



FEBRUARY 2022

HOW MUCH IS YOUR STUDENT WORTH?

Steps towards fixing
Arizona K-12 funding to
meet the needs of every
student





INTRODUCTION

Arizona has an incredibly diverse system of public schools and is rapidly innovating new models on a regular basis. These charter, district, and magnet schools provide dozens of learning models to spark student engagement, honor student learning styles, and to help students explore their interests in the arts, bioscience, welding, classic literature, cybersecurity, accelerated academics, and dozens of occupational certifications.

As students matriculate through these various public-school options, their education funding varies dramatically from school to school without any reason related to learning but related instead to the zip code of schools as well as some missteps baked into the early ideas for how to fund innovations in education.

Arizona has been a leader in the development of new schooling models as well as rethinking old funding formulas based on student need. Indeed, many states are looking to the desert for inspiration.

However, change has been incremental and students remain inequitably funded as their parents seek out the best schools for their kids.

States can modernize funding formulas by moving away from zip code-based payouts, volatile voter-approved revenue streams, and non-student based formula components and move instead towards equity, innovation, great outcomes, and helping schools pay for growing demand.


In 2016, A for Arizona wrote our first report on how the design of school funding formulas impact and impede the ability of every student to attend a great school.

Many of the facts in that report have not changed. We revisit them now as parents and educators work frantically to get every student into a learning environment that does more than hide them from COVID, but instead feeds their talents and ignites their academic and social-emotional development.

This is easier to do when students are equitably funded and not cheated out of revenue because of their zip code or choice of school; and when we fund what works more aggressively than failure.

Funding disparities that range from a few hundred dollars per student to as much as \$10,000 or more per student are compounded when multiplied by classroom, school, and revenue accumulation during the course of a student's K-12 career.

In this paper we seek to highlight the public funding mechanics that make these disparities possible and to suggest some strategies that restore some amount of fairness to funding and the opportunity to earn funding.



States can modernize funding formulas by moving away from zip code-based payouts, volatile voter-approved revenue streams, and non-student based formula components and move instead towards equity, innovation, great outcomes, and helping schools pay for growing demand.

Common Base Level Funding

Collapse non-voter approved funding enhancements available to school districts but not to charter schools into a common Base Level for all public schools. This increases base student-level funding for every single student and reduces inequities across types of public schools.

Opt-In Student-Centered Funding Formula

Start to address the larger disparities in funding for students in district schools by creating an opt-in, alternative student-centered funding formula.

Accessing Empty School Buildings

Address barriers to accessing and updating empty school buildings.

Achievement Revenues

Move achievement revenues into the formula to improve transparency, stability for local educators, and emphasize the state's commitment to great outcomes for every single student.

Stabilize Transportation Funding

Repurpose revenue allocated for transportation services no longer being provided by school districts to stabilize transportation funding for district and charter schools with transportation services.

BARRIERS TO EQUITABLE STUDENT-CENTERED FUNDING

Funding inequities are not new. They have existed since the beginning of schooling and are normalized in the world of policy making. In fact, as options for schooling have expanded, so have the myriad of ways in which we fund similar students. Here are five of the common scenarios in the inequity landscape.

1 Students in a school district without additional property tax levies or access to certain discretionary revenue are funded at lower dollar amounts than their peers.

Students in the school district system are worth vastly different amounts of money based almost entirely on whether the district school they attend raises extra money from the local property tax base, or not.

Local property tax levies – either those approved by voters or triggered by the school board – allow school districts to spend additional budgeted revenue over the state’s funding formula.

But not all district voters approve extra money or have school board-approved levies. And when they do, even that funding varies from district to district. Districts with a lot of property wealth, including large, income-diverse urban districts, tend to have the most consistent access to this extra cash¹.

In 1980, Arizona partially addressed the funding formula design and revenue generation practices that allowed students in higher income districts to have a richer funding formula. Arizona “equalized” their funding by creating a guaranteed minimum funding amount and the state filled in revenue where local taxpayers did not have the property wealth to do so.

This bold proposal was one of the country’s first attempts to undo some legacy funding schemes that favored high income community schools over others.

