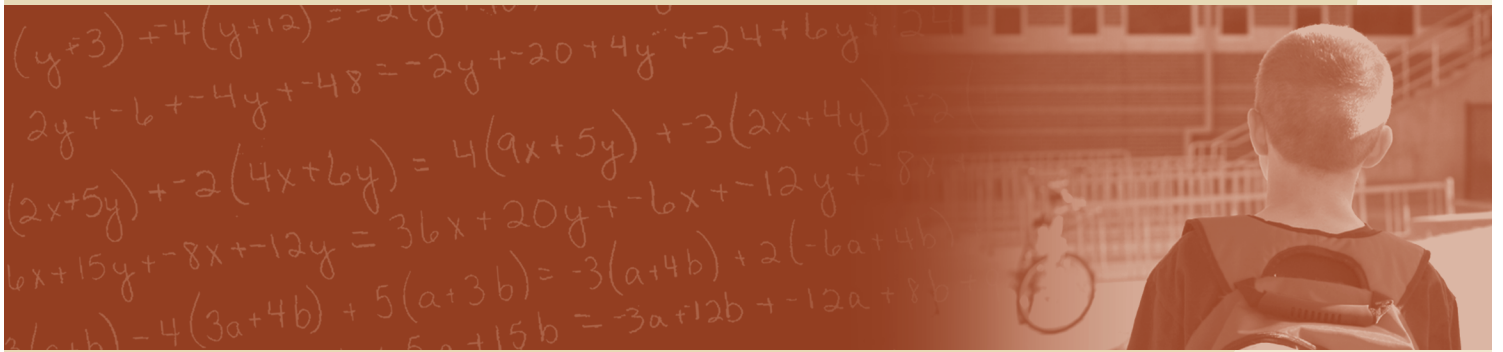


School Finance Redesign Project

center on **reinventing** public education



WHAT IS THE SUM OF THE PARTS?

HOW FEDERAL, STATE, AND DISTRICT FUNDING
STREAMS CONFOUND EFFORTS TO ADDRESS
DIFFERENT STUDENT TYPES

AUTHORS:

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A report from the
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The School Finance Redesign Project

The School Finance Redesign Project (SFRP) encompasses research, policy analysis, and public engagement activities that examine how K-12 finance can be redesigned to better support student performance. The project addresses the basic question, “How can resources help schools achieve the higher levels of student performance that state and national education standards now demand?”

Check in with us periodically to see what we are learning and how that information may reshape education finance to make money matter for America’s schools. You can find us at www.schoolfinanceredesign.org.

Jacob Adams, Principal Investigator

Foreword

From the early 1990s through today, controversies about public spending on elementary and secondary education have grown as states have adopted performance standards pledging that every child will learn enough to become an independent productive citizen and as *No Child Left Behind* has put teeth in these expectations. Some educators say that meeting higher standards requires more money. Others claim that existing resources are sufficient to pay for higher performance, if only funds were used more productively. While plaintiffs have asked courts to determine what amount of spending is adequate to get students to standards, analysts of various stripes have argued that greater expenditures alone will not lead to better results. Moreover, critics of demands for more money point to cases in states and cities where major spending increases were misspent, with little or no impact on student learning. Though no one seriously argues that more spending could never lead to school improvement, there is compelling evidence that without changes in the way resources are distributed, used, and accounted for, Americans could end up with a more expensive, but not necessarily more effective, public education system.

In this environment, governors and state legislators particularly have asked two questions: How much money will it take for all students to meet standards? And how should the money be spent to ensure that result? The Bill & Melinda Gates Foundation asked the Center on Reinventing Public Education (CRPE) to create a School Finance Redesign Project (SFRP) to help elected officials, practitioners, and the public better understand how education finance systems now work and to identify new options for deploying K-12 resources to support state and national educational goals. Initiated in 2003, the project has grown to include more than 30 separate analyses.

SFRP was designed to address five questions:

- Are public education funds now focused on student learning? If not, what stands in the way?
- Are there good ideas about potentially more focused and effective uses of funds to promote student learning?
- Are there good ideas about better ways to spend money to attract and reward quality educators?

- Do we know enough now to say exactly how much money is needed to bring all children up to standards and to say how money should be spent?
- What can policymakers do to ensure that the “right amount” of money is distributed equitably, used productively, and accounted for meaningfully?

This study by Marguerite Roza, Kacey Guin, and Tricia Davis addresses the first question by tracing how funds targeted for students with identified learning needs are channeled through federal, state, and local levels of the finance system and ultimately bear on students and learning. Their careful and path-breaking analysis points to major problems inherent in the ways governments allocate and track funds intended to address the challenges of poverty, disability, or language proficiency. The study demonstrates how differences in governmental agendas, state rules, finance formulas, local politics, and other factors work at cross purposes so that the current system of channeling targeted dollars to high-needs students is anything but intentional. In fact, the authors demonstrate how conflicts among federal, state, and local funding purposes and practices prevent targeted dollars from reaching the students they are intended to help. In this circumstance, educational goals are not fulfilled, students are not served, and lessons are not learned that would help policymakers and others better understand how much to spend or how to spend it to close the achievement gap.

For policy makers looking for the “right” amount to spend per student type, the results of this study suggest that until governments create better-functioning finance systems, no one can possibly identify the level of funding that is required to address these challenges. The authors demonstrate the need to redesign distribution and resource reporting practices as a way to better align and track resources with student needs. Specifically, they recommend distributing dollars (not services, staff, and the like) on the basis of student characteristics, changing allocation formulas and removing other barriers to coherent allocation, and tracking and reporting all dollar allocations to schools by student need. These steps, they argue, will better channel funds from one governmental layer to the next, thus improving the prospect that resources can help to accomplish important educational goals.

Jacob Adams
Claremont Graduate University

Introduction

The *No Child Left Behind* Act (NCLB) has called the nation's attention to one of education's most intractable challenges: closing the gaps in achievement between students with different needs. In fact, NCLB changed the fundamental expectation of schooling. Where in recent decades, the challenge confronting states was to provide students with equal learning opportunities, today's bar is higher: schools are expected to ensure that *all* students reach a defined level of performance. And while the education system progresses in its efforts to identify the differing needs of students, in many cases augmenting services toward addressing these needs, the effects on achievement gaps between groups are disappointing.

Because performance goals are now a matter of law, it seems only reasonable that we should know how much it costs to achieve them. The problem is, we don't.

Educators and policymakers know that some students arrive at school without a basic command of English, with disabilities, or from backgrounds of intense poverty, each of which poses unique challenges in helping those students meet performance standards. They also know that these circumstances call for increased resources to enable all students to realize the hopes of the NCLB initiative. As a result, many educators push back, arguing that making adequate yearly progress requires an adequate investment into the real costs of schooling.

As education policymakers grapple with approaches for allocating educational resources in this new environment, they increasingly seek information to better understand how much should be spent on students with differing needs. Some policymakers look to revise fiscal policy in response to studies that cost out parts of the system, while others push for a complete overhaul of the way resources are allocated (e.g., advocating for a student-based allocation system). In both cases, they expect that the experts should know what to spend to ensure that a non-English speaking student, a hearing-impaired student, or a student with reading disabilities is able to reach the same level of proficiency as other children. And because performance goals are now a matter of law, it seems only reasonable that we should know how much it costs to achieve them. The problem is, we don't.

We have grown accustomed to the disappointed sighs that come with the realization that school funding is far more complicated than it should be.

When policymakers and reporters ask us for such information, we find ourselves repeatedly explaining that there is no industry standard for allocating a particular level of funding

per pupil and that existing research on this question has yielded dramatically different figures for “what it would take” to enable different types of students to meet standards. They persist logically, hoping to at least learn from what other states or districts are doing. If there is no standard, they suggest, certainly there must be a list of what other localities

To date, no comprehensive analysis of funding from all levels of government exists that provides a straightforward answer to the question of how much is spent on different student types.

are spending to educate students with identified needs. When we tell them there is no such list, we have grown accustomed to the disappointed sighs that come with the realization that school funding is far more complicated than it should be.

Some studies have investigated a particular spending area (e.g., bilingual education) or a single revenue source (e.g., the federal government). Resources, however, come from different levels of government; arrive as programs, grants, and staff ratios; target different types of students; and are

accounted for in incomparable ways. A state policymaker might be able to determine how much the state allocates for bilingual education, but will not know how these funds fit together with local dollars, federal programs, or basic expenditures to boost spending for non-English speaking students. As a result, policymakers have no sense of the degree to which their targeted dollars are something extra for these high-needs students. Do the earmarked funds augment spending for bilingual education students by 5 percent or 50 percent? There is no easy way to know. Trying to determine the real spending levels for any one type of student requires a complex dissection of the data.

To date, no comprehensive analysis of funding from all levels of government exists that provides a straightforward answer to the question of how much is spent on different student types. Thus, the original purpose of this study was to attempt to find such answers. The research team dove deep into spending documents from the federal government to the local level in four states to create a spending picture that shows how much is spent on each student type, where the funds originate, and how the spending patterns differ from place to place.

The current system of disbursing education funds from separate governmental layers works against the best intentions to target funds for student needs.

But in gathering the relevant data, we uncovered more than just the allocations for different types of students. We also stumbled across the realization that what determines the amount spent on each type of student need is a function of more than just student performance; it also has to do with the fine print in state rules, as well as local politics, differences in concentrations of students,

labor contracts, school size, and more. As a result, spending ratios by student type vary widely across states, districts, and schools, with little apparent logic behind the variability. In fact, where targeted funds originate at one governmental layer, the various influences in the fiscal system can and do have the effect of working at cross-purposes, such that the ultimate spending increments are anything but what the policymakers intended.

The evidence has clear implications for those trying to use targeted funds to close the achievement gap: namely, that the current system of disbursing education funds from separate governmental layers works against the best intentions to target funds for student needs. The purpose of this report is to clarify for policymakers how allocation policies at different levels work together or in conflict to affect what is ultimately spent on different student types. And while the findings are at times startling, the recommendations are clear. Intentional, efficient, and coherent resource allocation policies require changes such that the system (1) distributes dollars (not purchased resources), (2) channels funds from each governmental layer all the way down to schools, (3) deploys funds as a function of student characteristics, (4) is free of allocation details and other constraints that inhibit a coherent allocation, and (5) tracks and reports all allocations to schools by student need.

Policy Problem

Addressing Performance Gaps in the Dark

All eyes are now on achievement gaps. Accountability reforms have brought attention not only to performance disparities between races, but also between students with different identifiable needs, resulting from poverty, disability, or limited English proficiency. For many policymakers, the first step in addressing these performance gaps is to adjust fiscal policy. Yet as policymakers revamp their existing funding formulas to address different students' needs, they do so in the dark.

First, there is a lack of clarity on how resources are currently tied to different subgroups. At the basic level, for a state policymaker trying to target an allocation to certain student types, there exist no baseline data on what is already being spent on each type of student among their own districts or

As policymakers revamp their existing funding formulas to address different students' needs, they do so in the dark.

across schools within districts. In most states, school districts do not accurately track expenditures by student type or to the school level. Even where such information is tracked, it is not published in ways that are accessible to policymakers trying to pinpoint these answers. Similarly, policymakers cannot look to other states for spending comparisons. As there are no consistent ways of defining or reporting expenditures driven by student needs, the data are not comparable.

Second, policymakers have not yet sorted out how to channel funds from one governmental level to the next to ultimately reach the intended students. While funds may be earmarked by the federal government for poor students, with the objective of boosting spending at schools with high concentrations of poverty, the reality is that after filtering through state and local allocation streams, the end result may not be as intended.

Third, there is little or no documentation on the different options for structuring targeted allocations and how those options relate to policy objectives. In other words, allocations targeted to students with limited English proficiency (LEP) might take the form of a fixed dollar amount per LEP student, reimbursements for the costs of bilingual education services, allocations of staff full time equivalents (FTEs) to high-needs schools, or many other forms. Research has not yet demonstrated how these different decisions affect either what is ultimately spent per pupil or how well those dollars reach the intended students.

Policymakers are hungry for solid fiscal estimates on how much it would take to get different students to standard.

