common level of appraisal, or CLA. The CLA is applied to the town's education tax rate to adjust the rates evenly across towns.

The property tax is then set at a sufficient rate to generate the revenue necessary to meet the base rate per student. For FY 17-18, the base residential property tax rate was set at $1.01 and the base Homestead Income Tax rate at 1.84 percent. Towns may vote to spend above these rates. If such a vote occurs, the property tax and income taxes go up in tandem. It is also important to note that the homestead property tax is only assessed on the first two acres of homestead property. Larger properties do not pay this tax for land area beyond two acres.

Under this method, Vermont's wealthier districts are subsidizing less-wealthy districts. The tax rate for all towns electing the same per pupil spending level is the same, even though wealthier towns generate many more dollars at a given rate.

While districts may elect to spend above the base rate, the state has created a disincentive to spend above a certain threshold. The Excess Spending Threshold is determined statutorily and is currently set at 123 percent of the state average education spending per student for the prior fiscal year. To complicate matters, state law permits eight adjustments to a district's per pupil spending amount to recognize certain unavoidable cost drivers.[28] For districts spending above the threshold level, the marginal Homestead Tax rate increases at twice the rate it does below the threshold.

Vermont's Non-Homestead Education Tax

The Non-Homestead Education Tax is simply a uniform property tax levied on all non-residential property. The rate is determined annually by the Legislature and adjusted by the same amount as the base tax rate on residential property. For FY 17-18, the Non-Homestead Education Tax is set at $1.51.

Vermont's school funding laws include automatic triggers that increase the non-residential tax rate when it fails to raise at least 34 percent of total education spending.

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[26] Lawrence O Picus, "Funding Vermont's Schools for the Future: A Discussion Paper," January 7, 2014, as found at: http://picusodden.com/wp-content/uploads/2014/01/Funding-Vermont-Schools-for-the-Future-Jan-2014.pdf

[27] Vermont Department of Taxes, "Education Tax Rate FAQs," as found at: http://tax.vermont.gov/research-and-reports/tax-rates-and-charts/education-tax-rates/faqs

[28] Vermont Department of Education, "Vermont's Education Funding System," September 2013.

Categorical Grants

Vermont appropriates a number of categorical grants to school districts outside of basic education funding. Categorical grants include funding for:

- Special education (covering approximately 60 percent of the eligible population)
- Transportation aid (covering about 44 percent of total transportation costs)
- Small school grants
- Aid for State-placed students
- Technical education aid
- Early education aid

Weaknesses of Vermont's school funding model

Clearly, Vermont has a complicated school finance system. The system's focus on overall funding levels makes it extremely difficult for policymakers to manage district operations. Vermont policymakers face barriers in directing spending towards specific programs or activities. Conversely, they also face barriers in directing budget cuts towards specific programs or activities.

One consequence is that a large share of Vermont's funding is spent outside of the classroom. For the 2015-16 school year, the average Vermont school district had just 243 students.[29] By contrast, the average North Carolina district had 12,664 students that year. Research indicates that a school system's per-student costs rise considerably when a district has fewer than 500 students, as smaller districts are unable to take advantage of economies of scale.[30] Vermont's school finance system fails to include incentives for district consolidation that would allow these districts to up-scale and thereby direct a greater share of their funding towards instruction.

Analysis from school finance experts Picus Odden and Associates concluded that the tax incentives of the Homestead Education Tax have also driven Vermont's high education spending levels. Low property wealth towns face a lower tax price than they would if they had to fund their desired level of school funding entirely from their own property taxes. As a result, they argue, more towns are voting to raise their education spending levels.[31]

Finally, the complexity of Vermont's system can create unintended consequences. Each of the base amount, the non-residential property tax rate, and the homestead base tax rate are determined annually by the Legislature. Each of these legislative decisions can cause local tax rates to increase (or decrease) if other factors such as property values or local spending move in unanticipated directions.

Final thoughts on Vermont's school finance model

Despite the complexity of the state's school finance model, there is substantial evidence the system is working well. Vermont's school finance system provides one of the highest per-pupil spending levels in the country, is highly equitable, and provides school districts a high measure of local control in spending decisions. Since the 1997 implementation of the school funding formula, Vermont's students have consistently out-performed other states as measured by the National Assessment of Educational Progress (NAEP), even when adjusting for

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[29] National Education Association, "Rankings & Estimates: Rankings of the States 2016 and Estimates of School Statistics 2017," May 2017, as found at: http://www.nea.org/assets/docs/2017_Rankings_and_Estimates_Report-FINAL-SECURED.pdf

[30] Matthew Andrews, William Duncombe, John Yinger, "Revisiting economies of size in American education: Are we any closer to a consensus?" *Economics of Education Review*, 2002, as found at: https://experts.syr.edu/en/publications/revisiting-economies-of-size-in-american-education-are-we-any-clo

[31] Lawrence O Picus and Associates, "An Evaluation of Vermont's Education Finance System," January 18, 2012, as found at: http://picusodden.com/wp-content/uploads/2013/09/VT_Finance_Study_1-18-2012.pdf

student demographics.[32] Additionally, across-district variability in student achievement has decreased since 1997.[33]

One of the main criticisms levied towards North Carolina's school finance system by members of the Task Force is that the number of allotments make the system overly complex. Vermont serves as an example that complexity need not be a barrier to creating a school finance system that is adequate and equitable. It is also an example that moving away from North Carolina's allotment system does not guarantee simplicity. Once again, the model is less important than the policy decisions made within a given model.

That said, it is quite possible, or even probable, that Vermont's school performance would improve even more if spending were more closely correlated with student need. Vermont's school finance system focuses on taxpayer equity rather than student equity. It is unclear whether the state is successfully directing resources to the areas of greatest need in the state. The state received a grade of "D" due to its regressive funding distribution in recent analysis from the Education Law Center.[34]

STATE CASE STUDIES: WELL-REGARDED SCHOOL FINANCE SYSTEMS

Other states can provide potential models that might provide the Task Force with ideas worth replicating. In particular, elements of the school finance systems in California, Maryland, and Massachusetts can provide useful guidance to the Task Force in developing an effective weighted student model.

California

California overhauled its school funding system in 2013. The new system, known as the Local Control Funding Formula (LCFF), replaced a widely derided program that had been in place for over 40 years. Under the old system, districts received funding based on a unique revenue limit and restricted funding for over 50 categorical programs. Under the LCFF, revenue limits and most state categorical programs have been eliminated. The state anticipates an eight-year phase-in to the new system, with full implementation in FY 20-21.

The LCFF is based on three broad principles:

1. Equitable funding of schools based on student needs;
2. Measuring student achievement using multiple metrics beyond simple test scores; and
3. Using measurement to support, rather than punish, struggling schools.[35]

The extent to which California incorporates school performance and support for struggling schools within its finance system is unique. Most states do not formally consider the connection between these issues.

Because the state is currently phasing-in its new funding system, the full effects of the LCFF on equity have not yet been demonstrated in national school finance studies. However, most stakeholders agree that the new system is directing a greater share of funding towards districts with the most need. Additionally, the formula

[32] Matthew Chingos and Kristen Blagg, "How do states really stack up on the 2015 NAEP?" *Urban Institute Urban Wire*, October 28, 2015, as found at: https://www.urban.org/urban-wire/how-do-states-really-stack-2015-naep
[33] Lawrence O Picus, "Funding Vermont's Schools for the Future: A Discussion Paper," January 7, 2014, as found at: http://picusodden.com/wp-content/uploads/2014/01/Funding-Vermont-Schools-for-the-Future-Jan-2014.pdf
[34] Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card: Sixth Edition," *Education Law Center*, January 2017, as found at: http://www.schoolfundingfairness.org/is-school-funding-fair/reports
[35] EdSource, "Local Control Funding Formula Guide," February 2016, as found at: https://edsource.org/2016/local-control-funding-formula-guide-lcff/89272

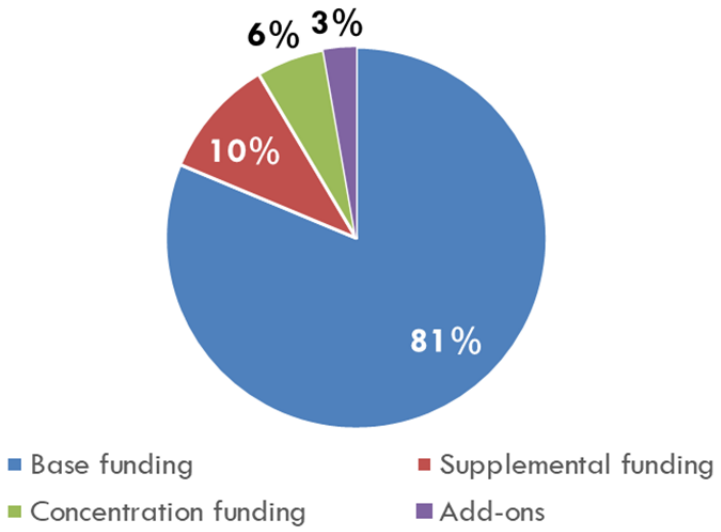
has led to increased state support for public schools. California's Department of Finance estimated that fully-funding the formula would bring state spending on public schools from $39 billion spent in FY 12-13 to approximately $60 billion. As of FY 17-18, the state is approximately $1.8 billion short of fully funding the LCFF, with the average district receiving 97 percent of its LCFF target.[36]

