

# THE STUDENT-CENTERED FUNDING ACT

## *Policy Status*

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### The Student-Centered Funding Act

#### *Summary*

The Student-Centered Funding Act would create a student-centered finance model based on a weighted student formula in which money “follows” a child to his or her school.

#### *Purpose*

In any given state, education funding accounts for roughly half of the general fund budget. A growing number of states are embarking upon school finance reform to improve their education finance systems; to more closely align funding to actual education costs based on the unique needs of students and their schools; and to improve public accountability through transparency that links education funding (inputs) to student achievement (outputs). Student-centered funding is based on a weighted student formula that helps ensure more funding is allocated to students with more expensive educational needs. It goes by several names including results-based budgeting, student-based budgeting, “backpacking,” or fair-student funding. Today, individual

schools are held accountable for results, but principals have negligible autonomy since decisions about budgeting, expenditures, curriculum, and hiring are largely made by district, state, and other officials outside individual schools. Integral to meaningful accountability, then, is: (1) empowering principals to act as leaders of their schools over these matters; and (2) empowering parents to pick the public schools they believe best meet their children's unique, individual needs.

### ***Advantages***

(A) The varying costs of educating students can be more accurately and equitably determined based on such factors as grade level, socioeconomic, language, achievement level, and disability status;

(B) The actual costs to schools of educating students can be more accurately and equitably determined based on such factors as size, location, and regional cost factors, which can vary widely among schools within the same district;

(C) Funds follow students to whichever public school they attend, both district and charter, which better ensures that funding can be more accurately adjusted to meet the real costs to schools of all sizes and locations of educating various students based on their unique characteristics;

(D) The budgeting process becomes more predictable and transparent because it is based on real dollars and actual costs, not staff positions; and

(E) Parents, regardless of income or address, have a greater array of education options for their children based on their unique, individual needs.

### ***Model Legislation***

#### **Section 1. {Title} Student-Centered Funding Act**

#### **Section 2. {Definitions}**

(A) "Program" means the Student-Centered Funding Act in this sub-chapter.

(B) "Student" includes all children of school age eligible to attend a public district or charter school in the preceding semester or is starting school in the state for the first time.

(C) "Weighted student formula" means foundation student funding from state sources. It includes additional funds, "weights," based on percentages of foundation funding revenue to offset the higher education costs associated with certain student and school demographics. For students,

these include grade level, poverty, language, achievement level, and disability status. For schools, these higher associated costs include school size and location, such as urban or rural.

(D) "Parent" includes a guardian, custodian or other person with the authority to act on behalf of the child.

(E) "School" means a public district school or charter school within or outside of the resident school district.[1]

(F) "School Funding Task Force" means district school or charter school principals, teachers, administrators, parents, and others appointed by each district school's or charter school's board.  
[2]

### **Section 3. {Basic Elements of the Student-Centered Funding Act}[3]**

(A) Public School Funding – Foundation Funding and School Funding Task Force.

(1) The total amount of funding received by the school district from all state and local sources, including all taxes collected by or on behalf of the school district, according to state law shall be distributed to all public schools in the district, including district-sponsored charter schools, pursuant to the distribution formula,[4] except that the school district may retain:

(a) up to five percent of that total funding received by the school district for the costs incurred for providing centralized services[5] to the schools, including district-sponsored charter schools, in the district;

(b) any amount collected by the school district for the repayment of bonds issued pursuant to this title; and

(c) any amount received by the school district for capital construction.

(2) Each district and charter school's board shall adopt a formula for the distribution of foundation funding to each public school in the district, taking into account the recommendation of the School Funding Task Force appointed pursuant to subsection (5) of this section. The formula shall consist of a foundation funding amount for each student, multiplied by student and school factors or weights that recognize the additional costs incurred in educating identified categories of students and the varying costs in providing that education by identified categories of schools.

