Allotment-Specific and System-Level Issues Adversely Affect North Carolina’s Distribution of K-12 Resources

A presentation to the Joint Legislative Program Evaluation Oversight Committee

November 16, 2016

Sean Hamel, Principal Program Evaluator
In Your Folder

Full Report

Handouts

Digest

Slides
Our Charge

• Directive: Examine the formulas the State uses to allocate resources to Local Education Agencies (LEAs) and charter schools for the operation of K-12 public schools

• Agencies: Department of Public Instruction (DPI)

• Team: Sean Hamel, Jeff Grimes, Emily McCartha
Twelve Findings Across Two Sections

Section I: Allotment-specific issues
• Findings 1 through 7
• Issues with individual allotments or issues that span numerous allotments

Section II: System-level issues
• Findings 8 through 12
• System-level issues identify deficiencies within the allotment system as a whole

Report p. 13
Overview: Section One Findings

1. The structure of the Classroom Teacher allotment results in a distribution that favors wealthy counties.
2. The allotment for children with disabilities fails to observe student population differences and directs disproportionately fewer resources to LEAs with more students to serve.
3. The allotment for students with limited English proficiency lacks rationale, which results in illogical and uneven funding.
4. Small county funding is duplicative and unsubstantiated.
Overview: Section One Findings

5. Low wealth funding is overly complex and could be modified to better reflect a county’s ability to generate local revenue

6. Resources for disadvantaged students are disproportionately distributed

7. Funds for central office administration are disconnected from changes in student membership, creating an imbalance in funding
Overview: Section Two Findings

8. The allotment system is overly complex and has limited transparency

9. The system is guided by a patchwork of laws and documented policies and procedures that fail to sufficiently explain the system

10. System features intended to promote LEA flexibility blur accountability

11. Translating LEA allotments to fund charter schools creates several challenges

12. Other models for distributing resources offer alternatives that merit consideration
Overview: Recommendations

The General Assembly should choose between

1. Overhauling the allotment system by transitioning to a student-based model
   or
2. Reforming and modifying the current system
Background
Funding for the K-12 Public School System Totaled $12 Billion in FY 2014-15

DPI distributes state and federal resources; county commissioners distribute local funds

State funds and some federal funds are distributed through allotments
Allotments

• A specific amount of resources, determined using a formula or rules, allocated by the State to an LEA or charter school to implement components of the state education curriculum

• Distributed to Local Education Agencies (LEAs) and charter schools

• Allotments do not determine the amount of resources needed
North Carolina Allotment System is Based on a Resource Allocation Model

• Resource allocation model
  – Identifies the components necessary for providing a local public education system and then provides resources for each component
  – Each allotment represents a distinct category of resources distributed to eligible LEAs and charter schools to operate public schools
  – “Top-down”

• North Carolina is in a minority of states that use the resource allocation model
37 Different Allotments

$8.4 Billion Allotted in 2014-2015

4 types
• Base: 82%
• Grant: 1%
• Student Characteristics: 14%
• LEA Characteristics: 3%

Two types of resources
• Positions
• Dollars

Resource Type
- Position Allotment
- Dollar Allotment

Report pp. 6-8
Position allotments account for nearly 60% of resources distributed in FY 2014–15.
Although there are multiple allotments, the overwhelming majority of actual expenditures are on salaries and benefits.
Allotment Process

### Initial Allotments

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### Allotment Revisions

- **After distributing the initial 19 allotments, DPI allocates the remaining 8% of state funds and all federal funds through the revision process. The original 19 allotments are also adjusted for other purposes.**
- **Revisions do the following:**
  1. Add or subtract funds from the initial allotments
  2. Allocate funding for the 31 federal PRCs
  3. Allocate funding for the remaining 19 state PRCs that are not part of the initial 19 PRCs
- **50 revisions took place during the FY 2014-15 with as many as 6 revisions occurring per month**
- **Total Amount of Revisions in FY 2014-15**

