

# **Implementation and Use of Geographic Cost Indices in State School Funding Formulas**

*A Project for the Association of Metropolitan School Districts*

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## **Executive Summary**

The Association of Metropolitan School Districts (AMSD) represents 28 metropolitan school districts, three intermediate school districts, and two joint powers districts that serve over one-third of Minnesota students. A priority for AMSD is the inclusion of a location equity index in the school funding formula that recognizes market-based cost differentials among school districts. There is a stark difference between the labor and housing markets in which metropolitan and greater Minnesota school districts operate. Metropolitan school districts are strongly affected by these differences as approximately 80% of all school district expenditures are personnel costs. AMSD believes it is necessary to enable school districts to adequately fund educational services for students by acknowledging the differing wage and housing situations throughout the state. The purpose of this project is to provide AMSD and the larger education policy community with additional information on a location equity index for Minnesota through the following: a review of wage differentials, a review of states that have implemented geographic cost indices, and a brief statement of lessons learned from other states on passing geographic cost indices into statute.

Equity in school finance focuses on the distribution of resources among districts or schools. To improve the equitable distribution of educational resources, states can increase their contribution of funding to school districts. The 1990s saw several shifts in school finance, the most promising of which was a shift in focus from equity to adequacy. Adequacy changes the focus in funding from educational inputs to attainment, and it presents new challenges to state funding systems including defining attainment standards and estimating the cost of meeting these standards. Many factors are considered when determining the cost of an adequate education including number of students, student characteristics, and district characteristics such as the cost of educational inputs or cost of living.

Geographic cost indices have been utilized in school finance since the 1970s. Two general approaches used to measure regional cost variations are the cost-of-living approach and the cost-of-education approach. The cost-of-living approach measures education costs that are out of the control of a school district. The cost-of-education approach uses actual district expenditure data and advanced statistical methods to separate factors that are within the control of a school district from those that are out of the control of a school district.

A wage differential is the difference in wage rates for similar workers in similar jobs due to location, working conditions, or a variety of other factors. Data from the Bureau of Labor Statistics is often used by government agencies and academics studying wage differentials. The academic literature on measuring wage differentials proposes several theoretical explanations for the existence of wage differentials because only a small portion of the variation in wages is explained by workers' education and experience. Measuring wage differentials is problematic because workers and businesses sort themselves into markets based on their own preferences and cost constraints. Wage differentials are measured using econometric equations to isolate the variable of interest (e.g., gender, region) or differences in the average wages of two groups.

As of fall 2007, ten states included explicit geographic cost indices in their school funding formulas. Of states with cost-of-living indices, Massachusetts, Missouri, New York, Virginia, and Florida use wage indices while Colorado uses a market-basket price index. States with cost-of-education indices all use actual district expenditure data in their calculations; however, Alaska, Texas, and Maryland all use different techniques to create their hedonic models. Two states recently eliminated their geographic cost indices. In 2007, Tennessee eliminated its Cost Differential Factor largely due to the work of committee chairs led by the governor. In 2005, Ohio eliminated its Cost of Doing Business Factor, but several education organizations now support a revised Cost Adjustment Factor.

In Massachusetts, the Wage Adjustment Factor (WAF) began as part of the Education Reform Act of 1993. The WAF was based on the Ohio Cost of Doing Business adjustment; however, only 1/3 of the regional to state wage ratio was used in Massachusetts because less variation was expected in the salaries of teachers than across all occupations. The business community was responsible for the overall change in the Massachusetts school funding formula that included the WAF. While the WAF was not geographically divisive when it was adopted, changes to labor market areas in 1999 did cause debate. In Massachusetts it appears that the WAF serves its purpose of recognizing differences in cost among districts.

In 2005, Missouri passed legislation to change its school funding formula from a tax-rate driven to a student-needs driven formula that included the addition of the Dollar Value Modifier (DVM). When the new school funding formula was created, there was recognition that cost-of-living differences across Missouri needed to be taken into account as had been done discreetly in the previous formula. Several actions were taken to overcome the geographic divide caused by the DVM in Missouri that affected its calculation and provided additional funding to rural districts. Overall, education organizations were largely left out of the process to create the new formula and the DVM, so many did not take a stance on either. The DVM serves its purpose but is still quite controversial due to urban and suburban versus rural disagreements.

New York instituted its Regional Cost Index (RCI) as part of comprehensive school finance reform in 2007; however, the work to include the RCI spanned many years. In contrast to Missouri, the inclusion of the RCI in the New York school funding formula was largely due to years of work and discussion by education advocates. In New York, it is common for an issue to create an upstate-downstate divide, but there was not a significant divide over the RCI at the time of passage. It is worthwhile to note that because it took many years to include an RCI in the school funding formula, New York enacted several measures with effects that approximated an

RCI. It is too early to judge the success of the RCI, and there are still measurement and border issues in the RCI calculation that need to be addressed.

The following lessons learned are drawn from the case studies as well as the literature and the broader review of states with geographic cost indices:

- Geographic cost indices are often introduced as part of a comprehensive school finance system reform
- General recognition of differing regional costs is a necessary but not sufficient condition to address differing regional costs
- Geographic division over geographic cost indices is common but has been overcome in other states
- Coalitions have not played a role in the passage of geographic cost indices
- Cost-of-living indices are more prevalent than cost-of-education indices
- No measure used for a geographic cost index, particularly a cost-of-living index, remains unchanged over time

## **Description of Client Organization and Project**

The Association of Metropolitan School Districts (AMSD) represents 28 metropolitan school districts, three intermediate school districts, and two joint powers districts that serve over one-third of Minnesota students. AMSD advocates on behalf of these districts for education policy that meets the needs of metropolitan school districts to enable them to improve student achievement. One issue for AMSD is the modernization of Minnesota's school finance system to provide resources to ensure that all Minnesota students have the opportunity to meet state education standards. Within larger reform, a priority for AMSD is the inclusion of a location equity index in the school funding formula that recognizes market-based cost differentials among school districts.

There is a stark difference between the labor and housing markets in which metropolitan and greater Minnesota school districts operate. In 2006, median wages were \$18.41 per hour in the seven-county metropolitan area compared to \$12.29 per hour in the Upper Minnesota River Valley (Malone, 2007, p.2). This is a difference of almost 50% between the maximum and minimum median wages in the state. Large differences also appear in comparing the compensation of school staff in metropolitan and greater Minnesota. The average difference in salaries was 49% for superintendents, 35% for high school principals, and 16% for classroom teachers (Malone, 2007, p.2). An examination of housing costs also reveals the difference between these markets. In the metropolitan area, median housing prices range from \$210,000 to \$255,000. In Greater Minnesota, median housing prices range from \$30,000 to \$210,000 (Minnesota State Demographic Center, 2007, p.6-8).

The National Center for Education Statistics conducts research on cost differences between and within states and regularly publishes a comparable wage index. In comparing the differences between the minimum and maximum index levels within states, 25 states had wage level

differences greater than 30%. The wage index levels for Minnesota ranged from 0.78 to 1.03, a 31.5% difference (Malone, 2007, p.3).

Metropolitan school districts are strongly affected by these labor and housing market differences as approximately 80% of all school district expenditures are personnel costs. Metropolitan school districts face the challenge of hiring and retaining staff in a more expensive market. Districts can react by increasing wages to accommodate the metropolitan market or offering wages that are not competitive with other job opportunities. Increasing wages either requires a reallocation of school funds from other expenditures, which could threaten the quantity and quality of educational services provided to students, or requires additional funding from local tax payers through referenda. Every school district in the seven-county metropolitan area has turned to operating referenda to handle higher operational costs. By 2009, it is projected that operating referenda will account for 13% of total revenue in AMSD districts compared to 6.6% for non-AMSD districts (Malone, 2007, p.2). In fact, some metropolitan school districts receive more than twenty percent of their general revenue fund via voter approved operating referenda.

During the 2007 legislative session, AMSD introduced legislation to add a location equity index to the Minnesota school funding formula to address the higher costs faced by its member districts. This index is based on the work of Augenblick, Palaich and Associates, Inc. (APA) which was commissioned by P.S. Minnesota, a coalition of state education organizations that includes AMSD. The index uses average wage data and median housing cost data. While this proposal was included in the House omnibus K-12 bill, it was not part of the final K-12 bill.

While AMSD has been a leading advocate of a location equity index for Minnesota, the consideration of using such an index in Minnesota's school finance system was also recommended by the Governor's Education Finance Reform Task Force in 2004. P.S. Minnesota, in its work, identifies nine characteristics of a good school funding formula, one being that a formula "should

account for the unique characteristics of individual districts such as cost variances due to factors like geographic remoteness, declining enrollment, and market-based labor cost differentials (P.S. Minnesota, 2006, p.1). The current Minnesota funding formula currently contains adjustments for the first two of these concerns.

AMSD believes it is necessary to enable school districts to adequately fund educational services for students by not ignoring but acknowledging the differing wage and housing situations throughout the state. The purpose of this project will be to provide AMSD and the larger education policy community with additional information on a location equity index for Minnesota through the following:

- A review of wage differentials and indices;
- A review of states that have implemented location equity indices, called geographic cost indices in this paper, specifically looking at states with a rural-metropolitan composition similar to Minnesota and at coalitions that have been built to overcome division among districts and legislators over such indices; and
- A brief overview of lessons learned from other states' experiences initiating and passing legislation on location equity indices to inform AMSD in future work with the legislature.

## **Methodology**

### Literature Review

The project began by reading about Minnesota's school finance system, equity and adequacy in school funding, and geographic cost-of-education indices. This included the *2006 Minnesota House School Finance Guide*, the Governor's Education Finance Reform Task Force Report, and the reports of APA for Minnesota which addressed all three areas to some extent. There was also an interview with Alan Hopeman, Executive Director of Finance and Business for Wayzata Public Schools, to learn about Minnesota's school finance system.

Searches were conducted using JSTOR, Education Index, Google Scholar, and ERIC to locate journal articles and books on equity and adequacy in education finance. Geographic cost-

of-education indices were studied by reading publications on the topic by the National Center for Education Statistics (NCES) website and conducting searches using the databases listed above.

### Wage Differentials

To study wage differential measurements made by the U.S. Government, websites containing wage and employment statistics were reviewed, including websites for the Minnesota Department of Employment and Economic Development, the Bureau of Labor Statistics (BLS), NCES, and the Bureau of Economic Analysis (BEA). To examine wage differential measurements and studies in the academic realm, searches were conducted using JSTOR, Google Scholar, and ERIC. Revised searches were then conducted working with the librarian at the Industrial Resources Library using JSTOR and Business Source Premiere.

### Analysis of Current Implementation of Geographic Cost Indices

The first step was to identify states that used geographic cost indices in their school funding formulas. States were identified through discussions with AMSD staff, a 2005 report done for AMSD by Robert Keady titled *Geographic Cost-of-Education Index Systems*, and the National Conference of State Legislatures school finance database. Contact was also made with School Finance Specialist Michael Griffith at the Education Commission of the States and APA Consultant Doug Rose. Throughout this paper, the term geographic cost index will be used as a label for any index or list of factors that addresses cost-of-living or cost-of-education differences faced by school districts or other geographic areas. Questions were developed to gather information on each state's geographic cost index and were based on the suggestions of AMSD staff and the information sought in the 2005 report for AMSD.

Information was collected to answer these questions by reviewing state department of education and state legislature websites, state school finance documents, statutory language, school funding presentations, and other relevant reports. Contact information was found for

finance staff at each state department of education, and phone calls were placed to fill gaps in information, allowing department of education staff to either participate in a phone interview or complete an email questionnaire. If staff were unable to answer all the questions, referrals to other sources were requested and contact was made with these sources for further information. The list of questions and contacts are included in Appendices A and B. This work was conducted from mid-September to mid-October 2007.

### Case Studies

Through consultation with AMSD, Massachusetts, Missouri, and New York were chosen for further study based on states availability, special legislative session status, and the currency of index implementation. A fourth state, Ohio, was also kept in consideration because several state education associations were in support of a new index to replace the recently-eliminated geographic cost index. Open-ended survey questions were developed to learn about the initiation of each state's index. The questions were approved by AMSD and are included in Appendix D.

To collect information, a list of contacts for each state was developed, including staff from the state department of education finance division, state legislators on education and finance committees, committee staff for education and finance committees, and state school boards associations. The contact list is included in Appendix E. Phone calls and emails were made to these entities to clarify contacts as needed; for example, if a committee provided only a phone number, the committee was contacted to determine to whom to direct the survey. This communication occurred between October 26 and 29, 2007. Surveys were then faxed or emailed between October 29 and 30, 2007, based on the receiving party's preference or available contact information. Completed surveys were asked to be returned on or by November 16, 2007. Follow-up phone calls were placed for unreturned surveys the week of November 5, 2007.

Table 1: Survey Response Rates

	Faxed	Emailed	Other Contact	Total
Sent	7	15	2	24
Received	2	9	0	11
Response Rate	28.6%	60%	0%	45.8%

Completed surveys and notes from phone interviews were analyzed for common themes and unique circumstances, and case study narratives were written for each state. While providing unique and useful information, Ohio was included in the general analysis of states and not in the case studies section because of its different circumstances. A list of lessons learned was compiled largely on the case study surveys but also from the literature review and general survey information.

## **Literature Review**

### From Equity to Adequacy in School Finance

Equity in school finance focuses on the distribution of resources among districts or schools. It “implies that one district or school receives the same amount as another, usually in the same district or state” (Clune, 1994, p.377) and is typically measured in per pupil expenditures. Equitable funding of schools has been an issue since the establishment of school systems in the late 1800s. Schools were initially funded at the local level, so discrepancies in local wealth, property tax rates, and revenue generated created variation in the resources and services provided by individual schools (Augenblick, Myers, & Berk Anderson, 1997, p.64).

To reduce this variation in resources, states began to contribute funding to school districts to make funding more equitable through foundation plans, legislative caps in district spending, and redistribution schemes (Hadderman, 1999). In 1997, the Government Accountability Office determined that the top three policies that contribute to equity are the willingness of low-wealth districts to contribute more in local tax effort, state effort at equity through higher portion of funding, and targeting money to low-wealth districts (U.S. GAO, 1997, p.5).

The 1990s saw several shifts in school finance including a movement from horizontal equity to vertical equity and from district-level to school- and even student-level equity. However, the most promising change from the 1990s was the shift in focus from equity to adequacy (Hadderman, 1999). Several scholars attribute this change to the report *A Nation at Risk* which turned the attention of policymakers and the public to student achievement.

As adequacy in funding shifts the focus from educational inputs to attainment, it presents new challenges to state funding systems. Adequacy can be defined as “a level of resources that is sufficient to meet defined or absolute, rather than relative, output standards” (Berne & Stiefel, 1999, p.22). Adequately funding education requires a state to objectively estimate the cost of a desired level of student achievement. It also requires legislatures to make decisions based on the adequacy cost analysis rather than political debate and negotiation, a more familiar route. (Augenblick, Myers, & Berk Anderson, 1997, p.74-75).

When determining the cost of an adequate education, many factors are taken into consideration including number of students; teacher to student ratios; facilities; and student, school and district characteristics. One district characteristic is the cost of educational inputs in the school district or region. In their work for the state of Maryland, Duncombe and Goldhaber argue that “including geographic cost adjustments in school aid programs is one important step towards assuring that adequate resources exist in districts so they can help their students reach academic standards” (2003, p.144).

### Geographic Cost Indices

Geographic cost indices have been utilized in school finance since the 1970s (Odden & Picus, 2008, p.312). These indices are based on the premise that employees, including teachers, who work in regions with high costs of living or few amenities will demand higher wages (Taylor

& Glander, 2006, p.3). If states do not account for these geographic cost differences, the equity and adequacy goals of school finance systems may be undermined (Taylor & Fowler, 2005, p.iii).

Two general approaches used to measure regional cost variations are the cost-of-living approach and the cost-of-education approach (Taylor & Fowler, 2006, p.2). The cost-of-living approach measures education costs that are out of the control of a school district (McMahon, 1994). Two common cost-of-living methods are a market basket of goods and services and a wage index built from wages of workers in fields comparable to teachers. Both allow for comparison of costs across regions. Cost-of-living approaches are simple, relatively inexpensive, unbiased by the competitiveness of the teacher market, and stable over time (Taylor & Fowler, 2006, p.3-4; Odden & Picus, 2008, p.313). A disadvantage of the market-basket approach is that it may not be valid if rural and urban workers purchase different goods and services, and a disadvantage of the wage index approach is that it only measures labor costs and not other high-cost items for schools such as heating and transportation (Taylor & Fowler, 2006, p.4).

The cost-of-education approach uses actual district expenditure data and advanced statistical methods to separate factors that are controlled by a school district from those not controlled by a school district. This approach can incorporate many factors including community crime rates and teacher to student ratios, and the use of actual data allows variation in costs to be identified at a finer geographic level than cost-of-living approaches (Taylor & Fowler, 2006, p.5). A disadvantage of this approach is that researcher judgment ultimately determines the selection of variables and whether or not costs are considered under the control of the school district. This approach could also reward inefficient districts as it uses actual district expenditure data (McMahon, 1994). Finally, some states are hesitant to use this approach because it is complex and difficult to update. Despite the differences between and within the cost-of-living and cost-of-

education approaches, indices created using different approaches tend to be highly correlated (Odden & Picus, 2008, p.312-313).

### Wage Differentials

A wage differential is the “difference in wage rates (for similar jobs) that can occur because of location of company, hours of work, working conditions, type of product manufactured, or a variety of other circumstances” (University of Washington Human Resources, 2007). The government collects wage statistics in several forms that can be used to compute wage differentials. In Minnesota, the Department of Employment and Economic Development provides employment and wage data through four sources, all in cooperation with the Bureau of Labor Statistics (BLS). Appendix H contains descriptions of these data sources. BLS constructs an Employment Cost Index specifically to measure changes in employment costs over time, but it is not disaggregated beyond the nine census divisions.

BLS data is used by other government agencies and academics studying wage differentials. For example, NCES released a Comparable Wage Index (CWI) in 2006 built from BLS data that provides “a measure of the systematic, regional variations in the salaries of college graduates who are not educators” (Taylor & Glander, 2006, p.3). Predicted wages for regions, after controlling for differences in industry, occupation, and demographics, are divided by the average predicted wage nationwide to construct the index. The CWI is the latest index published by NCES to measure and adjust for geographic cost differences among school districts.

The academic literature on measuring wage differentials proposes several theoretical explanations for the existence of wage differentials because only a small portion of the variation in wages is explained by workers’ education and experience. Steadiness of employment, working environment, cost of living, level of difficulty, and level of trust required of an employee are the reasons Adam Smith presented to explain persistent wage differentials among equally-skilled

workers in identical jobs (Rees & Schultz, 1970, p.5). More recently, theories to explain these persistent wage differentials include compensation for occupational risks, compensation above a worker's opportunity cost to prevent "shirking," and the sorting of more productive workers to more productive firms (Mortensen, 2003, p.26-30).

Measuring wage differentials is problematic because workers and businesses sort themselves into markets based on their own preferences and cost constraints (Dumond, Hirsh, & MacPherson, 1999, p.578). Looking specifically at regional wage differences, Halstead provides four conditions necessary to purely measure geographic wage differentials. They are (1) wages must be for a single occupation in a single, long-standing industry, (2) a nearly purely competitive market, (3) a stable economy, and (4) highly similar working conditions across the industry (1989, p.96-97). These strict constraints illustrate the difficulty in measuring wage differentials across regions. Academic studies measuring wage differentials have focused on differences between large regions (e.g., North-South), genders, racial-ethnic groups, and industries (Scully, 1969; Polzin, 1972; Angel & Mitchell, 1991; Toutkoushian, 2002; Krueger & Summers, 1988). In general, inter-industry and regional wage differentials are highly stable over time (Angel & Mitchell, 1991, p.127; Krueger & Summers, 1988, p.268). Differentials are measured using econometric equations to isolate the variable of interest (e.g., gender, region) or differences in the average wages of two groups.

The Economic Policy Institute publishes *The State of Working America* bi-annually to follow economic trends and living standards in the United States. In the 2004/2005 edition, the examination of wages includes trends in wage growth and wage inequality over time. These differentials are measured by percentage difference between high and low earners. Regressions are also used to measure wage differentials across different levels of education and experience, and across racial-ethnic groups. All analyses use national level data from the BLS.

