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POLICY GUIDE

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K-12 Funding Toolkit: A Strategic Guide for States

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The distribution of state funding to school districts has a tremendous impact on student learning opportunities. States are the largest funding source for K-12 schools with investments totaling $380 billion in 2022. State funding choices can have significant implications for the learning opportunities available to students. Research shows that increased spending compared with previous state levels is associated with a range of positive outcomes for students, including improved test scores and graduation rates. These impacts can be pronounced when the dollars are directed toward students from low-income households. Some studies have even linked increased funding to higher degree attainment and future earnings.

There is wide variation between states on who pays, spending levels and how aid gets allocated. With no clear right answer to these choices, state leaders juggle different priorities, tradeoffs and incentives when designing funding formulas with the goal of ensuring every student has the learning opportunities to succeed. Given the importance and complexity of K-12 funding, states often undergo regularly mandated reviews and occasionally overhaul their formulas entirely to better meet the needs of their communities.

This toolkit offers a strategic guide for reforming or redesigning state K-12 funding to ensure students and educators have the necessary resources to reach education goals. A well-designed K-12 funding formula should be transparent, student centered, adequate, fair and sustainable. These principles were identified from a working group of national experts in school funding and state leaders from around the country who are currently engaged in school funding reform efforts hosted by Education Commission of the States (ECS).

Within each principle, the toolkit includes:

- **A vision statement**. A blueprint for what a formula using this principle could resemble.
- **Policy tools**. Actionable strategies that states can implement to build toward the vision.
- **State examples**. Existing policies from around the country that can be used as a foundation to build on.

Transparent. State aid is allocated using a formula that is simple, logical, clearly articulated and informed by students, families, teachers and school leaders.

Student Centered. Funding is allocated based on the learning needs of students with a focus on improving outcomes.

Adequate. Schools are provided sufficient resources to provide a high-quality education for all students and meet state achievement goals for student learning.

Fair. Resources are prioritized to schools where students have the most complex learning needs and to districts where local resources are most limited.

Sustainable. Schools have a dependable level of state resources that allows district leaders to plan multiple years in advance and invest in services with confidence going forward.

Transparent

A well-designed funding formula is informed and understood by the communities it is intended to serve. Unfortunately, state K-12 funding formulas are notoriously complex, which limits public understanding and engagement in state funding conversations. Some complexity may be necessary in allocating funds to cover such a wide range of services. These funds cover costs ranging from salaries and benefits, technology, supplies, student nutrition, building maintenance and construction, and transportation to services for diverse communities with different student populations. However, the state can take steps to simplify the formula and integrate the people it is intended to serve into the design process.

State leaders can prioritize transparency by establishing a process for public engagement in the development of the formula. With a transparent funding formula, students, families and educators can ensure funding decisions are informed by what they see in classrooms. This collaboration is critical for accurately identifying the needs of students and educators and fairly allocating resources. In addition, the formula itself can be developed with clear terminology, defined rules for allocation and simplified funding components.

Lastly, the state can take the lead communicating how the formula works to the public and publish spending data online. It is crucial that school leaders have a clear understanding of how much aid they can expect to receive for planning purposes. Multi-year budget forecasts can help local districts avoid financial distress, yet districts can only do that effectively when they have a clear understanding of how much they will receive from their biggest funding partner. While collaboration takes more work and time to build consensus, community participation in funding conversations results in stronger, more durable solutions that more accurately meet the needs of the communities.

Vision

In a transparent funding formula, students, families, teachers and school leaders have a voice in designing how aid is distributed by the state to schools. Funding allocations are accessible and driven by instructional needs that get delivered to students by teachers and staff. The state makes resources available to understand how much aid districts are going to receive and why. Community members can see how districts are spending dollars and view student outcomes through publicly available tools.

Policy Tools

State leaders prioritizing transparency in K-12 funding can incorporate each of the following processes and policies into the development and design of their funding formula.

Engage in Community Outreach

States allocate aid to diverse school communities that may have different financial needs. Many states have at least one large city school system that can require higher spending per student due to higher costs of labor. Meanwhile, most states also have large rural areas where districts may struggle with shortages of educators and specialists, high transportation costs and more limited local property wealth to help pay for costs. Schools also serve diverse student populations with different learning needs. Depending on the community, the share of students with Individualized Education Programs (IEPs), living in poverty, experiencing homelessness, learning English, in foster care, from immigrant families, or who are Black, Latine or Indigenous vary greatly.

The state can ensure that all these voices and perspectives are heard in the design of K-12 funding formulas by establishing multiple pathways for public engagement. This approach could include town hall discussions, public surveys in multiple languages, requests for public comment on proposals or assigning a diverse stakeholder representation to topic area subcommittees. These engagement opportunities build trust and buy in from community members and allow the state to be a partner that can help solve challenges.

