

# Student-Centered Funding for Districts

*Through incentives and other actions, state policymakers can ensure that the funding they send to districts fully follows students from school to school.*

In one district, students in a school may receive \$12,000 per student in services, while in another, nearly identical school in that same district, students receive only \$4,000 per student.<sup>1</sup> It may come as a shock to state policymakers who think all students in a given district or across the state are funded equally. Why does this disparity take place? The problem is that states fund school districts not schools or students. Districts take the money they receive from the state and other sources and then decide how much money each school gets based on staffing formulas and by funding specific services or programs.

- If a school has teachers with higher salaries, that school gets more money.
- If a student moves to another school, that school may not get any additional money.
- If the additional student happens to qualify the school for another teacher under the staffing formula, it might get additional funding.
- If a state sends money to districts for students with special needs or disadvantages, districts are NOT required to spend the money on the needs of these students, and often they don't.

One common reaction to this problem is to impose spending mandates and restrictions on districts, e.g., telling districts what class size they should have or saying that certain funds can only be spent on specific students or types of programs. But this causes another serious problem. It deprives schools of the flexibility they need to provide the best services for their students and to innovate.

ExcelinEd believes the solution is for districts to use student-centered funding, where every school receives the same amount of funding per student, with additional amounts for students with special needs or disadvantages. Schools then get to decide how to use these funds and are held accountable for results. This playbook describes how state policymakers can take the following steps to encourage districts to use student-centered funding to ensure equity for students.

1. **Remove policies that deter districts from using student-centered funding.** These include restrictions on state funding and unfunded state mandates.
2. **Provide districts with incentives to implement student-centered funding.** These can range from requiring districts to use student-centered funding to offering freedoms from rules and regulations, providing grants and educating district leaders that student-centered funding is both possible and beneficial.
3. **Require districts to report on spending at each school.** Financial transparency can build public demand for student-centered funding.
4. **Enable districts to incorporate federal funds into a student-centered funding formula.** This includes encouraging districts to take advantage of a new student-centered funding pilot, authorized under the federal Every Student Succeeds Act.



## BACKGROUND

### The Problem with Current Student Funding

Jane is a student at Lincoln Elementary School in Washington County School District. Her school receives \$12,000 per student in services. Just a few miles away, John attends Jefferson Elementary School, also in Washington County School District. His school receives only \$4,000 per student, leaving Joe and his peers with fewer resources. And, if Jane were to move to Jefferson Elementary mid-year, the \$12,000 worth of funding would likely not follow her to her new school. This situation, while common across the country, is unfair and restricts student options.

### What Is Student-Centered Funding?

Student-centered funding means that each school in a district receives a base funding amount for each student, with additional funds, also called weights, for students who have special needs or disadvantages. Funding fully follows students as they move from school to school. Student-centered funding is also referred to as weighted student funding, student-based allocation or student-based budgeting.

### How Does Student-Centered Funding Help Students?

- ***It is more transparent:*** It is clear and easy to understand how much funding each district or school gets and why.
- ***It empowers districts and schools:*** District and school leaders have flexibility to use funds to meet the unique of their students.
- ***It empowers parents:*** Parents can choose the school and courses that are best for their children, with the money fully following their students.
- ***It is fairer:*** All students in a state get the same base resources, with additional funding for students with special needs or disadvantages.

### How do schools receive funding now?

Public schools receive funds from three primary sources: state, local and federal revenues. On average, state revenues constitute 45 percent, local revenues make up 46 percent and the remaining 9 percent comes from federal sources.<sup>2</sup>

The large majority of states allocate state revenues for public education through a combination of a student-centered funding formula and funding for specific services or programs, often called categorical grants. For the student-centered portion, the state establishes a base funding amount with additional funds for specific student characteristics, such as income, language proficiency or special needs. The state typically adjusts its funding based on the wealth of the school district, with the state providing a higher amount to districts with less wealth. School districts also generate local revenues, most commonly through property taxes.