## Coalitions in Political Advocacy

Coalitions are one tool an organization can use to advance an issue or a piece of legislation. Coalitions build power through numbers, and they allow organizations to accomplish what they would be unable to accomplish alone (Bobo, Kendall & Max, 1996, p. 71). A coalition is a group of organizations that work together to achieve a common goal (Bootel & Warger, 1997, p.165). Coalitions provide visibility and respectability to an issue. Coalitions can also take many forms. They can be permanent, formal alliances that share many goals or temporary, informal associations working on a single goal (Bootel & Warger, 1997, p. 165).

Individual organizations can have strategic, selective, or symbolic incentives for joining a coalition (Hojnacki , 1997, p. 65). Strategic incentives include the ability to shape policy and frame a policy debate. Selective incentives are the benefits that coalition members receive, such as information or access to decision makers. Symbolic incentives include showing members and the public that an organization is participating in the issues (Hojnacki , 1997, p. 66). Hojnacki conducted an empirical study to determine the factors that affect an organization's likelihood of joining a coalition. The study found that organizations were more likely to join a coalition when the opposition was well-organized, a pivotal organization was part of the coalition, and the relevant issue was a broad issue (1997, p. 81-85). Hojnacki also found that organizations were less likely to join a coalition if they invited to join (1997, p. 83).

Coalitions require significant planning and communication to form, stay together, and achieve their goals; they do not happen by chance. Persuasion and continual planning are necessary to the creation and continuation of a coalition (Bootel & Warger, 1997, p.166). Coalitions inevitably involve compromise and addressing power inequalities, so persuasion and planning are also necessary to deal with these issues (Bobo, Kendall & Max, 1996, p. 71). A

management structure must also be in place to allow for “prompt, flexible, and conclusive action” by a coalition (Bootel & Warger, 1997, p. 166).

### **Analysis of Current Implementation of Geographic Cost Indices**

As of fall 2007, ten states included explicit geographic cost indices in their school funding formulas. Several states have recently added or eliminated geographic cost indices since 2005. Maryland, Missouri, and New York added indices. Ohio and Tennessee began phase-outs of their indices; however, several educational organizations in Ohio support the use of an updated geographic cost index. Six states use cost-of-living indices, three use cost-of-education indices, and one state uses both. The following two tables provide details on the indices in these ten states. Highlights of state indices are also presented after the tables. The raw details and narratives on the states are provided in Appendices B and C.

**Table 2: Basics of State’s Geographic Cost Index**

<b>State/Name of Index</b>	<b>Year Implemented<sup>1</sup></b>	<b>Reason for Implementation</b>	<b>Type of Index</b>	<b>How Index Values Affect Funding Formula</b>	<b>Constraints on Index</b>
<b>Alaska/</b> District Cost Factor	1998	Part of school funding formula reform	Cost of education	Factor * Average Daily Membership * Base student allocation	Anchorage is base and factor is set to 1.000; all other factors are greater than Anchorage
<b>Colorado/</b> Cost of Living Factor	1994	Part of school funding formula reform	Cost of living	Size factor * [(Base * Factor * Portion personnel costs) + (Base * Portion non-personnel costs)] + categorical funding	All factors above 1.00; factor only increases if district’s cost of living grows faster than the state average teacher income
<b>Florida/</b> District Cost Differential	1973, method changed 2003	Part of school funding formula reform	Cost of living	Weighted full-time students * Base allocation * District Cost Differential	Index values have no floor – may fall below 1.000
<b>Maryland/</b> Geographic Cost of Education Index	2005	Part of school funding formula reform	Cost of education	Foundation for county * Geographic Cost of Education Index factor	Index factors below 1.000 are set to 1.000
<b>Massachusetts/</b> Wage Adjustment Factor	1994	Part of school funding formula reform	Cost of living	Factor is applied to eight of the eleven functional categories that involve salary	Index factors below 1.000 are set to 1.000
<b>Missouri/</b> Dollar Value Modifier	2005	Part of school funding formula reform	Cost of living	Weighted Ave. Daily Attendance * Adequacy target * Dollar Value Modifier	Index factors below 1.000 are set to 1.000
<b>New York/</b> Regional Cost Index	2007	Part of school funding formula reform	Cost of living	Foundation Amount * Phase-in % * Regional Cost Index * Pupil Need Index	North Country is set to 1.000; all other factors normed to this base
<b>Texas/</b> Cost of Education Index	1991	To replace price differential index and small district adjustment in formula	Cost of education	Index factor is applied to 71% of base allotment	All factors are above 1.000
<b>Virginia/</b> Cost of Competing Adjustment	1988	One recommendation of Commission report on funding the state’s Standards of Quality	Cost of living	9.83% input cost adjustment in determining funding	Full adjustment to nine school districts and ¼ of adjustment to nine school districts
<b>Wyoming/</b> Regional Cost Adjustment	1995	Part of school funding formula reform	Cost of living and education components	Regional Cost Adjustment applied by district to all FTE positions	Index factors below 100 are set to 100

Notes: 1. Implementation of current index in the case of multiple indices.

**Table 3: Funding Details and Source Data on State’s Geographic Cost Index**

State/Name of Index	Index Funding Source	Percentage of State Funding Distributed Through Index	Relevant Lawsuits Relating to State School Funding System or Geographic Cost Index	Source of Data Used to Create Index
<b>Alaska/</b> District Cost Factor	State	**		School district expenditure data
<b>Colorado/</b> Cost of Living Factor	State	About 15%		Price data collected for Legislative Council by contractors every two years
<b>Florida/</b> District Cost Differential	State*	**	Lawsuit filed over 2003 change in District Cost Differential calculation	BLS Occupational Employment Statistics from Florida Agency for Workforce Innovation
<b>Maryland/</b> Geographic Cost of Education Index	n/a	n/a	Lawsuit over entire funding system prompted Thorton Commission and reform	School district expenditure data
<b>Massachusetts/</b> Wage Adjustment Factor	State and Local	Cannot quantify percentage; \$146 million per year		State Department of Employment and Training
<b>Missouri/</b> Dollar Value Modifier	State*	4.6%; \$120 million per year when fully phased in	Lawsuit was filed in 2004 over old funding system; those filing the suit contend new system did not fix equity and adequacy issues	Bureau of Economic Analysis average income data
<b>New York/</b> Regional Cost Index	State and Local	Cannot quantify	Coalition for Fiscal Equity lawsuit over NYC stimulated conversation among education stakeholders and prompted reform	BLS Occupational Employment Statistics
<b>Texas/</b> Cost of Education Index	State	6.2%		School district expenditure data
<b>Virginia/</b> Cost of Competing Adjustment	**	About 1.7%		Virginia Department of Personnel and Training salary survey data
<b>Wyoming/</b> Regional Cost Adjustment	State	2.38%	Lawsuit requires use of regional cost adjustment	Cost of living index calculated by Wyoming Division of Economic Analysis; school district expenditure data

\*When state funding is determined by subtracting local effort from required/total funding, funding source will be considered to be the state.

\*\*Not able to confirm information by deadline.

### States That Use Geographic Cost Indices

Of states with cost-of-living indices, Massachusetts, Missouri, New York, Virginia, and Florida use wage indices while Colorado uses a market-basket price index. Massachusetts, Missouri, and New York base their indices on the ratio of regional wages to state wages. Virginia's Cost of Competing Adjustment provides an additional funding only for instructional positions in Northern Virginia near Washington DC where the cost of living is considerably higher than the rest of the state. The adjustment figure is based on salary differentials of state employees between Northern Virginia and the rest of the Virginia. Florida's District Cost Differential used a market-basket price index until 2003. Since then, Florida uses a wage index that is statistically adjusted using data on the cost of goods and services, population, and wage index values for neighboring counties. This change has been quite controversial; schools saw funding changes from increases of 5.4% to decreases of 7.6% (Miami-Dade v. King, 2006, p.7). A lawsuit brought against the state over this change in calculation was rejected by the courts in 2006, but the District Cost Differential remains a hot topic in the legislature.

Colorado implemented its Cost of Living Factor in 1994 as a refinement of the previous school finance act that categorized school districts according to similarities (e.g., districts that draw from same teacher pool and face similar costs of goods and services). The factors are recalculated for districts every two years and are adjusted based on where district employees reside. There is some dissatisfaction over the Cost of Living Factor, but there is currently no study or movement to change or eliminate it.

States with cost-of-education indices all use actual district expenditure data in their calculation; however, Alaska, Texas, and Maryland all use different techniques to create their hedonic models. Alaska's District Cost Factors, as listed in statute, were constructed in 1998

using school wage, supply, transportation, and fuel cost data. There is wide agreement in Alaska on the need to adjust for regional cost differences, but there has been much political debate over updating the District Cost Factors. While not in statute, Alaska made regional cost adjustments for 2007-2008 using factors calculated in a study by the Institute of Social and Economic Research at the University of Alaska-Anchorage. The Texas Cost of Education Index was developed in 1991 to replace price and small district adjustments in the formula. The index has five inputs – average starting teacher salary, percent economically disadvantaged students, district size, whether the county is rural or not, and whether the town is independent or not. The legislature authorized a study to update the index in 1999, but the study results have not been acted on due to the political ramifications of changing the index.

Maryland implemented a new school funding system in 2002 based on the Thorton Commission recommendations which included using a Geographic Cost of Education Index. An index was created using data on professional wages, non-professional wages, and energy costs. The index was placed into statute in 2005; however, it was determined that the statutory language was not a legal mandate as it did not include a specific formula or funding level. The index has never been funded by the legislature.

Wyoming's school funding formula includes a Regional Cost Adjustment that is the greater of the Wyoming Cost-of-Living Index or the hedonic wage model, so it utilizes both approaches to geographic cost adjustments. Wyoming is required by the courts to recalibrate the school funding system every five years. The Wyoming Cost-of-Living Index, a market-basket price index, had been used since 1995. The last recalibration in 2005 recommended changing to a hedonic wage model, leading to the current hybrid method. Wyoming's *Campbell I* court

ruling also requires the school funding formula account for regional cost differences “unless there is a good rationale for change” (Odden et al, 2005, p.209).

#### States That Have Recently Eliminated Their Geographic Cost Indices

In 2007, Tennessee eliminated its Cost Differential Factor largely due to the work of committee chairs led by the governor. Tennessee had used a cost-of-living index based on wages to provide additional state funding to schools located in counties with above average wages. Counties with below average wages were not penalized. The Cost Differential Factor was implemented in 1992 to fully fund differences in wages, and it primarily benefited urban school systems. Over time, it stopped working as intended; urban school systems ceased to receive additional state dollars and other school systems, which should not have reasonably qualified, began to receive additional dollars. The governor led the charge to eliminate the Cost Differential Factor by working with the chairs of the education and finance committees. The argument was framed in terms of tax equity – districts most able to pay more were receiving additional state dollars instead of urban school systems with failing schools. The governor’s plan, while eliminating Cost Differential Factor funding, boosted school aid overall.

In 2005, Ohio eliminated its Cost of Doing Business Factor, but several education organizations now support a revised Cost Adjustment Factor. The Cost of Doing Business Factor was implemented in 1983 and was solely based on wages. Over time, support for it weakened. Several arguments led to its elimination. First, factors were calculated on a countywide basis, sometimes giving equal factors to very different districts. Second, it was costly, and the legislature wanted to save money. Next, it was viewed as providing extra funding to wealthy districts, confusing equalization with differing cost pressures. Lastly, it did not address rural cost concerns such as attracting teachers to poor, rural parts of the state.

The Education Tax Policy Institute, a non-partisan research institute funded by local governments including school districts, tried to address these arguments in creating the Cost Adjustment Factor. This new factor is based on county wages, the concentration of poverty in a district, county housing costs, and remoteness as measured by county population. The state school boards, school administrators, and school business officials associations all support the new factor and have testified jointly before the legislature to this effect.

### **Case Studies: Initiation and Passage of Geographic Cost Indices**

#### Massachusetts

The Wage Adjustment Factor (WAF) began in Massachusetts as part of their Education Reform Act of 1993. The Massachusetts Business Alliance for Education (MBAE) oversaw and funded two years of research that resulted in a proposal that included a new foundation formula. This proposal became law with very few changes. The formula focused on determining “what should be spent on education,” recognizing that this calculation must account for several factors including differing wages across the state (MBAE, 1991, p.ES-7).

The author of the formula admits that while an adjustment factor for wages is a good idea, it is difficult to do in practice. The WAF was based on the Ohio Cost of Doing Business adjustment; however, only 1/3 of the regional to state wage ratio was used in Massachusetts because less variation was expected in the salaries of teachers than across all occupations. Because there were many significant changes in the 1993 reform, the WAF was largely left out of sight. To this day, it is still largely unnoticed. It is a contentious issue for a few towns every year, but many districts and groups have no issue with it.

The business community was responsible for the overall change in the Massachusetts school funding formula that included the WAF. No larger coalition including advocacy groups

and constituencies formed, but MBAE consulted with many education officials and groups. The school funding proposal was created independently, and it was nearly complete before being presented to the business community and superintendents to receive comments and build support. After this vetting period, the proposal was brought to the legislature.

While the WAF was not geographically divisive when it was adopted, changes to labor market areas in 1999 did cause debate. Some towns saw significant changes in funding because labor market boundaries changed, placing them in a labor market area with a lower WAF. To calm this debate, a policy was introduced to set a floor of 1.00 for the WAF.

In Massachusetts it appears that the WAF serves its purpose of recognizing differences in cost among districts. One indication that the WAF is accepted is that it has not been a widespread issue since 1999. The only study of the WAF since its inception was a 1999 study commissioned by the Department of Education itself (R. Hatch, personal communication, Oct. 31, 2007).

### Missouri

In 2005, Missouri passed legislation (Senate Bill 287) to change its school funding formula from a tax-rate driven to a student-needs driven formula. Four staff created the new formula based on the ideas of Senator Charlie Shields, the author of Senate Bill 287. The old formula accounted for cost-of-living differences by excluding revenues that districts received from the Merchants and Manufacturing Tax in their revenue calculation. This exclusion was a compromise in the old formula for not including a more explicit geographic cost index.

When the new school funding formula was created, there was still recognition that cost-of-living differences across Missouri needed to be taken into account. The Dollar Value Modifier (DVM) in the new formula accounts for these differences. Several issues create an

urban-rural divide in Missouri, and the DVM is one such issue. Rural areas opposed it; urban and suburban areas supported it, but at first many felt it did not fully address cost differences.

Several actions were taken to overcome the geographic divide in Missouri that affected the calculation of the DVM and provided additional funding to rural districts. First, the DVM was reduced to 15% of the actual ratio values, lessening its effect. Second, the DVM changed from being calculated on a county basis to a regional basis. This had the effect of raising DVM factors for several counties. For example, St. Louis County would not have an independent DVM value higher than neighboring counties; rather, the St. Louis metropolitan area would have one DVM value. Third, total dollars, not per pupil dollars, were used in Hold Harmless calculations. Last, a \$15 million Small Schools Grant was added for districts with less than 350 students. Most of these compromises occurred in the House as the bill moved smoothly through the Senate, the chamber of its author. The governor was also instrumental in the passage of the bill because he worked to build political support in the House for the overall bill, though not necessarily for the DVM.

Overall, education organizations were largely left out of the process to create the new formula and the DVM, so many groups did not take a stance on either. The new school funding formula was created by a small group of people without much outside input. Many groups did not take a stance or actively try to influence the legislation because they did not think the reform would pass. More specifically, statewide education groups did not take stances on the DVM because it was geographically divisive. For example, the Missouri Association of School Administrators did not take a stance but provided members with information and updates to make their own decisions.

The DVM serves its purpose but is still quite controversial due to urban and suburban versus rural disagreements. The new formula is “still a work in progress” as is the DVM (D. Thalhuber, personal communication, Nov. 14, 2007). Missouri faces a lawsuit over its school funding system, filed before Senate Bill 287 passed. The courts have ruled in favor of the state, but an appeal is expected. The DVM itself remains geographically controversial. While many agree with the idea of adjusting for regional cost differences, many remain displeased with its distributional effects.

### New York

New York instituted its Regional Cost Index (RCI) as part of comprehensive school finance reform in 2007; however, the work to include the RCI spanned many years. The RCI is calculated by the State Education Department’s Fiscal Analysis and Research Unit using methods from a study conducted for Oregon (NY State Education Dept., 2006). The index is built on ratios of regional to state median wages, and the index sets the North Country region, which has the lowest ratio, to 1.000.

In contrast to Missouri, the inclusion of the RCI in the New York school funding formula was largely due to years of work and discussion by education advocates. Discussion began in 1988 when the Salerno Commission proposed the use of an RCI in New York. In 1997, a small breakthrough came when a regional cost adjustment was added to the state formula for school building aid. Discussion on the wider use of an RCI continued and increased after the first ruling in *Campaign for Fiscal Equity (CFE), Inc. v. State* came in 1995 (Campaign for Fiscal Equity). The lawsuit claimed the state underfunded New York City schools. After the ruling, CFE convened stakeholders to discuss and create consensus on school finance reform. These discussions also served to get everyone comfortable with the idea of an RCI. While CFE did not

create a formal coalition to forward school finance reform, the resultant conversations ultimately aided reform.

In New York, it is common for an issue to create an upstate-downstate divide, but there was not a significant divide over the RCI. This was partly due to the ongoing school finance discussion facilitated by CFE. There was recognition that different cost pressures existed in different regions of the state, and these differences had to be addressed in order to provide equitable funding (B. Porter, personal communication, Nov. 7, 2007). By the time the legislation passed, no education groups were strongly against the concept of the RCI, and many groups, like the New York State Council of School Superintendents, supported the idea but not a particular index. The RCI was also less two-dimensional because New York City schools could relate to both rural schools and suburban schools; New York City had pupil needs similar to rural districts and cost pressures similar to suburban districts.

It is worthwhile to note that because it took many years to include an RCI in the school funding formula, New York enacted several measures with effects that approximated an RCI. This included basing state aid on actual per pupil expenditures (to a cap) and providing state aid to districts with high tax effort to support low wealth districts in high cost regions (B. Lowry, personal communication, Nov. 8, 2007). These measures were necessary as downstate areas became more prosperous, causing them to lose state aid, but not necessarily providing them with more cash wealth to pay higher property taxes. This need and the lack of an RCI caused small fixes to the formula. In a way, these small fixes were small steps toward an RCI.

It is too early to judge the success of the RCI, and there are still measurement and border issues in the RCI calculation. The RCI uses wages for non-educators from nine regions to measure wage differentials. While this filters out the effect of district choice on wages (e.g., a

district that chooses to hire more educated and experienced teachers would pay higher wages, increasing the average wage in the region), the use of regions does not fit its application to districts. Similar wage data on a smaller scale is not currently available, so measurement remains an issue. The regional borders cause problems when neighboring communities fall in two regions. This causes debate, especially if the difference in index values between neighboring communities is steep, as is likely with only nine regions.

### **Lessons Learned from Analyses of Other States**

The following lessons learned are drawn from the case studies as well as the broader review of states with geographic cost indices:

- *Geographic cost indices are often introduced as part of a comprehensive school finance system reform*

Eight of the ten states included geographic cost indices within comprehensive reform of their school finance system. In the three case studies, the reforms were initiated by an outside group, the Massachusetts Business Alliance for Education; by an inside group, four Missouri staff led by a state senator; and by a mix, Governor proposed changes with discussion from education groups in New York. Geographic cost indices appeared in comprehensive reforms instituted in a variety of ways.

Inequitable or inadequate funding often prompts states to reform their school funding system, and this reform typically involves a study by the state to determine appropriate funding levels. To work toward equity and adequacy, states should distribute funds to districts based on needs such as number of at-risk pupils, district size, and district cost differences (Augenblick, Myers, and Berk Anderson, 1997, p.76). Therefore, these needs, including district cost differences, often occur in state school funding reform discussions and proposals.

