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State Systems for Financing Public Education Are in Flux. Thirty-One States Considering Major Changes.

Thirty States Have Had Studies on the Adequacy Of Their School Funding Systems; Sixteen Face Lawsuits

EDITORS: Grades on standards and accountability, efforts to improve teacher quality, school climate, and resource equity are available for all 50 states and the District of Columbia, along with student-achievement data.

WASHINGTON—Jan. 5, 2005—The equity, adequacy, and productivity of funding for the nation’s nearly \$500 billion precollegiate education system are the focus of intense debate across the nation, particularly as state legislatures begin their 2005 sessions.

A new study, released today by *Education Week*, provides an in-depth look at the pressures on school finance systems and how such systems are changing. Today, 31 states are considering major changes in how they pay for education or allot money to school districts, according to the report, *Quality Counts 2005: No Small Change, Targeting Money Toward Student Performance*. Sixteen states are embroiled in litigation challenging the school finance systems they now have in place, according to the study. Over the past five years, lawsuits in 20 other states have been decided or settled, often in the plaintiffs’ favor.

Quality Counts 2005 provides fresh data from a national survey conducted by the Education Week Research Center of the 50 states and the District of Columbia. Currently, states provide nearly half of all education funding. The ninth annual edition of the report, supported by a grant from the Pew Charitable Trusts, compares states across a broad array of indicators, including how states pay for education, how they distribute money to school districts, and whether they track expenditures at the school level. The report also provides finance snapshots for each state.

Historically, states have focused on how to distribute money equitably across districts, with far less attention to what that money bought or the results it produced. Now that states have set ambitious performance goals for students—and the federal No Child Left Behind Act requires all public school students to reach those targets in reading and mathematics by 2013-14—the push is on to link money to student performance.

The tight state budgets of recent years also have put pressure on education spending, forcing many schools and districts to do more with less. In *Education Week*’s survey, 37 states and the District of Columbia identified a lack of resources or unpredictable funding levels as the most pressing school finance issue, particularly given state revenue trends.

“America’s system for financing education is at a crossroads,” said Virginia B. Edwards, the editor of *Quality Counts 2005* and *Education Week*. “Increasingly, legislators want to know what their state education outlays are buying. They’re asking what it would actually cost to enable all students to meet state standards, and how to raise the revenues called for by those calculations.”

The report also updates *Education Week's* annual report cards on education in the 50 states and the District of Columbia. Among the state-by-state findings: 22 states now administer standards-based tests in English and mathematics in grades 3-8 and at least once in grades 10-12, as the No Child Left Behind Act requires by 2005-06. But only 19 states are giving standards-based science tests in at least one grade in grade spans 3-5, 6-9, and 10-12, as the law requires beginning in 2007-08.

ADEQUACY: THE NEW TERRAIN

One of the most notable changes is how policymakers talk about school finance, as legislatures and the courts shift their focus from questions of "equity" to "adequacy," or what it would cost to meet the education goals spelled out in state constitutions.

The report found that 30 states have had adequacy studies conducted; in six of those states, the studies were still under way late last fall.

Fourteen states have conducted studies to determine the costs of meeting the requirements in the federal No Child Left Behind Act. In nine of those states, the studies were still under way in late 2004.

But school finance experts show little agreement on which method is best for calculating adequacy. For *Quality Counts 2005*, *Education Week* commissioned Bruce D. Baker, a finance expert at the University of Kansas, to categorize various adequacy methods and their findings across state studies. For example, he found that the price tag per pupil in 2004 dollars, adjusted for regional cost differences, ranged from \$6,820 to \$11,107 in Maryland, depending on the method used. Across states, the estimated price tag ranged from a low of \$5,009 per pupil in Illinois to a high of \$15,639 in New York.

One reason for such differences, according to *Education Week's* analysis of adequacy studies in Kentucky, Maryland, and New York state, is that different studies include different costs for educating students with special needs.

SUPPORTING 'AT RISK' STUDENTS

Education Week's national survey found that 43 states and the District of Columbia include weights or adjustments in their school finance formulas that provide extra money for students with certain characteristics, such as poverty, disabilities, or lack of fluency in English.

Twenty-six states and the District adjust their general funding formulas for "at risk" students, broadly defined as students in poverty or those deemed more likely than others to fail academically or drop out of school.

Nine states adjust their formulas to reflect differences in what a dollar can buy across different regions of those states, such as urban and rural areas.

But there's little evidence that those dollar amounts are based on data showing what it actually takes to bring a student from a poor family, for example, to the proficient level on state tests.

On the contrary, it's surprisingly hard to get a clear picture of how schools spend money on instructional programs and services, including staffing. *Education Week* found that only 22 states and the District of Columbia collect at least some school-level financial data, and the quality and use of those data vary widely.

Often, the amount of money that schools actually receive is obscured by state and district "categorical" programs. *Education Week* found that, on top of their base funding formulas, 48 states and the District now provide categorical funding to schools or districts. Such aid is used for specific purposes, such as early-childhood education, school construction, reading initiatives, and gifted-and-talented, bilingual, or special education programs. This aid, though, often comes with strings attached.

SALARY ADJUSTMENTS

Given the importance of teachers for student learning, policy experts also suggest moving away from what are called single-salary schedules to compensation plans that reward teachers who have special knowledge and skills, or who succeed in raising student performance. Teachers willing to work in subjects with shortages or in hard-to-staff schools would also earn more.

In the current school year, *Education Week* learned, only six states have created their own pay-for-performance programs based on teacher acquisition of knowledge and skills. Five states have programs that reward teachers based on their students' achievement: Arizona, Florida, Iowa, New Mexico, and North Carolina. In addition, 26 states provide recruitment or retention incentives to attract and keep teachers in high-need subject areas, such as mathematics. Fourteen states have such incentives to attract and keep teachers in high-poverty or low-performing schools.

At the same time, 20 states have laws mandating a single-salary schedule, or one in which teachers with the same seniority and education levels get the same pay. Such statewide pay scales potentially restrict flexibility in how much schools can choose to pay teachers.

SEARCHING FOR REVENUE

Even if states could determine how much it costs to bring all, or most, students to a specified level of performance, they'd still need to find the cash. Economists suggest that could be increasingly difficult, given the patched-together nature of most state revenue systems.

Education Week found that 31 states have taxes or fees earmarked for education. Twenty-four states have lotteries dedicated at least in part to K-12 education. And 35 states require districts to contribute at least a minimum local tax effort toward financing their schools, or assume that they do so in allocating resources.

But as the reliance on local property taxes has lessened (33 states limit such taxes), state tax structures have not necessarily stepped into the breach.

STATES AVERAGE GRADE OF C-PLUS

This year's edition of *Quality Counts* also charts progress in other facets of states' education systems. In addition to representing the latest data on student achievement on the National Assessment of Educational Progress, the report grades states in four areas: standards and accountability, efforts to improve teacher quality, school climate, and the equity of resources. This year, states averaged a C-plus across those categories, the same as last year.

As part of this year's focus on school finance, *Education Week* revisited its policy for grading states on the equity and adequacy of their resources for public education. Given the current debate about what an adequate education costs, *Quality Counts 2005* does not grade the states on adequacy this year. Instead, the report rank-orders states on several key spending indicators.

In addition, *Education Week's* annual policy survey of the 50 states and the District of Columbia explored how states raise revenues for public education, distribute those dollars across districts, and track school-level expenditures. The report includes finance snapshots for each state.

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