Considerations for Establishing Categorical Aid Programs to Adjust for Cost Differentials Among Districts & Schools

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Existing Funding System …

Our funding system is designed to **provide equitable tax effort** among localities to pay for locally determined, and presumably, constitutionally adequate education funding.

Most other states that have systems that **guarantee constitutionally adequate spending** – i.e., drive dollars to where they are needed – and tax systems that generate revenues in ways that are not tied to local property wealth

Put differently, our system prioritizes taxpayer equity and local control in determining funding levels

Policy Problem & Design Parameters

- How to appropriately adjust for differences in educational costs among Vermont school districts in the existing funding formula?

- Key Design Parameters:

  - System should ensure **substantially equal educational opportunities** for students to learn
  - Education Spending is **locally determined** (i.e., voter-approved school budgets)
  - Funding formula should **fairly adjust** for cost differences among school districts that are **outside their control**

Key Underlying Assumptions in Existing Formula

Assumption 1: Two districts with the same locally-determined education spending should be taxed at the same rate, regardless of local wealth.

District A:

$10,000 PPE
(Education spending)

=

District B:

$10,000 PPE
(Education spending)

Same Tax Rate
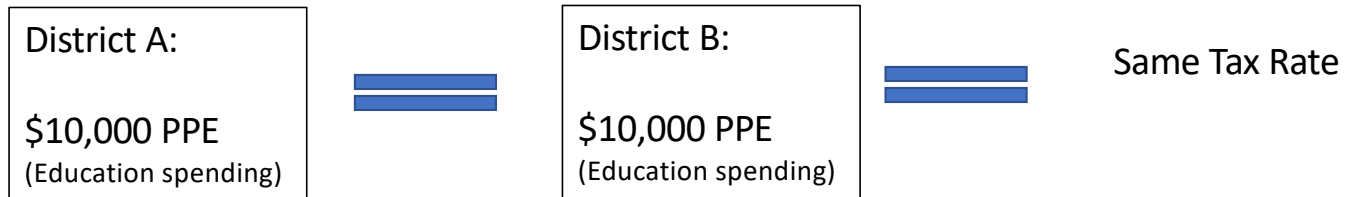
Key Underlying Assumptions in Existing Formula

Assumption 2: Differences in educational costs, outside of district control, should be equalized across districts when determining local tax rates
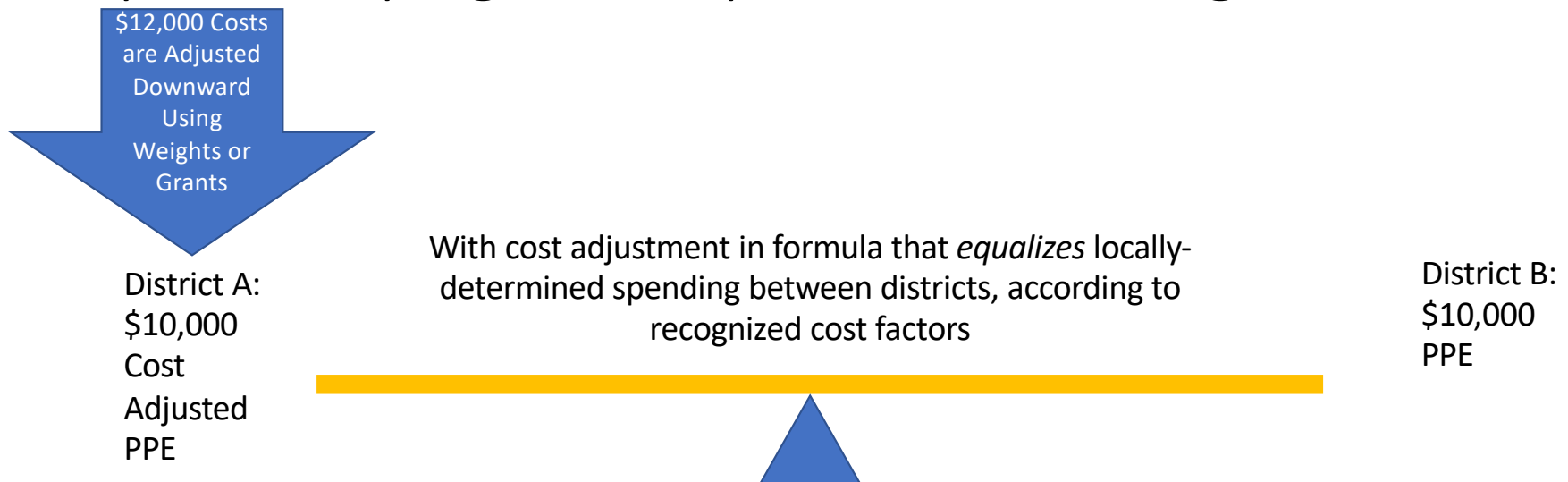
District A:
$12,000
PPE

