# School Finance Research Collaborative FAQ

**1. What is an adequacy study?**
Adequacy studies determine the true cost of providing a quality education to ALL students, regardless of their income, location or other circumstances. These studies often include geographic cost differences, labor cost differences, and analysis of geographic isolation, among other factors.

**2. What methods do adequacy studies use?**
States frequently use multiple methodologies to improve validity and reliability of adequacy study results. There are four commonly accepted methodologies:

- The **Successful School Districts** (SSD) approach, which calculates a base funding amount by assuming the spending of districts meeting state standards is identical to the spending of districts not meeting state standards.

- The **Professional Judgment** (PJ) approach, which gathers leading educators who are most knowledgeable about the delivery of quality education to identify the human resources and operating expenses needed to meet standards in specific circumstances.

- The **Evidence-Based** (EB) approach, which uses peer-reviewed academic research on student performance to identify the resources needed.

- The **Statistical** (SA) approach, sometimes called the Cost Function approach, which uses regression analysis and statistical modeling to examine the relationship between district spending and district performance.

**3. Why is it important for adequacy studies to be conducted prior to reforms?**
Policymakers should have the best, most complete and accurate information on what it truly costs to educate all of our students. The information must be comprehensive, valid and reliable.

**4. Who funded the Michigan Education Finance Study of 2016, and what did it cost?**
The cost of the taxpayer-funded study, released in June of 2016, was $399,000. This study was the result of legislation which became law in 2015 as Public Act 555. 2

**5. What was the purpose of the state's study?**
The purpose of the state-funded study was to determine whether public resources are being distributed to Michigan's K-12 schools to provide all children with an equal opportunity to achieve and succeed.
The state-funded study was required to include:

- A determination of the educational resources and related expenditures needed to provide a quality elementary and secondary education for all public school students.
- An examination of exemplary school districts that are high-performing and low-spending.
- A review of district-level support of public schools, including an examination of the potential utility of geographic cost-of-education indexing.
- An investigation of additional funding categories that may be necessary to meet unique needs, including but not limited to:
    - Socioeconomic status
    - Limited English proficiency
    - Special education needs
    - Scarcity and density of population
    - Issues related to the rural, urban, or suburban nature of the school district

The study was also required to report the impact of food service and transportation costs, as well as costs associated with community services, adult education, school building construction and maintenance and other capital costs, and debt service. It was also required to determine the cost impact of student population growth and decline.

**6. What were the key findings of the state's study?**
Overall, Michigan should create a more equitable school funding system that serves all students, regardless of their circumstances. The state's school finance system is getting less equitable over time.

The base cost for educating Michigan's public school students should be $8,667 per pupil.

There should be substantially greater funding for low-income students and English Language Learners. These additional resources would allow districts to more fully implement, and perhaps, even expand, research-based best practices for such students.

Michigan should increase revenues for the lowest-spending districts, with an option to seek local operating revenues.

A system should be created to track special education expenditures for districts at the local level.

Michigan should collect targeted data to set regional cost differences, and explore alternatives for narrowing the wide range of per-pupil revenues and expenditures.

**7. Why is an additional adequacy study necessary?**
The state-funded report of 2016 was a very good start, but a new study using multiple methodologies is needed to drive comprehensive school finance policy reform. The state-funded study is not a full adequacy study because the standard used for identifying a successful school district was not a full representation of Michigan's standards. Too much of the definition of success used in the state's study was "proficiency" with too little emphasis on student growth.

The state's study in many ways resembled the successful school district methodology. However, the state RFP required the study team to use "exemplary districts." This analysis assumes an even playing field on which all school districts can succeed based on the average base spending of "exemplary districts." As noted in the state's report, there are a wide variety of differences district-by-district, which does not allow for this assumption to hold.

The exemplary districts have a demographic homogeneity that many studies have shown to result in lower funding needs. Other deficiencies in the state funded study are found in the report prepared by JL Myers Consulting on this website and titled: "A Review of the Michigan Education Finance Study."

Types of adequacy studies conducted in 25 states from 2003 to 2014:

| Type of Adequacy Study | # of Studies |
|---|---|
| Successful School Districts (SSD) | 17 |
| Professional Judgment (PJ) | 29 |
| Evidence Based (EB) | 19 |
| Statistical Approach (SA) | 0 |
| Multiple Methodologies Used | 23 |

The amount of funding needed to serve at-risk and low-income students, special education students, English Language Learners and other vulnerable groups needs more research and data. The weighting or funding level in the state-funded study report for these students was more an average and does not reflect the funding levels found in other states.

