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Fundamentals of a Foundation Formula

January 2025

School Finance Terms

- Equity
 - Horizontal Equity – districts/students with similar circumstances are treated the same
 - Vertical Equity – districts/students with higher needs require additional resources
 - Taxpayer Equity – similar effort to participate to generate similar resources
- Fiscal Neutrality – Where a student lives shouldn't determine the resources available to a student
- Adequacy – the level of resources needed to ensure all students can meet state standards/expectations

Components of a Funding Formula

- There are two parts to most school finance formulas
 - First, the amount of funding needed for each district is set by the state through a funding formula
 - This includes adjustments for student and district characteristics
 - Second, the state and local share amount is determined
- These two pieces are combined in Vermont and there is not a clear process for step 1 that is led by the state
 - All funding is state funding with a large percentage coming from property taxes

Common Themes for Changing Formulas

- The focus is on providing similar educational opportunities for all students
- The formulas are attempting to become more student centric by targeting additional funding for certain student groups
- States also adjust for district cost drivers outside of district control

Types of Formulas by State

- According to a March 2024 Education Commission of the States (ECS) analysis of state funding systems:
 - 36 Foundation Formulas (student based)
 - Regional: [New Hampshire](#), [New York](#), [Connecticut](#)
 - Recently Changed: [Tennessee](#), [Nevada](#), [Maryland](#)
 - 9 Resource Based
 - 4 Hybrid
 - Regional: Massachusetts, Maine
 - 2 Other
 - Vermont

Components of a Foundation Formula

FOUNDATION FORMULA

DISTRICT WEIGHTS

STUDENT WEIGHTS

BASE FUNDING

OTHER FUNDING

Local Additional Funding

Categorical and Grant Funding

Federal Funding

Foundation Formula

- A foundation formula:
 - Starts with a base amount that is the amount a student with no identified needs in a district with no additional cost drivers receives
 - Adjustments, usually through weights, are made for student characteristic differences such as:
 - Economically disadvantage students
 - English Learners
 - Special education
 - Adjustments are also made for district characteristic differences such as:
 - Cost of living/cost of doing business
 - District size and/or small schools

Funding a Foundation Formula

- Many states that use a foundation formula utilize an equalization approach to determining state/local share
 - This approach attempts to equalize taxpayer equity, requiring all taxpayers to contribute the same effort as part of the state's funding formula
 - Generally, a common rate is set, that rate is applied to local property values, and the state backfills the remaining dollars needed per district
 - Higher property wealth districts pay a higher share of the formula, and lower property wealth districts pay less.

Vermont Context

- Vermont already has some components of a student based formula, most specifically the state has identified student and districts weights through Act 127
- However, without a specific base amount to apply the weights to, they are used to determine tax capacity, not funding
 - They also do not limit how funds are spent by districts

Vermont Context

- Vermont's system is fully state funded, so there is not a state/local match calculation
- The state's formula does work to provide taxpayer equity by adjusting local tax rates in relation to the communities' decisions on how much to spend per weighted pupil
- System allows for variation in spending through local budgeting decisions, unrelated to a targeted amount of spending

Implementing a Foundation Formula in Vermont

- Vermont has a starting point with the Act 127 weights and a recent history of using weights for funding
 - The weights need to be evaluated in context of an identified base. Weights are generally set with a base amount.
- The state would need to identify a base amount to apply weights to which can be done in a number of ways
 - Most common approach is to set it based on available revenues
 - Best practice approach is to set through an adequacy approach such as the Evidence Based approach used in the 2024 Picus Odden and Associates report

Implementing a Foundation Formula in Vermont, continued

- Input based approaches include the Evidence Based and Professional Judgment approaches
 - Both provide an identified resource bases for the base and weights
 - Often include state educators in the work
- Output based approaches include Cost Function and Successful School Districts
 - Both are data driven and identify specific levels of performance

Implementing a Foundation Formula in Vermont, continued

- Vermont's funding system allows for variation in per pupil spending based on local decisions
- Important to understand changes in the context of Brigham



Questions?