5 Things State Leaders Should Do to Advance Equity:

State Funding Systems

1. Provide funding according to student need.

2. Provide more funding to districts with low property wealth.

3. Ensure that dollars are used well to improve student learning experiences and outcomes.

4. Be transparent about the system’s design and monitor funding going to districts.

5. Share clear and transparent data on the amount of funding that schools actually get.

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Money matters. The decisions that lawmakers and other school system leaders make about how much to spend, as well as where and how to invest that funding, significantly impacts the educational experiences, outcomes, and futures of the students served by our public school systems. Research shows that increased school spending leads to increases in graduation rates, higher wages, and reduction in adult poverty, especially for students from low-income families.

And yet, the U.S. has one of the most inequitable school funding systems in the world. This is by design: from its very beginning our country has been plagued by unfair systems that shortchange students from low-income families and students of color. Today, these students and their families continue to face substantial systemic barriers and need additional supports and resources to overcome those barriers. But in too many states, the very students who need these additional resources actually receive fewer resources. In 27 states, districts with the highest poverty rates do not receive more funding to account for that increased need. And in 14 states, the districts with the most students of color get less funding than districts with the lowest percentage of students of color. All too often, these inequities are replicated between schools within district.

Where state funding systems are perpetuating these inequities, we need bold action — rewrites to the school funding systems that ensure they reflect states values and goals for their children. This document gives state leaders an overview of the five key things they should do to re-design funding systems in order to improve outcomes for students of color and students from low-income families.
States’ funding systems should provide significant additional funding to districts to support students from low-income families, English learners, and students with disabilities. State systems usually provide this additional funding by “weighting” student enrollment numbers in the state’s formula (e.g., 30% more — or 1.3 times as much — funding for English learners), allocating a specific amount of additional funding (e.g., an additional $3,000 for each English learner), or by funding specific programs or activities (e.g., an intensive tutoring program for English learners through a separate pot of money).

But how much more should states provide? Studies that use statistical methods to estimate how much additional funding it would cost to help close achievement gaps between students with and without additional needs consistently estimate that systems should provide 100% to 200% more funding for students with additional needs than for students without additional needs. Therefore, if states are serious about closing achievement gaps, they should do the following:

✔ Provide additional “weights” for students from low-income families, English learners, and students with disabilities:

- Provide 100% to 200% more (2 to 3 times as much) funding for students from low-income families, as recommended by research (here and here) — than for students from higher income families. Under states’ current funding systems, there is a wide range in how much additional funding is allocated for students that need additional support, but states very rarely allocate substantial additional funding. Some states provide as little as an additional 10% more, and nearly all states provide less than 50% more — just one state (Maryland) currently has a funding formula that (on paper, at least) would allocate about twice as much for students from low-income families.

- Provide 100% to 150% more (2 to 2.5 times as much) funding for English learners, according to one study. Almost all states fall short of this target for English learners — Maryland currently provides (on paper, at least) about twice as much and Georgia provides 2.5 times as much for English learners.

- Provide additional funding to support students with disabilities, based on their unique needs. States tend to provide substantially more funding for students with disabilities, largely based on the severity of the disability.

- Provide the full amount of additional funding for every category of need that students meet. For example, if a state’s funding formula prescribes 100% more for English learners and 100% more for students from low-income families, then the formula should provide 200% more for a student who is both an English learner and from a low-income family.
✔ Target resources to districts and/or schools with particularly large concentrations of students from low-income families (e.g., those in which more than 75% of students are from low-income families). But this should be planned in a way that does not create funding cliffs. For example, a state could increase the poverty weight gradually on a sliding scale so that every student living in poverty is funded at 2.0 but that funding rate increases to 2.5 in districts with high poverty, and to 3.0 in very high poverty districts.

**Addressing Concentrated Poverty**

Schools and districts with particularly high percentages of students living in poverty face compounded challenges in helping their students meet academic achievement goals. States should direct more resources to support these districts and schools. But system leaders should also work to reduce concentrated poverty by redefining school and district boundaries, merging districts or schools, or creating cross-district socioeconomic integration plans.

