Implementing a Student-Based Funding Policy: Considerations for School Districts

By Larisa S. Shambaugh, MPP, and Jay G. Chambers, Ph.D.

As education budgets continue to tighten, increased attention is focused on how school districts can best distribute existing funds to schools and how schools can best use these funds. Student-based funding (SBF)—sometimes referred to as a weighted student formula—is one approach that school districts have taken during the past decade.

SBF policies replace the traditional district budgeting model in which the central office allocates resources to each school based, for the most part, on what central-office staff believe is needed. In contrast, SBF policies allocate funds to schools based on individual student need, with the goal of increasing the equity of funding. In addition, SBF policies give schools greater decision-making power, with the notion that school staff, parents, and community members may be better situated than district staff to align resources to students' needs.

Several large urban school districts—beginning with Edmonton in Canada in the 1970s and followed by Cincinnati, Hartford, Houston, Oakland, San Francisco, and Washington, D.C., in the 1990s and 2000s—have implemented SBF models. Most recently, in 2007, New York City, the nation's largest school district, adopted its own version of an SBF policy, called "Fair Student Funding."

However, SBF policies are not without controversy; after using a weighted student formula for almost a decade, Seattle recently returned to a more traditional budgeting model.

Still, many other districts around the country are considering implementing an SBF policy. Our recent study describing the implementation of two districts' SBF policies—San Francisco's weighted student formula policy (begun in 2001–2002) and Oakland's results-based budgeting policy (begun in 2004–2005)—revealed that both districts overwhelming preferred SBF policies over the traditional budgeting model. This preference is even more impressive since SBF policies require more work for both school and district officials.

Given that school districts around the country are considering this policy, this article outlines eight key considerations that districts face when designing and

implementing an SBF policy, based on our study of San Francisco's and Oakland's policies.

1. CALCULATING SCHOOL ALLOCATIONS

The district must first design a school allocation formula. For example, because SBF formulas allocate funds to schools based on the specific children served in each school, a district needs to determine how to count the students in each school. San Francisco counts students based on school enrollment, whereas Oakland adjusts a school's total enrollment based on the previous year's average daily attendance. Oakland uses average daily attendance to create an incentive for increasing attendance; however, we did not observe any difference in attendance rates after this change was implemented.

Districts must also decide how to distribute general-purpose funds to schools to best meet the needs of students. Oakland provides differentiated per-pupil funds by grade span (i.e., elementary, middle, and high), whereas San Francisco provides differentiated funding by grade span and by student need. San Francisco schools receive an additional amount of money for each student in poverty, each English-language learner (with more money going to those who are still unproficient after several years), and each student with a disability (with more money going to those with more severe disabilities). Other districts have also included other categories of students to receive additional funds, such as students who are struggling academically.

After these school allocations are distributed for both general-purpose funds and categorical funds, districts must decide whether the total funding is sufficient to support basic school operations. If funding cannot cover basic costs, districts must determine whether certain schools, such as small schools, should systematically receive additional funding.

2. CALCULATING SCHOOL SALARIES AND BENEFITS

After determining the amount of funding each school should receive, a district must decide how to charge costs at the school sites against their budgets. For example, while San Francisco charged the districtwide average teacher cost against school budgets, Oakland charged each school according to the actual salaries and benefits of the teachers it employed.

As in most urban school districts, Oakland's lower-poverty schools generally had a greater proportion of veteran (and therefore more costly) teachers than the higher-poverty schools. Oakland implemented the use of actual salaries in part so schools with less-experienced teachers would have lower teacher-related costs in their budgets than before and could redirect that money toward resources that would support and retain teachers.

However, by using actual salaries, schools in Oakland with large proportions of high-cost veteran teachers would not have been able to retain all their current teachers. To permit those schools to honor the district's collective-bargaining agreements, Oakland subsidized those schools during the initial years of its SBF policy.

Although many individuals (union leadership aside) conveyed a preference for using actual salaries, some principals expressed concerns about charging schools the actual costs of benefits, voicing frustration that benefits paid for such things as family medical expenses are unrelated to the quality of instruction.

San Francisco, on the other hand, chose not to use actual salaries because of potential political tensions with the teachers' union, administrative and privacy challenges, and a concern that principals might discriminate against more "expensive" veteran teachers. However, conversations with some district and school respondents in San Francisco also revealed frustration that using average salaries decreased the equity of the distribution of resources.

3. DETERMINING THE DEGREE OF SCHOOL-LEVEL DISCRETION

Given that one goal of an SBF policy is to increase school-level discretion over planning and budgeting, a third question for districts is how much control over both funding and planning decisions should schools maintain.

Schools' discretion over staffing and programmatic decisions is clearly not dictated solely by district decisions, and can be affected by collective-bargaining agreements, hiring practices, and federal, state, and local policies. However, districts do have input, and the key is finding the right balance between district- and school-level discretion.

