

IMPROVING SCHOOL FUNDING SYSTEMS: SIX STATES FIND WAYS TO MOVE FORWARD

By Molly A. Hunter¹

Today's students face the challenges of becoming capable civic participants and workers in a complex and changing world. Not only their future, but ours depends on their education. To succeed, students need schools with funding sufficient to pursue excellence. Unfortunately, most state school funding systems shortchange schools in low-wealth and minority communities, limiting opportunity for millions of students nationwide.

Nevertheless, some states have found ways to improve their funding systems to support better educational opportunity. At least six states have built more equitable, sufficient, and predictable funding systems and, at the same time, tied those changes to effective educational programs. This policy brief summarizes experiences from Massachusetts, Maryland, New Jersey, Pennsylvania, New York, and Kentucky.

Massachusetts

In the early 1990s, a State Board of Education report declared the quality of education in some Massachusetts school districts “in a state of emergency.” The state’s low-wealth districts were “unable to provide the programs, services and personnel... necessary to meet the needs of [their] students.” Large class sizes in elementary grades in those districts were barriers to the “individual attention and instruction...elementary students needed.”²

A close look at a few of these districts revealed school buildings in “terrible condition” and an “extremely unsafe” high school building. One district’s science facilities were determined to be “poor, the textbooks outdated and the middle school labs antiquated.” It was revealed that low-wealth districts also tended to “end up with inexperienced and poor quality teachers” and did not have “enough offerings for advanced students.”³

Comparisons to the state’s more affluent districts showed that those districts were able to provide “significantly greater... opportunities,” such as extensive writing programs, thorough computer instruction, top-flight teacher training, and a wide variety of classes in the visual and performing arts. In short, they were able to educate their children. But, students in low-wealth communities had significantly fewer opportunities and lower quality education due to “inadequate financial support” and unpredictable funding.⁴

Funding

In Massachusetts, as in almost all states, schools are funded through a combination of local, state, and federal funds. State funding theoretically helped promote equal opportunity by allocating more funds to low-wealth communities. However, in practice, the appropriations process made allocations unpredictable.⁵

This lack of a systemic approach to funding, combined with the limited ability of low-wealth communities to raise revenues and the bleak conditions in low-wealth school districts, made it clear that the State was not ensuring a quality education to children in less affluent communities, and funding was not sufficient or stable. The state's highest court, in an education-adequacy case, ordered the State to take responsibility and "devise a plan and sources of funds sufficient to meet the constitutional mandate" for education.⁶

Solutions

The Massachusetts legislature adopted comprehensive education and funding reform in the Massachusetts Education Reform Act of 1993 (MERA). Part of the design of MERA arose from education stakeholders, including the Massachusetts Business Alliance for Education (the Alliance). In 1991, the Alliance issued "Every Child a Winner!" – a report that became the conceptual framework of MERA. It recommended a Foundation Funding model for education that grew out of an education cost study, with expert input from leading Massachusetts school superintendents.⁷

MERA required student learning standards and assessments, and accountability aligned with the standards. Teaching quality improvements implemented through MERA also aligned with the standards and resulted in teacher competency exams and licensing that are among the most rigorous in the nation.⁸

Importantly, MERA aimed to provide substantial and sufficient State funding, and to direct most of the increases to the low-wealth school districts, where it was needed most. MERA also required tutoring and other assistance for students who fell short on state tests.

If a Massachusetts school or district is chronically under-performing, based on test scores, the district or State can step in to take action. Initial measures can include targeted training in successful instructional strategies. Ultimately, the State Department of Education ("State Department") may place under-performing districts into "receivership," that is, under state control.⁹

Funding Changes

MERA reduced the state's dependence on local tax revenues by increasing the state's share of funding. Under MERA, funding is based on (1) a target Foundation Budget, the amount each district is expected to spend, (2) a required Local Contribution, based on local fiscal capacity, and (3) State Aid, which is intended to supply the difference between the target Foundation Budget and the Local Contribution. Not surprisingly, lower wealth communities receive more state funds because of their lower Local Contribution. Nonetheless, all communities receive at least some support from the state.¹⁰

MERA succeeded as a comprehensive overhaul of state financial support for Pre-K-12 education and State Department oversight of public school progress. This meant sustained higher funding in low-wealth communities to address their greater student needs. In recent years, due to the MERA reforms, Massachusetts has become one of a handful of states where per-pupil funding is higher in both low-wealth and high-minority school districts than in other districts.¹¹

In sum, Massachusetts created a sound foundation budget structure. This state succeeded in developing a fairer funding system and met its state constitutional requirement of educational opportunity for its students.

