Doing Right by Vermont's Schoolchildren
Flipping the School Finance Formula

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Purpose of state school finance formulas

The goal of modern state school finance formulas is to ensure that schools and districts throughout a state have the ability to provide their children *equal opportunity to achieve common, adequate outcomes.* That is, by way of ensuring sufficient funding, providing that children regardless of where they live or attend school, or their own personal or family backgrounds are provided the resources they need to succeed - to be prepared for college or the workforce. The state's own school accountability standards demand as much. To achieve a level playing field with respect to those standards, the state must calibrate school funding accordingly and deliver on that promise. Vermont has the information to calibrate such a formula, but has failed to deliver.

Vermont's school finance system is upside down

Instead of guaranteeing that all Vermont school children are provided the resources they need to have equal opportunity to achieve some level of outcomes, the Vermont school finance formula provides local property owners equal ability to raise the funding that would be needed. But the choice is theirs. Further, without adoption of the weights we estimated in our 2018 report, taxpayers aren't provided equal opportunity to raise sufficient funding to provide equal educational opportunities for their children. It makes little sense to try to fix this problem by simply attaching categorical grants as flotation devices to the upside-down system.[1] The system must be flipped and overhauled.

The bottom line is that it should not be a choice of local property owners whether they wish to uphold children's state constitutional rights to equitable and adequate education. If we take these state constitutional rights seriously at all, the state must guarantee that all districts have sufficient resources to provide their students equal opportunity to achieve a sufficiently high and broad set of outcomes. More importantly, it's just the right thing to do.

How state school finance formulas are intended to work

State school finance formulas are generally designed to achieve two simultaneous goals:

[1] Duncombe, W., & Yinger, J. (2011). Making do: State constraints and local responses in California's education finance system. International Tax and Public Finance, 18(3), 337-368.

- Account for differences in the costs of achieving equal educational opportunity across schools, districts, and the children they serve (e.g., some districts serve larger shares of disadvantaged students than others).
- Account for differences in fiscal capacity, or the ability of local public school districts to pay for the cost of education (e.g., their ability to raise local revenue, mostly via property taxes).

Municipalities and school districts differ with respect to the populations they serve, which manifests itself in differential needs for educational programming and services to offer similar opportunities to students (the first bullet). In addition, they vary widely in terms of wealth, which means their capacity to raise revenues through property taxes also varies widely (the second bullet). Often, although not always, these two factors are linked. That is, districts having less local taxable wealth are also likely to have higher concentrations of child poverty in their schools, and child poverty is a determining factor of the cost of providing children with equal opportunity to achieve common outcome goals.

What a state school finance system should look like:

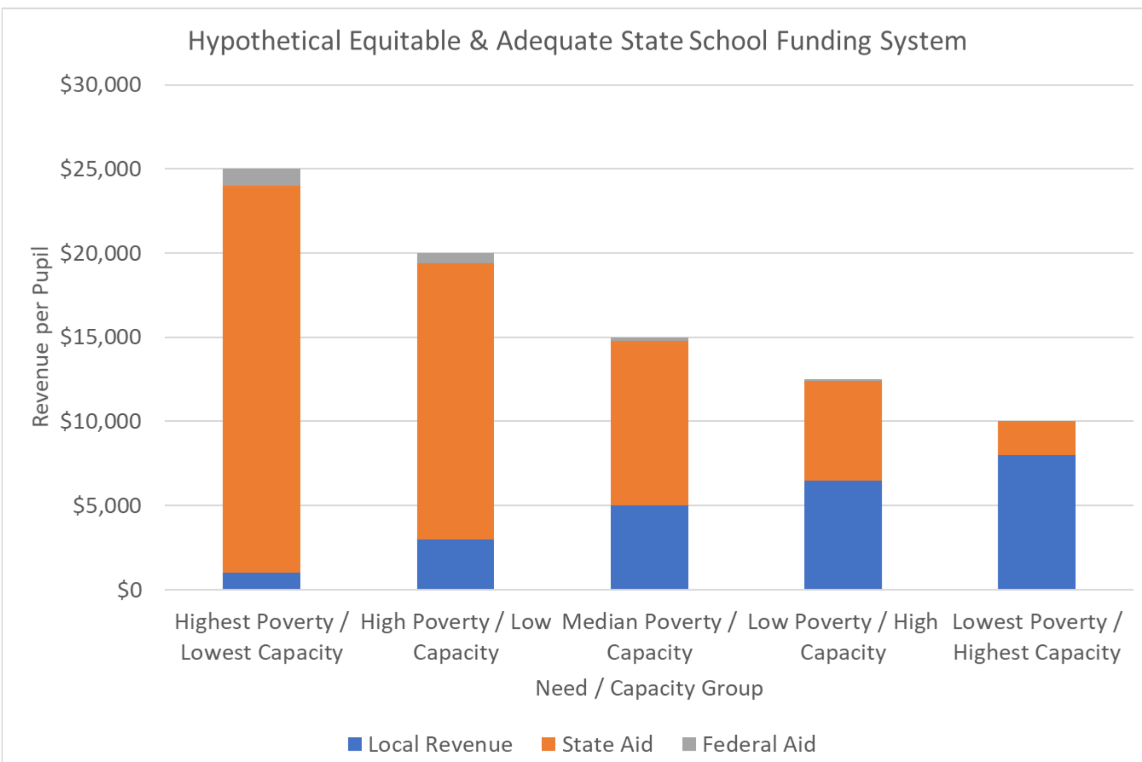

Figure 1.

A well-designed state school finance system would begin by setting a need and cost adjusted target level of funding for each local public school district to achieve the first objective above. In most cases, that need and cost adjusted "foundation level" of funding is created by setting a basic funding level (the costs of achieving the desired outcomes in the lowest cost setting), and then applying weights and other "cost" adjustments to address the different costs associated with achieving a common set of outcome goals across settings and children. These weights and cost adjustments should be reasonably calculated toward these goals.

As shown in the figure, school funding formulas rely on layers of revenue sources, from local property taxes, to state aid derived primarily from a mix of income and sales tax revenues to federal aid derived from federal tax sources (such as income taxes). A downside of this layered system is that finding the "right" way to combine these revenue sources, and layered taxing decisions to achieve equitable funding is complicated. Property tax revenues across local communities are vastly inequitable for a variety of reasons. But property tax revenues are also a much less volatile revenue source and help to balance the public school revenue portfolio.

In a state school finance system like the one depicted above, the goal is to determine the "local fair share" or "local required effort" to be paid by local communities toward the cost target. This contribution is usually determined with respect to the taxable property wealth of the communities and income of taxpaying residents. For districts that do not hit their cost per pupil targets with local revenue alone, state aid is allocated to make up the difference (most districts fall in this category).

To date, the vast majority of federal aid has been allocated on the basis of child poverty concentrations through the Title I program. The effect of that formula is that larger slices of aid do tend to go to districts with both greater needs and costs and less local capacity of their own.

Doing school finance right in Vermont

One path, the most logical path, toward achieving equal educational opportunity through school finance in Vermont is to mandate that all local communities pay a common, wealth equalized local share toward funding the estimated costs of providing equal opportunity. Every measure needed for doing these calculations and implementing such a policy is already included in the 2018 UVM weighting study. In fact, we, as the authors of that study had to take additional steps to back out the upside-down logic of the way Vermont chooses to fund schools.