### Federal Allotments

- **31 PRCs distributed Federal funds**
- **6 PRCs - based on Title I**
- **Provides financial assistance to local educational agencies (LEAs) & schools with high numbers or high percentages of children from low-income families to help ensure that all children meet challenging state academic standards.**
- **7 PRCs - based on Title VI**
- **Provides funding for the Disabilities Education Act (IDEA) distributes federal special education funds through three state grant programs & several discretionary grant programs.**
- **Part B authorizes grants to state and local education agencies to offset part of the costs of the K-12 education needs of children with disabilities; it also authorizes preschool state grants.**
- **20 remaining PRCs account for 14% of federal allotments**

### Other State Allotments

- **$672 million**
- **8% of state resources**
Findings
Section I:
Allotment-specific issues
Finding 1

The structure of the Classroom Teacher allotment results in a distribution of resources across LEAs that favors wealthy counties
Classroom Teacher Allotment

- Teachers remain one of the most influential determinants of student performance
- Single largest allotment
  - $3.8 billion distributed through 66,009 positions in FY 2014–15
  - 45% of state funds allotted to LEAs
- Position allotment
  - Months of employment LEAs charge the State
  - State pays entire state salary & benefits

Resources follow the teachers
Salary Schedule Determines the Amount Allotted to LEAs

LEAs with more experienced, educated, and credentialed teachers receive more funding.

3 Factors Influence Resources Allotted to LEAs

**Experience**
Teacher pay is commensurate with teaching experience

**Education**
A teachers' level of education affects earnings

**Credentials**
Teachers with National Board Certification earn more than teachers without certification

### Experience
- Teacher pay increases with years of experience
- 0 - 3 years: $33k
- 3 - 5 years: $36k
- 5+ years: $50k

### Education
- Bachelor Degree: $30k
- Masters Degree: $35k
- Advanced (Master Plus) Degree: $40k
- Doctorate Degree: $45k

### Credentials
- National Board Certified Teacher: Licensed teachers who have National Board for Professional Teaching Standards Certification earn a salary supplement of 12% of their monthly salary on the “A” salary schedule

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Report p. 15
High Quality Teachers are Not Evenly Distributed

• Teacher sorting
  – Teachers express a preference in where they teach
  – Preferences are influenced by factors such as pay, working conditions, and student characteristics

• Results of teacher sorting
  – More experienced and qualified teachers are more concentrated in wealthy districts
  – DPI affirm this conclusion in the State Plan to Ensure Equitable Access to Excellent Educators (2014)
Structure of the Classroom Teacher Allotment Results in More Funding for Wealthier LEAs

• As LEA wealth increases, the amount an LEA receives per student through the Classroom Teacher allotment increases

• Supplements for teacher pay do not mitigate relationship between the amount allotted and wealth

The allotment *does not cause* teacher sorting, but the structure of the allotment results in more resources going to wealthier LEAs
Finding 2

The Children with Disabilities allotment fails to differentiate based on the instructional arrangements or setting required and contains a funding cap that results in disproportionately fewer resources going to LEAs with the most students to serve.

Report p. 21
Children with Disabilities Allotment

• N.C. Gen. Stat. § 115C-106 establishes state commitment to all children with disabilities

• $716 million allotted to LEAs in FY 2014–15
  – Second largest allotment
  – Preschool: Base plus $3,117 per qualified child
  – School Aged: $3,927 per qualified child up to 12.5% of average daily membership (ADM)
Funding Fails to Observe Differences Among Students with Disabilities

• Children with disabilities are defined across a spectrum of disorders
  ➢ Severity can vary
  ➢ Service setting can vary

• Students are funded at a flat rate that does not distinguish severity or setting
Children with Disabilities Are Not Uniformly Distributed Across the State

