

Understanding School Funding in the TEF Context

Overview. In the U.S., public education has always been and still remains each state's responsibility. Each state maintains its own education system, so how America's public schools get funded varies widely across the 50 states. State school funding systems are established and defined by state constitutions, statutes, and regulations and, despite similarities, each state funding system is unique.

From their beginnings in the early 19th Century, U.S. public schools were funded chiefly by local governments. As late as 1920, only about a sixth of K-12 funding came from state-level government. That figure increased gradually during the mid 20th Century, then rose sharply in the early 1970s in response to the first wave of school finance equity litigation. Today, on average, 43.5% of K-12 funding comes from local sources, 48% comes from state-level sources, and 8.6% comes from the federal government.

The portion of K-12 funding derived from state sources ranges from a high of 71.3% in Minnesota to a low of 30.4% in Illinois. Local-sourced funding ranges from a high of 61.9% in Illinois to a low of 13.3% in New Mexico. Federal K-12 support was insignificant until the Johnson Administration got the first Elementary and Secondary Education Act (ESEA) passed as part of its War on Poverty. Today, federal funding averages 9% of a state's K-12 funding, ranging from a minimum of 2.9% in New Jersey to a maximum of 17.7% in New Mexico.

While the overwhelming source of local funds for public schools is local property taxes, this also varies widely. National averages for local funding sources are slightly under 74% from the property tax and just over 26% from other sources. While property tax provides Connecticut and Rhode Island with 96% of their school funding, it provides only 38% of Louisiana's.

Funding System Goals. Today, school finance systems seek to assure that 1) every school district can fund its schools with revenues adequate to student needs; 2) they do so in a way that is equitable for both students and taxpayers; and 3) they cover high-cost programs like special education and non-instructional yet vital components like transportation. The fact that funding system goals can sometimes be at cross-purposes is why they tend to be both complex and contentious.

Funding System Mechanisms. There are at least four types of funding system mechanisms, commonly called "formulas," used by states. Every state uses at least one, and some states use several in different combinations.

1. *Flat grant.* This was typically the sole means of providing state aid until around 1920, and is still used today in many states. Historically, grants were determined on a per-school or per-teacher basis, but today they're determined on a per-student basis.
2. *Equalization.* Recognizing that flat grants don't take into account different student needs or different taxpayer abilities to pay, many states adopted equalization strategies, such as the foundation program, to make school funding mechanisms more equitable. Under a foundation program, states determine a minimum level of funding to be spent per student in each district, then mandate that all districts levy, at a minimum, the property tax rate necessary to raise those revenues in the wealthiest districts. Property-poor districts receive state aid to make up the difference between revenue raised and revenue needed.
3. *Reward-for-effort.* This is similar to a foundation program, but it gives districts more flexibility by not specifying minimum revenue levels and tax rates. Reward-for-effort mechanisms include "guaranteed tax base," "guaranteed yield," and "power equalization."
4. *Categorical.* Most states now fund at least some programs as categorical aid. Such programs get funded not on the basis of a district's wealth but on the needs of its students, such as the number of students in poverty, the number of English language learners, or the number of student-miles of transportation required. Often, categorical allotments get defined by means of a weight. For example, ELLs may be given a weight of 1.5, so a district would receive the usual base funding amount per student multiplied by 1.5 for each ELL.

Equity and Adequacy. After the 1954 *Brown v. Board of Education* U.S. Supreme Court decision, the "savagely inequality" evidenced by per-student funding ratios that were typically as high as three-to-one in many states — with property-rich districts having per-student expenditures three times as high as property-poor districts — moved plaintiffs to challenge a system that was clearly not equal even though no longer separate.

Understanding School Funding in the TEF Context (*cont.*)

Thus began a series of lawsuits challenging state school funding systems on the grounds of equity and, later, adequacy. In general, few of the early equity challenges were successful but many of the more recent adequacy suits have been. An overall impact has been to increase state efforts to equalize funding across districts, which explains the increased proportion of K–12 funding coming from state, not local, governments.

Equity. In school funding, equity is essentially about fairness. It can refer to fairness in the amount of spending per student, fairness in the amount of local school property taxes, fairness in the condition of school facilities, even fairness in student outcomes. A funding system that is equitable doesn't *result* in equal dollars for all students it *promotes* fairness by providing more dollars per student to:

- Districts with above-average numbers of at-risk students.
- Districts with above-average numbers of students for whom English is a second language.
- Districts where the cost of living is higher than average so they can offer competitive employee salaries.
- Small districts that, on a per-student basis, have larger administrative overheads.

Adequacy. Today, adequate funding is understood to mean the amount of per-student spending a district needs in order to provide all students with a realistic opportunity of meeting state performance standards. Thus, the principle of adequacy requires a state to provide its students with the resources needed to obtain knowledge and skills that will prepare them for such life tasks as meaningful employment in an increasingly technological economy, serving on juries in ever more complex trials, contributing to their communities, and appreciating their cultural heritages, taking into account the varying needs of different types of students and school districts.

It is important to note that state funding formulas provide money only to *districts*. How monies get allocated to *buildings* and *classrooms* is determined by a process that can be as opaque as the proverbial “black box” of classroom processes that determine student learning. As a result, distributing education dollars within districts and schools can be even more inequitable than distributing them across districts within a state.

Where does NEA stand on school funding? There are three NEA Resolutions specifically affirming the association's stance in favor of states providing equitable, adequate funding derived from public tax revenues for public schools. These resolutions ensure that the educational resource needs of all students are met, promote the tax reform necessary to do so, and at the same time ensure fairness to taxpayers. They are NEA Resolutions A–14, Financial Support of Public Education (1997, 2004); A–21, Educational/Economic Stability of States (1981, 1993); and A–22, Tax Reform (1978, 1996). The full text of these resolutions is available at <http://connect.nea.org/policydocs/images/resolutions.pdf>.

School Funding In the TEF Context. NEA's TEF (Tax structures, Economic development policies, and Funding for schools) Strategic Goal grew out of our realizing that adequacy can never be achieved if we focus on school funding in isolation from other economic realities. Research shows there is no better way to grow an economy than investing in public education, yet the means to make that investment are simply not currently available. On the contrary, 30-year trends in state and local tax structures and economic development policies demonstrate that existing structures and policies actually undermine state and local capacity to adequately invest in public education.

This economic reality means most states are mired in perpetual structural deficits. It also means that the revenues needed to provide a level of resources adequate to giving public schools the capacity to do what is asked of them in the 21st century's global, knowledge and information economy are simply not available. We can only achieve adequacy in school funding by addressing and reversing these long-term, harmful trends in tax structures and economic development policies. TEF unites in the public consciousness the principle that continued American strength in the knowledge-based global economy depends on understanding that Tax structures, Economic development policies, and Funding for schools are three *inseparable* characteristics of good public policy.

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