



School Funding 101

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Summary

An August 2019 Learning Policy Institute report identified the public education system in the U.S. as “among the most inequitably funded in the industrialized world.”¹ A combination of insufficiently nimble funding formulas, high socio-economic segregation in housing patterns (and property wealth), and significant differences in state education policy all contribute to sizeable variations in per pupil spending between and within states.² Even when accounting for local cost of living factors, such disparate levels of funding often produce a system that is stubbornly imbalanced, disproportionately detrimental to students of color, and, when it comes to providing the resources necessary to enable students to meet state education standards, fundamentally inadequate.³ Understanding the sources, scale and implications of funding disparities matters because, while there is no evidence that greater budgets alone directly translate into higher

test scores, an ever-growing body of research underscores the connection between sufficient school spending and long-term student success.⁴

Alabama occupies particularly uneven ground in the national school funding landscape. The state regularly expends 25% fewer dollars per pupil than the national average, and while regional cost of living variations account for a portion of this difference, the state's public education funding policies also play a role.⁵ As a rule, Alabama public education funding mechanisms do not collect or distribute dollars to schools in a manner that adequately accounts for questions of funding fairness and sufficiency.⁶ Though less regressive than it was three decades ago, Alabama's education funding practice still produces wide-ranging resource differentials that undermine the state's ability to provide equitable educational opportunity for all students.⁷

Scope of the Problem

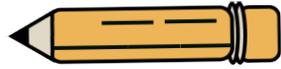
Two persistent challenges confront US public education funding: equity and adequacy. For the purposes of this analysis, funding equity addresses how much money districts get (i.e., whether districts receive roughly comparable resources to educate their students); funding adequacy addresses whether the amount districts get is enough (i.e., whether the funding reasonably meets the educational needs of the students they serve). Attempts to better ‘level the playing field’ around financial resources remain hampered by several factors.

1. State funding formulas often fail to accurately assess or adequately support the true cost of educating students. By failing to consider critical student-based factors such as geographic

isolation, poverty, or English Language Learner (ELL) status, state foundational funding formulas ignore the real cost of moving all students towards proficiency. Alabama is 1 of 15 states that fails to consider rural sparsity and 1 of only 3 states that ignores ELL status in foundation funding.⁸ Education research tells us that it takes additional resources to educate students coming from poverty -- especially those living in areas of concentrated poverty.⁹ Nationwide, 32 states use poverty (and 23 use concentrated poverty) as a factor in foundational funding; Alabama considers neither.¹⁰ Even when student-based factors are considered, states often underestimate the need. Alabama bases its Special Education funding by multiplying an elevated staff allotment (2.5 teacher units) by a flat 5% of the total student population within a district.¹¹ State education data from 2016-17 reveal, however, that SPED student percentages per district actually range from 5.4% to 16%.¹² By failing to account for the price tag of these factors in its basic funding formula, Alabama chronically and systematically underfunds districts who serve high concentrations of such students.

2. Using local property taxes as a major source of public education funding leads to significant disparities in education budgets between high-wealth and low-wealth communities and can leave many districts in a financially precarious position. Tying a substantial share of public education funding to local property taxes is a recipe for funding inequity. Simply put, areas with higher property wealth produce greater resources. The scope of the difference can be staggering. In FY2018, the differential in resources between one of the state's lowest-spending middle schools (Moorer in Eufala) and one of the state's highest-spending middle schools (Liberty Park in Vestavia Hills) was \$9,109 per student.¹³ Over \$6,700 of that per pupil gap comes from differences in local resources.¹⁴ These extreme disparities have real-life instructional impacts: in a classroom of 25 students, the difference between those amounts could pay for the services (salary plus fringe) of four additional novice teachers.
3. The major factors that influence public school funding needs and resource levels (local property wealth, state coffers, student demographic composition within schools) are dynamic and often in flux, making it difficult to design a 'set it and forget it' funding formula that provides a stable, reliable base for the nation's public schools. Policymakers often underestimate the dynamic nature of school funding and the complex interplay between state and local economic forces and actors.¹⁵ School funding mechanisms are notoriously slow to anticipate or respond to changing conditions, and foundational funding formulas rarely keep pace with inflation.¹⁶ Further, many state governments provide insufficient safeguards to protect public education dollars. After the Great Recession of 2008, for example, drastic drops in revenue forced state governments to slash public education budgets across the nation -- a disinvestment that has had long-term ripple effects in public education. In 2018, 12 states still had deficits in per pupil expenditure (PPE) from 2008 funding levels; in 2018, Alabama's average PPE remained over 15% below pre-Recession levels.¹⁷ In addition, the severity of these cuts did not affect all schools' budgets equally. 220 schools in the state rely on the state for 75% or more of their funding.¹⁸

State Context



A Primer on Alabama Public Education Funding

Where does the money that funds Alabama's schools come from? At the 'big picture' level, Alabama public schools, like all US school systems, receive dollars from three main pots: federal, state, and local.¹⁹ Depending on the state, the district, and even the school, the relative proportion of funds from each category can vary -- sometimes dramatically. In almost every Alabama district, state dollars play a larger role than they do at the national level. The distribution is as follows:

	Federal	State	Local
National Average	8%-10%	44%-45%	44%-45%
Alabama Average	10%-14%	62%-65%	22%-25%

SOURCE: 2017 Annual Survey of School System Finances, Table 5 (for AL figures). National averages found [here](#).

