

## ALABAMA

In 1993, the Alabama Supreme Court ruled in *Alabama Coalition for Equity v. Hunt* that the state's school finance system was unconstitutional. In 1995, the state implemented a new foundation formula that incorporated some of the concerns raised in the court case. Under the new program, funds are allocated based on teacher and instructional-support units. The state calculates the number of teacher units required for each school by taking the school's average daily membership and dividing it by student-to-teacher ratios for different grade levels established by the legislature. Instructional-support units consist of positions for principals, assistant principals, counselors, librarians, and secretaries. The state calculates the money associated with each teacher and instructional-support unit for every school based on four factors: the costs of teacher salaries, employee benefits, classroom support, and other current expenses. Alabama's formula also incorporates adjustments for vocational and special education programs. The state bases the adjustments on a percentage of the total average daily membership in each district, not the number of students participating in the programs. To receive state aid, each district must levy a 10-mill property tax or its equivalent through a 1-cent sales tax. Alabama also provides money for schools through eight categorical programs, including transportation, preschool education, programs for at-risk students, and school construction.

## ALASKA

Alaska uses a foundation formula to pay for education. The formula calculates each district's "basic need entitlement" by multiplying the base student allocation of \$4,576 in 2004-05 by an adjusted average daily membership. Alaska's formula adjusts student enrollment for school size, district variations in cost of living, student needs (special education, bilingual education, gifted education, and vocational education students), high-cost special education students, grade level, and the number of correspondence students who participate in distance education. The state requires local districts to levy a tax of 4 mills on personal property to receive state aid. Local revenues come mainly from the personal-property tax and local sales taxes. At the state level, a portion of the cigarette tax is dedicated to education. In 1999, Alaska's system for financing school construction was ruled unconstitutional in *Kasayulie v. State*. The judge ruled that the system in place for financing school facilities was racially biased—that the state had a "dual" system. Now Alaska faces a new lawsuit, *Moore v. State*, filed last summer, that challenges the state's entire school finance system. The lawsuit also claims that the state has not provided the resources to meet the requirements of the federal No Child Left Behind Act.

## ARIZONA

The Rodol Charitable Foundation of Arizona has commissioned a study to determine what it would cost to provide the state's students with an adequate education. Seven school districts have claimed that the state's existing finance system is inadequate in *Crane Elementary School District v. State*. Arizona's system allocates money to schools through a foundation formula. The formula is based on a foundation level (\$2,893 for fiscal 2005) that is set by the legislature each year. Arizona calculates each district's share of state aid by multiplying the

foundation level by student enrollment and subtracting a local levy. The state does not require a minimum local effort for districts to receive state funding, but assumes districts will raise a qualifying tax rate of \$1.8931 per \$100,000 worth of property value. The state adjusts state aid accordingly. If a district is able to raise more than its share of state aid through its qualifying levy, the district receives no money from the foundation formula. State aid also is adjusted according to school size, grade level, the number of special education students, English-language learners, transportation needs, and teacher experience.

## ARKANSAS

Arkansas' school finance formula was ruled unconstitutional in 1983 and again in 2001. In the 2001 case, *Lake View School District, No. 25 v. Huckabee*, the court ordered the state to conduct an adequacy study, which found that the state needed to spend an additional \$848 million on education. In response to those cases, Arkansas has carried out significant reforms in its finance formula over the past 20 years. Currently, Arkansas pays for education using a foundation formula, which in the 2004-05 school year guarantees \$5,400 per student. State aid is determined by subtracting a local 25-mill property-tax levy from the \$5,400 guarantee. Local districts raise revenue through the property tax, as well as other sources, such as severance taxes, local sales and use taxes, and federal forest reserves. At the state level, at least portions of the sales and use taxes, rental-vehicle tax, beer excise tax, and corporate-franchise tax are dedicated to K-12 education. The state gave education a significant boost for fiscal 2005, increasing funding for the foundation formula by more than \$289 million and adding almost \$209 million to its categorical programs. Arkansas has 12 categorical programs, including money for school construction, professional development, the Better Chance program for prekindergarten pupils deemed at risk, extra aid for isolated districts, and early-childhood special education.

## CALIFORNIA

California provides money for education through several grants and entitlements. The largest, often referred to as "revenue limit funding," supplies general-purpose aid to school districts, county offices of education, and charter schools. The formula for that aid is a modified foundation formula, in which the foundation level varies from district to district based on several factors. The per-pupil base-revenue limit was first established in the 1970s and has been adjusted each year for inflation. The revenue-limit entitlement is met with both state aid and state-controlled local property taxes. About 60 districts in California have local property taxes that exceed their revenue-limit entitlements and so do not receive any state aid for general-purpose funding. General-purpose aid is adjusted for unemployment insurance, employer-retirement costs for classified employees, and additional support for small schools. California had about 50 categorical programs totaling \$10 billion in fiscal 2004. The five largest provided support for class-size reduction, transportation, special education, preschool and child-development programs, and the state's Targeted Instructional Improvement program. Last fall, though, the state consolidated more than 20 of the categorical programs into six block grants. As the result of a

lawsuit settled last summer, *Williams v. State*, the state also passed legislation to increase school facilities funding.

## COLORADO

Every district in Colorado is guaranteed a minimum of \$5,627 per pupil in state and local revenue for the 2004-05 school year. Per-pupil funding is adjusted to account for variations across districts in cost of living and district size. In addition, districts receive money for each student who is eligible for free lunches. The state provides added money to districts based on how far each district's percentage of students eligible for free lunches rises above the statewide average. A minimum local effort is not required for districts to receive state aid, but the state assumes that districts will raise a certain amount of revenue through local property taxes, and it adjusts state aid accordingly. The assumed effort is different for each district. Colorado also provides aid to districts through categorical funding. The state has eight categorical programs, the five largest of which support special education students, English-language learners, transportation, vocational education, and gifted-and-talented programs. Colorado's state finance system is being challenged in court. The plaintiffs in *Haley v. Colorado Department of Education*, which was filed in the summer of 2002, contend that the state's special education funding violates the state constitution.

