State Policies That Pay

A Survey of School Finance Policies and Outcomes

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About this Report

This investigation of state school finance policies and outcomes was prepared by the Editorial Projects in Education (EPE) Research Center. The report features original research and analysis conducted as part of a larger project that also supports the production of *Quality Counts*, an annual report on the status of American education published as a special edition of *Education Week*. This work is made possible by funding from the Pew Center on the States.

Editorial Projects in Education is a nonprofit, tax-exempt organization based in Bethesda, Md. Its primary mission is to help raise the level of awareness and understanding among professionals and the public of important issues in American education. EPE covers local, state, national, and international news and issues from preschool through the 12th grade. Editorial Projects in Education publishes *Education Week*, America's newspaper of record for precollegiate education, *Digital Directions*, the *Teacher Professional Development Sourcebook*, and the Top School Jobs employment resource. It also produces periodic special reports on issues ranging from technology to textbooks, as well as books of special interest to educators.

The EPE Research Center, a division of Editorial Projects in Education, conducts annual policy surveys, collects data, and performs analyses that appear in the *Quality Counts*, *Technology Counts*, and *Diplomas Count* annual reports. The center also produces independent research reports, contributes original data and analysis to special coverage in *Education Week*, and maintains the Education Counts and EdWeek Maps online data resources. The EPE Research Center can be found online at www.edweek.org/rc.

Several current and former members of the EPE Research Center contributed to this project: Bonnie Ho, Holly Kosiewicz, Sterling Lloyd, Christina Luke, Erin Pollard, Alexis Reed, Sahar Sattarzadeh, Kacy Sellers, and Rebecca Wittenstein. We acknowledge Erin Pollard, in particular, who helped analyze a large portion of the data presented in this report.

This report would not have been possible without the cooperation of officials from every state education agency, who responded to the EPE Research Center's annual state policy survey, from which much of the information in this report was obtained.

Finally, we would like to extend our thanks to our program officers at the Pew Center on the States for their support of this work for the past 14 years. Without that sustained commitment, neither *Quality Counts* nor special supplementary studies such as this report would not have been possible.

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1. Overview

Today, state policymakers face increased pressure not only to make do with the dollars they have, but also to do more with those limited resources than ever before. Public education officials must make important decisions about how to raise and distribute funds and about how those funds should be spent. These decisions ultimately shape the level and nature of educational services available to the students served by a state's public schools. In addition, state financial policies interact with local funding mechanisms and, therefore, carry the potential to alternatively mitigate or accentuate differences in funding levels across school systems.

As it has throughout its 14-year history, *Quality Counts* tracks state policies across major areas of K-12 education. As a part of the larger project that produced the 2009 edition of *Quality Counts*, the EPE Research Center conducted a special supplementary study to assess the state of education finance policy for America's schools. In a policy survey conducted during the 2008-09 school year, the EPE Research Center asked states to provide a range of information about their school finance policies and practices. This report presents the results of that survey as well as expanded findings from its annual spending and equity analysis as reported in *Quality Counts 2010*.

State Policies That Pay: A Survey of School Finance Policies and Outcomes offers a unique perspective on states' efforts to generate and distribute funding to their schools and school districts at the onset of the severe economic downturn that has gripped the nation for more than a year. Drawing predominantly on original data and analysis from the EPE Research Center, each of the report's main sections examines a critical dimension of school finance.

State School Funding Formulas describes and categorizes state funding mechanisms for public education.

Weights and Categorical Funding examines the mechanisms through which states may target additional funds for particular students, schools, and districts.

Revenue Sources and Restrictions describes the major sources of school funds and the limitations that may be placed on how funds may be raised and spent.

Financial Equity and Spending Patterns presents an original EPE Research Center analysis of the level and distribution of educational spending within the states.

Accountability for Spending explores the extent to which fiscal data are monitored and reported by states.

School Finance Challenges considers the leading fiscal concerns raised by state respondents in the fall of 2008.

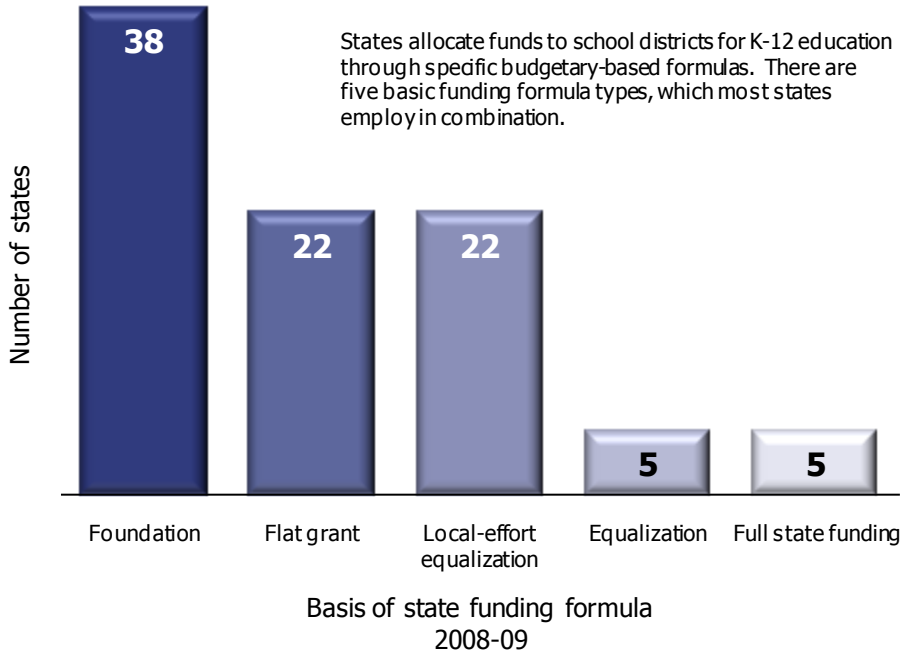
The research presented in this report is largely descriptive and aims to present readers with accurate and current information on a range of key issues associated with school finance initiatives and outcomes. We hope that this report will prove to be an informative and constructive resource for policymakers, educational leaders, and researchers alike.

2. State School Funding Formulas

According to recent estimates from the National Association of State Budget Officers' *State Expenditure Report*, education expenditures constitute the largest single category in state budgets. For fiscal year 2008, about 21 percent of all state spending was devoted to elementary and secondary education. As examined in this section of the report, states provide school districts with these funds through a variety of budgetary-based formulas.

A survey of state education agencies conducted by the EPE Research Center during the 2008-09 school year identified five major approaches to state educational funding. As described in detail below, these include: foundation formulas; equalization methods; local-effort equalization formulas; flat grant funding; and full state funding. States may implement these fiscal mechanisms individually or in combination.

Exhibit 2.1 State Approaches to Funding Public Education



SOURCE: EPE Research Center, 2010

Exhibit 2.2 Types of School-Funding Formulas

	State Funding Mechanisms 2008-09 (May be used in combination)						
	Foundation	Foundation level per pupil	Equalization	Local-effort equalization	Flat grant	Full state funding	Other
Alabama	Yes	staff-based funding		Yes			
Alaska	Yes	$5,380[1]	Yes	Yes			
Arizona		—	Yes	Yes			
Arkansas	Yes	$5,789		Yes			
California	Yes	varies by school district					
Colorado	Yes	$5,270	Yes				
Connecticut	Yes	$9,678	Yes				
Delaware		—	Yes		Yes		
District of Columbia	Yes	$8,322					
Florida	Yes	$3,972	Yes	Yes			
Georgia	Yes	$2,699	Yes	Yes			
Hawaii		—				Yes	
Idaho		—				Yes	
Illinois	Yes	$5,734			Yes		
Indiana	Yes	$4,825[2]		Yes			
Iowa	Yes	$5,333					
Kansas		—	Yes	Yes			
Kentucky	Yes	$3,866		Yes	Yes		
Louisiana	Yes	$3,855	Yes				
Maine	Yes	varies by school district		Yes			
Maryland	Yes	$6,694	Yes	Yes			
Massachusetts	Yes	varies by school district					
Michigan	Yes	$8,489					
Minnesota	Yes	$5,124					
Mississippi	Yes	$4,574		Yes			
Missouri	Yes	varies by school district		Yes			
Montana	Yes	varies by school district	Yes		Yes		
Nebraska		—	Yes				
Nevada	Yes	$5,213					
New Hampshire	Yes	$7,607	Yes				
New Jersey	Yes	varies by school level	Yes				grant
New Mexico		—	Yes				
New York	Yes	$5,695	Yes				
North Carolina	Yes	staff-based funding					
North Dakota		—		Yes			
Ohio	Yes	$5,565	Yes				
Oklahoma	Yes	$1,721	Yes				
Oregon	Yes	$5,850	Yes	Yes			
Pennsylvania	Yes	$8,355	Yes	Yes			
Rhode Island		—					general aid
South Carolina	Yes	$2,476		Yes			grant
South Dakota	Yes	$4,642[3]					
Tennessee		—	Yes				
Texas	Yes	$3,135		Yes			
Utah	Yes	$2,577					
Vermont		—				Yes	
Virginia	Yes	staff-based funding	Yes	Yes	Yes	Yes	
Washington		—		Yes		Yes	
West Virginia	Yes	varies by school district		Yes			
Wisconsin		—		Yes			
Wyoming	Yes	varies by school district					
U.S.	38	—	22	22	5	5	3

A dash (—) indicates not applicable.

FOOTNOTES:
1. Data are from FY 2009.
2. Data are from calendar year 2009.
3. An additional $22.64 per student is available if a district is able to certify at least a 3 percent increase in teacher salaries from the previous year.

SOURCE: EPE Research Center, 2009

FOUNDATION FORMULA Foundation formulas are the most common method of school funding, employed in 37 states and the District of Columbia. This funding approach guarantees a minimum amount of funding for each school district and requires districts to raise a local portion of this amount through a state-mandated tax rate. The difference between the foundation amount and the district's contribution determines the amount of state aid needed.

While many states use this method, the "foundation" or basic level of funding varies widely across the states, ranging from roughly $1,721 per pupil in Oklahoma to $9,678 per pupil in Connecticut. In eight states, foundation funds vary by school district or depend at least in part on grade levels served. In three other states, foundation formulas are staff-based, meaning that funds are generated based on the number of school staff necessary to provide educational services to students in the K-12 public schools. Responsibility for providing foundation funding is shared between the state and its local districts, with the required level of local effort or contributions varying from state to state. Some states permit local districts to levy additional taxes to generate revenue in excess of the foundation level set by the state. Twenty-seven of the states using foundation-based formulas do so in conjunction with other funding mechanisms.