- *General recognition of differing regional costs is a necessary but not sufficient condition to address differing regional costs*

All three case studies revealed that there was recognition of and a need to address differing regional costs. In Missouri, these differences were “too self-evident to too many people not to deal with it” (personal communication, P. Wagner, Nov. 13, 2007). Both New York and Massachusetts cited an equity goal as impetus for including a geographic cost index. In New York, “if the goal of the state is to provide equitable funding, then equitable funding demands some appreciation of regional cost differences” (personal communication, B. Porter, Nov. 7, 2007). Massachusetts’ 1999 review of the Wage Adjustment Factor said the purpose of introducing a geographic cost index is to improve equity in the distribution of educational resources (Economic..., 1999, p.5). The focus in both these states was pupil equity, not tax equity, which is less familiar to the general public. However, recognition of cost differences does not ensure reform. The status quo is more comfortable than change in school finance formulas, so even if cost differences are recognized, there may not be action to address them.

- *Geographic division over geographic cost indices is common but has been overcome in other states*

In both New York and Missouri, it is not uncommon for issues to create rural-urban division in the state. The Dollar Value Modifier in Missouri created a rural-urban and suburban divide. This divide was overcome politically through edits and additions to the school finance formula bill. The Regional Cost Index in New York did not create an upstate-downstate divide when it was passed because division was overcome through years of work and discussion. The Regional Cost Index was “talked about so much that it helped make people comfortable with the idea” (personal communication, B. Lowry, Nov. 8, 2007), and agreement on other school finance reform issues also contributed to this eventual comfort.

Reform that changes the distribution of resources will garner strong opposition, so policymakers supporting a geographic cost index should expect division and opposition over the proposed reform. Those in favor of reform need to assess the political atmosphere and the distributional effects of the reform. This knowledge will help to counteract those preferring the status quo and those opposing reform from the local level (Mintrom, 1993, p.860).

- *Coalitions have not played a role in the passage of geographic cost indices*

None of the three case study states included the work of a coalition to include a geographic cost index in state statute. In Massachusetts, the business community formed an alliance to revamp the entire formula, but the Wage Adjustment Factor was a small component of the resultant reform. None of the other states with geographic cost indices referred to coalition support or opposition with respect to geographic cost indices either. Currently, a coalition of educational groups in Ohio has formed in support of a new geographic cost index, but the proposal has only recently been presented to the legislature and policy community. Since coalitions are more likely to form in support of a broad issue, the lack of coalitions around geographic cost indices is not surprising. This suggests the inclusion of such an index should be part of a larger reform, in accord with the first lesson learned.

- *Cost-of-living indices are more prevalent than cost-of-education indices*

Seven of ten states use a cost-of-living approach for their geographic cost indices. While there is no right or wrong way to construct a geographic cost index, its structure must address relevant state and local issues (Economic..., 1999, p. 6). In New York, where a wage index is used, one education advocate said understandability is often desirable over precision because it allows for accountability; the general public can understand and evaluate the policy on their own (personal communication, B. Lowry, Nov. 8, 2007). This is in line with the literature that cost-

of-living indices are simpler and less expensive than cost-of-education indices. Five of these seven states use a wage index. This also matches the literature which indicates that wage indices are often used because salaries constitute a large part of education expenditures (Economic..., 1999, p.6).

- *No measure used for a geographic cost index, particularly a cost-of-living index, remains unchanged over time*

Revision or anticipated revision of geographic cost indices was a common theme in both case study and non-case study states. New York and Missouri both indicated that there are measurement and/or border issues in their geographic cost indices they would like to see addressed. Massachusetts added a floor to their Wage Adjustment Factor five years after its initiation in response to concerns from communities. Florida changed the calculation of its District Cost Differential from a market-basket to wage index approach 30 years after its initiation to improve the measure by using data that was unavailable when it was first enacted. While Ohio eliminated its Cost of Doing Business Factor, a new factor has been proposed that is more comprehensive in response to criticisms of the Cost of Doing Business Factor. As stated above, geographic cost indices can take several forms and must address state and regional issues. Therefore, it makes sense that indices do not remain unchanged over time but undergo change throughout their existence.

### **Suggestions for Future Research**

AMSD would benefit from additional research as they move forward in their work to advance the location equity index. This includes research on the pupil equity argument for a geographic cost index and ways to differentiate between pupil equity and the better known tax equity. Research on the passage of earlier, successful education legislation in Minnesota that was geographically divisive would also benefit advocacy planning for the location equity index.

One piece of legislation to research would be the original initiation of Training and Experience (T&E) Revenue. AMSD should also follow the developments in Ohio where several statewide education organizations are endorsing the inclusion of the Cost Adjustment Factor in the state funding system.

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## **Appendix A – General Information Collection Guide for States with Geographic Cost Indices**

### Information Requested

1. What type of geographic cost index is used by the state?
2. How is the geographic cost index implemented?
3. What geographic area is used – school district, county, or other?
4. How many geographic areas of this type are in the state?
5. What information is used in the geographic cost index (wages, housing, basket of goods, school district expenses, or a combination)?
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?
7. If applicable, what is the formula for the geographic cost index?
8. What is the difference between the highest and lowest index values (maximum and minimum)? Or, could you provide a list of the index values for each area?
9. Are districts below average ‘penalized,’ or are they set to the state average?
10. Who gathers the information to construct the index?
11. How often is the index updated?
12. When was the geographic cost index first implemented?
  - a. Where in state statute is the geographic cost index? Gone [2]
  - b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.
13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.
14. In your opinion, has the geographic cost index been successful? Please explain briefly.
15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

## Appendix B – Information, Results, and Contacts from States

### i. Alaska State Summary

Contact:

Sheila Peterson, staff; Sen. Gary Wilken's Office, [Sheila.peterson@legis.state.ak.us](mailto:Sheila.peterson@legis.state.ak.us), 907-465-3709

1. What type of geographic cost index is used by the state?

District Cost Factor (DCF)

2. How is the geographic cost index implemented?

The District Cost Factor is multiplied the adjusted ADM, which is then multiplied by the base student allocation. [1]

While this is in statute, the concern over the DCF has caused the legislature to disperse funds in grant form. Two years ago, the legislature implemented  $\frac{1}{4}$  of the Institute of Social and Economic Research (ISER) recommendation as a grant. This year, they implemented 50% as a grant. [3]

3. What geographic area is used – school district, county, or other?

School district [1, 2]

4. How many geographic areas of this type are in the state?

53 [2]

5. What information is used in the geographic cost index?

The District Cost Factor in statute is based on school district expenditure data, including wages, school supplies, transportation of goods and personnel, and fuel costs. This was constructed by a 1998 consultant. [2]

6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?

7. If applicable, what is the formula for the geographic cost index?

8. What is the difference between the highest and lowest index values?

Statute: 1.000 (Anchorage – base), 1.736 (Aleutians Regions School District) [2]

AIR: 0.99 (Mat-Su Borough), 1.58 (North Slope Borough)

ISER: 1.000 (Anchorage), 20116 (Yukon Flats)

9. Are districts below average 'penalized,' or are they set to the state average?

In statute, base is 1.000, Anchorage, so no district is penalized.

10. Who gathers the information to construct the index?

11. How often in the index updated?

Statute requires it to be updated every two years; but, due to the structure of the index, the Department of Education is not able to update them. [4]

12. When was the geographic cost index first implemented?

## Appendix B – i. Alaska (cont.)

1987: differentials based on 1985 Department of Administration study on cost of living differences [4]

a. Where in state statute is the geographic cost index?

AK 14.17.460

<http://touchngo.com/lglcntr/akstats/Statutes/Title14/Chapter17/Section460.htm>

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

1998: There was public pressure to rewrite the funding formula; McDowell Group study compared cost of operating schools of different sizes and in different regions. This was a study of the cost of education differences. [4]

1998: There was a radical change in the formula; legislature adopted the DCFs from the McDowell Group study without any changes. Part of the study was to determine an appropriate DCF, but when the information came back, there was concern from the state about the numbers. The data available from the districts [used in the study] was sketchy. [3]

2001: There was a movement to adjust the DCF, and the legislature appropriated \$350,000 to the American Institutes for Research (AIR) to come up with appropriate DCFs and have them in a format that would be easy to update with new information. The [legislature] wanted a model that was updateable and agreed upon to end the constant battle that they were having. [3] Study results released in 2003. The resulting study was peer reviewed by ISER in 2004; it was approved with some concern over the lack of examination of the teacher turnover rate. [4]

No one liked the information from AIR. Some good things [came] from AIR's work. Overall, main points: 1. Anchorage is used as the base [of 1.000], but one area was actually less costly than Anchorage. So they [AIR] changed Anchorage to be less than 1.000. But, this caused concern. 2. They tried to come up with better estimates of energy costs. They didn't know if current energy cost data was off due to maintenance issues, lack of conservation, etc., so they did not want to use actual data. AIR set up a model for the ideal school and community based on temperature and heating information. The legislators did not like that concept. 3. For the teacher cost portion, they tried to use a different model. Sometimes money is not the reward [for teachers] but amenities, climate, university access, etc. were the reward for where to teach. They came up with a different factor to pay teachers. [3]

2005: Legislature contracted with University of Alaska-Anchorage, Institute of Social and Economic Research. They did a peer review. They used actual energy cost data assuming that districts spend only what they need. The base was Anchorage. Teacher cost came to be based on the number of applications that come into each school district. For example, Anchorage may get 10 applications for a special education teaching opening and another district may get 1 or none. ISER wanted to raise pay so school districts can hire teachers at a higher salary to get as many applications as the base – Anchorage. This really increased the DCF. Some took exception to that because ISER had just done research that said pay was not what really matters for teacher. [3]

2007: A joint task force met 6 times and made a recommendation that they will present to the legislature next January. It says they must implement the ISER study in statute at 50% funding next year and then phase it in over the next four years. Whether or not the legislature will do this

## Appendix B – i. Alaska (cont.)

is up in the air. Many still feel it is inappropriate, and many of those who support it say it's not right but it's the best we have. [3]

Sen. Wilkins [who was on the joint task force] believes it is not good and it will be an issue forever unless the legislature comes to grip on how to determine actual differences. He proposes to take the issue out of the legislature because legislators look at it as a parochial issue not a statewide issue. He wants to have the governor appoint an impartial committee to study it. [3]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly. The DCF has been a political nightmare; it has not gone smoothly. It is difficult to come up with an agreed upon number. [3]

No one in the legislature agrees. Under the first study (AIR), most districts lost money, so no one supported it. Under the ISER study, even with concerns from the legislators, districts saw more money, so they supported it - ¾ of the legislature wants ISER and ¼ does not want ISER. [3]

In 2001 with the AIR proposal, districts who gained supported it and who lost were against it. They were very vocal. With ISER, all districts gain, so the only opponents are those who don't agree with the method to determine the teacher salary portion. Some districts DCF doubles under ISER. [3]

Anchorage gets nothing [from DCF]. It is the largest district with 1/3 of all students in state. So, no increase in funding [to them] when Alaska pays \$50 million to schools elsewhere is viewed as unfair. It is a fight in the legislature. [3]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

15. Do you have any other comments on your state's geographic cost index, especially with regard to its initiation and reception in the state?

“It is not an easy task to adjust the school districts' cost factors. Each district feels it is more expensive to educate a child in its district than another district in the state and it is difficult to get an objective opinion.” “Even though establishing an accurate adjustment for differing costs in school districts is difficult, the adjustment is a fair method to equalize the costs difference within Alaska.” [2]

It is hard to get accurate [DCF] because people look it as a way to get more money. [3]

The education groups weigh-in [on the DCF] (Association of School Administrators-not so much, School Boards Association-a bit). The Fairbanks Paper (Fairbanks Daily News-Miner) is very interested in it. They write editorials and are strongly against it. The Anchorage paper is not very in it. They see it as rural communities need money and ISER gives them money so it is correct. On the whole, only followers of the issue are those in education. [3]

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- [1] Alaska Department of Education and Early Development, Public School Funding Program Overview, January 2007, [http://www.eed.state.ak.us/news/funding\\_program\\_overview.pdf](http://www.eed.state.ak.us/news/funding_program_overview.pdf)  
[2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005  
[3] Telephone interview with Sheila Peterson, 907-465-3709, October 2, 2007  
[4] *DCF – not a silver bullet*, Sheila Peterson email attachment October 2, 2007

Email also included editorials, newsletters to constituents, and task force dissenting letter.

## Appendix B (cont.)

### ii. Colorado State Summary

Contacts:

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Deb Godshall, Legislative Council Staff Contact, 303-866-4776, [lcs.ga@state.co.us](mailto:lcs.ga@state.co.us)  
303-866-3521

1. What type of geographic cost index is used by the state?  
Cost of Living Factor (COLF)
2. How is the geographic cost index implemented?  
Per Pupil Funding = Size Factor \*[(Base fund \* COLF \* Personnel Costs factor) + (Base fund \* Non-personnel Costs factor)] + categorical funding [1]
3. What geographic area is used – school district, county, or other?  
Factors are calculated for districts and then adjusted for labor market areas for each district based on personnel residence. [4]
4. How many geographic areas of this type are in the state?  
178 [1]
5. What information is used in the geographic cost index?  
The COLF is determined using a market-basket model with information on housing, goods and services, transportation, income taxes and miscellaneous expenses. [4]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?
7. If applicable, what is the formula for the geographic cost index?  
Cost data in each of the five areas are collected in each district and compared to the statewide average to create the index. [2] The method to calculate factors is in law; a district's factor will increase if its cost of living factor grows faster than the growth in the base income level. [4]  
  
$$\text{Factor (in yr } n) = \text{Factor (in yr } n - 1) + [(\% \text{ change in COL}/7.5)/1000$$
Factors change only when the percent change in COLF is greater than the increase in the base income level used (7.5% in 2005). The base income level is the statewide average teacher salary. [4]
8. What is the difference between the highest and lowest index values?  
1.010 – 1.641 (07-08) [1]  
COLF provides a higher amount of funding to relatively affluent areas and a lower amount to urban districts. [2] All states get some funds as all factors are all above 1. [3]
9. Are districts below average 'penalized,' or are they set to the state average?  
All are above 1.00.
10. Who gathers the information to construct the index?

**Appendix B – ii. Colorado (cont.)**

A study is done every other year. The Legislative Council Staff contracts this out, and they have some input as to what is included in the basket. The department of education does not have input in this respect. [3]

11. How often in the index updated?

Certified by the Legislative Council every two years. [1]

12. When was the geographic cost index first implemented?

As part of the Public School Finance Act of 1994

The school finance act from 1988-1994 categorized districts to account for similarities among groups of districts (e.g., Denver, I-25 corridor). It tried to take into account areas with the same teacher pool, costs, etc. The COLF, introduced in the 1994 Act, is an outgrowth from that categorization. [Example: Denver and I-25 Corridor (lower cost of living than Denver but more Denver than to the rural areas.) This categorization caused concern, but there were some who believed that cost pressures of areas should be taken into consideration. COLF is a better refinement of what had existed and was an attempt to recognize different areas have different cost pressures. [5]

a. Where in state statute is the geographic cost index?

22.54.104

<http://www2.michie.com/colorado/lpext.dll?f=templates&fn=fs-main.htm&2.0>

b. Has there been legislation to reform or reauthorize the index since its initial implementation?

If yes, please explain the reason for change and the change itself.

Calculation of COLF changed for 2004-2005, replacing inflation with the increase in household income level, so a district's COLF increases based on its increase compared to household income rather than inflation. [1]

No ongoing studies to change COLF at present. [5]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

There is some dissatisfaction with it. The COLF give out money. The status quo is generally a good thing. Several districts are more sophisticated about how to look at the Act and how the factors affect them. Some are disenchanted with it. There is no big movement to get rid of it. Changing the factor to reduce some funding is always a big thing. Much more money goes through the COLF than the size factor, although the size factor is a bigger political hot potato. More districts get money through the size factor (rural) but COLF gives more money overall. The Legislative Council Office estimates [of breakdowns of state education funding] that 75% goes through base, 15% goes through COLF and 4% goes through size factor. Metro districts get the money through the COLF. [5]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

15. Do you have any other comments on your state's geographic cost index, especially with regard to its initiation and reception in the state?

## **Appendix B – ii. Colorado (cont.)**

### Sources:

- [1] Colorado Department of Education, Understanding Colorado School Finance and Categorical Program Funding, July 2007, <http://www.cde.state.co.us/cdefinance/generalinfo.htm>
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- [3] Telephone conversation with Mary Lynn Christel, October 2, 2007
- [4] Deb Godshall, 2005 School District Cost-of-Living Study Memo, February 22, 2006, [http://www.state.co.us/gov\\_dir/leg\\_dir/lcsstaff/schfin/2005/05CostLivingMemo.pdf](http://www.state.co.us/gov_dir/leg_dir/lcsstaff/schfin/2005/05CostLivingMemo.pdf)
- [5] Telephone conversation with Deb Godshall, October 4, 2007

## Appendix B (cont.)

### iii. Florida State Summary

Contacts:

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Jim Dewey, BEBR, [jimd@bebr.flu.edu](mailto:jimd@bebr.flu.edu)

Lynn Cobb, Council Director, [lynn.cobb@laspbs.state.fl.us](mailto:lynn.cobb@laspbs.state.fl.us), 850-488-7451

1. What type of geographic cost index is used by the state?

District Cost Differential (DCD)

2. How is the geographic cost index implemented?

Base Funding = Weighted FTE students \* base student allocation \* DCD [1]

3. What geographic area is used – school district, county, or other?

Counties (which have same boundaries as school districts)

4. How many geographic areas of this type are in the state?

67

5. What information is used in the geographic cost index?

The Florida Price Level Index for School Personnel (FPLI\_SP) was created in 2003 and uses data on private market wages. This index measures the relative compensation necessary for school districts to attract equally qualified workers. [3]

6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?

Those who work in the area. [3]

7. If applicable, what is the formula for the geographic cost index?

$DCD = .8 (\text{average FPLI over past three years}) + .2$  [1]

The FPLI\_SP is calculated from wage data from more than 700 occupations collected by the Florida Agency for Workforce Innovation for the BLS OES. A raw index is created using statistical techniques. It is then smoothed using cost of goods and services data, the raw wage index of neighboring counties, and retirement age and total population data, and this creates a predicted value. A weighted average of the raw index and predicted value is taken, and then smoothed geographically so that the values for non-metro counties are not less than nearby metro counties. [3]

8. What is the difference between the highest and lowest index values?

2006-2007: 0.9119 in Holmes County, 1.0430 in Collier County [1]

9. Are districts below average ‘penalized,’ or are they set to the state average?

No upward adjustment to bring counties to 1.0000.

10. Who gathers the information to construct the index?

Data for FPLI\_SP is collected by the Florida Agency for Workforce Innovation, Labor Market Information Division; analysis is done by the Bureau of Economic and Business Research (BEBR) at the University of Florida. [3]

## Appendix B – iii. Florida (cont.)

11. How often in the index updated?

Annually [1]

12. When was the geographic cost index first implemented?

1973: DCD was introduced in Florida Education Finance Program (FEFP) was created. [7]

The FPLI was originally calculated using a market-basket approach to indirectly measure wage levels because there was no way to directly access school district personnel wage levels through databases. The original FPLI authors noted that this approach was experimental. [7]

a. Where in state statute is the geographic cost index?

1011.62(2) F.S. [1]

[http://www.flsenate.gov/statutes/index.cfm?mode=View%20Statutes&SubMenu=1&App\\_mode=Display\\_Statute&Search\\_String=1011.62&URL=CH1011/Sec62.HTM](http://www.flsenate.gov/statutes/index.cfm?mode=View%20Statutes&SubMenu=1&App_mode=Display_Statute&Search_String=1011.62&URL=CH1011/Sec62.HTM)

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

BEBR has reviewed the methodology behind the FPLI since 1995 and calculated it since 2000 under the direction of the Department of Education and state legislature. [3 and 7]

In specific appropriation 113 of the 2003-04 General Appropriations Act (Chapter 203-397), the legislature commissioned BEBR to study the “accuracy and appropriateness” of several components of the FEFP. One component to be studied was the methodology of the FPLI. BEBR reported that FPLI ignored amenities in measuring personnel cost differentials. BEBR also said that data on wages for non-education occupations was now readily available, so a wage index could be constructed that was “an amenity-adjusted, statistically and geographically smoothed version of the FPLI.” Due to these changes, it was estimated that some districts’ funding would increase 5.4% and some districts funding would decrease 7.6%. [7]

Specific appropriation 81 of the 2004-2005 General Appropriations Act (Chapter 2004-268) did not specify a method to calculate the DCD but provided supplemental transition aid (\$22.6 million) to districts that would receive less funding due to changes and indicated that BEBR’s recommendations had been accepted. [7]

Threats of changing the DCD have come from Speaker Marco Rubio and Senator Rudy Garcia, but Senator King, who led the Senate when the change occurred in 2004, is confident the change will stay in place while he is in office. [9]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

There has been controversy due to the change in the calculation of the FPLI from a market-basket to a wage index approach.

