

March 1, 2021

How Schools are Funded: Policy Fundamentals

Presentation for Tennessee Dollars and Sense



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Agenda



1. What goes in (revenue sources)



2. What comes out (spending)



3. What goes in redux: state and district comparisons



4. 5 Things to Advance Equity in State Funding Systems

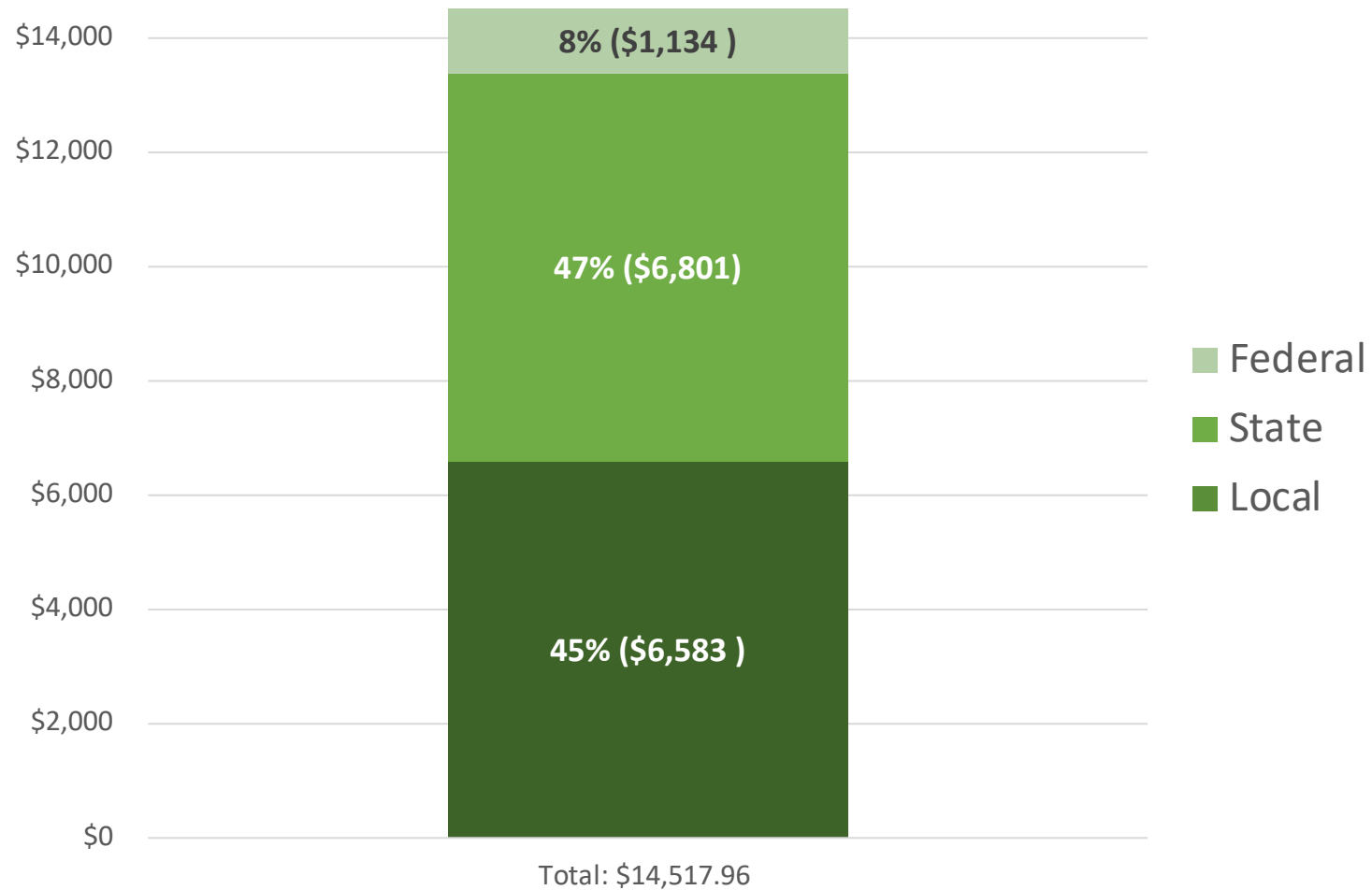


5. Q&A



What Goes In: National Averages

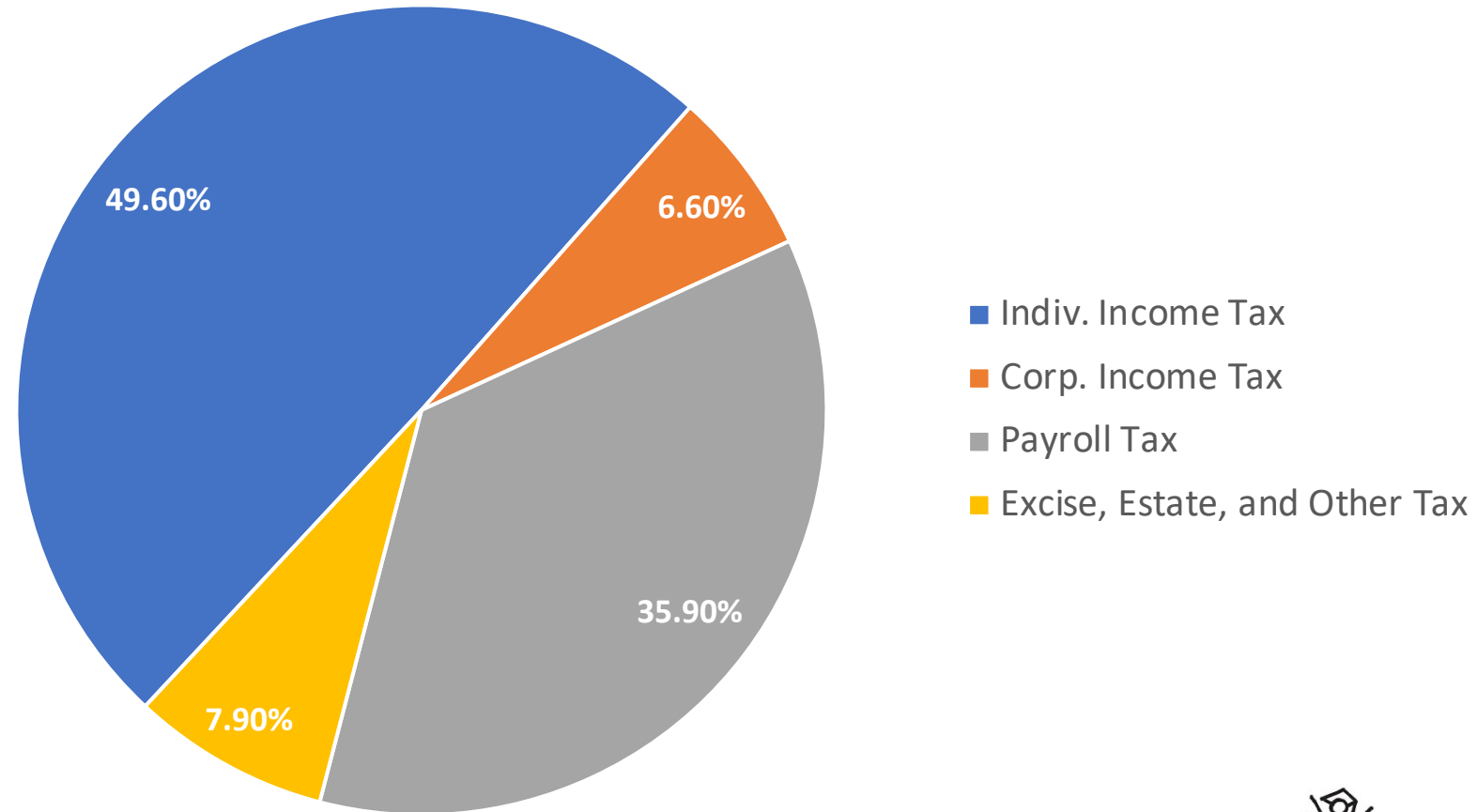
Revenue Sources for the Average U.S. School District, FY2018



What Goes In: Federal

2019 Federal Revenue Sources

Federal education dollars are drawn mostly from **income taxes**.



What Goes In: State

State education dollars are drawn mostly from general funds powered by a range of tax sources, and the mix varies a great deal by state.



What Goes In: Local

Property taxes make up about 2/3 of local education dollars. The rest come from a mix of smaller revenue sources.

Property Taxes

Sales and Excise Taxes

Income Taxes

Natural Resource Taxes

Motor Vehicle Registration Fees

Utility Taxes



What Goes In: Summary

- **On average**, U.S. school districts receive 45% of their funds from local sources, 47% from state sources, and 8% from federal sources (FY18).
- **Federal** education dollars are drawn mostly from income taxes, though other federal revenue sources also play a role.
- **State** education dollars come from a broad range of taxes, including income, sales, property, and other taxes. The mix varies a great deal by state.
- **Local** education dollars are drawn mostly from property taxes, supplemented by a mix of smaller revenue sources.