EQUALIZATION METHOD Twenty-two states use an equalization method to finance K-12 education. An equalization formula takes into account the property wealth, taxation effort, and relative need of a local school district to determine funding levels. Equalization programs are intended to ensure that each district has the same opportunity to raise the necessary revenue, in the context of an established level of resources required to deliver educational services.

There are three different types of equalization approaches. A *percentage equalizing* strategy guarantees that the state will support a percentage of local education expenditures, with the state's contribution dependent on the relative wealth in each district. This approach relies on a state-aid ratio, or the proportion of district wealth to average state wealth, which is used to determine the state and local shares of funding. Under a *guaranteed tax base* formula, the state establishes a minimum effective tax base against which the state will supplement revenue raised by local school districts. For example, suppose that a state establishes a guaranteed tax base of $100 million. A district that sets its tax rate at one percent would be guaranteed total funding of $1 million by the state, which would supplement direct tax revenue up to that amount. So, a district with a real tax base of $75 million and tax rate of one percent, would generate $750,000 in direct tax revenue and be provided an additional $250,000 by the state. A *guaranteed tax yield* approach is similar, but tied to the amount of tax revenues raised rather than the tax base. Nineteen of the states using an equalization method do so in conjunction with other funding mechanisms.

LOCAL-EFFORT EQUALIZATION Twenty-two states use a local-effort equalization formula. This approach focuses on a school district's attempt to raise funds through local taxes and guarantees that, for any given level of taxation effort, a district will receive an equal yield. States that employ such formulas essentially tie additional state aid to district efforts to raise revenue through local taxes. In most states with this type of formula, the state grants a certain percentage of aid based on the difference between the per-pupil valuation of the district and the state. In other words, if the school district is unable to generate revenue equal to the state-guaranteed level of expenditures (when applying the district's chosen tax rate to its tax base), then the state makes up the difference. Nineteen of the states using a local-effort equalization method do so in conjunction with other funding mechanisms.

FLAT GRANT Five states—Delaware, Illinois, Kentucky, Montana, and Virginia—use a flat-grant approach to fund public schools. A flat-grant program is based on a uniform allocation of dollars per student or instructional unit. Were a flat-grant model to operate in isolation: no adjustments would be made based on local fiscal capacity or tax effort; local school district wealth and effort would not be considered; and all districts would receive the same amount of state aid per student or unit. However, each of the states that employs a flat grant does so in combination with other funding mechanisms.

FULL STATE FUNDING Five states—Hawaii, Idaho, Vermont, Virginia, and Washington—offer full state funding. States with such policies take responsibility for providing all money necessary for a basic education in each district. States with full funding formulas contribute 100 percent of the educational expenditures in the state and distribute funding based on student need

rather than wealth of local districts. Under this formula, the state determines the level of education expenditures in a district and limits the autonomy of local districts to determine how the money is spent. Districts may levy taxes to supplement the funding provided by the state.

3. Strategies for Targeting School Funds

Although states establish general funding formulas or models oriented around an average level of funding, the actual costs of providing educational services are not the same for all students and all schools. Particular categories of students may have extraordinary educational needs that require more intensive or different (i.e., higher-cost) services. For example, a cognitively disabled student who requires specialized instruction, transportation, or other services might cost more to educate than the average general education student. Similarly, certain schools or communities may operate within distinct, fiscally relevant contexts defined by such characteristics as their size or location. A very small school or district, for example, might not benefit from the same economies of scale as a large one. Labor or other expenses may also depend on the geographical location of a community, with certain cost categories systematically higher or lower in particular locales. Labor costs may be higher in urban areas with high costs of living, while transportation might be more expensive on a per-pupil basis for school systems that serve far-flung rural populations.

State funding systems account for such differences in two main ways: (1) associating funding weights or adjustments with certain types of students and schools, and (2) establishing separate categorical programs that generate additional, targeted dollars for particular student groups, schools, or districts. In practice, states often use these two major targeting strategies in combination.

3.1. Weights and Adjustments

States that employ weighted funding typically assign a numerical value or weight to categories of students with specific educational characteristics or who attend schools or districts with distinctive features. This serves as a mechanism for directing additional funding to targeted students or organizational units. By way of illustrating the operation of a weighted funding approach, suppose that the average student (who requires no specialized services and attends a typical school) receives an implicit weight of 1.0 in a per-pupil funding formula. That student would "count" as a single student for fiscal purposes. Suppose now that another student has a defined individual need for enhanced (i.e., higher-cost) school services. If such services were estimated to cost 50 percent more than average, that student might be assigned a weight of 1.5 in a funding formula. This means that he or she would generate more educational dollars than the average student and, effectively, be counted as more than one student (one-and-a-half, in this case) in the state's weighted funding formula. A similar weighting mechanism might be applied to students who attend school in high-cost environments, such as remote rural areas where transportation costs are high on a per-pupil basis.

An adjustment approach operates according to a similar logic, in that it provides additional funding based on student, school, district, or community characteristics. However, in this case, specific numeric weights are not employed. Instead, an adjustment strategy might allocate a fixed amount of additional funding to school systems that meet certain criteria associated with higher-cost educational services (e.g., districts that are small, rural, or serve a high proportion of students living in poverty). Ultimately, weights and adjustments are distinct funding mechanisms that serve a similar purpose: to target additional dollars to areas of greater educational need, as defined on the basis of student, school, or district characteristics. As such, we will generally address weights and adjustments together in the discussion below.

Exhibit 3.1 Student-Based Weights and Adjustments

	State uses a weight or adjustment in its school finance formula to allocate additional funds based on student characteristics (2008-09)[1]						
	Disability status	English-language learners	Low income	Grade level	Career and technical education	Academically at-risk	Other
Alabama[2]	Yes		Yes*	Yes	Yes	Yes*	
Alaska	Yes	Yes			Yes		Yes
Arizona	Yes	Yes		Yes			
Arkansas							
California							
Colorado		Yes*	Yes				
Connecticut		Yes*	Yes				
Delaware	Yes			Yes	Yes		
District of Columbia	Yes	Yes		Yes		Yes	Yes
Florida	Yes	Yes		Yes	Yes		Yes
Georgia	Yes	Yes		Yes	Yes	Yes	Yes
Hawaii		Yes	Yes	Yes			Yes
Idaho[2]	Yes			Yes			
Illinois							
Indiana	Yes		Yes	Yes*	Yes		Yes
Iowa	Yes	Yes	Yes				Yes
Kansas		Yes*	Yes*		Yes*	Yes*	Yes
Kentucky	Yes	Yes	Yes				
Louisiana	Yes	Yes	Yes		Yes		Yes
Maine	Yes	Yes	Yes	Yes	Yes*		
Maryland	Yes	Yes	Yes				
Massachusetts	Yes	Yes	Yes	Yes	Yes		
Michigan							
Minnesota		Yes*	Yes*	Yes			Yes
Mississippi			Yes*				
Missouri	Yes	Yes	Yes				
Montana	Yes		Yes	Yes			Yes
Nebraska	Yes*	Yes	Yes	Yes			Yes
Nevada	Yes*						
New Hampshire	Yes	Yes	Yes				
New Jersey	Yes	Yes	Yes	Yes	Yes		
New Mexico	Yes	Yes	Yes	Yes			Yes
New York	Yes	Yes	Yes				Yes
North Carolina[2]							
North Dakota	Yes	Yes					Yes
Ohio	Yes*	Yes*	Yes*		Yes*	Yes*	Yes
Oklahoma	Yes	Yes	Yes	Yes			Yes
Oregon	Yes	Yes	Yes	Yes			Yes
Pennsylvania		Yes	Yes				
Rhode Island		Yes*	Yes*	Yes*	Yes*		Yes
South Carolina	Yes			Yes	Yes		
South Dakota	Yes*						
Tennessee[2]	Yes	Yes	Yes	Yes	Yes		
Texas	Yes*	Yes*	Yes*		Yes*		Yes
Utah	Yes						
Vermont							
Virginia[2]	Yes*	Yes*	Yes*	Yes*		Yes*	Yes
Washington[2]				Yes	Yes		
West Virginia							
Wisconsin							
Wyoming[2]	Yes	Yes	Yes	Yes	Yes		Yes
U.S.	34	32	30	24	18	6	22

An asterisk (*) indicates that resulting funds are restricted and may only be used for educational purposes related to the group or unit generating the funds.

FOOTNOTES:
1. In some states it was not possible to distinguish between targeted funding mechanisms based on a weight/adjustment versus a categorical allotment. State funding practices were classified based on available information. See Exhibit 2.4 for information on categorical programs.
2. Based on staff allocation.

SOURCE: EPE Research Center, 2009

In all, 46 states (a total that includes the District of Columbia) apply some sort of weight or adjustment as part of their core school finance formula, in order to allocate additional funds to certain students, schools, or districts. Survey responses indicated that 43 states employ weights or adjustments tied to student characteristics (Exhibit 3.1). Among the six types of student weights explicitly tracked in our survey, those reported most frequently target: students with disabilities, English-language learners, and those from low -ncome backgrounds. The majority of states employ such weighting. Roughly half of states have implemented funding weights or adjustments related to grade level (e.g., a high school versus elementary student), with about one-third of states specifically targeting career and technical education. A handful of states use weights for students at risk academically. Twenty-one states and the District of Columbia target funding according to at least one other student classification that was not directly examined in our survey.

The specific procedure for applying funding adjustments and the actual numeric weights used for a given student category vary greatly across the states. In New York, for example, students with disabilities are assigned a weight of 2.41, meaning that they generate nearly two and a half times as much funding as a general education student. By contrast, a weight of 1.74 is used in Maryland.

In addition, some states employ tiered weighting mechanisms, which further refine funding weights within sub-categories. For example, students with disabilities in the District of Columbia are classified into four categories, based on the severity of their condition. Those subcategory weights range from a value of 1.5 (least severe) to 3.37 (most severe). Similarly, Hawaii groups English-language learners into three differentially weighted categories: non-proficient students (with a weight of 1.362), limited-English-proficient students (1.181), and fully proficient students who once were classified as ELLs (1.060).

Forty-two states use weights or otherwise adjust their funding formulas based on school or district features, as distinct from the characteristics of individual students. Among the specific weights and adjustments examined in the EPE Research Center's survey, those related to school or district size were the most common, used in 29 states. States also employed weights for schools or districts in rural or isolated locales (18 states) and in areas where costs of living and education are high (15 states). Eight states assign greater weight to systems with higher aggregate levels of teacher experience, while four states direct additional funding to systems with low levels of academic performance. A total of 19 states reported an array of other weights and adjustments based on specific school or district features.

