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Charles J. Russo

University of Dayton, crusso1@udayton.edu

William E. Thro

Christopher Newport University

Frank M. Batz

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Financing Education: An Overview of Public School Funding

The state of public school finance is complex and ever-changing.

By Charles J. Russo, J.D., Ed.D., Frank M. Batz, J.D., and William E. Thro, M.A., J.D.



Financial resources for public education are increasingly scarce, and district leaders at all levels continue to struggle to maintain adequate levels of financial resources for their students and programs using complex funding formulas unique to their own jurisdictions.

To help educators and education stakeholders better understand the dimensions of paying for public education, we begin with an overview of the historical development of school finance litigation that has shaped the funding mechanisms in most jurisdictions. The next section highlights developments in four representative jurisdictions from the funding formulas currently available in ASBO International’s Funding Formula Library. The library, available on the Global School Business Network (asbointl.org/network), is a growing compilation of school funding formulas to help practitioners

share and compare school system funding models in and outside the United States.

Rather than cover all of the library’s formulas, this column highlights developments in California, Illinois, Iowa, and Massachusetts as a way of illustrating the status of school funding across the country.

School Finance Litigation

Beginning in the late 1960s, plaintiffs initiated litigation alleging that state officials violated their own constitution or its federal counterpart by establishing school finance systems that resulted in unequal per-pupil expenditures, thereby depriving children in property-poor districts of equal educational opportunities. That litigation has occurred in three distinct waves.

During the first wave of litigation, which lasted from the late 1960s until the Supreme Court entered the fray in 1973, plaintiffs claimed that the federal equal protection clause required equal per-pupil expenditures—known as the equity theory. More specifically, the plaintiffs alleged that their states had the duty to provide equal expenditures for all children because education was a fundamental right. Alternatively, the plaintiffs argued that disparities on the basis of wealth rendered it a suspect classification subject to closer constitutional scrutiny in order to be upheld.

The Supreme Court rejected both theories in its landmark judgment from Texas: *San Antonio Independent School District v. Rodriguez* (1973). According to the Court, “Education, of course, is not among the rights afforded explicit protection under our Federal Constitution. Nor do we find any basis for saying it is implicitly so protected” (at 35). In the ensuing years, school funding cases have been litigated in state courts.

Following *Rodriguez*, a second wave of litigation lasted from 1973 to early 1989. Unlike the first wave, cases during this phase focused on state constitutions rather than their federal counterpart. However, the plaintiffs continued to pursue the equity theory, claiming that equal expenditures were required because education

is a fundamental right, wealth is a suspect class, or a statutory scheme in a given jurisdiction is irrational.

Following the New Jersey Supreme Court's acceptance of this theory under the state constitution in *Robinson v. Cabill* (1973), plaintiffs filed suit in about half the states. Although plaintiffs prevailed in Arkansas, California, Connecticut, New Jersey, Washington, West Virginia, and Wyoming, courts rejected their challenges in the overwhelming majority of cases.

The third wave, which began with cases from Montana, Kentucky, and Texas in 1989 and continues today, centers on a completely different litigation theory: the adequacy theory. Instead of focusing on differences in per-pupil expenditures and claiming that the state constitution requires equal or nearly equal expenditures, the adequacy theory addresses whether school boards have sufficient resources to meet constitutionally prescribed quality standards.

Under this theory, the outcome of litigation turns not on the meaning of state equal protection clauses, but on the interpretation of state education clauses, provisions limiting legislative discretion over education by mandating the establishment of school systems of specified quality.

Just about every state high court has wrestled with school finance issues. The highest courts in many have upheld their state school finance systems; others have invalidated their school finance systems. Some states, such as New Jersey, Ohio, and Texas, experienced multiple rounds of litigation during the third wave, resulting in courts both upholding and invalidating school finance systems.

School Funding Formulas

Here, we will highlight the state of affairs in four representative jurisdictions—California, Illinois, Iowa, and Massachusetts—on the basis of documents available in ASBO International's Funding Formula Library at the time of publication.

CALIFORNIA



Consistent with the state's position as harbinger in so many areas, the California Supreme Court's 1970 ruling in *Serrano v. Priest* (*Serrano I*) is typically considered the starting point of modern school finance litigation. In

fact, *Serrano I* generated more reaction than any other state court case on school finance.

