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School Finance Adequacy: The State Role

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In This Issue

Since the 1989 Kentucky Supreme Court ruled that Kentucky's K-12 education system failed to provide an adequate education to all children, adequacy has overtaken equity as the top school finance issue. In this issue, we discuss how adequacy can be determined and the challenges it presents to policymakers.

Perhaps the most visible school finance issue today is adequacy. Defined as the provision of adequate resources to enable all children to meet a state's proficiency standards, school finance adequacy is being addressed in some way in almost every state, especially since the No Child Left Behind Act (NCLB) has upped the ante with its Adequate Yearly Progress provisions. At the same time, most states and districts are facing reduced revenue growth and tighter budgets. State governments in particular feel this pinch because in recent years they have assumed increased fiscal responsibility for funding education.

From Equity to Adequacy: The Growing Role of the State in School Finance

Education reformers relied on litigation as a way to equalize educational opportunities and correct funding disparities throughout the 1970s. Between 1971 and 1983, 17 state high courts ruled on the constitutionality of their state school

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STATE VS. LOCAL FUNDING IN SEDL'S REGION

The move to a standards-based education system has resulted in an increased state role in school finance. By the 1990s, state and local governments largely shared the cost of financing education—in 2000-2001, states provided 49.9 percent of revenue for K-12 education, local governments provided 43 percent, and the federal government provided 7.1 percent. However, those shares vary by state. According to 2000-2001 Census data, two states in the SEDL region provided nearly three quarters of funding for their school systems: Arkansas provided 72 percent of funding for education and New Mexico provided 71.3 percent.

Table 1. Percent Distribution of K-12 Revenues by Source, 2000-2001

State	Local	State	Federal
United States	43.0	49.9	7.1
Arkansas	18.7	72.0	9.3
Louisiana	39.7	48.7	11.6
New Mexico	14.9	71.3	13.8
Oklahoma	33.8	56.3	9.9
Texas	50.2	41.2	8.6

Source: U.S. Census Bureau, *Public Education Finance, 2001*

finance systems, and a number of state finance systems were found unconstitutional, including those in Arkansas, California, Connecticut, New Jersey, Washington, West Virginia, and Wyoming. As a result of intense litigation during that 12-year period, almost every state attempted to redefine inputs into the educational system, and in doing so, many assumed a larger share of school funding (Augenblick, 2002).

The accountability movement has also expanded the state role in school finance and helped shift the focus of litigation from equity to adequacy. The connection between accountability and adequacy is clear: If states are holding districts and schools accountable for what students should know and be able to do, then states must provide the resources to enable schools and districts to meet the state-set standards.

Determining the Cost of an Adequate Education

With the growing sense of urgency to ensure adequacy, how do policymakers go about determining what an adequate education costs, given their state standards and context? A logical tool to link the accountability system to the education finance system is the foundation level, used by most states to determine education funding, theoretically implemented to help equalize education resources. To make the foundation level meaningful, state policymakers must walk the tightrope between "specifying adequacy at so low a level as to trivialize the concept as a meaningful criterion in setting finance policy, or at so high a level that it encourages unnecessary spending," as the National Research Council warns (1999, p. 265). The consequences of failing to set an appropriate level of adequacy include the difficulty of raising new taxes if set too high, and the risk of not achieving goals if set too low.

This all sounds logical; however, adequacy as a concept is still relatively new. Currently, there aren't enough data to help policymakers be absolutely certain that the amount they determine will actually be adequate.

Four approaches have emerged to determine how much an adequate education costs:

- Professional judgment
- Successful school district
- Cost function
- Evidence-based

All of the approaches link spending and performance. The professional judgment and evidence-based approaches may also provide a framework for educational strategies that will help states meet performance standards (Odden, 2003).

Professional Judgment Approach

In the professional judgment approach, a group of professional educators are brought together to identify the resources needed in a prototype school that, in their professional judgment, will enable its students to meet the state's proficiency standards. The educators are asked to describe the resources or inputs (the number of teachers and aides, the type of supplies, etc.) needed to achieve an adequate education. These experts are also asked to help identify the additional resources needed to provide an adequate education to special populations of students, such as English language learners and special education students. The costs of providing these resources for all schools in a state—including adjustments for different characteristics of schools and