(3) The distribution of foundation funding shall be phased in over a three-year period to allow time for districts and schools to adjust; however, the 95 percent minimum level of total school district funding, excluding the funds described in subsections (1)(a-c) of this section, shall be fully implemented after the three-year phase-in period has expired.

(4) No later than seven years after the implementation of the student-centered funding system, all school districts must cross-charge each school for the actual salary and benefits of the employees at individual schools.[6]

(5) The board of each district or charter school shall appoint a School Funding Task Force that includes, at a minimum, principals and teachers employed by the school district or charter school, administrators and teachers who work in the area of special education, and parents of children enrolled in the school district or charter school. The School Funding Task Force shall make recommendations to the board of each district or charter school concerning the structure of the district or charter school distribution formula, including but not limited to, the foundation amount of funding, the student and school factors or weights to be considered for additional funding, and the proposed amount of funding for each student and school factor or weight.

(6) The School Funding Task Force shall:

(a) create a list of student and school factors that will be weighted, including their unit value, such as student grade level, poverty, language, disability status, and academic achievement level;[7] and other relevant school demographics such as size and location, urban or rural;[8]

(b) recommend a weighted student formula to the district or charter school board in which funding will follow each child, on a per-student basis, including details concerning the three-year phase in of district funding to schools as well as charging districts for actual teacher salaries and benefits;[9]

(c) recommend funding that follows the child will arrive at the schools as real dollars—not as teaching positions, ratios, or staffing norms—that can be spent flexibly, with accountability systems focused on results rather than inputs, programs, or activities;[10]

(d) recommend that the principles for allocating education funding will apply to all revenue categories, local, state, and federal;

(e) recommend procedures to ensure funding systems and budgets (including all line-item revenues and expenditures) will be made transparent to administrators, teachers, parents, and citizens; and

(f) perform any other function that may facilitate the implementation of the weighted student formula.

(7) The districts or charter school boards shall annually reconsider, and if necessary, adjust the distribution formula to ensure the appropriate distribution of funding to schools. In reviewing the distribution formula, the district or charter school board shall consult with and take into account the recommendations of the School Funding Task Force.

#### (B) Public School Funding – Categorical Aid Programs.

(1) The proportionate share of funding from federal and state categorical aid programs shall be distributed to each district or charter school based on the number of students who are eligible to receive services through the categorical aid programs based on verifiable student need.[11]

(2) Remaining categorical funding relating to specific uses of funds such as class size reduction shall be distributed in a block-grant form, contingent upon regular evaluations of effectiveness in improving student achievement.[12]

#### (C) School Budgets.

(1) The principal of each district school or district-sponsored charter school shall annually create and submit a school budget to the school district administration. In developing the annual budget, the principal shall use a process that involves school employees and parents with children enrolled at the school. The principal, employees, and parents shall comply with budgeting and accounting practices and standards as set forth in state law as they apply to an individual school.[13]

(a) Any remaining funds in a school's account at the end of a budget year shall remain in the school's account and shall not revert to the school district, or other agency in the case of directly-funded charter schools.

(b) Remaining funds belong to the individual school to be used at the discretion of the school principal. Individual schools shall adopt policies concerning the role the school's board, employees, and parents of children enrolled in the school will play in advising the principal about the use of such funds.

(c) Any deficit remaining in a school's budget at the end of a budget year shall be the responsibility of the school. Individual schools shall adopt policies concerning the role the school's principal, board, employees, and parents of children enrolled in the school will play in advising the principal about resolving such deficits.

(2) The principal of each public district school or district-sponsored charter school shall submit a copy of the school budget to the school district superintendent. In the case of directly-funded charter schools, the budget should be submitted to the appropriate agency head in accordance with the time frame specified in the school's charter contract.[14]

(3) Each public school district shall maintain the budget record for their public schools, including district-sponsored charter schools, as part of the centralized services provided to each school. Directly-funded charter schools shall maintain their financial records. School districts and directly-funded charter schools shall make school budgets and related records public, including but not limited to posting such records online.[15] The school district shall pay the costs of maintaining and publicizing the school's financial records from the five percent of the funding reserved for school district administration pursuant to subsection (A) (3) of this section.