What Comes Out: Federal

- The federal government spent **\$57.3 billion** on K-12 education in FY17.
- ESEA/ESSA Formula Grants:
 - Title I (\$17.34 billion): Funding for schools and districts with high numbers of low-income students
 - Impact Aid (\$1.50 billion): Funding for school districts that include federal lands or serve federally connected children
- ESEA/ESSA Competitive Grants
- IDEA Formula Grants:
 - Grants to States (\$13.82 billion): Funding to support education of children with disabilities, aged 3-21



What Comes Out: State

State Formula Aid

1. The state uses a formula to determine how much money each district needs for the year.
2. The state calculates how much funding the district is expected to contribute from local sources.
3. The balance of the formula amount is provided as state aid.

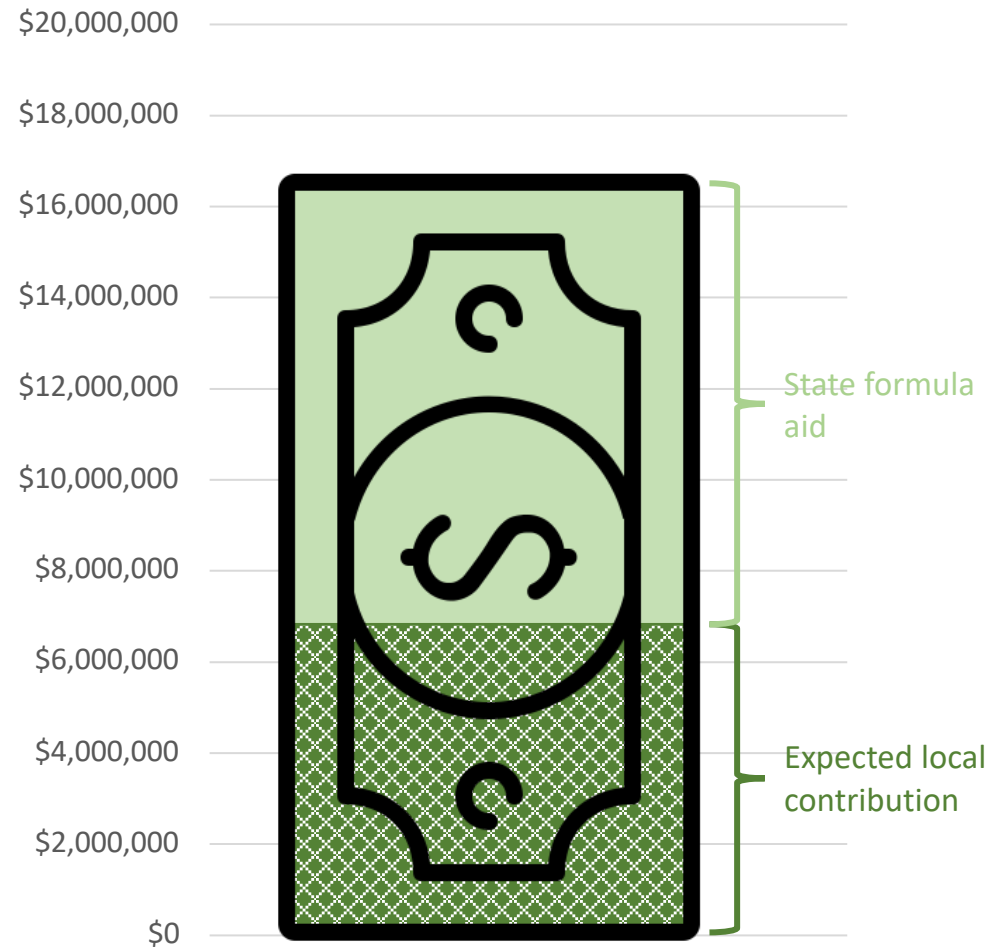
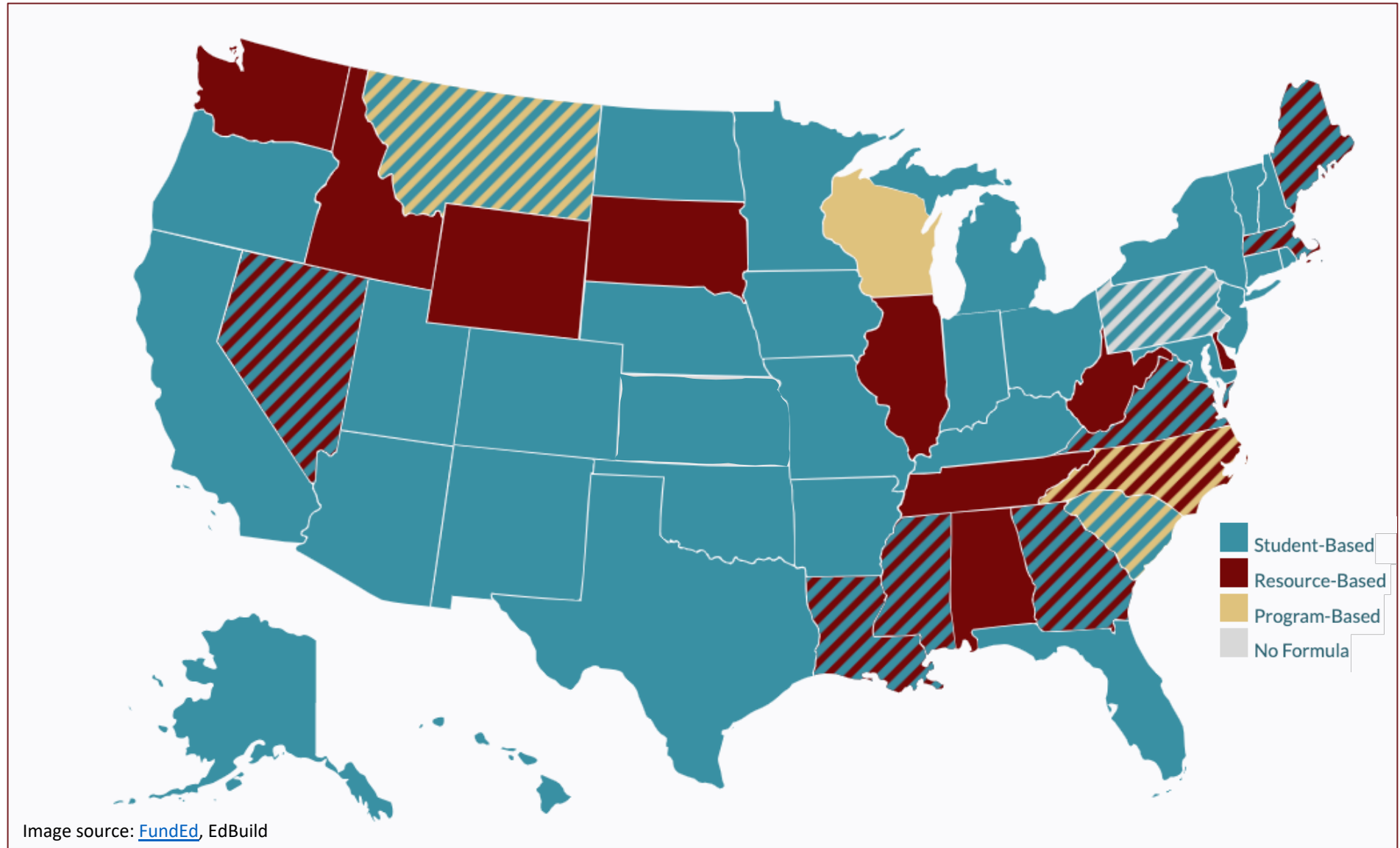