## CONNECTICUT

The Education Cost Sharing grant is the foundation formula used in Connecticut to distribute education revenue to districts. In fiscal 2004, the ECS grant, with over \$1.5 billion, provided about two-thirds of total state aid for education. The grant is calculated based on a foundation level, each town's fiscal capacity, and a weighted student enrollment. The foundation level is set annually by the legislature and is \$5,891 per weighted student for fiscal 2005. Towns with the lowest property values receive as much as 90 percent of the foundation level from state aid, while the wealthiest districts receive at least 6 percent, which is the minimum aid rate in Connecticut. Enrollment is weighted for low-income students, English-language learners, and those who need remedial education. Districts in Connecticut do not have a minimum required tax levy to receive state aid, but they must meet a minimum-expenditure requirement. If a district does not do so, the state can withhold ECS grant money for twice the amount of the expenditure shortfall. To receive state aid, districts also must keep a 180-day or 900-instructional-hour school year and provide special education programs and transportation for students.

## DELAWARE

Delaware is one of just five states that have never had lawsuits challenging their school finance systems. Delaware is also one of the few states that do not distribute money to schools based on a foundation formula. The state pays for education in three "divisions." Division I provides funds for teacher salaries and compensation based on the state salary schedule. Division II is a uniform flat grant provided to every district in the state. Division III consists of state equalization aid. For the latter, the state provides money on a matching basis with local taxation to help ensure that unequal property wealth

## Just five states have never had lawsuits challenging their school finance systems.

does not lead to inequitable school funding. Division I funding is based on such district characteristics as grade levels served, the number of special and vocational education students, and a “teacher experience index” that is based on a teacher’s years of experience and highest degree attained. Delaware also provides money to districts through 41 categorical programs. Some of those categorical programs include support for special education, reading initiatives, professional development, gifted-and-talented education, bilingual education, and early-childhood education.

### DISTRICT OF COLUMBIA

The District of Columbia allocates money to its schools through the Uniform Per Student Funding Formula, a foundation formula. The same formula finances charter schools. Dollars are allocated for each student, with a per-pupil base cost of \$6,904 in fiscal 2005. That figure is then weighted to provide additional support for different grade levels, alternative education, special education, English-language learners, summer school, and adult education. Since the nation’s capital is a single school district, it does not have such state policies as a required local effort. The local government makes appropriations separate from the foundation formula for categorical programs. Those programs support transportation for special education students, tuition payments for private placements for such students, and other state education agency functions that are not financed through the foundation formula. Washington’s mayor and the District of Columbia Council must review the foundation formula every four years, with input from the city’s regular and charter public schools. As part of that review, the local leaders must study the actual costs of providing education in the district.

### FLORIDA

Florida pays for education through the Florida Education Finance Program, or FEFP, a foundation formula with a base per-pupil allocation of \$3,670 for fiscal 2005. Under the formula, the base student allocation is multiplied by a weighted student enrollment, which includes adjustments for different grade levels, English-language learners, special education students, and those in vocational education programs. The per-student allocation also is adjusted by a cost-of-living factor to reflect the variations in living expenses across Florida’s 67 school districts. Other adjustments to the formula include additional money for small districts, safe schools, and supplemental academic instruction, such as tutoring and after-school programs. The state also provides money to districts through six categorical programs that are outside the FEFP, which help support transportation, literacy programs, professional development, class-size reduction, technology, and instructional materials. Total spending for categorical programs in fiscal 2004 was about \$1.8 billion. Plaintiffs lost a challenge to Florida’s school finance system in 1996 in *Coalition for Adequacy and Fairness in School Funding v. Chiles*. A case filed by the American Civil Liberties Union of Florida challenging the state’s use of state-

financed vouchers to send students to private schools is currently working its way through the courts.

### GEORGIA

Georgia pays for education through its Quality Basic Education program, a foundation formula. The formula is structured around a base per-pupil amount (\$2,362 in fiscal 2005) that is multiplied by a weighted student enrollment. Several weights are incorporated into the formula for student and district characteristics, including adjustments for grade level, vocational education, special education, gifted students, remedial education, alternative education, and English-language learners. Georgia requires districts to raise a 5-mill property tax to participate in the QBE program. If a district does not do so, the yield it should have raised is deducted from its state aid allotment the next year. Georgia caps the amount of property-tax revenue local districts can collect above that 5-mill requirement at 20 mills total, but local voters can override the limit if they choose to raise more money for education. No taxes at the state level are dedicated to K-12 schooling. In 1981, Georgia successfully convinced the state supreme court that its school finance system was constitutional. But now the state faces a lawsuit brought by the Consortium for Adequate School Funding in Georgia.

### HAWAII

School funding in Hawaii reflects its unique status as the only state with a single school district. The state pays for about 84 percent of public education through an appropriation to its education department. The state currently does not use weights to allocate money to schools, but recent legislation—the Reinventing Education Act of 2004—requires the state to develop a weighted-student formula by the 2006-07 school year. The state also provides money for school construction, major school repairs, and building maintenance by issuing general-obligation bonds as part of a capital-improvement program. The Hawaii state board of education has begun to devise a performance-based budgeting system. As part of that project, the board has authorized a study to estimate what it would cost to provide public school students with a high-quality education. The study is now under way.

