Memo

To: Kristy Michel, Donna Gunning, Stakeholder Advisory Group Members

From: William J. Glenn, The Augenblick, Palaich and Associates and Picus Odden and Associates Research Team

Date: December 10, 2015

Subject: Education Law Center Equity Report and Increasing Equity

This memo is in response to several questions raised during our presentation of the education finance and local wealth measures study report at the Stakeholder Advisory Group meeting held on October 13, 2015. As you recall, our general opinion was the school funding system in Maryland is fairly equitable and has improved over time. But, inequities remain in the system primarily due to the State's policy choice to retain considerable local control over funding levels. Below we provide responses to three important questions raised at the meeting. The first question concerned the low rating for Funding Fairness for Maryland by the Education Law Center (the Center)[1] and asked why our report was more positive about the State's equity. The second question asked how the State could use state resources to increase equity given the constraints of local control in Maryland. The third question related to the use of weights for different categories of students in estimating vertical equity.

Education Law Center Report

The Center report used four measures to evaluate fairness: funding level, funding distribution, effort, and coverage. Maryland rated relatively high on two of these measures: effort (grade of A) and funding level (no grade was assigned, but Maryland ranked 11th, the same as it did for effort).[2] Maryland was rated low on coverage (ranked 46th) and funding distribution (grade of D).[3] Overall, the Center's findings are similar to ours in the sense that their report found that the Maryland funding system possessed some strengths and some weaknesses.

We will focus in more depth on the D grade in funding distribution because the stakeholder's question specifically asked about that aspect of the report. The Center rated Maryland low on funding distribution because it concluded Maryland has a regressive funding system, which means that less funding was provided to districts with concentrated poverty than to wealthier districts. States with flat

[1] Baker, B. D., Sciarra, D. G., & Farrie, D. (2015). *Is School Funding Fair? A National Report Card*. Newark, NJ: Education Law Center.

[2] Effort examines a state's local and state education spending as compared to the state's gross state product. Funding level is not the actual funding level, but an estimate that controls for poverty, geographical wage differences, etc.

[3] Coverage examines how many children attend public vs. private schools and the wealth difference between such students. Funding distribution compares the level of funding to districts with concentrated poverty to that of other districts.

(equal) funding graded higher than states with regressive funding, while states with progressive funding (districts with concentrated poverty receive more funding than wealthier districts) graded highest.

The finding that Maryland has a regressive funding system is consistent with the main finding from our study: that the significant amount of local control the Maryland funding system allows counties regarding the amount of local education appropriations has a negative impact on equity. The State requires that all counties (and the City of Baltimore) raise a formula-driven local share for the foundation funding program based on a uniform statewide tax rate or percentage of local wealth. Beyond that, there are few requirements for counties to locally raise funds for supporting their general education programs. For example, counties are not required to appropriate funds for the local share of targeted revenue programs such as compensatory, limited English proficiency (LEP), or special education revenue programs. On the other hand, there is also no statutory limit on the amount of additional local funds counties may raise to support their schools. The net effect of these two policies leads to significant disparities in the amount of local revenues per student beyond the required foundation formula match.

According to the Department of Legislative Services,[4] in fiscal year 2013 supplemental local appropriations (the local appropriation raised in excess of the required foundation local contribution) ranged from a low of $404 per student to a high of $5,868 per student. In general, these amounts varied inversely with student need. Some of the counties with the highest free- and reduced-price meals (FARMs) percentages had low local supplemental per student funding. Alternatively, some of the counties with the lowest FARMs percentages had the highest local supplemental funding levels. Overall, the correlation coefficient between FARMs percentage and per student local supplemental funding was -0.62, a moderate to strong negative correlation. This means that higher need counties raised fewer local dollars. This disparity is due to some extent to the State's efforts to equalize these funding formulas. That is, the State provides a larger share of total revenues in the form of state aid to counties with low local wealth and less state aid to high wealth counties, thus reducing the local share of revenues in low wealth counties. However, in some cases the local supplemental revenue amount was hundreds of dollars per student less than a county's presumed local share of targeted revenues for students with special needs (the total formula revenue amount minus state aid), indicating that some high need districts were forgoing formula revenues. Most of these counties were also low local wealth counties.

The end result is that even though the State funding formula provides relatively robust funding weights for students with special needs (.97 for compensatory education, .99 for LEP, and .74 for special education), the effect of these weights on vertical equity is in part offset by the negative disparities in per student local appropriations amounts. Taken as a whole, we do not think that our report differs greatly from the Center's report, other than the fact that we did not assign letter grades to our findings.

Using State Resources to Improve Equity

We have several suggestions in response to the question concerning how the State could go about improving equity without imposing on local control. There are certainly other options for improving equity the State could explore, but these provide examples of the types of steps the State could take to

[4] Department of Legislative Services. (2014). *Legislative Handbook Series, Volume IX*. Annapolis, MD: Author.

improve equity. These suggestions complement one another, meaning the State could use any or all of them if it chooses.

The first suggestion is to increase the amount of funding available under the Guaranteed Tax Base program to provide greater support to lower local wealth counties. This could be achieved by increasing the level of the guarantee (currently 80 percent of the state average wealth per pupil). Depending on the funding available, the guarantee could be increased to 100 percent of the state average wealth per pupil, or to an even higher standard, such as the per pupil wealth at the 80^{th} or 90^{th} percentile of counties. The per pupil aid cap, currently 20 percent of the per pupil foundation amount, would also have to be raised.

The second suggestion is to increase the per pupil foundation amount and decrease the weights for students with special needs. Taking this approach will result in a larger share of a county's overall general education funding coming from the foundation formula, which has a fully equalized, required local contribution. This should lead to a reduction in the disparities in local contributions, but it could also be quite expensive for the State.

The final suggestion is to adopt our recommendation to modify the measure of wealth to use net taxable income as a multiplier rather than an add-on when determining total local wealth. The effect of this change would be to reduce the total local wealth of low property wealth, low income districts, while increasing the total local wealth of high property wealth, high income districts. Given these changes, low property wealth, low income districts would receive a higher percentage of their base and special needs funding from the State, while the opposite would be true for wealthier districts. If each type of district retained local revenues similar to what they raise currently, the change in the distribution of state funds would increase the overall equity of the system.

Choice of Weights to Measure Equity

The third question from the Stakeholder Advisory Group was why we used multiple student counts in our equity analysis. In estimating *horizontal* equity,[5] we computed equity statistics using an unweighted student count, that is, we assumed each student in a district was of equal weight. As explained in the report, the best way to assess *vertical* equity is to weight students with special needs (special education, FARMs, ELL), and then assess equity using the weighted pupil counts. In our analysis of vertical equity we used two sets of weights: 1) Maryland's current weights and 2) a set of standard weights identified through the school finance literature. We used the standard weights for comparison because the weights in use in Maryland are different from both what other states use and from those we identified in the literature. Thus to make our analysis of vertical equity comparable to other states and to the general standards identified in school finance, we computed vertical equity both ways.

We anticipate that when the new estimates of adequate funding are developed later in this study, the results will identify new weights for serving students with special needs. Since those will be modeled under the assumption that funds will come from state sources, and since those weights may be more

[5] Horizontal equity measures the equality of funding for similarly situated students, that is, students with no special needs in districts with no special circumstances impacting costs. Vertical equity measures how equitably the finance system treats students with special needs across districts. The system should provide greater funding for districts with higher concentrations of students with special needs.

similar to the standard weights in the literature than to the Maryland weights currently in use, we felt it important to take both approaches in our vertical equity analysis.