Unfortunately, that work did not completely eliminate local property taxes and local property wealth as a factor in education funding. Charter schools do not have access to these funds³. Extra funding over the equalized amount can still be pulled down through a variety of taxpayer and board approved mechanisms including:

Maintenance & Operations Overrides (M&O): This extra revenue is funded off of the local property tax in districts where voters approve the levy at the ballot. The funding lasts for seven years and can be repeatedly re-approved without limit. The M&O portion of the budget has a broad list of uses. This authority can give districts up to 15% more in just the M&O category of their budget than other schools. Districts also have access to a special 5% M&O override program².

Capital Outlay: Like the M&O override, this property tax revenue is only for the districts that have a willing electorate and lasts for seven years. It gives districts up to an additional 10% for capital needs – such as desks, buses, and books – than their neighboring schools.

Desegregation Levy: Desegregation dollars are intended to be “directed toward remediating alleged or proven racial discrimination” in a district where a civil rights claim was made regarding the quality and equity of the education for low-income students and students of color⁴. There is not a vote of the taxpayers for the tax levy, only a decision of the school board, and there is no requirement that the funding lead to improved outcomes. Many of the proven claims of discrimination are now decades old⁵.

More than \$200M currently goes to just 18 districts every school year for this purpose.

Bonds for school construction: The State pays for districts to build new schools and regularly funds building maintenance. Yet, districts are still allowed to ask voters to approve debt for additional construction and maintenance.

Some of the largest funding disparities are between school districts where taxpayers build and improve schools and those districts where the will or wealth to do so does not exist.

Indeed, property poor districts have less opportunity to raise large amounts of funds from bonds and overrides. These

could be low-income communities or simply smaller and less dense.

Further aggravating the landscape is that a district can have a high tax rate but still receive less funding than neighboring schools.

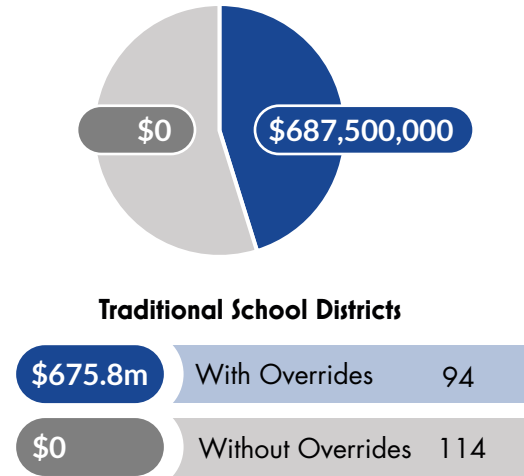
The following comparison of two urban districts was highlighted by the Reason Foundation in their analysis of Arizona funding:

In fact, some districts with high cumulative tax rates still receive low funding. Cartwright and Phoenix Union again make this trend clear. Cartwright residents are taxed at a 12.7 percent rate while Phoenix Union families are taxed at 6.5 percent. Despite having double the tax rate, Cartwright receives almost \$5,000 less in per-pupil revenue. (Reason Foundation, January 2021)⁶

Rural schools also tend to see funding disparities in large numbers. One Arizona school association noted that while most Maricopa County districts can expect to be successful in an override election, only about half of rural and suburban districts will see their overrides pass. In fact, so few pass that many districts do not even try.^{7,8}