### IDAHO

Idaho’s school finance formula assumes each district will contribute three-tenths of a percent of local property value to the total foundation program. The state does not require districts to raise that amount to receive state aid, but assumes they will do so and adjusts state aid accordingly. The state adjusts the amount it provides to districts for different grade levels, alternative education students, gifted-and-talented students, special education students, and the education and experience of teachers. Idaho also provides an unusual incentive to reduce the number of uncertified teachers: After a district’s total state aid allocation is calculated, the state subtracts the contract salary for every teacher working in the district without certification. Idaho has 19 categorical

programs that provided about \$966 million for specific purposes in fiscal 2004. Those programs include support for transportation, literacy initiatives, teacher benefits, substance-abuse-prevention programs, bilingual students, gifted-and-talented students, school facilities, and technology. The finance system was challenged in 1993 in *Idaho Schools for Equal Educational Opportunity v. Evans*. But the plaintiffs’ claim was dismissed except for the portion regarding state financing for school facilities. Idaho still faces a court decision to determine whether changes that the legislature passed to help low-wealth districts repay interest on their school construction loans meet constitutional requirements.

### ILLINOIS

Plaintiffs in Illinois have waged two unsuccessful court cases against the state, one in 1996 based on equity, and another in 1999 based on adequacy. The Illinois legislature, however, responded to the cases by creating an Education Funding Advisory Board to review the school finance system and by conducting an adequacy study. The state also has increased education funding by \$775 million over the past two years. Illinois pays for education through a foundation formula with a base amount of \$4,964 in fiscal 2005, except for districts that can raise 175 percent or more of that amount. Those districts only receive \$218 per student. A minimum tax rate is assumed for each district type, but levying the tax is not required for districts to receive state aid. Instead, the state assumes local districts will raise the revenue and adjusts state aid accordingly. The state foundation formula does not include weights or adjustments for student or district characteristics, but the state provides targeted funds through 42 categorical programs. In fiscal 2004, the money appropriated for those programs totaled \$1.96 billion. The five largest provide support for transportation, several special education services, and high-cost special education students. Illinois began dedicating lottery revenue to K-12 education in 1985. About \$550 million went to schools from the lottery in fiscal 2005.

### INDIANA

A lawsuit challenging Indiana’s school finance system was filed in 1987, but the plaintiffs withdrew the case when the state revised the funding formula. No other lawsuit challenging the finance system has been filed. The state allocates education dollars through a foundation formula. The Indiana legislature establishes the foundation level that drives the formula each biennium. It is set at \$4,368 for the 2005 calendar year. The total foundation cost for each school corporation is shared between the state and the local district, with the state assuming that each district will levy a certain amount of revenue through local property taxes. The amount of the property-tax levy varies by district, and the foundation level is adjusted for several district characteristics. Indiana has a “complexity index,” which for every district takes into account the percentages of 25-year-olds with less than a 12th grade education, students eligible for free lunches, students classified as English-language learners, families with a single parent, and families with incomes below the poverty level. The state also

adjusts funding based on the number of students in special and vocational education. In addition, Indiana provides state aid through 14 categorical programs, totaling \$135 million for fiscal 2004.

## IOWA

For a long time, Iowa was one of the few states where lawsuits challenging the school finance systems had never been filed. But in 2002, a group of 160 school districts filed *Coalition for a Common Cents Solution v. State* claiming that Iowa's school finance system violates the state constitution on both adequacy and equity grounds. In 2004, the lawsuit was withdrawn without ever proceeding to court. Iowa pays for education through a foundation formula based on the number of students in each district multiplied by a district cost per pupil. The amount of state aid each district receives is based on the difference between the foundation amount per pupil (\$4,148 in fiscal 2005) and the foundation property tax. The latter is a local tax of \$5.40 per \$1,000 of taxable valuation that is required of all districts. Even if a district with high property values is able to raise the foundation-base amount through local revenue, the district still receives \$300 per pupil. Iowa uses a weighted student enrollment to provide additional funds for certain students and incentives to districts. Weights are included for special education students, English-language learners, at-risk students (those eligible for free or reduced-price meals), districts that share teachers or students, reorganized districts, and regional academies.

## KANSAS

Kansas, like most states, uses a foundation formula to distribute money to schools. The formula is driven by a base amount of aid per pupil, which is set annually by the governor and legislature. For the 2005 fiscal year, the amount is \$3,863, and the cost is shared by the state and local districts. Districts are required to levy a 20-mill property tax. If the 20-mill tax yield is more than the district's share of state aid, the district does not receive formula funds. The formula is based on a weighted enrollment, which provides additional money for English-language learners, vocational education students, at-risk students, small districts, transportation, and school facilities. Kansas has just five categorical programs: food service, juvenile-detention facilities, Parents as Teachers, bond and interest state aid, and special education. The total spent on those programs in fiscal 2004 was \$316.4 million. Kansas does not have any taxes or fees dedicated to education. The state is appealing the Kansas Supreme Court's ruling in *Montoy v. State* that its school finance system is unconstitutional. In the meantime, the state has formed an interim legislative committee to study the finance system.

## KENTUCKY

Kentucky's school finance system was ruled unconstitutional in 1989. In response, the state implemented a new funding formula—Support Education Excellence Kentucky, or SEEK—to provide more state aid to property-poor districts.

The SEEK program has three tiers. To receive state aid, districts must levy a local property tax of 30 cents per \$100 of assessed property value. In the first tier of the formula, the state guarantees each district \$3,222 per pupil in fiscal 2005, adjusted by the number of special education students and the number approved for free lunches. The second tier allows districts to generate additional revenue that is supplemented by the state to ensure equality across districts. The third tier allows districts to raise even more revenue, but that portion is not supplemented by the state. Kentucky targets a portion of state aid through 27 categorical programs, which pay for specific needs, including transportation, reading initiatives, professional development, gifted-and-talented education, early-childhood education, technology, school construction, and teacher benefits. Kentucky has no state revenue sources earmarked for education. Kentucky now faces a new court challenge, *Young v. Williams*, filed in January 2003.