Before *Serrano I*, school systems in California were funded almost exclusively by local property taxes, resulting in wealth-based disparities in districts across the state. Yet as noted, in 1973, the Supreme Court

essentially repudiated *Serrano I* under the federal Constitution in *San Antonio Independent School District v. Rodriguez* (1973), its only case on school finance. Subsequently, in *Serrano v. Priest II* (1976), the California Supreme Court ultimately reaffirmed its initial judgment in *Serrano I* under the state constitution, thereby treating education as a fundamental right under its terms.

California's revenue limit model of paying for public education involved the amount of general-purpose funding that districts received per student on the basis of a combination of local property taxes and state aid. Under this system, each of the state's 1,000 districts had its own limit based on complex formulas, taking into account the type of district and other factors, such as size and spending patterns.

The tax revolt initiative of 1978, known as Proposition 13, limited property tax rates to 1% of assessed value even as it capped increases in assessed values at 2%. Proposition 13 was created as a formula for dividing property taxes among cities, counties, and schools districts. Under Proposition 13, school systems received their assigned portions of local property tax revenues that the state supplemented with whatever was needed for boards to reach their revenue limits. Boards in basic aid districts received no state aid but were allowed to keep the excess revenues to spend as they saw fit.

In November 2012, California approved Proposition 30, under which local school boards receive the bulk of their operating revenues on the basis of average daily attendance (ADA), a common funding mechanism, in four grade spans: K–3, 4–6, 7–8, and 9–12. In addition to the base rate, boards receive supplemental grant funding for three student groups: English language learners, those from families with low incomes, and those in foster care. Boards serving students in those three groups receive an additional 20% of their adjusted grade-span base rates.

Proposition 30 districts with supplemental populations exceeding 55% receive an additional 50% of the adjusted base and supplemental grants. If boards receive more funding from those two grants, the law sets an economic recovery target in place to ensure that school systems are held harmless under the new formulas.

Under supplemental grant uses, school board officials in California must apply weighted extra funds to provide additional services or to improve programming for English language learners or students from low-income families in proportion to the increase in supplemental funds. This approach resulted in the creation of local control accountability plans, which obligate boards and other local education agencies to adopt local control and accountability plans. The most notable of these plans are tied to annual goals in eight areas designated as state priorities: (1) student achievement; (2) other student outcomes; (3) student engagement; (4) school climate; (5)

parental involvement; (6) basic services; (7) implementation of Common Core State Standards for all children, including English language learners; and (8) course access and enrollment in required areas of study. Local boards must also specify the actions they plan to take to achieve their annual goals in these areas and those aligned with their budgets.

ILLINOIS



As in most states, school funding in Illinois relies primarily on the real property tax base. Local real property is measured by the equalized assessed value, which accounts for one-third of a property's assessed value. Again consistent with

the general trend, insofar as poorer districts tend to have less equalized assessed value, they usually receive less local revenue than others school systems.

In 1991, a tax cap known as the Property Tax Extension Limitation Law (PTELL) limited the increase in property taxes in Illinois to 5% of a previous year's extension amount. Under the PTELL, boards can levy or ask for desired funds, while county officials can provide extensions or announce the actual dollar amounts available for education. If levies are greater than extensions, school boards receive the full amounts allotted. If levies are less than extensions, boards receive the amounts sought, but no additional funds. If levies exceed the 5% limit, boards must provide notice to that effect in a local newspaper.

Insofar as poorer districts tend to have less equalized assessed value, they usually receive less local revenue than others school systems.

By relying on levies, school boards can generate funding for expenditures in nine areas: (1) educational purchases, (2) operation and maintenance costs, (3) debt services, (4) transportation, (5) municipal retirement/Social Security, (6) capital projects, (7) working cash, (8) torts, and (9) fire prevention and safety.

To deal with public financing, the legislature created the Illinois Educational Funding Advisory Board in 1997 to advise it about raising the \$6,119 per-pupil foundation level amount. The foundation level of funding has remained constant in recent years despite calls for it to be raised to \$8,672 per child.

Turning to General State Aid (GSA), like many other states, a major factor in school funding in Illinois is the ADA for the best three months of attendance. GSA is divided into two categories. In the first, boards

producing less than 93% of their foundation levels of \$6,119 are designated foundation districts using the formula of the foundation level minus available local resources per pupil times the ADA. If boards reach less than 175% of the foundation level, they are classified as alternative methods districts, receiving 5%–7% of the foundation, depending on their wealth. Conversely, boards producing more than 175% of their foundation levels are identified as flat grant districts and are entitled to \$218 per pupil under the ADA formula.