**A Note on Measuring Poverty**

Free and reduced-price lunch eligibility data is becoming less useful as a measure of student poverty by school (because the federal government has shifted to allowing schools to provide free lunch to all students in schools with at least 40% poverty).

The most common alternative approach to measuring poverty that states are using, direct certification, identifies students from low-income families using eligibility for programs and services meant to support families from low-income backgrounds (e.g., SNAP or TANF). This tends to underestimate student need compared to prior methods and is particularly likely to undercount low-income students in immigrant communities. To mitigate this, states should also include counts of students who receive Medicaid, and support district efforts to administer annual or biannual family surveys with intentional outreach to encourage families to complete the form.

Under another promising approach — currently being used in San Antonio ISD — district staff use median household income by census block and student enrollment records to estimate family income for schools in the district.
In addition to different levels of student need, districts have different abilities to raise their own revenue. Districts with lower property wealth have less ability to collect and provide funds for public schools than districts with higher property wealth. After they use student weights (as described above) to identify how much money a district needs to educate its students, states should do the following:

✔ Provide enough funding to low-wealth districts to fully make up the difference between what the district needs and what it is reasonably able to contribute based on property wealth and income, also known as equalization funding.

✔ Require localities to fully fund their expected local share of funding. For example, if a state’s funding formula prescribes the total amount of funding that districts should receive, and that payments should be split equally between the state and localities, then localities should be required to contribute their half.

Equalization funding is particularly important to ensure that schools and districts serving the most students from low-income families and students of color are not shortchanged. Our country's history of discriminatory lending and zoning practices have suppressed local property wealth in communities of color and have contributed to the devastatingly large racial wealth gap. When local property taxes form the foundation of school funding systems, it compounds the impact of injustices inflicted on communities of color outside the school by systematically underfunding their children inside of school.

**New Jersey Directs More State Funding to Low Wealth, High-Poverty Districts**

In New Jersey, leaders send about 450% more state dollars to high-poverty districts. As a result, the highest poverty districts receive roughly 20% more state and local funding than the lowest poverty districts. While this is not enough to close achievement gaps according to the research (see above), it is a remarkable step given the vastly inequitable local spending.
Ensure that dollars are used well to improve student learning experiences and outcomes.

How much funding is allocated to districts and schools matters. But how those funds are used is just as important. State funding systems should include accountability measures to ensure that funding is spent on resources and evidence-based supports and interventions that will close opportunity and achievement gaps for students from low-income families, English learners, students of color, and students with disabilities. Specifically, states should:

✔ Require districts to use these additional funds in the schools where the students with additional needs are enrolled, or on districtwide activities that serve the students they are intended to support.

✔ Require all districts to develop and publish a plan for how the district will use the funding it receives to create enriching student experiences given their specific local contexts. Those plans should:
  - Be based on a needs assessment, evidence, and/or research.
  - Be developed in consultation with families and students who have been traditionally underserved in the community and community advocates representing those groups, along with educators and school leaders.
  - Include ambitious, time-bound targets for closing opportunity and achievement gaps.
  - Be based on a set of guiding questions or a template that is developed by the state, so they are generally consistent across districts.
  - Be approved by the state department of education.
  - Cover a specified time period (e.g., three years) and be reviewed and revised at the end of the time period.
  - Include a clear process for escalating intervention by the state if districts do not meet targets. This intervention could include additional technical assistance, a resource allocation review or equity audit, or staffing or governance changes.

Accountability for how funds are used is important, but that accountability can lead to prescriptive uses of funds that prevent districts from meeting the specific needs of their schools and students. States should strike a balance between including guardrails in their systems to make sure that funds are used well, and on students who need the most support, and providing enough flexibility to allow districts to respond to their local needs and context. The key to striking this balance is a system of escalating intervention that maximizes flexibility for districts that are meeting their ambitious, time-bound targets for closing gaps, and increases requirements for action in districts that are not meeting those goals on behalf of their students. To learn more, see “Five Things State Leaders Should do to Advance Equity: State Accountability Systems, School Improvement, and Reporting.”
Be transparent about the system’s design and monitor funding going to districts.