Oregon adopted the Student Success Act in 2019, which invests state dollars into a variety of important initiatives including early care and education programs, literacy, early childhood special education and intervention, and school nutrition. In addition to putting money into state identified priorities, the Student Success Act also empowers local decisions by allocating its largest portion of funds — the Student Investment Account — to districts. Statute requires local leaders in districts applying for these funds to engage with students, families and staff to determine the most appropriate way to spend funds. The state has developed a Community Engagement Toolkit to support districts in engaging the community to make spending decisions with a focus on students of color, students with disabilities, emerging bilingual students, students navigating poverty, homelessness and foster care, students who have historically experienced academic disparities and the families of students in these groups.

Tennessee enacted the Tennessee Investment in Student Achievement Act (TISA) at the start of the 2022 legislative session, which overhauled their 30-year-old formula with a new student-centered approach. As part of the process for designing TISA, the state department of education convened 18 review committees with participation from a wide range of stakeholders, such as students, teachers, principals, charter schools and interest groups. The department held 16 town halls and multiple conversations with local leaders to create opportunities for public engagement. In addition to the extensive outreach, the state also publishes an annual TISA Guide providing a clear and detailed overview of the formula, definitions and allocation amounts.

Centralize the Formula

States trying to design a transparent funding formula can do this by incorporating separate funding streams into a centralized formula with only a few allocations outside the formula. While the majority of state funding is allocated to school districts using a primary funding formula, states provide additional funding for select services outside the formula. These separate funding streams, called categorical grants, are designated for specific services or student groups. States fund services using categorical grants to increase oversight of how districts are spending state dollars or to allocate funds based on criteria different from the primary formula, such as a district's geographic size or by counts of specific student populations. Common services funded by categorical grants include high-cost services to support a student's IEP, student transportation, gifted and talented programs, and support for small and rural schools.

However, there are drawbacks to relying on many different funding streams. A state that uses dozens of different grant programs creates a complex funding picture for school district leaders and the public. For example, prior to the state's transition to the Local Control Funding Formula, **California** had more than 30 separate categorical grants that determined how much aid schools received from the state. One funding formula can be difficult to effectively communicate, but creating transparency for 30 different allocation methods can be excessively burdensome. In addition, categorical grants may or may not be mandated to increase with inflation or enrollment. If they are not, then funds can diminish in adequacy over time.

Nevada adopted the Pupil-Centered Funding Plan in 2019 with transparency as one of its four core concepts. This plan consolidated more than 30 different categorical grants previously allocated through the Nevada Plan largely into one centralized formula. The new formula provides a guaranteed basic level of support for each student in the state with multipliers for certain geographic areas and student groups. This approach allows the state to differentiate

funding to different communities without relying on numerous allocation methods. The plan also includes separate allocations for food services, transportation and special education based on actual school expenditures.

Collect and Share Spending Data

How funds are distributed to school districts is only part of the story; states can also help provide transparency in how those funds are spent by the districts. The Every Student Achieves Act (ESSA) requires states to publish school-level per student expenditure data — an important step for improving transparency for data previously available only at the district level. States can build upon this transparency by providing more detailed data. School expenditure information allows students and families to see how districts are prioritizing resources, and it can also help district leaders learn from the choices of high achieving districts.

The state can improve transparency of district expenditures by collecting and publishing data on online portals. This can be done by collecting and standardizing district spending information using common categories, such as the labels used by National Center for Education Statistics or the U.S. Census Bureau's Annual Survey of School System Finances. Spending categories could include general instruction, special education, child nutrition, career and technical education, transportation, operation and maintenance, and capital outlay.

Illinois adopted the Evidenced-Based Funding for Student Success Act in 2017. The act not only comprehensively changes how the state distributes aid, it also requires school districts, regional and laboratory schools, and intermediate service centers to complete an annual spending plan to make spending decisions publicly available — particularly for resources identified for specific student groups. The act directs districts to address three areas in the spending plan:

1| How they will achieve student growth and make progress toward state education goals.

2| Intended use of state dollars.

3| Intended use of funding dedicated for special education, English learners and students from low-income backgrounds.

The state publishes a statewide spending plan report to highlight key findings from the district plans and help the public interpret results from those plans.

Student Centered

Each student and their learning needs can be the focal point of state funding formulas. An increasing number of states have adopted student-based funding, which means the state allocates a base dollar amount for every student. Supplemental funds are directed to districts to support students receiving additional services like fulfilling the needs of a student's IEP or supporting a student learning English. ECS identified that at least 35 states and the District of Columbia have a student-based funding model.