Many of the elements kept within the central office's control, such as special-education costs, were similar in San Francisco and Oakland. However, Oakland introduced what it called a "service economy," with the goal of a school's being theoretically able to choose which services it wants to purchase from the district and which services it wants to purchase from external vendors.

Due to limitations in implementation, Oakland's service economy model did not fully live up to its promise of providing more discretion to schools. Additionally, Oakland's school-level respondents felt frustrated by being held responsible for certain resources (e.g., custodians and utilities) without having much control over the cost of those resources.

In general, however, despite some frustrations, respondents in both districts indicated numerous ways in which they used their newfound planning discretion to change staffing responsibilities and programmatic offerings.

4. ALIGNING THE BUDGETING AND ACADEMIC PLANNING PROCESS

Ideally, how a school spends its money should be aligned with the school's overall goals for improvement. Therefore, a school's academic plan and budget cannot and should not be viewed as two separate processes. School officials in San Francisco and Oakland believed they were better aligning their budgets and the general academic planning process under their SBF policies. However, at some schools, an overemphasis on compliance with federal and state regulations appeared to interfere with this alignment.

SBF policies require a culture shift for central-office and school staff, moving away from a compliance mentality to make room for innovation. Districts must ask what procedures and processes can be used to help school leaders align budgets and academic plans.

5. BUILDING SCHOOL SITE CAPACITY

An SBF policy requires principals and other school site leaders to be instructional leaders and fiscal managers. Often, the fiscal management aspect means school leaders must acquire new skills. Both San Francisco and Oakland took initial steps to build schools' capacity to make resource allocation decisions; San Francisco's approach emphasized training and technical assistance materials, whereas Oakland created a new part-time position—an operations support coach—that schools could use to help them with the budgeting process.

6. OBTAINING SCHOOL AND DISTRICT BUY-IN

Because school leaders play a new role in planning and budgeting for their schools, districts must decide whether to make school buy-in an important part of the SBF process. San Francisco and Oakland took very different approaches. San Francisco involved school-level leaders at the outset and introduced the SBF policy gradually over two years; Oakland, under the control of a state administrator, implemented the policy over a few months with relatively little effort to incorporate feedback from school-level personnel. Despite the different bottom-up and top-down approaches, both districts reported similarly high levels of acceptance of their SBF policies at the school level.

As the policy requires district administrators to play a different role in assisting schools, districts should also consider how to ensure that central-office staff members buy into the process. Although San Francisco initially involved central-office staff more than Oakland did, both districts exhibited strong acceptance of the policy among the central-office administrators.

7. DETERMINING THE LEVEL OF COMMUNITY INVOLVEMENT

SBF policies also raise the question of whether increasing parent and community involvement is an explicit policy goal. San Francisco emphasized parent and community involvement as part of its SBF policy more than Oakland did. Despite their different approaches to engaging parents and the community, both districts faced challenges in ensuring that the involvement was both diverse and authentic.

8. UNDERSTANDING THE INTERACTION WITH OTHER POLICIES

Implementing an SBF policy will undoubtedly affect other district and state policies and practices. For instance, collective-bargaining agreements inevitably restrict decision-making flexibility in local schools. Support for small learning communities must be incorporated into funding allocations.

Finally, SBF policies are, more often than not, coupled with an open-enrollment policy that allows students to apply to attend any school in the district. An open-enrollment policy may introduce market forces, so schools may be motivated to provide programming that will attract children and therefore receive additional funding.

A Foundational Process

Clearly, creating a school-based funding policy requires extensive planning and ongoing evaluation on the part of both school and district staff. However, not only did stakeholders overwhelmingly prefer this policy to the traditional budgeting model, but schools also reported increased levels of transparency in how funding levels were determined.

In addition, given that creating these policies often requires districts to take a much closer look at their budgeting information, processes, and tools, these policies can create a unique opportunity for districts to refine existing structures and reexamine systems that have long gone untouched.

Even with these benefits, however, districts must also understand that an SBF policy cannot be the sole mechanism for change. SBF policies cannot and do not solve the problem of inadequate levels of funding from federal, state, and local sources. SBF is only a process on which other reforms and policies aimed at increasing student learning can be built. For instance, to make good planning decisions, schools must have good data systems and training on how to use data to best identify their needs. Therefore, if a district is considering implementing an SBF policy, the work required should be viewed only as one step in a strategic and systemic process to improve student outcomes.

Larisa S. Shambaugh, MPP, is a research analyst with the American Institutes for Research in Palo Alto, California. Email: lshambaugh@air.org.

Jay G. Chambers, Ph.D., is a senior research fellow and the managing director of the Education Finance Business Development Group in the Education Program at the American Institutes for Research in Palo Alto, California. Email: JChambers@air.org.