Meanwhile, policymakers are hungry for solid fiscal estimates on how much it would take to get different students to standard. For those interested in infusing more cash into the system, an increasingly popular strategy has been to pinpoint levels of adequacy as the basis for revising funding legislation.¹ Yet, this strategy ignores the fact that we haven't yet definitively identified what mix of resources will get all students (including those with identifiable needs) to standard. Further, and perhaps more troubling, adequacy claims assume that funds will flow as prescribed to the intended students, when all evidence about school

1. In many states, including Wyoming, Washington, New York, and others, public officials have commissioned adequacy studies aimed at determining an "adequate" amount of money needed to get all students to standard.

district finance systems suggests otherwise. In the end, adequacy studies will not provide reliable answers to the questions posed here.²

For those who would like to start afresh with a student-weighted allocation system (that disburses funds on the basis of student types), clarifying what increments should be applied to each student type is an important first step. Yet, in the current state of fiscal allocation policy, a definitive answer simply cannot exist. One study reports that high-poverty students require 25 percent more resources than their peers (Gronberg et al. 2004) while another concludes that the figure should be 10 times that (Rothstein 2004). The problem here is that we do not yet have an efficient resource allocation system from which we can extrapolate that answer in any reliable way.³

Instead, policymakers are forced to make fiscal policy without information on how much is spent on student types, without understanding how allocation policies at different levels (federal, state, and local) work either together or in conflict to influence how much is spent on different kinds of students at the school level, and without knowing what types of policies are better at ensuring that dollars reach students in their intended ways.

While the needs are clear, the issues are complex. This report presents the findings after taking on the daunting task of tracing dollars for specific student types from the federal, state, and local levels, through different types of policy vehicles, to get at the answers to the questions posed here.

The results point to five policy recommendations for policymakers, each of which represents a departure in some way from current practice.

1. Make sure what gets distributed is dollars.
2. Redesign distribution policies to better channel funds from each governmental layer all the way down to schools.
3. Ensure that fund allocations are driven by student needs.
4. Clean up allocation formulas and other barriers to coherent allocation.
5. Track and report all allocations to schools by student need.

2. Some analysts have "costed out" different services in order to build a spending picture for what might be provided to different student types (Baker, Taylor, and Vedlitz 2003). Yet these methods of computing the adequate costs, while popular in recent state legal activity, are not helpful when budgets are limited and policymakers must decide how much of an existing budget should be devoted to one type of student at the expense of another.

3. Appendix A provides a synthesis of current studies on implicit and estimated weights.

While these changes may be difficult, for those struggling to devise coherent fiscal policy that targets funds for student needs, the findings in this report indicate that these changes are essential.

Navigating a Multi-Layered Allocation Landscape

The current system of education funding is a maze of intricate formulas from three levels of government: federal, state, and local. Each governmental unit has a set of allocation policies and spending priorities.

With funding patterns differing from state to state and district to district, and with spending investments buried in budget streams and layers of service delivery, analysis at times can be like solving a Sudoku puzzle. Because most education fiscal data are not accounted for neatly by student type, data sets for this analysis were created by deconstructing fiscal reports and rebuilding expenditures according to those considered non-categorical and those intended for a particular student type.

The objective was to create a data set that reflected spending patterns from each layer of government separately and together. With this data set, we asked:

1. How much does any one layer of government contribute in the context of total spending increments on each student type?
2. How does spending per student type vary across schools in a district, across districts in a state, and across states?
3. How do different streams of resources work together (or in conflict) to create the resulting spending patterns?
4. How do different policies influence spending patterns?

This analysis focused on state-level fiscal data from four states: North Carolina, Ohio, Texas, and Washington. In addition, within the four states, we examined fiscal data from 15 school districts (3 in each of Ohio and Texas, 4 in North Carolina, and 5 in Washington). Sample districts were selected based on meaningful variation in student performance, student demographics, and district size.⁴ Data for this analysis were obtained from federal fiscal reports, state departments of education, state regulations regarding allocation, interviews

4. See appendix B for district selection methods.

with district personnel, and local school districts. In a subset of districts, school-level spending patterns were used to determine how spending ratios vary among schools. Data are from the 2003-2004 school year.

This report also draws on formal interview data from a complementary study conducted as part of the School Finance Redesign Project. Select information from interviews is included in this report to provide context for the data.

The current system of education funding is a maze of intricate formulas from three levels of government: federal, state, and local.

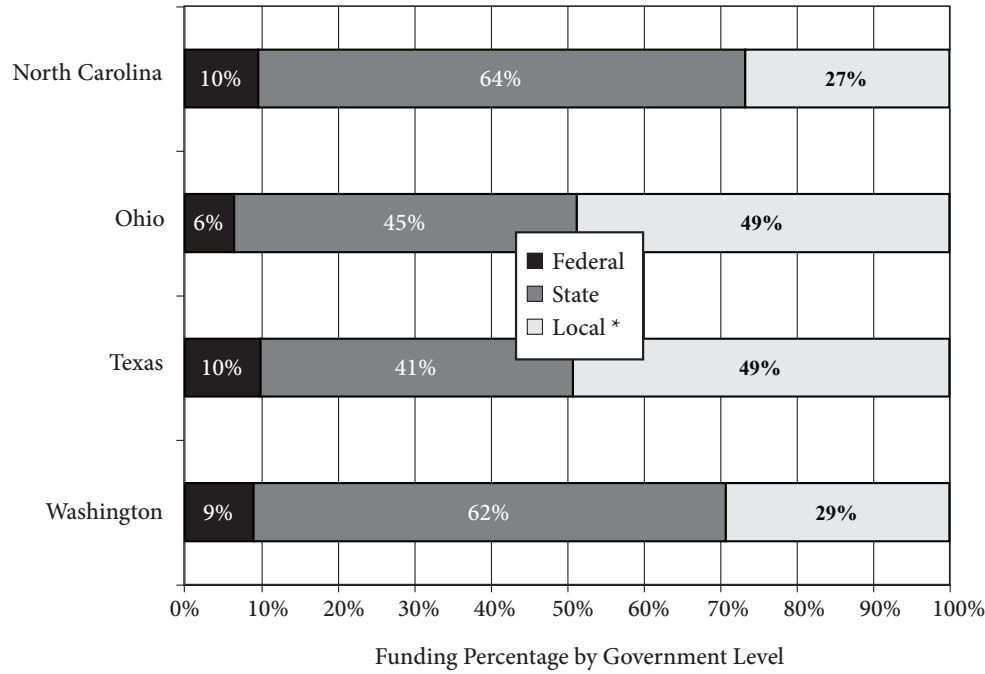
The process of tracing, categorizing, and interpreting fiscal policies in these four states yielded many insights about how targeted spending works and what is involved in taking stock of spending by student type.

Findings

Each Layer of Government Has Its Own Agenda

It is well documented that different governmental layers serve different roles in funding education. Nationally, the federal share in K-12 revenues is 8.7 percent, states pay an average of 48.8 percent, leaving districts to raise an average of 42.5 percent (although the state/local share varies substantially across states) (U.S. Department of Education 2002-2003). Figure 1 shows the extent to which each governmental layer contributes to education spending in the four states in this study. In Washington and North Carolina, the state funds the bulk of education expenditures, whereas in Ohio and Texas, the state and local governments each contribute roughly half of the total.

FIGURE 1. FUNDING CONTRIBUTIONS DIFFER ACROSS STATES



NOTE: *Intermediate Revenue included in Local Revenue Total
 SOURCE: U.S. Department of Education 2002-2003

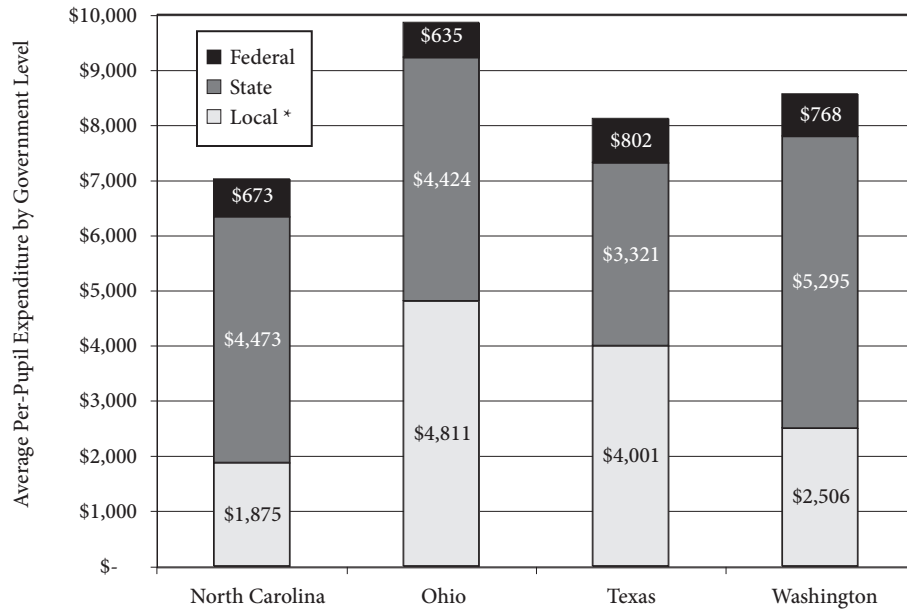
With the advent of state rankings, most policymakers are now very aware of how the average per-pupil contribution from each layer differs across states. Based on national data, the total per-pupil revenues in our sample states ranged from \$9,870 in Ohio to \$7,021 in North Carolina, with the different governmental levels contributing different portions for each state (see figure 2).

Less clear are the roles each level of government plays in funding different student types. As the next few sections demonstrate, each layer of government has funding systems with differing agendas and differing notions of what is needed to get students to standard, all

The diffuse nature of education funding means no one governmental level takes full responsibility for funding any particular student type.

built on their own historical precedents. In fact, the diffuse nature of education funding means no one governmental level takes full responsibility for funding any particular student type. Each level prioritizes different types of students and has different strategies for deploying resources. The result is a multi-layered system in which the layers at times work at cross-purposes.

FIGURE 2. PER-PUPIL SPENDING DIFFERENCES ACROSS STATES ADD UP



NOTE: *Intermediate Revenue included in Local Revenue Total
 SOURCE: U.S. Department of Education 2002-2003

Federal grants bring prescriptions for state and local allocation policy

The federal government’s share of K-12 education spending is intended to boost services for some students, experiment with new schooling models, or supplement spending for atypical districts (e.g., those in military communities).⁵ Prior to NCLB, the federal government was accused of having a “program for every problem ... so much so that there [were] hundreds of education programs spread across 39 federal agencies at a cost of \$120 billion a year” (Bush 2001, 1).

With pressure to leverage the federal role for greater change, the *No Child Left Behind Act* of 2001 consolidated some federal programs while establishing performance accountability measures designed to ensure that all children succeed in school. Much of the federal categorical allocations remained intact, continuing to provide targeted grants to boost services for certain types of students.

5. Federal support for education was consolidated in 1980 with the establishment of the U.S. Department of Education.

The most notable is the federal government's Title I program (currently a part of NCLB). Now more than 40 years in existence, this program allocates over \$12 billion per year to districts serving high concentrations of children from low-income families. In total, approximately 41 percent of all federal elementary/secondary education dollars are allocated to programs for economically disadvantaged children.

The federal government also continues to take on a substantial role in funding programs for students with disabilities, with 30 percent of federal elementary/secondary education funding now allocated toward special education. Other federal initiatives directed toward specific student needs constitute a smaller share of the federal elementary/secondary education budget; they include funds for vocational education and bilingual education (amounting to approximately 4 percent and 2 percent, respectively) (U.S. Department of Education 2007).

While this streamlining of federal programs makes it easier to clarify how much the federal government spends on each student type, other important issues arise when trying to make sense of federal dollars in the context of the full landscape of targeted spending. First, the distribution of federal grant dollars to states and districts is driven not only by the enrollment of the intended students, but also by other factors including (1) the concentration of the intended population, (2) each state's level of effort in funding education, (3) each state's policies regarding the distribution of federal dollars, (4) policies requiring some funds to be withheld, and finally, (5) previous years' allocations (Carey 2002). Further, once the federal grants reach the district level, district leaders then craft their own policies to deploy the resources across schools.

Second, federal grants bring more than funds. Many come with provisions intended to influence spending decisions at the state and local levels. In response to early reports of districts spending targeted dollars on general school aid or other unintended purposes, amendments were added to tighten up these programs so that they would focus on boosting spending for the intended students. The new amendments are now the mainstays of most federal education grants and specify (1) that state and local funds must be equalized across schools in a district before federal dollars can be applied, (2) that federal dollars be used exclusively to augment (supplement, not supplant) state and local dollars to make real spending higher in schools with eligible children, (3) that only certain items can be purchased, and (4) that detailed

Federal grants bring more than funds. Many come with provisions intended to influence spending decisions at the state and local levels.

accounting and auditing take place to ensure compliance. While some research questions the effectiveness of these provisions at accomplishing the intended objectives (Roza, Miller, and Hill 2005), the fact that these provisions exist demonstrates the role the federal government plays in efforts toward targeting resources to higher needs students.