Suit filed: Miami-Dade County v. King (Nos. 05-4521/05-4524/05-2526). The Miami-Dade County Associate School Superintendent said the school district has lost more than \$88 million in three years under the new DCD. In Oct. 2006, a Florida appeals court rejected the suit, which was brought by five counties/districts. The suit challenged the 2004-2005 General Appropriations Act, chapter 2004-268, which changed the way the FPLI was calculated and altered the amount of funds districts received. [6]

## Appendix B – iii. Florida (cont.)

The changes to the calculation of the DCD benefited the Jacksonville area in Northeastern Florida and harmed some districts in Southern Florida including Miami-Dade and Broward Counties. These counties lost \$14 million and \$4 million respectively due to the change; 27 of Florida's 67 counties lost money in the change. Some counties have since dubbed the DCD the "dreaded cost differential." [9]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.  
"We think, incidentally, that a wage index is the best feasible method, and that using a retail price index may be worse than making no adjustment." [2]

15. Do you have any other comments on your state's geographic cost index, especially with regard to its initiation and reception in the state?

Market wages adjust for both cost differences and amenity differences across areas. For this reason, BEBR thinks a weighted average of the prices of goods and services is inferior to a wage index to compare across areas. [3]

### Sources:

- [1] Florida Department of Education, 2007-08 Funding for Florida School Districts, <http://www.fldoe.org/fefp/pdf/fefpdist.pdf>
- [2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005
- [3] Bureau of Economic and Business Research, 2006 Florida Price Level Index Report, February 22, 2007, [http://www.bibr.ufl.edu/system/files/FPLI\\_SP\\_2006.pdf](http://www.bibr.ufl.edu/system/files/FPLI_SP_2006.pdf)
- [4] n/a
- [5] Bureau of Economic and Business Research, 2005 Florida Price Level Index Report, February 2, 2006, <http://www.bibr.ufl.edu/Reports>,
- [6] National School Boards Association, School Board of Miami-Dade County v. King, Nos. 05-4521/05-4524/05-2526 (Fla. App. Oct. 31, 2006), November 2006, [http://www.nsba.org/site/doc\\_cosa.asp?TRACKID=&VID=50&CID=450&DID=39688](http://www.nsba.org/site/doc_cosa.asp?TRACKID=&VID=50&CID=450&DID=39688)
- [7] District Court of Appeal First District, State of Florida, Case No. 1D05-4521, 05-4524, and 05-4526 (Consolidated), October 31, 2006, [http://caselaw.lp.findlaw.com/data2/floridastatecases/app/app1\\_10\\_2006/05-4521.pdf](http://caselaw.lp.findlaw.com/data2/floridastatecases/app/app1_10_2006/05-4521.pdf)
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- [9] J. Taylor Rushing, Florida Union-Times, Eyes on School Funding Formula, April 2, 2007, [http://www.jacksonville.com/tu-online/stories/040207/met\\_funding.shtml](http://www.jacksonville.com/tu-online/stories/040207/met_funding.shtml)

## Appendix B (cont.)

### iv. Maryland State Summary

Contact:

Carroll Kozlowski, 410-767-0123, Deputy Branch Chief, Budget Branch, Maryland State Department of Education

1. What type of geographic cost index is used by the state?  
Geographic Cost of Education Index (GCEI) Adjustment
2. How is the geographic cost index implemented?  
The foundation program for each county is multiplied by their GCEI factor. The GCEI, in statute, is to be phased in from 2005-2010. [1]
3. What geographic area is used – school district, county, or other?  
Counties (which are the same as school districts)
4. How many geographic areas of this type are in the state?  
24
5. What information is used in the geographic cost index?  
The GCEI is composed of a personnel cost index (PCI) and a non-wage index (NWI). [5]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
The PCI was created using hedonic modeling. The NWI includes materials, equipment, energy costs, and other contractual services. Simply put, the GCEI is a weighted average of personnel costs and non-wage items. [5]  
  
The hedonic model is used to determine adjusted salary for each district, and the PCI for a district is the adjusted salary in the district divided by the adjusted salary statewide [5]
7. If applicable, what is the formula for the geographic cost index?  
 $80.5 \text{ PPCI} + 10.5 \text{ NPCI} + 2 \text{ Energy}$ , (each is budget share \* index value) [5]
8. What is the difference between the highest and lowest index values?  
0.000 (several counties), 0.048 in Prince George's  
The cost factors in statute are from the Duncombe and Goldhaber report. [5]
9. Are districts below average 'penalized,' or are they set to the state average?  
No. They are set to one.
10. Who gathers the information to construct the index?  
Constructed in Duncombe and Goldhaber report; report suggests update with new data and re-evaluation of methodology at least every 5 years. [5]
11. How often in the index updated?
12. When was the geographic cost index first implemented?  
A GCEI was recommended in the 2002 Thorton Commission.

## Appendix B – iv. Maryland (cont.)

1994: Baltimore city and the ACLU initiated lawsuits that the state education funding system violated the constitutional rights of students because the schools were underfunded, making them unable to provide an adequate education. The trial court agreed in 1996 in *Bradford v. Maryland State Board of Education*. The board requested increasing funding to comply with the court: the state did not fund the request. In 2000, the plaintiffs returned to courts, and the Circuit Court declared that the state was still failing to provide an adequate education as guaranteed in the constitution. By this time, the Thorton Commission had been established. [6]

2002: Chapter 288 of 2002, the Bridge to Excellence in Public Schools Act. Act had three main components: base cost; adjustments for special needs, LEP, etc.; and an adjustment for local cost of educational resources. “Although it had not been funded by fiscal 2007, the geographic cost of education index formula provides a framework for the allocation of additional State funds to school systems with higher resource costs.” [4]

A study to create a GCEI for Maryland was conducted in 2003. The GCEI was placed in statute, mandated to begin in 2005. Review of the statute by the Attorney General interpreted the law as non-mandated. [5]

“The Act did not, however, provide a specific formula or funding level for the cost adjustments, and as a result, language in the bill did not constitute a legal mandate for geographic cost funding. Chapter 430 of 2004 established a formula for the geographic index, but unlike the rest of the major State aid programs, the formula was not mandated. The statutory index formula phases in from fiscal 2006 to 2010 but was not funded in fiscal 2006 or 2007. Fully funded, it would have cost \$130M in FY2010.” [4]

a. Where in state statute is the geographic cost index?  
5-202

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

Thorton Commission charge: “ensure adequate school funding, reduce funding inequities among school districts, ensure excellence in school systems and student performance, and provide a smooth transition for recommended changes.” [6]

Thorton Commission recommendation: “In order to ensure that education funding accurately reflects differences in cost of education, the Commission recommends that a Maryland-specific geographic cost of education index be developed and used to adjust State education aid beginning in fiscal 2005.” [3]

## Appendix B – iv. Maryland (cont.)

Enactment of these recommendations was not guaranteed given the state’s economic downturn by early 2002 and the political power of Montgomery County, whose legislators felt their schools needed more funding as they had increasing numbers of at-risk students. [6]

A coalition formed to support the Commission’s recommendations, and it included Advocates for Children and Youth, ACLU of Maryland, Maryland Caucus of Black School Board Members, and Maryland PTA. They hired a firm to provide polling information by district and statewide, showing support for the proposal and ‘willingness to pay higher taxes.’ They used print and radio media as well as a web site to reach people throughout the state. Since the focus was adequacy for all school districts, all districts – rural, urban, and suburban – banded together. The legislature approved the \$1.1 billion dollar increase with an additional \$200 million for Montgomery County to secure passage. [6]

### Sources:

[1] Carroll Kozlowski email September 27, 2007

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[3] Thorton Commission Report: Commission on Education Finance, Equity, and Excellence, January 2002, [http://mlis.state.md.us/other/education/final/2002\\_final\\_report.pdf](http://mlis.state.md.us/other/education/final/2002_final_report.pdf)

[4] Maryland Local Government, Legislative Handbook Series, Volume VI, 2006, Chapter 10  
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[5] Adjusting for Geographic Differences in the Cost of Educational Provision in Maryland, from Carroll Kozlowski by email, October 3, 2007

[6] Molly A. Hunter, Maryland Enacts Modern, Standards-Based Education Finance System: Reforms Based on Adequacy Cost Studies, May 2002,  
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## Appendix B (cont.)

### v. Massachusetts State Summary

Contact:

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1. What type of geographic cost index is used by the state?  
Wage Adjustment Factor (WAF)
2. How is the geographic cost index implemented?  
If a district is in a geographic area where average wages are higher than other areas of the state, it gives credit to these districts for higher costs. The Wage Adjustment Factor is applied to the eight (of eleven total) salary-related functional categories. [1]
3. What geographic area is used – school district, county, or other?  
Labor Market Areas, determined by the Department of Employment and Training, are used, and each city and town has its own factor [3]
4. How many geographic areas of this type are in the state?  
There are 22 Labor Market Areas and 329 school districts. [3]
5. What information is used in the geographic cost index?  
“The wage factor is calculated using the latest available average wage data supplied by the state’s Department of Employment. The factor reflects a town’s own average, but is much more heavily weighted to the average of the Labor Market Area the town is located in.” [1]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
Those who live in the area. [3]
7. If applicable, what is the formula for the geographic cost index?  
  
Labor market average is weighted at 80%; town average is weighted at 20% [3]  
$$\frac{(0.8 \times LMA Ave + 0.2 \times Local Ave) - State Ave}{3} \div State Ave + 1$$
 [3]
8. What is the difference between the highest and lowest index values?  
Unadjusted: .849 in the small town of Leyden (in Berkshires) to 1.125 in Boxborough (on the 495 high-tech belt). But, no community is allowed to fall below 1.0 in the final adjusted calculation. [3]  
In FY08, only 118 municipalities in 3 labor markets received additional funding – all in the Boston area. [1]
9. Are districts below average ‘penalized,’ or are they set to the state average?  
They are set to 1.0. [3]
10. Who gathers the information to construct the index?  
Data is gathered by the Department of Employment and Training. [3]

## Appendix B – v. Massachusetts (cont.)

11. How often in the index updated?

Annually by statute

12. When was the geographic cost index first implemented?

1994: Impetus: Legislature, working with Massachusetts Business Alliance, superintendents, and an economist. It was part of the complete revamping of the Chapter 70 statute and formula. [3]

1999: Study reviewed WAF. [2]

a. Where in state statute is the geographic cost index?

Section 2 of MGL C70 (<http://www.mass.gov/legis/laws/mgl/70-2.htm>). [3]

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

“In 1999, the Labor Market Areas changed for the first time. They changed again in FY07, but that was somewhat lost amidst a major formula change.” [3]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

“It was quite controversial in 1999, when the labor market areas changed for the first time. (They changed again in FY07, but that was somewhat lost amidst a major formula change.) Main concern happens when adjacent communities are in much different labor market areas.” [3]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

“Yes, because it does a decent job of recognizing differentials in cost among higher-cost districts. It doesn’t recognize the low-cost districts though, because they are capped at 1.0. That was a change first made in 1999 and fully in effect by 2002.” [3]

15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

“I think there are probably too many labor market areas in use for a small state such as ours. Other aspects of our foundation budget are perceived by school districts as more problematic (rates too low for sped, benefits, etc.).” [3]

“We did make some structural changes to foundation beginning in FY07.

([http://finance1.doe.mass.edu/chapter70/chapter\\_07\\_change\\_detail.pdf](http://finance1.doe.mass.edu/chapter70/chapter_07_change_detail.pdf)) But the wage factor is not on anyone’s list of ways in which the foundation should be further changed. (There are many ideas but no consensus.) So we’ll likely stick with it the way it is.”

“There was a 1999 study done by an econometrics firm in Vermont for DOE.

[http://finance1.doe.mass.edu/chapter70/formula01\\_wage.html](http://finance1.doe.mass.edu/chapter70/formula01_wage.html)” [3]

Sources:

[1] Massachusetts Department of Education, Chapter 70 Program (School Finance) Information, <http://finance1.doe.mass.edu/chapter70/>

[2] Massachusetts Department of Education, Economic Analysis of the “Wage Factor” Program, [http://finance1.doe.mass.edu/chapter70/formula01\\_wage.html](http://finance1.doe.mass.edu/chapter70/formula01_wage.html)

[3] Email from Roger Hatch, October 2, 2007

## Appendix B (cont.)

### vi. Missouri State Summary

Contact:

Roger Dorson, 1-573-751-0357, [roger.dorson@dese.mo.gov](mailto:roger.dorson@dese.mo.gov), Director Finance, Missouri Department of Elementary and Secondary Education

1. What type of geographic cost index is used by the state?  
Dollar Value Modifier (DVM)
2. How is the geographic cost index implemented?  
State Aid = (Weighted average daily attendance \* state adequacy target \* Dollar Value Modifier)  
– local effort [3]
3. What geographic area is used – school district, county, or other?  
A county has one DVM. DVM's are assigned on a regional basis that will include more than one county. [5]
4. How many geographic areas of this type are in the state?  
There are 30 different Dollar Value Modifiers in the state. [5]
5. What information is used in the geographic cost index?  
Wages are used to create an index of relative purchasing power. [2]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
Those who live in the area.
7. If applicable, what is the formula for the geographic cost index?  
 $1 + .15 (\text{regional wage ratio} - 1)$ ; DVM not allowed to be less than 1. [2]  
  
regional wage ratio = regional wage per job/state median per job  
  
The regional wage per job is the total wage and salary of the metropolitan area (as defined by OMB) divided by the total employment for the metropolitan area; or total wage and salary of the micropolitan area divided by the total employment for the micropolitan area; or the county wage per job. Data is from the Bureau of Economic Analysis, and regional wage ratios are calculated from BEA data from four years before the payment year and recalculated after every census (to account for changes in the definition of the areas).  
The county wage per job is the total county wage and salary divided by the total county employment, again from BEA data from the four years before the payment year.  
The state median wage per job is the 58th highest county wage per job. [2]
8. What is the difference between the highest and lowest index values?  
1.000 – 1.104 [4, 5]
9. Are districts below average 'penalized,' or are they set to the state average?  
Not to be below 1.000. [2]
10. Who gathers the information to construct the index?  
Bureau of Economic Analysis, Department of Commerce [5]

**Appendix B – vi. Missouri (cont.)**

11. How often in the index updated?

12. When was the geographic cost index first implemented?

2005: SB 287 introduced DVM. It was part of new legislation that created a new foundation formula.

2006-2007 school year: First implemented. [5]

a. Where in state statute is the geographic cost index?

RSMo 163.011

b. Has there been legislation to reform or reauthorize the index since its initial implementation?

If yes, please explain the reason for change and the change itself.

No [5]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

Only in place for one year. [5]

15. Do you have any other comments on your state's geographic cost index, especially with regard to its initiation and reception in the state?

Sources:

[1] Department of Elementary and Secondary Education, Facts about the New Foundation Formula, July 2005, <http://www.dese.mo.gov/divadm/finance/SB287/factsheet.pdf>

[2] Donald Thalhuber, SB 287 Summary and Status, <http://www.senate.mo.gov/05info/bills/sb287.htm>

[3] Department of Elementary and Secondary Education, SB 287 Foundation Formula Worksheet Example, <http://www.dese.mo.gov/divadm/finance/SB287/ffexample.pdf>

[4] Department of Elementary and Secondary Education, Dollar Value Modifier List for FY07, <http://dese.mo.gov/divadm/finance/SB287/dvm.pdf>

[5] Email from Roger Dorson, responding to above list of questions, November 5, 2007

## Appendix B (cont.)

### vii. New York State Summary

Contact:

Charles Shippee, 518-473-8170, Fiscal Analysis and Research Unit, State Aid Unit, New York State Education Department

1. What type of geographic cost index is used by the state?  
Regional Cost Index (RCI)
  2. How is the geographic cost index implemented?  
 $\text{District Foundation Aid per Pupil} = [\text{Foundation Cost} \times \text{Pupil Need Index} \times \text{Regional Cost Index}] - \text{Expected Local Contribution. [4]}$
  3. What geographic area is used – school district, county, or other?  
Labor Force Region [4]
  4. How many geographic areas of this type are in the state?  
Ten, but then New York City and Long Island are combined as they basically function as one labor market. So, the Regional Cost Index is calculated for nine regions. [4]
  5. What information is used in the geographic cost index?  
The Regional Cost Index is based on the wages of non-school professionals using data from the BLS Occupational Employment Statistics (OES) Survey. Figures for the 2007-2008 school year were calculated from 2004 data. The OES is on a three-year cycle where wages are more precise and accurate in the third year; therefore, the Regional Cost Index can be updated every three years. The New York State Department of Labor provided the New York State Education Department with the data. [4]
  6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
Wages of those who work there
  7. If applicable, what is the formula for the geographic cost index?  
The index is “based on median salaries in professional occupations that require similar credentials to that of positions in the education field.” The Regional Cost Index had previously been based on 63 occupations; now it is based on 59 occupations that typically require a bachelor’s degree at the entry level. Education-related and government positions are not included as they are not fully competitive. The methodology for the index follows that of Rothstein and Smith for the State of Oregon. [4]
- Steps:
1. Calculate statewide median wage (# in title for state \* median wage for title for state; sum across titles; divide by total employees in all titles)
  2. Apply title weights – the percentage of the total employees in each title for the state – to every labor region
  3. For each labor force region, multiply the median annual wage for each title by the title weight, and the sum of these products is the median wage for the labor force region
  4. Divide regional median by statewide median to obtain the index value for each region, and norm the results on the North Country (set to 1.000). [4]

## Appendix B – vii. New York (cont.)

8. What is the difference between the highest and lowest index values?  
Mohawk Valley, North County 1.000; Southern Tier 1.045; Western New York 1.091; Central New York 1.103; Capital District 1.124; Finger Lakes 1.141; Hudson Valley 1.314; Long Island/NYC 1.425 [4]
9. Are districts below average ‘penalized,’ or are they set to the state average?  
The norm is 1.000 for the North Country, the lowest cost area.
10. Who gathers the information to construct the index?  
New York State Department of Labor
11. How often in the index updated?  
Every three years
12. When was the geographic cost index first implemented?  
“The Regional Cost Index that is applied to the foundation formula has only been in effect in this past school year. It had been proposed for several years before this. Before that, for several years, there was a differently calculated regional cost index used for building/construction that had been in place for at least six years.” [3]
- S. 2107, A. 4307  
Enacted in Article VII, Bill S 2107-C and A 4307-C, signed into law 4-9-07, enacted Regional Cost Index for 2007-2008 and thereafter  
<http://www.assembly.state.ny.us/leg/?bn=S02107&sh=t>  
S. 6458, A. 9558  
Enacted budget bill with GCEI for 2006-2007 school year
- a. Where in state statute is the geographic cost index?  
Title 5, Article 73, Part 1, Section 3602
- b. Has there been legislation to reform or reauthorize the index since its initial implementation?  
If yes, please explain the reason for change and the change itself.
13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.  
“The variation in regional costs when comparing different types of districts shows that high costs are problematic in both high and low wealth areas.” [6]
14. In your opinion, has the geographic cost index been successful? Please explain briefly.
15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

In New York, there had been recognition of the regional differences in cost being a problem for awhile. [3]

The Board of Regents’ State Aid proposal had supported the use of a regional cost adjustment for a number of years. [4]

It took more work with the legislature to get a more widely applied index [beyond building costs]. Would like to say they persuaded people by state’s research, but it was really a combination of things:

