K-12 education consistently makes up the largest share of state general fund spending each year, hovering between 34 percent and 36 percent since 1996, according to the National Association of State Budget Officers. In fiscal year 2015, more than $260 billion went to elementary and secondary education. Although no two states distribute education dollars exactly the same way, the vast majority of funding formulas are built around a “foundation” or “base” amount of funding that is the minimum each student receives.

State formulas then further adjust per-pupil funding depending on the type of student (for example, special needs, English-language learner, low-income) and the wealth of the school district. The systems that work best are based on research — specifically, tying the amount that flows to each school to the cost of providing an education that meets the state’s academic standards, says Michael Griffith, a school finance strategist with the Education Commission of the States.

North Dakota, for example, used an evidence-based approach developed by an outside consulting firm as it made multiple improvements to K-12 funding over the past decade. The firm was hired in 2008 to make recommendations on an “adequate funding level,” or how much the state should spend per student based on the state’s curriculum standards.

“We look at literature on educational reform and improvement and, given what we know about that, determine what resources a state needs and what they would cost,” says Larry Picus, a principal partner in Picus Odden & Associates, the consulting firm that has worked in North Dakota and many other states on school finance reform.

By understanding the literature, he adds, “we’re beginning to get a better feel about what types of strategies we can use in schools to help students learn.”

In North Dakota, the state’s evidence-based model was founded on strategies such as investing in teacher training, providing extra instruction for struggling students, and establishing a rigorous curriculum that prepares students for college and career. The next step was to determine the level of spending needed to implement those strategies in all schools.

North Dakota passed legislation in 2009 (HB 1400) that enacted many of the adequacy provisions recommended by Picus Odden and Associates, including funding for extra guidance counselors; offering summer school courses in math, reading, science and social studies; and providing state-sponsored scholarships to encourage students to complete additional coursework in career and technical education. The legislation also increased K-12 education appropriations by $100 million, which allowed the state to raise per-pupil funding to the recommended adequacy amount of $7,293 (from approximately $7,024).

“The evidence-based model was helpful because it provided validity and supported the overall framework of the reforms,” says Jerry Coleman, school finance director at the North Dakota Department of Public Instruction.

In 2013, lawmakers passed additional changes to the K-12 finance system (HB 1013), most notably a switch to a foundation formula of funding. The legislature set a minimum per-pupil foundation level of $8,810 in 2013-14 and $9,092 in 2014-15, and established a uniform local funding requirement of 60 mills ($60 per every $1,000 in taxable property value) plus a percentage of other local revenues. Under the formula, the state makes up the difference between the foundation level and what the district can raise in local funds.

North Dakota’s oil boom also allowed the state to increase K-12 education appropriations by $500 million that year — the
state’s share of K-12 education funding shifted from 37 percent in 2008-09 to nearly 60 percent in 2013-14, according to the National Center on Education Statistics.

In 2014, the state doubled-down on HB 1013 and passed legislation that made additional increases to per-pupil funding over the current biennium.

**South Dakota’s new K-12 investment**

A second Midwestern state to make major changes in school funding in recent years has been South Dakota, a state where hiring and retaining qualified teachers had become a challenge — in part because its teachers had the lowest average salaries in the nation.

South Dakota Gov. Dennis Daugaard created a task force in 2015 to “collect and analyze data, engage with stakeholders and seek public input” on how the state could provide the following:

- a quality system of schools focused on student achievement;
- a workforce of great educators; and
- an efficient, equitable funding system.

**The Blue Ribbon Task Force for Teachers and Students**[5] began by collecting feedback from the public during listening sessions and meetings, says former South Dakota Rep. Jacqueline Sly, who served as co-chair of the task force. The task force asked three specific questions of stakeholders:

- When you think about funding schools in your local community, what is important to you?
- What ideas or new approaches might make those priorities more possible for schools in your community?[6]
- What advice do you offer to the task force as this work moves forward?

The responses to those questions were categorized and some general themes emerged. For example, citizens perceived a current or looming crisis in education, and believed new revenue and equitable funding for teacher salaries and benefits were necessary to retain and recruit high-quality educators. Lastly, cost-saving measures — such as relying on more technology to deliver education, sharing services, and partnering with the business community — were viewed as imperative.

The task force also reviewed quantitative data on levels of state funding for K-12 schools, teacher pay, and the workforce needs of K-12 instructors. Additionally, the task force found problems with the state’s funding formula, which had not been reformed by the Legislature since 1995.

“The group that made the 1995 reforms basically took a pot of money, divided it by the number of students, and that became the formula,” Sly says. The problem was that the “pot of money” wasn’t enough to support South Dakota’s K-12 education system: The state needed to allocate more money. The task force ultimately made 30 recommendations to the Legislature.

Based on those recommendations, South Dakota legislators enacted a package of education reform bills (HB 1182, SB 131, SB 133)[6] in 2016 that made multiple changes to the school finance system, including a new funding formula that calculates a district’s state aid based on a target teacher salary, a target student-to-teacher ratio, and other expenses. Central to the reform package, though, was finding a source for the additional state investment in K-12 education. South Dakota, which does not levy an income tax, turned to its broad-based sales tax structure for the answer. Lawmakers agreed to raise that tax by a half-cent, from 4 cents to 4.5 cents. That change allowed millions of dollars in additional state revenue to flow to K-12 schools.

**Proposed changes in Midwestern states**

Discussions on school funding reform will continue in states across the Midwest during the 2017 legislative sessions. In Ohio, Rep. Andrew Brenner plans to reintroduce legislation (HB 628)[7] that he hopes will “get the conversation about school funding started.” ([Click here][8] for a look at notable trends and statistics about K-12 school funding in the Midwestern states.)

The Ohio Supreme Court found the state’s education funding system unconstitutional four times between 1997 and 2002 — due to an overreliance on local property taxes and a failure to deliver a “thorough and efficient system of common schools throughout the state.” After the fourth ruling, the court decided not to retain jurisdiction over the case.

Although the General Assembly has increased funding for K-12 schools since the original court ruling in 1997, Brenner
says more work needs to be done. His plan is to replace local property taxes with a new statewide property tax and prevent districts from passing any school levies.

He also wants to move to a system “where the money follows the student”— meaning school districts that are growing in student population would receive additional money, and districts that are shrinking would receive less. He says this would solve a problem in districts like the one he represents: a major increase in students, but very little additional state funding because of caps on high-wealth districts.

Brenner plans on reintroducing his proposal in early 2017 and will start gathering feedback from schools, parents and communities. If the measure is passed by the General Assembly, voters would need to approve a constitutional amendment to create the state property tax.

Balancing the state and local share of education funding is also a priority in Wisconsin, where Superintendent of Public Instruction Tony Evers has proposed an education reform plan that would increase general state aid by $514 million over the biennium.

The additional dollars requested in the department’s proposed budget would allow changes to the state’s funding formula under Evers’ “Fair Funding Plan,” as well as provide property tax relief. The proposed formula would provide all districts with a foundation amount of $3,000 per pupil — including property-rich school districts that currently receive little or no general aid from the state — and would also incorporate a poverty factor (20 percent) into the formula for students who are eligible for free and reduced-priced lunch.

The budget proposal estimates that 94 percent of districts would receive more general state support under this plan than under current law.

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