Overview of California's school finance model

For FY 16-17, 91 percent of K-12 education funding – state General Fund and local property tax revenue combined – was provided via the LCFF. The LCFF creates funding targets for each charter school and school district based on four basic components:

1. A **Base Grant** which provides all districts with a uniform per-student amount on behalf of every enrolled student. Base Grant amounts vary based on student grade span, with students in high school generating the most base funding, followed by students in grades K-3, then middle-grade students.
2. **Supplemental Grants** provide districts an extra 20 percent of the base grant on the basis of every student who is low-income, an English language learner, homeless, or in foster care.
3. **Concentration Grants** are provided to districts if high-need students comprise more than 55 percent of enrollment. Concentration Grants provide districts an amount equal to 50 percent of the base grant on the basis of every high-needs student above the 55 percent threshold.
4. **Add-Ons** include **Hold Harmless** funding for Targeted Instructional Improvement Block Grant and Home-to-School Transportation programs; **School District Necessary Small Schools (NSS)** provides supplemental funding on account of small schools with less than 286 students and 15 or fewer certified employees; **Minimum State Aid** and **Economic Recovery Target** provide hold-harmless funding to county offices of education serving students in non-school institutions and school districts, respectively, to ensure no district receives less state funding than they did in FY 12-13 or less than they would have received under the pre-LCFF system (when both are adjusted for inflation).

FIGURE 10: COMPONENTS OF LCFF FUNDING, FY 16-17



[36] California Department of Education, "Local Control Funding Formula Overview," August 3, 2017, as found at: http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp

During the transition to full-funding, actual funding is based on the difference between each school district's floor level and target amount. Floor funding levels are based on the per-student amount received in FY 12-13. Target amounts are the full-funding levels as calculated by the LCFF formula. The difference between these two figures is the district's need. Districts receive a percentage of their need based on available funds in the state budget each year.

Base Grants

Base grants are provided on behalf of every student enrolled in the district. Figure 11 summarizes the Base Grant funding for FY 17-18.

FIGURE 11: FY 17-18 LCFF BASE GRANT FUNDING BY GRADE LEVEL

Grade Span	Base Amount	Premium Above Grades 4-6
K-3	$7,941	8.8%
4-6	$7,301	0.0%
7-8	$7,518	3.0%
9-12	$8,939	22.4%

Base grant amounts are adjusted annually by the California legislature. Adjustments include annual cost-of-living adjustments (COLAs) as well as adjustments to modify the relative funding across grade levels. For FY 17-18, all Base Grants were increased by a 1.56 percent COLA. Additionally, the grants for grades K-3 and 9-12 received additional increases over the prior fiscal year of 10.4 percent and 2.6 percent, respectively.

In FY 16-17, California appropriated $45 billion via Base Grants, accounting for 81 percent of total LCFF funding.

Supplemental Grants

LCFF Supplemental Grants provide districts with additional funding based on the number of disadvantaged students. The LCFF Supplemental Grants are calculated as follows:

Base Grant x 20 percent x number of targeted disadvantaged students

Targeted disadvantaged pupils include:

- Students who qualify for free or reduced-price lunches
- English language learners
- Students who are homeless or in foster care

For both Supplemental Grants and Concentration Grants, headcounts of disadvantaged pupils are based on a three-year average. Additionally, California uses unduplicated headcounts to determine the number of disadvantaged students. That is, if students fall into more than one of these categories, districts will still receive only one supplemental grant for those students. Finally, state law requires that Supplemental and Concentration Grants must be used to increase or improve educational delivery for at-risk students "in

proportion to the increase in funds." The state uses a complicated seven-step formula to calculate the amount of funding that must be spent on high-need students.

In FY 16-17, California appropriated $5.7 billion via Supplemental Grants, accounting for 10 percent of total LCFF funding.

Concentration Grants

Concentration Grants provide districts with additional funding to account for the additional costs associated with high concentrations of disadvantaged students. Concentration Grants are calculated as follows for districts where disadvantaged students comprise at least 55 percent of the district's enrollment:

Base Grant x 50 percent x [disadvantaged students – (total ADA x 55 percent)]

For FY 16-17, California appropriated $3.2 billion via Concentration Grants, accounting for 6 percent of total LCFF funding.

LCFF Add-Ons

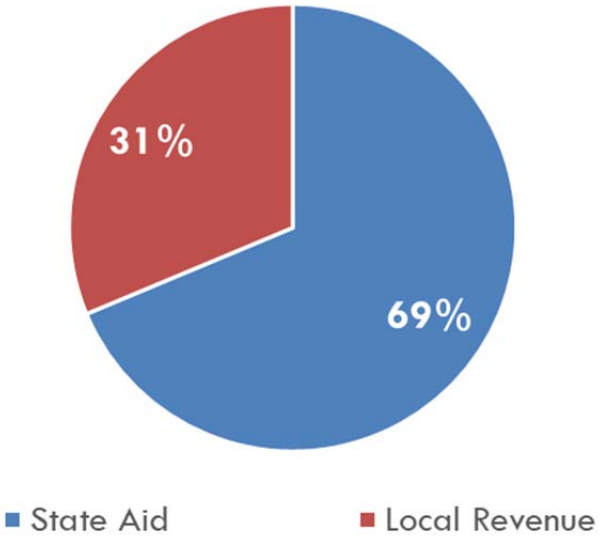
The LCFF Add-On grants consist of hold-harmless funding to ensure no district's allotments fall below FY 12-13 levels due to the transition to the LCFF formula and additional amounts for NSSs.

- **Targeted Instruction Block Grants:** Districts receive the same level of funding provided in FY 12-13.
- **Home-to-School Transportation:** Districts receive the same level of funding provided in FY 12-13. School districts must maintain those expenditure levels to continue receiving these funds.
- **NSS:** Provides supplemental funding on account of small schools with fewer than 286 students and 15 or fewer certified employees. School districts have the option of selecting NSS funding in lieu of the adjusted grade span base grant funding for eligible schools.
- **Minimum State Aid:** Guarantees a minimum amount of state aid to school districts and charter schools based on the amount of state aid they received in 2012–13. The calculation is adjusted for changes in local revenue and ADA
- **Economic Impact Aid:** For a small number of school districts and charter schools, ensures virtually all districts and charters are at least restored to their pre-recession funding levels (adjusted for inflation).

LCFF Sources of Funds

The LCFF is funded via a mix of state and local funds. For FY 16-17, approximately 69 percent of LCFF revenue was derived from state sources.

FIGURE 12: LCFF FUNDING BY SOURCE OF FUNDS, FY 16-17



Under California law, counties collect local property taxes and distribute the revenues among local governments based on a formula determined by the state legislature. The school districts and county offices of education report the local revenue they receive each year to the California Department of Education. These amounts are deducted from each district's entitlement to determine the state aid they receive.

In a county where local property tax revenue is sufficient to fund all of its LCFF allotment, the state still must provide its minimum state aid allotment. In these cases, the minimum state aid allotment is on top of the LCFF allotment rather than counting within it.

Local Control and Accountability Plans

Under the LCFF, all school districts are required to prepare Local Control Accountability Plans (LCAPs) describing how they intend to meet annual goals for each student group for each of eight state priorities. State priorities include:

1. Basic Services
2. Implementation of State Standards
3. Course Access
4. Student Achievement
5. Other Student Outcomes
6. Student Engagement
7. Parent Involvement
8. School Climate

Each LCAP must be approved by the superintendent and local board of education.

Additionally, the California Legislature established the California Collaborative for Educational Excellence – an autonomous state agency charged with advising and assisting school districts and charter schools in meeting the goals established in their LCAPs. The agency will identify certain districts for reform and recommend what form that intervention is to take.

Categorical Funding

In addition to the LCFF, the state provides 18 supplemental state grants for **Categorical Programs**. The largest include:

- **Special Education** funding, which includes a supplemental amount provided on behalf of each special education student, as well as additional amounts for infants, out-of-home care, and an extraordinary cost pool for students requiring out-of-district services. California school districts receive a supplemental per-student appropriation equal to $541 per identified student for FY 17-18. Districts receive additional amounts for special education infants, out-of-home care, and students with extraordinary costs.
- Separate funding for **County Offices of Education (COEs)**. COEs receive funding through a two-part formula for oversight responsibilities and instructional programs. Each part includes a base grant, and additional amounts per ADA of pupils served by county offices. The instructional program amounts additionally include supplemental and concentration grants, similar to the LCFF formula.

Other state grants include categorical funding for pre-school, after-school programs, energy efficiency, child nutrition, and state testing.[37] Even with the recent system re-design, the total number of state funding sources in California is similar to the number of allotments in North Carolina.

Weaknesses of California's school finance model

It is unclear whether the weights California provides for at-risk students are appropriate. It does not appear that these weights were selected on the basis of any serious study of the actual needs of California's students. Many states provide substantially more funding for their at-risk students.[38] Further, it is unlikely that students who qualify for free-or-reduced lunch, English language learners, and students who are homeless or in foster care have identical educational costs. A more equitable system would differentiate supplemental funding for each of these categories.