Exhibit 3.2 District or School Weights and Adjustments

	State uses a weight or adjustment in its school finance formula to allocate additional funds based on district or school characteristics (2008-09)[1]					
	Size	Location	Cost adjustment	Teacher education or experience	Academic performance	Other
Alabama[2]	Yes					
Alaska	Yes		Yes			
Arizona	Yes	Yes		Yes		
Arkansas						
California	Yes					
Colorado	Yes		Yes			
Connecticut		Yes				
Delaware						
District of Columbia						
Florida	Yes	Yes	Yes			Yes
Georgia						
Hawaii	Yes	Yes				Yes
Idaho[2]	Yes	Yes				
Illinois						
Indiana	Yes					Yes
Iowa						Yes
Kansas	Yes		Yes			Yes
Kentucky						Yes
Louisiana	Yes					
Maine	Yes	Yes	Yes			Yes
Maryland			Yes			
Massachusetts			Yes			
Michigan						
Minnesota	Yes	Yes		Yes		Yes
Mississippi						Yes
Missouri	Yes		Yes			
Montana						Yes
Nebraska	Yes			Yes		Yes
Nevada		Yes				Yes
New Hampshire						
New Jersey			Yes			
New Mexico	Yes			Yes		Yes
New York		Yes	Yes			
North Carolina[2]	Yes*	Yes*				
North Dakota	Yes	Yes				
Ohio				Yes	Yes*	Yes
Oklahoma	Yes	Yes		Yes		
Oregon	Yes	Yes		Yes		
Pennsylvania	Yes		Yes			
Rhode Island					Yes*	
South Carolina					Yes*	
South Dakota	Yes	Yes				Yes
Tennessee[2]	Yes		Yes			Yes
Texas	Yes	Yes	Yes			Yes
Utah	Yes	Yes		Yes		
Vermont						
Virginia[2]	Yes		Yes		Yes*	
Washington[2]	Yes	Yes				Yes
West Virginia	Yes	Yes				
Wisconsin						
Wyoming[2]	Yes		Yes			Yes
U.S.	29	18	15	8	4	19

An asterisk (*) indicates that resulting funds are restricted and may only be used for educational purposes related to the group or unit generating the funds.

FOOTNOTES:
1. In some states it was not possible to distinguish between targeted funding mechanisms based on a weight/adjustment versus a categorical allotment. State funding practices were classified based on available information. See Exhibit 2.4 for information on categorical programs.
2. Based on staff allocation

SOURCE: EPE Research Center, 2009

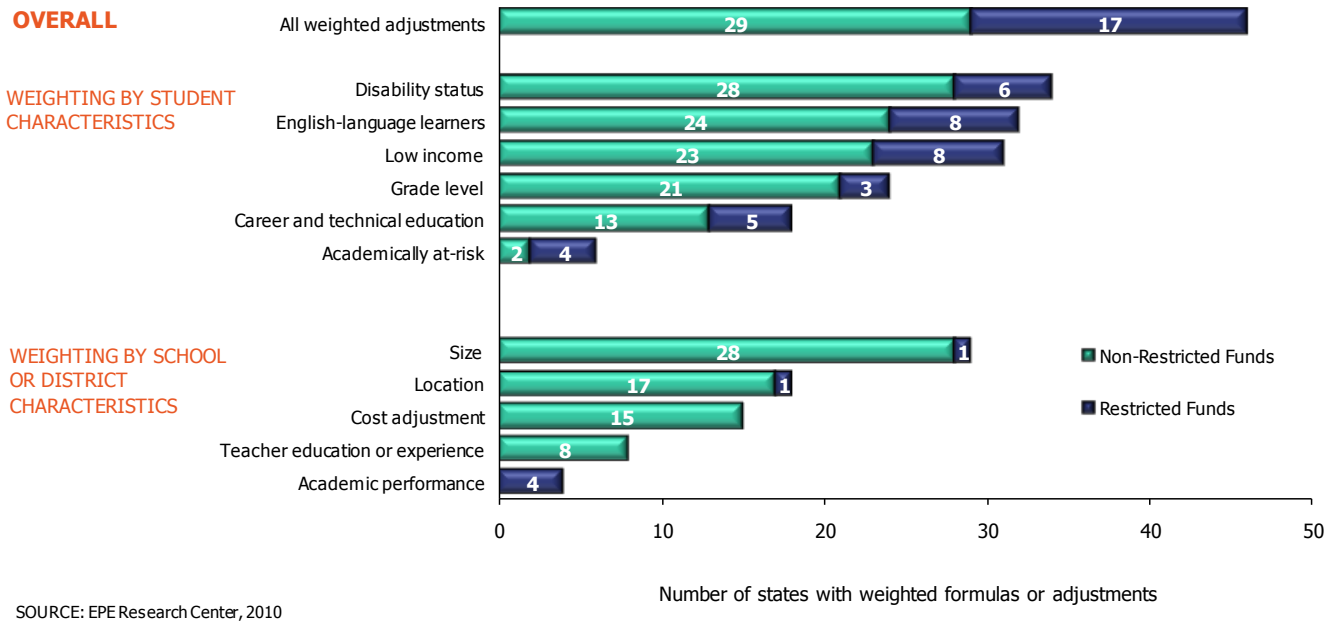
3.2. Restrictions on Targeted Funds

The precision with which additional funding tied to weights and adjustment is targeted can also vary across states. In some instances, the incremental dollars are restricted to activities that directly serve the students, schools, or districts triggering the weight. Other states allow the additional funds to be applied toward general educational purposes. In such cases, a relatively higher level of funding would flow to schools and districts with more qualifying students because of the weight or adjustment.

Our survey documented a total of 218 distinct instances of weights or adjustments in use across 46 states. This total includes only weights falling under the six specific categories of student-based weights and five categories of school/district weights explicitly mentioned in the survey. That is, "other" or unspecified weights have been excluded for present purposes.

Incremental dollars were restricted to targeted services for the class of students triggering the funding supplement in only 40 of those 218 cases. Exhibit 3.3 displays the breakdown of restricted versus non-restricted application of funds by the specific type of student or school/district weighting scheme. Across both of these broad areas, we generally find that states do not typically restrict the use of additional dollars to the population targeted by the weight. In fact, the only exception to this general pattern relates to funding policies that direct additional funding to low-performing schools, where all states with such provisions apply those funds in a restricted manner.

Exhibit 3.3 Weighted Adjustments in School Finance Formulas (2008-09)



SOURCE: EPE Research Center, 2010

3.3. Categorical Funding

Another general strategy that states employ to allocate additional resources to particular schools or school districts is categorical funding. Categorical funding approaches, as defined in this study, include state aid intended to provide financial support for specific educational programs, operational functions, or financial activities. Programs designated as "categorical" are typically designed to serve the educational needs of a well-defined population, class, or category of students, such as English-language learners, students with disabilities, or those from economically disadvantaged backgrounds. Categorical funds typically appear as line items in state budgets and, in contrast to weights, are somewhat distinct from funding formulas.

Despite some commonalities, states have unique ways of defining categorical programs, of implementing associated funding, and of relating formula-based and categorical funding to each other. As a result, our analysis was occasionally unable to clearly distinguish between categorical funding and weighting mechanisms. Overall, however, it should be noted that the intent and effect of weighting and categorical approaches are typically similar: district and school funding levels are tied to the proportion of students in particular categories, programs, and schools.

An analysis of our survey results shows that all states but one, Tennessee, use categorical funding as a mechanism to direct additional funds to targeted students and schools. Among the eight specific funding areas that we tracked, the most common programmatic focus for categorical spending was special education, found in 39 states (Exhibit 3.4). In addition, the majority of states have also established categorical funding channels for transportation (32 states), capital outlay/debt service (30), technology (30), or gifted and talented programs (28). Roughly one-third of states direct categorical funding to programs that support English-language learners (20 states), teacher retirement/benefits (18), and/or compensatory education (17).

While this study did not directly ask states about types of categorical programs other than those mentioned above, many states volunteered information about additional streams of categorical funding. Wisconsin, for example, noted that it provided categorical funds for student nutrition programs and alcohol/drug abuse programs. Categorical programming in Arkansas supports professional development, while Colorado directs categorical funding to security-related activities.

States vary widely in the number of categorical programs they sponsor. As shown in Exhibit 2.5, Ohio reported 105 separate categorical programs. In contrast, Alaska, North Dakota, Texas, and Wyoming each reported only two such programs. With respect to the dollar amounts allocated to categorical programs, the size of a state's student population is a major factor. California and New York, home to the nation's largest and third-largest public school systems, respectively allocate $15 billion and $30 billion to categorical programs. However, Georgia (with the ninth-largest public school population) ranks third in terms of categorical spending levels while Texas (ranked second) falls around the middle of the nation with respect to categorical spending. Again, it should be noted that states with relatively low per-capita levels of categorical funding may rely heavily on weighting mechanisms (discussed in the previous section) to allocate resources for similar educational purposes.