How important is each of those 'pots'?

Federal dollars fund Alabama schools largely through two programs: Title I and the school nutrition program.²⁰ While undeniably critical to the schools that receive them, these resources are targeted (most often to support low-income student populations) and comprise a comparatively small portion of overall public school budgets.²¹ Nowhere in the nation do federal funds represent the lion's share of per pupil expenditures. Local dollars represent the next largest share of school budgets and are funded predominantly through an **ad valorem property tax**. Essentially, county or city governments raise revenue for local schools by levying a tax on a portion of the assessed value of various types of properties within their jurisdiction -- most commonly on various forms

of real estate. Ad valorem tax rates are known as mills. Simply put, each 'mill' represents \$1 for each \$1,000 of assessed value.

In 1978, the Alabama Legislature amended the state constitution through the Lid Bill. Among other components, the measure created fixed property tax caps, implemented significant legislative hurdles to amend local property tax rates, and established a statewide property classification system for ad valorem tax collection purposes.²² Within that system, the vast majority of property (residential, forest and agricultural land) is classified as "Category III" and assessed at 10% of its fair market value.²³ A property valued at \$100,000, for example, would have an assessed value of \$10,000. For that property, 1 mill of ad valorem tax would be equal to \$10. Included in the Lid Bill was a "current use provision," permitting forest and agricultural land owners to pay 10% of the land's "current use value" rather than the "fair market" value of the property. Alabama historians and policy analysts agree that the application of the current use provision has severely undermined the local revenue generated in Alabama's rural communities for the past four decades.²⁴ Yet even absent the uniquely inequitable effects of "current use," the collective property wealth varies tremendously between Alabama communities. In FY2020, for example, the total yield of 1 mill of property taxes in Lowndes County (in the state's rural Black Belt region) was \$112,000; in Mountain Brook and Birmingham City, the yields were \$612,890 and \$2.52 million respectively.²⁵

While local dollars can represent a substantial portion of the funding pie in a given district, the ultimate accountability for public education funding rests with the state. State government has both the constitutional responsibility to

provide its citizens a system of public education and the authority to decide how that system is funded.²⁶ The state controls both the revenue structures that collect resources and the distribution mechanisms that determine where those resources go.

How does resource collection for public education work in Alabama, and how does it differ from other states? One half of the public school funding equation is resource collection -- how much money the state gathers from its citizens for the purposes of funding public services, including public education. In this area, Alabama taxation practice stands apart. **No state in the union collects less property value per capita than Alabama**, and that reduced revenue contributes to the local resource differential between Alabama and other states.²⁷ Further, Alabama ranks 37th of 43 states in its individual income tax revenue -- the category that represents over 61% of all revenue that enters the Education Trust Fund (ETF).²⁸ As one of only three states to permit individuals to deduct 100% of their federal taxes from their state income taxes, the state does not tax the full value of its individual income wealth.²⁹ Instead, Alabama relies heavily on sales and use tax to generate roughly 30% of the revenue that comprises the ETF.³⁰

How does Alabama handle resource distribution? Once dollars reach the state, how are they allocated to local districts and schools? Like most states, Alabama has a set structure for determining the base-level financial support or 'foundation funding' for K-12 schools. For a more detailed explanation at the Foundation Program, please refer to Appendix A.

Is Alabama's current public education funding model equitable and adequate? In 2013, Alabama hired educational consulting

firm Augenblick, Palaich and Associates (APA) to specifically study this question.³¹ The APA report included the following findings:

- Alabama public education spending is not balanced across the state. In FY 2013, Alabama PPE varied widely, ranging from a low of \$6,025 to a high of \$12,075.³²
- Alabama's Foundation Program effectively underfunds districts with high populations of students who require additional educational supports.³³
- Alabama should be spending anywhere between 20-35% more to reach adequate education spending levels. Using two separate frameworks for ascertaining adequacy, researchers found that Alabama funding levels fell below what is required to provide students with sufficient educational resources.³⁴

Since the APA report was delivered in March 2015, none of the report's recommended policy changes have been implemented. Worse, the disparity between the lowest and highest per-pupil spending levels continues to grow. While recent economic improvements have spurred a 5.4% rise in Alabama's per pupil spending between 2014-17, these figures mask the larger arc of school spending in real dollars.³⁵ Between 2008 and 2015, state education funding levels fell by 21.6% (adjusted for inflation) -- a decrease of over \$1 billion.³⁶ While recent funding increases in public education are promising, real disparities in resources remain -- both between and within districts.