Image source: IconMark, via Noun Project



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What Comes Out: State

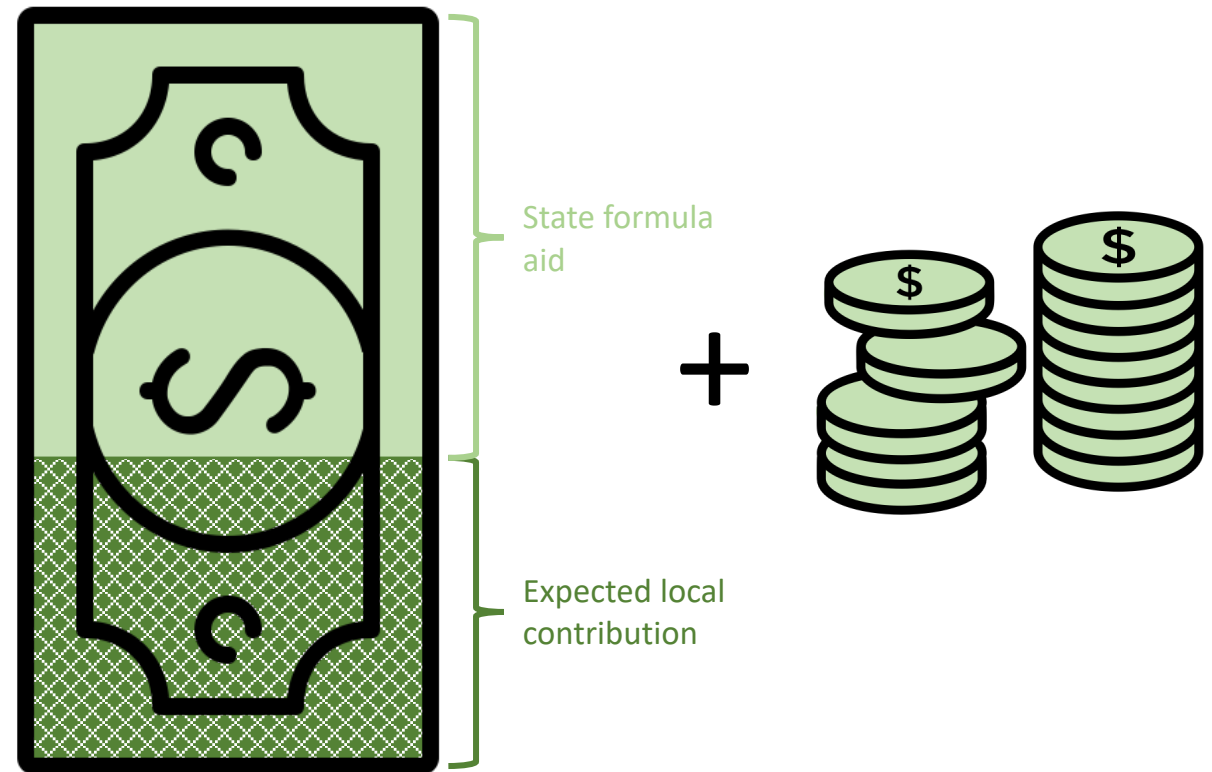


What Comes Out: State

Categorical Grants, e.g.:

- Start-up funds or equipment reimbursements for CTE programs
- School safety initiatives
- Gifted and talented programs
- Transportation funding
- Exam fees
- Pilot programs

Categorical grants are not subject to a local contribution.



What Comes Out: Local

Local Share

1. The state uses a formula to determine how much money each district needs for the year.

2. The state calculates how much funding the district is expected to contribute from local sources.

3. The balance of the formula amount is provided as state aid.

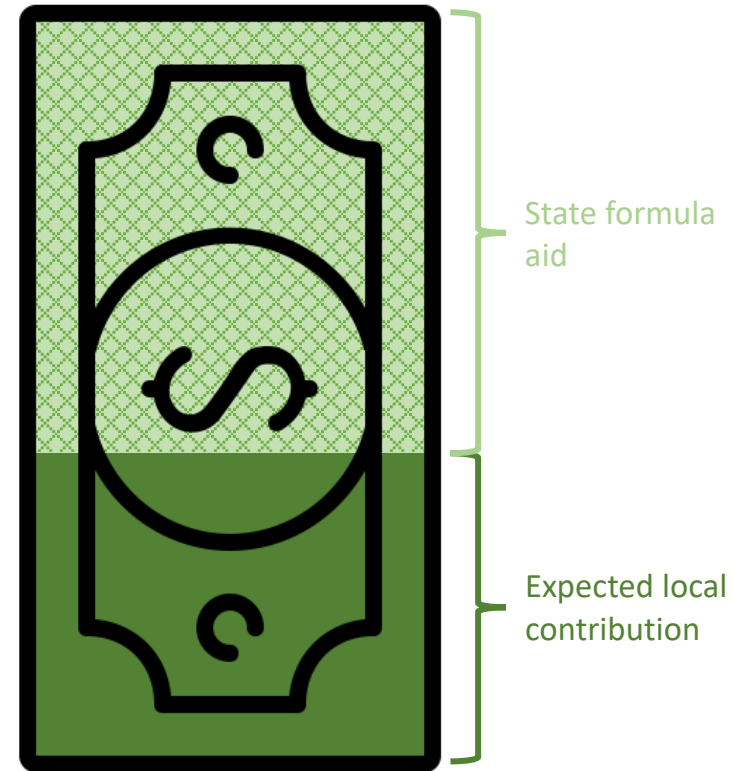


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What Comes Out: Local

The Local Revenue Asterisk

The state calculates how much funding the district is *expected* to contribute from local sources. But the district often may raise more or less in actuality—without affecting the state aid amount.