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KENTUCKY CASE IS FIRST TO FOCUS ON ADEQUACY

The 1989 Kentucky Supreme Court decisions in Rose vs. Council for Better Education were the first to focus on the adequacy issue. The case began as an equity suit—the Council for Better Education wanted more equitable distribution of resources among districts and less reliance on inadequate local funding. The case ended up focusing on adequacy due to a combination of factors, including national attention on the deficient education that many American children were receiving, spurred by the 1983 *Nation at Risk* report, and a group of high profile civic and business leaders who filed an amicus brief in the CBE lawsuit against the state of Kentucky. Chief Justice Robert Stephens declared Kentucky's entire school system unconstitutional and ruled that a child's right to an adequate education was fundamental under the state constitution. He then outlined what should be included in an adequate education. As a result, the Kentucky Education Reform Act was passed a year later, essentially revamping the state's education system including school financing and the amount of support school districts received from the state (Schrag, 2003, p. 65-79).

students—are then estimated to determine how much is needed to fund an adequate educational program statewide. Reliably estimating the costs of an adequate education depends on the composition of the team of experts and on the accuracy of their recommendations (Reschovsky & Imazeki, 2000, p. 4). A number of states, including Kentucky, Maine, Maryland, Montana, Nebraska, Oregon, South Carolina, Wisconsin, and Wyoming, have used the professional judgment approach.

The advantages of this approach are that it is easy to explain to the public and the resulting estimates are based on the judgments of professional educators with experience in educating students. The approach also makes it easy to adjust for local characteristics and issues such as special student needs and geographic price variations (Odden, 2003).

Without some parameters for the mix of resources to be established, however, the models generated by the professional judgment approach may be very expensive. Other disadvantages stem from the potential subjectiveness of the process. For example, it is impossible to ensure that the team members have no conflict of interest that would lead them to make judgments that could be advantageous in their own situations (National Research Council, 1999).

Successful School District Approach

A second option is the successful school district approach where policymakers study districts that have fulfilled state expectations. Spending levels in those districts are used to calculate a base cost for adequate spending per pupil—the cost of serving a student with no special needs. Adjustments for student and district characteristics are then made. The key to using this approach is being

able to determine the differences in how unsuccessful districts and successful districts spend their money. This approach is easy to explain to the public and it makes intrinsic sense as a way to specify an adequate level of resources. However, problems can arise in setting the criteria for the sample of districts identified as successful. School finance consultant John Augenblick noted that in Ohio, where he conducted a study using this approach, only eight of the state's 612 districts met the established criteria, which analyzed both inputs and outcomes to determine successful districts. However, when only the criteria for outcomes were applied, 100 districts met the criteria (Augenblick, 2002).

According to Odden (2003), because atypical districts are usually eliminated when using this approach, the result is often based on average-sized nonmetropolitan districts that are demographically homogeneous and spend below the state average. Finally, the successful school district approach does not specify a way to make adjustments for characteristics of individual districts, leading to potential disagreements over how to meet the needs of many students.

Cost Function Approach

A third approach is the econometric or cost function approach, which relies on statistical analysis to determine what inputs are needed to produce a certain level of outcomes. In other words, the cost function attempts to estimate how much money would be needed to attain a certain level of student performance, while controlling for the characteristics of the district and its students. While this approach has a great deal of appeal among economists, it is difficult to explain to policymakers and the general public, and it becomes very complex mathematically due to the number of inputs. However, a number of important insights about relationships between inputs and outputs may be gleaned from cost function analyses. These insights can be used to inform policy and help determine the magnitude of adjustments for student and district characteristics.

Evidence-Based Approach

A fourth method is the evidence-based approach. It has been used in Arkansas, Kentucky, and New Jersey. As used today, the evidence-based approach relies on current educa-

A QUICK AND DIRTY LOOK AT THE FOUNDATION PROGRAM FOR SCHOOL FINANCE

During our nation's early years, education was usually locally or privately funded. By the early 1900s, disparities in per pupil revenues and expenditures became so noticeable that the foundation program was developed to ensure that schools received adequate support without overburdening districts that had limited taxable resources. It is still used by most states today. Under the foundation program, states set a target resource level for each district that is theoretically adequate to provide a basic education. Using a uniform property tax rate, each district raises money to meet its share of that resource level. The state funds the balance with the effect that poorer districts receive more money to help meet the foundation level. States differ in the amount of foundation-level funding and how that amount is calculated. Adjustments and modifications to the foundation level to compensate for the costs of serving special populations of students, such as English language learners or special education students, also vary from state to state.