Data on special education and capital costs available in Michigan is not comparable, so use of the Successful School District method was significantly impacted by lack of data on significant portions of school district spending.

The state's study also did not fully examine cost of living differences, labor cost differences or cost per pupil differences caused by the presence or lack of economies of scale due to enrollment size.

The different needs of Michigan's charter schools (about 10% of total enrollment statewide) and traditional public schools require more research and analysis. The use of multiple methodologies will provide the needed additional analysis of this type of public education.

Michigan's traditional and charter schools spend their money in very different ways….

Charter schools spent an average of $9,251 per student, compared to $10,351 for traditional public schools.

Among the reasons: Traditional districts are getting extra money from the state to offset retirement costs, yet these pension contribution costs represent 12.2% of total expenditures. At charter schools, pension costs represent only 0.7% of expenditures.

Traditional districts tend to get more special education funding because they usually have a much higher percentage of disabled students, as well as those with more severe disabilities. These students are more costly to serve.

Traditional and charter public schools also spend their money differently. Charter schools, which generally spend less on teacher salary and benefits, spend less on instruction and transportation. However, charter schools spend more on business and administration, including fees to charter authorizers and charter management companies. They spend much more on facility operations because they don't have access to public bonding or sinking funds for building construction or upgrades. These differences need much more examination.

**8. What did Gov. Snyder's 21st Century Education Commission Report say about school funding?**
The Commission identified quickly becoming a top student performance state as essential to Michigan's future. Michigan is currently near the bottom in education performance nationwide.

To quote the Commission's report:

*"Dramatic gains will not happen without significant new investment. Policymakers should view education as an investment, and increasing investment now will lead to increased prosperity in the future."*

The Commission recognized that the work of many government commissions, blue-ribbon committees, and similar efforts are often put on the shelf and not revisited. There is little appetite for generating revenues needed to implement report recommendations, the Commission found.

Michigan taxpayers have a right to be skeptical of requests for additional resources, the Commission concluded. K–12 performance in Michigan has not been historically commensurate with spending. However, the Commission was clear: Without significant new investment, Michigan cannot become a top-performing education state.

We must determine additional resources needed for disadvantaged students. Michigan's funding formulas should be equitable. Similar districts and similar students should be provided with similar resources. When necessary, students with greater educational needs should be provided with additional resources to have an equal chance of meeting performance standards.

Michigan should develop funding formulas to support the system. Once the amount of funding needed to meet performance standards is determined, Michigan should develop funding formulas that efficiently and effectively distribute these resources.

**9. Who is leading the effort to provide an adequacy study in Michigan?**
The School Finance Research Collaborative, a diverse group of business leaders and education experts from Metro Detroit to the U.P., who agree it's time to change the way Michigan schools are funded. This is a broad based, statewide, and bipartisan Collaborative committed to completing the research necessary to support school finance reform.

**10. Who is funding the Collaborative's 2017 adequacy study?**
A generous grant provided by the W.K. Kellogg Foundation supported the establishment of the School Finance Research Collaborative.

The remaining funding needed to complete the additional research and associated communications is being sought from the foundation community.

**11. Who will conduct the new adequacy study?**
Following an RFP, Colorado-based Augenblick, Palaich and Associates and California-based Picus, Odden & Associates were selected in April 2017 to conduct the new adequacy study using multiple methodologies. Results of the study are expected to be released by early 2018.

The research team will create 20 panels among 240 Michigan educators including teachers, teacher consultants, principals, superintendents, special education directors and specialists.
There will be a special panel on charter schools – a first for such a study in the United States – as well as panels on poverty, preschool, districts of varying sizes, and geographically isolated districts.

Additional panels will focus on special needs students including English Language Learners, at-risk students, career and technical education and student needs from preschool through high school.

The new study will utilize two methodologies:

- **The Professional Judgment (PJ) Approach**
  Gathers leading educators most knowledgeable about the delivery of quality education to identify the human resources and operating expenses needed to meet standards in specific circumstances.
- **The Evidence-Based (EB) Approach**
  Uses knowledge of academic research on student performance to identify the resources needed.

**12. What will the adequacy study address?**
The adequacy study will address all pre-K-12 students (in traditional and charter public schools), but will exclude homeschool/shared-time, cyber schools and adult education.