Our 2018 study generates empirical estimates of the per pupil costs to achieve statewide average outcomes, across every district in the state. We then convert those cost estimates into a weighted calculation formula. If that outcome is presumed sufficient, we can start there for setting the foundation level of funding needed in each district to achieve that goal, which is exactly what we did. Presently, some districts spend enough to achieve that goal and their students exceed that goal, while others do not. Actual spending compared to our cost targets, generated by applying our weights, looks like this (in 2018):

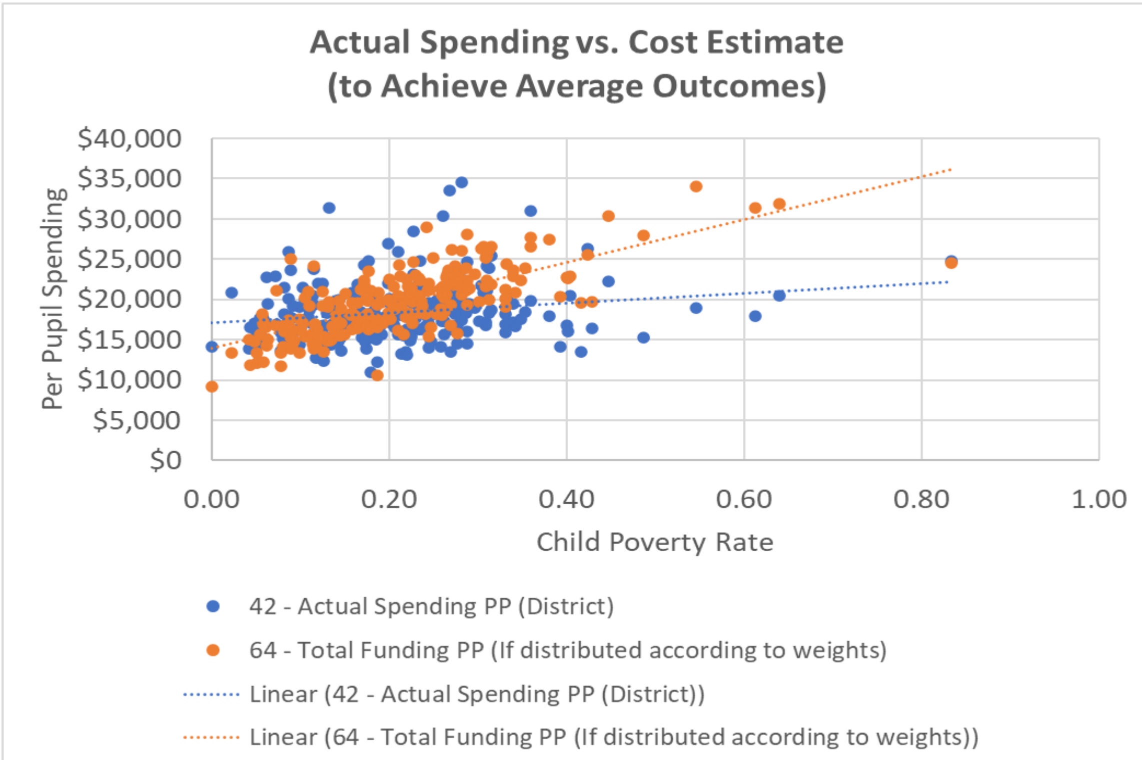

Figure 2.

On average, districts serving higher poverty student populations would need to spend more to provide equal opportunity. Notice that our simulated costs represented by orange dots tilt upward as poverty rates increase. But actual spending doesn't. Because current spending per pupil across Vermont districts does not provide for equal opportunity. Children in the state's highest poverty districts lack the funding necessary to provide them equal opportunity. That shouldn't be a decision left to local communities, even if we provide them greater capacity to reach their cost targets. Rather, the formula should make sure they do reach those equal opportunity cost targets – that all Vermont children are provided equal educational opportunity. A different view is presented here, showing the differences between current spending levels and cost targets for equal opportunity:

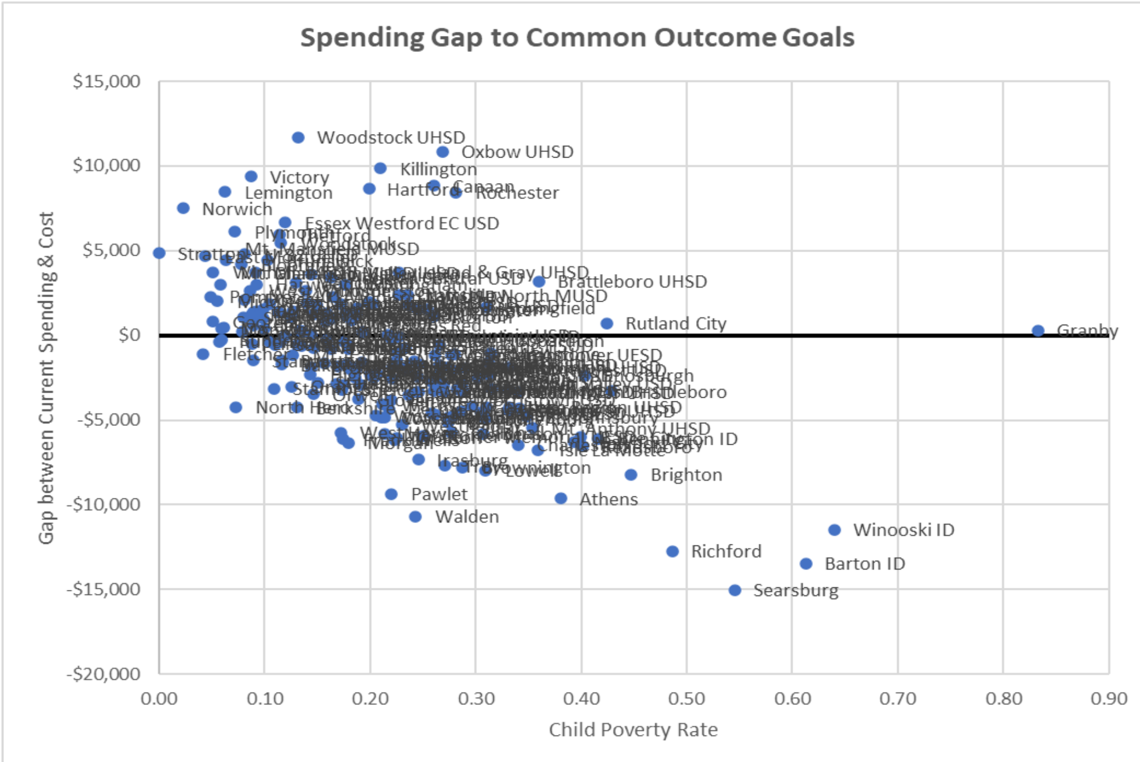

Figure 3.

Children in Woodstock get to attend schools with well over what is needed for them to achieve merely state average outcomes. But children in Winooski, where the poverty rate is several times higher, would need an increase of over $10,000 per pupil simply to provide them equal opportunity to achieve state average outcomes. Even with our weighting adjustments – which would provide Winooski taxpayers the ability to raise those funds with comparable equalized tax rate – it's not likely that Winooski would increase spending to reach their target. And thus, the children of Winooski would still be deprived of equal educational opportunity. It simply should not work that way. The state should guarantee that the children of Winooski have the same educational opportunities as others across the state. The path to doing so is the path used in so many other traditional state school finance formulas, from New Jersey to Kansas.

1. **Use the UVM weighting study to calculate weighted per pupil cost of average outcomes for every district statewide[2];**
2. **Mandate a minimum local contribution (equalized for wealth) and allocate state aid to fill the remaining gaps.**

[2] That number is available in the simulation: 64 - Total Funding PP (If distributed according to weights)

The evidence is already there

Where Vermont is ahead of other states is that Vermont has rigorously estimated targets, by the best and most appropriate methods available, of the spending levels needed to achieve state average outcomes. The model estimated in the 2018 UVM study can also be easily updated and can be used to simulate per pupil costs for every district to achieve higher or lower than current average outcomes.