After receiving funding from the various sources, a district then allocates funds to individual schools through its local budgeting process. Most school districts distribute funds among schools based on the operational costs of each school—including salaries and benefits of school employees, supplies and other inputs—rather than the number of students and the needs of those students. Under this methodology, schools with the highest operational cost, the highest paid teachers for example, receive the most funds—even if those schools are not serving the highest need students.

However, several dozen districts in states across the country, do use student-centered funding. Each school receives a base funding amount per student, with additional funds for students with special needs or other disadvantages.<sup>3</sup>



These leading districts and their states can offer some important lessons on how other districts across the country can move towards this more transparent, equitable and effective approach to school funding.

## A STATE'S ROLE IN ADVANCING STUDENT-CENTERED FUNDING

### Key State Action 1: Remove state barriers to districts using student-centered funding.

States often deter or prevent districts from using student-centered funding by restricting how state funds are used or imposing programmatic mandates (e.g., staffing ratios and class size limits) that force districts to spend money in a certain way. These restrictions and impositions run counter to a fundamental reason for student-centered funding: schools know best how to allocate resources. States can empower schools to make spending decisions and then hold them accountable for results.

#### **Eliminate restricted state funding for specific positions, services or programs.**

As indicated above, most states use a student-centered funding formula to allocate the majority of state funding to districts. However, a sizeable portion of state funding is dispersed separately from the main funding formula to pay for specific positions, services or programs at the district and school levels. When this portion exceeds about 20 percent of total state funding, it becomes a major barrier to student-centered funding, as districts are forced to keep track of how various state funds are used by schools and tend to use these accounting requirements as an excuse to limit virtually any school discretion.<sup>4</sup>

States can promote district use of student-centered funding by eliminating these separate funding programs and collapsing them, as California did, into one student-centered funding formula.<sup>5</sup>

### California's Local Control Funding Formula

Prior to the Local Control Funding Formula, districts in California received funding through more than 50 different funding programs, each of which had its own restrictions of how funds could be spent. Today, the state has collapsed nearly all of these programs into one student-centered funding formula. The state provides a base funding amount for each student and then provides additional funds for students in certain grade levels and for economically disadvantaged students and English learners.

Rather than requiring districts to spend dollars for specific students, the state relies on financial transparency to encourage districts to show how they are using the additional state funds to improve and increase services for their neediest students. Districts are also required to develop three-year Local Control Accountability Plans and update them annually.

#### ***Going One Step Further***

States can best enable districts to use student-centered funding by eliminating all significant categorical programs. Therefore, states can consider going one step further than California, which kept state funding for disabled students outside of its new student-centered funding formula. States can also require financial transparency not only at the district level but also by schools. Florida, for example, requires districts to report for each school the instructional spending on students with disadvantages or special needs.<sup>6</sup>



### **Eliminate unfunded mandates and other programmatic restrictions.**

Even when states do not directly impose a funding restriction, as described above, they often impose programmatic mandates that force districts and schools to spend money in a certain way and therefore prevent or deter many districts from using student-centered funding. Prime examples are staffing ratios and class size limits, which not only tie the financial hands of districts but also encourage them to fund schools based on the number of staff instead of the needs of students.

### **Prohibit district policies that deter student-centered funding.**

In many districts, school principals have little choice over which teachers work in their buildings. Instead, teachers can claim slots based on seniority, and these teachers will generally have the highest salaries. This creates significant challenges for a district seeking to use student-centered funding. One option is for the district to force the school to pay for the additional cost of the higher paid teacher. Another option is to only charge the school the average teacher salary in the district, using other funds to pay for the difference between the average and the teacher's actual salary. Either option results in a significant deviation from student-centered funding, where schools get funding instead of staffing positions and get to decide how to use those funds. Generally speaking, districts have voluntarily agreed to these policies through a local collective bargaining process and can choose to eliminate them. However, states can also address this problem statewide by preventing districts from agreeing to them in the first place.

## **Key State Action 2: Create incentives for districts to use student-centered funding.**

Removing barriers to student-centered funding is helpful, but many districts will need incentives to overcome bureaucratic inertia and the tendency of district administrators to allocate resources in way that conflicts with the priorities and wishes of school leaders.