Exhibit 3.4 State Categorical Funding by Area

	State has categorical program in the following areas (FY 2008)[1]							
	Special education	Transportation	Capital and debt service	Technology	Gifted and talented education	Bilingual education/ English-language learners	Teacher retirement and benefits	Compensatory education
Alabama	Yes	Yes	Yes	Yes	Yes	Yes		
Alaska		Yes	Yes					
Arizona	Yes		Yes		Yes	Yes		
Arkansas	Yes		Yes	Yes		Yes	Yes	Yes
California	Yes	Yes	Yes	Yes	Yes	Yes		Yes
Colorado	Yes	Yes			Yes	Yes		
Connecticut	Yes	Yes	Yes	Yes		Yes	Yes	Yes
Delaware	Yes	Yes	Yes	Yes	Yes	Yes		Yes
District of Columbia		Yes	Yes				Yes	
Florida	Yes	Yes			Yes			
Georgia	Yes	Yes	Yes	Yes	Yes	Yes		Yes
Hawaii	Yes			Yes			Yes	
Idaho	Yes	Yes	Yes	Yes	Yes	Yes		
Illinois	Yes	Yes		Yes	Yes	Yes		Yes
Indiana				Yes	Yes	Yes	Yes	
Iowa	Yes	Yes		Yes	Yes			Yes
Kansas	Yes		Yes				Yes	
Kentucky	Yes		Yes	Yes	Yes		Yes	Yes
Louisiana	Yes			Yes				
Maine							Yes	
Maryland	Yes	Yes			Yes		Yes	
Massachusetts	Yes	Yes	Yes		Yes			
Michigan	Yes	Yes			Yes	Yes		Yes
Minnesota	Yes	Yes	Yes	Yes				
Mississippi	Yes	Yes	Yes		Yes			
Missouri		Yes						
Montana		Yes	Yes		Yes		Yes	
Nebraska	Yes			Yes	Yes			
Nevada	Yes			Yes	Yes		Yes	
New Hampshire	Yes	Yes	Yes				Yes	Yes
New Jersey	Yes	Yes	Yes				Yes	
New Mexico		Yes		Yes				
New York	Yes	Yes	Yes	Yes		Yes		
North Carolina	Yes	Yes		Yes	Yes	Yes		
North Dakota	Yes				Yes			
Ohio		Yes	Yes	Yes	Yes	Yes		Yes
Oklahoma	Yes			Yes			Yes	
Oregon	Yes	Yes	Yes		Yes			Yes
Pennsylvania	Yes	Yes	Yes	Yes	Yes		Yes	Yes
Rhode Island			Yes	Yes		Yes		
South Carolina	Yes			Yes	Yes		Yes	Yes
South Dakota	Yes			Yes				
Tennessee								
Texas			Yes					
Utah	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
Vermont	Yes	Yes	Yes	Yes				
Virginia	Yes		Yes	Yes				Yes
Washington	Yes	Yes	Yes		Yes	Yes		Yes
West Virginia	Yes	Yes	Yes	Yes		Yes	Yes	
Wisconsin	Yes	Yes	Yes	Yes	Yes	Yes		Yes
Wyoming								
U.S.	39	32	30	30	28	20	18	17

FOOTNOTE:
1. In some states it was not possible to distinguish between targeted funding mechanisms based on a weight/adjustment versus a categorical allotment. State funding practices were classified based on available information. See Exhibits 2.1 and 2.2 for information on weights and adjustments.

SOURCE: EPE Research Center, 2009

Exhibit 3.5 Categorical Funding—Programs and Allocations (FY2008)

	Total number of categorical programs[1]	Total dollars allocated by state categorical programs	Ranking (by dollar allocation)
Alabama	28	$776,660,059	21
Alaska	2	$56,724,500	47
Arizona	12	$98,604,484	45
Arkansas	86	$1,216,648,345	17
California	68	$14,900,000,000	2
Colorado	8	$219,441,000	34
Connecticut	19	$1,242,866,752	16
Delaware	22	$1,044,182,300	20
District of Columbia	5	$479,388,387	27
Florida	16	$5,663,623,347	4
Georgia	32	$8,941,022,862	3
Hawaii	68	$351,404,546	31
Idaho	23	$172,786,400	38
Illinois	38	$2,476,300,300	9
Indiana	18	$193,000,000	35
Iowa	37	$2,679,140,898	8
Kansas	9	$737,600,000	23
Kentucky	39	$1,486,030,940	13
Louisiana	16	$315,219,449	32
Maine	4	$58,684,066	46
Maryland	19	$746,099,528	22
Massachusetts	18	$5,000,678,418	5
Michigan	50	$1,500,000,000	12
Minnesota	58	$1,149,000,000	18
Mississippi	12	$626,209,261	25
Missouri	4	$354,456,350	30
Montana	14	$137,513,115	42
Nebraska	11[2]	$177,898,770[2]	37
Nevada	19	$276,724,874	33
New Hampshire	10	$132,063,790	43
New Jersey	10	$4,338,300,000	6
New Mexico	9	$158,161,800	39
New York	60	$30,192,633,600	1
North Carolina	14	$2,159,410,000	10
North Dakota	2	$51,000,000	49
Ohio	105	$1,081,168,194	19
Oklahoma	33	$467,150,924	28
Oregon	10	$434,976,825[3]	29
Pennsylvania	29	$3,735,068,000	7
Rhode Island	10	$157,987,159	40
South Carolina	68	$1,355,000,000	15
South Dakota	3	$55,623,523	48
Tennessee	0	$0	51
Texas	2	$726,000,000	24
Utah	39	$1,381,661,367	14
Vermont	10	$179,200,000	36
Virginia	11	$137,700,000	41
Washington	11	$1,840,000,000	11
West Virginia	35	$123,662,918	44
Wisconsin	36	$617,000,000	26
Wyoming	2	$25,000,000	50
U.S.	—	—	—

A dash (—) indicates not applicable.

FOOTNOTES:
1. In some states it was not possible to distinguish between targeted funding mechanisms based on a weight/adjustment versus a categorical allotment. State funding practices were classified based on available information. The total number tally here may differ from the sum of the categorical programs listed in Exhibit 3.4 because states may have multiple categorical programs within a given area or may have programs in areas other than those listed in that exhibit.
2. Data are from the 2006-07 school year.
3. The figure is a mix of estimates and actual costs for the 2007-08 school year.

SOURCE: EPE Research Center, 2009

4. Revenue Sources and Restrictions

The vast majority of public school funding comes from state and local sources. On average, less than 10 percent of all dollars supporting elementary and secondary education have come from the federal government. Historically, local budgets and property taxes had been the predominant funding sources. However, the relative shares of funding derived from local, state, and federal sources have shifted noticeably over time (Exhibit 4.1).

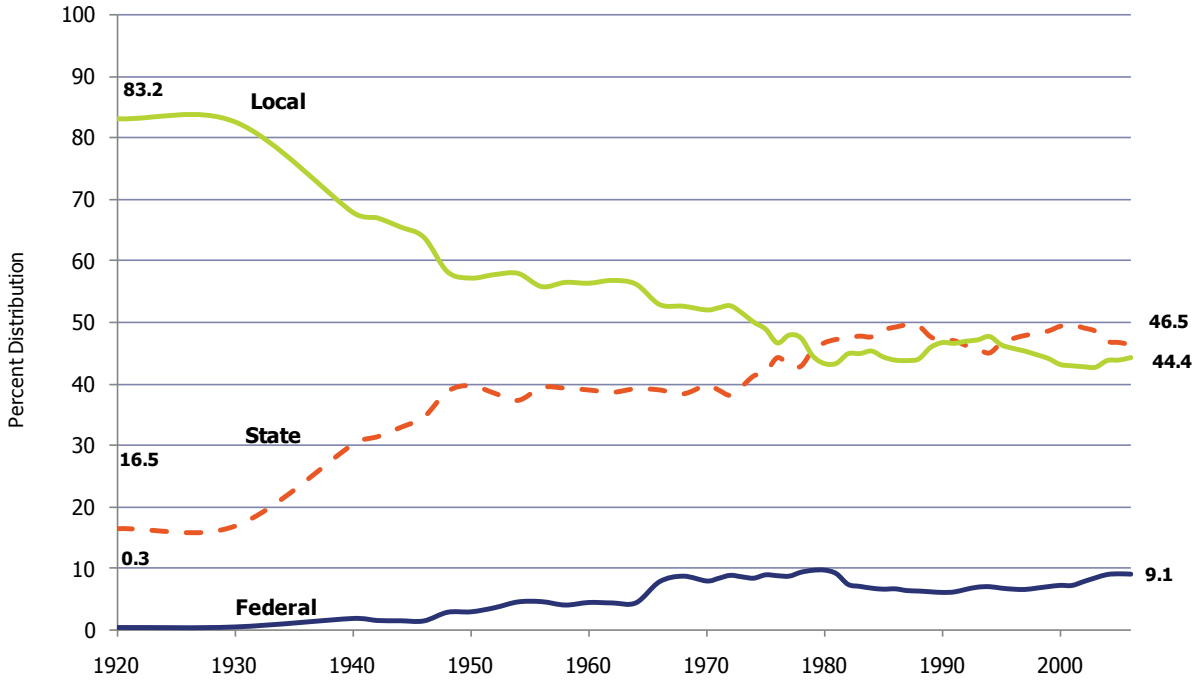
According to recent data from the National Center for Education Statistics, in 1920 more than 80 percent of the revenue for public education came from local sources. By the 1940s, this proportion had fallen to roughly 65 percent and continued to decline during the subsequent three decades. Since the mid-1990s, the proportion of K-12 education funded by local revenue has stabilized at roughly 45 percent across the states.

Over this same time period, we find that the trend in state contributions to public education is a mirror-opposite of the pattern for local funding. In 1920, state revenue comprised 16 percent of school funding. By 1980, that figure had risen to around 50 percent, roughly where it stood in 2006. This trend tracks closely with the increasingly prominent role that states have come to play in public education generally and in funding schools more specifically in recent decades. State courts across the country, for example, have found that school finance formulas that rely heavily on property taxes may be unconstitutional on the grounds that they create inequities in school districts' ability to raise revenue equally across the state.

An analysis reported by the National Center for Education Statistics in the *Condition of Education 2009* found that, in 21 states, at least half of all education revenue came from state governments. In 16 states and the District of Columbia, the majority of revenues came from local sources. In the 13 remaining states, no single source accounted for a majority of all education revenue.

States have two primary strategies at their disposal for generating revenue for K-12 public schooling: taxes and lotteries. In some cases, all or portions of revenues from such sources may be allocated to education or other specific funding priorities. Alternatively, those dollars may be directed to the state's general fund. Twenty-eight states reported having some kind of tax that directs revenue to K-12 public education, with 22 states reporting setting aside some or all of their lottery proceeds to fund K-12 education.

Exhibit 4.1 Revenue Distribution for Public Elementary and Secondary Schools



Source: Digest of Education Statistics 2007. National Center for Education Statistics, 2008

4.1. Taxes

Exhibit 4.2 provides a summary of tax mechanisms across the states that generate revenue specifically for K-12 schooling. Also reported is the approximate share of the funds raised that are reserved for educational spending. It should be noted that states may levy taxes without setting aside any of those revenues for the public schools. Such taxes are not represented here.

Of the 46 states with sales taxes, only 14 explicitly devote a share of such tax revenue to public schooling. The relative size of that education allocation ranges from 0.33 percent in Colorado to 60 percent in Michigan. Ten states reserve a portion of the revenue generated by taxes on tobacco and/or alcohol, and 10 states set aside a percentage of revenues from gaming taxes. Although 44 states have income taxes, only five reserve some portion of that revenue for education.