## LOUISIANA

Louisiana's foundation formula uses a foundation level of \$3,459 in fiscal 2005 adjusted for the local fiscal capacity of each district. Districts can levy up to 5 mills in property taxes, but the levy is not required for them to receive state aid. The Orleans Parish district, which includes New Orleans, can levy up to 13 mills. Louisiana also provides a second tier of aid to reward districts that make larger tax efforts. Any tax revenue that districts raise above their local

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share of the foundation formula is eligible for reward funding, but the money is limited to 33 percent of the total base-foundation amount. The reward amount equals about 40 percent of a district's eligible revenue, equalized by the district's local fiscal capacity. In December 2003, a group of parents, taxpayers, and local school boards filed a lawsuit against the Louisiana Board of Elementary and Secondary Education, *Jones v. BESE*, alleging that the education finance system violates the state constitution by failing to provide money for school construction. The state does not have a program specifically designed to finance school construction. But districts have the authority to raise local taxes dedicated to that purpose, and the state includes those taxes in the revenue eligible for reward funding. Louisiana provides categorical aid for 13 programs, including special education, literacy initiatives, professional development, and early-childhood education.

## MAINE

Maine is one of just two states that have passed measures limiting their involvement in the federal No Child Left Behind Act. While Maine will use federal money provided under the law, no state funds can be used to meet the act's requirements. The state is analyzing the costs Maine incurs by participating in the NCLB law. Maine uses a foundation program based on four elements to distribute money to schools: operating costs, categorical programs, debt-service costs, and adjustments based on district characteristics. The foundation level for the operating-cost portion of the formula was \$4,816 for fiscal 2005. Maine adjusts the foundation level based on a district's fiscal capacity. But districts are required to raise their local shares, and state aid is adjusted by the amount raised by each district. For example, if a district raised 90 percent of the required amount, it would receive only 90 percent of the state share of the foundation level. The state makes adjustments in the formula for high-cost special education students, geographic isolation, and English-language learners. Maine provides money to schools through five categorical programs that support special education, early-childhood education, vocational education, transportation, and bus purchasing.

## MARYLAND

Maryland adopted a new school finance system in 2002, effective in fiscal 2004, based on recommendations from the state's Commission on Education Finance, Equity, and Excellence (known as the Thornton Commission). The state uses a foundation formula based on a per-pupil foundation level (\$5,029 in fiscal 2005) and each district's prior-year enrollment. Districts are required to make a local effort to receive state aid. Maryland's finance formula is equalized so that less wealthy jurisdictions receive proportionately more state aid. The state used the results of two adequacy studies to develop the foundation amounts and adjustments for students with special needs. The per-pupil foundation amount is weighted to provide extra revenue to districts for economically disadvantaged students, English-language learners, and special education students. The state is appealing a ruling by the Baltimore City Circuit Court that students in Baltimore are not receiving an education that meets the "thorough and efficient" clause in the state constitution.

## MASSACHUSETTS

The education finance formula in Massachusetts guarantees that each district, through state and local funds, will have enough money to meet its foundation level. Unlike in most states, the foundation level varies by district, with an average foundation budget of about \$7,585 per pupil in 2004-05. The amount is calculated for each district every year, based on the district's needs in 18 categories, such as teachers, central-office employees, and books and equipment. Additional money is provided for each district based on weights for grade level, special education students, English-language learners, vocational education students, and low-income students. Each district has a different required local contribution, based on its municipal-revenue growth factor, or MRGF. The growth factor is calculated annually by the state department of revenue. It represents how much the total revenue available to each city or town has increased from the previous year. Massachusetts also helps districts with particular needs by financing 22 categorical programs. It has such programs for transportation, reimbursement for high-cost special education students, early-childhood education, literacy programs, kindergarten-development grants, support for students scoring low on state tests (the Massachusetts Comprehensive Assessment System), and school construction assistance. The Massachusetts Supreme Judicial Court was expected to issue a decision in *Hancock v. Driscoll* in late 2004 or early 2005 that could lead to changes in the school finance formula.

## MICHIGAN

In Michigan, the school finance system is based on a foundation formula, with a foundation level of \$6,700 per pupil for fiscal 2005, provided by a combination of state and local resources. The foundation level is set every year by the legislature, but the figure has remained unchanged for several years. The state does not require districts to make a minimum local effort to receive state aid. Instead, Michigan assumes districts will raise an 18-mill property-tax levy and adjusts state aid accordingly. If a district is able to raise its entire per-pupil foundation guarantee by levying that local property tax, the district does not receive state foundation-formula aid. Michigan does not weight or adjust the foundation level for student or district characteristics. It did, however, provide more than \$676 million in categorical aid in fiscal 2004, which is spread over 28 different programs. Michigan provides categorical support for programs such as special education transportation, aid for students eligible for free or reduced-price lunches, gifted-and-talented education, bilingual education, and early-childhood education. Michigan is one of the most active states in dedicating specific revenues to education. The state has a lottery dedicated to education and earmarks revenue from the following sources: sales and use taxes, education property tax (6 mills), cigarette tax, tax on other tobacco products, liquor excise tax, state casino-wagering tax, real-estate-transfer tax, and commercial-facilities tax.

## MINNESOTA

General state aid and levies from the state's school finance formula account for about 75 percent of total state and local revenue for K-12 education in Minnesota. The other 25 percent comes from the state's 48 categorical-aid programs. Categorical programs include support for high-cost special

education students, desegregation, debt service, and adult literacy. A local levy is not required for districts to receive basic-formula aid, but local levies are required to receive other types of state aid in which the state guarantees a certain tax base per pupil. The state formula incorporates grade-level weights and includes an adjustment based on student eligibility for free or reduced-price lunches. Local revenue is primarily collected from property taxes. At the state level, no taxes or fees are earmarked for education. Although Minnesota has a lottery, proceeds are not specifically earmarked for education. The most recent court battle over school finance in Minnesota was a case brought in 1995 by the Minneapolis NAACP. The state and the NAACP settled the case. In July 2004, Minnesota released an adequacy study, "Investing in Our Future," which was part of the work of the governor's task force on education finance reform. The study was conducted using the "professional judgment" method. It estimated that the cost of providing an adequate education ranged from 3 percent less to 15 percent more than current education expenditures in 2004.