#### **Section 4. {Accountability Standards}**

(A) **State responsibilities:** The primary purpose of each public school in the state is to facilitate the academic achievement and growth of enrolled students.[16]

(B) **Teacher responsibilities:** Each teacher, in consultation with students' parents or legal guardians and students where age-appropriate, shall establish academic growth goals for the student at the outset of each academic year and shall regularly measure students' academic growth throughout the school year. In measuring each student's progress toward achieving those goals throughout the school year, the teacher shall use a variety of assessment tools selected by the principal and faculty of the public school.

(C) **Principal responsibilities:** The principal of each public school in the state shall:

(1) ensure that each licensed employee at the school is held accountable for student achievement through an employee evaluation process. At a minimum, the principal shall annually evaluate the degree to which the teacher meets the requirements specified in subsection (B) of this section;

(2) ensure that the school operates in an environment that empowers parents to be involved in their children’s education. At a minimum, the principal shall ensure that the procedures at the school require a teacher to communicate in person with a student’s parent or legal guardian if the student is not meeting his or her academic achievement goals.

**(D) District/Chartering Entity’s responsibilities:** At least annually, the school district superintendent or designee, or in the case of a directly-funded charter school the chartering entity’s designee, shall evaluate the performance of each school principal. The district or chartering entity’s designee shall ensure that the principal is held accountable for the overall level of academic achievement at the school. At a minimum, the principals’ evaluations shall assess their performance as stipulated in subsection (C)(1) and (2) of this section.

**Section 5. {Effective Date}** The Student-Centered Funding Act will be in effect beginning with the fall semester of the next school year.

### *Endnotes*

These notes are intended to provide guidance to legislators on some of the key policy questions they will encounter in drafting and debating such legislation.

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[1]. (a) Legislators may want to include definitions of special schools and districts already contained in state law, including vocational schools, or schools in special districts. (b) This model legislation allows students to use their weighted student funding to attend the public school of their parents’ choice, including district-sponsored charter schools and directly-funded charter schools authorized by another agency provided in state law. This model legislation includes charter schools to provide the widest array of education options possible to parents; to ensure a uniform student-centered public school finance system; and to promote funding equity, adequacy, and transparency among all public schools. Legislators will want to consider whether inclusion of district-sponsored and directly-funded charters is optimal, since existing funding mechanisms for charter schools may already accomplish those goals. (c) A student-centered public school finance model also compliments efforts to expand private-school choice because it is grounded in the principle that public funding is first and foremost for the benefit of students not school systems. As a practical matter, calculating the fiscal impact of various private-school choice programs, both voucher programs and tax-credit scholarship programs, is much more precise because the fiscal impact to particular schools and districts when students transfer can be readily identified under a student-centered public school funding system. The ALEC Education Task Force has several pieces of private-school choice model legislation, See, for example, the Foster Child Scholarship Program Act; Great Schools Tax Credit Program Act; Military Family Scholarship Program Act; Parental Choice Scholarship Program Act (Means-Tested Eligibility);

Parental Choice Scholarship Program Act (Universal Eligibility); Parental Choice Scholarship Program Act (Universal Eligibility, Means-Tested Scholarship Amount); and the Special Needs Scholarship Program Act.

[2]. This bill designates local School Funding Task Forces instead of a statewide government agency because those members will know local student and school needs best. Moreover, because local schools are now accountable for performance, school principals, teachers, and staff working together with parents must have the autonomy over school funding for operations, staffing, and programs.