What about school-based funding equity within each district? Certain per pupil cost level differences occur at the school level (e.g., high school programming tends to cost more), but overall per pupil spending on

similarly-sized, same-level schools within a district should be largely uniform.³⁷ Yet newly-required school-based funding reporting reveals that, in reality, funding levels often vary widely within a district. While certain variables — e.g., small student population — can ‘bump up’ per pupil costs, many site-based spending inequities exist without clear justification.³⁸ In Birmingham City Schools FY2018, for example, two K-8 schools serving nearly identical student populations recorded spending levels that differed by nearly \$2,300 per student.³⁹ Moving forward, greater data transparency will highlight where disparities exist and may prompt local systems to better address funding inequity between individual schools and better explain the intradistrict process for allocating local resources.

The Foundation Program

Adopted in 1995 in response to equity challenges to the previous foundational funding plan, the Foundation Program (FP) is the system by which Alabama apportions state resources to fund each of the state’s 137 school districts. The FP builds each district’s budget based on instructional units -- the cost of the staffing and materials that each school will require.

Alabama begins this process by figuring out how many students will be served in a given school/district. As a baseline, the state uses each school’s Average Daily Membership (ADM) from the previous year -- the school’s average enrollment from the first 20 days after Labor Day. The state then calculates the number of instructional units each school will receive. Different grade levels have different unit rates (ratios of students to teacher). While not described in detail here, the state does fold in some elevated funding for Special Education and Career Tech staffing at a flat rate (where relevant).

Alabama’s current instructional weight ratios are as follows:

Grades K-3	14.25 students per teacher unit
Grades 4-6	21.03 students per teacher unit
Grades 7-8	19.70 students per teacher unit
Grades 9-12	17.95 students per teacher unit ⁶⁴

For a simplified example of how this works in practice, consider a sample School A. If School A has an ADM of 150 K-3 students and 100 4th-5th grade students, the school would ‘earn’ 10.53 (K-3) units and 4.76 (4th-5th grade) units respectively -- a combined total of 15.29 units. The state would then use the state salary schedule to determine the predicted cost (salary plus benefits) of staffing School A’s 15.29 system ‘units.’

Alabama also uses ‘system units’ to calculate funding for student materials, technology, library enhancement, and professional development. The state uses ADM totals to determine textbook funding and any funding (or partial funding) for librarians, counselors, and school administrators. Depending on the education budget passed by the legislature in a given year, the unit ratios and per unit line item allotments can fluctuate or, in some cases, go unfunded.

Once that targeted figure is determined, Alabama mandates that local districts share in those educational costs. It requires each district to contribute an amount equal to 10 mills of a district’s assessed local property wealth. (\$10 per \$1,000 of assessed value). Each local district’s 10 mill contribution or ‘chargeback’ is then deducted from that total; the difference between those figures is the funding amount that schools ultimately receive from the state.

Alternate Policy

Alternative #1: Revise the state taxation policies hindering greater funding equity and adequacy within Alabama public schools.

1. Eliminate the Lid Law's arcane current use provision that permits landowners to pay less than the fair market value of many rural, non-residential properties in the state. Continuing this policy drains desperately-needed local resources from rural schools.
2. Begin the difficult but worthy effort of dismantling Lid Law restrictions that prevent communities from determining their own ad valorem destinies through Home Rule.
3. Pursue common sense taxation reforms that promote greater equity. Merely capping the current federal income tax deduction would raise enough revenue to fully fund the state's First Class Pre-K education program in every community.⁴⁰
4. Consider incorporating an optional power equalization structure for ad valorem collection beyond the minimum 10-mill requirement. The strategy incentivizes local areas to raise additional dollars for local schools while eliminating the large inequities that often result from vast disparities in local property wealth. By focusing on taxpayer equity and local participation, the model builds capacity in regions with less property wealth without 'punishing' wealthier districts.⁴¹

Benefits

- By eliminating the current use loophole, the state could restore millions of dollars in local revenues back to the state's rural school districts without removing resources from other school systems.
- Equitable investment in proven public education efforts like First Class Pre-K would help close the student opportunity gap that often precedes the student achievement gap.

Considerations

- Changing Alabama taxation practice and the state's Lid Bill requires a constitutional amendment -- a heavy legislative lift.

Alternative #2: Revise the State’s Foundation Program. Shifting to a weighted, student-based funding model would allow the State to allocate funds based on student needs rather than staffing needs.

Alabama should implement a formula that better reflects the true cost of moving all students towards proficiency. Increased ratios should be considered for ELL, economically disadvantaged, and rural students. Formulas should also include a more nuanced, more realistic funding structure for Special Education students.

Benefits

- Research shows that state systems that improved their funding adequacy through school finance reform demonstrated a 20% reduction in the achievement gap between low-wealth and high-wealth districts.⁴²

Considerations

- States and taxpayers have finite resources and public education budgets cannot expand indefinitely. Policymakers must always look to maximize efficiencies with limited dollars.
- More money alone does not translate into better educational outcomes, but

research shows that increased investments in human capital (smaller class size, tutoring, etc.) has the largest impact on student achievement. Mountain Brook City (MBC) provides an enlightening example of personnel-intensive spending. In FY2016, MBC funded 119 certified staff positions exclusively through local revenues; by contrast, local funds in 15 Alabama districts provided only enough for a single staff position.⁴³

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