## Appendix B – vii. New York (cont.)

1. The concept was not un-familiar. There had been an adjustment for building aid, and there had been blue ribbon panels for over 20 years (such as the Salerno Commission) that had been put together by the Governor and Legislature to reform state aid. There had been a call from experts and professionals that had been repeated over many years. That set the foundation.
2. The proposal for the Regional Cost Index that is now in effect had a good research and scholarly basis. It took a professional wage index, used data collected through the NY State Department of Labor that is part of a national survey. So, there were no questions about validity and reliability.
3. It took years of work with the legislature. It was the Department's advocacy and like-minded groups (such as the School Boards Association, local taxpayers groups, the Superintendents Association). They came together in one voice. [3]

There was a change in state aid from the 2005-2006 to 2006-2007 school year; New York combined at 38 formulas/aids into a foundation formula and the Regional Cost Index is embedded in the new formula. The foundation formula accounts for more than 70% of aid to all districts. [3]

The foundation aid consolidates formulas, is transparent, and recognizes differences in pupil needs and regional costs. [4]

The transition has two goals: "to close the gap between actual and desired student achievement; and to ensure that public education resources are adequate and used by school districts effectively and efficiently." [4]

### Sources:

- [1] State Education Department, State Aid to Schools: A Primer, Pursuant to Laws of 2006, December 2006, [http://www.oms.nysed.gov/faru/Primer/Primer06\\_07/Primer06-07A.pdf](http://www.oms.nysed.gov/faru/Primer/Primer06_07/Primer06-07A.pdf)
- [2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005
- [3] Telephone interview with Charles Shippee, October 3, 2007
- [4] Regents Proposal on State Aid to School Districts 2007-08, December 13, 2006, <http://www.oms.nysed.gov/faru/> - Regents Proposal on State Aid link. Directed to this proposal to find the most up-to-date information and for information on the RCI.
- [5] State Education Department, The Calculation of A Regional Cost Index: 2006 Update, November 2006, [http://www.oms.nysed.gov/faru/Articles/RCI\\_2006update.htm](http://www.oms.nysed.gov/faru/Articles/RCI_2006update.htm)
- [6] State Education Department, Recognizing High Cost Factors in the Financing of Public Education: The Calculation of A Regional Cost Index, December 2003, [http://www.oms.nysed.gov/faru/new\\_york\\_state\\_education\\_departm.htm](http://www.oms.nysed.gov/faru/new_york_state_education_departm.htm)
- [7] Email from Charles Shippee, October 8, 2007

## Appendix B (cont.)

### viii. Ohio State Summary

Contact:

Jim Payton, 614-466-9044, Simulation, Foundation and Analysis, Ohio Department of Education

1. What type of geographic cost index is used by the state?  
Ohio Cost of Doing Business Factor (CODB)
2. How is the geographic cost index implemented?  
The Cost of Doing Business Factor for a district is multiplied by the per pupil foundation amount.  
[2]
3. What geographic area is used – school district, county, or other?  
Counties, and applied to all districts in a county. [2]
4. How many geographic areas of this type are in the state?  
88 [1]
5. What information is used in the geographic cost index?  
Average weekly wages [1]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
Those who work in the area. [1]
7. If applicable, what is the formula for the geographic cost index?  
The weighted average weekly wage for each county and its contiguous counties is computed. It is weighted by the percent that each occupation sector represents statewide. The range of these averages is then “shrunk” to fit in the legislated range (typically 7.5%). [2]
8. What is the difference between the highest and lowest index values?  
1.000 to 1.075 by statute, although the actual variation was always 30-40% [2]
9. Are districts below average ‘penalized,’ or are they set to the state average?  
No. Set to 1.000
10. Who gathers the information to construct the index?  
Ohio Department of Jobs and Family Service, not data collected specifically for this index. [2]
11. How often in the index updated?  
Every two years [1]
12. When was the geographic cost index first implemented?  
Initiated in 1983 [2]
  - a. Where in state statute is the geographic cost index? Eliminated
  - b. Has there been legislation to reform or reauthorize the index since its initial implementation?  
If yes, please explain the reason for change and the change itself.

## Appendix B – viii. Ohio (cont.)

Additional legislation was passed to gradually expand the range from 7.5% to 18% in 1996, to change the range back to 7.5% in 2002, and to phase it out starting in 2005 – reduced one-third each year. It is now gone. [2, 6]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

Reasons for its removal:

1. It was calculated on a countywide basis.

Example: Franklin County includes Columbus (high level of poverty) as well as White Hall, Hamilton Local, Grove Port (districts that are fairly poor as well). There are some fairly wealthy suburban districts surrounding Columbus in Franklin County. So, within metro areas, we have the largest Cost of Doing Business Factors, so districts in the county all have the same factor. This means wealthy districts get the same boost as the poor districts. Some felt it was a waste of money to put extra money into the wealthy districts. [2]

2. It was costly.

It boosted the foundation level up in every district, more or less. The legislature wanted to save money (about \$275-300 million per year). The Ohio school funding system has been declared unconstitutional four times, and the legislature has never totally responded to the mandate of the Supreme Court. [2] In 2005, approximately 7.9% to 8.7% of school foundation funding was through CODB. [5] The foundation amount is multiplied by CDBF and pupil count, and the charge off (23 mills \* property value in the district) is subtracted. So, theoretically, the additional money for the CDBF is funded by the state. [3]

3. Misconception about funneling money to wealthy districts.

The rationale for the Cost of Doing Business Factor was “what costs, as a consumer of resources, does a district face in purchasing those resources?” If the district is in a higher cost labor market, then the district faces that cost regardless of high or low wealth.

The concept of giving money to poor districts, not rich districts, is supposed to be taken care of in other parts of the formula (weighted funding, etc.). Equalization supposed to be taken care of there, not through Cost of Doing Business Factor. [2]

4. Rural District Concern

Average wages are low in many rural areas, so they tend to have very low Cost of Doing Business Factors. They felt a factor is missing – what needs to be done to get a teacher to work in a poor, rural district? Some argue that we need a factor to boost aid for those districts to account for that – incentives to attract teachers to rural (or very urban) districts. This wasn't reflected in the Cost of Doing Business Factor; it was strictly wages. [2]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

15. Do you have any other comments on your state's geographic cost index, especially with regard to its initiation and reception in the state?

Part of the problem is theoretical: deciding what to take into account (incentives, amenities, wages), and part of the problem is getting data. The wage data was from the Department of Jobs and Family Service. They did not have data on other things. So, they tried to go ahead with what was already being collected (when Factor first introduced). [2]

## Appendix B – viii. Ohio (cont.)

The Education in Tax Policy Institute has developed a new index to replace the eliminated Ohio Cost of Doing Business Factor. The ETPI consultants are Howard Fleeter and Bill Driscoll. They responded to criticisms of Ohio's Cost of Doing Business Factor and developed a new one. [3]

The new factor was presented to the Senate Finance and Appropriations Committee last year to convince them to not get rid of the factor but to improve it. They presented it, discussed it, and discussed some of the issues/problems around it. [3]

The old factor was based totally on labor market regional wage differences. The main complaints were that wealthy districts were getting more money, which was disequalizing and that there was not remoteness factor. ETPI attempted to put a remoteness factor in and tried to account for the concentration of poverty. [3]

The ETPI was formed in 1997 as a group of Ohio school boards. It has since been joined by other local government organizations. Its mission is to "research and analyze changes in taxes that affect funding for education and local services." [4]

### Sources:

- [1] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005
- [2] Phone conversation Jim Payton, October 9, 2007
- [3] Phone conversation Jim Payton, October 23, 2007
- [4] Education Tax Policy Institute history, <http://www.etpi-ohio.org/>
- [5] Ohio Department of Education, District SF-3 Reports, <http://www.ode.state.oh.us>  
State foundation funding in 2005 was \$3.460778 billion. Percents were calculated using this figure and the 2005 estimate of CODB funding of \$275-300 million per year.

## Appendix B (cont.)

### ix. Tennessee State Summary

Contact:

Art Fuller, Research Associate, State Board of Education, [art.fuller@state.tn.us](mailto:art.fuller@state.tn.us), (615) 532-2822

1. What type of geographic cost index is used by the state?  
Cost Differential Factor (CDF)
2. How is the geographic cost index implemented?  
School systems in a county with an average non-governmental wage that is higher than the state average non-governmental wage receive a percentage increase in dollars allocated to hiring staff. The Cost Differential Factor for a county is applied to all school systems in the county. [2]
3. What geographic area is used – school district, county, or other?  
Counties [2]
4. How many geographic areas of this type are in the state?  
95 [2]
5. What information is used in the geographic cost index?  
Wages [2]
6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?  
Those who work in the area [2]
7. If applicable, what is the formula for the geographic cost index?  
It uses 3-year weighted average of wages (weighted average county non-governmental wage)/(weighted average state non-governmental wage) [2]
8. What is the difference between the highest and lowest index values?  
56.72% Hancock County, 118.12% Davidson County (Nashville) [6]
9. Are districts below average ‘penalized,’ or are they set to the state average?  
Counties below the state average are not punished [2]
10. Who gathers the information to construct the index?  
Department of Labor – Quarterly Census of Employment and Wages Data  
Prof. William Fox at the Center for Business and Economic Research at the University of Tennessee – Knoxville [2]
11. How often in the index updated?  
Annually [2]
12. When was the geographic cost index first implemented?  
The earliest data on it is from 1990, but it was first implemented into statute in 1992 as part of the Education Improvement Act for Tennessee. [6]

“The Cost Differential Factor was incorporated into the BEP as part of a complete revamping of the education formula for Tennessee, the 1992 Education Improvement Act. The impetus [for the

## Appendix B – ix. Tennessee (cont.)

CDF] was based on ensuring that as the new BEP model was fully funded that the differences in costs of employment would be sufficiently captured in the new formula. The primary beneficiaries of the Cost Differential Factor are larger metropolitan areas within the like (e.g., Nashville, Chattanooga, Memphis, etc.). [6]

a. Where in state statute is the geographic cost index?

Public Chapter 376

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

The Governor's 2004 Task Force Recommendations on Teacher Pay Equity included readjusting the Cost Differential Factor. To comply with this, the 2006 BEP Annual Review Committee Annual Report included readjusting the Cost Differential as an extended priority. This is due to the very political nature of the topic within the legislature. "Specifically, within the last several years, larger metropolitan areas have not received the traditionally stated benefits of the Cost Differential Factor as originally conceived. Additionally, smaller schools began to qualify for the CDF in ways that seemed unexplainable. These changes in the impact of the CDF occurred due in large part to a loss of jobs in larger manufacturing cities such as Chattanooga." [6]

This year, there is a new BEP 2.0 formula and additional education dollars in the overall formula, so the issue of the CDF has become less controversial, especially in larger metro areas. [6]

Legislation to phase out the CDF was passed in 2007 as part of BEP 2.0, Public Chapter 369. This legislation also included 100% funding for at-risk students, state provision of 75% of the funds for instructional expenses, and an increase in the base instruction salary in the funding formula, among other changes. Phase out will last 3 or more years depending on how quickly BEP 2.0 can be implemented based on available education dollars. [6]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly. One compliant was that the Cost Differential Factor is calculated at the county level, not accounting for employees who cross county lines to work. [2]

Politics constrain policymakers' options on statewide education decisions. All statewide education finance decisions are contentious, but the Cost Differential Factor has been particularly sensitive in the political arena. [2]

The Governor said there are 'some real inequities' in how the cost of students' education is split between state and local government, in part due to the Cost Differential Factor. \$108 million is allocated through the CDF to 17 school systems, 'ostensibly to recognize the higher cost of doing business in their communities.' The Governor said the CDF was a political fix made in 1992 to channel more money into some urban school systems, and he said that it no longer works in this way. 'For example, the largest beneficiary of the CDF today is Williamson County, which gets an 18 percent premium on their state funding...despite being arguably the county in Tennessee most able to carry the load. Conversely, Hamilton County... an urban school system with the second largest number of failing schools...gets nothing.' \$108 million is approximately 3.5% of total State BEP contribution. [5]

## Appendix B – ix. Tennessee (cont.)

The Governor, working with the House and Senate Finance and Education chairs, created a plan that included the elimination of the Cost Differential Factor and provided a total of \$524 million for education when fully phased in. [5]

14. In your opinion, has the geographic cost index been successful? Please explain briefly.  
“The Cost Differential Factor served its purpose. As the BEP 2.0 formula is fully implemented political division related to the Cost Differential Factor will diminish as all school systems receive a substantial infusion of new education dollars.” [6]

15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

### Sources:

- [1] State Board of Education, The Basic Education Program, <http://www.state.tn.us/sbe/bep.html#General%20Overview>  
[2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005  
[3] Governor Phil Bredesen, Remarks: Address to the General Assembly: BEP 2.0, May 3, 2007, <http://www.tennesseeanytme.org/governor/viewArticleContent.do?id=1017>  
[4] Public Chapter No. 369 (eliminating DCF) <http://tennessee.gov/sos/acts/105/pub/pc0369.pdf>  
[5] Tennessee School Boards Association, *Board Talk*, Vol. 9, Issue 4, June 2007, [www.tsba.net/publications/boardtalk/BoardTalk-0607.pdf](http://www.tsba.net/publications/boardtalk/BoardTalk-0607.pdf)  
[6] Email from Art Fuller, TN State Board of Education, October 16, 2007  
[7] State Board of Education, BEP Allocations for Fiscal Year 2006-2007, November 3, 2006, [http://www.state.tn.us/sbe/Nov06/IVI\\_BEP\\_Alloc\\_FY07.pdf](http://www.state.tn.us/sbe/Nov06/IVI_BEP_Alloc_FY07.pdf)

### Attempted Contacts:

Lee Harrell, Research Analyst, (615) 741-3038, Senate Education Committee Staff  
Pam Mason, Research Analyst, (615) 741-4811, House Education Committee Staff

**Appendix B (cont.)**

**x. Texas State Summary**

Contact:

Belinda Dyer, 512-475-3451, Director, Forecasting and Fiscal Analysis, Texas Education Agency

1. What type of geographic cost index is used by the state?

Cost of Education Index (CEI)

2. How is the geographic cost index implemented?

CEI is applied to 71% of the Basic Allotment

Adjusted Basic Allotment = Basic Allotment \*  $[(\text{CEI} - 1) * .71 + 1]$  [1]

The CEI is funded by the state. The CEI makes up 8% of Tier 1 entitlement and 4% of weighted average daily attendance. Tier 1 delivers approximately \$6.8 billion and WADA delivers approximately \$5.6 billion. So, the total for the CEI comes to approximately 6.2% of state funding to schools.  $((8\% \text{ of } 6.8 + 4\% \text{ of } 5.6) / (6.8+5.6))$  [4]

3. What geographic area is used – school district, county, or other?

School district [2]

4. How many geographic areas of this type are in the state?

1039 [2]

5. What information is used in the geographic cost index?

The CEI uses a hedonic approach that identifies the relative attractiveness of a given district and accounts for differences in resource costs that are out of the district's control. [2]

6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?

Teacher wages [1]

7. If applicable, what is the formula for the geographic cost index?

Inputs [1]:

Competitive salaries in area

% low income students

ADA

County population <40,000

Independent town or rural district

8. What is the difference between the highest and lowest index values?

Price Component Part:

Factors:

Adjustment:

Competitive salaries in the area 0.00-0.09

County Population < 40,000 0.01

Independent town -0.01

Rural district 0.01

% Low Income Students 0.00-0.05

Average Daily Attendance 0.00-0.07 [1, 3]

Price Component \* Scale Component = final CEI [3]

**Appendix B – x. Texas (cont.)**

1.02 (rural), 1.20 (Houston and along the Mexican border) [2]

9. Are districts below average ‘penalized,’ or are they set to the state average?  
No district is below 1.00

10. Who gathers the information to construct the index?

11. How often in the index updated?  
It has not been updated since its implementation in 1991.

12. When was the geographic cost index first implemented?  
It was developed in 1991 (to replace the price differential index and the small district adjustment [3].

1984: The Price Differential Index, based on the poverty level of a district and average teacher salaries in a limited geographical area, was implemented for the 84-84 school year. It was a “rudimentary” index created in 1979. A regression model was used in 85-86 and 86-87, to remove controllable factors from the index. No update was made, so this index was used in 87-88 and 88-89. [3]

1988: The 3<sup>rd</sup> PDI Advisory Committee recommended a new index, the Commissioner’s Index, to be implemented in the 89-90 school year. That year, the Commissioner’s Index was to be weighted at 20% and the PDI at 80%; the following year, the weights would be equal. [3]

a. Where in state statute is the geographic cost index?

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

Senate Bill No. 1019 of 1989 ordered the PDI and Small District Adjustment to be replaced with a CEI for the 91-92 school year. It charged the State Board of Education to develop the CEI, and the recommendation would be approved by the legislature. A 15-member advisory panel, the Texas Education Agency, and the Comptroller of Public Accounts were all involved in the process. Responsibility for the CEI shifted to the Legislative Education and Legislative Budget Boards in 1990. [3]

This recommendation was adopted as a rule by the Foundation School Fund Board Committee after public hearings and notice published in the Texas Register. [3]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

“Even without being updated, the CEI is better than no adjustment. Texas has 199 labor market areas, so adjustment is necessary. Political will to update it comes from the urban and suburban areas where housing values have increased over the last decade. Updating the CEI might involve a market basket approach or the use of housing costs. Method should be as non-political as

## **Appendix B – x. Texas (cont.)**

possible. The expense and redistributive impact of new CEI values are barriers to updating it. Several studies on updating the CEI have been done in recent years.” [2]

### Sources:

[1] Public School Finance Seminar, 2004, [http://www.tea.state.tx.us/school.finance/sf2004\\_2.pdf](http://www.tea.state.tx.us/school.finance/sf2004_2.pdf)

(Referenced in reply to inquiry email from Texas Education Agency in 2007)

[2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005

[3] Report – Legislative Education Board, emailed from Belinda Dyer, October 5, 2007

[4] Email Belinda Dyer, November 8, 2007

## Appendix B (cont.)

### xi. Virginia State Summary

#### Contacts:

Kent Dickey, Assistant Superintendent for Finance, kent.dickey@doe.virginia.gov, Department of Education

Glen Tittermary, Deputy Directory, Joint Legislative Audit and Review Commission, gtittermary@leg.state.va.us

1. What type of geographic cost index is used by the state?

Cost of Competing Adjustment (COCA)

2. How is the geographic cost index implemented?

Adjustments are made for 9 districts in the state; seven county districts and two city districts. These areas are in the northern part of the state near Washington, DC. The goal of the adjustment is to recognize the high cost of living in this area in comparison to elsewhere in the state. The adjustment takes the form of an input-oriented cost adjustment. [2]

School divisions within Planning District Eight receive the full instructional cost of competing adjustment (COCA): Arlington County, Fairfax County, Loudoun County, Prince William County, Alexandria City, Fairfax City, Falls Church City, Manassas City and Manassas Park City. The following divisions receive the cost of competing adjustment at 25% of the full instructional COCA rate as funded in Chapter 847, 2007 Appropriation Act: Clarke, Culpeper, Fauquier, Frederick, Spotsylvania, Stafford, Warren, City of Fredericksburg and the City of Winchester. [3]

The COCA is funded using a both state and local funds. Approximately 1.7% of the total state money distributed to school districts annually is distributed through the cost of competing adjustment. [6]

3. What geographic area is used – school district, county, or other?

Northern Virginia and the rest of Virginia

4. How many geographic areas of this type are in the state?

2

5. What information is used in the geographic cost index?

The index currently in use was created by the Joint Legislative Audit and Review Committee using data from Department of Personnel and Training salary surveys. Information from these surveys was used to determine the step differences for salaries between Northern Virginia and the rest of the state.

6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?