With no cost adjustment in formula

District B:
$10,000
PPE

Example: District A's education spending is higher due to more economically disadvantaged students & more students in secondary grades

Without a cost adjustment, District A pays higher taxes – even though the difference in cost between the two districts is not within their control

Key Underlying Assumptions in Existing Formula

$12,000 Costs are Adjusted Downward Using Weights or Grants

District A: $10,000 Cost Adjusted PPE

With cost adjustment in formula that *equalizes* locally-determined spending between districts, according to recognized cost factors

District B: $10,000 PPE

District A's education spending is higher due to more economically disadvantaged students, more students in secondary grades

With cost adjustments, Districts A and B pay the same taxes– even though the difference in cost between the two districts is not within their control

Question we asked ourselves …

- Which policy approach – weights vs. categorical grants – are the **most appropriate** policy mechanism for adjusting for differences in educational costs, in the **context of Vermont's <u>existing</u> formula**?

Aligning Funding Mechanisms & Policy Goals

Goals

Mechanisms

Equalize costs, generally across districts and/or schools, for the purposes of **equalizing locally-determined spending/tax effort** and **opportunities to learn** for students

Weights

Provide specific and targeted support for specific educational **programs** and/or **students.** Act as **adjusts for <u>average costs</u>** for the purposes of adjusting locally-determined spending for calculating tax effort.
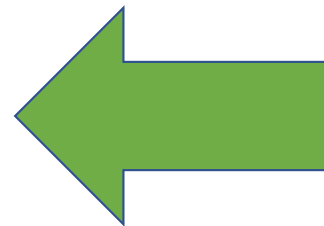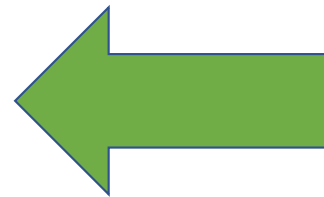
Categorical Grant Programs

Role of Weights in Existing Formula

Currently, Vermont's education funding formula uses **weights** to

- **Equalize education spending** across districts according to differences in educational costs that are outside of district control (i.e., non-discretionary)

- **Determine local tax burden** to pay for the additional cost of ensuring all students achieve common educational standards

Weights DO NOT generate additional state revenue (or grants) for local school districts; rather they impact local tax capacity to generate education-related revenues

Role of Weights in Determining Education Spending

Step 1:

Education Spending$_{district}$ = Approved School District Budget – **Other Revenues**

Step 2:

Education Spending = $\dfrac{Education\ Spending_{district}}{Equalized\ Pupil\ Count_{district}}$

Per Equalized Pupil$_{district}$

Weights Generate EP

Total Education Spending is adjusted **proportionally** using a factor that has been **equalized across Vermont school districts**

Role of Categorical Grants in Determining Education Spending

Step 1:

$$\textbf{\textit{Education Spending}}_{district} = \textit{Approved School District Budget} - \textbf{\textit{Other Revenues}}$$

Cost
Equity
Payments

School budgets are adjusted using <u>fixed cost payments</u> (i.e., categorical grants) with total amounts that are <u>specific to a particular district</u>

Step 2:

$$\textbf{\textit{Education Spending}}\ \textbf{\textit{Per Pupil}}_{district} = \frac{\textit{Education Spending}_{district}}{\textit{Legislatively determined count of students}}$$

Comparing Differences in Adjustments

Weights

Proportionally adjusts locally-determined total **education spending** using factor that has been **equalized** across all districts in the state

Categorical Grants

Adjusts locally-determined district budgets using **fixed grant amounts**

Both are viable policy mechanisms within the formula; but they do different things and **are not equivalent**.