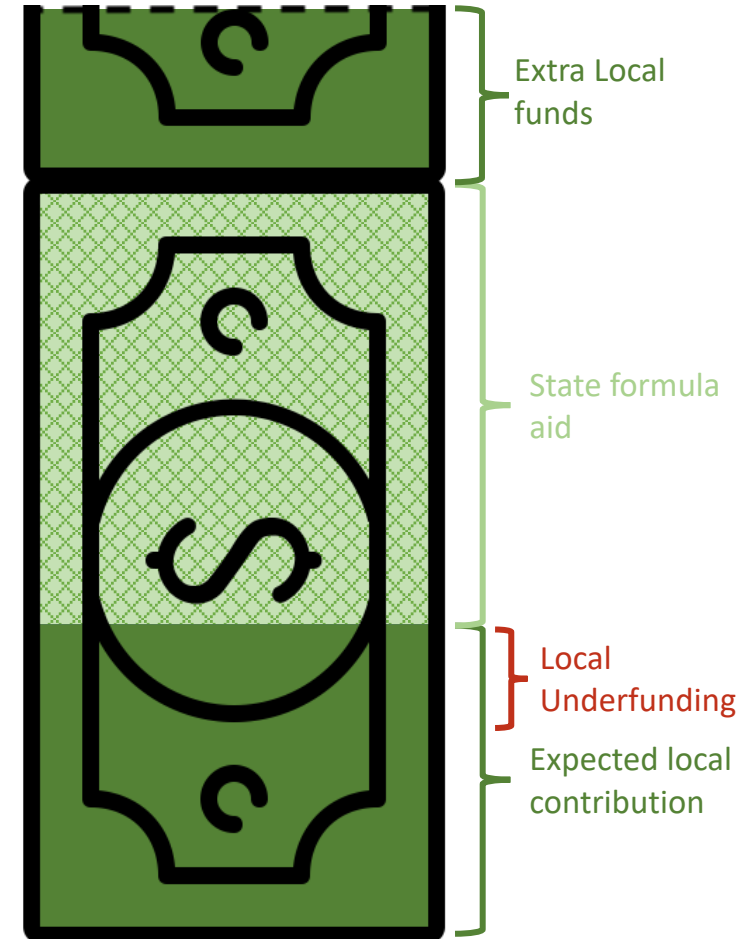


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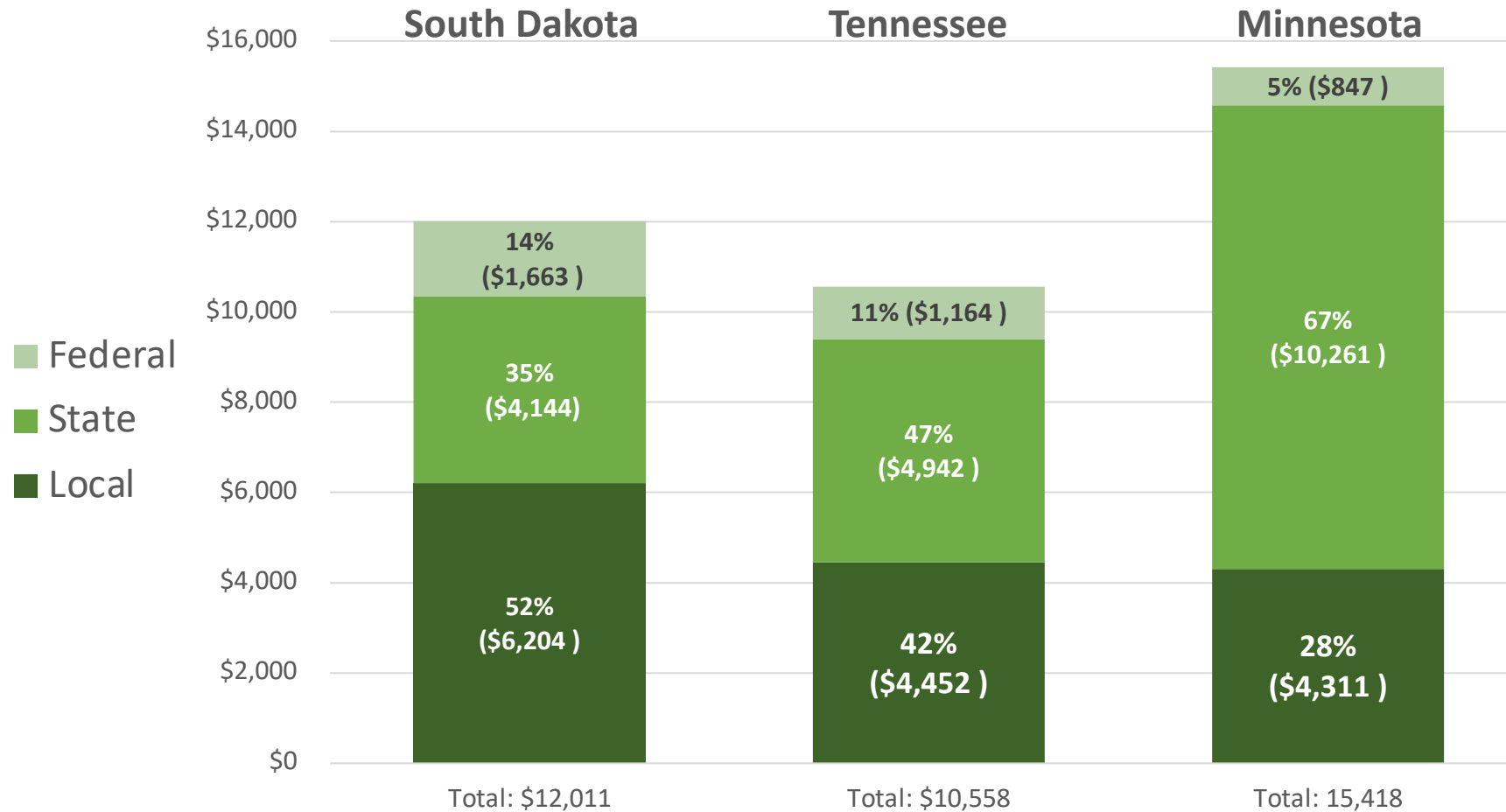
What Comes Out: Summary

