

**A Cursory Examination of Education Finance Formulas,
Revenue Components, and Flexible Expenditure Possibilities:
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One way to begin discussing the structure of school finance formulas and their internal funding components is to frame the conversation around two basic concepts:

- a) How is revenue for public education generated?
- b) How is the revenue distributed to public school districts?

In discussing these two basic concepts, there typically are aspects of four socio-political goals – within each basic concept – to be achieved by any type of education funding systems:

- 1) Equity: Multiple facets of fairness to tax payers, schools, parents, and students;
- 2) Cost-effectiveness: For the monies being spent are educational goals being reached;
- 3) Efficiency: Once goals are met, how can productivity be improved; and
- 4) Local control: Allowing the voice of communities to influence educational processes.

An additional concept -- adequacy – often is included in this list as a separate concept; but in my opinion, as adequacy combines nuanced aspects of equity and efficiency, adequacy concepts are not necessary to address today.

All of the aforementioned education finance policy goals are in contention with one another and are supported by numerous interest groups with varying amounts of economic and political power. And, it is within this politically contentious framework that today's discussion of school finance formulas and their internal funding components.

How is revenue for public education generated (i.e., Where does the money come from)?

- a) Nationally, approximately 46% of all school revenue comes from state taxes, 46% local taxes, and 8% from the federal government – Appropriately, policy and analytical discussion need to focus on combinations of state and local taxing structures.
- b) In the generation of this revenue, which economic activities are taxed and the rate at which taxation occurs are specific to each state based on their history, politics, and economic structure but consist primarily of sales tax (n=14), income tax (n=5), “sin” taxes (n=10) , and gaming revenue (n=10) at the state level (See *Exhibit 4.2*) – property taxes at the local level.
- c) Here, it is important to remember here that the U.S. economy is continuing to change from one based on manufacturing and sales of tangible goods to one that produces less tangible services. But tax structures (and therefore the generating of revenue) still are focused on a goods producing economy that is dwindling. So, real changes in revenue will occur only when the tax structures begin to address the changes in the economy. But, policy changes may be limited by revenue raising restrictions (see *Exhibit 4.4*) such as property tax rate limits (n=21) or property tax revenue limits (n=10).

How is revenue distributed to public school districts (i.e., Where does the money go?)

- a) Each of the fifty states sends monies to districts using complex school funding formulas that are unique to their state. These formulas consists dollar items that range from a basic dollar value assigned to each child in the district to specific categorical funding for special student needs. Specifically, several types of funding methods (see *Exhibit 2.2*) are combined to structure any state funding mechanism: 1) Equalization of revenue (n=22); 2) Flat grant (n=5); 3) Foundation (n=38); 4) Full state (n=5); and, 5) Local effort Equalization (n=22).
- b) Multiple state, district, and community regional, family, and student characteristics are given a weighted value (i.e., differentiated funding) within each state's school finance formula based on individual histories, politics, and economic structures. And, of course,

these weighted values are coded into the states school funding formula as targeted funding by:

- 1) Educational Programs (see *Exhibit 3.4*), for example, consist of categorical programs that include special education (n=39); transportation (n=32); capital & debt service (n=30); technology (n=30); gifted & talented (n=28); English language learners (n=20); and/or compensatory categories (n=17);
 - 2) District or School Characteristics (see *Exhibit 3.2*), for example, consist of adjustments for enrollment or school size (n=29); geographic location (n=18); cost adjustments (n=15); teacher quality or experience (n=8); and/or academic performance (n=4);
 - 3) Student-Based Characteristics (see *Exhibit 3.1*), for example, consist of adjustments for disability status (n=34), English language learners (n=32); socioeconomic status (n=30); and/or academically at risk (n=6).
- c) Also, the school finance formulas are not static over time: each state legislature makes changes, additions, or deletions during the times they convene. Accordingly, periodic reviews and evaluations of state finance policy should occur in timely manners to ensure legislative intent is maintained.

Summary: Where do we go from here?

1. Develop a Common Language Around Specific Education Finance Issues
2. Improve Policies on Uniform Data Reporting, Collection, Management, and Access
3. Continue to Get Educated on School Finance Mechanisms Theory and Practice
4. Develop Policies for Periodic Reviews State Funding Mechanism Efficacy
5. Begin/Continue Conversations about the Prevailing Education Attainment Paradigm:
The Old - Dollar inputs equals students outcomes no longer are valid.
The New - Educational productivity has a minimum of five stages:
1) Financial and Human Resources Inputs; 2) Educational Services Provisions;
3) Educational Services Quality; 4) Student-Parent-Community Effort; and,
5) Educational Outcomes.