State policies differ in how they target resources

State education funding, as we know it today, is largely shaped by three decades of equity litigation. Starting in the early 1970s, U.S. Supreme Court rulings established that basic education funding is primarily a responsibility of states, giving rise to a variety of means intended to equalize or to augment basic education funding across districts (National Conference of State Legislatures 2007). All states now utilize some basic education funding system—the details of which vary substantially from state to state—and then augment that with any number of funded programs, services, or special allocations that deploy additional funds to districts.

It is only in reading the fine print of each state's funding formulas that the range of differences emerges in how states allocate funds for different student types.

In two of the states we studied, Washington and North Carolina, basic allocation is handled via the allocation of staff, based on the number of enrolled students. In Texas and Ohio, local property tax value determines how much state funding each local district will receive for public education. In these states, a substantial portion of basic funding is based on dollars per student (or daily attendance).⁶

The state role in funding services for different student needs has not been clearly defined by the courts. Therefore, state allocation policies that fund services for various student needs differ enormously in the funding mechanisms they employ, the students they target, the conditions they impose, and the level of resources they bring.

It is only in reading the fine print of each state's funding formulas that the range of differences emerges in how states allocate funds for different student types. For example, targeted allocations may take the form of per-student allocations, flat grants, competitive grants, staff allocations, funds for specific services, reimbursements of costs, cost-sharing, and limited eligibility grants (often funding only those districts with high concentrations of a

6. In Texas, some districts that have higher property values provide a portion of their local taxes to the state to be redistributed to other, poorer districts. This system of funding has been challenged in the courts but was in effect during the time that these data were collected.

specific student type). Key differences lie in whether the state allocation (1) works primarily to increase spending in the district, (2) restricts the use of funds such that they only benefit a certain student type, or (3) specifies exactly what program or service is provided with the funds. A portion of Texas's state allocations works simply to bring more funds to needier districts. North Carolina, on the other hand, makes an allocation specifically for alternative schools (which serve high proportions of high-needs schools), and Ohio pays directly for full-day kindergarten as part of its poverty allocation. Washington's poverty allocation requires that the funds be used only for select schools, but doesn't specify how the money is to be used within those schools.

States also differ in the students that are targeted, often combining different kinds of needs for a single allocation. Washington's primary vehicle for delivering poverty dollars, the Learning Assistance Program, drives out dollars on the basis of both poverty and student performance.⁷ And where formulas apply, some states adopt minimum allocations such that every school or district receives some minimum allocation (regardless of enrollment of the intended beneficiary). As such, understanding the state role in funding different student needs necessitates taking stock of the complex and varied nature of state policies.

Local dollars are applied in ways that make tracking investments difficult

After federal and state governments allocate their earmarked resources, districts are left to fill in the gaps. Yet, district allocation policies, including the formulas, practices, and forces that drive resource distribution, remain undocumented, unclear, and at times mysterious to all but the budget staff. Because districts generally take on the responsibility of converting funds into expenditures for programs or services allocated to schools, it becomes difficult to track expenditures by student type and to follow those dollars to schools.

In most districts, the financial systems are based on a form of fund accounting, intended to account for targeted funding from federal and state grants separately, such that the costs for any particular student type may be assigned to several different accounts. Budget officials assign a set of expenditures that qualify for those restricted funds, and where needed, cover the additional costs of the programs or services provided to these students out of the unrestricted operating fund. For instance, a district may allocate a few extra instructional aides to schools with more complex student populations, yet not identify exactly how many or which aides were driven by this rationale, making it impossible to assign costs by student

7. Since this analysis took place, Washington changed its policies and now makes separate allocations for compensatory education and achievement.

need to each school. Further, restricted funds are often budgeted centrally to ensure compliance, making it difficult to determine which schools received which resources. Thus the answer to the seemingly simple question of “How much is allocated for bilingual education students at Eastside Elementary?” may require hours of analysis.

District allocation policies remain undocumented, unclear, and at times mysterious to all but the budget staff.

Of course, evidence clearly indicates that the best services for disadvantaged students are those that are integrated and coherent at the school level. So in a typical district, the leaders design the services centrally and then send out the staff allocations accordingly, which makes tracking resources below the district level an exercise in futility. The problem is that we end up with little sense of whether staffing patterns actually reflect increased investments for schools with needy students and if so, to what degree.

In the few districts using some version of weighted student allocation, tracking resources that are deployed on the basis of student need is fairly straightforward. In fact, for these districts, a simple formula allocates a fixed dollar amount per student type to all schools. While this dollar figure may not include targeted state or federal grants, it does clarify how local unrestricted dollars are divvied up among schools. Yet, despite the increasing popularity of a weighted student allocation method, most districts still rely on staff allocations to drive resources across schools. This means they do not isolate and report the level of local or unrestricted dollars being expended on specific student types.

Taking the analysis down to the school level for most districts requires recoding district data to identify what portion of unrestricted dollars is expended on services directed at each student type. Often, the resources are identifiable by the job codes given to the staff assigned to each building. For example, bilingual education teachers and bilingual education aides constitute the bulk of district expenditures for bilingual education.

The problem is that we end up with little sense of whether staffing patterns actually reflect increased investments for schools with needy students and if so, to what degree.

Because of the extensive time involved in recoding local fiscal data to understand how resources are expended on the basis of different student needs, this analysis focuses on a subset of districts to get a glimpse of the issues that emerge in investigating how earmarked dollars are deployed across schools within districts. Analysis at the school level sought to separate those allocations made above and beyond what the district would have allocated

to a particular school if the school had no students with identifiable needs. In other words, the goal was to isolate those additional resources expended in efforts to address particular student needs.⁸

Common Metrics Are Needed

Each state and district can point to a set of categorical allocations as evidence of investment for a type of student. Because programs, services, or staff ratios can mean different things in different settings, comparing these investments across states first requires converting these figures into a comparable measure. The most common approach—converting categorical allocations into incremental “expenditures per pupil type”—has the advantage of making dollars the common metric.

However, since each state funds a different portion of the education costs for its districts, and each state’s total education spending varies (as part of cost-of-living differences, local spending preferences, tax policies, etc.) per-pupil expenditure comparisons do not provide a sense of how locales differ in their relative commitments to different student needs. For instance, suppose we have two districts, each of which spends an additional \$500 for each English Language Learner on top of its basic education expenditures. In the first district, the basic education expenditure amounts to \$5,000 per pupil whereas in the second district, it is \$2,500 per pupil. The relative commitment to English Language Learners in the second district is much higher, since it spends 20 percent more on bilingual education than on regular education students, as compared with 10 percent more in the first district.

The above example demonstrates that a second measure is necessary to communicate the *relative portion* of each funding layer attributed to different student types. So, in addition to computing per-pupil spending by student type (and governmental layer), allocations were converted into a set of implicit “weights.” For this analysis, the incremental weight for each student type is computed as a ratio of the incremental per-pupil allocation (per student type) to the total non-categorical per-pupil investment.⁹ In other words, using

A second measure is necessary to communicate the relative portion of each funding layer attributed to different student types.

8. This study stops at the school level, as tracking resources to the level of students is impossible in the current system.

9. The district analysis includes most operational spending. See appendix C for details.

the example of the districts mentioned above, if the second district allocates an average of 20 percent more on English Language Learners than it does on the average student with no specialized needs, the weight for English Language Learners in that district is 0.20. This information, coupled with the per-pupil allocation by student type, allows for a fuller characterization of resource patterns by student type across states and locales.

Varying definitions of student types complicate the analysis

In adding up the expenditures associated with specified populations, a key detail is the definition of student type. For instance, compensatory funds allocated through the federal Title I program and some state categorical allocations are designed for disadvantaged children. “Disadvantaged” (i.e., at-risk) students may be interpreted as those who live in poverty (or qualify for free/reduced-price lunch), perform poorly on state assessment tests, move frequently or are homeless (i.e., migrant or transient), qualify for social services, have poor attendance records, or meet any number of specific or catch-all definitions. Since there are multiple interpretations of compensatory education, these funds can be distributed in different ways across schools and districts. For this analysis, we have deferred to the definition that the district or state in question uses.¹⁰

Resources allocated as “services” pose an ongoing challenge

As discussed earlier, earmarked resources to help a specific student population are often allocations for programs, services, or staff, rather than dollars. For instance, Washington’s Bilingual Education Formula allocates one extra certificated staff per 74 qualifying students. The state reimburses the district for the actual costs of the staff hired (using a state-wide salary scale). The dollar expenditure of the allocation ultimately depends on the experience of the individuals hired since that dictates where they land on the salary schedule.

Earmarked resources to help a specific student population are often allocations for programs, services, or staff, rather than dollars.

In some cases, a cap is set on the percentage of students included in a state allocation formula, regardless of how many students are identified or served. For example, North Carolina places a cap on students who qualify for special education funding at 12.5 percent of the district’s average daily membership. In this case, the per-pupil dollar figure depends on how many students are identified as qualifying for

10. Most states and districts define students as eligible for compensatory education by whether they qualify for subsidized lunch.

special education and thus involves tracking financial data from states down to districts and matching the financial data with district-level demographic data.

Dollar value of reimbursements is inherently unstable

Finally, instead of allocating funds directly, some states reimburse districts for expenditures or a portion of expenditures dedicated to serving a specific type of student. For example, districts in Washington can apply for a Safety Net Allocation, which reimburses them for the portion of their special education expenditures that exceeds the amount allocated by state and federal funds. In this case, additional district expenditure data are needed to determine the dollar value of the allocation. Furthermore, as districts choose to spend more (or less) each year on the intended student population, the dollar value of the reimbursement changes. As a result, the amount the state spends on an allocation as a reimbursement cannot be determined at the outset and can prove inherently unstable from year to year and from district to district.

Similar Students Receive Dissimilar Resources

After adding up allocations from each layer of government in the sample districts, the fiscal data clearly demonstrate that:

- Incremental per-pupil spending on any particular student type is highly variable across districts.
- Spending priorities as indicated by implicit weights (or portions of total spending) differ substantially as well.
- Differences in the base allocation do affect the implicit weights.

Spending differs dramatically across districts

We found vast differences in the incremental per-pupil allocations in this data set. The differences emerged across districts in different states and among those in the same state. For example, one Texas district spent \$2,716 per poor student for compensatory education above and beyond its basic education expenditure for all students. Another district in Texas spent only \$880 per pupil on compensatory education. An outlier district in Washington spent \$11,460 more per poor student, some \$10,300 more than any another Washington district we studied.

There were similar differences for incremental spending on bilingual education, vocational education, gifted programs, and special education. Figure 3 shows the range of per-pupil expenditures by student type for the 15 districts in our sample. For each student need, the range of incremental spending exceeded \$3,000 per pupil.

FIGURE 3. SOME DISTRICTS' INCREMENTAL ALLOCATIONS BY STUDENT TYPE ARE MORE THAN THREE TIMES THAT OF OTHER DISTRICTS

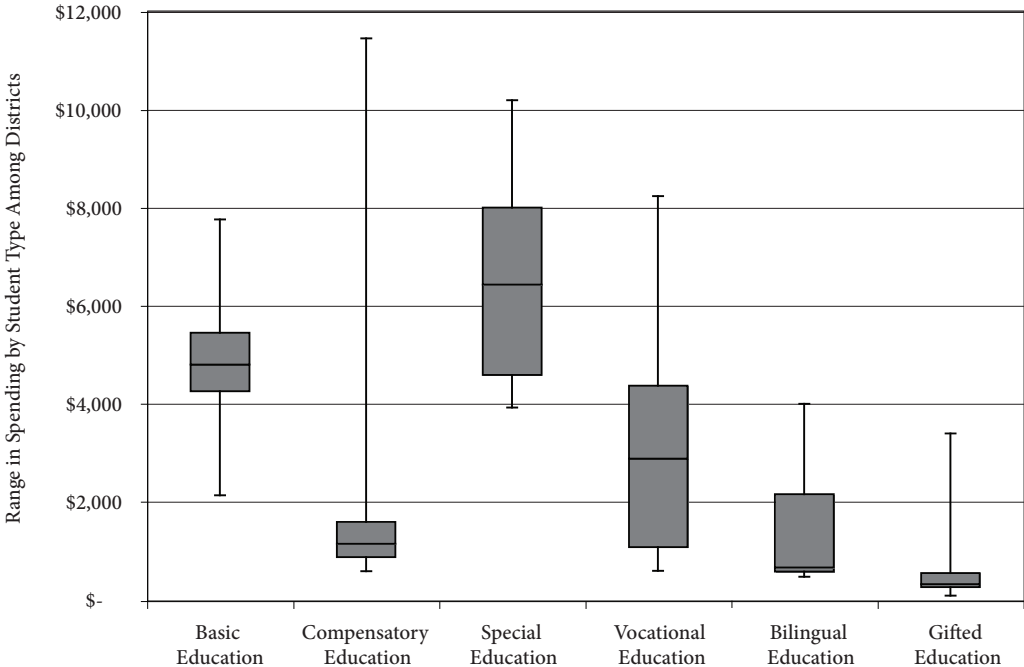


Figure 3 also indicates that per-pupil resources are generally higher for some student needs than others. Overall, more is spent on special education students (with a median of \$6,493 per pupil in our sample) and vocational education (median of \$3,123) than on compensatory education and bilingual education students (medians of \$1,974 and \$1,335, respectively). The least amount is generally spent on gifted education (\$612 per pupil), but even these rankings differ in some districts. But the question remains: What do these per-pupil amounts mean in terms of priorities?