[3]. This model legislation draws heavily from legislation introduced by Colorado State Senator Keith King, ALEC Education Task Force member. Legislators interested in additional empirical examples of current state and school district weighted student formula programs may also consult Lisa Snell, *Weighted Student Formula Yearbook 2009*, Reason Foundation, April 2009, <http://reason.org/news/show/1007452.html>; and the Thomas B. Fordham Institute's "Fund the Child" Web site, <http://www.edexcellence.net/fundthechild/>; and *Fund The Child: Bringing Equity, Autonomy, and Portability to Ohio School Finance*, March 2008, [http://www.edexcellence.net/detail/news.cfm?news\\_id=381](http://www.edexcellence.net/detail/news.cfm?news_id=381).

[4]. (a) State and local "foundation" funding typically includes a minimum funding amount determined by the state from a combination of state and local revenue sources. It may include funding for such things as classroom funding (teachers' salaries, books, supplies, etc.); capital (both "hard" for buildings and other brick-and-mortar costs; and "soft" for desks, chalkboards, etc.); and transportation. Ideally, this foundation amount should be tied to an annual cost-of-living index and be adjusted accordingly each year. This guarantee helps ensure schools are adequately funded for the basics and is preferable to more complicated systems that rely on block-grant funding or earmarked programmatic funding, which contributes to large variances among schools and districts. Legislators interested in simplifying their states' education finance systems and expanding education options may want to propose rolling various state categorical programmatic funding into the foundation formula funding to promote simplicity and more reliable funding for schools in exchange for funding portability that allows students to take their per-pupil funding to another public school, district or charter school. (b) In the case of directly-funded charter schools, namely those that are not sponsored by a school district, total funding received should still be distributed as described in this section on a per-student basis, weighted for various student and school factors. Charter school funding structures often differ from district public school funding structures; however, all public school funding, regardless of public school type, should be based on and distributed according to actual student and school costs.

[5]. A concern legislators may encounter is that local school personnel may not be equipped to develop and oversee school budgets. In this case, legislators may want to include the operation of principal and aspiring principal academies designed to train them in school budgeting and related matters as part of the centralized services they offer. Districts that do not wish to offer principal and aspiring principal training academies would forfeit the portion of centralized service funding for this purpose. That portion could then be directed to qualified private sector entities, public or



private postsecondary institutions or individual schools themselves to hire school finance experts and run training academies on site. Provision for such academies is an important component of the weighted student-centered finance system since a leading objection is that principals lack the necessary expertise to perform various school budgeting functions. Absent such training, district officials would largely control school budgets, undermining the advantages of local control under a student-centered finance system. Provisions for annual evaluations of such academies should also be included such as participant evaluations to ensure funding is used effectively and efficiently. Provisions for leftover funds should also be included. Ideally, reserved funds would remain with the training provider, and training academy budgets, including line-itemed revenues, expenditures, and leftover funds or deficits, should be publicly available.

[6]. Legislators can recommend a shorter timeframe if they prefer; however, this transition should not take longer than seven years. Many experts prefer using actual teacher salaries and benefits rather than average teacher salaries and benefits to minimize inequities in school funding allocations, increase transparency, help schools hold teachers accountable for performance, and help distribute teacher experience more evenly between high- and low-poverty schools. Legislators should be aware that teachers' unions typically oppose using actual salaries claiming that publicizing salary distinctions among members creates tension. Unions also claim more expensive veteran teachers could be discriminated against by principals in favor of less expensive, less experienced teachers. However, principals must be free to hire the teachers they believe are best qualified to raise student achievement, or else the impact of this reform will be sorely diminished. Legislators concerned about union opposition can point to provisions within this model legislation for faculty and staff input concerning principals' hiring and salary decisions. Schools are also free to develop their own policies concerning this matter as they see fit under this model legislation.