7. If applicable, what is the formula for the geographic cost index?

Steps to calculate adjustments are (1) Determine categories and subcategories for school jobs; (2) match State job classes to school job categories; (3) Weight the differentials of the subcategories to arrive at a single differential for instructional positions and non-instructional support positions. [5]

## Appendix B – xi. Virginia (cont.)

8. What is the difference between the highest and lowest index values?  
9.83% for instructional positions, (24.61% for support positions – not in use) [2]
9. Are districts below average ‘penalized,’ or are they set to the state average?
10. Who gathers the information to construct the index?  
Department of Personnel and Training [5]
11. How often is the index updated?  
1996 figure still in use [comparing 3 & 5]
12. When was the geographic cost index first implemented?  
It was first proposed in 1988 in the Joint Legislative Audit and Review Commission (JLARC) report *Funding the Standards of Quality, Part II: SOQ Costs and Distribution*. The SOQ has included Cost of Competing Adjustments since 1988. [4]
- a. Where in state statute is the geographic cost index?
- b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.
- A 1996 JLARC report examines the need for the Cost of Competing Adjustment and options for refining and funding it. It recommends changing from a linear weighted approach to a stratified match approach. This 1996 report recommended a stratified match calculation be fully funded for state school funding. [4] The numbers used today match the recommendations of the report. [5]
13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.
14. In your opinion, has the geographic cost index been successful? Please explain briefly.  
1996 JLARC report confirms the necessity of the Cost of Competing Adjustment for the following four reasons: wage data indicates that there are different labor markets in the state, regional CPI measures indicate differences in cost-of-living in the state, regional cost differentials are used by State agencies, and other states include a regional cost adjustment factor in their funding systems. [5]
- “Yes, [it] helps support the additional costs for public school personnel in the higher Northern Virginia salary market.” [6]
15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?  
1988 JLARC report assumes that the Cost of Competing Adjustment is related to pupil equity, not tax equity. This assumption means that the Cost of Competing Adjustment should not be altered on local ability to pay [5]

### Sources:

[1] Document emailed from Kent Dickey, Direct Aid to Public Education Overview with Summary, September 27, 2007

[2] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005

**Appendix B – xi. Virginia (cont.)**

[3] First Review of the Direct Aid to Public Education Budget for the 2008-2010 Biennium, [http://www.doe.virginia.gov/VDOE/VA\\_Board/Meetings/2007/jul-itemL.pdf](http://www.doe.virginia.gov/VDOE/VA_Board/Meetings/2007/jul-itemL.pdf)

[4] Summary of JLARC report: *The Cost of Competing in Standards of Quality Funding*, <http://jlarc.state.va.us/Summary/Sum178.pdf>

[5] JLARC report: *The Cost of Competing in Standards of Quality Funding*, Nov. 13, 1996

[6] Email from Kent Dickey, November 7, 2007

## Appendix B (cont.)

### xii. Wyoming State Summary

Contact:

Frederick (Fred) Hanson, fhanse@educ.state.wy.us, 307-777-7804, Wyoming Department of Education

1. What type of geographic cost index is used by the state?

Regional Cost Adjustment

2. How is the geographic cost index implemented?

The Regional Cost Adjustment is applied by districts to all FTE positions, and it is the greater of the hedonic model or un-recalibrated Wyoming Cost-of-Living Index (WCLI). [1] The WCLI used is the average of the last six semi-annual WCLIs on record. [5]

“While all of the 48 school districts have some local resources, the State of Wyoming guarantees the funding. Therefore, I would say that the source of the regional cost adjustment [funding] is the state.” “The regional cost of living adjustment is 2.38% of the total statewide guarantee” [7]

3. What geographic area is used – school district, county, or other?

Counties [2]

4. How many geographic areas of this type are in the state?

23 counties, with 28 cities are surveyed overall. [2]

5. What information is used in the geographic cost index?

It is a price index with price information on 140 items from 6 categories. [2]

6. If wages are used in the index, are they the wages of those who work in the area or who live in the area?

7. If applicable, what is the formula for the geographic cost index?

8. What is the difference between the highest and lowest index values?

WCLI: 87.7 to 140.0 as of 2003. [5]

9. Are districts below average ‘penalized,’ or are they set to the state average?

Minimum is set at 100, so districts are not penalized [1]

10. Who gathers the information to construct the index?

The WCLI is calculated by the Wyoming Division of Economic Analysis, Department of Administration and Information. They calculate two WCLIs; one for inflation and one for comparisons of regions. [2] This is part of their general work and is not calculated only for the Regional Cost Adjustment. [4]

11. How often is the index updated?

WCLI calculated semi-annually. [5]

12. When was the geographic cost index first implemented?

1995: *Campbell I* ruling said the state’s school funding system must account for regional cost differences. The ruling required the index be used “unless there is a good rational for change.”

## Appendix B – xii. Wyoming (cont.)

[6] The modified version of the Wyoming Cost of Living Index (excluding housing-rental and medical-cost components) was used. [2]

a. Where in state statute is the geographic cost index?

21.13.309

b. Has there been legislation to reform or reauthorize the index since its initial implementation? If yes, please explain the reason for change and the change itself.

2005: The system was recalibrated, as is required every 5 years. There was a big overall change in funding. There was not much resistance to the Cost of Living Factor or the entire programs because districts statewide saw a 31% increase in funding from the state. [4]

13. Has the geographic cost index been a contentious issue in your state? If so, please describe briefly.

14. In your opinion, has the geographic cost index been successful? Please explain briefly.

“In Wyoming, because of the regional cost adjustment, the districts in the higher cost of living areas receive more funding. However, the districts in the lower than average cost of living areas do not have their funding reduced. In this regard, I would say that the regional cost of living adjustment has been successful in the eyes of the districts.” [7]

15. Do you have any other comments on your state’s geographic cost index, especially with regard to its initiation and reception in the state?

The 2005 Recalibration Report recommended updating to a hedonic wage model from the cost of living index. A proposed model was given in report’s Appendix that involved teacher, school, district, and geographic components in a between-effects model. This model ranges from 90.0-115.0 while the WCLI ranges from 87.7 to 140.0. [5]

### Sources:

[1] Wyoming Legislative Service Office, State of Wyoming School Foundation Block Grant Recalibration 2006, March 2006, <http://legisweb.state.wy.us/2006/interim/schoolfinance/06ip001-r.pdf>:

[2] Lawrence O. Picus and Associates, An Evidenced-Based Approach to Recalibrating Wyoming’s Block Grant School Funding Formula, Working Draft, October 20, 2005, <http://legisweb.state.wy.us/2005/interim/schoolfinance/Recalibration/recaldraft.pdf>

[3] Robert Keady, Geographic Cost-of-Education Index (GCEI) Systems, Project Report for AMSD, 2005

[4] Telephone conversation with Fred Hansen, October 2, 2007

[5] Wyoming Statutes, 21.13.309 <http://legisweb.state.wy.us/statutes/dlstatutes.htm>

[6] Lawrence O. Picus and Associates, An Evidenced-Based Approach to Recalibrating Wyoming’s Block Grant School Funding Formula, Final Report, November 30, 2005, <http://legisweb.state.wy.us/2007/interim/schoolfinance/WYRecalibration.pdf>

[7] Email from Fred Hansen, November 13, 2007

### Attempted Contact:

Dave Nelson, Legislative Services, 307-777-7881, [LSO@state.wy.us](mailto:LSO@state.wy.us)

## **Appendix C – State Summaries**

### Alaska

The District Cost Factor has been a very contentious issue in Alaska. Alaska has made regional cost adjustments since 1987 and implemented a District Cost Factor based on district expenditure data – including wages, supplies, transportation of goods and personnel, and energy costs – in 1998. Anchorage is the base for the factors at 1.000; the Aleutians Regions School District is the highest in statute at 1.763.

Two studies have looked at updating the District Cost Factors; one was done by the American Institutes for Research (AIF) and one was by the Institute for Social and Economic Research (ISER) at the University of Alaska, Anchorage. AIR's change in the base district (making Anchorage less than 1.000) and use of procedures to model energy costs and estimate teacher costs were not generally liked by the legislature. ISER used an unconventional approach to measuring teacher costs involving number of applicants to districts. While many legislators felt it inappropriate, they consider the ISER study the best study they have, and as all districts gain under the proposal, many people and education groups favor it. The recommendation of a 2007 Joint Task Force will be to implement the ISER study at 50% next year with a full phase in for the four following years.

Alaska recognizes the need for a District Cost Factor, but it is hard to get accurate factors because it is difficult to get an objective opinion and legislators see it as a parochial issue instead of a statewide issue. The education organizations (school boards association, school administrators) follow the issue, but non-education organizations have not taken an interest in it. The Fairbanks Daily News-Miner has written many editorials on the issue and is strongly against it. The Anchorage newspaper has not taken a strong interest in the issue.

### Colorado

Colorado uses a Cost of Living Factor to adjust personnel costs in its funding formula. The Cost of Living Factor is determined every two years for every school district using a market-basket model. The Legislative Council contracts out the work to collect cost data in housing, goods and services, transportation, income taxes, and miscellaneous expenses for a family of three with a salary equal to the statewide average teaching salary. All Cost of Living Factors are greater than 1.000. They ranged from 1.010 to 1.641 for the 2007-2008 schoolyear.

The Cost of Living Factor was introduced in the Public School Finance Act of 1994. It is essentially a refinement of the previous act that categorized districts to take into account districts that, among other things, had the same teacher pool and faced similar costs. There has been some dissatisfaction with the Cost of Living Factor, but there are no active movements to remove it from statute. More state money is distributed through the Cost of Living Factor (~15%) than the Size Factor (~4%), but it is less of a political issue. In general, more funding goes to relatively affluent areas and less funding goes to urban areas through the Cost of Living Factor.

### Florida

Florida adjusts the gross base funding for school districts with a District Cost Differential. In place since the creation of the Florida Education Foundation Program in 1973, the District Cost Differential is calculated annually using the average of the Florida Price Level Index over the past three years. For the 2006-2007 schoolyear, the District Cost Differential varied from 0.9119 to 1.0430.

## **Appendix C – State Summaries (cont.)**

The Florida Price Level Index used for the District Cost Differential is the FPLI\_SP for school personnel. Since 2003, it is calculated using private market wage data for more than 700 occupations. Statistical techniques are used to create the index and adjust it using data on cost of goods and services, total population, retirement age population, and index values for neighboring counties. This analysis is done by the Bureau of Economic and Business Research at the University of Florida.

The use of the FPLI\_SP wage index to compute the District Cost Differential is highly contested. Prior to 2003, a market-basket approach was used to calculate the Florida Price Level Index. The change to a wage index benefited Northeastern Florida and harmed South Florida school districts. Five school districts that lost up to 7.6% of funding due to the new calculation filed a lawsuit, and while the suit has been dismissed, the debate continues over the District Cost Differential. Two prominent legislators, Speaker Rubio and Senator Garcia, would like to revise the formula, but no changes have been made.

### Maryland

The Thorton Commission was convened in 1999 to review funding and accountability measures in Maryland, largely in response to a lawsuit over the state's school funding system. The result was the Bridge to Excellence in Public School Act which had three main components to state school funding: base cost, adjustment for different student populations, and adjustment for the local cost of educational resources. A Geographic Cost of Education Index was created for Maryland using hedonic modeling. In simple terms, the final Geographic Cost of Education Index is a weighted average of professional personnel costs, non-professional personnel costs, and energy costs.

The Geographic Cost of Education Index was established in statute in 2005. However, it was determined that it was not mandated. The Geographic Cost of Education Index has not been funded to date.

### Massachusetts

Massachusetts applies a Wage Adjustment Factor to the salary-related categories of its school finance system. The Wage Adjustment Factor is calculated annually using labor market area and town wage data from the Department of Employment and Training, weighting labor market area at 80% and town at 20%. The factor ranges from 1.000 to 1.125 (no community is allowed to fall below 1.000). In FY08, only 118 municipalities – all in the Boston metropolitan area – received additional funding through the Wage Adjustment Factor.

The Wage Adjustment Factor was first implemented in 1994 by the legislature, working with the Massachusetts Business Alliance, superintendents, and an economist, as part of a total revision of the school finance statute and formula. When the labor market areas changed in 1999, the Wage Adjustment Factor was quite controversial with concern over adjacent communities being placed in much different labor market areas. More recently, other aspects of the foundation budget are seen as more problematic by districts compared to the Wage Adjustment Factor. In the opinion of the School Finance Administrator, the Wage Adjustment Factor is successful because it does a “decent job of recognizing differentials in cost among higher-cost districts.”

## **Appendix C – State Summaries (cont.)**

### Missouri

The Dollar Value Modifier was added to the Missouri school funding formula for the 2006-2007 school year to account for higher costs faced by some districts as part of a new foundation formula. The Dollar Value Modifier ranges from 1.000 to 1.104, and no districts are allowed to fall below 1.000. State aid is the product of weighted daily attendance, the state adequacy target amount, and the Dollar Value Modifier minus local effort.

The Dollar Value Modifier is calculated using wage data from the Bureau of Economic Analysis for metropolitan and micropolitan areas and counties. The ratio of the regional wage per job to the state median per job is scaled down to create the Dollar Value Modifier. Each district in a region is assigned the region's Dollar Value Modifier value. The Dollar Value Modifier was and still is a contentious issue in the state, causing a divide between the urban-suburban and rural districts.

### Ohio

Until this school year, Ohio applied a Cost of Doing Business Factor to all school districts in a county. The Factor was based on the weighted average weekly wages for a county and its contiguous counties. Once calculated, there was a 30-40% difference between the highest and lowest factors; however, statute required the range to be 7.5%. All factors were between 1.000 and 1.075 (other than a few years where the range was expanding in the late 90s and during phase-out the last three years). The Factor for each district was multiplied by the per pupil foundation amount.

There were several reasons the Cost of Doing Business Factor was removed. First, since the Factor was calculated on a countywide basis, many wealthy districts got the same boost as poor districts in metropolitan areas. Some felt it was wasteful to put extra money into wealthy districts. Second, the Cost of Doing Business Factor cost \$275-300 million dollars per year, so eliminating it will save money which is a persistent goal for the legislature. Third, many people misconstrued equalization (additional aid to poor districts) with the Cost of Doing Business Factor, not realizing the Cost of Doing Business Factor addressed higher resource costs. Fourth, rural districts were concerned that even though their areas have lower wages, they face problems attracting teachers. Some argued that there should be a factor to increase aid to these districts for this reason, and the Cost of Doing Business Factor did not do so.

### Tennessee

Since 1992, the state school finance system in Tennessee included a Cost Differential Factor to allocate additional funds to school systems with above average wages, primarily metropolitan areas. This was part of a complete revamping of the education formula. The Cost Differential Factor was calculated annually, and it was the ratio of the three-year weighted average of county wages to the three-year weighted average of state wages. Factors ranged from 56.72% to 118.12%, but counties below the state average were not punished. As of 2006, 17 of 95 school systems received additional funding totaling \$108 million through the Cost Differential Factor.

In 2005, a Department of Education official said the Cost Differential Factor had been a particularly sensitive political issue in the state. The metropolitan areas started to not receive the benefits traditionally associated with the Cost Differential Factor while, unexplainably, some smaller schools began to receive benefits. In 2007, the Cost Differential Factor was eliminated

## **Appendix C – State Summaries (cont.)**

from the state school funding formula. This effort was led by the Governor and the four chairs of the House and Senate finance and education committees. During the 2007 session, the Cost Differential Factor was eliminated in a bill that made several changes to Tennessee's Basic Education Program funding system.

### Texas

Texas has adjusted state aid to reflect price differences since 1984. The current adjustment, the Cost of Education Index (CEI), was developed in 1991 to replace the price differential index and small district adjustment. It is a hedonic model that separates cost factors that are within the control of a district from those that are not within the control of a district. There are five inputs into the price component of the CEI – average starting salary in contiguous districts, percent economically disadvantaged students, district size, rural county, and district type. A formula combines these components for the final CEI which then applied to 71% of the district base allotment. The values range from 1.020 to 1.200.

The Senate asked the State Board of Education to develop the CEI, removing it from the legislature. Oversight was shifted to the Legislative Education Board and Legislative Budget board, and an advisory panel. The Texas Education Agency and the Comptroller of Public Accounts were also involved in the process.

Texas recognized that political unrest was possible in enacting the CEI as rural school interests may view it as a way to provide more funds to urban districts. One way to reduce the political split is to include both service cost and input cost differentials, or economies of scale and price indices, in a cost of education index to offset each other to some extent. The Texas legislature requested a review of the methodology to construct the CEI and an update of the CEI in 1999. The review was completed by the Dana Center, but the legislature has not acted on the recommendations of the study.

### Virginia

Virginia uses a Cost of Competing Adjustment to recognize the higher cost of living in Northern Virginia (near Washington, D.C.) compared to the rest of the state. A 9.83% adjustment for salaries is fully applied to nine school divisions and is applied at a reduced portion - 25% - for nine other divisions.

The Cost of Competing Adjustment was first implemented in 1988 in a Joint Audit and Review Commission (JLARC) study on funding the state's Standards of Quality. The Cost of Competing Adjustment was reviewed in 1996 by JLARC, when the Cost of Competing Adjustment was deemed still necessary given the regional cost differences in Virginia. JLARC presented three options for calculating the Cost of Competing Adjustment at this time, all based on wage systems that made regional cost adjustments in Virginia – systems for State classified employees and Virginia Community College System employees.

JLARC acknowledged objections to the Cost of Competing Adjustment since more state funding is distributed to higher rather than lower wealth areas. It goes on to say these objections were due to confusion between pupil equity and tax equity. The Cost of Competing Adjustment aims toward greater pupil equity, not greater tax equity.

## **Appendix C – State Summaries (cont.)**

### Wyoming

Wyoming has made Regional Cost Adjustments since a 1995 court ruling required the school finance system be cost-based and to recognize cost differences among districts in different regions. Since 1997, the Regional Cost Adjustment has been based on the Wyoming Cost of Living Index, a market-basket price index, produced by the Division of Economic Analysis in the Department of Administration and Information. The minimum value is set at 100, but actual values range from 87.7 to 140.

The state school funding system is recalibrated every five years in accordance with state statute. The 2005 recalibration study recommended the use of a hedonic model to make regional cost adjustments. The current funding formula states that the Regional Cost Adjustment is the greater of the hedonic model or the un-recalibrated Wyoming Cost of Living Index, with minimum value 100. So, Wyoming utilizes two approaches in making cost adjustments.

## Appendix D – Survey for Case Studies

### Details of Project

The Project: Establishing a Location Equity Index for Minnesota School Districts

1. Sponsor and Objective. The sponsor of the project has been affiliated with K-12 education issues in Minnesota for over 30 years and seeks information on the process of enacting geographic cost indices in other states, especially with regard to coalition building and advocacy efforts. If you have questions on the course or project, please feel free to contact me or my professor Gary DeCramer ([gdecramer@umn.edu](mailto:gdecramer@umn.edu)).
2. Current Task. To gather information on the history of other state's geographic cost index (initiation of legislation, challenges to passing the legislation, creation of coalitions to pass legislation) to highlight opportunities and challenges to passing such legislation in Minnesota.
3. Forwarding Request. If this request has reached the wrong office, please forward it to an office or person you think may be able help with the project.
4. Project Timelines for Gathering General Information. My project will continue through the start of December, with final paper and report for December 13, 2007. I am asking for a response on or before Friday, November 16, 2007 to allow time for analysis, interpretation, and reporting.
5. Information and Contact Information. My survey questions are on the following page. I would ask for documentation (reports, summaries, etc.) sent to me to help me answer these questions. However, direct responses to these questions would reduce my burden, provide richer information, and be much appreciated. Also, please provide your name, title, and a point of contact (phone number and/or email address).
6. Use of Information. The information I am collecting is for a project paper and presentation that will be shared with the project sponsor, the course professor, and other graduate students in the course. If there are limitations on sharing any of your information, please let me know.
7. My Contact Information. Joanie Lofgren, [lofg0014@umn.edu](mailto:lofg0014@umn.edu), 218-838-0383

## Appendix D – Survey for Case Studies (cont.)

### Information Requested

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?  
  
If it was part of a broader proposal, was it a comprehensive reform of the state school funding system, or was it several small changes to the existing system?  
  
If the geographic cost index was part of several small changes to the existing systems, was the geographic cost index the most significant of the changes?
2. What was the impetus for the geographic cost index legislation?
3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
4. What was done to overcome this geographical divide?
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
6. Did any other organizations or advocacy groups play an active role in the passage of the legislation? If yes, please describe briefly.
7. Did the governor's office play an active role in the passage of the legislation?
8. In your opinion, has the geographic cost index been successful? Please explain.
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?  
  
What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?