In addition to the sales, gaming, tobacco, alcohol, and income taxes noted below, 15 states reported other forms of tax revenue that set aside a share of proceeds specifically for K-12 education. The most common of such taxes include those on: fuel, electricity, and other utilities (Alabama, Florida, Texas, and Vermont); various business or commercial enterprises (Michigan, New Hampshire, Ohio, and West Virginia); and auto licensing or rental fees (Iowa, Nevada, New Hampshire, and Texas). North Dakota and Oklahoma indicated that some revenue from taxes on oil extraction and natural gas were dedicated to education.

Exhibit 4.2 Sources of State Revenue — Taxes

	Percent of state tax revenue dedicated specifically to education (FY 2008)					
	Sales	Gaming	Tobacco/cigarettes	Alcohol/liquor	Income	Other
Alabama	85%			40%	98%	Yes
Alaska						
Arizona	0.6%	56%				
Arkansas	28.72%					
California						
Colorado					0.33%	
Connecticut						
Delaware						
District of Columbia						
Florida		100%				Yes
Georgia						
Hawaii						Yes
Idaho			9.07%			
Illinois						
Indiana						
Iowa	16.67%	approx. 5%				Yes
Kansas						
Kentucky						
Louisiana		6.3%				
Maine						
Maryland						
Massachusetts	1%					
Michigan	60%	45%[1]	cigarette: 83.24¢/pack; tobacco: 94.0%	100%	23.26%	Yes
Minnesota						
Mississippi	14.29%					
Missouri	23.7%	90%	76.47%			
Montana						
Nebraska						
Nevada	34.62%					Yes
New Hampshire						Yes
New Jersey						
New Mexico						
New York						
North Carolina						
North Dakota						Yes
Ohio						Yes
Oklahoma	10.46%	88%	2.07%		16.5%	Yes
Oregon						
Pennsylvania		34%				
Rhode Island		Up to $14.1 mill				
South Carolina						
South Dakota		49.5%	33% after $30 mill			
Tennessee	100%[2]		96.4%			Yes
Texas			25%			Yes
Utah				10%	48.3%	
Vermont	33.33%					Yes
Virginia	31.25%					
Washington			71.5%			Yes
West Virginia	3.2%					Yes
Wisconsin						
Wyoming						
U.S.	14	10	8	3	5	15

FOOTNOTES:
1. If a city exercises options in Michigan Complied Law 432.212(4), 100 percent of the 8.1 percent tax revenue is dedicated to education.
2. One hundred percent of all revenue generated from an 0.5 percent increase in sales tax is earmarked for K-12 education.

SOURCE: EPE Research Center, 2009

4.2. Lotteries

Our survey of state education agencies asked respondents to indicate whether the state had a lottery and, if so, whether any of the proceeds were explicitly reserved for K-12 education. States also reported the share of applicable profits dedicated to education as well as the total revenue generated for K-12 schools. According to the officials surveyed, 43 states have lotteries, only 22 of which dedicate a portion of proceeds specifically to the public schools.

Among the 22 states with lotteries that support the public schools, 71 percent of profits on average go to education (Exhibit 4.3). However, states vary greatly around that average. At the low end of the spectrum, Colorado devotes 7 percent of profits to education. But nine states—Illinois, Michigan, New Hampshire, New York, North Carolina, Ohio, Texas, Vermont, and Virginia—allocate 100 percent of profits to K-12 education. New York ranks first in the nation for the amount of revenue raised for K-12 education through a lottery, $2.56 billion for fiscal year 2008. Lotteries in California and Texas, two other populous states, generated nearly one billion dollars apiece for education. However, in most states, those figures were considerably lower. For example, Idaho's lottery revenue generated about $19 million for K-12 education, while Nebraska's generated $6 million.

Exhibit 4.3 Sources of State Revenue—Lotteries

	State has a lottery dedicated at least in part to K-12 education (FY 2008)		
	Lottery that generates revenue for K-12 education	Share of lottery profit dedicated to K-12 education	Lottery revenue generated for K-12 education
California	Yes	79.01%[1]	$876,559,300[1]
Colorado	Yes	6.66%[2]	$489,500,000[2]
Florida	Yes	59.02%	$734,400,000
Georgia	Yes	99.18%[2]	$843,531,000[2]
Idaho	Yes	50%	$19,122,600
Illinois	Yes	100%[2]	$622,000,000[2]
Louisiana	Yes	99.64%[3]	$140,562,800[3]
Michigan	Yes	100%[2]	$748,900,000[2]
Missouri	Yes	67.8%	$181,442,900
Nebraska	Yes	19.75%[1]	$6,025,400[1]
New Hampshire	Yes	100%	$75,635,900
New Jersey	Yes	9.16%[2]	$75,855,000[2]
New York	Yes	100%[1]	$2,560,000,000[1]
North Carolina	Yes	100%	$347,363,200
Ohio	Yes	100%	$688,900,000
Oklahoma	Yes	45%	$35,228,900
South Carolina	Yes	approx. 25%	$50,100,000
Texas	Yes	100%	$983,144,000
Vermont	Yes	100%	$22,500,000
Virginia	Yes	100%	$455,300,000
Washington	Yes	86.46%[2]	$101,930,000[2]
West Virginia	Yes	17.26%	$108,900,000
U.S.	22	71.09%	—

FOOTNOTES:
1. Data are from FY 2007-08.
2. Data are from FY 2007.
3. Data are from FY 2008-09.

SOURCE: EPE Research Center, 2009

4.3. Restrictions on Revenue

All states and the District of Columbia allow local school districts to generate revenue from private sources (Exhibit 4.4). Private contributions include funding from foundations, businesses, alumni associations, or individuals, and they are distinct from revenue provided by or through federal, state, and local government sources or generated by district or school business operations.

A law from Colorado typifies this mechanism for raising school funds. The applicable statute states that local boards of education are granted the power:

> *"to accept gifts, donations, or grants of any kind made to the district and to expend or use said gifts, donations, or grants in accordance with the conditions prescribed by the donor; but no gift, donation, or grant shall be accepted by the board if subject to any condition contrary to law" (Colorado Revised Statute, Title 22, Article 32, C.R.S. 22-32-110[1]).*

To take another example, in South Carolina, some communities have formed private foundations for schools or districts that receive donations from various sources. Local schools in Utah are also able to procure foundation funding without any involvement or redistribution by the state. No state places limits on the amount of private contributions a school district can raise.

Some states, however, choose to cap or otherwise limit the revenue that local districts may raise from public sources. Types of limits or caps are classified into five broad categories: (1) property-tax rate; (2) increase in property-tax rate; (3) property-tax revenue; (4) increase in property-tax revenue; and (5) other. Twenty-one states limit the local property-tax *rate*, while four place caps on *increases* in the local property-tax rate. Two states limit local property-tax *revenues*, with 10 states limiting *increases* in local property-tax revenues. Twelve states reported other types of caps on local revenue sources, including those related to transportation levies, building funds, and municipal tax rates.

Despite such restrictions, it is common for state law to include provisions that allow local voters to override limits on generating revenue from local sources. In fact, the majority of the caps documented by our survey—22 out of 37, excluding the "other weights" category—may be overridden by voters. That total includes all of the limits to increases in the property-tax rate and more than half of caps on property-tax rates.

Exhibit 4.4 Restrictions on Raising Revenue (2008-09)

	State allows districts to generate revenue from private contributions	State caps or limits education revenue from public sources				
		Property-tax rate	Increase in property-tax rate	Property-tax revenue	Increase in property-tax revenue	Other
Alabama	Yes	Yes*				
Alaska	Yes					Yes
Arizona	Yes					Yes*
Arkansas	Yes				Yes	
California	Yes	Yes*			Yes*	
Colorado	Yes	Yes*			Yes*	
Connecticut	Yes					
Delaware	Yes					
District of Columbia	Yes					
Florida	Yes	Yes*				
Georgia	Yes	Yes*				
Hawaii	Yes					
Idaho	Yes					
Illinois	Yes				Yes*	
Indiana	Yes	Yes				Yes
Iowa	Yes					
Kansas	Yes			Yes		
Kentucky	Yes	Yes			Yes*	Yes
Louisiana	Yes	Yes				Yes*
Maine	Yes					
Maryland	Yes					
Massachusetts	Yes					Yes*
Michigan	Yes	Yes*	Yes*		Yes	Yes
Minnesota	Yes			Yes*		
Mississippi	Yes	Yes*				
Missouri	Yes					
Montana	Yes					
Nebraska	Yes	Yes*				
Nevada	Yes	Yes	Yes*			
New Hampshire	Yes					
New Jersey	Yes					Yes*
New Mexico	Yes	Yes				
New York	Yes					
North Carolina	Yes					
North Dakota	Yes					Yes*
Ohio	Yes				Yes	
Oklahoma	Yes					Yes*
Oregon	Yes	Yes			Yes	
Pennsylvania	Yes					Yes*
Rhode Island	Yes		Yes*			
South Carolina	Yes		Yes*			
South Dakota	Yes	Yes*				
Tennessee	Yes					
Texas	Yes	Yes*			Yes	
Utah	Yes	Yes*				
Vermont	Yes					
Virginia	Yes	Yes				
Washington	Yes	Yes*				
West Virginia	Yes	Yes*			Yes	
Wisconsin	Yes					Yes*
Wyoming	Yes	Yes				
U.S.	51	21	4	2	10	12

An asterisk (*) indicates that local voters can override limits or caps.

SOURCE: EPE Research Center, 2009

5. Financial Equity and Spending

Each year, the EPE Research Center conducts an original analysis of state spending patterns and the distribution of school funding within states. The results of these analyses appear in *Education Week*'s annual *Quality Counts* report. The findings are also used to assign letter grades to the states, based on a set of eight education-finance indicators that capture key aspects of the their school-spending patterns and the allocation of education dollars across districts within the state.

Data for the EPE Research Center's finance analyses were obtained from a variety of sources, including:

- Common Core of Data, Local Education Agency Non-fiscal and Fiscal Data (National Center for Education Statistics, U.S. Department of Education)
- Comparable Wage Index (NCES)
- Public Elementary-Secondary Education Finance Data (U.S. Census Bureau)
- Small-Area Income and Poverty Estimates (U.S. Census Bureau)
- School District Demographics (U.S. Department of Education)
- Public Elementary-Secondary Education Finance Data (U.S. Census Bureau)
- Revenues and Expenditures for Public Elementary and Secondary Education (NCES)
- Gross State Product (Bureau of Economic Analysis, U.S. Department of Commerce)

The eight specific indicators used to characterize the states' school-finance environment are described in the following section. More detailed methodological information, including procedures for assigning state grades, can be found in *Quality Counts 2010*.