The metropolitan statistical area (MSA) allotment can exacerbate inequalities. These allotments are made to wealthy counties where the LCFF allotment can be met entirely with local property tax revenue. In these counties, the addition of the MSA to the LCFF funding results in a higher total per-student appropriation than in non-MSA districts, thereby exacerbating funding inequality.

Advocates have also expressed concern regarding the extent to which LCAPs are actually driving spending decisions to align with state priorities. For example, the ACLU found that in the first years of the formula several districts failed to address at least half of the LCAPs and most districts failed to justify non-targeted use of funds for at-risk students.[39] Similarly, Education Trust-West found "LCAPs present an incomplete picture of a district's programs and services, instead accounting only for the programs and services that align with the state priorities or explaining just a portion of the district's total budget."[40]

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[37] California Legislative Analysts' Office, "K-12 Education Programs Funded by Proposition 98," as found at: http://www.lao.ca.gov/Publications/Report/3529#K12FundByProg

[38] Emily Parker and Michael Griffith, "The Importance of At Risk Funding," *Education Commission of the States*, June 2016, as found at: https://www.ecs.org/ec-content/uploads/The-Importance-of-At-risk-Funding.pdf

[39] David Sapp, "Making the Local Control Funding Formula Work," *American Civil Liberties Union of Southern California*, August 16, 2015, as found at: https://www.aclusocal.org/en/news/making-local-control-funding-formula-work

[40] Carrie Hahnel, "Building A More Equitable and Participatory School System in California: The Local Control Funding Formula's First Year," *Education Trust-West*, December 16, 2014, as found at: https://west.edtrust.org/resource/building-a-more-equitable-and-participatory-school-system-in-california-the-local-control-funding-formulas-first-year/

Thoughts on California's school finance model

California's LCFF formula is probably the simplest school finance system than that of any state reviewed in this report. This is a great improvement over the old system, which contained revenue limits, general purpose block grants, and over 50 state categorical programs. However, the state's apportionment of local/state funding responsibilities and categorical programs remain quite complicated. California's 18 categorical grants and multi-faceted LCFF elements mean the state has approximately the same number of state funding streams as North Carolina. While the LCFF is an improvement, understanding the totality of California's school finance system remains quite difficult.

While critics pointed out shortcomings of the early implementation of LCAPs, most agree that the process has improved the engagement of educational stakeholders in the local budgeting process. It is unclear, however, whether such engagement will translate to better results for the state's students.

Maryland

Maryland's school finance model is notable for addressing differences in student populations and district needs, as well as its efforts to seriously re-examine its school finance system every decade. The state's thorough and inclusive process could serve as a model for the Task Force's upcoming work.

Maryland is similar to North Carolina in that most of its school districts are county districts. The sole exception in Maryland is Baltimore City, which is a separate district from Baltimore County. Also, Maryland's school districts – like North Carolina's – are fiscally dependent, relying on counties for local revenue.[41]

Development of Maryland's school finance model

Maryland's school finance model has its roots in a 1983 court case establishing that all students are guaranteed "an adequate education measured by contemporary education standards." A series of subsequent legal battles culminated in the 1999 establishment of the Commission on Education Finance, Equity, and Excellence, more commonly referred to as the Thornton Commission. Over a three-year period, the Thornton Commission developed a series of recommendations to ensure funding adequacy and for reducing inequities between school districts.

Maryland's Bridge to Excellence in Public Schools Act of 2002 codified the Thornton Commission's recommendations. The act increased school funding and created a new formula taking into account local wealth and differences in student needs.[42] The Thornton plan called for a substantial increase in state funding, which was phased in over a six-year period, reaching full funding in 2008.[43]

Overview of Maryland's school finance model

Maryland's finance model is based on three components, consistent with the elements of a sound funding system:

1. A base level of per-student funding provided uniformly across all school districts. This **base funding** is estimated to be the minimum amount required to provide general educational services.

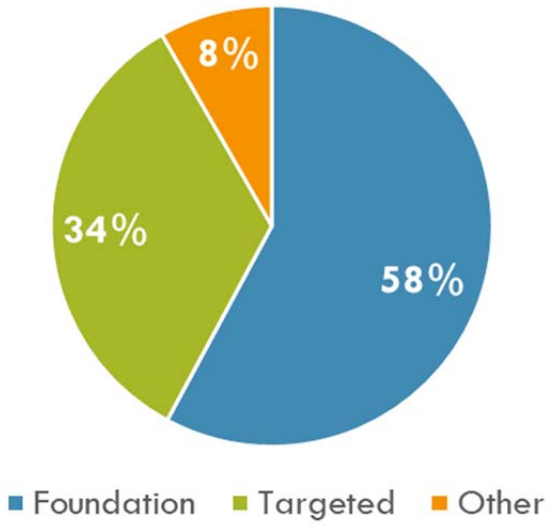
[41] APA Consulting, "Final Report of the Study of Adequacy of Funding for Education in Maryland," November 30, 2016, as found at: http://marylandpublicschools.org/Documents/adequacystudy/AdequacyStudyReportFinal112016.pdf
[42] Laura Checovich, "Funding Formula and Revenue Streams: A Primer on Public School Finance in Maryland," *Maryland Equity Project*, September 2016, as found at: http://www.education.umd.edu/TLPL/centers/MEP/Research/k12Education/Checovich_Primer_Finance_Maryland_9.15.16.pdf
[43] Maryland State Department of Education, "Study of Adequacy of Funding for Education in the State of Maryland," as found at: http://www.marylandpublicschools.org/Pages/adequacystudy/index.aspx

2. Adjustments are then provided to account for **costs associated with various student subgroups**.
3. Additional adjustments are made to account for differences in **school district characteristics**.

Maryland's formula consists of three funding mechanisms:

1. **The Foundation Program** provides districts with the minimum level of resources required to provide general educational services
2. **Targeted Aid** provides districts with additional funds based on different student demographics.
3. **Other funding** provides districts dedicated funding for specific services or programs.

FIGURE 13: MARYLAND SCHOOL FUNDING BY GRANT TYPE



Maryland Foundation Program

The Foundation Program accounts for over half of the state aid provided to Maryland's school districts. The program's formula has five basic steps:

1. Determine the number of full-time students in the district. Enrollment is based on the September 30 **FTE enrollment** count of the prior school year.
2. Calculate each district's **Total Foundation amount** by multiplying each district's total eligible FTE by the target per pupil foundation amount. For FY 17-18 the Foundation Amount is set at $7,012. The target per pupil foundation amount is simply the prior year's foundation amount increased by an inflation factor.
3. Calculate the **district's wealth**. Maryland calculates district wealth based on adding:
    - 50 percent of each county's personal property value;
    - 40 percent of each county's real property value;
    - Utility operating revenue;
    - Net taxable income (NTI) wealth; and
    - Net taxable income (NTI)

    Then dividing the total by the number of students.

    Maryland looks at statewide wealth using NTI figures for both September and November, using the higher figure for the purposes of determining state and local grant amounts.

4. Determine the **state contribution**. First, Maryland calculates a uniform **local contribution rate** so that, on average, the state contributes half of the funding for the Foundation Program. This uniform rate is multiplied by the district's wealth, then this amount is subtracted from the district's total foundation amount. Under this methodology, low-wealth districts have a lower local contribution rate, while high-wealth districts have a higher local contribution rate.

State contribution = Total Foundation – (local contribution rate x district wealth)

The minimum state contribution to the total foundation amount is 15 percent, so certain high-wealth districts receive some amount of state funding under the Foundation Program. In FY 17-18, just two districts received additional funding via this method, with the minimum state contribution sending $16 million to these two districts.

5. Apply the **Geographic Cost of Education Index (GCEI)**. The GCEI provides supplemental funding to districts with relatively high cost factors. The CGEI provides supplemental funding to 13 districts educating approximately 80 percent of Maryland's students.[44] The GCEI is developed by the Maryland State Department of Education and accounts for differences in the cost of educational resources outside of the control of the school district. The GCEI is based on:
    - 80.5 percent on an index of uncontrollable wage variation for professional employees;
    - 10.5 percent on an index of uncontrollable wage variation for non-professional employees;
    - 7 percent on a fixed amount for other expenditures such as supplies and materials; and
    - 2 percent on an index of uncontrollable energy costs.[45]

    The calculations of these sub-indexes are quite complex, with substantial leeway provided to analysts at the Maryland Department of Education. These sub-indexes are compiled to provide a GCEI index for each district, with 1.0 being the state average cost. The GCEI is used to provide additional funding to districts in high-cost regions, but is not used to make reductions to districts in low-cost regions.

Targeted Aid

Targeted aid provides districts with extra funding based on their population of students with disabilities, low-income students, and students with limited English proficiency. Like the Foundation Program, Targeted Aid is also based off the premise that the state is responsible for approximately half of the costs related to these students.

Maryland applies a weight of 0.74 on account of students with disabilities. In FY 17-18, a weight of 0.74 equated to an additional $5,189 on account of each student with disabilities. These funds may be used to provide in-school services to identified students, or to pay for tuition in non-public schools when appropriate educational services cannot be provided in the public school.