## Appendix E – Contact List for Case Studies

### Massachusetts

Roger Hatch, Administrator, Office of Finance, Massachusetts Department of Education,  
[rhatch@doe.mass.edu](mailto:rhatch@doe.mass.edu), 781-338-6527

Emailed survey

Completed via email; Referral to Noah Berger

Nate McKinnen, Committee Administrator, Joint Committee on Education, Fax 617-722-2817,  
617-722-2070

Faxed survey

Not completed

Jessica Crotty, Budget Director, Senate Committee on Ways and Means, Fax to 617-722-1022,  
617-722-1481

Faxed survey; spoke with Sean Faherty, Fiscal Policy Manager; referred to David Bunker

Not completed

Toby Morelli, Legislative Liaison, House Ways and Means, 617-722-2380

Rep. Robert DeLeo, Chair, House Ways and Means, [Robert.DeLeo@state.ma.us](mailto:Robert.DeLeo@state.ma.us)

Faxed, emailed survey

Completed via phone conversation with John Kent, intern

Noah Berger, Executive Director, Massachusetts Budget and Policy Center,  
[nberger@massbudget.org](mailto:nberger@massbudget.org), 617-426-1228 (former Counsel and Policy Director for Senate Ways  
and Means, 1993-1996)

Emailed survey

Completed via phone conversation; Referral to Ed Moscovitch

Ed Moscovitch, Cape Ann Economics, [edmosc@shore.net](mailto:edmosc@shore.net), 978-281-5004 (author of  
Massachusetts Foundation Formula)

Emailed survey

Completed via phone conversation

Massachusetts Business Alliance, [info@mbae.org](mailto:info@mbae.org), 617-737-3126

Emailed survey

Not completed

Paul Andrews, Director of Professional Development and Government Services, Massachusetts  
Association of School Superintendents, [Andrews@massupt.org](mailto:Andrews@massupt.org), 617-451-1151

Emailed survey, referred to Dave Tobin

Dave Tobin, Tri-County Tech, Massachusetts Association of School Superintendents Finance  
[tobin@tri-county.tc](mailto:tobin@tri-county.tc)

Emailed survey

Not completed

## Appendix E – Contact List for Case Studies (cont.)

### Missouri

Ann Stock, education specialist, staff, Sen, Charlie Shields, Sponsor SB 287, Majority Floor Leader, Missouri Senate, [Charlie\\_shields@senate.state.mo.us](mailto:Charlie_shields@senate.state.mo.us), 573-751-9476

Faxed and later emailed survey

Not completed; lawsuit pending

Brian Baker, Representative, Fiscal Review Committee and House Appropriations –Education, [brian.baker@house.mo.gov](mailto:brian.baker@house.mo.gov), 573-751-2175

Emailed survey

Not completed

Mike Price, House Staff, Appropriations, [mike.price@house.mo.gov](mailto:mike.price@house.mo.gov), 573-751-3972

Emailed survey

Completed via email

Debbie Geib, Administrative Specialist and Issues Management, Missouri School Boards Association, [geib@msbanet.org](mailto:geib@msbanet.org), 573-445-9920

Emailed survey

Completed via email

Roger Kurtz, Executive Director, Missouri Association of School Administrators, 573-638-4825

Referred to Don Thalhuber and Paul Wagner

Don Thalhuber, formerly of Senate Research, [dthalhuber@senate.mo.gov](mailto:dthalhuber@senate.mo.gov), 573-751-4473

Emailed survey

Completed via email

Paul Wagner, Department of Higher Education, [paul.wagner@dhe.mo.gov](mailto:paul.wagner@dhe.mo.gov), 573-751-2361

Emailed survey

Completed via phone conversation

## Appendix E – Contact List for Case Studies (cont.)

### New York

Charles Shippee, Manager of Fiscal Analysis, Fiscal Analysis and Research Unit, State Aid Unit, New York State Education Department, [faruweb@mail.nysed.gov](mailto:faruweb@mail.nysed.gov), 518-473-8170

Emailed survey

Referred to New York Division of the Budget, Education Staff

Division of the Budget, Education Staff, 518-473-8705

Phoned for contact

Not completed

State Aid Unit, New York State Education Department, Fax 518-474-3547

Faxed survey

On follow-up, referred to Burt Porter, Director of Education Finance

Completed via phone conversation

Sen. Stephen Saland, Chair, Senate Education Committee, Fax 518-426-6920, 518-455-2411

Faxed survey

Not completed

Sen. Owen Johnson, Chair, Senate Finance Committee, 518-455-3411

Referred to Shawn MacKinnon, Senate Finance Committee Education Analyst Shawn MacKinnon, Fax 518-426-6836

Faxed survey

Referred to Burt Porter

Rep. Catherin Nolan, Chair, Assembly Education Committee, Fax 518-455-3847, 518-455-4218

Faxed survey

Not completed

Giovanni Warren, K-12 Analyst, House Ways and Means Committee,

[warreng@assembly.state.ny.us](mailto:warreng@assembly.state.ny.us)

Referred to Cara Palumbo, House Ways and Means, [palumbc@assembly.ny.us](mailto:palumbc@assembly.ny.us), 518-455-4026

Emailed survey

Not completed

Christine Decatur, Governmental Relations, New York State School Boards Association,

[Christine.decaturo@nyssba.org](mailto:Christine.decaturo@nyssba.org), 518-783-0200

Emailed survey

Forwarded to Charles Dawson; referred to Burt Porter.

Robert Lowry, Jr., Deputy Director for Advocacy, Research, and Communications, New York State Council of School Superintendents, [boblowry@nyscoss.org](mailto:boblowry@nyscoss.org), 518-449-1063

Emailed survey

Completed via phone and email

## Appendix F – Results from Case Study States

Note: Questions not answered or that participants were unable to answer are omitted from the appendix.

### I. Massachusetts

#### A. **Roger Hatch, Administrator School Finance, Massachusetts Department of Education Completed email survey, October 31, 2007**

1 and 2. Answered in previous email correspondence.

3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - When originally formulated in FY94, I don't recall any controversies. I looked back at both of the Foundation Review Commissions' reports in 1996 and 2001, and there was almost no mention of the wage adjustment factor (WAF). This Department's own review of the WAF in 1999 stands as the only serious consideration of its validity.
  - In FY99, the labor market areas that underlie the WAF were updated, and that did create some controversy. But the concerns were not regional as much as in individual communities who were adversely affected by the new areas.
4. What was done to overcome this geographical divide?
  - A four-year phase-in of a policy to limit use of the factor to just those communities that would benefit from it—nobody would fall below 100%.
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
  - I really don't think many of them even knew it existed—that's still largely the case. We do show it in the published calculations, and mention it when we explain the foundation budget, but it really doesn't get much attention.
6. Did any other organizations or advocacy groups play an active role in the passage of the legislation? If yes, please describe briefly.
  - In the passage of ed reform—absolutely. There was widespread involvement and in fact it was spearheaded by the business community. The wage factor was barely on the radar charts in the context of the magnitude of the rest of the reform.
7. Did the governor's office play an active role in the passage of the legislation?
  - It was primarily the work of the legislature, driven by the McDuffy v Secretary of Education case in which the Mass. SJC found the state's school finance system to be inequitable.
8. In your opinion, has the geographic cost index been successful? Please explain.
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?

## Appendix F – I. Mass. – A. Hatch (cont.)

What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?

- The foundation budget determines a minimum spending level, which is covered by a combination of Chapter 70 state aid and local property tax money—depending upon community wealth.
- What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?
- That would be impossible to quantify, since the formula is incremental—adding annual increases to last year’s base. It drives an extra \$146 million in additional foundation budget dollars- out of a state total of \$8.406 billion in FY08. But only some of that increment translates into additional state aid.

10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?

- On the whole, it is probably a good thing—better than not having it at all. The calculation is somewhat arbitrary but reasonable. The fact that it is not really an issue except in a few towns each year, is a sign that it is widely accepted.
- The foundation budget (including wage factors) is also a major component of a separate charter school funding program.

**Appendix F – I. Mass.**

**B. John Kent, Committee Intern  
House Ways and Means, Massachusetts House  
Completed phone survey, November 2, 2007**

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Part of the Education Reform Act of 1993
  
4. What was done to overcome this geographical divide?
  - As it stands, areas that benefit now want to continue that benefit. No one in particular wants to repeal it. It is not making such a significant difference that anyone is enraged about it.
  
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?

What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?

  - It is entirely funded by the state as it is state local aid through Chapter 70.
  
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - None of the committee staff worked on the committee at the time the WAF was implemented, so little information on the history of the WAF is available from this office.

## Appendix F – I. Mass.

### C. Noah Berger, Former Counsel and Policy Director for Senate Ways and Means Executive Director, Massachusetts Budget and Policy Center Completed phone survey, November 6, 2007

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Part of 1993 Education Reform Act
  
2. What was the impetus for the geographic cost index legislation?
  - Was in reform from the start, if memory serves
  - Process to develop the Education Reform Act involved the Massachusetts Business Alliance for Education
    - They surveyed superintendents, did other research
    - One thing that came out of this was the WAF
  
3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - Not remember there being a geographical divide; many were not aware of it or it was not really the focus
  - There was a change by the federal government in the definition of the labor market areas in the middle of the WAFs history; that became an issue
  
8. In your opinion, has the geographic cost index been successful? Please explain.
  - Don't think it's been unsuccessful
  - They haven't studied it to see if it perfectly reflects regional differences
  
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - To municipal governments, the issue that is more controversial is how much local government has to contribute to local education (versus the state contribution)
  - They do not focus much on the WAF
  - There really was a sense when the formula budget was being developed that it was a substantive policy analysis instead of a political analysis
    - Goal was to really look at what it cost to education students
    - It was taken seriously and respectfully
    - Smaller issues where not focused on

## Appendix F – I. Mass.

### D. Ed Moscovitch, Author, Massachusetts Foundation Formula Cape Ann Economics Completed phone survey, November 13, 2007

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Part of 1993 Education Reform Act/Chapter 70
  - Adopted law was quite close to 1991 Massachusetts Business Alliance for Education proposal
  - There were many big changes – change tenure law, took principals out of the union, implemented statewide testing – so the Wage Adjustment Factor was way out of the scene
    - Two to three things he is most proud of out of the formula are the inflation adjustment, the arrangement to provide more money to high-poverty districts, and that they did not count special education students (so they did not create an incentive to put more students there)
  
2. What was the impetus for the geographic cost index legislation?
  - It made sense to do it
  - Labor Market Areas are exactly what [you want to use for geographical divisions] because they are based on commuting patterns
  - The Massachusetts Business Alliance for Education (led by John Rennie) had one to two years to work behind the scenes
    - Ed Moscovitch basically wrote the formula and then presented it to those in the Massachusetts Business Alliance for Education
    - A draft was presented to hundreds of superintendents for comment
    - The proposal got to a pretty final form before it got to the politics
  - It was a very progressive proposal from the business community interacting with a very progressive legislature with a Democratic majority and a very conservative Governor Weld
    - Timing was very good; John Rennie picked the time well
    - “Accountability for money” was being discussed
    - Gov. Weld supported school choice but realized he couldn’t push choice without equity in funding; this proposal worked for the Democrats and Gov. Weld
  
3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - He never heard much discussion about it [at the time of implementation]
  - There was never much discussion on the fact that Boston wages must be above outstate wages because they faced a tightened competition for labor
  - It became more prominent when the Labor Market Areas changed
    - Communities changed Labor Markets Areas; those who had Wage Adjustment Factors that changed downward lost the most
    - When you try to explain it, many people don’t understand what Department of Labor defined areas have to do with school funding
  
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - He would guess that the poverty adjustment differences between districts dwarf the wage adjustment factor differences

## Appendix F

### II. Missouri

#### A. **Mike Price, House Staff Appropriations, Missouri House Completed email survey, October 29, 2007**

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?

- Broader proposal

If it was part of a broader proposal, was it a comprehensive reform of the state school funding system, or was it several small changes to the existing system?

- Comprehensive reform

2. What was the impetus for the geographic cost index legislation?

- Perceived differences in purchasing power

3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?

- The modifier generally benefits urban/suburban areas

7. Did the governor's office play an active role in the passage of the legislation?

- Yes, along with both the house and the senate

8. In your opinion, has the geographic cost index been successful? Please explain.

- It serves its intended purpose

9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?

- The cost index is a part of the state funding formula

What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?

- I wouldn't say that any money is distributed "through" the cost index, it is simply one of the factors in the state's funding formula

## Appendix F – II. Missouri

### **B. Debbie Geib, Administrative Specialist and Issues Management Missouri School Boards Association Completed email survey, November 2, 2007**

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Senate Bill 287 – which part of it was the 2005 rewire of the Missouri School funding system.
  - It was a comprehensive reform of the state school funding system
2. What was the impetus for the geographic cost index legislation?
  - (1) Recognizing the cost of delivering educational services greater than other areas
  - (2) Part of the legislative considerations was that all schools would receive more state aid
3. What geographical areas of the state supported the geographic cost index?
  - Suburban and urban areasWhat geographical areas of the state opposed it?
  - Mostly rural areas
4. What was done to overcome this geographical divide?
  - Cost index used is “watered down”
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
  - Most all educational advocacy groups did not take a position.
6. Did any other organizations or advocacy groups play an active role in the passage of the legislation? If yes, please describe briefly.
  - No
7. Did the governor’s office play an active role in the passage of the legislation?
  - The Governor’s office played an active role in the passage of SB 287 but not necessarily in the cost index portion of the bill
8. In your opinion, has the geographic cost index been successful? Please explain.
  - It is working as designed
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?
  - State assistanceWhat percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?
  - Less than 1.5%
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - It is still a very controversial component of the state funding system because of the rural-suburban-urban differences

## Appendix F – II. Missouri

### C. Don Thalhuber, Senate Research Staff (at time of reform) Policy Director, Missouri Senate Democrats Completed email survey, November 14, 2007

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Our geographic cost index, which the SB 287 formula calls the Dollar Value Modifier (DVM), was included in every official, public draft of the SB 287 formula. The DVM was altered (watered down) rather quickly. The version of SB 287 that passed the Senate included a county DVM figure. The House Committee altered the DVM to apply to the Statistical Micro and Metropolitan Areas in which the school district's headquarters were located.
  - The old formula had no formal geographic cost index, but rather possessed an exemption that allowed assets districts received from an M&M (Merchants and Manufacturing) tax not to be considered "revenue." Since Urban Areas have more Merchants and Manufacturers, the urban and suburban districts benefited. This exemption was the political compromise in lieu of including a geographic cost index back in the early 90's.
  - The SB 287 formula was a complete overhaul of our school finance system, not a small change.
2. What was the impetus for the geographic cost index legislation?
  - There was a general attitude that the formula should attempt to address the varying spending power in differing regions of the state.
3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - At first, both sides opposed it. The suburban legislators from St. Louis thought that the DVM didn't go far enough. Of course, the rural legislators never liked it.
4. What was done to overcome this geographical divide?
  - The St. Louis suburban legislators were convinced that the SB 287 DVM was better than what they had in the old formula, which was nothing. The rural legislators were bought off with a "Small Schools Grant" program, totaling \$15 Million a year.
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
  - Our educational advocacy groups were strangely quiet throughout the whole process. Their attitude seemed to be that they would kill the whole bill behind closed doors, which obviously didn't happen. They were afraid to speak either for or against in public with regard to the bill.
6. Did any other organizations or advocacy groups play an active role in the passage of the legislation? If yes, please describe briefly.
  - No. I know this seems strange, but the bill sponsor made a decision to keep pretty much all of the organizations out of the loop. We had a small working group, and much of the policy work was done by non-partisan staff (me in Senate Research and a colleague in Senate Appropriations).

**Appendix F – II. Missouri – C. Thalhuber (cont.)**

7. Did the governor's office play an active role in the passage of the legislation?
  - Only in the House. The bill sponsor did a good job of getting the bill passed in the Senate quickly. The rural members of the House were more problematic, and the Governor's office twisted arms.
  
8. In your opinion, has the geographic cost index been successful? Please explain.
  - It's too early to say yet. I think it's a step in the right direction, but the modifier is far too simplistic in that it only looks at an average wage per job figure. I was an advocate of at least blending a housing cost index into the DVM, but that didn't happen.
  
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?
  - State.  
What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?
    - I will have to get back to you on that. In my old job in Research I would have that information, but I'll have to call over to the Department to get the latest information
  
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - I'm hoping that the SB 287 formula is a work in progress. I will be drafting legislation to make several "fixes" to the formula, but I'm not working for the majority, so I'm not confident that my alterations will pass. Also, SB 287 is still in court. We won the first round in Circuit Court, but an appeal to the Supreme Court is likely. When the formula is in court, the political will to alter it is even lower than usual.

## Appendix F – II. Missouri

### D. Paul Wagner, Deputy Commissioner Missouri Department of Higher Education Completed phone survey, November 13, 2007

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Redid whole formula – from a tax rate driven to student needs driven formula
  - Senator [Shields] came with a basic start to a new formula and left it to them to create the rest
    - Staff was to draft formula, work out problems, do simulations, and work people through
2. What was the impetus for the geographic cost index legislation?
  - It is a cost of living adjustment
  - The old formula (tax rate driven) did not deduct merchant and manufacturing tax in calculation of aid which was a political bargain used to recognize the higher cost of living in urban areas during the creation of that formula
  - As move from a tax rate driven from, there was a desire to have a cost of living sensitivity in this formula as well
3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - Missouri has a lot of urban/rural issues
  - The Dollar Value Modifier was a suburban and urban vs. rural issue
  - Rural areas didn't like it at all; Suburban areas thought it was inadequate to address the real cost of living differences (maybe defense as offensive move?)
    - So, neither side liked it that much
  - Can't really loop urban areas (mostly Democrat) because Republicans were in charge
  - Republicans were fighting Republicans (suburban and rural) to pass as the Democrats were not really on board at all
    - Two urban areas in Missouri looking at this issue: Kansas City and St. Louis
4. What was done to overcome this geographical divide?
  - Several things were done to "sweeten the pot" for rural difficulties
  - There are two rural districts in Missouri – those north of I-70 (high levy) and those south of I-70 (low levy)
    - These two are treated differently by the formula because they generate different amounts of local revenues
  - Did several things
    - Added small schools grant – straight per pupil funding for school districts with less than 350 students
    - Hold Harmless Calculation used gross dollars not per pupil amount to help small districts
    - Moved from a county-calculated to regionally-calculated modifier
      - To garner more support when the bill was introduced in the Senate, moved to regional modifier using Metropolitan Sampling Areas
      - So, not just St. Louis city or county, but the ring of surrounding counties as well

**Appendix F – II. Missouri – D. Wagner (cont.)**

- This had the effect of raising the Dollar Value Modifier for some more rural districts
  - Key component of diffusing suburban-urban and rural tension
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
- The process of creating the new formula was almost entirely an inside job (4 staff)
  - It was not an inclusive process
    - Many groups did not think change would happen or did not entirely know what the changes would be
    - So many groups did not know what to do
  - Some educational advocacy groups in Missouri tend to focus in rural or suburban areas
    - There were aware of the Dollar Value Modifier but none took a strong stance on it because [it was] done without a lot of input
  - A lot of education groups just want more money, regardless of the source
7. Did the governor's office play an active role in the passage of the legislation?
- The governor's office was on the sidelines for about half the process
  - The Senate worked through issues on the bill; then, in the House, the bill ran into some political issues – fight over DVM actually
    - That's when the governor got involved
    - Worked to garner political support for the bill because
      - Wanted it to pass
      - Wanted it to not break the bank
    - As the bill and formula changed and was adjusted, the governor wanted to know about support and funding levels
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?
- Entirely state funded
- What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?
- Will have to get back to me, but less than 5% (4.6%, about \$120M per year when fully phased in [figure from his review of spreadsheets on the formula])
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
- A lot of people could agree on the need to adjust for cost of living differences
- It was too self-evident to too many people not to deal with it

## Appendix F

### III. New York

#### A. **Burt Porter, Director of Education Finance State Aid Unit, New York State Education Department Completed phone survey, November 7, 2007**

1. Was the geographic cost index introduced through an individual piece of legislation, or was it part of a broader proposal?
  - Broader proposal
2. What was the impetus for the geographic cost index legislation?
  - It would depend on who you talk to, but, overall, there was a sense that there was significant variation in regional costs. If the goal is for the state to provide equitable funding, then equitable funding demands some appreciation of regional cost differences.
  - The idea has been around and implemented in some ways (e.g., building aid) for years, but this was the first time it has been implemented in a major way.
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
  - No one was strongly against the concept but there was a lot of criticism of the measure.
  - By the time it came to be, there were no major groups willing to come out against it.; most were in support of it.
  - Most of the discussion of the index came about because of the CFE lawsuit
    - The Midstate Consortium proposed one index and supported an index
  - Only criticism: Some upstate districts felt their costs were understated
    - Dichotomy between rural-upstate and urban-industrial part of state
    - There is always a gap here, but there was no quarrel over the RCI in this case
8. In your opinion, has the geographic cost index been successful? Please explain.
  - Yes, the building aid index (in place for a few years already)
    - No one quarreled over the concept
    - Only criticism is that with a recent spike in the cost of materials, the index down not adequately reflect this
9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?
  - Both streams

What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?