## MISSISSIPPI

State financing for education in Mississippi is based on a foundation formula. Under the formula, a base student cost (\$3,957 for fiscal 2005) is multiplied by each district's average daily attendance. An additional 5 percent of the base cost is then added for every student participating in the free-lunch program. The state then subtracts the required local mill levy from the amount it provides. To receive state aid, districts must levy at least a 28-mill property tax or 27 percent of the district's foundation amount, whichever is less. Even the wealthiest districts must contribute no more to the foundation formula than 27 percent of the foundation amount. Mississippi also provides money to schools through categorical programs. The state has five such programs that support transportation, and vocational, alternative, special, and gifted-and-talented education. School districts raise money primarily through the property tax. At the state level, a portion of the sales tax is dedicated to education. Mississippi is one of just five states that have never had lawsuits challenging their school finance systems.

## MISSOURI

A group called the Committee for Educational Equality successfully sued Missouri in the early 1990s, and in January 2004 the organization filed a second lawsuit. The most recent suit argues that the state's school finance system is unconstitutional for both equity and adequacy reasons. A 2003 adequacy study sponsored by a group of education, business, and philanthropic organizations found that the state needed to add more than \$900 million in annual funding for education. Missouri's current finance system is based on a foundation formula and the number of pupils in each district. The foundation level for school year 2004-05, including both state and local resources, is \$4,277 per pupil. To receive state aid, districts must levy a \$1.25 property tax for every \$100 in assessed valuation. The state does not adjust aid for specific student needs, although the number of students eligible for free or reduced-price lunches is a variable in the at-risk-funding calculation used to determine whether a district qualifies for "hold harmless" funding. Hold-harmless districts are guaranteed at least the amount of state aid they received in the 1992-93 school year, when the state implemented a new finance system.

Missouri has categorical programs that support transportation, special education, gifted-and-talented education, professional development, and early-childhood education.

## MONTANA

Montana's school finance system was declared unconstitutional in November 2004. The Montana Supreme Court struck down the current system and gave the state legislature until Oct. 1, 2005, to come up with a new funding formula that is based on "educationally relevant factors." The current system relies on a foundation formula that is based on different foundation levels for each grade level. To adjust for economies of scale, the first elementary student in the district receives the full foundation level; as district enrollment approaches 1,000 students, each additional student receives 20 to 50 cents less. After 1,000 students, each additional pupil receives the same amount as the 1,000th student. The same calculations are made for middle and high school students, but the foundation level is adjusted for up to 800 students. No other adjustments are included in the formula, and no minimum local effort is required. Montana has 12 categorical programs, totaling \$130 million for fiscal 2004. Categorical aid provides support for special education, transportation, school facilities, technology, and teacher retirement.

## NEBRASKA

Nebraska, like many other states, is battling a lawsuit that challenges its school finance system.

*Douglas County School District v. Johanns*, filed in June 2003, contends that the state is not providing Nebraska schoolchildren with an adequate education. Nebraska categorizes its current school finance formula as "equalization aid." To distribute aid, the state calculates each district's needs and subtracts its resources. The calculated-needs portion of the formula is based on a weighted-student formula; enrollment is weighted for the number of English-language learners, students in poverty, and students living on American Indian lands. The state also incorporates adjustments for geographic isolation and small schools into the formula. The weighted student enrollment is multiplied by a dollar amount for one of three cost groupings: very sparse, \$7,497; sparse, \$6,501; and standard, \$5,347, for fiscal 2005. The calculated-resources portion of the formula is the sum of the yield from a local property tax and other revenues available to school districts. A minimum local effort is not required for districts to receive state aid, but the state assumes districts will raise 95 cents per \$100 of adjusted valuation and adjusts state aid accordingly.

## NEVADA

In each biennial legislative session, Nevada determines a guaranteed basic-support level per student. For the 2004-05 school year, the figure is \$4,424. Then, unique basic-support levels per student are determined for each school district, using Nevada's Distributive School Account Equity Allocation Model. The model takes into account such district characteristics as variations in cost of living, school size, administrative costs, and transportation

costs. The school finance system also mandates two local taxes that must be levied in all districts: a 2.25 percent sales tax, and a property-tax levy of 25 cents for every \$100 of assessed valuation. If the yield from those two sources is greater than the district's foundation amount, the district does not receive formula aid. Although most of the state share of funding comes from the state general fund, Nevada has several taxes dedicated to education. There is a state property tax of 75 cents per \$100 of assessed valuation, an out-of-state sales tax, an estate tax, and an annual slot-machine license fee. Nevada is one of just five states in which there have never been lawsuits challenging their school finance systems.

## NEW HAMPSHIRE

Responding to rulings by the New Hampshire Supreme Court in the several *Claremont* cases against the state's school finance system, the state made major changes in 1999, switching from a local to a statewide property tax. New Hampshire also has tried to incorporate the concept of an adequate education into its foundation formula. The state calculated the foundation level for the formula, the "average per-pupil adequacy cost," based on the actual spending in certain districts. Each biennium, the state adjusts the figure for inflation. For fiscal 2005, it is \$3,390. This amount is then multiplied by the average daily membership for each district. The state adds money for students in poverty, with each student eligible for free or reduced-price meals counting as 1.6 students in the formula. The state also provides equalization aid for property-poor districts. School systems with a per-pupil assessed valuation that is below 90 percent of the state's per-pupil assessed valuation receive more state aid. New Hampshire dedicates 100 percent of the proceeds from its state lottery to education. Additional money comes from the tobacco tax, the business-enterprise tax, real-estate-transfer taxes, and state property taxes.