Student-based models are attractive because they offer advantages for transparency, student equity and local autonomy. The formulas can be easily understood because there is a specified dollar amount allocated for every student with clearly defined weights. This helps district leaders and the public have a clear idea of how much state funding will be coming to the district. In addition, it is easy to adjust funding amounts based on student needs and unique district characteristics by multiplying the base amount by a weighted adjustment factor. Finally, districts have more latitude in how they use the funds, which gives district leaders greater discretion in how they allocate funds to meet the needs of their community.

Vision

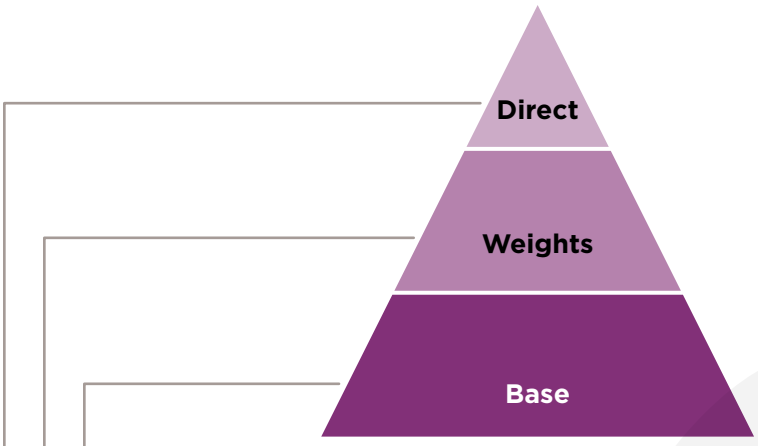
In a student-centered funding formula, dollars are allocated based on the learning needs of the individual students in the district. District leaders have the flexibility to use state resources to meet those needs based on the local context. The focus of the formula is on improving student outcomes and the funding system encourages student growth.

Policy Tools

State leaders prioritizing student-centered funding can incorporate each of the following policies into the design of their funding formula.

Adopt a Student-Based Formula

States can prioritize student-centered funding by enacting a student-based formula that allocates the majority of K-12 aid using enrollment counts and supplemental weights based on student characteristics and services. While each student-based formula varies to some degree, the basic structure is the same. There are typically three elements to a student-based funding formula:



- **Base amount**. The dollar amount allocated per student using an enrollment or attendance student count for the district. States may have a fixed base where every student receives the same amount or a variable base where the base amount differs by the grade level of the student or size of the district (the section on adequate funding formulas has additional details on base amounts).
- **Weights**. A multiplier that provides additional funding for students with certain characteristics or students receiving additional services. States may have single weight or multiple weights to further differentiate funding amounts based on student needs (the section on fair funding formulas has additional details on student weights).
- **Direct funding**. When a state allocates additional dollars to schools and districts to further state goals, which could include improving teacher pay, establishing community schools or supporting early literacy programs. Some states allocate these resources to incentivize early postsecondary completion, earning an industry-based certification, or achieving proficiency or growth goals for standardized tests.

Mississippi adopted the Mississippi Student Funding Formula in 2024 to replace their 27-year-old formula. The new formula sets the base amount of $6,695 per student and is adjusted for inflation through 2028. The new formula shifts from attendance to enrollment for counting students for funding purposes and updates their count of students from low income backgrounds to use direct certification in benefit programs. Both of these decisions improve the accuracy of how students are counted to better reflect how many students each district must be prepared to instruct. The cost to the state to implement the formula is estimated at more than $200 million.

The new formula also makes significant changes to the funding weights, including:

- Students from low-income backgrounds: 30% (was 5%) and adds a concentration factor of 10% (new) for districts with at least 35% of students from low-income backgrounds.
- English learners: 15% (new).
- Students in special education classes: 60% - 130% (replaces resource-based approach).
- Career and technical education: 10% (new).
- Sparsity: 0-8% (new).

Permit Local Spending Flexibility

States can empower local district leaders to make the spending choices that best reflect the needs of their students. In student-based funding formulas, state dollars are allocated to support students, not specific positions or programs. This flexibility allows school districts to determine where funds can have the greatest impact and permits experimentation and innovation, rather than locking districts into a predetermined path. For example, state dollars directed to schools to support students from low-income backgrounds could be used by districts for a wide range of services, including teacher recruitment or retention efforts in schools that are hard to staff, providing extended learning opportunities for students or establishing a community school to offer students a wide range of services within the school building.