Since most districts do not have a weighted student allocation formula, they do not identify weights as explicit.

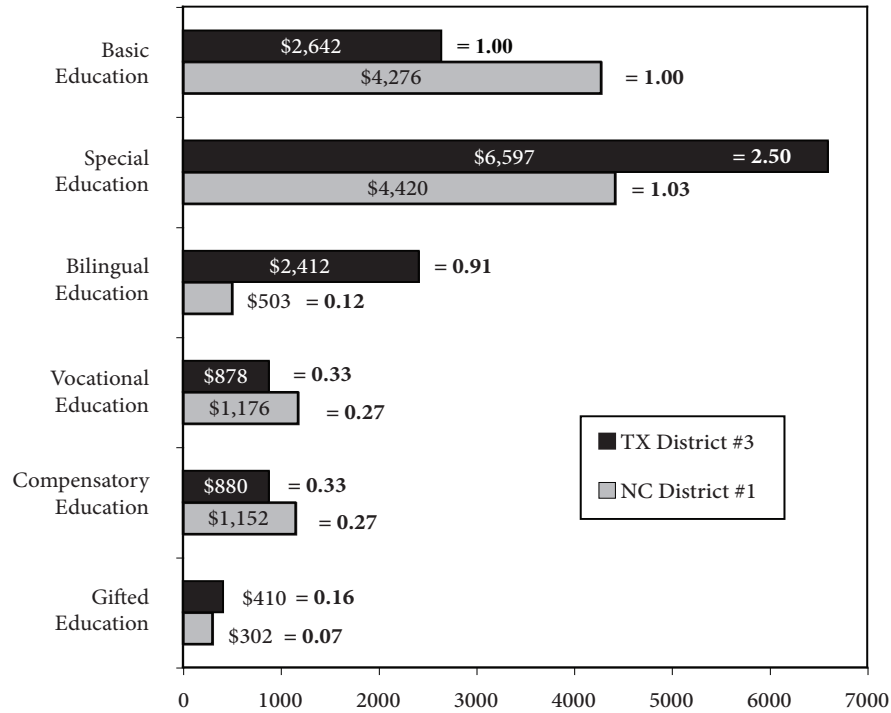
Computing implicit weights is a way to clarify a district's priorities

Budgeting and financial management texts take great care to point out that each organization's allocation patterns are a manifestation of the organization's priorities, whether those priorities are the result of "thoughtful strategic planning process, of the inertia of long years of doing approximately the same thing, or of the competing political forces within the organization bargaining for shares of the resources" (Lee, Johnson, and Joyce 2004, 2).

Where districts use a weighted student allocation formula, these allocations are not implicit but rather explicit weights—priorities articulated clearly as part of district policy. Since most districts do not have a weighted student allocation formula, they do not identify weights as explicit. Instead they craft programs to meet their students' needs in the context of resource constraints and mandates for specific services, and then where necessary and viable, bolster earmarked funds from the federal and state levels with local funds to cover the costs of those programs.

To understand the relative investment in each student type, we compared the per-pupil expenditures by student type to each district's basic education allocation. Figure 4 shows differences in per-pupil dollar amounts and implicit weights across two sample districts. Comparing the implicit weights of North Carolina District #1 with those of Texas District #3 shows that the Texas district spends proportionately more on bilingual education than on poverty—roughly three times more. Conversely, North Carolina District #1 is spending almost twice as much on its poverty students than its bilingual students.

FIGURE 4. DATA REVEAL DIFFERING DOLLAR AMOUNTS AND FUNDING PRIORITIES FOR DISTRICTS

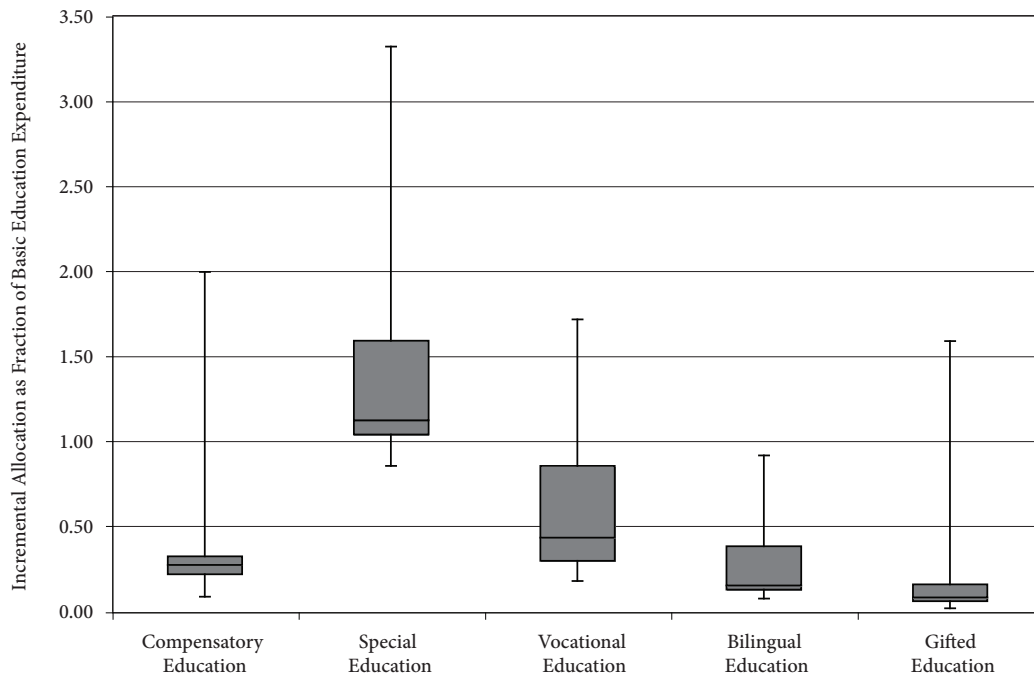


If weights = priorities, then priorities differ vastly across districts

An examination of data from each of the sample districts indicates that some student needs emerge as priorities while others are less clear. Spending on students with disabilities tops the list of all but two districts’ implicit weights.¹¹ In one, the district spent more per vocational education student, and in another relatively wealthy district, poverty students received the highest weight. As figure 5 (page 20) shows, among the fifteen districts in this study, higher spending weights for special education students are the norm, but patterns regarding priorities for other student types are less clear. In ten districts, vocational education was the next highest student weight, funded from 0.17 to 1.71, with a median of 0.43.

11. While the category of special education students includes students with a wide range of disabilities and educational needs, this study does not capture those differences.

FIGURE 5. RANGE OF IMPLICIT WEIGHTS SUGGESTS NO STANDARD PRACTICE FOR PORTIONS OF RESOURCES DEDICATED TO EACH STUDENT TYPE



Priorities were even less clear for bilingual and compensatory education. While five districts spent a larger increment per limited-English-speaking student than per poverty student, in nine districts the weight for poverty students was higher than for bilingual education.

All but two districts funded gifted students at the lowest weight, with two districts earmarking no funds for gifted programs.

Uneven per-pupil spending, implicit weights, and varying priorities confirm what the research suggests: there is no conventional wisdom in place on appropriate costs of programs or services for different types of student need. Both weights and per-pupil expenditures vary substantially across districts and states, such that one district may spend three or more times what another does on a particular type of student.

Uneven per-pupil spending, implicit weights, and varying priorities confirm what the research suggests: there is no conventional wisdom in place on appropriate costs of programs or services for different types of student need.

Differences in state share of education spending impede cross-state comparisons

As described earlier, in two of the states studied here, Ohio and Texas, local dollars make up half of total education spending with the state share at only 45 percent and 41 percent, respectively (much less than the state share in the other two states). These substantial differences in state contributions complicate cross-state comparisons of funding for student needs. For example, whereas Washington provides \$6,358 per special education student above and beyond the \$4,895 basic allocation and Ohio provides roughly half that at \$3,210 above its basic allocation, Ohio's share of the basic allocation is only \$2,469. The result is that despite the vast differences in per-pupil allocations, both states augment spending by the same weight (1.30) for special education.

The next question that immediately surfaces is whether or not the state should bear the burden of funding all the costs associated with special education, or just the same proportion as is applied to basic education. In either case, under the current finance system, comparing state investments by student need across states is virtually impossible when each state contributes a substantially different share of what is spent per pupil at the district level. Where policymakers continue to think about targeted resources in terms of the portion of the total resources available, per-pupil allocations will yield different proportionate investments in different locales.

Disparities Grow as Resources Flow From Districts to Schools

While the previous section demonstrates how spending patterns vary across districts, this section highlights how those resources are distributed across schools within a subset of districts.

Efforts to equalize funding fall short at the school level

For decades, resource equity investigations stopped at the district door, in large part because district fiscal accounting practices made analysis of spending patterns by schools impossible. In recent years, as fiscal accounting has changed and accountability reforms have put the spotlight on school-level student performance, school-level equity questions have surfaced, namely, "Are district allocation policies treating all schools appropriately given their mix of students?"

Several studies give cause for concern by demonstrating that spending differences among schools within districts at times exceed spending differences across districts (e.g., Hertert 1995; Roza, Guin, Gross, and DeBurgomaster 2007). Such inequities across schools cannot be blamed on the tax base or access to resources because individual schools receive only what the district gives them by way of its allocation policies. As mentioned above, district leaders assign staff to schools, often with additional allocations to schools with higher student needs, or to schools with unique programs or characteristics (e.g., small, magnet, alternative, redesign). The total allocation to each school is effectively what it costs the district for the staff and other resources applied to each school. Allocations can vary with each school's staff experience because more experienced teachers are paid more by the district. Costs can vary by school size as per-school allocations (for librarians, counselors, etc.) cost more per pupil in small schools. And clearly costs increase when some schools garner additional staff for magnet or other unique programs. Lastly, schools that receive targeted allocations as a result of their identified student needs pose higher costs—and it is these “incremental” costs that this study investigates. But, without accurate accounting of school-level allocations, district leaders are not aware of how investments by student type vary across schools.

Given these data challenges, this analysis of how district spending patterns translate to implicit weights at the school level included only the two districts with uniquely detailed school-level expenditure reporting. As a result, while the patterns found here illuminate key issues in how targeted dollars move to the school level, these patterns may not fully illuminate issues that exist elsewhere in districts lacking school-level spending detail. That said, the findings here are important in that they show how the variation across student-need categories *within* districts can be much greater than the variation *across* districts.

The variation across student-need categories within districts can be much greater than the variation across districts.

Table 1 portrays the extent to which implicit weights for different student types vary across elementary schools in Texas District #3. For example, bilingual weights range from 0.00 to 223.68, with a median of 1.20. Investigation of outliers suggests that the highest bilingual education weights appeared in schools with relatively few bilingual education students, increasing the per-pupil cost of assigned bilingual staff.

Ignoring outliers and instead focusing on implicit weights for schools at the 5th and 95th percentile, it is clear that the range in weights is still much higher among schools within a district than among districts within a state. The range for bilingual education, for instance,

was between 0.40 and 4.57. Implicit poverty weights in some schools were more than 10 times the implicit weights in other schools.