Maryland provides a weight of 0.97 to account for the compensatory educational costs related to low-income students. In FY 17-18, a weight of 0.97 equated to an additional $6,802 on account of each low-income

[44] Genevieve Demos Kelley, "A GCEI Primer: Everything You Need to Know About Maryland's Geographic Cost of Education Index," Prince George's County Advocates for Better Schools, May 27, 2015, as found at: https://pgcabs.org/2015/05/27/a-gcei-primer-everything-you-need-to-know-about-marylands-geographic-cost-of-education-index/

[45] Jennifer Imazeki, "Geographic Cost of Education Adjustment for Maryland," APA Consulting, November 2015, as found at: http://marylandpublicschools.org/Documents/adequacystudy/APA-POA-GCEI-Report-Rev-11232015.pdf

student. Maryland defines students as low-income if they qualify for free or reduced price lunches. Compensatory education funds may be used to provide schoolwide services.

Districts receive an additional weight of 0.99 on account of each student identified as having limited English proficiency. In FY 17-18, a weight of 0.99 equated to an additional $6,942 on account of each student with limited English proficiency.

Maryland applies wealth equalization to each of these targeted aid amounts. If the wealth equalization brings the state's total spending on any individual targeted aid grant above 50 percent, each district's grant is pro-rated to bring the state share back to 50 percent. For targeted aid, the minimum state share of funding is 40 percent. For each of these three grants, the formula for determining the state grant amount equals:

Max(Eligible FTE x weight x Foundation Amount x 0.5 x district wealth percentage x state adjustment to bring state share of total funding to 50 percent ; Eligible FTE x weight x Foundation Amount x 0.4)

Other funding

Other funding includes supplemental grants to school districts for teacher pensions, student transportation, school meals, and funds for adult education. Major items include:

- **Guaranteed tax base (GTB):** The GTB provides incentives for districts below 80 percent of the state average wealth to increase their local appropriations for schools. The state provides matching funds at the same rate as the district's local funding effort level (i.e., the ratio of additional local spending to total local wealth). The net result is the GTB provides each district the equivalent of the local funds they would each generate if their wealth were equal to 80 percent of the state average.
- **Net taxable income (NTI) education grants:** In calculating district wealth, Maryland looks at NTI in September and November. The state uses whichever NTI is smaller to calculate district wealth (i.e., the state uses the NTI that maximizes state aid to the district). Districts do not yet receive the full amount of the difference. Maryland is phasing-in NTI grants over a five-year period. For FY 17-18, districts are receiving 80 percent of the difference in funding between the two calculated amounts. That is, if a district were to receive $25 million based on September NTI and $30 million based on November NTI, that district's NTI grant would be $4 million ($5 million x 80 percent).
- **Grants to counties with declining enrollment:** These grants provide additional state funds to districts with declining enrollment, funding them as if their actual FTE were equal to the district's average FTE in the previous three years.
- **Supplemental grants:** These grants were first provided in FY 08-09, following the freezing of the per pupil Foundation Amount, in order to ensure districts received at least a 1 percent annual increase in state funding. These grants were frozen in FY 10-11, with each of the nine eligible districts receiving the same amount received in that year. These grants provide $46.6 million to the eligible districts.
- **Student transportation:** Appropriation is based on prior year grant, adjusted for enrollment and inflation. For FY 17-18, Maryland districts received $1,000 for every disabled student transported in October of the previous school year, and $290.51 for every increase in enrollment. Districts are guaranteed a 1 percent increase per year.

Updating the Thornton Plan

Arguably, the greatest strength of Maryland's school finance system is the state's commitment to serious, periodic re-assessment of the formula. The original Thornton Plan legislation required an adequacy study approximately 10 years after its passage. The updated adequacy study was required to:

- Identify a base funding level for students without special needs.

- Update the per pupil weights for students with special needs.
- Analyze the effects of concentrations of poverty on adequacy targets.
- Evaluate the impact of school size.
- Re-examine the Supplemental Grants program.
- Determine whether free or reduced lunch eligibility remained a useful proxy for economic disadvantage.
- Re-evaluate the wealth calculation.
- Update of the Maryland Geographic Cost of Education Index.
- Consider the impact of increasing and decreasing enrollments on local school systems.

This was a careful, multi-year process. The state issued its RFP in March 2014. The final adequacy report, from Augenblick, Palaich and Associates, was completed in November 2016. Over that period, the work was led by the Commission on Innovation and Excellence in Education, consisting of eight legislators and 15 non-legislative members, many with expertise in education policy and finance. In addition, the Commission sought input from an officially convened stakeholder group.[46]

Maryland's process offers a stark contrast to the legislative requirements of North Carolina's Task Force. The Task Force's originating legislation fails to require that it consider either equity or adequacy – the two primary criteria for assessing a school finance system. Additionally, the Task Force does not include any school finance experts and is not required to consult with relevant stakeholders. Finally, the Task Force lacks resources to outsource the complex financial analysis to an outside consultant. Despite these deficiencies, the Task Force is to complete its work within a one-year period, compared to the nearly three-year process overseen by the careful, well-funded process of the Maryland Commission on Innovation and Excellence in Education.

Weaknesses of Maryland's school finance model

Despite the careful construction of Maryland's school finance model, it still arguably fails to properly distribute resources equitably across the state. According to analysis from the Education Law Center, the state earns a "C" for the equity of the state's funding distribution.[47] Another report from APA Consulting similarly concluded that Maryland's high-wealth districts generally outspent lower-wealth districts.[48]

The state could make several easy changes to improve funding equity. First, the district wealth calculation could be changed to better account for county capacity to generate local revenue. The final report of the state's 2016 adequacy study recommended multiplying the county's property wealth by the ratio of the county's NTI to state average NTI. Additionally, the state could eliminate minimum state aid guarantees.

Second, the GCEI is incredibly complex and lacks transparency. Updating the GCEI requires data from Maryland State Department of Education (MSDE) district demographic files; MSDE staff data files; MSDE certification data files and certification testing files; the Bureau of Labor Statistics; Maryland Department of Labor; National Oceanic and Atmospheric Administration; Maryland State Police; Public School Construction

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[46] Maryland State Department of Education, "Study of Adequacy of Funding for Education in the State Of Maryland," as found at: http://www.marylandpublicschools.org/Pages/adequacystudy/index.aspx

[47] Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card: Sixth Edition," *Education Law Center*, January 2017, as found at: http://www.schoolfundingfairness.org/is-school-funding-fair/reports

[48] William J. Glenn, Mike Griffith, Lawrence O. Picus, Allan Odden, "Analysis of School Finance Equity and Local Wealth Measures in Maryland," September 30, 2015 revised December 11, 2015, as found at: http://www.marylandpublicschools.org/Documents/adequacystudy/APA-POA-MarylandWealthEquityReport-Rev121115.pdf

Program; decennial Census of Population and Housing; State Department of Assessment and Taxation; and individual districts. The GCEI is quite complex, lacks transparency, and relies upon subjective decision-making of agency staff.

Finally, Maryland's transportation funding fails to consider each district's geographic differences, and – unlike in North Carolina – fails to include any incentives for districts to improve efficiency.

Final thoughts on Maryland's school finance model

Despite Maryland's reputation for having a relatively straight-forward finance model, it still has a high degree of complexity. For example, wealth calculations are arguably as complex as North Carolina's low wealth allotment formula, and the GCEI is far more complex than any element of North Carolina's school funding system. Additionally, the state's system could be substantially improved to more equitably distribute resources across districts.

That said, Maryland's process for – and political dedication to – updating its system at regular intervals is commendable. The state conducts serious, multi-year studies to regularly assess whether its school funding system is meeting state needs in terms of both equity and adequacy. In comparison, North Carolina's last equity study was in 2007, and the state has never conducted an adequacy study.

Massachusetts

Massachusetts is commonly considered the best state for education based on the state's performance on the National Assessment of Educational Progress (NAEP).[49] This is at least partially attributed to the state's school finance system, which provides additional resources to poorer districts.

Development of Massachusetts' school finance model

Massachusetts' school finance model was introduced in 1993. The formula was largely attributed to two developments:

1. The Massachusetts Business Alliance for Education's release of *Every Child a Winner*, an influential report calling for "high standards, accountability for performance, and equitable distribution of resources among school districts."[50]
2. The lawsuit *McDuffy v. Secretary of the Executive Office of Education* (1993) created "an enforceable duty to provide an education for all students regardless of wealth through the public schools."[51]

In 1993, Massachusetts implemented the Massachusetts Education Reform Act (or Ed Reform), which directed money towards districts with many low-income students and limited capacity to generate local revenue through property taxes.