The increased flexibility does not mean the state plays no role in how funds get spent. The state can monitor investments and require reporting to make sure dollars are used to support the intended students and are getting positive results. In addition, the state can provide technical assistance and guidance on best uses for the dollars based on spending choices in districts with high levels of student performance.

California adopted the Local Control Funding Formula in 2013 to replace a complex funding system with revenue limits and categorical programs. The formula was designed to address the numerous shortcomings of the previous funding system by giving more discretion to school districts in how they use funds and encouraging local innovation rather than a compliance-oriented approach to spending. The state also implemented new accountability standards to accompany the increased local flexibility. Districts are required to submit local control and accountability plans that set goals and priority areas, identify performance measures and solicit input from stakeholders.

Initial reviews suggest the new formula significantly improved academic achievement on standardized tests, reduced grade repetition, lowered suspension rates and increased graduation rates. Investments in reduced class size, increased teacher salaries and teacher retention efforts were associated with improved outcomes.

Focus on Outcomes

A student-centered funding formula permits local leaders to cater spending decisions to the needs of their students. States can provide oversight and offer financial incentives to encourage districts to spend resources in ways that yield positive results for students. Districts can be offered financial incentives if they improve student performance on standardized tests, boost student completion of early postsecondary coursework or increase the number of students earning an industry-recognized credential. The dollar amounts for achieving state goals can be higher for certain student groups as mentioned above.

Texas created the College, Career, or Military Readiness Outcomes Bonus in 2019. These incentive funds reward high schools for preparing graduates for college, a career or the military through participation in Texas' early college programs. High schools start to receive funds when a threshold percentage of students meets the college, career or military readiness goals. This includes completion of an associate degree or earning an industry-based certification. Districts receive $5,000 for students from low-income backgrounds that meet this standard and $3,000 for students who are not from low-income backgrounds.

Adequate

One of the most fundamental goals for a K-12 funding formula is to ensure it provides sufficient resources to schools to meet desired outcomes for students. The adequacy of state funding investments is a long-litigated topic in states. States have defined adequacy in two ways:

- Legal adequacy. The state meets constitutional obligations to oversee and fund K-12 education based on the state's education provision.
- Educational adequacy. Funding levels are sufficient from the state to support the education needs of students to achieve state standards and goals.

Despite this point of emphasis, states fund K-12 schools at very different levels. In 2022, K-12 funding varied from approximately $27,500 per student in **Vermont** to $10,300 per student in **Utah**. These amounts adjust for cost-of-living differences using the Comparable Wage Index for teachers. Similarly, the share of funding the state takes on varies significantly from 85% of K-12 costs in **Hawai'i** to 29% in **New Hampshire**; this is based on the U.S. Census Bureau's Annual Survey of School System Finances.

States can ensure their funding formulas are designed to adequately fund public education and meet both legal and educational definitions of adequacy. For example, states can set the base per student amount using a research-informed method rather than based on available resources. In addition, states can support competitive and sustainable wages for teachers. Finally, adequate funding formulas can provide additional streams to support students in directed initiatives that enrich their educational experiences.

Vision

Schools have ample resources to sufficiently pay staff and provide services for students. Students can choose from a variety of courses, including advanced, dual enrollment, career and technical, and work-based learning options. Schools have sufficient staff to offer manageable class sizes and access to learning specialists and mental health professionals. Everyone in the school building has access to safe learning and working conditions.

Policy Tools

State leaders prioritizing adequate funding can incorporate each of the following policies into the design of their funding formula.

Use a Research-Informed Base

Many states set a base foundation amount that is provided for every student in their K-12 funding formula. ECS identified that 32 states and the District of Columbia established a base amount in 2024. The dollar amount of the base is one of the most significant policy decisions state leaders make in designing their K-12 funding formula. The base determines the guaranteed foundation amount allotted for every student. In addition, the base is multiplied by the supplemental weights in the formula and therefore influences the amount of aid provided to different student groups.

In a review of base funding, Bellwether summarizes some of the common research methods used to determine adequacy of the base.

- Cost function studies generate per student adequacy estimates based on quantitative models linking education spending, student need and district characteristics to student outcomes data.
- Professional judgment panels create estimates based on a series of expert panels to identify the resources necessary to achieve policy goals. The panels often include educators, other types of practitioners, researchers, and professionals with specific knowledge and expertise. Evidence-based studies use literature reviews to specify needed resources.
- Successful school district models identify high-performing districts within the state to inform adequate funding levels.