[7]. (a) Students can be legitimately more expensive for schools to educate depending on these factors. Legislators may want to suggest various categories of students here based on existing legislation. These could include: (1) student grade level, based on existing state funding legislation if it exists. Typically, high school students are more expensive to educate, followed by middle school students and elementary school students; (2) student poverty status, which could be based on existing state definitions or federal free and reduced-priced lunch poverty guidelines; (3) student language status, which could be based on state definitions; (4) student disability status, which are likely already contained in a state's funding formula. For states that do not define student disability categories, legislators could recommend using the federal categories defined in the Individuals with Disabilities Education Act (IDEA). Schools receiving federal IDEA funds are already required to report how funds are allocated across these various disabilities in their annual IDEA reports. For various definitions used in federal education statutes see, *U. S. Code, Title 20: Education, Chapter 33, Subchapter I, § 1401, Education of Individuals with Disabilities*; (5) student academic achievement status, which would apply to students who are not at grade-level proficiency, to help better ensure they receive the additional help they need to improve their performance. Directing intervention resources for tutoring, remediation, or

intensive instruction to individual students in the subjects they need would be more effective than lump-sum categorical program appropriations, whose effectiveness is typically not evaluated. Legislators should also be aware that under the federal No Child Left Behind Act (NCLB), the U.S. Department of Education has authorized states to participate in experiments involving academic “growth models,” which measure students’ progress toward proficiency. Student academic achievement weights should therefore not only apply to students who are below grade-level proficiency in subjects tested, they should also apply to student progress toward proficiency. Such weighing introduces powerful incentives for schools to direct resources to programs that have a demonstrable impact on continuous academic improvement. For more on tying funding to performance, see chapters 8 and 9 of Eric A. Hanushek and Alfred A Lindseth, *Schoolhouses, Courthouses, and Statehouses: Solving the Funding-Achievement Puzzle in America’s Schools* (Princeton, NJ: Princeton university Press), October 2009, <http://press.princeton.edu/titles/8890.html>. Legislators may also want to recommend a weight for students who are gifted as well to help ensure they receive the advanced academic services they need to meet their exceptional educational needs. (b) Legislators may also want to provide guidance for School Funding Task Forces on how the term “student” is defined for funding purposes, typically as average daily attendance (ADA) or average daily membership (ADM). ADA is the total number of days of attendance divided by the total number of days in the regular school year. A student attending every school day would equal one ADA. The total number of school days within a given period, e.g. month or school year, that a student’s name is on the current roll of a class, regardless of his or her being present or absent, is the “number of days in membership” for that student. The sum of the “number of days in membership” for all students divided by the number of school days in the term yields ADM. In states debating how students are counted for funding purposes, ADA versus ADM, proposing a weighted student-centered funding formula helps address the legitimate concern that student counts for funding purposes, which is less than total enrollment, is an increasingly burdensome process. Also, schools with high percentages of students who are truant, absent, classified as migrant, or students with extended illnesses receive less funding. A weighted student formula structure could help mitigate debates surrounding the use of ADA, ADM, or simple enrollment for funding purposes by including special weights for these categories of students that would better direct funding to services they need.

[8]. Schools can have legitimately higher costs depending on these factors. When considering school weights, it is important to keep in mind that schools serving different grade levels will have different associated costs, with high school grades typically being the most expensive, followed by schools with middle and elementary school grades. Schools serving all grades will also have varying costs given the variety of grades they serve. Schools’ sizes and locations also affect their costs. Most states already provide additional funding to compensate for the additional economies of scale, transportation, and other costs associated with statutorily defined

classifications of small or isolated schools, as well as additional funding for schools serving more expensive grade levels. In states where this is the case, weights for such schools should reflect this funding.

[9]. Such phase-in details could include the annual percentage of district funding to arrive at the school. For example, some schools may recommend a steady annual percentage increase of 30 percent in year one; 60 percent in year two, and the full 95 percent in year three. Other schools may want to frontload or backload those annual percentages, with more funding coming in year one or year three. Those details should be worked out at the local level; however, the legislature should ensure full compliance with the 95 percent minimum requirement in year three, including incentives for early implementation and penalties if full implementation is not achieved in year three. On charging districts for actual teacher salaries and benefits within seven years, see Endnote 5 above.