TABLE 1. RANGE OF SPENDING WEIGHTS ACROSS SCHOOLS EXCEEDS RANGES FOUND ACROSS DISTRICTS

Across Schools in Texas District #3			
	Compensatory Education	Special Education	Bilingual Education
Minimum	0.02	0.63	0.00
5th Percentile	0.08	1.05	0.40
Median	0.31	2.12	1.20
95th Percentile	0.85	4.40	4.57
Maximum	11.52	7.18	223.68

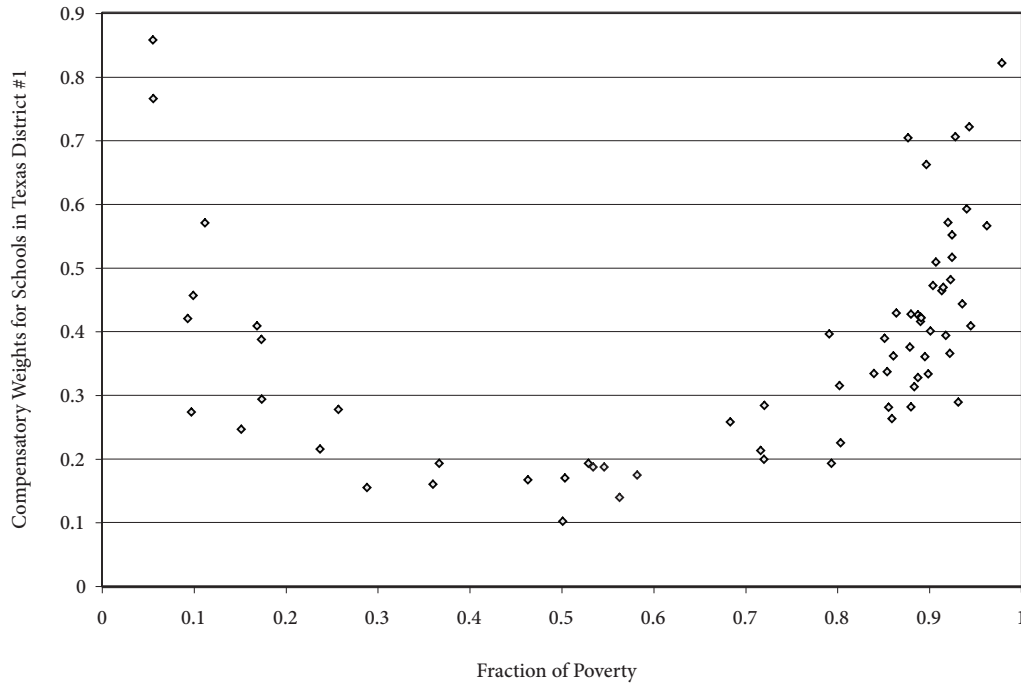
Across Texas Districts			
	Compensatory Education	Special Education	Bilingual Education
Minimum	0.33	2.17	0.30
Maximum	1.27	3.32	0.91

Spending variations lack apparent rationale

The data in table 1 demonstrate that the implicit weight on any student type can vary substantially from school to school in the same district. The question that comes immediately to mind is, “Why do districts allocate more to some schools than others?” One might suspect that districts allocate more to schools with greater concentrations of need. To test this hypothesis, we examined the relationship between concentrations of poverty and poverty weights across schools in Texas District #1. Figure 6 shows implicit poverty weights arranged by each elementary school’s percentage of poverty, suggesting that while concentration of poverty does explain some of the variation, the patterns are not what would be expected.

The question that comes immediately to mind is, “Why do districts allocate more to some schools than others?”

FIGURE 6. PATTERNS OF IMPLICIT POVERTY WEIGHTS DO NOT APPEAR TO CORRESPOND WITH NEED



In this district, implicit poverty weights are generally higher for the schools with the highest concentrations of poverty. Many schools with 80 percent or more poverty students receive 30 percent or more per-pupil funds for these students than for regular students. However, implicit weights are even higher for some of the schools with the lowest poverty levels.¹²

One might suspect that other justifiable rationales drive differences in per-pupil spending levels for each student type across schools. For instance, districts may allocate more money to schools with lower test scores, to smaller schools (with higher marginal costs), or to schools where other student needs (like transience or homelessness) add to the challenges at hand. In other words, differences in targeted spending by student type from school to school might follow some justifiable pattern not apparent in these data.

Significant unexplained variation exists in spending levels among schools, even after taking into account a multitude of identifiable school and student characteristics.

12. Note that four schools were outliers in this data set, with compensatory weights greater than 0.90 (ranging from 1.22 to 3.37). All of these schools had concentrations of poverty of less than 6 percent.

The research on intradistrict spending patterns, while not definitive, questions the existence of such a rationale. One study on intradistrict spending patterns in Texas found that only 33 percent of the variation in per-pupil allocations (including categorical dollars) could be explained by identifiable school characteristics, including student performance (Roza, Guin, Gross, and DeBurgomaster 2007). Other studies of spending patterns among urban schools found similar results, namely, that significant unexplained variation exists in spending levels among schools, even after taking into account a multitude of identifiable school and student characteristics (Hertert 1995).

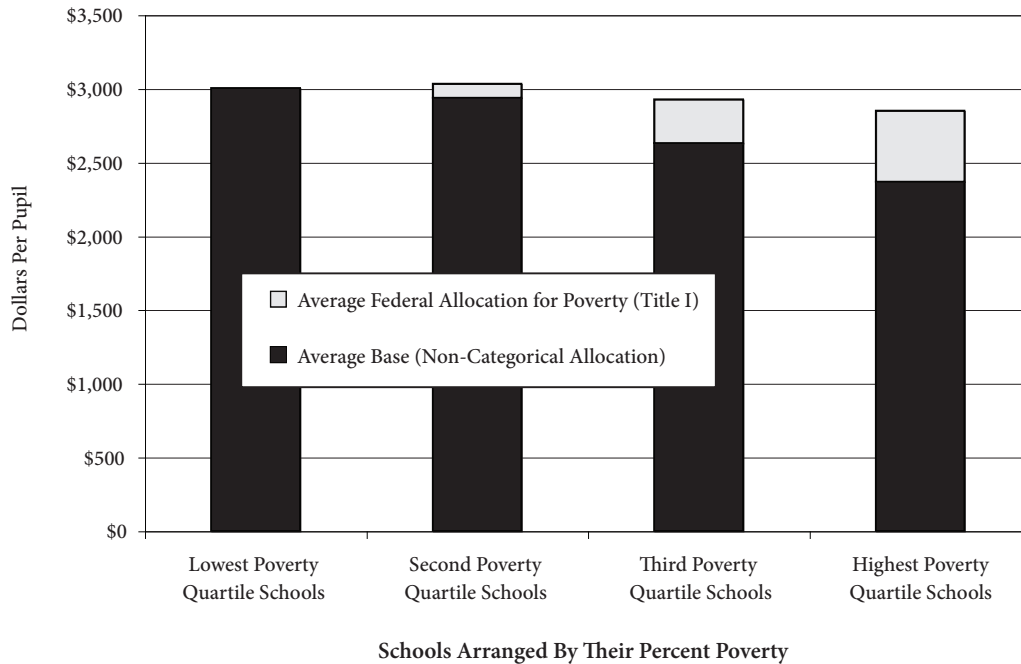
While this study does not directly investigate the relationship between implicit weights and school characteristics, later sections describe some of the ways in which current policies contribute to the variations in spending by student type.

Differences in Base Can Work Against Targeted Allocations

The idea behind targeted allocations is that they provide “extra” funds to students that need “extra” resources in order to perform. However, as figure 7 demonstrates, even at the level of schools within districts, one cannot assume that targeted funds layer on top of a base allocation that is independent of the targeted funds. In this district, schools with fewer poverty students receive a larger base allocation (\$3,005 vs. \$2,369 per pupil in the schools with higher poverty). Federal Title I dollars that do indeed disproportionately land on higher-needs students do not fully compensate for the inequities in the base allocation.

For the federal government, these patterns in base allocations work directly counter to their efforts to use funds to close the achievement gap. Where districts offset federal funds by disproportionately spending more discretionary funds on wealthier schools, the federally targeted dollars cannot possibly have the intended effect of boosting spending and student performance among the high-poverty schools. Put more simply, when the federal government invests funds to ensure that the highest-poverty schools have more resources, we find local governments counteracting this investment by directing their resources disproportionately to lower-poverty schools.

FIGURE 7. FEDERALLY TARGETED DOLLARS LAYER ONTO AN UNEVEN BASE AMONG SCHOOLS WITHIN DISTRICT # 1



Allocations Are Driven by More Than Performance

In the process of tracing and coding expenditures by source and student type, many explanations for the uneven spending patterns emerged. While many allocation policies originate with an interest in providing greater services for needy students, other factors influence policy implementation.

This section describes three ways in which targeted allocation policies create messy and sometimes unintended spending patterns:

- Funds originating at different levels are not predictive of how much is ultimately dedicated to a particular student type.
- Seemingly minor details of allocation formulas have big consequences for spending patterns.
- Different motivations influence implementation of targeted allocations.

Local policy dampens the effect of targeted federal and state funds

Well-intentioned federal and state targeted allocations are generally aimed at either boosting spending on a specific student type, or relieving districts of some of the financial burden of serving high-cost students. For instance, the federal Title I program is designed to compel districts to spend more on students from high-poverty backgrounds as part of a federal initiative to limit the long-term effects of poverty on children. Federal special education allocations, on the other hand, are intended to relieve districts from the typical burden imposed by meeting the needs of students with disabilities.

The concern, however, is that in a system with multiple sources of funding, policies that target resources across student types lack coordination or alignment across levels of government. One way to investigate this concern is to consider the sum of all the sources and its impact on spending for each student type.

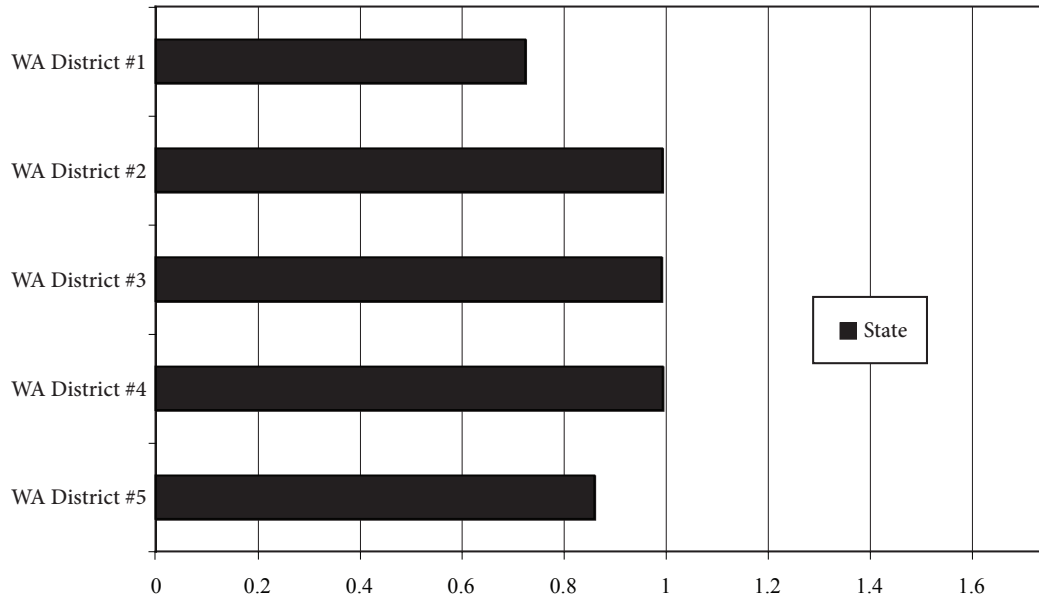
In a system with multiple sources of funding, policies that target resources across student types lack coordination or alignment across levels of government.

What happens when you put all funds from all sources for one particular type of student together to get a cumulative weight? We found little equity in the distribution of weights for different student types across districts and schools.

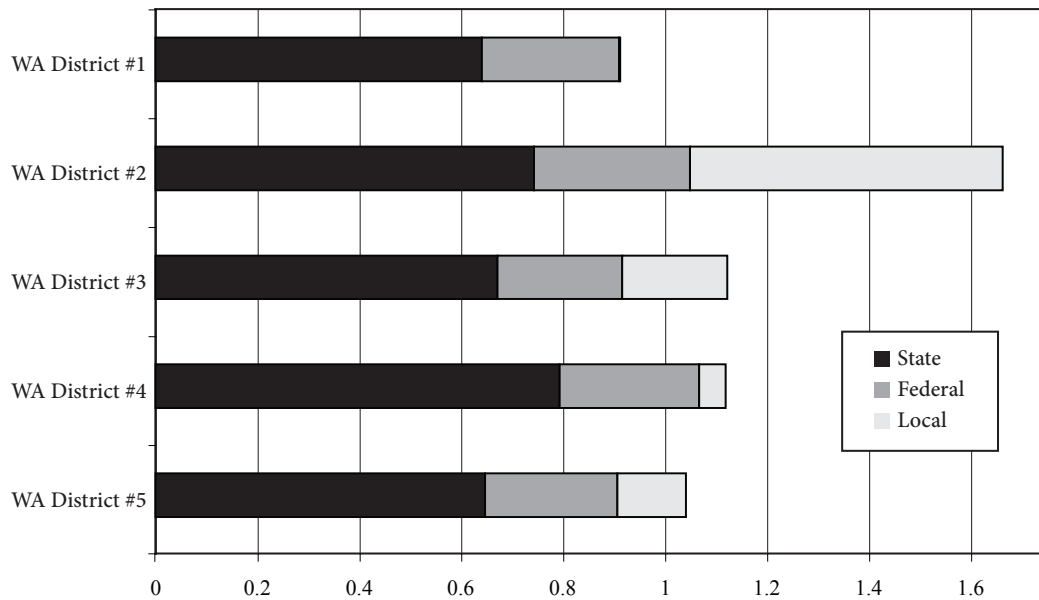
Furthermore, by breaking out the spending by source, we found instances where the sum of the parts had more variation than the parts themselves.