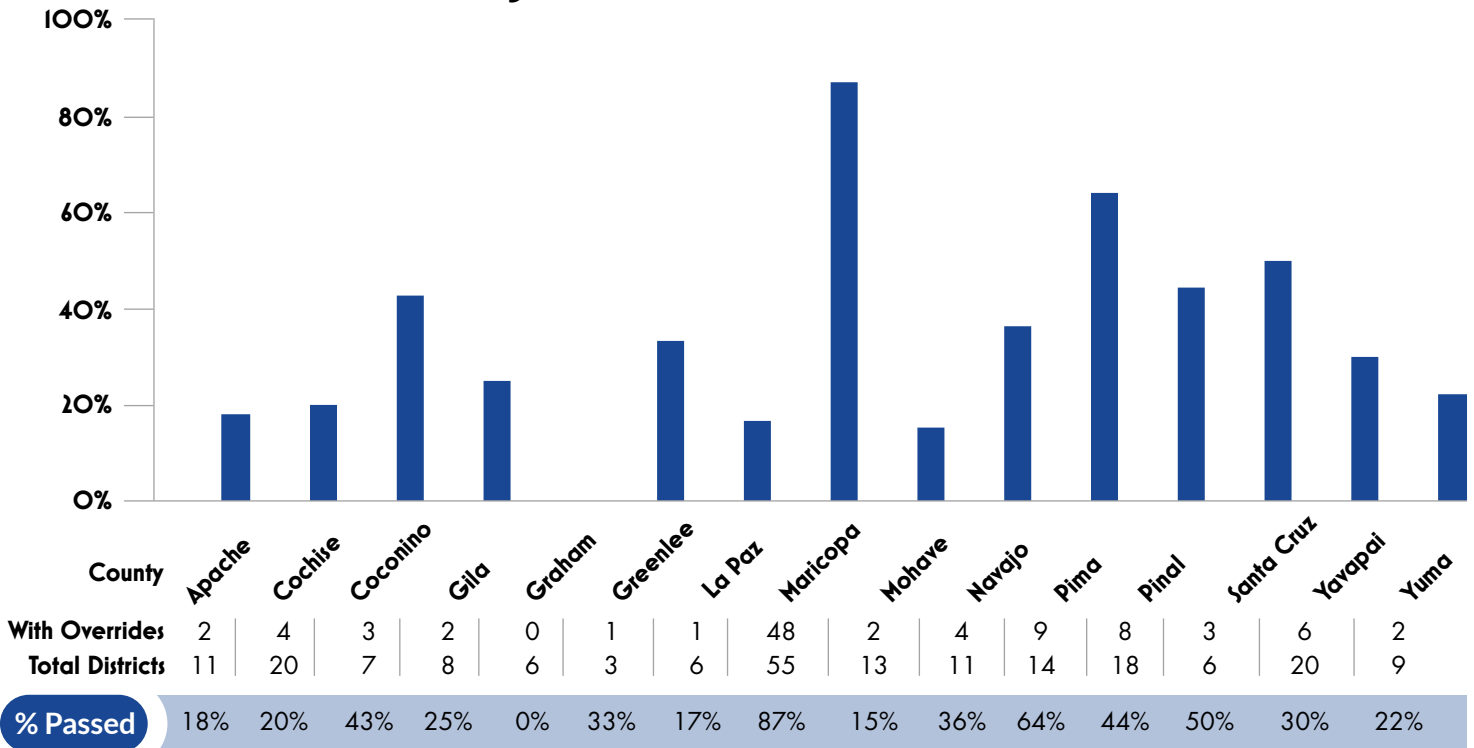
According to the most recent Override Report submitted annually to the Arizona Department of Education, extra revenue from the three override programs alone totals more than \$687 million in additional spending for some public schools and some students.