  - Not able to estimate this
10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?
  - Two indices were under debate
    - District Specific Index created by a consultant for an outside group (Campaign for Fiscal Equity he thinks); it was based on teacher salaries and was a bit of a black box

### **Appendix F – III. New York – A. Porter (cont.)**

- Education Department’s model; wage model using salaries from outside the education system; it was ultimately adopted
- Using wages made sense as a majority of cost differentials are determined by wages because they make up a bulk of a school’s budget
- Using wages outside teachers/educators made sense because some variation in wages is out of the control of a district while some variation is not
  - Felt using regional wage scale helped filter out district choices in quality to lead to inescapable variations in cost
- One major problem is that they depend on Department of Labor data and the regions they use are fairly broad
- Major problem is the availability of good data that reflects real regional differences in costs, not district choices – it’s a measurement problem
  - Need to measure real regional differences in combination with district circumstances (different scales)
  - Using regions makes some sense over districts because districts do not necessarily purchase goods or labor from their district alone
- There is a border problem; two communities fall on each side of the border and the one with the lower index value wants to know why they are different
  - Prefer to see something with rolling wages for district and area, like 6 contiguous districts or all who live within a given distance of the district, but there is not data for this

## Appendix F – III. New York

### B. Bob Lowry, Jr., Deputy Director for Advocacy, Research, and Communications New York State Council of School Superintendents Completed phone and email survey, November 8, 2007

2. What was the impetus for the geographic cost index legislation?
- Regional Cost Index has been proposed since the 1970s
  - 1988: Salerno Commission proposed a RCI
    - That was the beginning of things starting to change
    - Also the beginning of the separation of the state economically
      - Property values boomed in downstate and stagnated in upstate
      - This implied a loss of school aid (as funded largely by local revenues)
  - The RCI was talked about but was obviously politically divisive
  - Legislators upstate, even if they understood the rationale for the RCI, knew that if they voted for it, they would face retribution (for sending more money to prosperous areas)
  - 1993: Gov. Cuomo proposed RCI – it didn't pass
    - Other school finance changes were considered to get at it in round about ways
  - 1997: Small breakthrough – change in the building aid formula to adjust the amount districts were reimbursed based on Regional Cost Adjustment
    - Recognized that it cost more to build in NYC, for example
    - First time explicit RCA in statewide formula
  - 2001 or 2000: first decision in CFE lawsuit
    - Lowest court in NY is Supreme Court
    - Ruled that school finance system was unconstitutional and ordered changes
    - State appealed ruling and Gov. Pataki proposed changes
      - At this point, proposed RCI more explicitly
  - 2001: Think may have gotten some significant reform (to the school finance system) but the budget negotiations went on and one
  - That year, budget was not resolved by August or September; then Sept. 11<sup>th</sup> happened
    - That devastated the state's economy (as ~20% of revenue from Wall St.)
    - If it had been a more normal year, would have gotten the RCI
  - New Gov. Spitzer, even during campaigning, said he could resolve the CFE lawsuit
  - Court of Appeals, New York's highest court, ruled on CFE case
    - Yes, the state needed to fix its funding, but the court set a very low dollar target to fix
  - Gov. Spitzer proposed changes and increases greater than what the court said, and included an RCI in the foundation formula
  - The RCI went from being pretty controversial to almost a non-issue

Also:

- Ultimately, why pass?
  - People/groups/legislators got more comfortable with the idea
  - Economic separation
    - Downstate became significantly more prosperous, so they lost some state aid because had an increased ability to pay
    - Some of this wealth was just paper wealth; “can't sell half your house to pay taxes to fund your schools”
    - Needed to justify additional aid to these high cost areas that did better economically
    - Created a political dynamic to look for things to help these regions
      - RCI – was helpful and had intellectual merit to it

### Appendix F – III. New York – B. Lowry (cont.)

3. What geographical areas of the state supported the geographic cost index? What geographical areas of the state opposed it?
  - The outside perception of New York is that it is not very diverse, but it is actually very diverse
    - Buffalo, Adirondack Mountains; most of upstate, west of Albany, is economically depressed; New York City more prosperous
  - Often there have been upstate-downstate tensions
    - Those in the western part of New York believe that state government is piling money into the city but do not see that the city pours revenues into the state that largely fund the entire state, including schools
  
4. What was done to overcome this geographical divide?
  - Why pass?
    - It was talked about so much – that helped make people comfortable with the idea
    - Salerno Commission – it didn't produce an impact but started the development of a consensus about the need to change the formulas
      - Theme: If the formula did a better job accounting for items that mattered in school aid (e.g., ability-to-pay, RCI, pupil need), then we would not need such a complex formula
      - Also, there was an appreciation that a new formula would increase accountability
        - More people could understand it, evaluate it, etc.
  - All the education advocacy groups – teachers association, school boards' association, superintendents association – endorsed the ideas of the Salerno Commission
  - Then, the first Campaign for Fiscal Equity decision was handed down
  - Many meetings were convened by CFE, the Board of Regents to build consensus about how to reform the school funding formula in New York State
  - One thing that changed in the past ten years was the involvement of CFE
    - They became not only a group to pursue litigation but also a group to influence policy
    - They held public discussions and convened representatives of diverse groups to come to an agreement on a reform proposal
  - CFE did come out with a specific proposal that did not have a lot of momentum
    - BUT convening helped create discussion and form support
  - When Gov. Spitzer was elected, before he even took office, his staff convened the same group of people (“the usual suspects”)
    - They had the same discussions as before, almost as if they had rehearsed before, and now was the real show because it was with the governor who wanted reform
  - A key was the involvement of CFE and their subsequent grassroots lobbying group, the Alliance for Quality Education
    - He'd give CFE more credit than many, not because they created a proposal but because their exercise of convening groups built consensus
  
5. What education advocacy groups supported the geographic cost index? Did not support it? Did not take a position on it?
  - Many main groups (teachers, superintendents, Big 5 Districts (NYC, Buffalo, Syracuse, Rochester, Yonkers), rural associations, etc.) all were comfortable with the idea of (1) reforming school aid and (2) that the state should be funding at least 50% of the costs

### Appendix F – III. New York – B. Lowry (cont.)

- Through these combined concerns, they became comfortable with the idea of RCI  
Why NYSCOSS get on board?
  - In New York, it's pretty hard for people to dispute that New York City is different than outstate New York
  - People couldn't deny that the state was very diverse, and, thus, had diverse needs
  - Among superintendents, there was a different reaction than among school board members, teachers, etc.
    - Superintendents will say neither as an individual or as a member of an organization can I advocate for something that is not helpful to my community
      - Can't advocate for something contrary to my community
    - BUT still feel they have an obligation that all kids should get a good education and schools should have the resources to provide that
      - School board members may not go to that level – it's more about protecting their community
      - Teacher union leaders may not be as concerned about the source of money as that it is there – may not have as much of an elevated view beyond the community
    - Superintendents intellectually comfortable with the idea of needing some reform to ensure that all kids have opportunities (beyond own community)
    - As long as they were not asked to back a specific proposal, they were ok with the principle of it
      - NYSCOSS supported the RCI but did not specifically back Regents proposal
6. Did any other organizations or advocacy groups play an active role in the passage of the legislation? If yes, please describe briefly.
- Not recall business groups taking an interest
    - While they take an interest in education standards, they typically stay out of the financing aspect (except to say that it costs too much)
7. Did the governor's office play an active role in the passage of the legislation?
- See above.
8. In your opinion, has the geographic cost index been successful? Please explain.
- "It's too early to pass judgment, but I think the particular measure we use has problems. Designing a regional cost index raises two questions – (1) how do you measure costs? (2) how do you define regions? Our measure uses salaries of jobs requiring credentials similar to teaching. If I recall correctly, we have nine regions. There are inevitably seemingly arbitrary distinctions between neighboring districts on two sides of a boundary. With fewer regions, I think this becomes a larger problem – the breaks are probably going to be sharper (or put the other way, the differences in index values are more gradual if there are more regions). We urged doing county cost indices but our Education Department says there are not enough workers in all counties to have valid samples to compute county indices. Now we have Westchester county (just north of New York City) saying they should have the same index as New York City and Long Island; but if they were moved it would pull down the index given to what remains of the Lower Hudson Valley."

**Appendix F – III. New York – B. Lowry (cont.)**

- “One of my rules is to favor ‘understandability’ over precision – I’ll trade some precision in measuring cost differences for a measure that more or less ordinary people can understand, evaluate and debate. That’s part of accountability – holding policymakers accountable for funding decisions. The so-called Chambers Index establishes district specific RCIs (avoiding the problem described above), but to me it’s ludicrously complex.”

9. What is the source of the funding for the geographic cost index (state effort, local effort, or combination of both)?

- “Part of state aid formula – state funded.”

What percentage of the total state money distributed to school districts annually is distributed through the geographic cost index?

- “Foundation aid (about 69 percent) and building aid (about 8 percent). The formulas use different RCIs.”

10. Do you have any other comments on the use of a geographic cost index or the process to enact it in your state?

- He’s not sure if Minnesota or anyone could follow what New York did as it goes back a long time
- Minnesota not quite as diverse; for example, New York City pupil needs have more in common with the poor rural parts of the state but New York City cost pressures have more in common with Long Island
  - This helped make it not so two-dimensional
- “An interesting part of our history is that because of the political and economic trends I described, more and more since the late 1980s we were doing things that had effects similar to an RCI (e.g., providing aid based on actual per pupil spending up to a cap; providing aid for high tax effort (low wealth districts in high cost regions tend to have the highest tax effort)). This probably was a half-step toward an RCI that eased the way. Proponents could say that we’re already driving aid based on regional cost differences, an RCI is just a less convoluted, more straight-forward and accountable way of doing it.”
- Pointed out that about 3-4 years ago the NYSCOSS did a report one year after the CFE decision called “CFE vs. New York State Carpe Diem”
  - It provides a lot of background on New York through not necessarily about the RCI
  - It explains many of the problems with New York school finance in New York
    - Home-Publications (on left)-Reports Education Finance (on top)-Archive ([www.nyscoss.org/pdf/upload/4-cfepaperfinalfinal.pdf](http://www.nyscoss.org/pdf/upload/4-cfepaperfinalfinal.pdf))

## Appendix G – Interviews from Ohio

### I. Tom Ash, Director of Governmental Relations, Buckeye Association of School Administrators

614-846-4080, [ash@basa-ohio.org](mailto:ash@basa-ohio.org)

Phone interview completed November 16, 2007

#### Information Requested – Cost Adjustment Factor (CAF)

1. What is the composition and history of the Education Tax Policy Institute (ETPI)?
  - 105 school district members (of 613 in state), the Buckeye Association of School Administrators (BASA), Ohio School Boards Association (OSBA), Ohio School Business Officials Association (OSBOA), Ohio Educators Association (OEA), Ohio Federation of Teachers (OFT), Ohio Association of Public School Employees
  - Non-partisan institution that produces research
  - About 5 years ago, Ohio began to deregulate the electric industry.
    - There was a special tax on the production of electricity (not a property tax)
  - When deregulation hit, power companies outside Ohio wanted to sell electricity because would not have to pay the taxes
    - There was a competitive edge
  - Legislation remove tangible personal property tax on electricity companies and replaced it with a kilowatt hour tax (tax the number of hours sold)
    - Equally affect instate and outstate electricity companies
  - All education organizations participated because a district with a power plant in its boundaries would be affected
    - ETPI initially founded because of this
  - ETPI continues to find other things they want research on
    - Only other place for research is university or state departments
2. What groups support the Cost Adjustment Factor (CAF)?
  - BASA, OSBA, OSBOA; OEA and OFT are not opposed but do not support it as the other organizations do
3. Is the CAF geographical divisive?
  - He could argue that the old Cost of Doing Business Factor (COBD) was more divisive
    - It benefitted counties with suburban centers around urban centers
    - So it was somewhat divisive – highest to Hamilton County (Cincinnati)
  - CAF – some of this divisiveness has gone away
  - Anticipates the argument that with the four factors, they are trying to get something for everyone
    - When cost out implementation of CAF, found it was actually \$100M less than if COBD were still in place (CAF cost \$128M)
      - Not part of the plan
  - A refinement he'd like to see is using school district wage data instead of county wage data

## Appendix G – Interviews from Ohio – I. Ash (cont.)

- Many counties all have the same factor because use one wage number for county
  - Ohio Department of Taxation has median wage for all school districts
    - Voters in a school district can vote for school district income tax
    - Can fund schools on property tax, income tax, or both
    - So, each person must identify school district on state tax form
4. What plans/timeline for CAF?
- Ohio is in first year of a budget cycle currently
  - Early in 2009 the budget process for FY2010 – FY2011 will begin
  - All CAF policy discussions are in the context of the 10<sup>th</sup> anniversary of the first court ruling on the constitutionality of the school funding system
    - March 1997, first of four ruling against the state of Ohio
    - In the last decision, the Supreme Court found Ohio still to be in violation but relinquished jurisdiction
  - For past year, a coalition has formed and drafted a constitutional amendment
    - Currently have 170,000 or the 400,000 signatures necessary to get it on the ballot
    - Spawned a conversation in the capitol
      - Gov. Strickland began a dialogue
      - Legislators have been asking more questions
    - The amendment is really a last resort
      - Can't put numbers in it because it takes so much work to change
      - Would rather do it politically so can tweak it more easily
5. What challenges do you anticipate?
- In Ohio, funding has grown slowing because it is based on enrollment
    - Some districts, with declining enrollment, would've lost a lot of money
    - But have not because there is a provision saying they cannot receive less than the previous year
      - Some would've lost 5% because of lower enrollment
  - If additional funding through CAF, what will it do to districts on the guarantee?
    - It may not be enough to replace the guarantee
  - So many superintendents and legislators want to see a simulation on what they would get
    - Must make conversation more global – above the 'each district' approach
    - A legislator may see their school district's not getting much money and not think it a good thing, and vice versa
  - Need to force them to look at it globally regardless of what their individual districts receive
    - Must show it to be an equity issue, just not the equity adjustment people usually think of and see

## Appendix G – Interviews from Ohio (cont.)

### II. Jennifer Economus, Legislative Specialist, Ohio School Boards Association

[j\\_economus@osba-ohio.org](mailto:j_economus@osba-ohio.org)

Email interview completed November 26, 2007

#### Information Requested – Cost Adjustment Factor (CAF)

1. ETPI, who created the CAF, was formed by a group of Ohio school districts. At present, how is the Ohio School Boards' Association (OSBA) associated with the ETPI?
  - OSBA is a member of ETPI and pays dues to belong to the organization.
2. Does the OSBA support the CAF? If yes, please explain how OSBA came on board.
  - Yes – it is a part of our legislative platform -- The purpose of this Platform is to publicly state the positions of the Ohio School Boards Association (OSBA) on a variety of issues facing public education. This Platform will convey to legislators, policy makers, the public and the media where we stand. The Platform also will guide the association's advocacy efforts.
  - Each item in the Platform has been approved by at least 75% of the voting delegates in the OSBA Delegate Assembly, where every member board of education has a vote.
3. What other groups (educational advocacy groups or other interest, business, or professional groups) support the CAF?
  - OSBA, Ohio Association of School Business Officials, the Ohio Education Association
4. What plans, if any, have been made to forward the CAF politically?
  - A coalition of education organizations is seeking a constitutional amendment to fix school funding. This would probably be one part of a big picture effort to make changes to school funding in Ohio.
5. Is the CAF geographically divisive? What was done/is being done to overcome this?
  - This isn't a big issue.
6. In your opinion, why is the CAF necessary?
  - We believe the school funding formula should take into consideration the cost of labor and housing depending on where the school district is located.
7. What advocacy efforts and legislative efforts will be necessary to pass the CAF? What kind of groups will need to support it?
  - The school funding formula in Ohio is SO problematic, this is just one component of many that needs to be fixed. A similar Cost of Doing Business Factor (CODB) was once a part of the school funding formula and was eliminated to save money and because a legislator in leadership came from an area that did not benefit from the CODB factor.

## **Appendix H – Additional Information on Wage Differentials**

### Sources of Wage Data

The government collects wage statistics in several forms that can be used to compute wage differentials. In Minnesota, the Department of Employment and Economic Development (DEED) provides employment and wage data through four sources: Current Employment Statistics (CES) survey, Quarterly Census of Employment and Wages (QCEW), Occupational Employment Statistics (OES) survey, and Census 2000 (MN DEED, 2006). The QCEW provides statistics in the most geographic detail, second only to the Census. The CES, QCEW, and OES collect data by place of employment; the Census collects data by place of residence.

### Current Employment Statistics:

- Monthly survey of business establishments done in cooperation with the Bureau of Labor Statistics (BLS)
- Provides data on employment, wages, and weekly hours of employment
- Data is timely and analyzed across time but is not available for localities statewide
- Serves as an economic indicator and measures earnings and employment trends

### Quarterly Census of Employment and Wages:

- Quarterly census of employers done in conjunction with BLS that covers 97% of Minnesota workers
- All establishments covered by state unemployment insurance are required to report statistics to DEED
- Provides data on employment and wages and is released both quarterly and annually
- Extensive data is available at a fine level of geographic and industry detail

### Occupational Employment Statistics:

- Survey of employers conducted over three-year cycles and data released biannually in conjunction with BLS
- Includes wage estimates for the mean, median, and 10<sup>th</sup>, 25<sup>th</sup>, 75<sup>th</sup>, and 90<sup>th</sup> percentiles
- Provides data on employment and wages at the state, Metropolitan Statistical Area (MSA), and sub-state levels
- Can serve as a benchmark for employers to set wages but does not report statistics for small geographic regions

## **Appendix H – Wage Differentials (cont.)**

### Census 2000:

- Census conducted every ten years
- Extensive data available on employment, income, demographics, and commuting at a fine level of both geographic and industry detail

The BLS provides wage data through surveys beyond those mentioned above. The National Compensation Survey (NCS) provides information on average hourly wages for more than 800 occupations in about 80 metro and non-metro localities (Dept. of Labor (b)). Wage information is also presented by level of work required to allow for wage comparisons to be made across different occupations. Although BLS indicates that the data can be used to compare wages across geographical areas, wage data is not available at a fine enough level of geographical detail for such use within all states (Dept. of Labor (b)). The BLS does produce an Employment Cost Index using data from the NCS, but this index has a time-series focus and is not available in geographic detail beyond the nine census division (Dept. of Labor, 2007, p.11).

The Current Population Survey (CPS) is a monthly survey of households that collects employment and unemployment statistics. Weekly and hourly wage data is available by demographic group, occupation, education level, union affiliation, and employment status (Dept. of Labor (a)). Again, since the CPS is a survey, it does not provide wage statistics at a level of geographic detail to allow for instate comparisons.

The Bureau of Economic Analysis (BEA) also provides wage data. BEA releases estimates of total, per capita, and average personal income at the state, metropolitan statistical area, micropolitan statistical area, county, state metropolitan, and state non-metropolitan levels. Personal income includes income from all sources received by or on behalf of all residents in a geographic area (BEA, 2007, p.11). These estimates are used to “track economic well-being over time” and “make comparisons...in the level and composition of economic activity” across

**Appendix H – Wage Differentials (cont.)**

geographic areas (BEA, 2007, p.I2-I3). BEA estimates are based upon administrative records and censuses from various federal government departments (BEA, 2007, p.I7-I8).