5.1. School-Finance Indicators

Financial Equity

Wealth Neutrality Score: The wealth-neutrality score shows the degree to which state and local revenue are related to the property wealth of districts. A positive score means that wealthy districts have more funding per weighted pupil than poor districts. A negative score means that, on average, poorer districts actually have more funding per weighted pupil than wealthy districts (a more equitable outcome).

McLoone Index: The McLoone Index is based on the assumption that if all students in the state were rank-ordered according to the amount their districts spent on them, perfect equity would be achieved if every district spent at least as much as that spent on the pupil in the middle of the distribution, or the median. The McLoone Index is the ratio of the total amount spent on pupils below the median to the amount that would be needed to raise all students to the median per-pupil expenditure in the state. Larger values are associated with a more equitable environment.

Coefficient of Variation: The coefficient of variation is a measure of the disparity in funding across school districts in a state. The value is calculated by dividing the standard deviation of adjusted spending per pupil by the state's average spending per pupil. The standard deviation is a measure of dispersion (i.e., how spread out spending levels are across a state's districts). If all districts in a state spent exactly the same amount per pupil, its coefficient of variation would be zero. As the coefficient gets higher, the variation in the amounts spent across districts also gets higher. Lower coefficient values indicate greater equity.

Restricted Range: This indicator captures the differences in funding levels found between the highest- and lowest-spending districts in a state. The index value is calculated as the difference in per-pupil spending levels at the 95th and 5th percentiles. Districts enrolling fewer than 200 students are excluded from the analysis. States with more equitable funding contexts have smaller restricted-range values.

School Spending

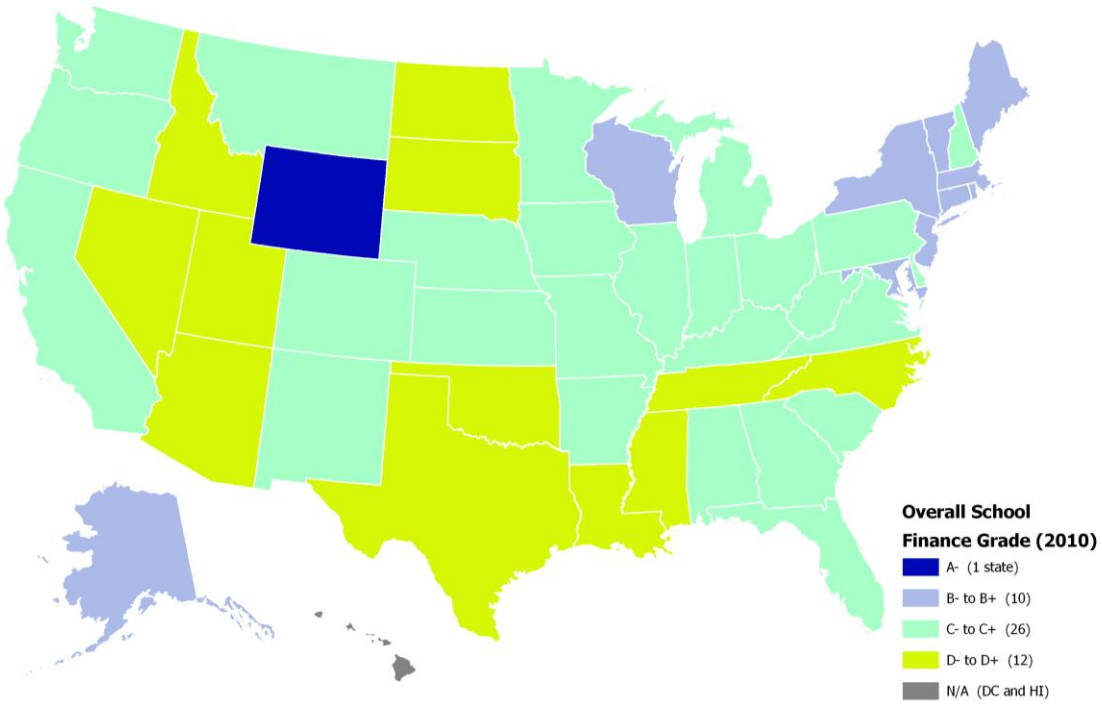
Adjusted Per-Pupil Expenditures: Average statewide per-student spending, adjusted for variations in regional costs using the NCES Comparable Wage Index (2005).

Percent of students in districts with PPE at or above U.S. average: Expenditures are adjusted for regional cost differences and student needs.

Spending Index: The Spending Index takes into account both the proportion of students enrolled in districts with spending at the national average, and the degree to which spending is below that benchmark in districts where per-pupil expenditures fall below the national average. Each district in which the per-pupil-spending figure (adjusted for student needs and cost differences) reaches or exceeds the national average receives a score of 1 times the number of students in the district. A district whose adjusted spending per pupil is below the national average receives a score equal to its per-pupil spending divided by the national average and then multiplied by the number of pupils in the district. The spending index is the sum of district scores divided by the total number of students in the state. If all districts spend above the U.S. average, the state attains a perfect index score of 100 points.

Percent of total taxable resources spent on education: Share of state resources spent on K-12 education, based on gross state product.

Exhibit 5.1 State School Finance Grades, *Quality Counts 2010*



SOURCE: EPE Research Center, 2010

5.2. School Finance Results

As reported in the 2010 edition of *Quality Counts*, the nation overall earns a C on school finance, with half of state grades found in the C-minus to C-plus range. Wyoming leads the nation with an A-minus, followed closely by New Jersey and Rhode Island, each earning a B-plus. At the other end of the spectrum, Idaho, Mississippi, Nevada, Tennessee, and Utah each received a D. States tend to fare better on the equity measures examined in *Quality Counts 2010* than on the spending metrics, with respective overall national grades of B and D on these sections.

The EPE Research Center's school finance analysis explores intrastate equity dynamics using four indicators that capture, each in a distinctive way, the manner in which education funding is distributed among the districts within a state. The Wealth-Neutrality Score measures the relationship between district expenditures and local property wealth. The McLoone Index benchmarks actual spending levels as a percent of the amount needed to bring all students to the state's median level. The degree of variability in spending across districts within a state is measured using the Coefficient of Variation. And Restricted Range reflects the difference in per-pupil expenditures for districts at the 95th and 5th percentiles of the state's spending distribution.

The nation as a whole earned a grade of B for school-finance equity. West Virginia led the nation with an A-minus, a grade earned by five other states: Arkansas, Iowa, Nebraska, Utah, and Wisconsin. Alaska and Vermont ranked last in the nation, each posting a C for equity. Overall, results suggest significant funding disparities across districts in many states. The Restricted Range indicator, which gauges the difference in per-pupil spending levels at the 95th and 5th percentiles, finds the smallest disparity in Nevada ($1,979). But at the other extreme, that gap is five time as wide in Alaska ($10,806). The Wealth-Neutrality Score, which examines the degree to which a school district's state and local revenue sources are correlated with its property-based wealth, finds that only eight states provide more funding for poorer districts as compared with wealthier school systems.

It should be noted that the District of Columbia and Hawaii are single-district jurisdictions. As a result it is not possible to calculate measures of financial equity, which capture the distribution of funding across districts within a state. The District of Columbia and Hawaii do not receive summative grades for school finance and are not included in overall school-finance rankings.

The second part of the EPE Research Center's school-finance analysis examines patterns of state spending on K-12 education. It is important to note that these analyses do not simply consider raw amounts of spending or the sheer numbers of dollars allocated to each student. In fact, neither of those metrics are included in our analysis. Rather, state spending on education is always examined relative to a particular relevant benchmark. These points of reference include the regionally varying costs associated with delivering a public education, national average spending levels, and the overall size of the state's economic resources.

Overall, states fared less well on the spending indicators than they did on the equity indicators, with an average grade of D. In fact, 24 states received a grade of F for spending. New Jersey, Vermont, and Wyoming received the only As, while the District of Columbia and New York each received an A-minus. Results show that the average state is spending more than $10,000 per student annually, after adjusting for regional differences in the cost of education. However, the range in spending levels across states is wide. Wyoming posts the highest per-pupil spending level at $16,386. But at the other extreme, Utah spends the least by a considerable margin ($6,228 per pupil). In all, 28 states and the District of Columbia spend more than $10,000 per student.

A closer examination of the findings shows that no state ranks at the top (or bottom) of the nation for both aspects of finance. For example, Vermont earns the top grade in the nation on the spending indicators examined. However, it ranks 48th in terms of the equitable distribution of those education dollars. Similarly, Utah ranks last on the spending indicators, but second with respect to finance equity.