The second source of revenue, the supplemental GSA, is tied to dollars on the basis of the proportion of low-income students in districts. Supplemental GSA has priority over foundation alternate or flat monies and is funded before the GSA is distributed.

IOWA



School boards in Iowa are independent taxing authorities operating under a 1971 foundation funding formula that is one of the oldest in the nation. School budgets in Iowa are primarily revenue driven, relying on enrollment, consistent

with other states. Enrollment counts must be completed annually on October 1 and sent to state officials by October 16.

Combined district costs in Iowa are generated using student count information with each child valued at \$6,121. The state provides additional funds for students in special-education placements and for students who are immigrants. The goal of the formula has remained the same: to equalize educational opportunities while offering quality schooling for all students and offering property tax relief, to decrease the percentage of school funding paid from local property taxes, and to exercise reasonable control over educational costs.

School budgets in Iowa are primarily revenue driven, relying on enrollment, consistent with other states.

School funding in Iowa has three components: uniform levy, state aid, and additional levy. Under the uniform levy provisions of state law, local boards must levy \$5.40 per \$1,000 property tax rate on the taxable valuation of property within district boundary. This uniform property tax levy is based on the valuation of property-poor districts. Insofar as Iowa has both property-rich and property-poor districts, property tax rates in 2015 ranged from as low as \$6.66 to as high as \$20.66 per \$1,000.

Supplemental state aid adds resources until funding reaches 87.5% of its authorized budget based on

combined district costs. Under the third component of financing public education in Iowa, local boards must levy an additional property tax until they have attained the full amount of their authorized general-fund budgets. In seeking full funding, each board sets its own tax rate with additional property tax levies designed to close the gap between combined district costs and the total of the uniform levy and supplemental state aid.

As indicated, each board sets the tax rates to finance the remaining needs of districts. Additional property taxes are set at the difference between combined district costs and the sum of uniform levies and supplemental state aid. One of the equalizing factors in Iowa's formula is capping the total spending authority. That approach limits how much school boards can spend of their unused balances that carry over from one year to the next. In fact, it violates Iowa law for school boards to have negative balances.

Total spending authority in Iowa, then, is a combination of district costs plus the ending balances of the previous year along with miscellaneous revenue and some other locally controlled board property tax items.

MASSACHUSETTS



In upholding its system of funding in *McDuffy v. Secretary of Executive Office of Education* (1993), the Massachusetts Supreme Judicial Court relied on a provision in the commonwealth's constitution that was adopted in 1780

when it was still a colony. In its rationale, the court directed the legislature to provide adequate funding for education as a means of demonstrating its duty to "cherish . . . public schools and grammar schools in the towns" (at 557).

Funding for public education in Massachusetts is driven by two key factors: (1) its independent culture of small, locally controlled schools and (2) its economy, which focuses on the three industries of technology, medicine, and higher education. Still, as in the majority of jurisdictions, educational funding depends primarily on local property tax revenues, except in the poorer districts, where such funding is deemed insufficient.

In a relatively unique approach, though, most school districts in Massachusetts are departments of their local municipalities that must compete annually with police, fire, public works, and other departments for tax dollars. Regardless, tax-limiting legislation enacted in 1990 restricted budgetary increases to 2.5% above the level of the previous year plus revenue from new construction growth in a municipality.

Educational expenditures are broken down into 11 categories, the largest of which is salaries. The commonwealth's

2013 average cost per pupil was \$13,999, with a range of \$10,111 to \$30,195. In the process, school committees, as boards are known in Massachusetts, are allocated the foundation amount (base rate), but most schools need more that can be produced at the local level.

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Each year, target funds are appropriated to school committees to provide (1) regional and vocational school transportation; (2) high-cost, low-income special needs; (3) meals for low-income students; and (4) other entitlement and competitive grant categories. This approach seems to be working, but it is inconsistent, insofar as costs in some districts have tripled.

Similar to other jurisdictions, Massachusetts continues to face challenges because during the past 20 years, its educational reform act has been amended slightly, but remains fundamentally unchanged. Other elements to be considered in promoting change vary in type and complexity, as each district develops and expends money to educate its students.