Cost Factor	Cost Adjustments Based on School-Level Cost Function Models			Vermont JFO Proposed Amount (*December 17, 2021 Task Force Report*) (Column 4)
	Proposed Weight (*October 28, 2021 Update*) (Column 1)	Average Per-Pupil Cost (*January 11, 2022 Update*) (in $'s Per-Pupil)		
		FY2018 (Column 2)*	FY2023 (Column 3)*	
Student Need				
Poverty (FRL)	1.03	$9,492	$10,480	$10,664
ELL	**2.49**	**$22,947**	**$25,335**	**N/A**
Grade Level				
Middle Grades (6-8)	0.36	$3,318	$3,663	$3,727
Secondary Grades (9-12)	0.39	$3,594	$3,968	$4,038
School Enrollment				
<100 Pupils	0.21	$1,935	$2,137	$2,174
100-250 Pupils	0.07	$645	$712	$725
Population Density (Persons per Square Mile)				
<36 per Square Mile	0.15	$1,382	$1,526	$1,553
36 - <55 per Square Mile	0.12	$1,106	$1,221	$1,242
55 - <100 per Square Mile	0.07	$645	$712	$725

The dollar values in Columns 2 & 3 are valid *only* when applied to a fixed base amount of ($9,218 FY2018; see January 11, 2022, memorandum to Task Force)

Interpreting Average
Per Pupil Cost Estimates
(Columns 2 & 3)

1. Per pupil dollar estimates represent the **average** additional cost for a particular cost factor, in Vermont
   - Some districts **may need to spend more/less** to achieve the same average outcomes for students

2. Dollar estimates are explicitly tied to a **constant base spending amount** ($9,218)
   - In practice, **base spending levels vary significantly** among Vermont school districts

3. FY2018 dollars
   - **Fixed dollar adjustments** reflect the actual difference in costs, in **real dollars**, for FY2018
   - They represent a fixed, rather than proportional adjustment, to costs

Example 1

- Categorical Grants Adjust for Cost Differences on the Average:

  - District A:
    - Average additional spending for an economically –disadvantaged student is $12,000
    - Categorical grant amount is $10,000
    - District receives $2,000 per pupil **less** *than what is needed*
    - District decision: Spend less than needed *or* spend full amount and shift these costs to local taxpayers

  - District B
    - Average additional spending for an economically-disadvantaged student is $8,000
    - Categorical grant amount is $10,000
    - District receives $2,000 per pupil **more** than what is needed
    - District decision: Spend more than needed *or* spend full amount or lower spending and local tax rates

    - *In practical terms, ALL districts will be either District A or B, there will not be a district for whom the categorical grant is a perfect adjustment*

Differences between districts may be larger when multiple categorical grants are applied

Example 2

- Models suggest that, on average, optimal district spending for an economically-disadvantaged student was $19,698 for FY2018 (assuming no other cost factors)
  - This assumes that all districts have a base spending amount of $9,218
  - The additional cost of an economically-disadvantaged student is $10,480

- District A – Spends $17,000 per ED student
  - Base spending amount of $12,000 PPE (for all students)
  - Additional spending amount of $5,000 (for ED students)
  - Fixed grant of offsets $5,000 of base spending
  - Education spending is $7,000

- District B – Spends $20,000 per ED student
  - Base spending amount of $10,000 (for all students)
  - Additional spending of of $10,000 (for ED students)
  - Fixed grant offsets $0 of base spending for all students
  - Education spending is $10,000

If District A is a high-wealth district and District B is a low-wealth district, then we have a scenario where **property poor districts will have a higher tax rate than a property rich district**

Example 2:

- Adjusting for cost differences with weights:

  - District A & B:
    - Locally-determined additional spending for an economically-disadvantaged student is adjusted proportionally – using the same empirically-derived weight – so that education spending is equalized between two districts

    - *Key Assumption: That weight is appropriately calibrated to reflect the actual additional costs of educating an economically-disadvantaged student*

Other Considerations

- Challenging to establish and maintain appropriate funding levels

    - Estimates presented in the January 11, 2022 memo *are inappropriate* for use in a funding formula without a set base funding level
    - Political risk with "line item" appropriations for cost adjustments

- Additive

    - The extent to which tax rates will be mis-calibrated compounds when introducing multiple categorical grants

- "Flypaper Effect"

    - Without changes to statute and regulation, there **is no way to ensure that districts in fact spend dollars for intended purposes**
        - This is <u>no different</u> from current policy with weights