## NEW JERSEY

New Jersey's foundation formula is based on the "thorough and efficient," or T&E, budget amount, which is revisited every biennium through the "Governor's Report on the Cost of Providing a Thorough and Efficient Education." For the second year in the biennium, the figure is adjusted for inflation by the consumer price index for New York City and Philadelphia. New Jersey distributes state aid by taking each district's T&E budget amount and deducting a required local effort. If a district's local effort is greater than the T&E budget, the district does not receive state foundation aid. The T&E budget is adjusted only for grade level; other aid for specific needs is provided through categorical programs. New Jersey spent \$2.8 billion for 18 different categorical programs in fiscal 2004. Funds from those programs include support for transportation, special education, early-childhood education, and other programs. New Jersey's second-largest categorical program is Parity Remedy Aid, a court-ordered program that targets additional funds to the so-called *Abbott* districts—the plaintiffs in the *Abbott v. Burke* school finance lawsuit—to create more equity between them and the state's wealthier and academically more successful districts.

## NEW MEXICO

New Mexico made major changes to its school finance system with the 1974 Public School Finance

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Act, which is still in place. The state pays for education using a foundation formula based on a weighted student enrollment. Enrollment is weighted through several “cost-differential factors” that add money based on certain district characteristics. Each district’s foundation level is adjusted by such factors as the “teacher-training and -experience index,” by the number of special education students, and for small rural schools and districts. The state also provides categorical aid for transportation, reading initiatives, professional development, compensatory education, early-childhood education, technology, and school construction. New Mexico has joined a consortium of states, organized by the Washington-based Council of Chief State School Officers, to conduct a study of how much it will cost each state to meet the requirements of the federal No Child Left Behind Act. New Mexico has faced two court battles over the constitutionality of its school finance formula. In the first case, the court granted the state’s motion for dismissal. The second case, *Zuni School District v. State*, challenged the state’s method for financing school facilities. As a result, the state has established a new system to pay for school facilities and added substantial resources for school construction.

## NEW YORK

Since the 2000-01 school year, New York has suspended the use of its percentage-equalizing school finance formula used to distribute the majority of unrestricted state aid to districts. Districts now simply receive a percentage increase over the previous year’s allotment. For the 2004-05 school year, districts receive a 1.75 percent increase in funding over the previous year. The state has also continued several other appropriations. For example, additional money is provided to districts based on pupil-transportation costs, capital-construction activity, and services for students with disabilities, among other purposes. New York provides additional state aid to districts through 30 categorical programs, totaling \$960 million in fiscal 2004. Those programs provide extra support for literacy and reading initiatives, class-size reduction, professional development, bilingual education, early-childhood education, and technology. New York state’s school finance system was ruled unconstitutional in 2003, in *Campaign for Fiscal Equity (CFE) v. State*. Since then, several adequacy studies have been conducted, with varying results. In December, the state’s highest court accepted a report from a three-member referee panel that found an additional \$5.6 billion must be spent on schoolchildren in New York City each year to meet constitutional guarantees for education.

## NORTH CAROLINA

North Carolina pays for education using three basic allotments: position, dollar, and categorical. The position allotments serve as a foundation formula because the number of teaching positions required is statutorily mandated. Teacher positions are distributed based on legislated student-to-teacher ratios for each grade level. For example, the student-to-teacher ratio required for grades K-2 is 18-to-1. The dollar-allotment portion of state aid provides money for local districts to hire employees or buy materials for a specific purpose. No other adjustments or weights are included in the formula, aside from the different student-to-teacher ratios for different grade levels. North Carolina provides more than a quarter of state education dollars through the third allotment—categorical aid. Total spending on categorical programs for fiscal 2004 was more than

\$1.6 billion. North Carolina lost its school finance battle in *Hoke County Board of Education v. State*. Last summer, the state supreme court affirmed a lower court’s decision that the state had failed in its constitutional duty to provide students in Hoke County with the opportunity to obtain a “sound basic education.” In addition, the high court affirmed the trial court’s ruling that the state must act to correct the deficiency.

## NORTH DAKOTA

Ten school districts have filed a lawsuit challenging North Dakota’s school finance system. The suit, *Williston Public School District v. State*, is based on both adequacy and equity grounds. It cites the results of a recently commissioned adequacy study, which concluded that the state needed to increase its spending on K-12 education by 31 percent. The state uses a foundation formula to distribute money to districts, with a foundation level of \$2,623 in fiscal 2005. That figure is multiplied by a weighted student enrollment. The weighted enrollment includes adjustments for grade level, district size, alternative education, special education, English-language learners, and district sparsity. The state then deducts from the aid it provides to districts the revenue from a 36-mill property tax. The revenue generated from that deduction is reallocated to districts with below-average per-pupil spending and property values. The state does not have any taxes, fees, or lottery revenues earmarked for education. But 50 percent of North Dakota’s money from a multistate legal settlement with tobacco companies is dedicated to education.

## OHIO

Ohio had been fighting a lawsuit mounted by the Ohio Coalition for Equity & Adequacy of School Funding since 1991. The state system for financing education has been ruled unconstitutional three times, but the state supreme court decided to end its jurisdiction in the case, *DeRolph v. State*, in December 2003. Ohio pays for education through a foundation formula that is based on the concept of adequacy. To calculate the foundation level, the state chose a group of districts that had met certain standards on state tests and had also achieved certain attendance and graduation rates in grades 4, 6, 9, 10, and 12. Then, using measures of income and property wealth, the state removed the top and bottom 5 percent of districts from its calculation. From the remaining districts, the state calculated the average base-cost expenditure, which was used as the foundation level. In subsequent years, the state has adjusted that number for inflation. For the 2004-05 school year, the foundation level is \$5,169. Local districts are required to levy a 20-mill property tax to receive state aid, but districts can also raise their share through a district income tax. Ohio’s funding formula includes adjustments for such district characteristics as variations in the cost of living, special education students, vocational education students, and the education and experience levels of teachers. The state also provides grants to districts, based on their concentrations of economically disadvantaged pupils.