62 LEAs Had Rates Above the Cap in FY 2014-15

Children with Disabilities as % of ADM

- 7% - 10.85%
- 10.851% - 12.5%
- 12.51% - 15%
- 15.01% - 19%

$3,927 per student

Less than $3,927 per student
The 12.5% Cap Ensures LEAs with the Most Students to Serve Receive Fewer Resources

- Funding caps are generally put in place to try and prevent the overidentification of students
- LEAs with rates above the cap receive less per student

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<th>Minimum Per Head Count</th>
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Report pp. 24-25
Finding 3

The allotment for Limited English Proficiency (LEP) students contradicts the principles of economies of scale and contains a minimum funding threshold that results in some LEAs serving LEP students without funding.
Funds for LEP Students

- Fiscal Year 2014–15: $77.6 million distributed across 109 LEAs and 21 charter schools
- LEA/charter school with at least 20 LEP students, or at least 2.5% of ADM
- Funding for LEP Students:
  - Base (equivalent of one teacher assistant)
  - Remaining funds
    - 50% based on headcount
    - 50% based on concentration

Report p. 26
The Concentration Factor Results in Funding Disparities Across Districts

**Example 1**
- Montgomery County: 515 LEP Students
- Cumberland County: 986 LEP Students
- Cumberland County receives nearly the same to educate almost twice as many LEP students
- Montgomery County: $501,624
- Cumberland County: $498,405

**Example 2**
- Asheboro City: 893 LEP Students
- Pitt County: 942 LEP Students
- Asheboro receives nearly 75% more in state funds despite serving 49 fewer students
- Asheboro City: $977,517
- Pitt County: $558,821
Minimum Funding Threshold Leaves Many LEAs Unfunded for LEP Students

- LEA/charter school must have at least 20 LEP students, or at least 2.5% of ADM
- In Fiscal Year 2014–15, 6 city and county LEAs and 71 charter schools had LEP students, but did not meet threshold
- 332 LEP students served without funding
Finding 4

The allotment for small counties is duplicative and is not tied to evidence regarding costs of operating small districts

Report p. 29
Small County Supplemental Funding

• In FY 2014-15, 27 LEAs with less than 3,200 ADM received $42 million in additional funding to cover the cost of the inefficiencies resulting from administering smaller districts.

• Totals distributed to each LEA ranged from $1.5 to $1.8 million.
Funding for Small Counties is Unsubstantiated by Formal Cost Analysis

As LEA size increases, Small County Supplemental Funding declines

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Amounts Allotted are Established in Legislation and Not Through Formal Cost Analysis

Report p. 29
Cost Per Student Declines and Flattens Out as Districts Reach 2,000 Students

Most states with small county funding set a threshold below 2,000 students

Small districts have a high cost per-pupil that flattens out as district size approaches 2,000 to 6,000 students

Small County Supplemental Funding is Duplicative

Allotments with base funding disproportionately benefit smaller LEAs

Five other allotments provide base funding

- At risk
- Central Office Administration
- Classroom Teacher
- Career and Technical Education – Positions
- Career and Technical Education – Dollars

Report p. 31
Finding 5

The Low Wealth allotment formula does not rely on the most precise means of calculating an LEA’s ability to generate local funding.
Low Wealth Supplemental Funding

• Provides supplemental funding to counties that do not have the ability to generate sufficient local revenue on their own to support public education

• In 2014–15, 78 LEAs received a combined $200 million in Low Wealth Supplemental funding

• Factors that determine funding
  - 40% is based on the anticipated total county revenue
  - 10% is based on the adjusted property tax base per square mile; and
  - 50% is based on the county’s average per capita income

Report pp. 32-33
Adjusted Property Tax Base per Square Mile
Inaccurately Assesses a County’s Ability to Generate Revenue for Education

**Hyde Co**
$1.8$ million adjusted property tax base per square mile

\[ \div \]

1 student/square mile

\[ = \]

$1,822,000 adjusted property tax base/student

**Gaston Co**
$40.2$ million adjusted property tax base per square mile

\[ \div \]