Student Achievement

Following implementation of the new and fairer funding system, Massachusetts' students on the whole gained relative to their counterparts in most other states on national tests such as NAEP (National Assessment of Educational Progress) and the SATs. The 2000 NAEP math scores, for example, placed Massachusetts 4th graders third among their peers in all other states, and 8th graders ranked fifth. In science, the 4th graders tied for first and the 8th graders tied for second. By 2007, the state's students ranked first or tied for first in all four of these categories.¹²

As another indicator of the success of MERA, several high-achieving schools emerged in low-wealth districts, which never had such schools before. Additional signs of school improvement and reform include teacher professional development activities, improved library facilities, and some high quality preschool programs.¹³ However, despite growth in achievement among all groups of students, a significant achievement gap still exists and needs to be addressed in Massachusetts.¹⁴

Using Resources Effectively

Massachusetts's successes were not only due to increased funding distributed more fairly, but also because those funds reached the schools with high-need students and provided programs that worked for them. MERA allocates funds that must be spent on "expanded programs" for low-income students to help them meet state standards. School districts must provide programs "beyond the regular school day and year...based on recognized research of teaching and learning." The programs must also involve accelerated learning, effective teaching strategies, and qualified staff.¹⁵ Among other strategies, these programs include before school, after school, and summer programs.

Now, 19 years later, the state needs an updated cost study to adjust MERA so the funding system reflects current realities for meeting state standards and providing a solid education throughout the state. The state has fallen short of sustaining adequate funding for essential programs in all districts, and will need to do so again to sustain its successes. Although these updates and adjustments are necessary, the basic MERA reforms provide a workable framework for fair and sufficient funding.

Maryland

While Maryland is a relatively small state, it has a cross-section of urban, suburban and rural communities similar to many states. By tying education reforms to increased school funding and more resources to address the higher needs in some school districts, Maryland has improved achievement and narrowed achievement gaps.

In 1999, Maryland's legislature established the bi-partisan Commission on Education Finance, Equity, and Excellence (the Commission) to study and make recommendations to the legislature on how the State could:

- Ensure adequate education funding
- Reduce inequities among school districts
- Ensure excellence in school systems and student performance
- Provide a smooth transition for recommended changes.

The Commission first reviewed Maryland's funding system and other systems nationwide, reviewed student/school performance and accountability, and held public hearings.

Next, the Commission delved into measuring adequate funding and structuring a finance system aligned with the State's student learning standards. Two separate and independent cost studies analyzed operating costs and recommended increases in state aid to Maryland school districts. Both studies were geared towards educational resources sufficient to ensure that students could reasonably be expected to meet state standards. The Commission reviewed both studies in depth before formulating its proposals.

Recommendations

When the Commission issued its final report to the legislature in January 2002, it recommended that the state restructure its finance system and phase in, over five years, a \$1.1 billion increase in its annual support for public schools – over and above the \$700 million that then-current law would have generated during the same five years. The Commission also recommended that (1) a greater proportion of state funding be targeted to low-performing school districts and (2) counties and school districts be prohibited from using increased state funding to reduce local funding (also known as a “maintenance of effort” requirement).

In its new finance model, the Commission identified four major goals: adequacy, equity, simplicity, and flexibility. To ensure adequacy, the Commission concluded that funding should be based on the costs of meeting state performance standards, including the costs of providing services to students with special needs." To improve equity, the Commission recommended increasing from 65% to 80% the portion of state funding that is “wealth-equalized.” Districts with low property wealth have limited ability to generate tax revenues, so “wealth-equalized” funding provides greater aid to communities with high tax rates but low tax revenues. The

Commission also improved adequacy and equity by applying a geographic cost-of-education adjustment and proposing a guaranteed tax base program for districts with less than 80% of statewide wealth per pupil.

To simplify the state's funding system, the Commission concluded that most of the approximately 50 state funding streams should be collapsed into four. The four it recommended were an overall foundation program and one for each of the three special needs categories: low-income, English learners, and students with disabilities. A higher weighting for economically disadvantaged students and other changes increased the state's funding for special needs students from 19% of state aid to about 28%.