## OKLAHOMA

Oklahoma is conducting a “legislative interim study” to review its school finance system, focused on how to determine a base foundation level that would

drive the state’s foundation formula. The foundation level for the 2004-05 school year is \$2,618, but the state is considering using the concept of adequacy to determine that amount in the future. The state is investigating choosing a select group of successful schools and basing the foundation level on actual expenditures in those districts. Currently, the school finance formula multiplies the foundation level by a weighted student enrollment. The weighted enrollment includes adjustments for the number of special education students, English-language learners, students in poverty, and those in gifted-and-talented programs. Oklahoma also makes adjustments in its formula for small schools, different grade levels, teacher experience and education, and the geographic isolation of districts. Oklahoma also has 27 categorical programs that provide money for such efforts as reading initiatives, professional development, textbooks, employee health benefits, and teacher retirement. The total spent on those programs for fiscal 2004 was \$412 million. In November, voters approved measures that will create a new state lottery and dedicate a portion of its revenue to schools.

## OREGON

Oregon’s system of paying for education has undergone challenges in court four times, but the state courts have never ruled in favor of the plaintiffs. Oregon’s current school finance system is based on a foundation formula, which allocates money to districts by multiplying the fiscal 2005 foundation level of \$4,500 by a weighted student enrollment. A local minimum levy is not required for districts to receive state aid, but the state assumes districts will raise a certain amount of revenue, and it subtracts that figure from the foundation amount. Oregon’s formula uses weights to provide additional money for special education students, English-language learners, students in poverty, pregnant or parenting students, neglected and delinquent students, and students in foster homes. The state also makes an adjustment for districts with small schools, different grade levels served, and teacher experience. Oregon has three categorical programs that provided \$157 million in aid to districts in fiscal 2004. Those programs provide support for student transportation, high-cost special education students, and classroom materials in renovated schools. The Oregon Quality Education Commission, which is a state task force, has developed the Quality Education Model to determine the cost of an adequate education on an ongoing basis. The model uses the “professional judgment” method to calculate the level of funding required for 90 percent of Oregon’s students to meet state standards.

## PENNSYLVANIA

Pennsylvania is one of the few states that do not use a foundation formula to pay for education. Components of the state’s formula can be described as “percentage equalizing.” A total of \$4.3 billion is distributed to districts based on how much each district received the previous year, with additional money provided through several supplements. Districts are guaranteed at least a 2 percent increase in funding over the previous year. The base supplement for general aid is allocated using a district-wealth ratio to measure local fiscal capacity; the ratio uses measures of local property wealth and personal income. In Pennsylvania, there is not a required local effort for districts to

## All but two states use categorical grants to target state aid to specific programs and student groups.

receive the base supplement, but two of the additional supplements do require a minimum local tax effort. Similarly, although the state has no weights in the formula for student or district characteristics, it provides separate supplements for English-language learners, students in poverty, and small school districts. Pennsylvania also distributes money through categorical aid. The state spent more than \$2.7 billion on 34 such programs in fiscal 2004, including support for transportation, special education, reading initiatives, professional development, early-childhood education, teacher retirement and benefits, and technology.

### RHODE ISLAND

Rhode Island does not use a formula to distribute money to schools. Instead, the state uses 10 different components, the largest of which is general aid. General aid is calculated starting with what each district received in fiscal 1998. There are no weights or adjustments made to the general-aid portion of state funding for education, but some of the 10 components of education aid in Rhode Island are targeted to specific student populations. Extra money is available for students in poverty, English-language learners, and vocational education students. Rhode Island also has 13 categorical-aid programs totaling almost \$241 million in fiscal 2004. Categorical aid in the state provides additional money for literacy initiatives, professional development, bilingual education, early-childhood education, teacher retirement, technology, and capital outlays. A joint legislative committee is studying whether to use a foundation formula to finance education in the state. The committee is also studying what it would cost to provide an effective and efficient educational system. Rhode Island had been part of a consortium of states organized by the Washington-based Council of Chief State School Officers to study the costs of implementing the federal No Child Left Behind Act, but it withdrew because of the high cost of conducting the study.

### SOUTH CAROLINA

South Carolina's school finance system is in court. The case of *Abbeville County School District v. State* alleges that students in rural schools are not receiving an adequate education. The South Carolina School Boards Association conducted an adequacy study using the "professional judgment" method. The study found that South Carolina would need to add about \$3 billion to the education system. South Carolina pays for education primarily through its Education Finance Act, which is a foundation formula. The base cost per student is \$1,754 in fiscal 2005. On average, the state provides 70 percent of the total base cost, with the local share determined by each district's fiscal capacity. The state share ranges from 17 percent in the wealthiest district to 92 percent in the district with the least property wealth. Local districts must provide their share of the foundation formula to receive state aid. Money is adjusted using weights

for students in different grades, special education students, vocational education students, early-childhood education, and adult education. South Carolina also provides money to schools through categorical aid. Almost \$538 million was allocated through 35 categorical programs in fiscal 2004. The five largest programs in the state provide money for academic assistance, transportation, class-size reduction, gifted-and-talented education, and additional required high school credits.

### SOUTH DAKOTA

State aid in South Dakota is determined by a foundation formula, calculated by subtracting local effort from district need. District need is determined by multiplying each district's average daily membership from the previous year by the per-student allocation. The allocation for the 2004-05 school year is \$4,087. Although South Dakota does not require local districts to raise a property-tax levy to receive state aid, it assumes that districts will raise a certain amount of revenue and adjusts state aid accordingly. If a district is able to raise the entire per-pupil allocation through local revenue, it does not receive general state aid. The only adjustment in the formula provides additional support for small schools. Districts are categorized into three different sizes: 200 or fewer students, 201 to 599 students, and 600 or more students. All districts with fewer than 600 students receive additional funds. South Dakota provides categorical aid for only one other district characteristic, the number of students in special education. Money for special education varies based on different disability categories and a district's local tax effort.