Figure 1: District Override Disparities



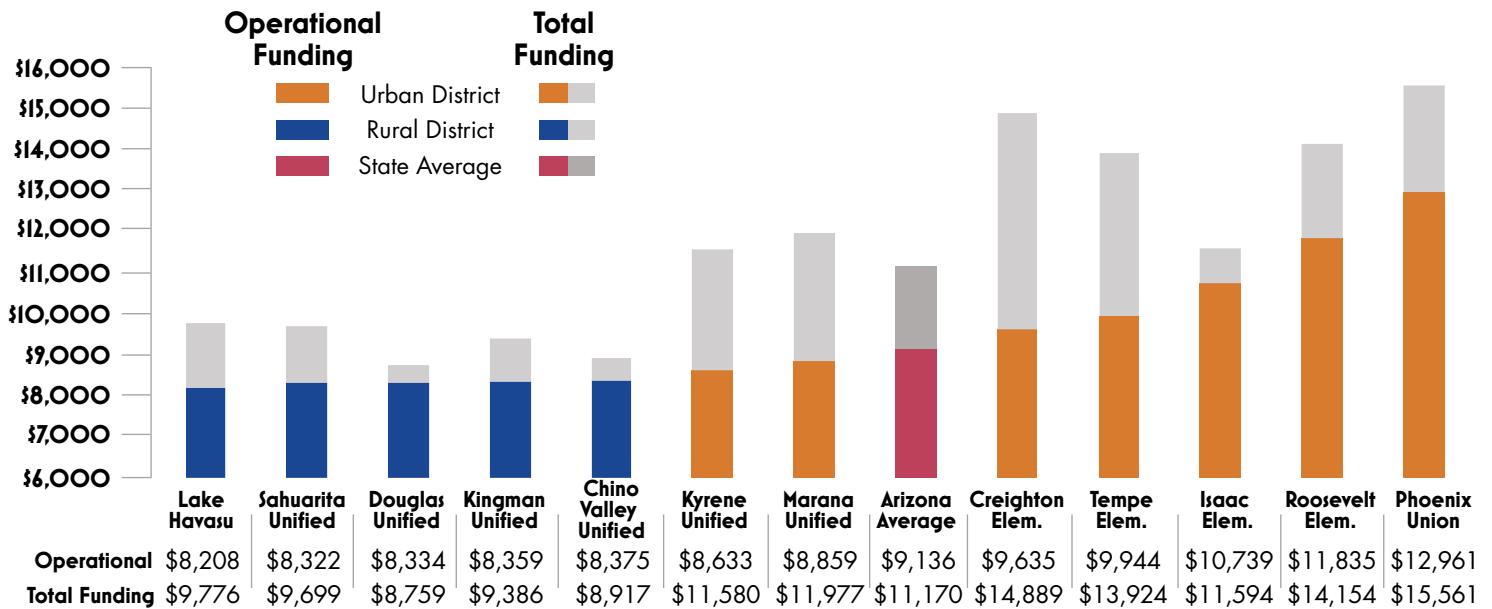
Source: 2021 Superintendent's Annual Financial Report⁹

Figure 2: Where Overrides Pass



Source: FY2022 School District Override Report¹⁰

Figure 3: Funding Disparity by District



Source: Arizona Auditor General FY2020 Spending Report¹¹

2 Students attending charter schools have an average funding total that is less than most district students.

Students in public charter schools have a funding total that is less than most district students¹². While a portion of their formula funding is higher, they have fewer revenue streams from which to pad the foundational funding amount as districts do¹³.

Students in charter schools miss out on a wide variety of revenue streams that are only available to district schools and put Arizona's public charter schools at a funding disadvantage. This includes:

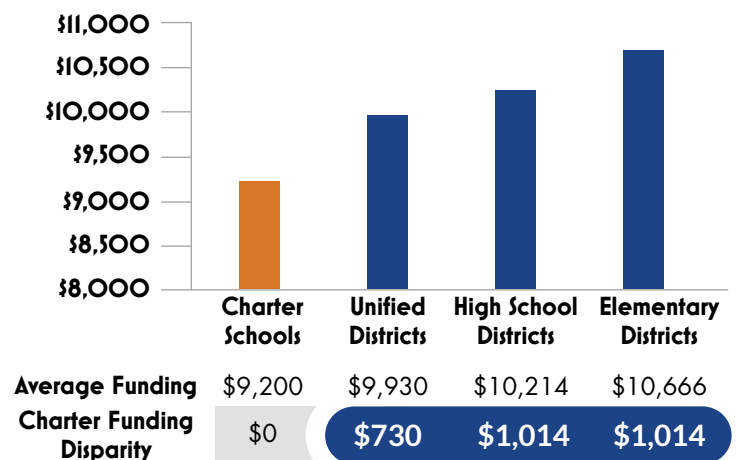
- Two forms of dedicated transportation funding
- Funding to support higher pay for experienced teachers – that, oddly enough, doesn't have to be used for teachers
- State dollars for new construction and ongoing maintenance
- Local dollars for new construction and ongoing maintenance
- Two property tax override options for operations and salaries
- Capital Outlay override
- Other infrastructure needs such as utilities installation and local road improvements adjacent to school property¹⁴.