Despite the use of the foundation program to equalize resources, there are still inequalities due to the large role local funding plays in school finance. As Peter Schrag writes in *Final Test: The Battle for Adequacy in America's Schools*, "People in poor districts could tax themselves to death without being able to generate as much per-pupil funding as affluent districts could with ease" (p. 74). Inequalities also exist because of differences in the ways states have established their foundation programs. In some states, districts may choose to levy tax rates above the required level. Also, certain wealthy districts may be able to generate the target per-pupil revenue at a tax rate below the required tax rate. In other states, districts are allowed to choose per-pupil revenue or tax levels that are below the foundation level (Augenblick, Myers, & Anderson, 1997, p. 65). Yet another concern with the foundation approach is that states often do not update the foundation level to keep up with inflation or with increased spending needs of districts as they try to meet current educational standards.

The questions facing policymakers involve how to best determine an adequate level of funding in their state, and then determine how to pay for it.

tional research to identify the resources needed for a prototypical school to meet a state's student performance benchmarks. Once identified, those specifications are subject to the "professional judgment" of officials in that state to validate the research-based recommendations. Thus modified, the costs of the prototypical school designs are estimated and applied to the actual schools in that state. Adjustments are made for low-income children, children with disabilities, and children with limited English proficiency.

The major advantage of this approach is its reliance on the growing research base about what programs and models have been successful in improving student learning. It uses what we know about successful schools to develop a model that can be applied to all schools and districts in a state. Its major drawback lies in the extent that research-based models won't work in absolutely every situation. In other words, using the evidence-based approach may not lead to models that will improve student performance in all situations—in reality a limitation that can be attributed to all four approaches.

Recent Adequacy Studies

There is no question that school finance adequacy will drive funding decisions for schools in the foreseeable future. The questions facing policymakers in the five states in SEDL's region and across the United States involve how to best determine an adequate level of funding in their state, and then determine how to pay for it.

The first state to face this issue head on was Wyoming. Faced with a court order requiring the state to define a proper education and fund it, consultants developed the professional judgment model. They next estimated the resources needed to meet that state's mix of desired educational goods and services, and devised a funding model to provide funding for each school district.

Maryland relied on a combination of approaches to determine adequacy. Several years ago, Maryland policymakers decided to link funding to what they expected districts to accomplish. In order to determine adequate funding, they used the professional judgment and the successful district approaches. Those approaches produced two different funding levels. Maryland policymakers used the lower of the two amounts for the foundation-level funding. They then created a second tier to give school districts the latitude to raise money to reach the second level. In 2002, the legislature voted to increase education spending by $1.3 billion per year to provide an adequate education for all children, phasing in the increase over a six-year period. They also hiked the tax on cigarettes by 34 cents a package to help generate revenue to support increased spending. The cigarette tax hike largely funds the first two years of increased spending, but critics are asking how the state expects to continue to pay for the increased spending beyond the first two years. For their part, Maryland policymakers—like so many others in the country—hope that a lack of money does not serve as an excuse for minimal improvement in student achievement. They are also keeping their fingers crossed for an improved economy to help fund the last four years of their plan.

The importance of looking at multiple approaches has become obvious. In Kentucky, at least three adequacy studies have been conducted. All three recommended increased spending for education, with the evidence-based approach calling for the smallest increase and the professional judgment panels recommending the highest levels of spending.

In New York, a combination of the successful school district and professional judgment approaches is being used. The professional judgment panels have been populated with individuals from school districts that were determined to meet successful school/district criteria. Throughout the process, tremendous energy and time has been devoted to seeking public input with hopes that this public involvement will help garner support for the model that emerges. Preliminary results released in February 2004 suggest that the state needs an additional $7 billion to meet the adequacy standard established by the professional judgment panels, and as much as $13,000 per student (2001-02 level) in large urban school districts like New York City.

Arkansas has recently completed an evidence-based study of school funding adequacy. In this study, the consultants worked closely with a Legislative Committee to develop a resource-based model for funding schools. Before accepting the model, two large professional judgment panels were employed to advise the Legislature and the consultants about the adequacy of the model to enable students to meet the state's proficiency standards. In addition to estimating the costs of providing an adequate education, the Arkansas study also addressed reform of the teacher compensation system. The initial recommendations of the Joint Legislative Committee on Education Adequacy included substantial increases in teacher salaries in exchange for movement to a knowledge- and skills-based compensation system for teachers. At the time of publication, the Arkansas Legislature had been meeting in special session for two months to put a new funding formula in place. Their lack of progress led to missing a court-imposed January 1, 2004 deadline, and caused the state's supreme court to appoint two special masters who are to make recommendations regarding what should be done next.