### TENNESSEE

Tennessee's school finance system was ruled unconstitutional based on the state's equal-protection clause in 1993. In anticipation, the state passed the Educational Improvement Act in 1992. The legislation allocates money to districts based on a costing-out formula that is reviewed annually. The formula is divided into three components: instructional positions, classroom materials and supplies, and nonclassroom costs. Those components are funded by state shares of 65 percent, 75 percent, and 50 percent, respectively, although the actual percentage reimbursed varies from district to district, depending on local fiscal capacity. Districts are required to contribute a local share to receive state aid. Although the formula can be categorized as a foundation formula, the amount of money guaranteed to each district varies. Adjustments for some district characteristics are made through the allocation of money for additional instructional positions. For example, 33 percent of a district's at-risk student population in kindergarten through 3rd grade is double-counted. Additional instructional positions also are generated for special education students, English-language learners, vocational education students, and grade level. Funding is adjusted further for districts with a cost of living higher than the state average. Tennessee does not provide any money through categorical programs.

### TEXAS

In September 2004, Texas lost a battle in the *West Orange-Cove Consolidated ISD v. Nelson* case: A district court judge ruled that the state's school finance system was unconstitutional. Texas has one year to revise the school finance system, although the state has announced that it will appeal the decision. Texas allocates money to districts through a foundation formula. The basic cost per student is \$2,537 in fiscal 2005, which is determined by the legislature. Local districts are required to contribute a property tax of 86 cents for every \$100 in property value to receive state funds. Districts that can generate more than the foundation level in local revenue are not eligible for foundation aid, but still receive at least \$375 per pupil from a constitutionally dedicated fund. The formula is adjusted for special education students, English-language learners, geographic cost of living, geographic isolation, small schools, compensatory education, vocational education students, and gifted-and-talented students. The state also provides additional aid to match local tax effort above the required levy, and districts can obtain state aid for help in making bond payments. Texas is one of just a handful of states with "recapture" provisions in their formulas. If a district's per-pupil adjusted property wealth is greater than \$305,000, it must do one of the following: consolidate with another district, share revenue with another district, return revenue to the state, educate students from another district, or consolidate its tax base with another district's.

### UTAH

Utah is one of five states that have never had lawsuits filed against their school finance systems. The state pays for education through its Minimum School Program, a foundation formula that is based on legislatively determined "weighted pupil units," or WPU's. Each unit receives \$2,182 for the 2004-05 school year, which is provided through both state and local funds. Local districts must collect property taxes at a rate set by the legislature each year. For fiscal 2005, that "basic tax rate" is \$.0018 for every dollar in assessed property value. If a district is able to raise more than its foundation entitlement through its local share, the state recaptures the excess aid for redistribution in the following year. Because of a dramatic drop in the basic tax rate, however, that process has not occurred since 1995. The amount of money each district receives is weighted for such factors as: teacher education and experience, administrative costs, necessarily existent small schools, special education, career and technology education, and grade level. Utah also has categorical programs that distribute state grants for transportation, special education, reading initiatives, class-size reduction, professional development, compensatory education, gifted-and-talented education, teacher retirement and benefits, technology, and capital outlays and debt service. The state has a total of 27 categorical programs, through which it provided almost \$940 million to districts in fiscal 2004.

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## VERMONT

Vermont is putting in place a new school finance system in the 2004-05 school year that provides full state funding. The system is based on two tiers. The first is categorical aid, which reimburses districts for the actual costs of transportation and special education and provides support for small schools. On average, the state reimburses districts for 60 percent of their special education spending and 48 percent of their transportation expenditures. The second tier provides money to cover about 80 percent of each district's budget, supplying all revenue outside of categorical aid, federal funds, private grants, and tuition revenue. Each district sets its own level of education spending. No local effort is required: The education property tax in Vermont is a statewide tax. In addition to the education property tax, the state earmarks portions of other taxes for education: one-third of the revenue from purchase and use taxes, and one-third of the money from sales and use taxes. Vermont receives some \$17 million each year for education from the state lottery.

## VIRGINIA

Virginia's school finance formula is based on the state's Standards of Quality program. The foundation formula provides about 90 percent of state aid to districts. Additional money is provided through various incentive and categorical programs. Each district's foundation allotment is based on the costs of the instructional positions, support positions, and nonpersonnel support needed to meet the SOQ requirements. Specific instructional-staffing standards are defined through state statutes and vary from district to district based on differences in enrollment, such as the number of vocational students. The state requires a minimum local effort, and each district's local government is required to raise revenues to meet that amount. Each district is required to levy a different amount based on its "composite index of local ability-to-pay." The index takes into account local property values, income, and retail sales as measures of local wealth. The index can be no higher than 0.80, indicating that even the wealthiest districts will receive at least a 20 percent state share toward meeting the required cost of the SOQ. During the 2004 legislative session, the legislature voted to increase the state sales tax dedicated to public education, from 1 cent to 1.25 cents per dollar. All state lottery proceeds also are dedicated to K-12 public education.

## WASHINGTON

Washington assumes full responsibility for financing education, although the state still uses federal money to help in doing so. Districts are not required to provide any local funding, but they may supplement state aid with local revenue. State aid is primarily distributed based on student enrollment, which then determines the number of instructional, administrative, and staff positions necessary in each district. The state then multiplies the required positions by their respective salary levels, based on district averages. Staffing ratios are determined by the different grade levels served, the number of students in vocational education, district enrollment growth, and school size. In addition to the full-state-funding portion of the education finance system, the state provides supplemental aid to property-poor districts to equalize local tax efforts. The state also provides aid to districts through categorical