States should aim to keep funding systems as simple and transparent as possible. Transparency allows advocates and other stakeholders to engage in conversations about how the state’s funding system reflects the state’s values and to meaningfully engage in monitoring and improving how the state’s funding system is meeting the needs of students. Specifically, states should:

- Provide information on how the funding system is designed to work in clear, plain language.
- Publish easy-to-follow data on the amount of funding each district should receive according to its state funding system and what it actually receives.

Maryland Publishes Data on State Funding to Districts

The Maryland Department of Legislative Services regularly publishes documents that help the general public understand how much funding each district receives from the major funding categories in the state’s school funding formula.

- Analyze the data to identify patterns in which districts are being underfunded. That analysis should be public and include an exploration of whether certain provisions in the formula are producing unintended equity-undermining consequences, such as:
  - **Hold harmless provisions.** When the state changes its funding system or districts experience substantial decreases in student enrollment, it is important for states to provide stable funding so that districts do not experience sharp funding cuts. But this funding intended to stabilize district budgets, sometimes referred to as “hold harmless funding,” should be phased out over time.
  - **Small district adjustments.** Small districts often cannot benefit from economies of scale that large districts experience. Similarly, geographically dispersed districts may have additional expenses (e.g., transportation). Therefore, state funding systems often provide additional funding for small or dispersed districts. While sometimes necessary, states should ensure that these adjustments are not incentivizing a troubling trend in which wealthier, Whiter communities are proactively seceding from their more racially and socioeconomically diverse parent districts to create new, segregated districts, and do not otherwise result in groups of students with higher need receiving less funding.
• **Revenue shortfalls.** If revenue is a challenge, states should ensure that they do not cut funding in a way that punishes high-need districts and students by, for example, cutting supplemental funding for students from low-income families or reducing the amount of equalization funding provided to low-wealth districts. This can be particularly hard to spot. For example, if a state’s formula says that when revenues are insufficient, the state will reduce every district’s state aid by the same percentage, it might appear “fair” but would actually take a much larger toll on those districts relying most heavily on state aid due to their high student need or low wealth or income.

Some states, like Florida and Minnesota, have created (relatively) easy-to-read summaries of their school funding systems. These write-ups allow both education professionals and the public to better understand how the funding system works.
Once a state allocates funding to a district, local school system leaders may or may not have a consistent, strategic way to allocate funding to schools, so it’s important that states also provide transparency into how much is spent at the school level. Transparency can help families and advocates to understand whether schools serving high concentrations of certain groups of students, including students of color and students from low-income families, are systematically receiving less funding than they would need to support every student to success, and push education leaders to allocate and spend funds more fairly. And, it can help researchers continue to refine our understanding of the relationship between funding and student outcomes, including how much more funding it takes to provide additional resources to students with additional needs.

ESSA’s new requirement to include actual per-pupil expenditure at the school and district level on school and district report cards provides a critical opportunity to bring focus to spending inequities that may exist both across and within districts. In order for school-level spending data to be meaningful, states should ensure that when calculating school-level spending they:

✔ Follow consistent rules for calculating spending for all schools in the state to enable meaningful comparisons of spending across schools within districts or across districts in the state, including reporting school-based staff salaries for each school.

✔ Report spending data separately by source of funds (i.e., federal vs. state vs. local).

✔ Include the school’s share of central office spending to accurately reflect the resources that districts pay for on behalf of the schools they serve, such as curriculum development, special education teachers, or transportation.

✔ Publish the business rules or methodology used for calculating the school-level spending numbers in clear and accessible language.
When reporting school-level spending, states should:

✔ Include individual school-level and district-level data on demographic characteristics (including percentages of students from low-income families, English learners, students with disabilities and students of color) and student outcomes to help explain spending differences between schools.

✔ Include data on spending across groups of schools with similar and different demographic characteristics or student outcomes, so that it is easy to understand whether spending is higher in high-need schools than in lower-need schools.

✔ Present the data in a way that is easy for the public to find, understand, and use.

**Equity-Focused School Funding Tools**

The Every Student Succeeds Act (ESSA) now requires states to publish school-level spending data. While most states are still developing tools to report this data, The Education Trust–New York released a user-friendly, equity-focused tool to provide transparency into school-level budget data for a select number of districts in New York State.