Exhibit 5.2 Education Finance Analysis — Equity

	Equity Grade		Wealth Neutrality Score	McLoone Index	Coefficient of Variation	Restricted Range
West Virginia	A-	91.6	0.113	93.0	0.083	$2,105
Utah	A-	91.2	-0.043	94.1	0.164	$1,979
Wisconsin	A-	90.8	0.059	92.0	0.101	$2,731
Nebraska	A-	90.6	-0.178	95.0	0.186	$3,784
Iowa	A-	89.8	0.050	90.7	0.123	$2,673
Arkansas	A-	89.7	0.060	92.3	0.119	$2,878
Florida	B+	89.2	0.196	94.2	0.095	$2,218
Kentucky	B+	88.7	0.035	86.0	0.131	$2,967
Washington	B+	88.6	0.083	91.7	0.146	$2,332
California	B+	88.4	0.022	91.9	0.161	$2,901
Nevada	B+	88.3	-0.014	NA[1]	0.138	$2,627
Alabama	B+	88.2	0.185	91.3	0.105	$2,510
Kansas	B+	88.1	-0.019	88.6	0.157	$3,550
Colorado	B+	88.0	0.121	94.3	0.140	$2,679
Oregon	B+	87.8	0.068	89.9	0.144	$3,010
Minnesota	B+	87.6	0.045	91.9	0.154	$3,395
Indiana	B+	87.6	-0.003	90.5	0.159	$3,778
Tennessee	B+	87.5	0.154	90.9	0.123	$2,760
Oklahoma	B+	86.9	0.037	91.9	0.184	$2,914
Georgia	B+	86.9	0.130	91.5	0.127	$3,472
Maryland	B+	86.6	0.166	90.1	0.120	$3,322
Ohio	B	86.4	0.039	91.6	0.168	$3,729
South Dakota	B	86.4	-0.003	90.0	0.183	$3,749
Rhode Island	B	86.0	0.108	87.8	0.125	$4,229
Arizona	B	85.9	0.069	92.6	0.193	$2,902
Missouri	B	85.7	0.090	89.0	0.157	$3,640
Connecticut	B	85.5	0.035	89.9	0.139	$5,331
Michigan	B	85.4	0.163	91.4	0.138	$3,679
North Carolina	B	85.3	0.242	92.3	0.132	$2,849
New Mexico	B	84.9	0.013	96.6	0.218	$3,911
South Carolina	B	84.7	0.166	88.0	0.153	$3,243
Maine	B	84.6	0.130	88.3	0.146	$4,166
Virginia	B	84.4	0.201	89.2	0.139	$3,542
Wyoming	B	84.3	-0.040	91.1	0.188	$5,667
North Dakota	B	83.2	0.121	88.6	0.215	$2,869
Texas	B	83.1	0.118	90.9	0.197	$3,819
New York	B	82.9	0.107	95.8	0.152	$6,167
Pennsylvania	B	82.7	0.166	88.8	0.163	$4,376
Louisiana	B-	82.5	0.272	93.7	0.190	$2,507
Illinois	B-	82.2	0.165	87.7	0.151	$5,079
Mississippi	B-	81.7	0.235	88.3	0.160	$4,121
New Jersey	B-	79.7	0.000	90.6	0.189	$8,251
Massachusetts	B-	79.6	0.048	87.2	0.198	$7,014
New Hampshire	C+	79.4	0.145	87.1	0.197	$5,758
Idaho	C+	79.0	0.314	88.2	0.218	$2,816
Delaware	C+	79.0	0.336	89.8	0.141	$5,357
Montana	C+	77.7	0.092	93.5	0.289	$5,066
Vermont	C	76.5	0.124	84.1	0.219	$7,073
Alaska	C	74.5	-0.253	92.5	0.336	$10,806
District of Columbia[2]	NA	NA	NA	NA	NA	NA
Hawaii[2]	NA	NA	NA	NA	NA	NA
U.S.[3]	B	85.3	0.091	90.8	0.162	$3,924

Figures in the four equity columns are adjusted to reflect regional cost differences and weighted for student needs.

FOOTNOTES:
1. The Clark County school district enrolls the majority of students in Nevada, making its per-pupil spending the statewide median. In addition, Clark County is Nevada's lowest-spending district. Because of these two factors, a value for the McLoone Index comparable to other states cannot be calculated. Nevada's grade is based on all other available indicators.
2. The District of Columbia and Hawaii are single-district jurisdictions. As a result it is not possible to calculate measures of financial equity, which capture the distribution of funding across districts within a state. The District of Columbia and Hawaii do not receive grades for school finance.
3. The U.S. row reports the indicator value for the average state.

SOURCE: EPE Research Center, 2010

Exhibit 5.3 Education Finance Analysis—Spending

	Spending Grade		Per-pupil expenditures (PPE), adjusted for regional cost differences	Percent of students in districts with PPE at or above U.S. average[1]	Spending Index[1]	Percent of total taxable resources spent on education
Vermont	A	96.3	$16,113	87.8	99.0	5.5
Wyoming	A	94.8	$16,386	100.0	100.0	4.3
New Jersey	A	94.8	$14,308	99.9	100.0	5.0
District of Columbia	A-	92.4	$12,626	100.0	100.0	NA[2]
New York	A-	90.4	$13,896	100.0	100.0	4.2
Rhode Island	B+	88.5	$13,314	95.3	100.0	4.2
Hawaii	B+	87.7	$11,676	100.0	100.0	4.3
Connecticut	B+	87.6	$12,419	100.0	100.0	4.1
Maine	B	86.0	$13,946	72.5	98.6	4.8
Maryland	B	85.8	$11,074	100.0	100.0	4.1
Massachusetts	B	85.1	$11,814	98.4	100.0	3.8
Alaska	B	85.0	$12,983	96.1	99.0	3.6
New Hampshire	C+	78.4	$11,859	69.8	96.4	4.1
Wisconsin	C+	77.0	$10,923	68.9	98.1	4.1
Delaware	C+	77.0	$11,563	93.0	99.6	2.5
Pennsylvania	C	74.1	$11,443	55.0	95.1	4.2
Virginia	C	72.9	$9,435	74.0	97.7	3.4
Michigan	C-	70.0	$10,162	38.1	92.9	4.7
Ohio	D+	68.3	$10,378	35.8	92.1	4.5
Georgia	D+	67.0	$9,270	41.7	93.9	4.1
West Virginia	D	66.5	$11,488	16.4	94.4	4.6
Kansas	D	65.2	$10,923	27.9	91.0	4.1
Minnesota	D	63.6	$9,921	35.4	92.1	3.6
Montana	D	63.5	$12,424	24.2	85.3	3.7
South Carolina	D	62.9	$9,503	26.1	90.0	4.2
Nebraska	D-	61.4	$11,903	21.9	86.6	3.5
California	D-	60.2	$8,164	34.6	92.4	3.5
Indiana	F	59.5	$10,223	20.6	86.9	3.7
New Mexico	F	58.9	$10,090	16.8	86.9	3.8
Illinois	F	58.7	$9,296	23.0	89.2	3.6
Arkansas	F	58.6	$10,194	11.4	84.6	4.2
Alabama	F	56.8	$9,585	9.7	88.1	3.9
Missouri	F	56.6	$9,781	13.5	84.9	3.7
Oregon	F	56.0	$9,803	16.5	88.6	3.2
Iowa	F	55.6	$10,498	8.7	84.7	3.5
North Dakota	F	55.4	$10,815	15.6	85.9	3.0
Louisiana	F	54.6	$10,307	14.6	88.5	2.8
Kentucky	F	53.6	$8,989	8.1	85.6	3.6
Florida	F	53.5	$9,253	8.7	87.5	3.3
Washington	F	53.0	$8,208	16.0	89.4	3.1
Colorado	F	51.7	$8,638	11.1	87.2	3.0
South Dakota	F	51.6	$10,602	11.9	79.8	2.7
Texas	F	51.4	$7,934	12.8	82.4	3.4
Mississippi	F	51.1	$8,980	2.3	75.4	3.9
Oklahoma	F	48.3	$8,836	4.3	73.4	3.4
Nevada	F	48.1	$7,845	8.7	83.0	2.9
North Carolina	F	47.8	$8,345	7.0	82.8	2.8
Arizona	F	47.8	$8,010	4.4	74.0	3.5
Idaho	F	47.0	$8,256	3.6	69.8	3.5
Tennessee	F	44.2	$7,756	1.3	76.7	2.8
Utah	F	39.9	$6,228	1.4	60.5	3.3
U.S.[3]	D	65.8	$10,557	40.5	89.6	3.8

FOOTNOTES:
1. Figures in this column are adjusted to reflect regional cost differences and weighted for student needs.
2. The District of Columbia does not have a state-level revenue source.
3. The U.S. row reports the indicator value for the average state.

SOURCE: EPE Research Center, 2010

6. Accountability for Spending

In fiscally challenging times, every dollar counts and accounting for expenditures becomes more important than ever. Our survey asked states whether they systematically maintain education-expenditure data at the district, school, classroom, and/or student levels. If so, they were asked if that information is publically reported. Such state practices can reinforce transparency and help ensure that each dollar is spent wisely and efficiently.

As displayed in Exhibit 6.1, all states and the District of Columbia reported collecting expenditure data at the district level, and in all states but Alaska and the District of Columbia, this information appears in public documents. By comparison, states are much less likely to systematically maintain and report financial information at the school level. Only 16 states reported maintaining at least basic per-pupil expenditure data at the school level, although three-quarters of those states do make such information available to the public. Our survey also asked states whether financial data were tracked at the classroom or student level. No state reported maintaining that information, although several indicated that such data may be collected locally.

Reporting information on education expenditures represents one form of fiscal accountability for school funding. A further step to strengthen education accountability might involve linking school-spending data to student outcomes. Florida is the only state that reported systematically providing information on cost-effectiveness of district and school spending, in a manner that directly ties expenditures to student outcome measures. The state operates a data system that allows the public to evaluate measures of performance in terms of resources allocated to individual schools and districts using a "Return on Investment" index. For each public school, this ROI index relates financial resources spent at the school level with measures of student performance at that school. As the state's Web site explains:

> *…the ROI index is determined by dividing the percentage of students with learning gains by the program costs per weighted full-time equivalent student at the school. Higher learning gains result in a higher ROI index if costs are the same. Higher costs produce a lower ROI index if learning gains are the same. Schools with high learning gains and low costs will have the highest ROI indexes. Schools with low learning gains and high costs will have the lowest ROI indexes.*

This tool is used for data-based decisionmaking and can help the state and others make informed choices about the ongoing use of resources.

Exhibit 6.1 Accountability for Spending

	State practices for maintaining and publicly reporting information on expenditures for the following education units (2008-09)	
	District	School
Alabama	Public Reporting	Data Not Maintained
Alaska	Internal Use Only	Data Not Maintained
Arizona	Public Reporting	Data Not Maintained
Arkansas	Public Reporting	Public Reporting
California	Public Reporting	Data Not Maintained
Colorado	Public Reporting	Data Not Maintained
Connecticut	Public Reporting	Data Not Maintained
Delaware	Public Reporting	Data Not Maintained
District of Columbia	Internal Use Only	Data Not Maintained
Florida	Public Reporting	Public Reporting
Georgia	Public Reporting	Public Reporting
Hawaii	Public Reporting	Internal Use Only
Idaho	Public Reporting	Data Not Maintained
Illinois	Public Reporting	Data Not Maintained
Indiana	Public Reporting	Data Not Maintained
Iowa	Public Reporting	Data Not Maintained
Kansas	Public Reporting	Data Not Maintained
Kentucky	Public Reporting	Public Reporting
Louisiana	Public Reporting	Public Reporting
Maine	Public Reporting	Data Not Maintained
Maryland	Public Reporting	Data Not Maintained
Massachusetts	Public Reporting	Internal Use Only
Michigan	Public Reporting	Data Not Maintained
Minnesota	Public Reporting	Public Reporting
Mississippi	Public Reporting	Data Not Maintained
Missouri	Public Reporting	Data Not Maintained
Montana	Public Reporting	Data Not Maintained
Nebraska	Public Reporting	Data Not Maintained
Nevada	Public Reporting	Public Reporting
New Hampshire	Public Reporting	Data Not Maintained
New Jersey	Public Reporting	Data Not Maintained
New Mexico	Public Reporting	Data Not Maintained
New York	Public Reporting	Data Not Maintained
North Carolina	Public Reporting	Internal Use Only
North Dakota	Public Reporting	Data Not Maintained
Ohio	Public Reporting	Public Reporting
Oklahoma	Public Reporting	Data Not Maintained
Oregon	Public Reporting	Public Reporting
Pennsylvania	Public Reporting	Data Not Maintained
Rhode Island	Public Reporting	Public Reporting
South Carolina	Public Reporting	Public Reporting
South Dakota	Public Reporting	Data Not Maintained
Tennessee	Public Reporting	Data Not Maintained
Texas	Public Reporting	Public Reporting
Utah	Public Reporting	Data Not Maintained
Vermont	Public Reporting	Data Not Maintained
Virginia	Public Reporting	Data Not Maintained
Washington	Public Reporting	Data Not Maintained
West Virginia	Public Reporting	Internal Use Only
Wisconsin	Public Reporting	Data Not Maintained
Wyoming	Public Reporting	Data Not Maintained
U.S.	51 collect data	16 collect data

SOURCE: EPE Research Center, 2009

7. School Finance Challenges

At the close of our survey, fielded during the summer of 2008, we asked states to describe the major challenges they face in the areas of school finance and funding. An analysis of these open-ended responses revealed inadequate formula or funding levels as the leading challenge (Exhibit 7.1). Thirty-one states cited such difficulties in providing sufficient resources to meet the needs of their students as major concerns.