95 students/square mile

\[ = \]

$424,000 adjusted property tax base/student

**Reality:** Hyde has four times the property tax base per student as Gaston

Report p. 34
Finding 6

The allotment for disadvantaged students provides disproportionate funding across LEAs

Report p. 36
Disadvantaged Student Supplemental Funding (DSSF)

• Intended to address the capacity of LEAs to meet the needs of disadvantaged students
• Began as a pilot in 2004 across 16 LEAs
  – $80 million in Fiscal Year 2014–15
  – All LEAs receive DSSF funds
  – 16 pilot counties are held harmless at Fiscal Year 2006-07 funding levels

Results in a maldistribution of funds

Report p. 36
LEAs Held Harmless Receive Nearly Five Times as Much as Others

Average Funding per Disadvantaged Student

- Pilot LEAs: $989
- All Other LEAs: $210

Report p. 37
Finding 7

Funding for central office administration has been decoupled from changes in student membership, creating an imbalance in the distribution of funds.
Decoupling the Formula From Changes in ADM Results in Funding Disparities

**Example 1**

Union Co & Davidson Co

Receive Almost Identical Funding

Union Co 42,105 Students

Davidson Co 19,965 Students

Union Co: $1.1 million

Davidson Co: $1.1 million

**Example 2**

McDowell Co & Davie Co

Had almost the same number of students

McDowell Co received $828,180

Davie Co received $612,621

Report p. 39
Let’s Take a Break!

INTERMISSION
Section 2: System-level issues
Finding 8

North Carolina’s allotment system is opaque, overly complex, and difficult to comprehend, resulting in limited transparency

Report p. 40
The System is Complex and Takes Time to Learn

• It takes time for LEA staff to learn how to navigate the system
  – Learned within a year: <1%
  – 4 or more years to learn: 23%

23% of LEAs have business officer with less than 4 yrs. experience

• Many LEAs have resorted to using consultants to help navigate this complexity—$1.5 million spent over 5 yrs.

Report pp. 40-43
Complexity Can Harm or Help LEAs

LEA business officer’s ability to navigate the complexity can determine the resources an LEA receives

- Strategic use allows LEAs to maximize position allotment

- Failure to navigate the allotment system’s complexity can cost millions in unrealized state resources

Report pp. 40-43
Finding 9

Problems with complexity and transparency are exacerbated by a patchwork of laws and documented policies and procedures that seek to explain the system.
Policies and Procedures Are Insufficient

• Framework for the system is based on piecemeal changes made through budgetary provisions, session laws, and agency policy

• Policy Manual
  – only available retrospectively
  – does not comprehensively cover all allotments and lacks procedural detail

• Creates challenges with validating and understanding allotments

Report p. 45
Finding 10

Allotment transfers – a system feature intended to promote LEA flexibility – hinder accountability for resources targeted at disadvantaged, at-risk, and limited English proficiency students

Report p. 46
Transfers Ensure Flexibility

• Resource allocation model lacks adaptability—transfers remedy lack of adaptability

• 968 transfers were conducted in Fiscal Year 2014–15 equaling more than $203 million

• Flexibility is important
  — expend resources as needed
  — align spending with local priorities
  — be more agile

Transfers can blur accountability

Report pp. 47-48
Transfers Can Challenge Accountability

At-risk Student Services
Limited English Proficiency
Disadvantaged Students

Funds for these student populations are to be spent on instructional support-related expenses

Amount Transferred

- $5.7 million
- $4.4 million
- $1.2 million

$11.3 Million in Funds Allotted for At-Risk, Limited English Proficiency, and Disadvantaged Students Instead Used to Pay Non-Instructional Support Expenses

Purpose: Provide funding for non-instructional support personnel at schools or central offices.

Use of Funds: Procure clerical assistants, custodians, duty free period, liability insurance, and substitutes.