### **Require districts to use student-centered funding.**

The most direct way to achieve student-centered funding by districts statewide is to require it. Kentucky, for example, requires that districts allocate resources to school-based decision-making councils.<sup>7</sup>

### **Kentucky's School Councils**

Kentucky requires that every school in the state has a school council, made up of the principal, teachers and parents. This council has authority over funding, instructional materials and hiring of staff.

#### ***Going One Step Further***

States that want districts to use student-centered funding to truly empower school-level decision can ensure that all a district's funding goes out to schools with full flexibility on how to use those funds. In contrast, Kentucky allows its district administrators to tell schools how to spend a portion of funding.

### **Offer incentives to districts that use student-centered funding.**

If state leaders do not want to require student-centered funding, another option is to consider giving incentives to districts that adopt student-centered funding. Georgia, for example, offers districts freedom from various state rules and regulations.<sup>9</sup> See "Georgia Charter Systems" call out box on page five.



## Georgia's Charter Systems

Georgia offers school districts “blanket waivers” from all but a small list of state laws, rules and guidelines if they adopt school-level governance—including “decision-making authority in personnel decisions, financial decisions, curriculum and instruction, resource allocation, establishing and monitoring the achievement of school improvement goals and school operations.” Forty-two of Georgia’s 180 districts are now charter systems.

### *Going One Step Further*

If states want to fully incentivize districts to use student-centered funding, they need to make it the most attractive option for districts. In contrast, districts in Georgia are able to get similar waivers to charter systems without agreeing to school level governance, and many districts have selected that option instead.

### **Provide grants for districts to implement student-centered funding.**

States can offer grants to districts to incentivize student-centered funding and pay for any initial, one-time costs of implementation (e.g., training of school of leaders on effective use of resources).

### **Educate districts about the possibility of student-centered funding.**

Finally, states can build awareness among district leaders that student-centered funding is possible and valuable. Some district leaders think that student-centered funding is impossible. For example, they mistakenly believe that special education requirements preclude student-centered funding. They also believe that schools are not able to make use of funds that are not enough to hire a full-time staff.<sup>10</sup> States can educate districts, including local school boards, superintendents and chief financial officers, about how other districts have addressed these issues.

## **Key State Action 3: Take full advantage of the new federal financial transparency requirement.**

Under the new federal Every Student Succeeds Act (ESSA), all districts are required to report actual federal, state and local expenditures for each school.<sup>12</sup> This new transparency requirement can enable student-centered funding by districts. For example, schools and parents will find out that the district is spending \$9,000 per student at one school but \$12,000 per student at another. They can then inquire as to why one school is receiving more funding per student than another. They can also ask how much of the funds their school controls. In short, financial transparency can create the public demand for districts to use student-centered funding.

To take full advantage of this opportunity, states can require all districts to report any funds that benefit the students in a school, noting if the school does not directly receive those funds. States can also emulate Colorado by creating an online sortable database that includes not only overall expenditures by school but also how much schools are spending on specific activities.<sup>13</sup> Finally, as in Georgia, states can add student outcomes data for each school so that schools can identify similar schools that are getting better outcomes with the same or fewer resources.<sup>14</sup>

## **Key State Action 4: Enable districts to include federal money in student-centered funding.**

Under student-centered funding, all the money a school receives from various funding sources goes into one bank account, figuratively speaking. The school then has flexibility on how to use these funds, but is also held accountable for results. Ideally, this would be true for federal funds also. However, this does not happen now because of state and federal actions. States can remove barriers that currently deter districts from incorporating federal funds into a student-centered funding system, while also advocating that the federal government remove other obstacles.