While a component of the charter schools' formula called "Charter Additional Assistance" is higher than district schools as a way to partially offset some of the property tax revenue that is only available to districts, it does not close the gap. Arizona's Superintendent's Annual Financial Report for FY 2020 puts the charter school deficit at \$1,308 per student, on average, compared to all districts.

Another way of looking at the data is by "district" type.

The 2021 Superintendent's Annual Report shows the charter versus district gap at anywhere from \$730 per student when compared to unified districts to as much as \$1,500 per student when compared to non-unified districts.

Figure 4: Funding Disparities



Source: 2021 Superintendent's Annual Financial Report¹⁵

One of the biggest financial burdens charter schools must bear compared to district schools is that they do not receive state or local funding support that is exclusively for physical classroom space.

In Fiscal Year 2021, more than a \$1 billion in bond revenue was available to districts from local taxes for a variety of building needs even though the state has ramped up spending for new district schools and building maintenance over the last five years¹⁶.

In the meantime, charters must use their lump sum revenue and make hard decisions about what can be spent on students while still ensuring enough revenue is set aside to have safe classrooms. Most charters are finding capital funding streams through donations or access to municipal bonds but must still pay for those bonds without dedicated funding.

Figure 5: FY2020 Charter Student Funding Disparities

Average Charter Student Funding
\$9,845

Average District Student Funding
\$11,153

\$1,308

Average Charter Student Disparity

Source: Joint Legislative Budget Committee: Overview of K-12 Per Pupil Funding for School Districts and Charter Schools FY2020¹⁷

The reasons for charter and district funding differences are varied but mostly come down to this: Roughly 30 years ago, policymakers created the opportunity to bring new schooling models to public education. This has primarily happened through the public charter school option. At the time, the approach to funding this new type of school was to do so through a simpler version of the district funding formula.

This is what happened in Arizona, an early adopter of this popular and growing model of schooling.

Some features of Arizona's charter school funding have tremendous value. For example, the formula has more lump sum funding that allows spending priorities to be locally decided rather than restricted by dozens of different laws. Updates to Arizona's district formula borrowed from this model. It is also not heavily dependent on inequitable local tax schemes or reliant on school district approval. In fact, Arizona's charter schools are primarily funded by statewide revenues.

However, when states chose to not use old clunky funding structures for new models, they often also eliminated the accompanying revenue altogether or made assumptions about revenue needs for these new schools of choice that have not played out in the long run. This too happened in Arizona.

The unfortunate result is that students in charter schools have less money in their funding backpack than most of their district peers and few options for increasing it.



3 While some students are technically worth a substantial amount of money in their funding formula, there is no requirement that those dollars follow them to their school.

There is a growing movement towards funding "students" and not schools. Parents, school leaders and policymakers increasingly want to see the dollars allocated to students through the education funding formula to actually follow students to their school and empower principals and teachers.

However, with similar students funded at such different amounts of money, there is a financial disincentive for that policy at the local level. It is also a complicating factor when deciding how to unbundle funding formulas for students who want to use their funding for part-time enrollment and course choice, not just school choice.

Arizona is in a good position to move to improve on student-centered funding because the base funding is already calculated per student; but not all dollars are generated for students' needs and those that are may or may not follow them to their classroom or even to their school.

Recent efforts, driven by recommendations from A for Arizona, are drastically improving transparency on whether or not students' funding is making it to their schools but there is still no requirement for it to do so¹⁸.

4 Funding streams meant to support students in high poverty communities are not consistently closing the achievement gap or even making it to their school.

Indeed, their student funding often subsidizes failing schools rather than investing those funds directly into what works.

This means that low-income students in highly effective schools can be under-funded compared to their peers in less effective schools.

Desegregation levies, federal Title I money for schools serving low-income communities, and failing-schools improvement dollars collectively total more than a billion dollars in additional funding theoretically headed for Arizona's neediest neighborhoods to improve learning and bring equity to Arizona public schools¹⁹.