For instance, figure 8a shows how the weights for the state portion of special education funds are fairly consistent across Washington districts. Different districts, however, contribute local money at different ratios, resulting in variation in the implicit weight (see figure 8b). While District #2 spent 166 percent (or \$8,465 per pupil) more on a special education student, District #1, at 91 percent (or \$4,379 per pupil), spent roughly half that. Despite a relatively even distribution of state special education resources (and total education resources), Washington districts spent substantially different amounts on students with disabilities. The result is that the equitably distributed state investment was not predictive of the overall investment in special education seen at the district level, nor was it effective in equalizing the resources available for these students.

FIGURES 8A AND 8B. DESPITE EQUITABLE STATE ALLOCATIONS FOR SPECIAL EDUCATION, STUDENTS WITH DISABILITIES RECEIVE VASTLY DISPARATE RESOURCES ACROSS DISTRICTS

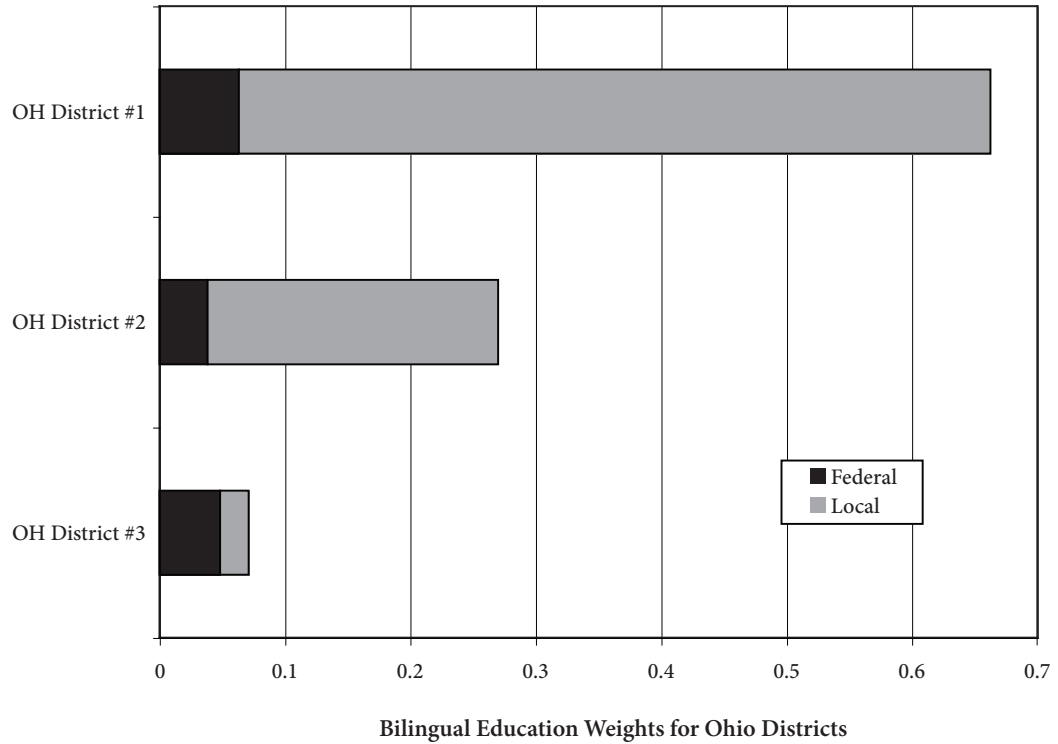


Special Education Weights for Washington Districts (State Only)



Special Education Weights for Washington Districts (State vs. Total)

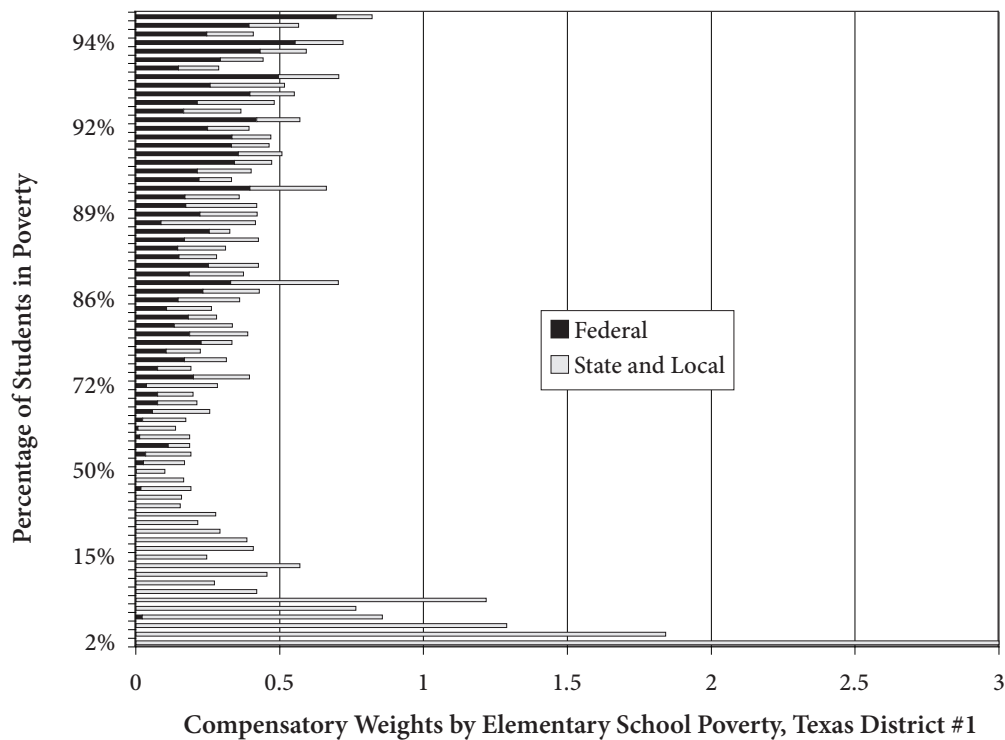
FIGURE 9. LOCAL INVESTMENTS CHANGE THE EFFECT OF FEDERAL INVESTMENTS



In a different example, Ohio districts received a modest amount from the federal government for bilingual education, but the state did not allocate funds specifically for this purpose. As can be seen in figure 9, districts augmented federal bilingual dollars at different levels. In total, District #3 allocated 7 percent more for bilingual education students (amounting to \$533 per bilingual education student), whereas District #2’s implicit weight, at 66 percent more or \$4,008 per bilingual student, was seven times more. Again, different local allocation policies dramatically altered the impact that federal investment had on different districts. If federal lawmakers intended that federally targeted bilingual education allocations level the playing field for these students, the result is anything but that.

In the sample districts, we found similar patterns when we examined how resources from different sources affected spending at each school in a district. Figure 10 shows how federal, state, and local resources influenced spending for poverty students across elementary schools in Texas District #1.

FIGURE 10. LOCAL AND STATE INVESTMENTS THWART FEDERAL PRIORITIES TO BOOST SPENDING FOR HIGHEST CONCENTRATIONS OF POVERTY



Where federal dollars are concentrated primarily on schools with higher proportions of students in poverty, state and local targeted dollars are distributed in larger proportions to lower-poverty schools (often to ensure that all schools receive some benefit). Federally targeted funds, in this case, are not effective at providing the highest-poverty schools with a leg up, as intended. As was found in patterns on base allocations, when the federal government invests funds to ensure that the highest-poverty schools have more resources, local governments counteract this investment. In effect, local intentions work to ensure that all schools (regardless of poverty level) benefit in some way from all allocations (including poverty allocations).

When the federal government invests funds to ensure that the highest-poverty schools have more resources, local governments counteract this investment.

For federal lawmakers, targeting funds becomes part of a much larger investment at the state and local levels. And since states and districts spend their resources differently, federal dollars get combined with other funds at different rates to affect spending by student type.

Seemingly minor details can have big unintended consequences

In sifting through federal, state, and local allocations that target resources to different student types, one can immediately see how allocation formula details play an important role in determining ultimate spending levels across districts and schools. Targeted allocations differ enormously, with some allocating dollars and others allocating staff or programs. Table 2 shows some of the ways allocations are made.

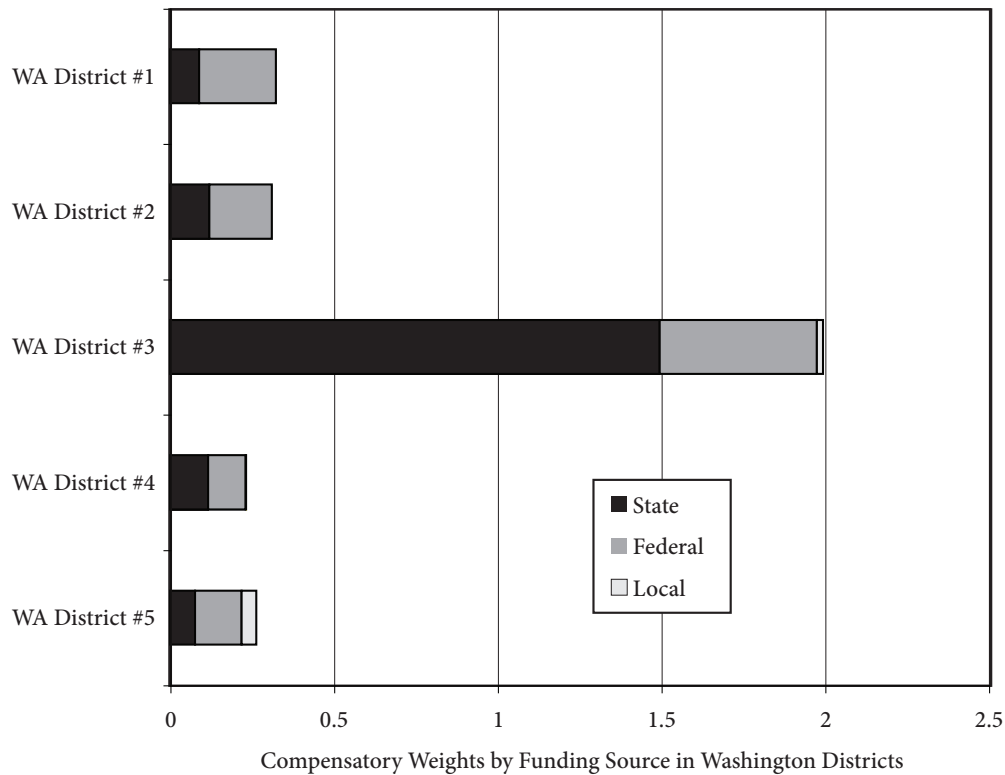
TABLE 2. EXAMPLES OF ALLOCATION DETAILS

<u>Types of Targeted Allocations</u>	<u>Types of Restrictions</u>
<ul style="list-style-type: none">▪ Lump sum grants▪ Per pupil type▪ Per fixed (or capped) percentage of all pupils▪ Per school▪ Per staff (allocations for training)▪ Allocations for programs or services (e.g., professional development, reduced class size)▪ Allocations for staff (e.g., instructional aides, coaches)▪ Reimbursements for expenditures	<ul style="list-style-type: none">▪ Which schools are eligible▪ Which students are eligible▪ What objects can be purchased (and at what amounts)▪ What services are covered▪ How non-grant dollars are expended (i.e., requires match, comparability, non-supplanting, etc.)▪ Separate accounting

For urban districts with many different categorical allocations, the differing details fuel an entire industry intended to help with compliance. But additionally, the details are part of the reason for the very different spending patterns that emerge across states. In Texas, for instance, special education funding is weighted by disability type, and there is no cap on the number of students who can qualify, so it comes as no surprise that the Texas districts spend proportionately more on special education students than do districts in other states. North Carolina and Washington, on the other hand, provide a flat rate per student, regardless of disability, and cap the percentage of students who can be funded. These formula differences influence actual amounts allocated to (and eventually spent on) individual students. North Carolina and Washington districts have implicit weights less than 1.66, whereas the weights in Texas range from 2.17 to 3.32.¹³

13. State special education allocation weights: North Carolina (0.80), Ohio (0.29 – 4.7), Texas (1.1 – 5), and Washington (0.93)

FIGURE 11. ALLOCATION FORMULAS CAN CREATE UNINTENDED INEQUITIES



Some targeted allocations include minimum grants for districts with small proportions of the targeted student type. Washington’s compensatory allocation formula ensures that even the wealthier districts (e.g., Washington District #3) receive some minimum level of compensatory funds, that when spread over their very small portions of poverty students, amount to incredibly high implicit compensatory weights (see figure 11).