Louisiana policymakers conducted an adequacy study in 2000, using the successful school district approach. The state board of elementary and secondary education is now considering whether to update the study with more recent financial data. Policymakers in that state are interested in revising their minimum teacher salary schedule and in learning more about the association between school district funding and student performance.

In New Mexico, the Legislature has had initial discussions about conducting an adequacy study following the implementation of a new three-tiered licensure/compensation system for teachers. At the present time, legislation is under consideration to look at the cost of unfunded mandates, but no specific action has been taken yet.

In Oklahoma, a task force has been studying school funding issues, but to date the Legislature has not been able to reach agreement on whether or not to conduct an adequacy study.

Facing a new school finance lawsuit, Texas has recently begun a

None of the four approaches to determining adequacy predominates, but no matter which approach is used, the likely outcome will be increased spending for education.

major cost function study while at the same time, a number of legislative committees, education interest groups, and other interested parties have established alternative studies or approaches. All of this is expected to come to a head early in 2004 when the studies are complete.

What Does All This Mean for Policymakers?

What is clear from the policy debates surrounding adequacy in states today is that reaching agreement about what constitutes an adequate education and finding the funds to pay for it is rife with complexities. Finding the political consensus to develop and fund an adequate system has been difficult. School districts often resist new "mandates" from the state and call for full funding of new requirements. Legislators faced with the typically large price tag of adequacy reforms often balk at passing new taxes to fund the system, and many in districts where students are generally succeeding argue that schools need to be more efficient and do a better job with what they have, rather than ask for more. Finding a consensus, even when an adequacy study has been completed, is very difficult.

At the same time, to estimate adequate funding levels, it is necessary to develop prototype schools that have a mix of resources that are needed to provide an adequate education. Legislators and policymakers are then faced with the dilemma of mandating the structure used to estimate costs, or to allow districts to receive the funds through a block grant or general form of aid. Policymakers routinely ask what they should do if districts accept the new higher levels of funding, but then choose to allocate resources in very different patterns and then fail to meet state performance standards.

One certainty has emerged from all of the recent school finance adequacy work: the process is not easy. Moreover, adequacy models tend to become complex very quickly because of efforts to meet a wide range of special needs that are typically found when the adequacy measure is implemented in a school finance system. For that reason, policymakers should insist that adequacy models be straightforward and easy to understand. Although not easy to do, making sure the funding model is understandable to and supported by both policymakers and the public is essential if the new (and so far always higher) funding levels are to be put in place.

How Do Policymakers Select a Model?

Given the nationwide accountability focus, policymakers will increasingly be forced to examine what constitutes an adequate education, what it costs to fund an adequate education for every child, and how to allocate resources to enhance student achievement. Because adequacy as a standard in school finance is still evolving, policymakers will face technical challenges in determining how much an adequate education costs—for an "average" child and for children with special needs or from disadvantaged backgrounds—and in effectively allocating resources. None of the four approaches discussed predominates (Odden, 2003), but no matter which approach is used, the likely outcome will be increased spending for education. Each approach leads to somewhat different results, and each is modified somewhat for each new study based on what researchers learn in the earlier studies. As a result, it is unlikely that any one of these will provide a "definitive" answer. Rather, state policymakers should consider conducting multiple studies before settling on a new

Web Resources

Arkansas

The full School Adequacy Report
http://www.arkleg.state.ar.us/data/education/web.htm

Overview of the Lakeview court case
http://www.educationinarkansas.com/lakeview/default.asp

Office of Research, Measurement and Evaluation (ORME)
http://orme.uark.edu/ormenew/home/home.html

Louisiana

Summaries of education-related legislation during the 2003 session
http://www.doe.state.la.us/lde/finance/FN_control.asp

Tool for viewing and comparing district teacher salary schedules
http://www.doe.state.la.us/lde/finance/1447.asp

New Mexico

New Mexico Office of Education Accountability
http://www.state.nm.us/clients/dfa/Files/OEA/default.htm

New Mexico Legislative Education Study Committee
http://legis.state.nm.us/newsite/lescdefault.asp

Oklahoma

Oklahoma State Department of Education
http://sde.state.ok.us/home/defaultie.html