Non-Instructional Support Personnel

Report pp. 49-50
Finding 11

Translating the allotment system for funding LEAs into a method for providing per-pupil funding to charter schools creates several challenges.
Translating Funding for Charter Schools

- Resource allocation model designed to provide funds to LEAs
- Allotments are calculated on a per-pupil amount
  - Classroom Teachers
  - Instructional Support
  - School Building Administration
  - Career Technical Education
  - Teacher Assistants
  - Central Office Administration
  - Non-Instructional Support
    - Classroom Materials & Supplies
  - Textbooks
  - Academically & Intellectually Gifted
  - At Risk Student
  - Disadvantaged Student Funding
  - Low Wealth Funding
  - Small County Funding
  - Transportation

Report pp. 50-51
Several Allotments Translate Poorly

- Small county funding is designed to supplement for diseconomies of scale at the district level—not the school level.

- Providing transportation is optional for charter schools—as a result, 49% of charters receive funds for services they don’t provide.

Report pp. 51-53
Using First 20 Days of ADM Can Result in Decreased Funding for Charter Schools

Funded ADM is important because it determines the amount of funding.

75 5th grade students attend the first week (5 days) of the school year

\[ 75 \times 5 = 375 \] membership days

All 100 5th grade students attend school weeks 2, 3, and 4 (15 days)

\[ 100 \times 15 = \frac{1,500}{1,875} = \frac{1,500}{20} \] membership days

Total days in first four weeks of school year

100 total number of students enrolled

\[ 100 - 94 = 6 \] students are unfunded

Report p. 54
Finding 12

Using a weighted student formula is feasible and offers some advantages over the present allotment system, but implementation would require time and careful deliberation.

Report p. 55
Few States Still Use a Resource Allocation Model

![Map showing states with resource allocation systems](image)
Weighted Student Formula

Core characteristics of a weighted student formula model

– Students serve as the building blocks of education funding
– A base dollar amount is provided for each student
– Weighted categories provide additional funding based on student or district characteristics
– All funding is distributed as dollars

Report p. 56
### Core Components of the Weighted Student Formula

**Base Amount**
Covers the costs associated with educating a general student.

**Weights**
Student characteristics provide additional funding relative to the base amount.

<table>
<thead>
<tr>
<th>Base Description</th>
<th>Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base derived from the cost of a basic education for a general 9-12 grade student:</td>
<td></td>
</tr>
<tr>
<td>$7,500</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grade</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-3</td>
<td>.19</td>
</tr>
<tr>
<td>3-5</td>
<td>.13</td>
</tr>
<tr>
<td>6-8</td>
<td>.06</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Student Characteristics</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited English Proficiency</td>
<td>.38</td>
</tr>
<tr>
<td>At-risk Students</td>
<td>.54</td>
</tr>
<tr>
<td>Children with Disabilities</td>
<td>.98</td>
</tr>
</tbody>
</table>

Report p. 57
Operationalizing a Weighted Student Formula

**Student 1**
General 10th Grade Student

\[ \text{Base} = 7,500 \]

Distributed to district or charter school as dollars

**Student 2**
Second Grade Student with Learning Disabilities

\[ \text{Base} + \text{K-3 Grade Weight} + \text{Children With Disabilities Weight} = 7,500 + 1,425 + 7,350 = 16,275 \]

Distributed to district or charter school as dollars

**Student 3**
Middle School Student classified as being at-risk and having limited English proficiency

\[ \text{Base} + \text{6-8 Grade Weight} + \text{Limited English Proficiency Weight} + \text{At-Risk Student Weight} = 7,500 + 450 + 2,850 + 4,050 = 14,850 \]

Distributed to district or charter school as dollars

Report p. 56
Benefits of Using Weighted Student Formula

**Adaptability**: adaptable to differing education delivery models such as distance learning, dual enrollment programs, open enrollment programs, and other emerging types of publicly-funded education

**Efficiency**: encourages efficiency by funding the current student population rather than providing funding based on historical practice

