

Principles of a Sound Education Finance System

Montana School Funding Interim Commission | August 14, 2025

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PRINCIPLES OF A SOUND STATE SCHOOL FINANCE SYSTEM

1996 Principles

by the Education Partners Project Foundation for State Legislatures

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Articulated **FIVE** principles:

- 1. Equity
- 2. Efficiency
- 3. Adequacy
- 4. Accountability
- 5. Stability





EDUCATION PARTNERS PROJECT

PRINCIPLES

OF A SOUND STATE SCHOOL FINANCE SYSTEM

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Senator Ronald L. Withem, Speaker of the Legislature, Nebraska

Developed by a bipartisan group of **21** state legislators and legislative staff







Began in 2017

- Total of 92 Fellows
- ½ Legislators (equal partisan composition)
- ½ Legislative staff
- From 36 states

To support legislatures on Education Finance

- Build knowledge among legislators and staff
- Promote the exchange of ideas;
 and
- Facilitate connections between legislators and staff to other legislative leaders, national researchers, and policy experts

To rewrite the original Principles pub

- Fellows began revising the original principles in 2019
- NCSL and LPI have been facilitating conversations with the Fellows and incorporating their feedback
- After 5 years, decision to mostly stick with the original Principles with the addition of a new one (the Lodestar)





A sound state education finance system is based on SIX primary and interdependent principles

LODESTAR



A sound education finance system begins with and supports the overarching vision and mission of the entire education system.

STABILITY



A sound education finance system fosters durability in revenue by relying on a mix of revenue sources that behave predictably over time.

ACCOUNTABILITY



A sound education finance system promotes efficiency and productivity through flexibility, transparency and the ability to link financial decisions to the goals of the statewide education system.



A sound education finance system adjusts for student needs, school district characteristics and local economic capacity to ensure resources are proportional to need.



ADEOUACY

A sound education finance system provides sufficient resources across the system to achieve reasonable and manageable goals of the statewide education system.



EFFICIENCY

A sound education finance system aligns resource allocations with the costs to achieve the goals of the statewide education system. Productive use of resources requires flexibility and tends to occur at the point closest to students, where decisions have the greatest impact.











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School Funding Studies

Montana Legislature



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Why Equity in School Funding Matters

- If the state does not provide some form of equalization based on a district's relative wealth, it can lead to significant disparities in funding.
- Disparities in funding can lead to:
 - Difficulty in recruiting/retaining qualified staff
 - Reductions in educational offerings
 - Reduction in programs targeted to high-need students (after-school, summer school, etc.)

History of School Funding Equalization (In two slides)

- For over 100 years states have recognized the need to take a district's relative wealth into account when distributing school funding
- Today, all but a handful of states provide some form of equalization in their funding formulas

History of School Funding Equalization (In two slides)

- States originally provided equalization funding via a separate line-item
- The most common equalization programs provided districts a payment either based on their relative poverty or on how much funds were raised based on their tax levies
- Today, the majority of states provide equalization funding through their primary funding formula

What does "Equity" in School Funding Mean

- In school funding, equity does not mean perfect equity (every district receiving the exact same amount) it means relative equity
- When determining equity, a state should consider:
 - Student needs
 - Regional cost differences
 - District issues (size and location)

Different Types of Equity

- Vertical Equity: students should receive different levels of resources based on their needs
- Horizontal Equity: students in like situations should receive and equal level of resources
- Equity in offerings: All students should receive the same educational offerings regardless of their district's wealth or geographic location

School Funding Studies

- 1. Why do states undertake school funding studies?
- 2. What are the different types of school finance studies?
- 3. How are studies conducted?

Why do States Undertake School Funding Studies

- To (re)calibrate costs within their funding formula (Georgia, Tennessee, and Wyoming)
- To set a goal for state funding (Illinois and Oregon)
- As a guide for changing their school funding system (Delaware, Maryland, and Michigan)
- Court mandated (Kansas and North Carolina)

Type of Studies What are you costing out?

Inputs

- <u>Staffing</u> (Teachers, counselors, social workers, psychologists, librarians, etc.)
- Programs (English language learners, extended learning, special education, etc.)
- <u>Services</u> (Facility maintenance, food services, transportation, etc.)
- Other (Equipment, supplies, technology, textbooks, etc.)

Type of Studies What are you costing out?

Outcomes

- Attendance
- Test scores
- Graduation rates
- Dropout rates
- College/career going rates
- Teacher recruitment/retention

Most commonly based on the state's current standards.

Input Only Studies

How input studies are conducted:

- 1. Identify all of the state required inputs
- 2. Determine if any inputs need to be adjusted or added (this step is not always included)
- 3. Cost out each input

Adequacy Studies

- Adequacy studies focus on the the relationship between expenditures and student outcomes
- Prior to starting an adequacy study the user must determine their definition of an "adequate education"

Example: 75% of students testing proficient or above on the state exam, 80% on time graduation rate, etc.

Adequacy Approaches

	Professional Judgment	Successful School/District	Evidence-Based	Education Cost Function
How the Study is Conducted	A group of education professionals help to design schools that will meet or exceed the state's standards	Study schools/districts that meet or exceed the state's standards	Examines the academic and best practice research on resources that impact student and school performance.	Uses statistical models to determine the link between education costs and desired outcomes.
Data Requirements	Expertise of educators serving on PJ panels; uses research as a starting point, but defers to educators when conflict arises in resource recommendations based on their understanding of state standards	Expenditure data from selected successful schools or districts	Best-practice research, reviewed by educators; when conflict arises in resource recommendations, the EB approach defers to the research	Performance, student and district characteristics and expenditure data

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Adequacy Study Notes

Mix and match

 Most of studies use a combination of the different study methodologies.

What is <u>not</u> included in an adequacy study:

- The following costs are usually not included in an adequacy study: <u>facility funding</u>, <u>food services</u>, and <u>transportation</u>.
- These studies do not address any issues around school district consolidation.

Adequacy Study Notes

How long do they take?

 Studies can be done in as little as 3 months. However, most studies take 6 months to a year.

Who conducts these studies

 Most commonly by consulting firms but sometimes by state DOE staff

What do they cost?

Normally between \$100,000 and \$500,000

Questions or Comments?

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