But where the work to close the achievement gap actually succeeds, effective schools are actually likely to receive less money for working just as hard with better results. A decades-long mindset at the State and Federal level to only fund failure rather than results has taken its toll on public school students.

Educators doing great things for students – especially in high

poverty neighborhoods – see less money flowing to their school and students while administrators in failing schools have access to more money but are not required to turn things around. Sadly, when they do, the extra funding often dissipates. Though this dynamic has started to shift with the passage of Results-Based-Funding, more must be done to ensure schools with great outcomes for kids are not on worse financial footing than less effective schools.

5 Students waiting for a seat in a charter school are often waiting for that charter school to find space.

As noted in this report, charter schools do not receive dedicated funding for facilities and generally have to use their per student funding to lease or buy buildings for classrooms or rely on philanthropy.

Per student public funding for school buildings varies but is in the thousands of dollars for districts that have this revenue. This lift is a common barrier to serving more students and meeting parent demand.

Governor Ducey and the Arizona Legislature have paid much attention to this issue of financing buildings as well as how to make better use of existing, but empty, publicly funded school buildings.

However, vacant and underutilized school buildings in neighborhoods that want high-quality options are still empty and funding solutions require private support.

Further, access to unused public schools is difficult. Either because they require repair and updating after sitting idle for many years, or the local district does not want to allow other high demand schools in their boundaries. This is true even in districts with shrinking enrollment, poor outcomes, and the need for revenue.

Figure 6: Disparities in Charter and District Facility Funding

Charter School Facilities

PUBLIC FUNDING FOR CHARTER SCHOOL FACILITIES

zero

Charter schools have no dedicated public funding for construction and maintenance revenue.

School District Facilities

LOCAL BOND REVENUE

\$1.3 billion

NEW CONSTRUCTION & MAINTENANCE FUNDING

\$181.3 million

School district have millions of dollars in facility funding streams that are unavailable to public charter schools.

Source: Superintendent's Annual Financial Report 2021²⁰



PROGRESS

Policy makers have made some important advancements in the last decade and specifically since our first School Finance Summit and accompanying recommendations. This includes:

- ✓ **Collapsing certain siloed funding streams** into lump sum revenue that can be deployed as local leaders see fit rather than mandated by law.
- ✓ **Being the first in the nation** to ensure that schools closing the achievement gap are supported and that this funding is actually spent at their school. Previously, only failing schools were receiving additional funding. Success was ignored and generally under-funded.
- ✓ **Modestly improving access to vacant school buildings** so that real estate is less of a hurdle to expanding or opening a great school in a neighborhood that needs one²¹.
- ✓ **Requiring improved transparency and accuracy** on how much of each student's revenue actually makes it to their school and how is it spent. A new state portal is underway to make that information more accessible to board members, parents, and teachers.
- ✓ **Providing one-time transportation modernization grants** to improve transportation options so that distance is not a barrier to a great school. Public schools now also have permission to use existing student funding for direct grants to families for transportation support to drive directly, utilize carpools, public transit, or other K-12 ridesharing options.

The success of these reforms tells us what works. This list of Arizona policy updates from recent years reflects some national first-of-their kind reforms that are moving Arizona funding in a better direction.

However, these strategies can have a broader reach and should be expanded, stabilized, or made permanent, so that funding gaps between similar learners can be more aggressively mitigated.

For these reasons, we share the following recommendations as timely and appropriate. These concepts not only fix old problems but are sensitive to the new innovations in schooling models, improve portability, and support those educators who narrow and close achievement gaps.

RECOMMENDATIONS FOR ARIZONA

Collapse non-voter approved funding enhancements available to school districts but not to charter schools into a common Base Level for all public schools.

This increases base student-level funding for every single student and reduces inequities across types of public schools. By moving these smaller pots of money into students' base funding and providing that increased base funding amount to students in all public schools – charter and district – we can limit funding disparities that are not based on outcomes or student need. This also makes the amount of money actually available for students more transparent.