Maryland established the Commission on Innovation and Excellence in Education in the 2016 legislative session to review and update the current funding formula and develop policies and practices to raise Maryland's school performance. The commission had 25 members, including the Chancellor of the University System (chair) and appointees from the governor, house speaker, senate president and representative associations. The commission's work led to the adoption of the Blueprint for Maryland's Future in 2021. Among its many changes, the blueprint phases in an increased base amount recommended by the commission to consider additional costs not previously included. The base amount increases from $8,310 in the 2022-23 school year to $8,642 in 2023-24 and continues to increase until it reaches $12,365 in the 2032-33 school year.

New Jersey enacted the School Funding Reform Act in 2008 that established a process for the governor in consultation with the commissioner of education to issue an Educational Adequacy Report every three years. The report must update the base per student amount in the funding formula guided by the current curriculum standards and update the adequacy of other components of the formula (e.g., weights for different student groups and student transportation). The base amount in New Jersey was initially determined through a series of professional judgement panels and is kept current through inflation adjustments using the Consumer Price Index. By requiring the issuance of this report, the state has established a process to regularly review the adequacy of their formula.

Support a Strong Teacher Workforce

Teachers are one of the most important factors influencing student success in a classroom, and their compensation is a crucial tool for recruiting and retaining a strong workforce. Surveys show that pay is a top factor in teachers' decisions to leave the classroom. Unfortunately, teachers experience a pay penalty, or the deficit between the average teacher salary compared to other college graduates, which was 26.6% in 2023. Educator salaries and benefits are also a large cost for schools — representing more than half of school operating expenses.

States have a role to play to ensure that teacher pay is competitive. States may determine teacher salary schedules or set a minimum teacher salary. For states with minimum salaries, a higher starting salary can attract new teachers to the field. Similarly, states with salary schedules can set competitive pay levels for experienced teachers to retain talent. Most states do not have either a salary schedule or minimum pay requirement. Instead, they leave teacher salaries to local district discretion. In these states, leaders have additional tools such as bonuses or incentives for teachers to take on traditionally understaffed positions. States can encourage teachers to take specific, in-demand roles to address teacher shortages by offering bonuses or incentives to teachers in areas such as special education; science, technology, engineering and mathematics (STEM); or rural positions.

Hawai'i provided a $10,000 pay differential for special education teachers in the 2020 budget. Teacher shortages are often most severe in specific programs or geographic areas, and special education frequently has the most severe shortages. Teachers can also earn a higher salary for serving in a hard-to-staff school in select geographic areas. The pay differentials can be stacked, meaning a special education teacher in a hard-to-staff school could earn an additional $18,000 a year. After this pay differential was implemented, Hawai'i saw a 16% increase in licensed special education teachers and the number of open positions decreased by almost half.

New Mexico passed legislation in 2022 that increased the pay for each tier of teacher by $10,000. The increases made New Mexico's teachers the highest paid in the southwest region. The following year, the state increased the stipend amount for their teacher residency from $20,000 to $35,000, which enabled training teachers to earn a more sustainable wage. The increases resulted in a beginning level one teacher earning $50,000, level two teacher earning $60,000 and level three teacher earning $70,000.

Develop Student Pathways

Student pathways give students learning opportunities that are personalized and connected to practical experiences that prepare them for postsecondary, career and civic life. State leaders can help offset costs associated with work-based learning and dual enrollment programs as one tool to address access barriers. These programs can require additional staffing or have additional costs like technology, equipment or transportation that may be a barrier for rural or under-resourced schools. States can direct funding for these programs to help schools offer a wide array of pathways for students to pursue.

Indiana established the Career Scholarship Account program in 2023. The program provides funds for students in grades 10-12 to pursue approved apprenticeships, applied learning experiences, work-based learning and credentials. Students can use funding to cover a variety of approved expenses, including program participation costs, postsecondary coursework, career navigation and coaching services, equipment and certification exam fees. Under the legislation, students are required to develop graduation plans that outline courses, sequences, apprenticeships or programs of study aligned with their career goals to receive funding.

Fair

States play an important role in balancing differences in local wealth and directing resources to students who may need additional support. While adequacy addresses the overall level of support, the fairness of school funding examines how states distribute their resources to districts. Schools rely heavily on local property taxes to fund public education with more than one-third of total revenue for schools coming from property taxes. Yet due to residential segregation, stark differences exist across district lines in terms of the home prices used to generate revenue, which results in education funding inequities between districts and opportunity gaps for students.

States can overcome these boundaries and design funding formulas that allocate resources where they can have the greatest impact. Studies have shown that investments can make a bigger impact for improving student outcomes when they are directed to under-resourced districts. A fair funding system is one that ensures students who need additional supports are given the resources they need to be successful.

In a fair funding formula, resources are prioritized to schools where students have the most complex learning needs and to districts where local resources are most limited. States can implement multiple policies to improve these efforts, including weighting funds so that students receive funding from the state commensurate with the cost of services. In addition, states can be intentional in splitting the cost of education to accurately account for local revenue capacity. Finally, states can direct resources to support particularly high-cost services.