To facilitate a smooth transition and predictability, the Commission not only recommended a five-year phase-in, but provided a spreadsheet that projected state revenues for each school district year-by-year. The proposal ensured no decrease in any district's state revenue while the system was changing. Finally, the Commission recommended two research-based programmatic mandates: full-day kindergarten for all students and high quality preschool for all low-income students.

Less than three months after receiving the Commission's Report, the legislature adopted its proposals with minimal changes. Rather than direct funding to specific programs, aside from kindergarten and preschool, the legislature required each school district to submit detailed plans for how its funding would be spent to meet student needs. Districts had to enter into agreements with the State's Department of Education ("DOE") as to their student performance goals.

In Maryland, the DOE has been strong, with the capacity to review and follow up on all district plans. The DOE has also been effective in developing data systems to capture important, relevant information. Moreover, an outside firm has been analyzing the impacts of the reforms and gathering extensive information on "best practices" resulting from implementation.

Tying Funding to Education Reforms

In addition to its recent funding system reforms, Maryland presents valuable lessons on closing achievement gaps. The increased funding to local school districts truly made a difference, according to a review conducted by an independent Texas firm. They could directly tie funding to improvements in student achievement.¹⁶

Three large Maryland school districts are among the leaders in the nation in narrowing gaps. Montgomery County, for example, with 141,000 students is the 16th largest district in the nation. Its students are 23% African-American, 16% Asian-American, 23% Hispanic, and 38% White, while 29% are from low-income families and 12% are learning English. Montgomery

County's educators purposefully set out to help all students succeed, and the state and community support these goals with adequate funding.

By focusing resources on: ongoing professional development; keeping high quality teachers and staff; and placing proven, winning programs in its higher-poverty schools, the district has narrowed gaps that bedevil schools across the country. The district especially emphasizes programs that close learning gaps early in a child's school career. At the high school level, students from all backgrounds are encouraged to prepare for and enroll in Advanced Placement courses.

While this successful large district is a good example, most large urban districts and many rural districts face even more challenging obstacles to student learning due to higher poverty rates – a formidable enemy of achievement.

New Jersey

New Jersey has targeted significant funding to 31 school districts with concentrated poverty, specifically to confront the higher needs of the children in those districts. Much of the funding has supported a series of “programs that work” that were researched and recommended by the State Department of Education. In addition to high quality preschool, the programs include summer school, after-school, better technology, and capital funding for school buildings, among other improvements.

High quality preschool leads the list and has been a great success, serving over 40,000 children each year and getting the children ready for kindergarten. The state successfully navigated a “mixed delivery” preschool system. That is, it managed to use the federal Head Start program and public and private preschools, while applying high-quality state standards to all. The state and school districts worked with community and private providers and local public schools to establish an effective and coordinated network of high quality preschools. To fill the need for preschool teachers who could meet demanding certification standards, New Jersey “grew its own” through new initiatives in its colleges and universities, funded by the state.

Due in part to the targeted funding and programs, New Jersey leads the nation in high school graduation rates, and graduates 74% of its black male students, the highest rate among states with a significant number of black students. While districts throughout the state have made gains on the state's tests, test score gaps have narrowed because the low-wealth districts have made the largest gains. The NAEP (National Assessment of Educational Progress) scores confirm this narrowing of the gap, due in large measure to better resources from the funding reforms.¹⁷

Pennsylvania

Like many states struggling with faulty school funding systems, Pennsylvania was at a crossroads until recently. When the 2008 legislative session ended, however, the commonwealth became the latest state to enact education and funding reform laws. The legislature increased state support for schools, targeted the largest gains to high-need and high-tax-rate school districts, and required districts to spend most of the increases on one or more measures that have been found to improve student achievement. The approved programs include:

- Pre-K and full-day kindergarten
- Extended instructional time (such as tutoring and longer days)
- More challenging courses
- Teacher training, and/or
- Incentives to recruit personnel to certain schools.

After several years as one of only two states without a state school finance system, advocates, who were united throughout the state, sought and won passage of a bill calling for a comprehensive education cost study. The state hired experts to conduct the study and connect its learning standards with key educational resources. The new school funding system relied on the findings from the legislature's cost study and is being phased in over six years. Despite challenging economic times, Pennsylvania sustained its reform in the 2009 legislative session and continued the phase in of funding increases. The proposed 2010 budget would continue this implementation.

