CREATING AN EQUITABLE EDUCATION FUNDING SYSTEM

Presentation at the 2018 conference of the Association of the Metropolitan School Districts

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GUIDE TO PRESENTATION

I. Funding philosophies
II. Goals of fairness in distribution
III. Methods of distribution
IV. Implications for equity
V. The general case of Minnesota
VI. Two empirical examples: (1) Location Equity and (2) Addressing Poverty and EL
VII. Equity implications
VIII. Concluding remarks
Budgets are human values with price tags.
FUNDING PHILOSOPHIES AND THE ROLE OF THE STATE GOVERNMENT

- Need based – Primary role of State is to support need

- Output based – Primary role of State is to reward output

- Effort based – Primary role of State is to reward effort
GOALS OF DISTRIBUTION OF SCHOOL FUNDS

HORIZONTAL EQUITY
Equally situated entities are treated equally.

VERTICAL EQUITY
Differently situated entities are treated differently.

ADEQUACY
Invest enough so that most children reach high standards.

FISCAL NEUTRALITY
We should not be able to predict how much is spent on a child based on where a child lives.
METHODS OF DISTRIBUTING SCHOOL FINANCE DOLLARS

• Flat grants
  • State funds all jurisdictions at the same rate

• Foundation grants
  • State funds so that there is a floor of resources below which jurisdictions cannot fall.
  • Both state and districts contribute, where the level of district contribution depends on its wealth

• Guaranteed tax base
  • State funds districts so that district effort is rewarded
  • Both state and districts contribute, where the level of district contribution depends on its wealth and effort

• A combination of grant types (Minnesota model)
EQUITY IMPLICATIONS OF VARIOUS OPTIONS

• Flat grants
  • All jurisdictions will get funding regardless of differences in inputs
  • May be costly to fund all districts at high enough levels so that more wealth districts do not add on a lot more

• Foundation grants
  • Costs are shared between state and district
  • Basic funding levels may be higher and state can be more targeted in addressing needs and equalizing opportunities

• Guaranteed tax base
  • There may be widely different spending levels across the state since state is equalizing effort not spending levels

• Combination grants
  • You can try and balance the benefits of giving to all jurisdictions (horizontal equity) and still try and encourage basic behavior
  • Those who are better situated may be better able to respond to state incentives, so those who have more may still be getting more
Financing Education
In Minnesota
2016-2017

A Publication of the Minnesota House of Representatives
Fiscal Analysis Department
EXAMPLES OF EQUITY IN MINNESOTA SCHOOL FINANCE

HORIZONTAL EQUITY AND ADEQUACY

VERTICAL EQUITY
- Compensatory revenue
- English language learner revenue
- Elementary sparsity revenue
- Secondary sparsity revenue
- Small schools revenue
- Transportation sparsity revenue

FISCAL NEUTRALITY
- Operating capital revenue
- Referendum revenue
- Equity revenue
Location Equity: Implications of a Location Equity Index for Minnesota School Finance

Nicola A. Alexander, Hyunjun Kim, and Samantha Holquist
LOCATION EQUITY?

- 66% (CA) ~ 7% (VT) of wage index disparities between top and bottom county within a state
- 25% of wage index disparities between top and bottom county in Minnesota*
  - Suburban average: $45K
  - Urban average: $42K
  - Rural average: $30K
  - Minnesota average: $41K

* Retrieved from: http://bush.tamu.edu/research/faculty/Taylor_CWI
RESEARCH QUESTIONS

1. What are the average cost disparities among school districts within Minnesota?

2. How is the purchasing power of school districts affected by these cost disparities?

3. What are the implications for the state’s overall school expenditures if they use a location equity index that captures geographic cost differences?
MEASURING LOCATION EQUITY

1. GEOGRAPHIC COST OF EDUCATION INDEX (GCEI)

\[
\text{MN GCEI} = 0.23 + 77\% \times \frac{20\% \times \text{CAW 3 year average} + 80\% \times \text{RAW 3 year average}}{\text{SAW 3 year average}}
\]

2. COMPARABLE WAGE INDEX (CWI)

- CWI 2013 – from Busch School of Government and Public Service at Texas A&M
What are the average cost disparities among school districts within Minnesota?

