

# Education Funding Formula Basics

*by Patty MacLeish, Education Funding Committee Member*

Schools in the United States are primarily funded by state and local governments, and to a much lesser extent the federal government. How the state and local governments share the responsibility for educating their children (that is how the burden is split between the two government entities) and how they determine what level of funding should be given to each district (that is what factors about a school population should be considered when providing funding) varies from state to state. Every state in the union except Rhode Island uses a formula to determine how the cost of educating a student should be shared between the state and local government and what each district should receive.<sup>1</sup>

Any discussion of education funding usually includes the issue of formulas. Simply put, formulas determine how much funding each district will receive from the state. A formula should describe this process of distribution of funds to school districts by state government in a manner that is transparent and based on known factors. By their nature, formulas

are meant to be unaffected by political considerations.

When states design a funding formulas they attempt to make it fair and equitable. Usually the process begins by determining the cost of educating a student. Simply put, the state will mandate that a certain dollar amount will be spent by the state and localities for each student. The dollar amount is usually referred to as a “foundation grant” or a “flat grant.” A very basic formula would consist of a dollar allocation (the foundation grant) multiplied by the number of students in a district. Such a formula would look like this:

foundation grant x enrollment = amount a school receives

This example is a formula that is easily understood and transparent.

Funding formulas are not that simple, however, since other factors affect the allocation. First, with few exceptions, states share the responsibility of funding education with localities,

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so a formula will also reflect what percentage of the foundation grant the state will supply and what must be supplied by the locality. If a state decided that it will provide 25% of a foundation grant, then a funding formula would look like this:

$0.25(\text{foundation grant}) \times \text{enrollment} = \text{amount school receives from state}$

The difference between what the state provides and the foundation grant is made up by the locality. If the foundation grant in this example is \$10,000 then the state would provide \$2,500 (25% of \$10,000) for each student and the locality will provide \$7,500. Taxing policies are never this simple, however, and other factors are taken into consideration.

In general, although there may be other sources, localities raise revenue through property taxes. In any given state, the value of property varies by locality, and sometimes those variations are disparate. Because communities differ, the burden of meeting the foundation level is not the same for all localities. If a state sets a foundation level and requires that each district support a certain percentage of that amount for each student, then a locality whose property values were low would have to tax its citizens at a higher rate than a wealthier community in order to meet its share of the funding.

Using the example above of a \$10,000 foundation grant, Community A with a total property value of \$10 million would receive the same amount of money from the state as Community B with a total property value of \$1 million. Because the wealth of communities varies, most formulas will also include a method of equalizing wealth. Some formulas consider only total property value; some consider total property value and rate of taxation and revenue raised; and some also consider the average income of the localities' citizens.

With this additional factor—wealth of a locality—a formula may still be transparent, but it will be more complicated. Rather than the state providing a simple percentage of aid, it determines the localities “per pupil wealth” and factors that into the formula. When per pupil wealth is considered, a wealthy community may be required to provide 95% of the foundation grant and a poor community 10%.

Per pupil wealth is not the only factor to consider in building a fair formula. Students with disabilities, students who are not English speakers, and students who live in poverty may all require additional education services. Modern funding formulas usually take these factors into consideration by assigning “weights” to certain populations. Students who live in poverty may be assigned a weight of .5; non-English speaking students a .25; and students with disabilities a .5. A school may have an enrollment of 500 students, but for funding purposes the school’s enrollment will be “weighted” to reflect these special populations. Table I illustrates a school with an actual enrollment of 500. The school in the example would receive funding as if there were 580 students attend-

**TABLE I**

	No. of students in category	Weighted Value	Enrollment after weighting	Enrollment 500
Poor students	125	.5	62.50	
Non English speakers	50	.25	12.50	
Special Needs	10	.5	5	
Total weighted Students				80
<b>Weighted Enrollment</b>				<b>580</b>

ing the school since some of the students require additional support and are “weighted” when counting the enrollment.

Another important factor in determining enrollment is the definition of an “enrolled” student. Some states use attendance as the basis of enrollment. Others use the number of students who are registered at the beginning of the year. Districts may use either a combination of the two or an average over a period of time. All of these methods pose difficulties. Attendance can be affected by illness in a school population (consider how a district would have been affected by a major swine flu outbreak). Absentee rates may be higher in school populations with an enrollment that is heavily weighted. Using enrollment at a point in time (e.g. the first day of school) as a basis is also problematical. Should a student with severe disabilities move into a district after that point, the addition of a full time aide that was not budgeted could wreck financial havoc on the budget of a small district.

Finally, the development of education formulas is almost always affected by political realities. When a formula is written to replace an existing funding method, some communities will gain additional funding and others will have funding reduced. In order for a new formula to gain legislative acceptance, they are often adjusted so that no community will be harmed by the new method of distributing support. This adjustment is referred to as “hold harmless” or “save harmless.” These provisions are usually made with a time limit to allow a locality to adjust to the new funding formula.<sup>2</sup>

### Notes

- 1 According to the Hoover Institute, “In 2004-5, the funding distribution among federal, state, and local sources was 9 percent, 48 percent, and 43 percent, respectively. However, the distribution fluctuates greatly among states; in 2004-5, local funding of public schools ranged from 85 percent in the District of Columbia to 6 percent in Vermont (and even lower in Hawaii, where there is only one school district\*). Likewise, state funding ranged from 86 percent in Vermont to 30 percent in Illinois; federal funding also ranged from slightly more than 16 percent in South Dakota to less than 3 percent in New Jersey. (\*In Hawaii, local and state funding are virtually indistinguishable.)” “Facts on Policy: School Funding Shift,” Hoover Institute at Stanford University (<http://www.hoover.org/research/facts-on-policy/facts/4249156.html>)
2. For one discussion of how a funding formula could apply in Rhode Island, read the 2007 report, “Funding Our Future,” (available on line at [www.rilin.state.ri.us/Documents/EFF.doc](http://www.rilin.state.ri.us/Documents/EFF.doc)) prepared by Rhode Island Public Expenditure Council, the Rhode Island Association of School Committees, the Rhode Island Federation of Teachers and Health Professionals, the National Education Association of Rhode Island, the Rhode Island League of Cities and Towns, and the Rhode Island School Superintendents Association.