Vision

The state directs resources to where the dollars can have the greatest impact for improving student learning. In cooperation with districts, the state accurately identifies the learning needs of students and allocates aid based on that information. Local districts are not expected to contribute more than their local tax base can support and wealthier communities take on a larger share of supporting their local schools.

Policy Tools

State leaders prioritizing fair funding can incorporate each of the following policies into the design of their funding formula.

Implement Weighted Funding

States allocate supplemental funding for students and districts with additional learning needs to receive specialized instruction or supports. In a student-based formula, funding for these student groups is often allocated using single or multiple funding weights that are multiplied by the base amount. For example, a state with a base amount of $10,000 per student and an additional weight of 30% for English learners distributes $13,000 for every English learner. In the 50-State Comparison on K-12 Funding, ECS identified that many states use weights, either a single weight or multiple weights, to support services for different student groups.

States With Funding Weights for Student Populations

Student and District Characteristics	# of States
Special education services.	30 and the District of Columbia
English learners.	39 and the District of Columbia
Students from low-income backgrounds.	36 and the District of Columbia
Small size or rural districts.	24

In states with multiple weights, the different weights can be assigned based on many criteria. For example, for special education services, the weights can be assigned based on:

- How much the student's disability impedes activities of daily living (often described as mild, moderate or severe).
- The specific disability determined in the Individualized Education Program (e.g., visually impaired students receive one weight and autistic students receive another weight).
- The placement of the student (e.g., students who are educated out-of-district or in a private facility receive a higher amount).

The size of the weight or weights is a critical decision in the design of the funding formula and research-informed methods can ensure that they are appropriately set in the formula. For students from low-income backgrounds, states can weight funding based on concentration factors to ensure districts with high levels of poverty have sufficient resources.

Massachusetts established the Foundation Budget Review Commission to determine the education programs and services necessary to achieve the commonwealth's education goals. The commission's final report included recommendations to change the methodology to determine the weights for special education services, English learners and students from low-income backgrounds. Massachusetts later enacted the Student Opportunity Act that will increase state resources for school districts in the commonwealth by $1.4 billion when phased in. It increases resources directed to districts with high concentrations of English learners, students from low-income households and students in special education programs.

Direct Funding to High-Cost Special Education Services

Students receiving special education services under the Individuals with Disabilities Education Act receive myriad services that may require specialized staff (e.g., speech language pathologists, audiologists, and experienced and certified special education teachers). States can offer state aid to help defray some of the expenses for particularly high-cost services, such as students requiring out-of-district placements. The costs for these services can be significantly higher than costs for students in general education courses and can reach as high as $70,000 per student.

> Increasing numbers of students are receiving special education services in recent years. There are now 7.5 million students ages three-21 with an Individualized Education Plan, representing 15% of all public schools students and an increase from 13% in 2012-13 school year. This growth may be due to the improved ability of educators and staff to appropriately identify student needs, yet it also carries significant costs for schools.

Challenges in appropriately identifying students for special education services can also explain some variance in how many students qualify in each state, which can be as few as 6.4% of students ages six-21 years old and as high at 15.1%.

To avoid placing disproportionate spending pressures on certain districts, states provide high-cost special education funding on top of traditional special education subsidies. ECS identified 21 states that provide high-cost services funding. The most common determination for eligibility to receive high-cost service funding is a specific dollar threshold, which is done in eight states, and ranges from $10,000-$65,000. States may also award funds if costs exceed a threshold level compared to average per student expenditures.

New Hampshire pays Special Education Aid for students receiving special education services with particularly high costs. The state reimburses 80% of costs for students whose costs exceed 3.5 times the average expenditure per student and 100% of the costs for students whose costs exceed 10 times the state average expenditure per student. However, in recent years, spending pressures have lowered state contributions below these reimbursement levels.

Wisconsin provides High-Cost Special Education Aid to school districts for students with an IEP who have non-administrative special education costs in excess of $30,000. School districts apply to the state for reimbursement for eligible costs, which include salaries and benefits of licensed staff who provide support or instruction, supplies, transportation and out-of-district placement costs. The state appropriated $14.5 million for these services in 2024-25.

Adjust for Differences in Local Wealth

States can play a role in balancing out differences in local property wealth to level the school funding landscape. States can implement school finance equalization policies to supplement local tax revenue in low wealth communities.

To understand how these policies function, assume there are two school districts — District A and District B. Both have the same local property tax rate, but District A has properties valued at twice the amount per student as District B. In this example, District A would generate far greater revenue to support schools than District B. However, with an equalization policy, the state would cover all or a portion of the difference in this revenue gap for District B up to a certain level of funding per student.