Using **GCEI**, 50% of MN students live in a district with a lower than average purchasing power.

Each person represents 1,406 students.

Using **CWI**, 60% of MN students live in a district with a lower than average purchasing power.
RESEARCH QUESTION 2

How is the purchasing power of school districts affected by these cost disparities?

- Geographic cost of Education index identifies 47 districts that have lower purchasing power for each dollar received because of higher labor costs. These costs range from 1 to 12 percent above the state average.

These numbers indicate the additional basic general education revenue these districts require to be able to buy the same services as those communities with an index equaling 1.0. For example, Bloomington needs $638.68 per pupil more than districts with an index of 1.0 to purchase the same quantity and quality of goods or services.
RESEARCH QUESTION 2

How is the purchasing power of school districts affected by these cost disparities?

• The CWI method indicates that 76 districts would require additional support in order for their purchasing power to be equalized to that of districts facing average state costs. The labor costs ranged from 4 to 6 percent above the state average for higher-costs districts. Franconia district is excluded.

• These numbers indicate the additional basic general education revenue monies these districts require to be able to buy the same services as those communities with an index equal to 1.0. For example, Anoka needs $298.16 per pupil more than districts with personnel costs mirroring the state average in order to purchase the same level of goods or services.
RESEARCH QUESTION 3

What are the implications for the state’s overall school expenditures if they use a location equity index that captures geographic cost differences?

- **GCEI** would require a **3.5%** increase in basic general education revenue spending
- **CWI** would require a **2.6%** increase in basic general education revenue spending
Balancing Act: Efficiency and Equity in Minnesota Over the Past Decade

A longitudinal study in Minnesota

Nicola A. Alexander and Sung Tae Jang
Distribution of ELL Students Across Community Context in Minnesota, 2003 to 2011
VERTICAL EQUITY: REGRESSION ANALYSIS TOTAL EXPENDITURES PER PUPIL IN CONSTANT $2011 WITH PORTION OF FRL STUDENTS AND PORTION OF ELL STUDENTS (CONTROLLING FOR SCHOOL SIZE, COMMUNITY CONTEXT, AND PORTION OF BLACK AND HISPANIC STUDENTS)

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Relationship Among Efficiency, Overall Equality, Equality for High-Spenders, and Equality for Low-Spenders, 2003 -2011, with 2003 as Reference
SOME TAKEAWAYS FOR EQUITY DISCUSSIONS FROM TWO EMPIRICAL STUDIES

- State efforts to achieve vertical equity vis a vis poverty seem to be paying off for total and instructional expenditures per pupil. The magnitude of those associations are more pronounced for total expenditures.

- State efforts to achieve fiscal vertical equity vis a vis English language learners needs improvement. For the most part, districts with higher portions of ELL have lower expenditures per pupil, not more AND EL funding continues to comprise a small part of general education funding in Minnesota.

- Minnesota has provisions to address additional costs for districts with high student need, such as poverty, but these efforts are somewhat muted in metropolitan schools because of relatively high labor costs. Thus, urban and suburban districts incur higher educational outlays not only because of student demographics but also because the cost of providing education programs is higher in these communities than for districts in lower-cost markets.
LOOKING TO THE FUTURE

• Given that resources spent on instruction may have more direct implications for students’ schooling experience, state policymakers could explore policy designs that result in stronger positive associations between student poverty concentration and funding for instruction.

• Our school finance system typically looks to ensuring no new wrongs (procedural) but is less focused on addressing wrongs of the past (what Crenshaw calls expansive view of distributive justice). What would a more expansive definition of equity look like?

• We have typically focused on fiscal neutrality; maybe it’s time to explore how to achieve results neutrality.