Also, by requiring districts to use new monies for programs that have received the State's stamp of approval, the new law may indicate a trend that began with New York's education funding reforms in the prior year.

New York

In 2007, New York simplified and rewrote its school funding statutes to increase state funding significantly and send a majority of the new revenues to its high-poverty school districts. These changes followed a commitment to finance \$11 billion for school facilities in 2006, being phased in over five years. The legislature consolidated 25 separate funding streams into a foundation funding approach, making the state aid calculation easier to understand.

One aspect of the New York reforms that has drawn attention is the "Contract for Excellence" law,¹⁸ which requires districts receiving substantial increases, and those needing to make academic progress, to target the new monies to create or expand programs proven to be effective at raising achievement, namely:

- Quality preschool
- Full-day kindergarten
- Class size reduction
- Programs that give students “more time on task”
- Improving teacher and principal quality, and/or
- Middle and high school restructuring.

Importantly, the new “contracts” target the spending increases for large districts to any under-resourced or low-performing schools within the district. Districts must submit a plan for how they will spend these funds and report annually on the results.

Three separate education cost studies helped point the way for the remodeled funding system. All three studies recommended regional cost adjustments and a simpler formula, and found that the schools educating mostly children from poverty backgrounds had major resource deficits. In addition, the state concluded that local property taxes in those districts were already among the highest in the state.

Kentucky

Kentucky was an early leader in choosing the road to education and funding reform. In 1990, the Commonwealth enacted a coordinated set of education reforms, including more sufficient funding. Kentucky has moved from near the bottom on most indicators of education outcomes and spending to at least one-third of the way to the top. Increased state funding opened doors to more opportunities in all school districts, but especially in low-wealth communities. Tougher requirements for graduation, better assessments (including portfolios), major support for technology, and other initiatives boosted test scores and other achievement and drew national attention, without lowering graduation rates. The Kentucky Department of Education also became a valuable resource for schools and districts, curriculum was sharply upgraded, and parent involvement grew significantly.

One of the most helpful lessons from Kentucky is its “highly skilled educator program.” Schools not reaching state achievement goals undergo detailed reviews to identify weaknesses and then receive ongoing problem-solving assistance from highly skilled educators, who mentor teachers and/or school leaders for up to two years. Unlike takeovers and other disruptive, often unsuccessful interventions, this program has an impressive record of turning schools around to reach their achievement targets.¹⁹

This innovative program raises student achievement and redirects schools onto a path to success. Building the teaching and learning capacity of formerly low-performing schools is difficult work, and programs that win praise in that effort are rare. But Kentucky’s highly skilled educators improve the instruction of virtually all the teachers in the schools where they work and change the school climate by improving morale, increasing collaboration, and strengthening leadership.²⁰

Nonetheless, challenges remain. Although Kentucky's reforms led to improved academic performance across ethnic, income and age groups, the assessments that had required problem-solving skills, thoughtful analysis, and writing are largely gone, replaced by simpler tests that seem to have reduced the focus on critical thinking and writing skills. Teacher salaries have lagged behind neighboring states, making hiring difficult in many areas. And in recent years, Kentucky's legislature has cut its education support rather than raise cigarette taxes. Whether Kentucky will regain its footing on the road to future educational success remains to be seen.

Conclusion

In summary, these six states have made important strides toward fairer funding for their public schools and offer examples that other states might study and emulate. One of the keys to their success has been increased funding for schools in low-wealth communities because addressing the large resource deficits in those school districts means better opportunity for many children. To move in this positive direction, state policymakers had to confront the reality of inequities among school districts.

The states' willingness to engage in these issues resulted, in part, from successful quality education litigations against four of the six states. Also, sustained advocacy in these states built broad public will for funding reforms and helped persuade policymakers to act. Finally, maintaining and extending the progress in these states will require vigilance even in good economic times, and may prove extremely difficult in the next couple of years.

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About Education Law Center

Founded in 1973, ELC is recognized as one of the nation's premier education advocacy organizations working on behalf of public school children for access to an equal and adequate education under state and federal laws. ELC focuses on improving public education for disadvantaged children, and children with disabilities and other special needs using multiple strategies, including public education and engagement, policy initiatives, research, communications and legal action.