Start to address the larger disparities in funding for public school students by creating an opt-in state student-centered funding formula.

To address the dual needs of underfunded students in district and charter schools, the state should offer an updated funding formula that improves the deficiencies in the charter school formula described above and allow school districts to opt-in to this fairer, more stable source of formula funding. This would start the process of having an equitable funding approach for all students and diminish the disparities created by a regionalized property tax system. This would ensure more dollars are embedded into the student funding formula to work for every child's needs.

Because this alternative base will be an opt-in for districts, it is a move in the right direction for large groups of public school students whose funding is less than their peers while not taking away revenue from districts lucky enough to have access to extra property tax funding.

Moving away from the regional property tax system that gives some students and public schools access to extra funding but not others is the cleanest way to address disparities. An opt-in formula can help those disadvantaged by the current funding streams now and create a glide path towards a larger solution later.

Address barriers to accessing and updating empty school buildings.

It is time to take the next step in facilities reform by granting great public school leaders direct access to empty and underutilized space. The real question here is how long should students waiting for a seat to a great public school – district and charter – have to wait? This policy should reimburse the public for their asset and bring empty buildings up to standard to serve kids now.

Move achievement revenues into the formula to improve transparency, stability for local educators, and emphasize the state's commitment to great outcomes for every single student.

In 2016, Arizona made a commitment to support local excellence by dedicating new funding to schools with effective strategies for learning. The largest allocations of this Results-Based-Funding go to schools and educators closing or narrowing the achievement gap for their students in low income, high poverty, communities. This funding program recognizes our most effective schools and funds strategies to expand their impact to more students.

An important feature of this funding is that at least a portion of it must go directly to the school that earned it. This is unlike other funding which can be allocated anywhere the governing board chooses.

However, this first-in-the-nation program has been funded outside of the funding formula and is not viewed as a consistent, long-term source of funding. Certainty in funding is key to sustaining programming and keeping staff.

Further, by placing a new Achievement Weight that is sensitive to income into the formula, schools know that getting great outcomes for kids is part of the expectation for public funding while also ensuring that money is available for closing the achievement gap.

Many states have leaned solely on traditional poverty weights to finance student achievement in low-income communities. But those dollars have not provided the results students need and do not always make it to the school and students for which the funding is intended. Some systems have been provided billions of dollars on top of other revenues for generations to address poverty and are not moving the needle on learning or the inter-generational poverty that follows achievement gaps.