Ed Reform made major changes to the state's education funding formula (often referred to by the formula's location within the state's General Laws, Chapter 70).[52] The 1993 Chapter 70 reforms are based on three principles:

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[49] NPR, "How Massachusetts Became the Best State in Education." *Morning Edition*, April 26, 2016, as found at: http://www.npr.org/2016/04/26/468237538/how-massachusetts-became-the-best-state-in-education

[50] The full report can be found here: https://www.mbae.org/every-child-a-winner/

[51] Massachusetts Department of Elementary and Secondary Education, "The Massachusetts Foundation Budget," July 8, 2016, as found at: http://www.doe.mass.edu/finance/chapter70/chapter-cal.pdf

[52] Chapter 70 of Massachusetts' General Laws can be found at: https://malegislature.gov/Laws/GeneralLaws/PartI/TitleXII/Chapter70

1. Adequate funding should be available to every school district to provide each child with a quality education.
2. Local communities should each contribute to their schools according to their ability to raise tax revenue, based upon local property values and income levels.
3. The state should provide enough funding for each school district to fill the gap between the baseline local ability to contribute and the funding level needed to provide each child with a quality education, as determined by the model school budget.[53]

The Chapter 70 law emphasizes that the formula is intended to be both **fair** and **adequate**. To date, North Carolina policymakers have refused to commit to either of these standards.

Massachusetts Chapter 70 overview

There are three basic steps to Chapter 70 funding:

1. Calculate foundation.
2. Calculate local contribution.
3. Fill the gap with Chapter 70 education aid.

After local contribution and Chapter 70 aid have been allocated, districts may supplement their budgets with additional local funds. Much like North Carolina's school finance system, Chapter 70 provides a baseline of funding, but does not ensure equitable total funding across the state.[54]

Chapter 70: Foundation enrollment

Massachusetts' equivalent of "allotted average daily membership" is "foundation enrollment." The state uses each district's enrollment as of October 1 of the most recent year as the basis for budgeting decisions. The foundation enrollment figure includes students in the district attending traditional public schools, charter schools, and students attending another public school district due to school choice, provision of special education services, or to attend a career or technical education program not offered in the home district.

Chapter 70: Base foundation budget[55]

Students are assigned to one of 10 enrollment categories:

1. Regular education or special education pre-kindergarten
2. Regular or special education half-day kindergarten
3. Regular or special education full-day kindergarten
4. Regular or special education elementary (grades 1-5)
5. Regular or special education junior high/middle (grades 6-8)
6. Regular or special education senior high (grades 9-13)
7. Limited English pre-kindergarten
8. Limited English half-day kindergarten
9. Limited English (grades 1-12)
10. Vocational education (grades 9-12)

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[53] Massachusetts Budget and Policy Center, "Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works" December 7, 2010, as found at: http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html
[54] Massachusetts Budget and Policy Center, "Demystifying the Chapter 70 Formula: How the Massachusetts Education Funding System Works" December 7, 2010, as found at: http://www.massbudget.org/report_window.php?loc=Facts_10_22_10.html
[55] Massachusetts Department of Elementary and Secondary Education, "The Massachusetts Foundation Budget," July 8, 2016, as found at: http://www.doe.mass.edu/finance/chapter70/chapter-cal.pdf

Each student type generates a certain amount of funding based on 11 estimated per-student cost requirements:

1. Administration
2. Instructional Leadership
3. Classroom and Specialist Teachers
4. Other Teaching Services
5. Professional Development
6. Instructional Equipment & Tech
7. Guidance and Psychological
8. Pupil Services
9. Operations and Maintenance
10. Employee Benefits/Fixed Charges
11. Special Ed Tuition

For example, each full-time student generates $374 for administration. Other cost requirements vary based on the type of student. For example, each elementary student generates $3,096 for "classroom and specialist teachers" while a high school student generates $4,006. These cost rates are based upon a "model school budget" developed by a group of superintendents and an economist in the early 1990s.

Next, the formula provides for three types of "incremental costs above the base." These include additional costs for special education and economically disadvantaged students. Chapter 70 assumes the special education population is equal in each district, and equal to just 3.75 percent of each district's foundation enrollment (fewer vocational students) and 4.75 percent of the district's vocational students. Massachusetts defines economically disadvantaged as students participating in the following four anti-poverty programs: Supplemental Nutrition Assistance Program; Transitional Assistance for Families with Dependent Children; Department of Children and Families' foster care program; or MassHealth (Medicaid), up to 133 percent of the federal poverty level.

A "wage adjustment factor" is applied for districts located in a geographic area where average wages are higher than in other areas of the state. The factor is a percentage that is applied to the eight salary-related functional categories in the foundation budget. The factor increases allotments to districts with higher-than-average wages, but does not decrease allotments to districts with lower-than-average wages.

It is important to note that Massachusetts provides its districts with considerable flexibility regarding how they distribute resources across schools and how they spend the money associated with each student/cost requirement.

Chapter 70: Calculation of targeted local contribution

The next step is to calculate each community's targeted local contribution. There are several steps to this process:[56]

1. Calculate the **statewide foundation budget**: The foundation cost of each school district is aggregated to determine a statewide cost.
2. Determine the **local share of the statewide foundation**: This is simply the statewide foundation budget multiplied by 59 percent. Local contributions are based off the assumption that communities should provide 59 percent of district funding, with the state providing the remaining 41 percent of funding.

[56] Massachusetts Department of Elementary and Secondary Education, "FY18 Chapter 70 Aid," January 25, 2017, as found at: http://www.doe.mass.edu/finance/chapter70/chapter-18p.pptx

3. Determine the **combined effort yield**: This is the equivalent income and property tax rates that, if applied equally across all districts, would generate local revenue equal to the local share of the statewide foundation. It is important to note that the combined effort yield is actually set higher than what is required to meet the local share of the statewide foundation to account for a cap on targeted local contributions (see step 4 below).
4. Estimate the **targeted local contribution** of each community: This is the amount of local revenue that would be generated in each district based on applying the combined effort yield to each district's data on property values and income. The targeted local contribution is capped at 82.5 percent of the district's foundation budget. For FY 17-18, 148 of 351 communities are capped.
5. Estimate the **preliminary local contribution** of each district: This is simply the prior year's required local contribution increased by the most recent annual percentage change in each community's local revenues
6. Determine the **required local contribution**: The required local contribution is determined by comparing the targeted local contribution with the preliminary local contribution.
    - If the preliminary local contribution is greater than the targeted local contribution, the difference between the two figures is reduced by 85 percent to determine the required local contribution. For example, if a district's preliminary local contribution exceeded its targeted local contribution by $1 million, the required local contribution would be $150,000 above the targeted local contribution (or $850,000 less than the preliminary local contribution).
    - If the preliminary local contribution is less than the targeted local contribution:
        - The preliminary local contribution becomes the required local contribution if the preliminary local contribution is within 2.5 percent of the targeted local contribution.
        - 1 percent is added to the preliminary local contribution if the preliminary local contribution is between 2.5 and 7.5 percent below the targeted local contribution.
        - 2 percent is added to the preliminary local contribution if the preliminary local contribution is more than 7.5 percent below the targeted local contribution.

In Massachusetts, local contributions are calculated at the municipality, rather than school district, level. Municipal contributions are allocated across the school districts to which it belongs based on the proportion of foundation budget associated with each district.

Chapter 70: Foundation aid

After the determination of the district's required local contribution, the state determines whether **foundation aid** is required. Foundation aid is simply the difference between the foundation budget and the required local contribution. Districts are guaranteed an increase of at least $20 per student and are held harmless to the previous year's level of aid, providing a measure of stability to districts with declining enrollments.

Charter school funding[57]

State and local funding of Massachusetts charter schools comes mainly from tuition payments made by the school district that a student otherwise would have attended. Tuition payments account for about 90 percent of charter school revenues in Massachusetts. The remaining 10 percent largely consists of federal funds, other direct grants, and private fundraising.

[57] Luc Schuster, "Charter School Funding, Explained," *Massachusetts Budget and Policy Center*, April 6, 2016, as found at: http://massbudget.org/reports/pdf/Charter-School-Funding-Explained.pdf

Tuition amounts are determined annually by the Department of Elementary and Secondary Education, and roughly equal the average per pupil spending in the sending district. The tuition formula contains three elements.

- The first is a **foundation budget rate**. The state essentially creates a second foundation budget based on the specific students leaving the district to attend a charter school, and using slightly different cost rates.
- The second element is an **above foundation rate**. This element of the tuition rate essentially compensates for the per-student portion of local funding in districts that spend above the foundation budget minimum. The calculation of this element nets out certain district-specific grants and expenditures that charter schools generally do not incur.
- Since the other funding streams do not include capital costs and charters are not eligible for capital project financing through the state, there is a **facilities aid rate**. This rate is legislatively appropriated, and has been set at a flat $893 per pupil since FY 08-09. The facilities aid rate is included in the tuition payments made by the school district, but school districts are reimbursed by the state for this portion of charter school tuition payments.

Tuition payments are made on a monthly basis, so payments to a charter school are reduced if a student returns to the home district.

Unlike North Carolina, Massachusetts policymakers recognize that when a school district loses a student to a charter school, the budget reduction is almost always larger than the operational savings. For example, a school district losing one student might have its budget decreased by the equivalent of 1/20th of a classroom teacher. However, the district cannot fire 1/20th of a teacher, and therefore does not fully recognize the operational savings of having one less student. As a result, Massachusetts provides reimbursements (known as Chapter 46 Aid) to school districts for increases in charter tuition payments. The state reimburses the district for 100 percent of the increase in year one, and 25 percent of the increase in each of the subsequent five years. It is important to note, however, that these reimbursements have not been fully-funded by the Massachusetts legislature in recent years.