Education Oversight Board Office of Accountability
http://www.schoolreportcard.org/

Issue papers about legislative topics, including OK school finance
http://www.oksenate.gov/publications/issuepapers.htm

Texas

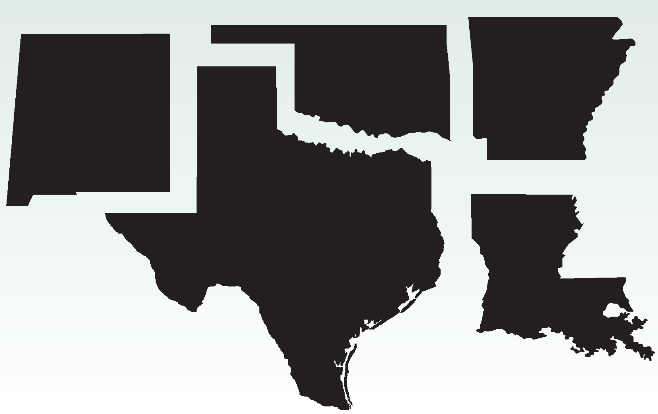
Overview of the Texas School Finance Project
http://www.capitol.state.tx.us/psf/capitol.htm

Legislative Joint Committee on Public School Finance
http://www.senate.state.tx.us/75r/senate/commit/c880/c880.htm

Ed Week Ranks the States

Education Week recently released its annual *Quality Counts* special report, where adequacy and equity of state resources are discussed under a section titled "State of the States"

http://www.edweek.org/sreports/qc04



foundation level of funding for schools.

Implementing and Evaluating the Adequacy Model

No matter which adequacy model is used, policymakers must resolve how prescriptive these models should be and how a model should be implemented. Once a set of resources has been specified, does it represent the way all districts should allocate those resources? Or does that set of resources provide a basis for a funding model that leaves it up to individual districts to ascertain how best to use those resources for improved student achievement? This is a difficult question. On the one hand, policymakers want to provide local school officials with as much flexibility to meet individual needs as possible. On the other hand, what should be done when a district or school receives these funds, elects to establish programs that are vastly different from the model used to determine funding levels, and then does not succeed? How this question is resolved will affect the success of adequacy models in every state, and it needs to be addressed up front and early in the discussions if meaningful reform is to occur.

An important component of any adequacy system is continual evaluation, both to ensure that the level of funding remains adequate over time, and to be sure that it is achieving its goal of raising student performance. Certainly, improvements in student learning outcomes represent the most obvious way to evaluate the outcomes of school finance adequacy models, but knowing what schools and school districts purchase with new resources and how they translate those funds into student learning is essential to gain confidence that the amounts specified as adequate truly are, and that they remain adequate.

Despite the difficulties states face in determining adequate funding, accountability and adequacy hold great promise in making sure all children are given the opportunity and education to succeed. The challenges we must overcome to guarantee that every child receives an adequate education will be minor compared to the costs of not doing so.

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SEDL POLICY RESEARCH

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INSIGHTS AT A GLANCE

Defined as the provision of adequate resources to enable all children to meet a state's proficiency standards, school finance adequacy is being addressed in some way in almost every state. Because states are under increasing pressure to define what constitutes an adequate education and determine how to fund it, this issue of *Insights* examines the approaches that can be used to determine the cost of an adequate education and discusses recent adequacy studies.

Four approaches that take into account a state's standards and context may be used to determine the cost of an adequate education. All of these approaches link spending and performance:

- Professional judgment approach
- Successful school district approach
- Cost function approach
- Evidence-based approach

None of the four models is predominant; each has certain drawbacks and technical challenges as well as certain advantages. The professional judgment and evidence-based approaches may be advantageous since they may provide a framework for educational strategies that will help states meet performance standards. All of the approaches are likely to result in recommended spending increases for education.

Because adequacy as a standard is still evolving, policymakers will face technical challenges in determining how much an adequate education costs for "average" children and for children with special needs. For this reason, using more than one approach to determine adequacy may be advantageous.

Given tight state budgets, finding a way to pay for the increased funding that adequacy demands may be problematic. For New York's recent adequacy studies, tremendous time and energy have been devoted to seeking public input with hopes that public involvement will help garner support for the model that emerges.

Whichever adequacy model a state's policymakers choose, continual evaluation is necessary. This will ensure the level of funding remains adequate over time and that the goal of raising student performance is being met.

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