Allocations for programs, staff, and services tend to be lumpier allocations than per-pupil allotments, as they dictate the flow of staff full-time equivalents instead of dollars. Similarly, requirements that state or federal allocations not be comingled with other expenditures can create the incentive to consolidate the administration of resources in a central department or concentrate the targeted resources on a subset of schools, if only for ease of accounting.

In the case of federally funded poverty allocations (Title I), the details embedded in the comparability provisions render the intent of the provisions essentially meaningless (Roza, Miller, and Hill 2005). While the federal law is designed to require districts to evenly

distribute state and local dollars before applying the federally targeted funds, as demonstrated in figure 11 above, the federal legislation is not having its intended effect in some districts.

Other forces shape implicit weights

While closing the achievement gap is viewed a primary reason for providing targeted resources to specific student groups, interviews with district and state personnel reveal other factors affecting how much is spent on each student type. Some of these factors include:

- **Labor contracts.** Labor contracts influence costs when provisions dictate elements of service delivery. For example, in some districts, contract provisions specify maximum student-teacher ratios for pull-out services.
- **Low-needs schools.** Schools with few student needs often pressure the district for equivalent services, such as full-day kindergarten, the placement of instructional assistants, and other resources paid for with targeted dollars.
- **Fear of litigation.** Some district leaders augment services as a way of heading off the threat of legal challenges to special education services—now the most litigated element of K-12 education. District leaders worried about the high costs of special education litigation would rather spend more on these services than on legal defense.
- **Differing strategies and services.** Districts vary in the strategies they use to serve different student types. While some districts use inclusion, others provide pull-out programs that require higher levels of funding. Additionally, district leaders worry that providing superior services in their district would serve to draw in greater portions of high-needs students.
- **Differing marginal costs.** In some cases, high concentrations of one type of student need are linked to lower marginal costs (e.g., bilingual education), where in others, the high concentrations have the opposite effect on spending (e.g., levels of poverty).
- **Special interest groups.** Special interest groups lobby policymakers for increased resources for specific student types. In Texas, for example, the vocational education constituency is known for its influence on allocations for eligible students.

- **Student identification.** A state leader worried about incentives for districts to classify students as needing bilingual education services because more bilingual education students bring in more state funds. On the other hand, where there are formulas that cap special education allocations, districts complain that when parents themselves can influence identification with their own doctor's reports, the caps unduly limit the resources that districts receive for students over which they have little or no say in identifying as needing services.

This sampling of factors demonstrates that allocation policies exist in a complex environment of many different forces that can and do influence resource patterns across student types. The next section offers several recommendations for policymakers, as they continue to navigate this complex policy arena in their efforts to target resources toward better student performance of specific student types.

Recommendation:

Redesign Distribution and Resource Reporting Protocols

These findings point to major problems in the current manner of allocating and tracking funds for student needs. The exact nature of the problems differs somewhat from locale to locale, but what seems persistent is the notion that differences in agendas, details of formulas, local political forces, and other factors work at cross-purposes such that the current system of channeling targeted dollars to high-needs students is anything but intentional.

For policymakers trying to determine the “right” amount to allocate per student type, the existing information provides little guidance. With spending levels and allocation mechanisms varying substantially across settings, it is difficult to extract broad conclusions about levels of spending and student performance. And until we have a better-functioning allocation system, we cannot possibly begin to investigate the level of optimal spending necessary for the desired result.

Making targeted allocations serve their purpose means addressing policies at every level of government.

We recommend redesigning distribution and resource reporting protocols as a way to more efficiently and effectively align and track resources with student needs. Because of the different governmental layers involved, the recommendations propose changes intended to influence the process that guides how resources trickle down to schools. In other words, making targeted allocations serve their purpose means addressing policies at every level of government. Specifically, we recommend the changes detailed below.

Make Sure That What Gets Distributed Is Dollars

Much of the unintended variation in spending arises when state and district policymakers convert dollars into purchased resources (e.g., staff, services, program access, etc.) before allocating them. Sending out one staff member per school, a specialist per set of schools, or the costs of programs or services does not allow for equitable distribution of dollar

resources. When state lawmakers prescribe how resources get used, there is little sense of how implementation at the local level can affect what gets spent at each school. Most importantly, allocating programs or services can have the effect of supplanting other resources that would have already been expended on the intended students.

Further, when funding sources distribute funds (instead of purchased resources) schools can combine resources from different sources to provide a more comprehensive and integrated program for their students. For instance, where schools effectively receive resources from three different sources for bilingual education, and each delivers a different type of purchased items (one provides aides, another provides funds for specialists, and a third provides access to professional development), it becomes unlikely that the school will be able to integrate these resources to provide a coherent program for these students.

It is important to note that this recommendation differs substantively from recently popular initiatives to design allocation policies around adequacy studies that cost out the purchased resources. These state-level efforts typically have the effect of identifying the mix of purchased resources that some believe schools ought to have and then distributing those purchased items instead of delivering dollars. The clear problem brought to the fore in this report is that when different governmental layers are involved in determining the mix of purchased resources for schools, the result is an inequitable, unintentional, and uncoordinated distribution of resources.

While delivering resources in the form of dollars is often accompanied by policies intended to give schools more flexibility in resource use, that recommendation is not made explicitly here. Certainly decisions about how resources are used should be tailored to the needs of students at each school, but whether those decisions are made by school or district personnel should depend on the accountability systems in place and the capabilities of each.

Redesign Distribution Policies to Better Channel Funds From Each Governmental Layer All the Way Down to Schools

Allocation is a multi-step process. Policymakers should craft policies that ensure that dollar allocations are accounted for as dollar allocations down to the school level. As the data here indicate, different objectives at the district level can work to alter spending priorities according to local pressures, which can at times work against the interests of those students

most in need of extra resources. Targeted allocations at the federal and school levels, then, should come with accounting requirements that track spending to each school building. Intergovernmental coordination is more feasible when schools are the ultimate beneficiary of each allocation.

Specifically, efficient and intentional resource allocation must include district mechanisms to distribute targeted resources directly to schools. Much of the spending variation across schools occurs when factors present at the district level shape allocations as they get redistributed across schools. In addition, without the means by which resources can be passed on to the school level, many districts create central departments for each of their student needs, further removing funds from the level at which they impact students. As a result, distribution policies must be redesigned around delivering resources to schools (vs. to intermediate units, such as districts, departments, and the like). One clear option is to adopt student-based allocation systems (often called “weighted student funding” or WSF) as the mechanism for deploying targeted and non-targeted resources across schools. With increasing numbers of districts and states opting for WSF, there is now great precedent for this policy option.

Ensure That Funds Are Deployed as a Function of Student Needs

Implementing a more effective funding system for different student types requires a clear method for identifying the students (not the schools, staff, or programs) who warrant additional services. Targeted funding should flow out as a function of student characteristics, not school characteristics, student participation in programs, or staff interest. As data presented here indicate, state and district level allocations, while intended to address identified student needs, are often deployed in such ways that they do not effectively target their intended students.

This standard creates new demands on the system for student identification and definition of student need. Given the different motivations to over- or under-identify students, the system will need clarity about where responsibility lies with identifying students and how the definition of need plays a role in funding.

Clean Up Allocation Formulas and Other Barriers to Coherent Allocation

Many of the problems of existing allocations lie in the allocation details. Details on minimums, maximums, reimbursements, foundation amounts, matching costs, and the like create inherent inefficiencies that hamper attempts at the local level to use funds to best meet the needs of the students. For instance, as was demonstrated in this report, a state poverty allocation that provides some minimum funding level to all districts has the effect of allocating extremely high targeted per-pupil allocations to districts with almost no poverty. The result is that scarce poverty funds are not focused on the most needy students, but rather the opposite. Further, formula details invite efforts at gaming the system, which also works to distort spending among student needs.

Part of cleaning up the details necessitates making decisions about if and how marginal costs vary with different concentrations of student need. As has been long understood, there are greater needs associated with concentrations of poverty, and thus higher percentages of poverty are often associated with increases in marginal costs. Bilingual and special education, however, are at times viewed as the opposite. Educating one deaf student costs much more per student than educating two, when the costs of the specialists or services can be split across two students. So as targeted dollars are deployed in their “dollar” form, there is a need to understand how marginal costs are affected by different concentrations of student need. In either case, strict pupil-based formulas should guide the allocations, and special provisions for individual districts and schools should be avoided.

Further, for some districts, labor contract provisions, levy mandates, and other forces play a role in how resources are used. When these forces create barriers to targeting dollar allocations by student type to schools, cleaning up the details means addressing some of these barriers. For instance, labor policies that dictate how high-needs students are served (i.e., requirements for teacher aides in classes with bilingual education students) have the effect of structuring allocations that may conflict with efforts to drive funds on the basis of student needs.

Track and Report All Allocations to Schools by Student Need

Policymakers must have access to the amount of funding coming from each level of government in order to make weights effective at addressing needs across student type. As the data clearly indicate, each level of government cannot assume that the portion of funds it allocates for a particular student need (say 20 percent for bilingual education students) will be the same portion that is ultimately spent at the school level. Even more problematic, states and districts cannot be sure that local dollars will be used to offset targeted allocations from higher governmental levels.

Taking stock of targeted allocations means comparing targeted funds to the basic education funds intended for all students, including those generated by all levels of government. But being able to make these comparisons, given the current state of allocation and accounting systems, is an arduous task. As mentioned above, reporting systems that are able to track funds from all sources by student type down to the school level will need to be developed. Not only will these data shed light on issues of (in)equity, but they will also give policymakers at all levels the much needed information on the total amounts being spent. Perhaps most importantly, transparency around fiscal allocations is critical to policymakers' efforts to ensure comparability in base allocations and fairness in targeted allocations.

For federal and state policymakers, clear data on total allocations can ensure that targeted resources do indeed have the effect of augmenting resources for the most needy schools. For students, parents, community members, and special interest groups, tracking allocations to schools forces open and public scrutiny of allocation decisions, many of which are currently indiscernible.

To clarify, what this report proposes is improved tracking of *allocations* down to the school level versus calling for additional school-based expenditure data. The difference is that tracking allocations to the school level shows what funds are delivered to each school and on what basis (untargeted or driven by student need). Expenditure data, in contrast, shows how the funds are converted into purchased resources, and while relevant, tracking expenditure data by fund source makes it difficult for schools to combine resources from different sources for a single purpose. Lastly, while this recommendation proposes tracking revenues to the school level, it does not go the next step of accounting for how resources are deployed across individual students.

That said, one should not underestimate the complexity of changing reporting practices in any education system. State reporting practices are intertwined with policies on compliance, personnel, funding, and other functions, which make any changes burdensome and costly. However, fundamental to solutions in resource allocation policy is a transparent fiscal allocation system that tracks dollars by student type to each school.

Conclusion

The idea of funding weights for different types of students is based on the assumption that different students require different levels of resources to make similar academic gains. And while closing the achievement gap is viewed as the primary reason for providing student weights, this study suggests that there is no clear standard for providing additional resources and that current allocations may not be getting to the intended student groups.

As many districts and some states move to student-based budgeting, policymakers will be forced to make explicit decisions about how much to spend on each student type. This report highlights the need for more clarity on how much funding is earmarked for student needs. It also demonstrates that allocation and reporting policies need to be modified in order to ensure that different student types actually receive their intended funding.

While this report does establish a list of implicit spending weights with relative contributions from each government layer, it does not propose any “standard” weights. Rather, as is demonstrated here, research and policy are far from clarifying the link between services, spending levels, and student performance. In fact, until weights are implemented in ways that are more effective, we cannot yet begin to know the “right” amount. And as the system does a better job of aligning the funding with student needs, we should expect policymakers to adjust funding levels as they keep an eye on the achievement of students with different learning needs.

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Appendix A.