Weaknesses of Massachusetts' school finance model

The Chapter 70 formula is not without its weaknesses. For example, the formula could improve its equity by removing a provision that grants a minimum level of state funding to wealthy districts even when their required local contribution exceeds the foundation funding calculation. Essentially, less-wealthy districts are paying the cost of providing these minimum payment levels to wealthier districts.

Some advocates argue that Massachusetts' inflation factor might limit the state's ability to maintain funding adequacy. For FY 17-18, the state's inflation factor was just 1.11 percent. In particular, critics have pointed towards the system's inadequacy related to special education and employee benefits. The state's 2015 Foundation Budget Review Commission found that the foundation budget was only meeting about 70 percent of employee benefit costs. The Commission also found the foundation budget understated both the share of students receiving special education services as well as the cost of special education tuition for out-of-district placements.[58]

Massachusetts' decision to rely on enrollment on a single date in the prior year is inferior to North Carolina's system for "allotted average daily membership," which takes the higher of projected ADM and actual ADM in

[58] Foundation Budget Review Commission, "Final Report." October 30, 2015, as found at: http://www.doe.mass.edu/finance/chapter70/FBRC-Report.pdf

the first two months of the prior school year. North Carolina's system provides additional stability, particularly for growing districts and those with transient student populations.

Additionally, it is unclear how the Department of Education updates the estimates the values assigned to each of the 11 cost requirements for each of the 10 enrollment categories, nor whether the cost requirements remain valid. The agency deserves kudos for publishing the assumptions underlying each cost factor, but it is unclear what process is used for assessing the validity of these assumptions each year.[59] This lack of transparency makes it difficult for policymakers to assess the extent to which the system is effectively meeting the needs of modern school districts.

Whether Massachusetts' formula is simpler than North Carolina's model is certainly debatable. While North Carolina's PED criticized the state's 37 allotments as excessive, Massachusetts arguably has more than 110 formulas, as the underlying assumption of each of the 11 cost factors can vary by each of the 10 student types. This is before additional adjustments are made for incremental costs above the base, wage adjustment factors, or the calculation of required local contribution.

Chapter 70 also fails to account for the fact that disabled populations can vary significantly across districts. In North Carolina's 2015-16 school year, the identified disabled population ranged from 7.3 percent in Clinton City to 19.3 percent in Stokes County. Additionally, Chapter 70 fails to provide additional funding for academically or intellectually gifted programs. Massachusetts districts must fund such programs out of base funding allotments. Nor does Chapter 70 provide additional funding to small districts unable to take advantage of economies of scale.

Finally, Chapter 70 funding suffers from the general weaknesses common with weighted student formulas. It assumes certain costs that are largely fixed – such as administration – increase linearly with enrollment. This assumption is particularly harmful for districts with declining enrollment, as the formula causes their budgets to decrease more rapidly than their expenses.

Final thoughts on Massachusetts

Despite the apparent strengths of Massachusetts' school funding model, there remains uncertainty with regards to how much of the state's educational improvement should be credited to the change in *how the state distributes funds*, versus the large increase in the *level of funding*. According to the Massachusetts Budget and Policy Center, Massachusetts doubled its Chapter 70 aid in the '90s.[60] It is unclear how much of the state's rapid improvement in student outcomes is attributable to this increase in resources.

Since that time, however, inflation-adjusted Chapter 70 aid has been steadily declining. According to critics, the calculations underlying the state's foundation budget has not been updated, and underestimates costs related to health care and special education. As a result, only the highest-wealth districts were able to maintain recommended staffing levels for classroom teachers.[61]

LESSONS FROM OTHER STATES

[59] Assumptions underlying the FY 16-17 foundation budget rates can be found at: http://www.doe.mass.edu/finance/chapter70/chapter-cal-rates.pdf

[60] Luc Schuster, "Ed Reform at Twenty: What's Worked, What's Changed, and What's Next." *Massachusetts Budget and Policy Center*, June 8, 2013, as found at: http://massbudget.org/report_window.php?loc=ed_reform_twenty.html

[61] Luc Schuster, "Ed Reform at Twenty: What's Worked, What's Changed, and What's Next." *Massachusetts Budget and Policy Center*, June 8, 2013, as found at: http://massbudget.org/report_window.php?loc=ed_reform_twenty.html

There is much to be learned from the case studies of other states' weighted student funding systems. Through the case studies included in this report, a few commonalities emerge:

- **Policy decisions matter more than funding models:** The examples of Utah, Illinois, and Vermont conclusively show that the existence of a weighted student funding system does not prevent a state's finance system from becoming inadequate, inequitable, or overly complicated. Of the 11 states with lower per-pupil school expenditures than North Carolina, 10 of the states utilize weighted student funding formulas.[62] Of the 33 states with school finance systems that are more regressive than North Carolina's system, 29 utilize weighted student funding formulas.[63] Ultimately, policymakers can create a high-quality school finance system under either a weighted student or resource allocation model.
- **No state has implemented the clean, simple version of weighted student pushed by advocates:** Even states with well-regarded finance systems, such as California, Maryland, and Massachusetts, have added features that make their funding systems difficult to understand. Most notably, wealth equalization and outside-formula grant funding appear to be unavoidable complicating factors. Despite having weighted student models, these states' systems contain at least as many funding elements as North Carolina's funding system.
- **Successful weighted student models require thoughtful analysis and frequent re-evaluation:** Without regular, formal review, weighted student formulas can quickly become inadequate or inequitable. For example, Maryland's funding system required a substantial injection of new funding to restore adequacy after 10 years under a weighted student formula. Massachusetts' model began with a shared consensus on the problems associated with the predecessor system and the set of funding principles that would guide funding decisions going forward. Regardless of what funding model North Carolina adopts in future years, the state would benefit from a consensus goal for education funding, a shared language surrounding important funding principles, and regular, in-depth assessment of school funding adequacy and equity.
- **Transition to weighted student formula includes substantial costs without obvious benefits:** A complete overhaul of North Carolina's school finance system would require re-training of financial staff in the state's 115 school districts and 173 charter schools. It is unclear whether the Department of Public Instruction (DPI) would have the capacity to provide such training. The agency's staff has been reduced by approximately 31 percent since FY 08-09 and faces an additional 16 percent reduction by the end of FY 18-19.[64] Funding for district central offices has been similarly reduced. By FY 18-19, state funding for central offices will be at its lowest-ever nominal level, despite a steadily growing list of central office responsibilities. Overhauling the system will divert the time and attention of policymakers and administrators from alternative educational initiatives that may more directly improve student performance across the state. Finally, overhauling a school finance system is an incredibly complex task that will likely create certain unintended negative consequences for students and staff. It is unclear whether the state's investment in overhauling the school finance system is justified given the, at best, ambiguous benefits of transitioning to a weighted student funding model.

[62] National Education Association, "Rankings & Estimates: Rankings of the States 2016 and Estimates of School Statistics 2017," May 2017, Table H-11, as found at: http://www.nea.org/assets/docs/2017_Rankings_and_Estimates_Report-FINAL-SECURED.pdf

[63] Bruce Baker, Danielle Farrie, Monete Johnson, Theresa Luhm and David G. Sciarra, "Is School Funding Fair? A National Report Card: Sixth Edition," *Education Law Center*, January 2017, as found at: http://www.schoolfundingfairness.org/is-school-funding-fair/reports

[64] Alex Granados, "Funding cuts to Department of Public Instruction in question," *Education NC*, May 23, 2017, as found at: https://www.ednc.org/2017/05/23/25-percent-cut-dpi-maybe-not/

NECESSARY CRITERIA FOR ANY WEIGHTED STUDENT SYSTEM

This report does not advocate for converting North Carolina's school finance system to a weighted student model. Absent a rigorous examination of the equity and adequacy of North Carolina's school finance system, such a major transformation may have unintended consequences and negatively impact the state's students. Regardless, the Task Force is required to develop a new model based on a weighted student funding formula. In meeting that requirement, it is important that the Task Force consider the following criteria when developing or evaluating any recommendations related to implementation of a weighted student funding model.

Hold-harmless

North Carolina's school districts have been struggling to maintain high standards in an environment of tightened budgets. Despite increases in nominal budget levels, school districts have fewer real resources than prior to the start of the Great Recession. As a result, it is vital that any legislative proposal includes provisions to ensure no district receives a lesser amount of funding under any newly-proposed finance system.

Hold-harmless funding would likely require substantial new investment from the General Assembly. For example, the recommended changes to individual allotments proposed in PED's November 2016 report would have required approximately $90 million of hold-harmless funding. A complete overhaul of North Carolina's funding system would likely be even more costly.

Maintenance of position allotments

School finance officers are overwhelmingly in favor of maintaining position allotments for school building administrators (i.e., principals and assistant principals), classroom teachers, and instructional support personnel (i.e., nurses, librarians, guidance counselors, etc.).