Twelve states specifically mentioned challenges related to the high costs of human resources, including educator salaries and pensions. Kentucky and Louisiana noted low salaries for school staff as problematic. Arkansas cited efforts to address teacher-salary disparities throughout the state.

Eleven states reported concerns about increasing costs, with most of these states specifically mentioning rising fuel and energy costs. Vermont noted increasing expenses in the context of declining student enrollment, while Oregon reported rapid growth in the cost of health care premiums.

Nine states described challenges related to restrictions on taxation and revenue, while seven identified declining enrollment or enrollment growth as problematic. Accountability for spending was noted by six states. Twenty-one states mentioned other types of challenges, including: establishing or maintaining data systems; new or imminent changes in the state's school finance rules; local-level implementation concerns; and perceived unfunded federal mandates.

Given the timing of the survey, it is not surprising that a substantial number of states (13) also noted the then-emerging economic downturn as presenting a significant challenge. Since then, of course, the extensive impacts of the national recession on schools have been widely reported, as has the unprecedented amount of federal resources directed to the public schools through the economic stimulus package, the American Recovery and Reinvestment Act or ARRA.

Exhibit 7.1 Current Challenges in School Finance

	Most significant school finance challenges identified by state (2008-09)							
	Inadequate formula/funding levels	Economic downturn	Costs of human resources	Increasing costs	Restrictions on taxation and revenue	Declining enrollment/ enrollment growth	Accountability for spending	Other
Alabama	Yes	Yes			Yes			
Alaska			Yes	Yes				
Arizona	Yes							Yes
Arkansas	Yes		Yes					Yes
California	Yes						Yes	Yes
Colorado	Yes					Yes		
Connecticut	Yes	Yes						
Delaware		Yes				Yes		
District of Columbia							Yes	Yes
Florida								Yes
Georgia								
Hawaii	Yes	Yes						
Idaho	Yes		Yes					Yes
Illinois					Yes			
Indiana	Yes							
Iowa			Yes			Yes		
Kansas			Yes					Yes
Kentucky			Yes	Yes	Yes			
Louisiana			Yes				Yes	Yes
Maine		Yes		Yes				Yes
Maryland	Yes	Yes						
Massachusetts	Yes		Yes					Yes
Michigan	Yes							
Minnesota	Yes	Yes						
Mississippi	Yes			Yes	Yes			
Missouri				Yes				Yes
Montana			Yes	Yes				Yes
Nebraska	Yes	Yes						Yes
Nevada	Yes	Yes				Yes		
New Hampshire				Yes				Yes
New Jersey	Yes						Yes	
New Mexico	Yes							
New York	Yes	Yes					Yes	
North Carolina	Yes			Yes				
North Dakota	Yes					Yes		
Ohio		Yes			Yes			
Oklahoma	Yes							Yes
Oregon	Yes			Yes	Yes			
Pennsylvania	Yes							
Rhode Island	Yes							Yes
South Carolina	Yes							Yes
South Dakota	Yes					Yes		Yes
Tennessee		Yes						
Texas	Yes			Yes	Yes			
Utah	Yes							
Vermont				Yes	Yes			
Virginia		Yes	Yes					Yes
Washington	Yes							Yes
West Virginia			Yes					Yes
Wisconsin	Yes				Yes	Yes		
Wyoming			Yes				Yes	
U.S.	31	13	12	11	9	7	6	21

SOURCE: EPE Research Center, 2009

8. Methodology Appendix

Much of the information featured in this report comes from the EPE Research Center's annual state policy survey, which was administered in the summer of 2008. The data used for the school-finance analysis came from a variety of sources, as noted below in Section 8.3.

8.1. About the State Policy Survey

To collect information on state education policies for *Quality Counts* and the bulk of this special school finance report, the Editorial Projects in Education Research Center electronically distributed surveys to the chief state school officers in all 50 states and the District of Columbia on July 7, 2008. The school finance survey was one of four survey sections distributed at this time. Respondents were asked to answer a series of questions and provide appropriate documentation to verify that the reported policies were in place at the time of the survey or for the 2008-09 school year. Such documentation might include state statutes, administrative rules, or Web links for information available online.

To ensure that answers were accurate and that consistent standards were applied uniformly across the states, EPE Research Center staff members carefully evaluated each state's responses and documentary evidence over a 10-week period. That process often included discussions with the respondents. In the absence of documentation, the center did not award credit or assume the policy was in place.

On or around Sept. 16, the EPE Research Center sent each chief state school officer a completed survey indicating the state's initial responses and the independent determinations by the Center based on the available evidence. State officials were asked to review the final answers and supply any corrections or changes that could be supported by additional documentation.

All 50 states and the District of Columbia participated in the survey.

The EPE Research Center would like to thank the many dedicated individuals at state education agencies who generously contributed their time and effort in providing information for this report.

8.2. Grading

Scores for school finance (covering the dimensions of equity and spending) were computed using a best-in-class rubric. Under this approach, the leading state on a particular indicator receives 100 points, and other states earn points in proportion to the gaps between themselves and the leader. This calculation is straightforward for indicators with a clearly bounded measurement scale. An example of such an indicator is per-pupil expenditures, which is expressed as a positive dollar amount. But some indicators, including those related to the equity of education spending, use more complex scales where the minimum or maximum values are not as clearly defined. For such indicators, we evaluate a particular state based on its performance relative to the minimum and maximum values on that indicator. Those indicators are scored on a 50-point base, meaning that all states start with 50 points rather than zero.

Using the scoring rules described above, each state receives a numerical score. After rounding scores to the closest whole-number values, we assign letter grades based on a conventional grading scale, as follows.

- A = 93 to 100
- A-minus = 90 to 92
- B-plus = 87 to 89
- B = 83 to 86

- B-minus = 80 to 82
- C-plus = 77 to 79
- C = 73 to 76
- C-minus = 70 to 72
- D-plus = 67 to 69
- D = 63 to 66
- D-minus = 60 to 62
- F = Below 60

8.3. Indicator Notes and Sources

School Funding Formula: State indicated which of the following funding formula(s) best captures its approach to allocating education aid to local districts: foundation formula, equalization method, local-effort equalization formula, flat grant funding, and/or other. EPE Research Center annual state policy survey, 2008-09.

Formula Weights and Adjustments: Weights and adjustments are mechanisms for directing additional K-12 education funds for particular students, schools, or school systems through the state's main funding formula. The weight or adjustment causes the members of a specific group or organizational unit to generate additional per-pupil funding. The EPE Research Center asked specifically about several different forms of weighting targeted to particular types of students or schools/districts. Weights and adjustments tied to student characteristics include the following: disability status; English-language learners; low income; grade level (e.g., high school vs. elementary); career and technical education; and academic risk status (based solely on measures of academic performance). School and district weights/adjustment include: size (based on student enrollment); location (e.g., whether a school/district is situated in rural, sparsely populated, or highly urbanized area with particular implications for the cost of educational services); cost adjustments (related to regional differences in costs of living, operating expenses, and/or educator and administrator salaries); teacher education or experience (e.g., based on the proportion of more experienced teachers); and academic performance of the school or district. EPE Research Center annual state policy survey, 2008-09.

Categorical Funding: State categorical programs are mechanisms for generating additional K-12 education funds outside of the state's main funding formula. Most often, these funds appear as separate budgetary line items and the funds are restricted to a specific program or purpose. For example, the "compensatory education" category used in this report consists of programs targeted specifically to low-income students. In some states, it was not possible to definitively distinguish between a weight/adjustment and a categorical funding mechanism, as these approaches may be implemented in similar ways in practice. In such cases, classifications were based on the best information available. It should also be noted that states may accomplish similar purposes (e.g., directing additional resources to particular groups of students or school systems) through either weighting or categorical funding vehicles. EPE Research Center annual state policy survey, 2008-09.

State Revenue Sources and Restrictions: The gaming-tax category excludes lotteries. The income-tax category does not differentiate between corporate and personal income. EPE Research Center annual state policy survey, 2008-09.

Equity and Spending Indicators: Detailed descriptions of the eight individual equity and spending measures can be found in Section 5 of this report. In analyses adjusting for characteristics of the student population, students in poverty receive a weight of 1.2 and special education students receive a weight of 1.9. Data for these analyses were obtained from a variety of sources, including: U.S. Census Bureau's Public Elementary-Secondary Education Finance Data for 2007; U.S. Department of Education's Common Core of Data 2005-06, 2006-07 (district-level data); National Center for Education Statistics' Comparable Wage Index 2005; U.S. Census Bureau's Small-Area Income and Poverty Estimates 2007; U.S. Department of Education's School District Demographics data, based on the 2000 U.S. Census; National Center for Education Statistics' Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2006-07 (Fiscal Year 2007), February 2009; and 2007 gross-state-product data from the U.S. Department of Commerce's Bureau of Economic Analysis. See *Quality Counts 2010* for additional details: www.edweek.org/go/qc10.

Accountability for Spending: EPE Research Center annual state policy survey, 2008-09.

Current Challenges: State-identified challenges related to school finance and funding. EPE Research Center annual state policy survey, 2008-09.

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