**Transparency**: simpler to understand because funding is determined through one formula with weights

Report p. 58
Caution Related to Using Weighted Student Formula

• The model is no panacea to solve all policy problems
  – minimum funding thresholds
  – funding caps
  – hold harmless provisions

• Shifts more control and flexibility to LEAs

• There is no plug and play model
  – Each state is very different in its implementation
  – Design would require careful consideration to meet state needs

Report pp. 59-60
Recommendations
Two Options

Given the current state of the allotment system we recommend the General Assembly consider two options:

1) implement a funding system based on the weighted student funding model, or
2) reform the current allotment system
Recommendation 1

Establish a Joint Taskforce on Education Finance Reform to develop a model that uses a weighted student formula to fund the K-12 public education system

Addresses findings 8, 10, 11, & 12

Report pp. 63-64
Recommendation 1

Working in consultation with the Department and the State Board, the taskforce would determine

- base amount distributed on a per-student basis
- weights (based on student and LEA characteristics)
- funding apart from the base and weights
- policies regarding special provisions and restrictions

Report pp. 63-64
Recommendation 1

• 18 members—9 from the House and 9 from the Senate—2 chairs

• Taskforce chairs should determine the need for independent consultation

• Begin meeting no later than October 1, 2017, report by July 1, 2018

Report p. 63
Recommendation 2

The General Assembly should codify the State’s allotment system in statute and direct DPI to maintain and make publicly available a comprehensive, relevant, and up-to-date set of policies and procedures.

Addresses findings 8 & 9

Report pp. 64-65
Recommendation 3

The General Assembly should address the individual allotment deficiencies identified in Findings 1-7 of this report.
Recommendation 3

• **Classroom Teachers**: Allot dollars in lieu of positions based on the number of students and the average state salary and broaden the teacher compensation model.

• **Children with Disabilities**: Establish a framework that differentiates funding based on service setting and eliminate or restructure the funding cap.

• **Limited English Proficiency**: Eliminate the minimum funding threshold and cap and provide a graduated per-headcount amount for LEP students that observes economies of scale.

Report pp. 65-66
Recommendation 3

• **Small County Supplemental Funding:** Make funding thresholds more consistent with literature and eliminate the use of base funding from other allotments and instead make adjustments for LEA size through the small county allotment.

• **Low Wealth Supplemental Funding:** Eliminate the use of the adjusted property tax per square mile factor and provide equal weighting for a county’s anticipated revenue per ADM and average per capita income.
Recommendation 3

- **Disadvantaged Student Supplemental Funding**: Eliminate the hold harmless provision and redistribute the freed-up dollars

- **Central Office Administration**: Distribute Central Office Administration dollars based on ADM student membership
Recommendation 4

The General Assembly should prohibit the use of transfers from allotments that serve special populations into the Non-Instructional Support allotment.

Addresses finding 10
Recommendation 5

The General Assembly should direct DPI to consider additional student membership data when determining the funded ADM for charter schools.

Addresses finding 11
Summary: Findings

• The allotment system is hampered by its complexity
• Several individual allotments are redundant, counterintuitive, and in some cases lack a clear rationale
• Several allotment policies result in maldistribution of resources across LEAs and charter schools
• Allotment system features and controls obfuscate transparency and accountability
• Other models for distributing resources that focus on the student as the unit of funding offer alternatives that merit consideration
Summary: Recommendations

The General Assembly should choose between

1. overhauling the system for how resources are distributed by using a weighted student funding model, or

2. reforming the current allotment system by addressing individual allotment deficiencies and providing direction to improve transparency and accountability
Summary: Responses

• DPI has provided a response that is included as part of the report

• Program Evaluation Division has provided a response to clarify issues raised by DPI’s response
Legislative Options

• Refer report to any appropriate committees

• Instruct staff to draft legislation based on the report
Report available online at
www.ncleg.net/PED/Reports/reports.html