[10]. State legislators should strictly enforce implementation of the law, not state departments of education. Under weighted student formula finance systems, school principals, not departments of education, will control 95 percent of the state education budget. To get some of that control back, in one state that adopted weighted student formula its state department of education simply informed school principals that the department had discretion to spend schools' funding by staffing schools according to traditional formulas, which defeats the primary goal of weighted student financing, namely, improved student and school performance through local control, innovation, and transparency.

[11]. Basing funding on actual student needs through a system of weights would replace most current categorical funding programs, such as special education and English language learners; however, steps should be taken to avoid the introduction of perverse incentives to over-identify students. These steps include setting aside a fixed amount of money based on population demographics. Under current federal law, states typically define how categorical aid program funding is distributed to districts and schools. Therefore, this provision would not jeopardize current federal categorical aid funding to the states. Funding for English language learners (ELL) could be limited to three years. Also, students identified as special education or ELL should be included in states' regular assessments, with rewards for improved performance. The proper balance of rewards and incentives ensures students will not be over-identified and that the focus remains on improved students learning—not swelling student enrollment in categorical programs simply to get additional funding regardless of student outcomes.

[12]. Ineffective categorical programs should be eliminated and funds redirected to programs and practices proven to help improve student learning.

[13]. (a) Current budget and accounting practices used in public school finance systems may not be optimal for a weighted student funding formula system. Most public school finance systems use a structure of object and resource codes that are incomprehensible to all but a handful of experts, which sorely diminishes transparency. A uniform system of financial reporting and budgeting should be used that clearly presents line-itemed, uniformly defined budget items, complete with revenues and expenditures. Moreover, all budgeting and accounting should be

done in the context of results, or outcomes, not inputs such as formulaic funding levels for programs. (b) In the case of directly-financed charter schools, or those that are not chartered by a school district, principals' budgets should be sent to the appropriate legal entity responsible for dispersing their funding under state law.

[14]. Legislators may want to insert a contingency clause here specifying that in cases when a public district or charter school is put on probation, program improvement, or loses its accreditation, the lawfully appointed school designee shall assume responsibility for preparation and implementation of the school's budget, and shall also be subject to the provisions of this section as if he or she were the principal of the school.

[15]. Legislators may want to specify here which financial records and other related information shall be maintained and made publicly available by the school district or directly-funded charter school. See also ALEC's Public School Financial Transparency Act model legislation.

[16]. It is the responsibility of the state to establish academic standards, annual assessments, student and school performance growth targets, to publish annual school and district-wide report cards, and collect all necessary data under the federal No Child Left Behind Act (NCLB). A student-centered finance system does not alter those responsibilities. While the state is best equipped to define desired student academic outcomes, local agents are best suited to determine how to achieve those outcomes. Under NCLB, local schools and districts are also held directly accountable for state-defined results; therefore they should have the autonomy they need to achieve those results. The student-centered finance system is designed to help students and schools achieve those state-defined outcomes by giving district superintendents and principals financial autonomy over operational matters, including the hiring and firing of teachers and offering incentive pay, in exchange for full transparency. For additional guidance, see ALEC model legislation relating to "Teacher Certification, Quality, and Right to Know." Additionally, parents are the most powerful local actors, and they should be empowered to choose the schools they think best meet their children's needs, with students' full funding following them to the schools of their parents' choice. For additional guidance, see ALEC model legislation relating to "School Choice." There is growing consensus that states are not adequately enforcing parental choice options under NCLB, particularly with regard to failing schools. Making funding portable to any public school, within or outside a given school district, including public charter schools, vastly improves the likelihood that students will not be trapped in failing schools for years at a time because performing schools within the district are full. Legislators may also wish to expand upon existing law by making private school options available as well through voucher and tax-credit scholarship program. See ALEC's model legislation relating to "School Choice."

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