The funding formula in Massachusetts is insufficient for a majority of districts. Also, significant differences remain between poor and affluent districts with regard to both student performance and funding. Unfortunately, the funding formula has not changed to accommodate the disproportionate increase in the cost of serving students in special-education placements, coupled with the lack of adequate assistance from the federal government, even as committees continue to need additional funds to provide teacher and student coaching to excel in standardized testing.

Costs are exacerbated because most public employees in Massachusetts belong to unions and because educators must be certificated in their instructional fields and must attain master's degrees within five years of being hired. Additionally, salaries are comparatively high because of the high cost of living, such that administrative and support staff and services are being stretched past the breaking point.

State of Flux

During the past 25 years, plaintiffs in virtually all jurisdictions have filed suits claiming that their legislatures violated their state constitutions by failing to provide sufficient funds for public education. Although the adequacy theory seems straightforward enough, three complex, overlapping issues come into play.

Briefly stated, the first issue concerns the fact that judicial opinions raise complex jurisdictional issues, such as whether courts are dealing with political matters suited for legislatures and not for courts. The second matter, the merits of claims, can go to issues of interpreting constitutionality, a matter of judicial authority. The third concern addresses the remedial nature of disputes, such that courts can order legislatures to remedy deficiencies, but that elected legislatures, rather than judges, must typically devise new funding formulas.

In sum, despite scores of cases and a significant amount of academic commentary, the field of school finance remains in a constant state of flux.

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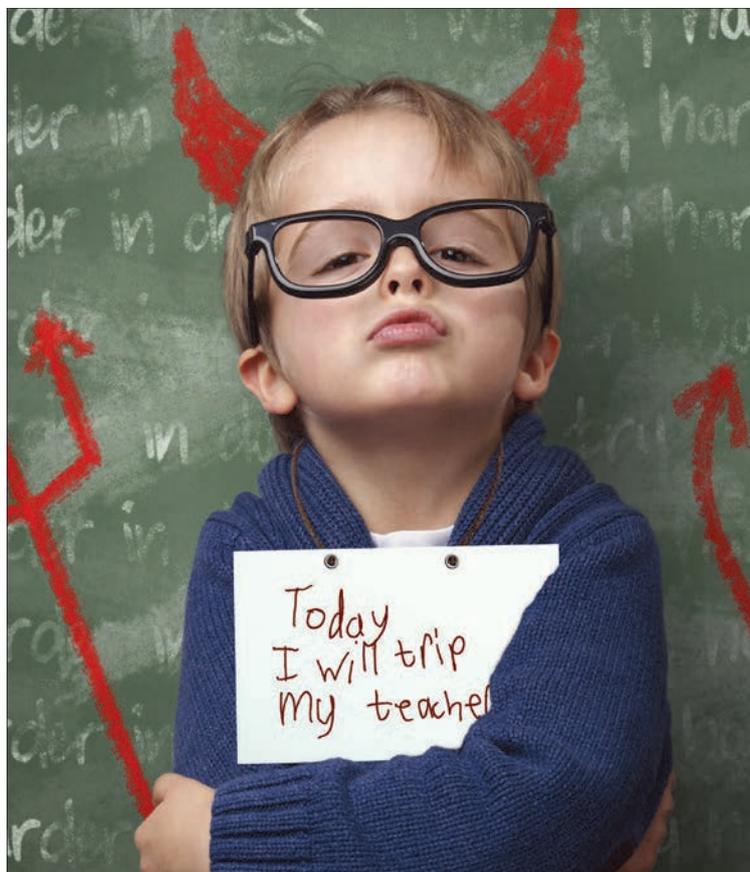
Charles J. Russo, J.D., Ed.D., content area leader for ASBO's Legal Aspects Committee, is Joseph Panzer Chair of Education in the School of Education and Health Sciences (SEHS), director of SEHS's Ph.D. Program in Educational Leadership, and adjunct professor in the School of Law at the University of Dayton, Ohio. Email: crusso1@udayton.edu

Frank M. Batz, J.D., is a 2015 graduate of the University of Dayton School of Law.

William E. Thro, M.A., J.D., is general counsel and adjunct professor of law at the University of Kentucky, Lexington. He writes in his personal capacity, and his views do not necessarily reflect the views of the University of Kentucky.

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