### **Do not unnecessarily require schools to separately track staff time.**

The vast majority of schools receiving federal Title I funds are called “schoolwide programs.”<sup>15</sup> These schools can spend Title I money on strategies that improve the school as a whole. They are not required to spend these funds on specific students or services or track how much time staff spend on services that are federally funded. Yet, many states require schools to keep track of staff time, which creates an unnecessary barrier to districts who want to incorporate federal funding into a student-centered funding system.<sup>16</sup>

### **Do not unnecessarily apply federal rules to school spending.**

Schools that are schoolwide programs can also combine, or “consolidate,” federal, state and local funds. The federal government has said that these consolidated funds lose their “individual identity”—i.e., they are no longer distinguishable as state, federal or local funds—and that states are required to “eliminate state fiscal and accounting barriers so that these funds can be more easily consolidated.”<sup>17</sup> This would seemingly avoid the need for districts to keep separately track of how they spend federal funds or to follow spending rules that apply exclusively to federal funds.<sup>18</sup> However, states are still requiring districts to track and report federal spending in schoolwide programs. Moreover, districts, fearing that federal spending rules might apply to all of their spending, are not taking advantage of the consolidation option. This hesitancy is a wise approach given the lack of clarity from the federal government on these key issues.

In order to take advantage of all the benefits of consolidation, states can seek confirmation from the federal government about these issues and, once they have that, stop imposing any unnecessary spending rules on schools that consolidate federal, state and local funds.<sup>19</sup>

### **Encourage districts to participate in the new federal student-centered funding pilot.**

While states can provide greater flexibility to schools on how they use federal funding once those funds arrive at schools, federal statute often dictates how much federal funding each school gets. For Title I, for example, districts must prioritize schools based on concentration of poverty. This conflicts with a student-centered funding formula that provides the same amount of additional funding for each low-income student, regardless of which school he or she attends. To address this problem, states can encourage districts to participate in a new pilot program, authorized under ESSA, that allows districts to incorporate federal funds into a student-centered funding formula rather than distributing them according to existing prioritization rules.<sup>20</sup>



### **Supporting School Leaders**

States can require districts to provide training to school leaders on how to take full advantage of the flexibility they have under student-centered funding. For example, school leaders can learn how to compare the cost effectiveness of two different strategies to improve student outcomes. In Georgia, school systems that are given waivers from state rules in return for implementing school level governance are required to provide comprehensive, annual training to principals and members of the local school governing teams. Similarly, Kentucky requires each member of a school council to undergo training, including on the budgeting process.<sup>11</sup>

### **Engaging Stakeholders**

States can help districts effectively implement student-centered funding by requiring strong communications and stakeholder engagement from the very beginning. Any change will meet resistance from those who benefit from the status quo. By requiring districts to make a compelling case for student-centered funding, states can help districts overcome this resistance.



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## What's Next?

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State policymakers have a strong interest in ensuring that districts use student-centered funding so that all students are treated fairly and that funding follows students as they move from school to school. The state actions outlined in this playbook are available for state policymakers to use to promote student-centered funding by districts.

For starters, states can remove policies that deter districts from using student-centered funding. These include restrictions on state funding and unfunded state mandates. However, districts also need incentives to overcome bureaucratic inertia and political resistance to student-centered funding. One option is for states to simply require districts to use student-centered funding. Alternatively, states can offer freedoms from rules and regulations to districts that use student-centered funding, and they can provide grants and educate district leaders that student-centered funding is both possible and beneficial.

State policymakers can create public demand for student-centered funding by making districts to report spending at each school, building upon a new financial transparency requirement in the federal Every Student Succeeds Act (ESSA).

Finally, states can enable districts to incorporate federal funds into a student-centered funding formula. They can stop requiring unnecessary tracking of staff time, and they can seek confirmation that spending rules that apply exclusively to federal funds do not apply to districts once they consolidate federal, state and local funds into one student-centered funding formula. States can also encourage districts to take advantage of a new federal student-centered funding pilot, authorized under ESSA.

ExcelinEd stands at the ready to provide technical expertise and assistance to state policymakers seeking to advance student-centered funding in the coming months and years.



Visit [www.ExcelinEd.org](http://www.ExcelinEd.org) or email [info@ExcelinEd.org](mailto:info@ExcelinEd.org) for additional information and assistance.