States can also be cautious of factors that mitigate the impact of equalization policies. For example, states may have a minimum aid percentage in their formula that sets a floor for state contributions to ensure all districts receive state aid. For example, **Virginia**'s Local Composite Index is capped at 80%, which means the state does not take on less than 20% of required K-12 costs for any district. These requirements direct state dollars to more affluent districts that may have the revenue capacity to fund their schools almost entirely with local dollars.

Utah helps to balance revenue provided for the Minimum School Program by equalizing revenues generated by its Basic Levy. Each year, the state sets a base dollar amount that must be provided for each student and a basic tax rate that localities must administer. The state funds the difference between the minimum required spending per student and the local revenue generated by the basic rate. This approach to school finance equalization guarantees each district a given level of revenue from a uniform tax property tax rate.

Vermont is the only state with a state-level property tax system to fund public education. In other states, localities and districts set property tax rates and collect their own resources to fund public schools. While the state may place limits on revenue increases or require local referendums, this approach can result in inequity of resources across district lines. In contrast, Vermont adopted the Equal Educational Opportunity Act in 1997 and Act 68 in 2003 to create a shared revenue pool statewide. In Vermont, property tax rates are determined by the Vermont Department of Taxes based on locally adopted and voter approved school budgets and student enrollment counts. As a cost control measure, the state adopted an Excess Spending Threshold to discourage a school district from spending significantly more than other districts.

Sustainable

States can be a stabilizing force for schools and ensure that they have necessary resources regardless of economic conditions. State governments are the primary funding source for K-12 education nationally and have greater revenue capacity than individual school districts. Yet K-12 education is a discretionary item in state budgets, which means that it competes with other funding priorities during the budget cycle. In 2024, K-12 represented more than one-third of state discretionary spending. This means the state leaders choose whether to prioritize K-12 education and put in place protections to ensure the state has resources available.

During the Great Recession, many states and localities pulled back support to balance budgets with limited revenues. The recession resulted in a 6.5% decrease in K-12 funding per student in inflation adjusted dollars at the height of the reductions in the 2012-13 school year. Despite improved fiscal conditions in the years that followed, many states were slow to recover to pre-recession funding levels. School districts find themselves in a similarly unstable fiscal environment in 2025. In September 2024, districts reached the spending deadline for the last of the $190 billion in emergency relief aid from the Elementary and Secondary School Emergency Relief provided in the wake of the COVID-19 pandemic. Meanwhile, many school districts are experiencing enrollment declines further imperiling their finances.

States can be a buffer for districts from economic headwinds by prioritizing the sustainability of state resources and building in protections to how they allocate funds. For example, the state can design inflationary adjustments into the calculation of the base amount allocated per student to keep the purchasing power constant. The state can also create a trust fund dedicated to public education or build robust state reserves, so the state has resources to dip into during difficult times. Finally, the state can dedicate a diversity of revenue sources to support K-12 rather than relying exclusively on general funds to protect against revenue volatility.

Vision

In a sustainable funding formula, the state funding provided to districts is stable and does not vary based on fluctuating economic conditions. States have a reserve fund and dedicated revenue to ensure state aid is sufficient and allocated in a dependable manner. Teachers and staff can focus on student learning rather than worrying about job security. Changes or updates to funding are clearly communicated and phased in appropriately.

Policy Tools

State leaders prioritizing sustainable funding can incorporate each of the following policies into their funding formulas and budgeting process.

Incorporate Inflation Factor

The drastic impacts that inflation can have on purchasing power took center stage in recent years when the Consumer Price Index reached a 40-year high of 8.5% growth in 2022. Inflation has similar impacts on the ability of schools to operate as technology, school supplies, and building maintenance and operation costs rise with the price of goods in the economy. States can improve the sustainability of their aid to districts by annually adjusting funding levels with a measure of inflation. For example, some states have incorporated an inflationary adjustment into the state's calculation of the base amount awarded per student. States may also factor in inflationary adjustments for minimum salary standards or pay scales for teachers or for K-12 programs funded outside the formula.

Kansas adopted a K-12 education budget in 2019 that established a new process for adjusting the state's Base Aid for Student Excellence. With the leadership of the governor and under pressure from the Kansas Supreme Court, the state adopted a new policy to adjust the BASE amount annually by the three-year average for the Consumer Price Index for urban consumers in the Midwest region. The inflation adjustment is applied to the preceding school year's BASE amount and provides consistent, stable growth for the state aid going forward.