The primary benefit of position allotments is that they allow all districts to hire the best available teacher candidate without concern for budget implications. This feature is especially important for small, rural districts that would lack the local revenue required to recruit or retain experienced and/or highly-credentialed teachers. Additionally, the state has historically done a better job maintaining funding support for position allotments than for dollar allotments. As Figure 14 shows, North Carolina does an overwhelmingly better job of funding positions via position allotments than dollar allotments.

FIGURE 14: PERSONNEL CATEGORIES BY FUNDING SOURCE, FY 16-17

Position Allotments

	State	Federal & Local	% State
Principals	2,389	63	97%
Teachers	81,932	12,372	87%
Assistant Principals	2,172	766	74%
Instructional Support	11,072	4,488	71%

Dollar Allotments

	State	Federal & Local	% State
Teacher Assistants	15,720	5,908	73%
Noninstructional Support	19,909	15,465	56%
Central Office Admin.	921	976	49%

Policymakers may consider looking at Tennessee, which utilizes position allotments within a weighted student framework.[65]

Adequate level of base funding

Adequacy refers to whether available funding is sufficient to enable every school district to provide each student an equal opportunity to successfully meet state standards for college or career readiness. Adequacy tells us what it costs to have high-quality curriculum – taught by effective teachers, utilizing the necessary textbooks and supplies – in a supportive learning environment that would allow all students to graduate from high school ready for college or a career.

Without adequate funding, not even the most perfect school funding formula will allow schools to meet the basic needs of all students. While North Carolina has never conducted an adequacy study, there is strong evidence that the main barrier preventing all students from meeting state standards is a lack of funding.

Calculating the appropriate level of base funding is the most crucial step in creating a weighted student funding formula. Without adequate base funding, schools will be unable to meet the needs of their students. The Task Force should engage with independent researchers to examine North Carolina's funding adequacy using estimates derived from multiple adequacy models. Such an exercise will create a shared funding goal for the state. Absent an adequate, carefully-determined base level of funding, any weighted student formula will fail North Carolina's students and taxpayers.

Include student weights for major cost drivers

At minimum, a weighted student formula must include additional weights for students with the following characteristics:

- Low-income/at-risk
- Academically or intellectually gifted students
- Children with disabilities
- English language learners

[65] Tennessee State Board of Education, "The Basic Education Program," as found at: https://www.tn.gov/sbe/topic/bep

In each case, the Task Force will need to carefully determine the **eligibility criteria** for each category, as well as the **appropriate weight** for each category.

1. **Eligibility criteria:** The Task Force should conduct a statistical analysis of all student demographics to determine which student characteristics are associated with lower student performance. For example, recent research has shown that crude measures of student income such as free or reduced lunch eligibility tend to mask the size of the achievement gap between high-income and low-income students.[66] This research implies that states should develop better data on family income and differentiate funding to better target students with the greatest need. Similarly, further statistical analysis of student characteristics associated with student achievement gaps would likely provide support to the differentiation of children with disabilities funding on the basis of specific interventions provided to disabled students.
2. **Determining appropriate weighting levels:** The Task Force should avoid basing appropriate weighting levels simply off what other states are doing. After all, other states continue to fail to educate their low-income, disabled, and English language learners up to state standards. There may be rare exceptions, but for the most part, weights provided by other states are insufficient to close achievement gaps. Instead, the Task Force should use statistical or cost-function models examining national data to determine the additional funding levels required to eliminate achievement gaps.

Adjustments for district characteristics

Any weighted student model should include additional funding for districts in low-wealth counties, and small districts that are unable to take advantage of economies of scale.

Maintaining certain categorical funding

Costs for certain activities do not neatly correspond to a funding model driven mostly by the number of students. The Task Force should consider preserving the following funding streams as separate allotments outside of any proposed weighted student formula:

- Child and family support teams
- Cooperative innovative high schools
- School bus replacement
- School connectivity
- Transportation
- Central office

Protection for districts with declining enrollment

One disadvantage of weighted student models is that they disadvantage districts with declining enrollment. By allocating all funds on a per-student basis, weighted student formulas fail to recognize that districts have certain fixed costs that do not change when enrollment decreases. Additionally, many weighted student formulas fail to include hold-harmless funding that allows districts an additional year of funding to manage the transition to lower budget levels associated with declining enrollment.

In the past school year, 85 of North Carolina's 115 school districts experienced a drop in year-over-year enrollment. Therefore, it is important that any weighted student proposal include protections for districts with

[66] Susan Dynarski, "Why American Schools are Even More Unequal Than We Thought," *New York Times*, August 12, 2016, as found at: https://www.nytimes.com/2016/08/14/upshot/why-american-schools-are-even-more-unequal-than-we-thought.html

declining enrollment. In particular, any proposed weighted student funding system in North Carolina should include both:

1. Categorical funding for fixed costs that falls outside of the weighted student formula; and
2. Hold-harmless funding for districts that experience year-over-year decreases in student funding (i.e., continue the practice of funding districts based on the higher of current year or prior year enrollment).

Statutory requirement to annually adjust base funding

In states with weighted student funding formulas, funding can quickly become inadequate unless base funding levels are annually increased in accordance with the inflationary pressures facing school systems. Examination of other states' funding systems shows that state legislators often fail to account for inflation as part of the annual appropriations process.

Any Task Force recommendations should include a statutory requirement to annually increase base funding levels in accordance with the inflationary pressures facing North Carolina's schools. The Task Force should not rely on common measures of inflation such as the Consumer Price Index (CPI), but instead look at alternative or custom measures where the basket of goods more closely approximates school district expenditures. For example, the vast majority of school expenditures is on wages and benefits of college-educated labor. The Task Force may consider annual base adjustments based on the change in wages of college-educated workers in North Carolina. Such a measure would help maintain funding adequacy while allowing districts to offer teacher salaries that would maintain competitiveness with compensation in other industries.

Statutory requirement to continually evaluate student weights

One shortcoming common with other states' weighted student formulas is the lack of systemic evaluation of the appropriateness of weighted student levels. There are no states that systematically and regularly examine the appropriateness of the weights used in their formula to provide supplemental student-based funding. As a result, major achievement gaps persist for children with disabilities, low-income students, and English language learners.

North Carolina could substantially improve on other states' weighted student formulas by developing a process to quantitatively analyze the formula's weights. Weights are intended to provide districts the resources necessary to close achievement gaps. Therefore, if achievement gaps persist for specific subgroups, the state should increase the weight for that subgroup.

For example, the state could require in statute that weights are re-assessed every two years. The assessment would look at various measures of student achievement, such as end-of-grade and end-of-course tests. Unless achievement gaps are decreasing across a majority of measures, the statute could require the General Assembly to increase the weight for a given subgroup of students. Such a measure would be the first of its kind in the nation, and substantially improve funding equity for often over-looked subgroups of students with limited political power.

Provide weighted student funding in one program report code (PRC)

One benefit of weighted student formulas is that funding is provided to districts in one lump sum, with districts given the authority to determine how best to spend these funds.[67] If North Carolina were to transition to a weighted student model, funds (other than categorical funding) should be provided through a single PRC. Districts should be permitted to spend these funds on all allowable educational expenditures to best meet their students' unique needs. Additionally, districts should be provided flexibility to carry over funds for summer school and professional development programs.

Comprehensive re-examination of school finance system every 10 years

Other states' school finance systems show that even the best-designed funding formulas require periodic review and adjustment. For example, Maryland requires its school finance system to be re-examined every 10 years. If a new school finance system is implemented in North Carolina, policymakers should require additional study after a 10-year period. This study should include a broad range of school finance experts and stakeholders to assess the extent to which the formula is meeting North Carolina's goal of creating a school finance system that is adequate, equitable, and transparent.

Provide districts with the resources necessary to implement major changes

Adjusted for inflation, state funding for central office administration is 40 percent below the level provided in FY 95-96. Administrative responsibilities have continued to increase over this period. Administrative budget restrictions create barriers to quickly and successfully pivoting from a resource allocation model to a weighted student model. If the Task Force recommends a transition to a weighted student model, the plan must also include measures to provide districts with the time, training, and resources to ensure a smooth and successful transition.

POTENTIAL MODIFICATIONS WITHIN THE RESOURCE ALLOCATION FRAMEWORK

Prior to taking the potentially destabilizing step of overhauling North Carolina's school finance system, the Task Force should first consider potential improvements that could be made within the existing resource allocation framework. A number of reforms could improve the system's equity, simplicity, transparency, and flexibility.

PED's November 2016 report included several potential modifications to individual allotments within the existing resource allocation framework. Unfortunately, most of these recommendations examined the allotment formulas independently, failing to consider how the changes would impact the adequacy and equity of the overall system. Taken together, PED's recommendations would have had the effect of making North Carolina's school finance system less equitable, shifting money from poorer to richer districts.

By contrast, the options below could potentially improve the equity, simplicity, transparency and flexibility of North Carolina's school finance system.

[67] Of course, the same degree of spending flexibility can also be provided within a resource allocation model if policy permits the free transfer of funds between allotments.