ELC has achieved significant success in improving education for school children in New Jersey's high poverty urban school districts through implementation of the programs and reforms ordered by the New Jersey Supreme Court in the landmark *Abbott v Burke* education equity case.

In addition, because of its expertise in school finance, preschool, and other areas of education law and policy, ELC provides support to attorneys and advocates in other states seeking to improve their public schools.

Endnotes

¹ Molly A. Hunter, Esq., is Director of Education Justice at the Education Law Center. She thanks Dan Goldman, Esq., for his research and editing assistance.

² 1991 REPORT OF THE COMMITTEE ON DISTRESSED SCHOOL SYSTEMS AND SCHOOL REFORM, as cited in *McDuffy v. Sec’y of the Executive Office of Educ.*, 615 N.E.2d 516, 521 (Mass. 1993).

³ *Id.*

⁴ *Id.*

⁵ Federal aid accounted for “only four to five per cent of the total expenditures, ... generally targeted for specific programs.” *Id.*, at 550-51.

⁶ *Id.* at 552, 555-556.

⁷ MASSACHUSETTS BUSINESS ALLIANCE FOR EDUC., EVERY CHILD A WINNER! A PROPOSAL FOR A LEGISLATIVE ACTION PLAN FOR SYSTEMIC REFORM OF MASSACHUSETTS’ PUBLIC PRIMARY AND SECONDARY EDUCATION SYSTEM (JULY 1991) available at www.mbae.org/uploads/13102003114120EveryChildAWinner.pdf.

⁸ *Hancock v. Comm’r of Educ.*, 822 N.E.2d 1134, 1151 (Mass. 2005).

⁹ *Hancock v. Comm’r of Educ.*, 822 N.E.2d at 1144. See MASS. GEN. LAWS ch. 69, §§ 1I-1K (2003).

¹⁰ See MASS. GEN. LAWS ch. 70, §§ 2, 6 & 10 (2003).

¹¹ ANDREW CHURCHILL ET AL, MASSACHUSETTS EDUCATION REFORM REVIEW COMMISSION, 2002 ANNUAL REPORT ON THE PROGRESS OF EDUCATION REFORM IN MASSACHUSETTS, vi. (“ANNUAL REPORT”).

¹² ANNUAL REPORT at xiii. See also Reville, *infra* note 14, at 3.

¹³ ANNUAL REPORT at xi; *Hancock v. Comm’r of Educ.*, 822 N.E.2d at 1143-44, 1150.

¹⁴ Paul Reville, *The Massachusetts Case* at 1 (reporting that 84% of the Class of 2008 passed the high school exit exams on the first try, but only 61% of Hispanic students and 68% of African-American students earned this distinction. In addition, while the statewide graduation rate for the Class of 2006 was 80%, this falls to 62% in urban areas.).

¹⁵ Mass. Dep’t of Ed., Guidelines for Student and Financial Reporting, available at <http://finance1.doe.mass.edu/account/guide1.html>.

¹⁶ MGT OF AMERICA, INC., BRIDGE TO EXCELLENCE, FINAL REPORT, Jan. 2009.

¹⁷ GOERTZ, M. E. AND WEISS, M., ASSESSING SUCCESS IN SCHOOL FINANCE LITIGATION: THE CASE OF NEW JERSEY (Nov. 2007).

¹⁸ N.Y. Educ. Law § 211-d (2007).

¹⁹ Jane L. David, Pamela Coe, Patricia J. Kannapel, *Improving Low-Performing Schools: A Study of Kentucky’s Highly Skilled Educators Program* (PARTNERSHIP FOR KENTUCKY SCHOOLS 2003) (“Highly Skilled Educators”); Susan Perkins Weston and Robert F. Sexton, *Substantial and Yet Not Sufficient, Kentucky’s Effort to Build Proficiency for Each and Every Child*, Paper at the Columbia University Teachers College Symposium on “Equal Educational Opportunity: What Now?”, (Nov. 12-13, 2007); Molly A. Hunter, *All Eyes Forward: Public Engagement and Education Reform in Kentucky*, 28 J. L. & EDUC. 485 (October 1999). In April 2008, the Kentucky legislature cut education funding for the upcoming biennium, choosing cuts to public schools over a higher cigarette tax. Beshear might veto items in budget, call session on taxes, LEXINGTON HERALD-LEADER, Apr. 4, 2008 at A1.

²⁰ *Ibid.*, Highly Skilled Educators.