Weight Studies

Implicit Weight Studies					
	Compensatory Education	Bilingual Education	Gifted & Talented	Special Education	Vocational Education
Chambers, Parrish, and Harr (2004)				0.90, 1.08	
Baker and Friedman-Nimz (2003)			0 – 0.33		
Baker and McIntire (2003)			<0.01 – >0.30		
Carey (2002)	0 – 0.525 mean=0.15				
Baker and Markham (2002)		0 – 1.29			
Baker (2001)	0.001 – 1.91	0 – 1.30	0 – 0.22		
Klein (2001)					0.05 – 0.60

Estimated Weight Studies					
	Compensatory Education	Bilingual Education	Gifted & Talented	Special Education	Vocational Education
Duncombe and Yinger (2004)	1.22 – 1.67	1.01 – 1.42		2.05 – 2.64	
Baker and Friedman-Nimz (2003)			0.30 – 0.60		
Maryland Commission on Education Finance, Equity and Excellence (2002)	1.39				
Duncombe (2002)	0.97	1.09			
Reschovsky and Imazeki (1997)	1.59				

Appendix B.

State and District Selection Methods

Districts in this analysis represent a subset of districts from other School Finance Redesign Project studies (De Wys, Bowen, Demeritt, and Adams 2008a; De Wys, Bowen, Demeritt, and Adams 2008b; Hansen, Ikemoto, Marsh, and Barney 2007; Hansen, Marsh, Ikemoto, and Barney 2007). In each of four states—North Carolina, Ohio, Texas, and Washington—districts were selected using the following criteria:

- A district with a reputation for educational innovation;
- A district that appeared to be “beating-the-odds” academically;
- A district with similar characteristics to the “beating-the-odds” district but with relatively low performance;
- A high-performing district; and
- A rural district that appeared to be performing better than predicted (Ohio and Washington only).

Districts were selected as “innovative” based on their reputation for innovative operations. Absolute performance on state standardized tests defined high-performing districts. Researchers used an adjusted performance measures (APM) method to pick the matched pairs. After selecting candidate districts, researchers consulted with state officials to ensure that potential study districts did not suffer from unusual circumstances, such as administrator malfeasance, teacher strikes, state takeover, or excessive recent superintendent turnover.

To identify districts that appear to be performing better or worse than expected, researchers regressed a measure of student performance on state standardized tests against the following variables: percent free/reduced-price lunch (FRPL), percent African American, percent Native American, percent Asian, percent Hispanic, district enrollment, per-pupil expenditures, and urban/rural status. Researchers then sorted the districts by quartiles of the percentage of students on free/reduced-price lunch and the percentage of racial/ethnic minority students. They used these quartile rankings to further narrow the list of potential districts by excluding districts that did not have higher than state median percentages of students on free/reduced-price lunch and higher than median percentages of minority students. Using this short list of sorted districts, researchers visually identified pairs of districts in each state with similar student demographics (poverty, minority

concentrations), enrollments, and per-pupil expenditures, but with one member of the pair having a standardized residual of greater than 0.25 and the other having a standardized residual of less than -0.25 (i.e., with one member having an APM more than 0.25 standard deviations above the expected value and the other having an APM more than 0.25 standard deviations below the expected value).

Appendix C.

Included and Excluded Expenditure Categories and Revenue Sources

Included Expenditure Categories	Excluded Expenditure Categories
<ul style="list-style-type: none">▪ Teacher salaries▪ Administrative salaries▪ Administrative expenditures▪ Student support services▪ Books / media expenditures▪ Academic support expenditures▪ Professional development▪ Curriculum▪ Academic after-school program expenses	<ul style="list-style-type: none">▪ Food services▪ Security services▪ Capital expenses▪ Groundskeeping▪ Utilities▪ Student activities▪ Athletics▪ Extracurricular activities (non-academic)▪ Pre-kindergarten programs▪ Adult education▪ Transportation expenses (except special education)▪ Facilities expenses

Included Revenue Sources	Excluded Revenue Sources
<ul style="list-style-type: none">▪ Federal tax revenue▪ State tax revenue▪ Local tax revenue▪ Intermediate governmental revenue	<ul style="list-style-type: none">▪ Debt services▪ Competitive grants▪ Grants targeted towards other categorical students (migrant, homeless, Native American)▪ Nongovernmental funding sources▪ Private grants

Appendix D.

State and District Data

TABLE A. DISTRICT DESCRIPTIVES

District	Per-Pupil Expend	% FRPL	% Non-White	% NA	% Asian	% Black	% Hisp	% White	Locale
NC #1	\$6,296	46%	46%	0%	0%	39%	5%	54%	Rural, inside CBSA/MSA
NC #2	\$6,542	30%	12%	0%	1%	7%	3%	88%	Urban fringe of mid-size city
NC #3	\$6,979	38%	52%	1%	4%	43%	4%	48%	Mid-size city
NC #4	\$7,156	37%	55%	1%	4%	44%	7%	45%	Large city
OH #1	\$10,889	77%	81%	0%	1%	71%	9%	19%	Large city
OH #2	\$10,395	2%	13%	0%	7%	7%	1%	87%	Urban fringe of large city
OH #3	\$10,981	62%	74%	0%	1%	72%	1%	26%	Large city
TX #1	\$7,551	50%	68%	0%	3%	15%	50%	32%	Large city
TX #2	\$5,785	57%	76%	0%	3%	6%	67%	24%	Urban fringe of large city
TX #3	\$7,589	73%	90%	0%	3%	31%	56%	10%	Large city
WA #1	\$8,335	87%	93%	15%	0%	0%	77%	7%	Urban fringe of mid-size city
WA #2	\$9,171	40%	60%	3%	23%	23%	11%	40%	Large city
WA #3	\$7,460	1%	19%	0%	16%	1%	2%	81%	Urban fringe of large city
WA #4	\$7,222	40%	16%	7%	1%	1%	6%	84%	Mid-size city
WA #5	\$7,970	36%	17%	3%	3%	2%	9%	83%	Mid-size city

TABLE B. FEDERAL EXPENDITURE DATA

Federal Per-Pupil Spending	North Carolina	Texas	Ohio	Washington
Basic Education	\$0	\$8	\$9	\$10
Compensatory Education	\$765	\$690	\$1,088	\$692
Special Education	\$1,412	\$1,670	\$1,656	\$1,634
Vocational Education	\$123	\$111	\$390	\$406
Bilingual Education	\$125	\$123	\$280	\$136
Gifted Education	\$0	\$0	\$0	\$0

TABLE C. STATE PER-PUPIL EXPENDITURE AND WEIGHT BY FUNDING CATEGORY

Total Per-Pupil Spending	North Carolina	Texas	Ohio	Washington
Basic Education	\$3,382	\$2,408	\$2,469	\$4,895
Compensatory Education	\$1,115	\$1,183	\$1,721	\$1,435
Special Education	\$3,944	\$4,962	\$3,210	\$6,358
Vocational Education	\$1,157	\$845	\$816	\$4,625
Bilingual Education	\$590	\$373	\$280	\$1,037
Gifted Education	\$335	\$188	\$114	\$583
Total Weight	North Carolina	Texas	Ohio	Washington
Compensatory Education	0.33	0.49	0.70	0.29
Special Education	1.17	2.06	1.30	1.30
Vocational Education	0.34	0.35	0.33	0.94
Bilingual Education	0.17	0.15	0.11	0.21
Gifted Education	0.10	0.08	0.05	0.12

TABLE D. DISTRICT PER-PUPIL EXPENDITURE AND WEIGHT BY SOURCE AND FUNDING CATEGORY

Basic Education	Federal	State	Local	Weight	Vocational Education	Federal	State	Local	Weight
NC District #1	\$0	\$3,406	\$1,099	1.00	NC District #1	\$77	\$960	\$4	0.23
NC District #2	\$0	\$3,410	\$866	1.00	NC District #2	\$81	\$996	\$99	0.27
NC District #3	\$0	\$3,139	\$1,631	1.00	NC District #3	\$78	\$963	\$98	0.24
NC District #4	\$0	\$2,976	\$1,276	1.00	NC District #4	\$77	\$1,073	\$171	0.31
OH District #1	\$0	\$6,048		1.00	OH District #1	\$987	\$4,329		0.88
OH District #2	\$0	\$7,456		1.00	OH District #2	\$0	\$6,572		0.88
OH District #3	\$0	\$7,766		1.00	OH District #3	\$550	\$2,342		0.37
TX District #1	\$6	\$3,469		1.00	TX District #1	\$60	\$546		0.17
TX District #2	\$39	\$2,106		1.00	TX District #2	\$107	\$816		0.43
TX District #3	\$21	\$2,621		1.00	TX District #3	\$74	\$804		0.33
WA District #1	\$198	\$4,242	\$367	1.00	WA District #1	\$551	\$7,080	\$612	1.71
WA District #2	\$39	\$3,805	\$1,254	1.00	WA District #2	\$295	\$4,020	\$14	0.85
WA District #3	\$4	\$3,886	\$1,858	1.00	WA District #3	\$137	\$2,494	\$1,199	0.67
WA District #4	\$29	\$3,965	\$983	1.00	WA District #4	\$175	\$3,985	\$0	0.84
WA District #5	\$19	\$3,878	\$1,268	1.00	WA District #5	\$228	\$3,151	\$1,041	0.86
Compensatory Education	Federal	State	Local	Weight	Bilingual Education	Federal	State	Local	Weight
NC District #1	\$492	\$396	\$0	0.20	NC District #1	\$136	\$396	\$0	0.12
NC District #2	\$593	\$364	\$195	0.27	NC District #2	\$93	\$387	\$23	0.12
NC District #3	\$477	\$282	\$56	0.17	NC District #3	\$98	\$442	\$78	0.13
NC District #4	\$378	\$350	\$61	0.19	NC District #4	\$88	\$347	\$48	0.11
OH District #1	\$735	\$884		0.27	OH District #1	\$383	\$3,625		0.66
OH District #2	\$600	\$0		0.08	OH District #2	\$286	\$1,727		0.27
OH District #3	\$1,004	\$945		0.25	OH District #3	\$376	\$177		0.07
TX District #1	\$581	\$510		0.31	TX District #1	\$145	\$2,538		0.77
TX District #2	\$236	\$2,480		1.27	TX District #2	\$74	\$569		0.30
TX District #3	\$472	\$408		0.33	TX District #3	\$180	\$2,232		0.91
WA District #1	\$1,126	\$428	\$0	0.32	WA District #1	\$70	\$589	\$0	0.14
WA District #2	\$973	\$613	\$0	0.31	WA District #2	\$97	\$708	\$1,518	0.46
WA District #3	\$2,756	\$8,594	\$109	1.99	WA District #3	\$0	\$675	\$485	0.20
WA District #4	\$567	\$580	\$7	0.23	WA District #4	\$67	\$607	\$0	0.14
WA District #5	\$731	\$394	\$235	0.26	WA District #5	\$0	\$664	\$98	0.15
Special Education	Federal	State	Local	Weight	Gifted Education	Federal	State	Local	Weight
NC District #1	\$1,180	\$2,742	\$8	0.87	NC District #1	\$0	\$398	\$16	0.09
NC District #2	\$1,242	\$2,578	\$600	1.03	NC District #2	\$0	\$262	\$40	0.07
NC District #3	\$1,048	\$2,269	\$745	0.85	NC District #3	\$0	\$260	\$34	0.06
NC District #4	\$1,387	\$2,794	\$584	1.12	NC District #4	\$0	\$288	\$40	0.08
OH District #1	\$1,159	\$8,015		1.52	OH District #1	\$0	\$228		0.04
OH District #2	\$1,130	\$9,065		1.37	OH District #2	\$0	\$987		0.13
OH District #3	\$1,064	\$8,299		1.21	OH District #3	\$0	\$98		0.01
TX District #1	\$1,319	\$6,226		2.17	TX District #1	\$39	\$522		0.16
TX District #2	\$1,198	\$5,926		3.32	TX District #2	\$0	\$3,403		1.59
TX District #3	\$849	\$5,748		2.50	TX District #3	\$0	\$410		0.16
WA District #1	\$1,292	\$3,076	\$11	0.91	WA District #1	\$0	\$0	\$0	0.00
WA District #2	\$1,559	\$3,780	\$3,125	1.66	WA District #2	\$0	\$222	\$4	0.04
WA District #3	\$1,403	\$3,854	\$1,182	1.12	WA District #3	\$0	\$0	\$0	0.00
WA District #4	\$1,360	\$3,941	\$259	1.12	WA District #4	\$0	\$257	\$16	0.05
WA District #5	\$1,337	\$3,337	\$696	1.04	WA District #5	\$0	\$1,049	\$602	0.32

NOTE: The funding mechanisms and reporting structures in Texas and Ohio did not allow for consistently separating state and local dollars. These dollars are combined in this analysis.

The Center on Reinventing Public Education at the University of Washington engages in research and analysis aimed at developing focused, effective, and accountable schools and the systems that support them. The Center, established in 1993, seeks to inform community leaders, policymakers, school and school system leaders, and the research community.

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