Classroom teachers and instructional support

North Carolina's superintendents and finance officers strongly support North Carolina's current model for appropriating classroom teachers and instructional support as position allotments. Position allotments have two major advantages over dollar allotments:

1. The primary benefit of position allotments is that position allotments allow districts to hire the best available teacher candidate without concern for budget implications. The November 2016 PED report noted that the "classroom teacher allotment results in a distribution of resources across LEAs that favors wealthy counties."[68] The PED analysis failed, however, to show whether this distribution would be improved if the classroom teacher allotment were converted to a dollar allotment. After all, "teacher sorting" also occurs in states with weighted student formulas.[69]
2. State support for positions funded via dollar allotments tends to erode over time. In every district across North Carolina, state funding of school personnel is viewed as insufficient. As a result, districts supplement state funding by financing additional personnel (23 percent of all personnel) from local or federal funds, which districts use to add personnel where they have the greatest unmet need from state funding alone. The percentage of personnel financed via state funds then becomes a measure of the adequacy of state funding for various personnel types (with a low percent of state funding indicating that state funding is inadequate). North Carolina does an overwhelmingly better job of funding positions via position allotments than dollar allotments, indicating that position allotments are vital for maintaining an adequate number of teachers.

Policymakers could improve the equity and flexibility of the classroom teacher allotment by increasing the differential between the maximum district-average class size and the maximum individual class size. Such a change would permit districts to target small class-size reduction for at-risk students without increasing class sizes on average. Further, the class-size policy should be clarified to include self-contained classes for exceptional children.

Children with disabilities

The children with disabilities allotment formula caps funding at 12.75 percent of a district's students. Approximately half of all districts exceed this cap. Further, there is considerable variability in the cost of educating disabled students. As a result, the General Assembly should consider adopting any recommendations made by the EC Funding Stakeholders – a collaborative effort of district finance officers, charter school coordinators, exceptional children directors, DPI, General Assembly members, and other stakeholders. This group is developing a series of recommendations to modify the children with disabilities formula, including options for lifting the children with disabilities funding cap and differentiating funding based on the specific interventions provided to disabled students.

Low wealth

The low wealth formula is arguably North Carolina's most complex allotment formula. It could be simplified by eliminating the portion of allotment eligibility determined by the density of taxable land in a county. This

[68] North Carolina General Assembly Program Evaluation Division, "Allotment-Specific and System-Level Issues Adversely Affect North Carolina's Distribution of K-12 Resources," November 2016, as found at: http://www.ncleg.net/PED/Reports/2016/K12Funding.html.

[69] Hamilton Lankford , Susanna Loeb , James Wyckoff, "Teacher sorting and the plight of urban schools: A descriptive analysis," *Educational Evaluation and Policy Analysis*, March 1, 2002, as found at: https://cepa.stanford.edu/content/teacher-sorting-and-plight-urban-schools-descriptive-analysis

factor is not related to a county's ability to generate adequate local per-pupil revenues. Instead, eligibility should be determined 50 percent on adjusted property values, and 50 percent on per-capita income levels.

Policymakers may consider additional study of eligibility criteria to ensure eligibility factors correlate with local revenue capacity. It is not clear that the formula's eligibility criteria are aligned with local revenue capacity.

If any modifications are made, it is important for the General Assembly to continue the low wealth allotment's effort-based funding and maintenance-of-effort requirements. While these elements add complexity to the formula, they provide important incentives for local governments to supplement state spending on schools.

Teacher assistants

Policymakers could improve flexibility by removing the restriction on using teacher assistant funds for class-size reduction that was imposed as part of the 2015 budget bill.[70]

At-risk & disadvantaged student supplemental funding (DSSF)

The at-risk and DSSF allotments address the same general cost factor: the number of low-income students at-risk for academic failure. These two allotments could be combined into one formula, marginally simplifying North Carolina's funding system. Policymakers may consider the example of California, which provides supplemental funding for at-risk students on the basis of both headcount and the concentration of at-risk students in the district. Such a formula recognizes that both the number and concentration of at-risk students raise instructional costs for districts.

If these allotments were combined, it is important to:

- Preserve districts' ability to carry over funds for summer school programs
- Allow funds to be used for teacher salary supplements
- Hold districts harmless from reductions in total funding

Central office

Because of the extensive budget cuts to the central office allotment, the funding distribution is no longer related to a formula. Policymakers should consider developing a new formula that provides a base level of funding to allow each district to hire the personnel necessary to successfully operate a small school system, with additional amounts being distributed on the basis of district size. Funding should be sufficient to ensure no district funding is reduced due to a change in formula.

Academically or intellectually gifted

If all academically or intellectually gifted students are appropriately served, districts should be permitted to use these funds for other purposes, thereby improving funding flexibility.

Limited English proficiency

Policymakers should consider three changes to the limited English proficiency allotment:

1. Restore flexibility to allow limited English proficiency funds to be used for other purposes, if necessary.

[70] S.L. 2015-241, Section 8.47

2. Consider the impact of eliminating the concentration factor, and replacing it with one that provides additional funding based on the number of languages primarily spoken by a district's English language learners.
3. Eliminate the funding cap to allow districts with high concentrations of English language learners to better leverage more restrictive federal funds.

Textbooks & supplies

Because the textbook and supplies allotments are both distributed on a dollar-per-student basis, they could be combined to marginally improve the simplicity of North Carolina's school funding system. If these allotments are combined, school districts should retain authority to expend these funds on textbooks, supplies, equipment, technology, and digital resources. Additionally, school districts should retain the authority to carry-over funds to make school book purchases in years of more expensive textbook adoptions. Of course, such flexibility is of limited utility unless policymakers also address adequacy of funding these allotments.

Charter schools

Currently, funding for new charter schools and enrollment growth of existing charter schools is provided by reducing funding from traditional school districts. Frequently, the predicted charter enrollment falls short of initial expectations, requiring mid-year budget adjustments returning funds to the traditional school districts. This system harms budget stability, and frequently forces districts to hire additional teachers after the start of the school year when fewer high-quality candidates are available.[71] Instead, the state should fund new and growing charters via a direct allotment, just as is done for traditional public schools. This reform would improve budget stability and transparency.

Adequacy study

North Carolina's public schools could greatly benefit from a rigorous adequacy study. An adequacy study would be important for two reasons:

1. Adequacy is a necessary element of any successful school finance system. Without adequate funding, the system will be setting up students for failure, even if perfectly equitable.
2. Developing a funding goal will provide policymakers a common goal for school funding.

Researchers have developed four models for determining an adequate level of per-student funding for a state:

- **Successful schools model:** Examines the spending of schools deemed "successful" according to performance on state tests.
- **Statistical or cost-function models:** This model uses regression analysis to examine several variables such as poverty, language proficiency, disabilities, and labor costs to determine adequate funding levels given each district's characteristics.
- **Professional judgment model:** This method uses surveys of education experts, usually principals and other educators to determine the resources necessary to staff and supply various types of schools.
- **Evidence-based model:** Identifies certain educational strategies or programs that have led to student success in other settings, then estimates the cost of implementing such models elsewhere.

[71] See for example: Andrew Dunn, "Charlotte-area charter school enrollment falls well below projections," *Charlotte Observer*, November 10, 2014, as found at: http://www.charlotteobserver.com/news/local/education/article9230489.html

Because there is no consensus on which model is most precise, most states examine adequacy using multiple models and adopt the average per-student funding amount. North Carolina should engage with independent experts to estimate adequate funding levels under all four models to develop a consensus funding goal for the state.

CONCLUSION

This report's overview of school finance systems, detailed case studies, and recommendations for moving forward will hopefully serve as guideposts for the important work facing the Task Force.

Prior to developing recommendations for revamping North Carolina's school finance system, it is important to first understand the cornerstone elements of successful, high-quality school finance systems, such as adequacy, equity, transparency, stability, and flexibility. Knowledge of these concepts will assist the Task Force in assessing the strengths and weaknesses of resource allocation and weighted student funding models.

By examining specific states, this report allows Task Force members to identify pitfalls that could hinder school finance effectiveness, or innovations that could be adopted to improve educational delivery in North Carolina.

Finally, this report contains detailed policy recommendations for the Task Force's consideration. These recommendations – developed with the input of district superintendents, finance officers, and school finance experts – should guide the Task Force's efforts to improve North Carolina's existing school funding model and to develop recommendations for a weighted student formula.

The Task Force has been entrusted with a difficult and important task. This report represents the first step towards fostering collaboration between the Task Force and North Carolina's school superintendents and school finance professionals. Our state's superintendents and finance officers are best equipped to understand the strengths and weaknesses of the current school finance system, and their continued input will be essential to the Task Force's success in developing a school finance system that will best meet the needs of all North Carolina students.

ACKNOWLEDGMENTS

This report was produced by the North Carolina Association of School Administrators (NCASA), the North Carolina School Superintendents' Association (NCSSA), and the North Carolina Association of School Business Officers (NCASBO), with additional research provided by Northstream Consulting, LLC. These organizations would like to thank their members for providing critical guidance and feedback in the creation of this report.

The authors would particularly like to acknowledge the efforts of School Funding Committee members. Their expertise was invaluable in creating this report, and their expertise should serve as a continued resource for the members of the Joint Legislative Task Force on Education Finance Reform as they examine ways to improve North Carolina's school finance system over the coming year. Committee members include:

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