- The federal government spent \$57.3 billion on K-12 education in FY17, first and foremost on grants to districts serving low-income students, students with disabilities, and federally connected children.
- States distribute most education spending as formula aid; the formula sets a target based on district funding needs and subtracts a local share, with the state providing the rest. States may also provide grants for specific purposes.
- Local education spending includes districts' contributions towards the formula target, as well as any extra dollars that the district chooses to raise and spend (if allowed by state law).



What Goes In Redux: State Variation

FY2018 Revenue Sources for the Average School District in:



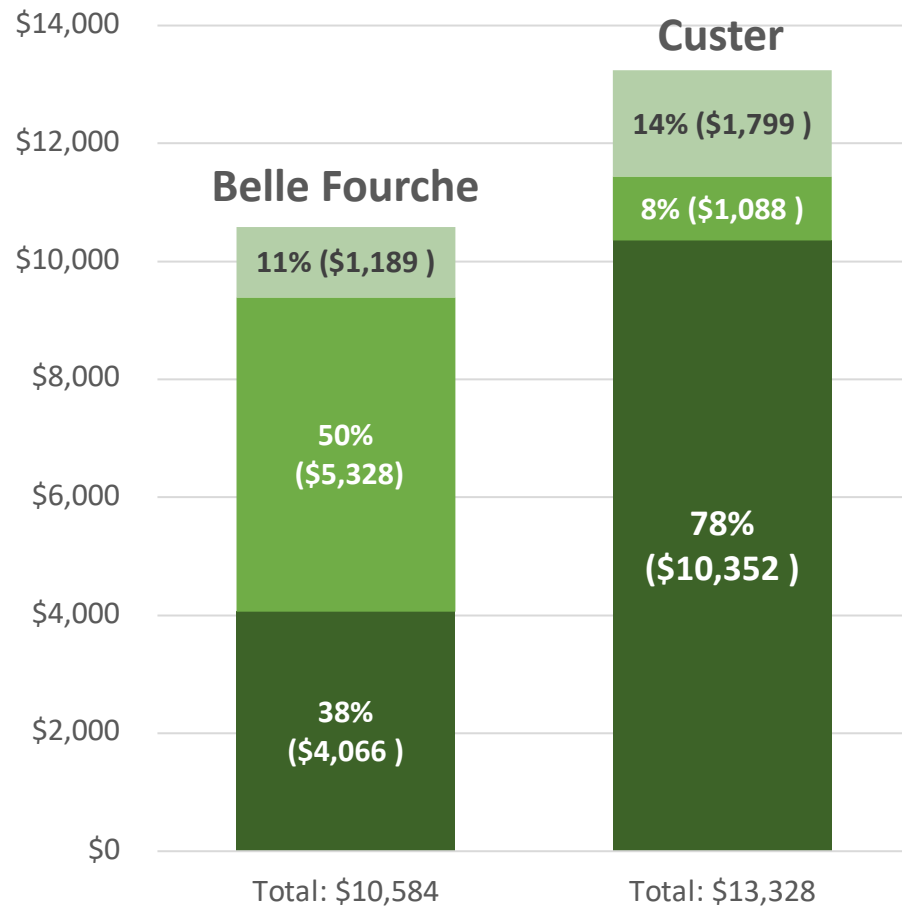
All amounts in
per-pupil dollars



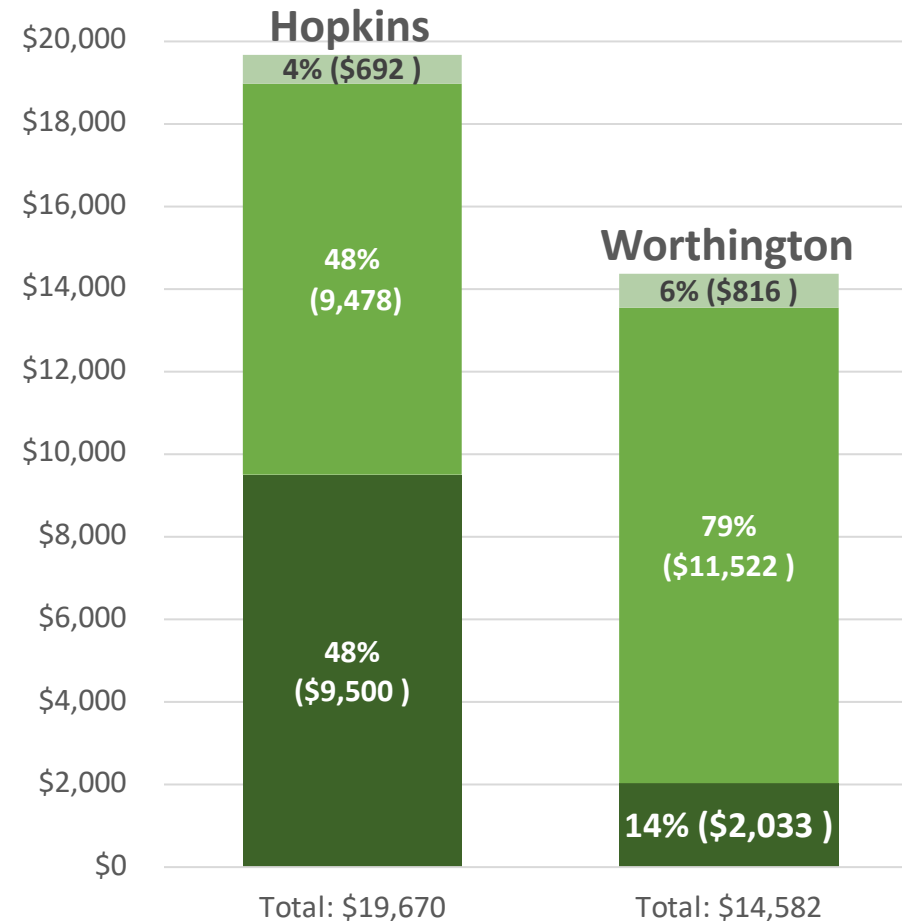
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What Goes In Redux: District Variation

South Dakota District Comparison



Minnesota District Comparison



All amounts in
per-pupil dollars



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State and District Comparisons: Summary

The factors that determine the state, local, and federal shares in specific states and districts include:

- The size of the state budget and generosity of the state funding formula
- The specific student and community needs in the district, as well as other factors considered by the state formula
- Local property wealth and the *ability* to raise of local revenue
- The choices of local voters and/or school boards to *actually* raise local revenue
- The presence of federal land, or students from low-income homes, students with disabilities, federally connected children, and others eligible for federal aid



5 Things to Advance Equity in State Funding Systems

1

Provide funding according to student need

2

Provide more funding to districts with low property wealth

3

Ensure that dollars are used well to improve student learning experiences and outcomes

4

Be transparent about the system's design and monitor funding going to districts

5

Share clear and transparent data on the amount of funding that schools actually get



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A photograph of a classroom where several students have their hands raised, indicating they want to ask a question or answer. The background is slightly blurred, showing a chalkboard and other students. A semi-transparent dark band across the middle of the image contains the word "Questions" in white text.

Questions