## ENDNOTES

<sup>1</sup> Based on M. Ucelli, E. Foley, T. Emdon and C. Bond, First Steps to a Level Playing Field: An Introduction to Student-Based Budgeting (Annenberg Institute for School Reform at Brown University 2002): <http://www.annenberginstitute.org/sites/default/files/product/283/files/SBB.pdf>.

<sup>2</sup> National Center for Education Statistics. See: [https://nces.ed.gov/programs/digest/d15/tables/dt15\\_235.10.asp](https://nces.ed.gov/programs/digest/d15/tables/dt15_235.10.asp).

<sup>3</sup> The Reason Foundation provides a good review of how some districts are using student-centered funding. See <http://reason.org/studies/show/weighted-student-formula-yearbook>. The percentage of funds that goes through a district's student-centered funding formula varies. See: <http://edunomicslab.org/our-research/student-based-allocations/student-based-allocation-district-level/>.

<sup>4</sup> Phone interview with Lisa Snell, Director of Education and Child Welfare, Reason Foundation (Dec. 21, 2016).

<sup>5</sup> California Department of Education: <http://www.cde.ca.gov/fg/aa/lc/lcffoverview.asp>.

<sup>6</sup> In Florida, each school's financial report must separately show expenditures per student for teachers who in students in general education, at-risk students and with disabled or gifted students. See Florida Statutes 1011.215(5)(b): [http://www.leg.state.fl.us/statutes/index.cfm?App\\_mode=Display\\_Statute&Search\\_String=&URL=1000-1099/1010/Sections/1010.215.html](http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=1000-1099/1010/Sections/1010.215.html).

<sup>7</sup> Kentucky Department of Education: <http://education.ky.gov/districts/SBDM/Pages/default.aspx>.

<sup>8</sup> These are called Section 7 funds. See: <http://www.lrc.state.ky.us/kar/702/003/246.htm>.

<sup>9</sup> Georgia Department of Education, School System Flexibility Performance Contracts: Accountability, Interventions and Consequences (Jan. 6, 2017).

<sup>10</sup> Phone interview with Marguerite Roza, Director, Edunomics Lab, Georgetown University (Feb. 22, 2017).

<sup>11</sup> See Kentucky Department of Education, Introduction to School-Based Decision Making: <http://education.ky.gov/districts/SBDM/Documents/SBDM%20Intro%20training%20%202016.pdf>.

<sup>12</sup> Every Student Succeeds Act, §1111(h)(1)(C)(x) and §1111(h)(2)(C).

<sup>13</sup> America Succeeds, Pulling the Curtain Back: How Colorado's Transparency Law Sheds New Light on School Funding: <http://americasucceeds.org/downloads/curtain.pdf>.

<sup>14</sup> See: <https://gosa.georgia.gov/financial-efficiency-star-rating-0>.

<sup>15</sup> Under ESSA, states can allow even more schools to become schoolwide programs. See §1114(a)(1)(B).

<sup>16</sup> Phone interview with Melissa Junge and Sheara Krvaric, Federal Education Group (Jan. 4, 2017).

<sup>17</sup> See U.S. Department of Education, Supporting School Reform by Leveraging Federal Funds in a Schoolwide Program: <https://www2.ed.gov/programs/titleiparta/schoolwideguidance10132015.pdf> at p. 19.

<sup>18</sup> Many of these federal spending rules are covered by the Uniform Grant Guidance, 2 CFR 200: [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). For example, items purchased with federal funds are subject to federal procurement rules that are often more complex than state and local requirements. There are a variety of federal rules relating to what costs are reasonable and allowable, how to handle indirect costs, and the status of property purchased with federal funds.

<sup>19</sup> For the rules covered by the Uniform Grant Guidance, it is possible that clarification must come from the U.S. Office of Management and Budget (OMB).

<sup>20</sup> The pilot allows districts to incorporate federal funds from Titles I through IV of ESSA. The U.S. Department of Education has not yet opened the application process, which will hopefully provide as much latitude as possible to districts, consistent with the intent of Congress to promote to student-centered funding.