South Dakota enacted legislation in 2024 establishing a statewide minimum teacher salary of $45,000 and requiring the state to determine the average teacher salary for each district. Rather than leaving this as a fixed amount, the state took action to ensure it grows with the cost of living. The state requires the minimum teacher salary and average teacher salaries to increase at a rate greater than or equal to the change in the state's target teacher salary. This target is indexed with the Consumer Price Index and capped at 3% annual growth.

Grow Stabilization Funds

As a discretionary item in state budgets, K-12 funding levels are prone to swings with the economy. Drastic changes in state spending levels are undesirable because they are disruptive to school operations — creating uncertainty for the continuation of school programs and staffing levels. To prevent these swings in funding, states can grow their reserves by allocating a share of revenue surpluses in good economic times to a stabilization fund (also called a rainy-day fund). States have grown their reserve funds to historic levels in

recent years with positive economic conditions in many states. To maintain a necessary balance in the reserves, states can set goals for reserves to be a specific percentage of general fund operations, place limits on withdrawals or dedicate a share of budget surpluses to be placed in the reserve. For example, Tennessee dedicates 10% and Louisiana dedicates 25% of revenue surpluses for their reserves.

States can also establish a dedicated education trust fund where the state invests revenue to support a specific K-12 education fund rather than K-12 competing with other priorities from the general fund. States that establish these funds typically have a revenue source other than general funds to support it.

Alaska maintains the Public School Trust Fund to help support public education. The fund was initially created with revenues from the sale or lease of federal land granted to Alaska in 1915 when it gained statehood. The state now dedicates a maximum of 5% of the fund each year for public education after enacting legislation in 2018 to award funds based on a percent of its market value. In 2024, the fund has grown to more than $800 million. While the fund represents a relatively small share of overall K-12 aid going to districts, the reserve fund dedicated specifically to K-12 education does offer some financial stability. During the Great Recession, Alaska state aid dipped by less per student in inflation adjusted dollars than other states. Based on data from the U.S. Census Bureau's Annual Survey of School System Finances, it dropped by just 1% from 2008-2012 compares to much larger declines nationally.

Dedicate Revenue to Support K-12

State revenue that supports K-12 education largely comes from general funds that can come from several main revenue streams. Nationally, state revenue largely comes from individual income taxes (19%), general sales tax collections (14%), excise taxes on select goods, such as alcohol, tobacco and motor fuel (7%), and transfers from the federal government (37%). Relying on a mix of revenues can help protect against volatility if an economic downturn impacts one source more severely than others. For example, taxes on energy extraction are particularly volatile. Yet as a supplement to general funds, some states have gone further and dedicated a portion of a specific revenue source to support public education.

Examples of revenue states have dedicated to public education include a portion of general sales tax, lottery or casino gaming taxes, and severance taxes on fuel. States can also look to smaller revenue sources, such as corporate income or capital gains taxes or fines, fees or forfeitures as a supplement to general fund investments.

Washington is one of nine states without a personal income tax on wage and salary income to support state investments in K-12. In 2021, the state enacted legislation creating a 7% capital gains tax on stocks, bonds and other investment profits in excess of $250,000 per year. The state dedicated the first $500 million collected each year to the Education Legacy Trust Account, which supports child care, preschools, special education, and community and technical colleges, and the remaining funds are distributed to the Common School Construction Fund. In 2024, an initiative to repeal the new revenue source was rejected by almost two-thirds of voters in Washington.

Wyoming dedicates revenues for the School Foundation Program from the sale of state lands, federal mineral royalties (Wyo. Stat. Ann. § 9-4-601) and severance taxes on oil, gas and coal extraction (Wyo. Stat. Ann. § 39-14-801). Combined, these revenue sources generated $995 million to support public education in Wyoming in the 2023-24 fiscal year. Wyoming regularly ranks as a leading state for its investments in public education because of these revenue sources it's dedicated for education.

Final Thoughts

As the largest funders of public education, how states allocate funds to schools is deeply impactful on potential student outcomes. This toolkit offers a beginning framework for improving state K-12 funding systems by highlighting five principles to consider and 15 best practices to incorporate.

This list is not exhaustive. However, it can serve as a place to begin conversations about reforms. State leaders can expand upon this list with collaboration and input from schools and community leaders. Topic areas not fully discussed in this resource include student transportation, access to free and nutritious school meals and the availability of school-based mental health resources. Ongoing and robust communication with the public can help state leaders expand upon this starting point and construct a K-12 funding landscape that truly meets the needs of the students, families and educators they serve.

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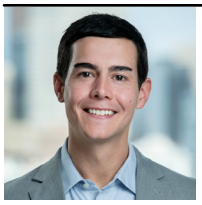

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