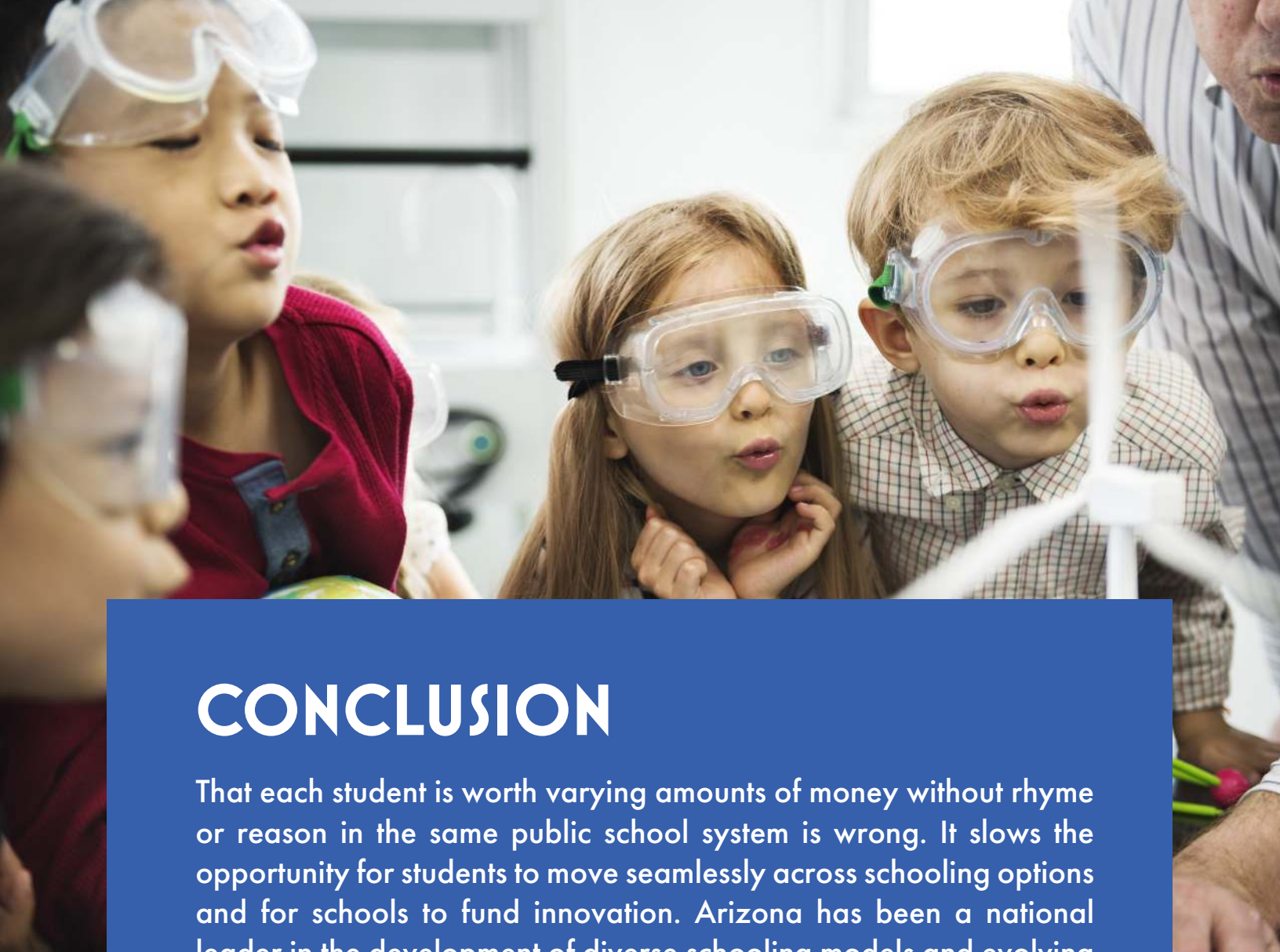
Providing a funding weight that recognizes the additional costs of getting students who are not at grade level caught up while expecting results – and is actually required to end up at the student's school – is the update this policy needs.

Repurpose revenue allocated to school districts for transportation services that they are no longer providing and make the funding flexible, available to public schools that need additional support for transporting students to school and out-of-school enrichment.

Arizona school districts have two dedicated sources of transportation funding. One source allows districts to keep revenue intended for transportation but not being used for that purpose. In other words, districts with declining transportation needs or reduced transportation services keep un-needed revenue and are allowed to levy a local tax to do so. But this cash wind fall is not available to all.

This "hold harmless" that gives some districts access to cash that others do not have is called the Transportation Revenue Control Limit. This funding source has grown to an over \$200 million tax on property taxpayers that is not voter approved.

Lawmakers should strongly consider repealing this funding scheme, reallocate the funding more fairly to all schools, and provide an optional flexible transportation funding source with a density weight for schools that need it, and use it, for transportation options. Such a stable source of transportation funding should account for the massive participation in student enrollment and empower those public school leaders wanting to provide multiple transportation options to do so.



CONCLUSION

That each student is worth varying amounts of money without rhyme or reason in the same public school system is wrong. It slows the opportunity for students to move seamlessly across schooling options and for schools to fund innovation. Arizona has been a national leader in the development of diverse schooling models and evolving toward equitable funding based on the needs of each student. However, we have much more to do and should be working on these problems with enhanced urgency.

While a substantive starting-over approach would be cleaner, the likelihood of broad constitutional amendments to fix that some schools – and therefore some public school students – are worth more than others is a political lift the current environment may not allow.

In lieu of that, we suggest these practical next steps to make funding – and the school and classroom-based offerings that follow – fairer for students as well as the amazing leaders who run their schools.

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