This effort will identify the base cost of providing education (on a per-pupil basis) and weightings for significant subgroups, including special education students, English Language Learners, and at risk/poverty students. The objective is to provide all of the information needed to develop a school funding formula which is both adequate and equitable.

The adequacy study will exclude costs associated with capital renovations, as well as construction, acquisition or lease of facilities, including expenditures funded by a bond issue or sinking fund.

However, funding is being sought for a separate project to address PK-12 capital needs, and it is hoped that this separate effort can be undertaken simultaneously. This separate and critically important project is expected to include information about the variation of property tax base in school districts (ability to pay), how other states address capital funding for PK-12 education programs, and an in-depth study of critical capital needs of public schools.

Development of a school funding formula will also be a separate project once the adequacy study is completed. The formula-development project often includes such factors as:

- Funding levels for special education students, and differing needs depending on disability type
- English Language Learners
- Low-income students
- Development of a geographic cost index
- Address unequal funding support for special education students from ISDs (intermediate school districts)
- Address declining enrollment and the establishment of thresholds for additional funding for declining-enrollment districts
- Identify a method to adjust the base cost annually until the next study is undertaken.

**13. How does Michigan's public school funding compare to other states?**
Our research will help answer this question by exploring best practices and lessons learned in other states. Michigan lawmakers need better, more complete information so they can address adequate funding and student achievement.

Michigan public schools spent $13.9 billion on operating expenditures in 2015-16, which is 6% less than the cost in 2007-08, without factoring inflation.

According to the 21st Century Education Commission Report, Michigan currently ranks 24th in per-pupil K-12 spending. This represents a sharp drop in the state's standing.

Michigan ranked 8th highest in per-pupil spending as recently as 2000. Since that time, the state has seen inflation-adjusted per-pupil spending fall by $663 per student, while the U.S. average for per-pupil spending increased by over $1,400. Michigan schools have also seen increasing fiscal pressure from retirement costs. Declining resources relative to other states is a likely cause of Michigan's recent poor performance.

Michigan ranks in the middle of the 50 states (23rd) on per-pupil spending, according to Governing.com, based on 2014 U.S. Census data from fiscal year 2014, the most recent available. The national average was $11,009. The figure for Michigan was $11,110.

Based on schools' general fund expenditures, Michigan's per-pupil spending increased 11% between 2007-08 and 2015-16, *a period when the cost of living increased by 14%.*

A significant portion of the increase in Michigan's K-12 funding was provided to help districts offset increases in their mandatory payments to the state retirement system. That money is essentially handed out by one branch of state government and given right back to another. That amount was roughly $440 per student in 2015-16.

**14. How many other states have recently done adequacy studies?**
Over the past 15 years, more than 30 states have conducted school finance adequacy studies. Of those states, 90% have used multiple methodologies in their studies. Many states conducted studies multiple times in that period.

**15. How do other states fund low-income students and English Language Learners?**
The most frequent weight adjustments found across the country are for additional resources needed to serve special education students, economically disadvantaged students and English Language Learners (ELL).

Special education weights identified by state adequacy studies are often above 1.0 as a single weight, but are more often divided in levels of severity of need. Those range from a 0.5 to 0.99 weight for mild needs, 1.0 to 1.93 for moderate needs and above 3.0 to 8.0 for severe needs. The National Association of State Directors of Special Education (NASDSE) reported in 2010 that about half of the states currently use weights for special education funding. Most of the other states use a census-based approach versus a headcount approach, which means the state provides a percentage reimbursement of a block grant.

The weights identified by state adequacy studies to serve economically disadvantaged students vary from 0.24 to 0.75, mainly due to school district size. In 2005, an adequacy study in Connecticut found a need for a concentration factor that accounted for the increased need in primarily urban areas that had a significantly higher percentage of at-risk students. The Education Commission of the States (ECS) found that 24 states provide aid for at-risk students through their primary funding formula, and that 21 states provide additional funding for at-risk through categorical funding. They also noted that Colorado and Nebraska have concentration factors in their formulas.

These concentration factors provide higher weights for school districts with the highest percentage of at-risk students. In addition to the variance in how funding is provided, states vary in how they identify at-risk students with most states (27) using eligibility in the National Free and Reduced School Lunch Program (FREL) as the primary source of data. Other states use sources such as unsatisfactory academic performance, Title 1 eligibility and census-based data on a number of poverty indicators.

Adequacy studies have found a need for ELL weights ranging from 0.39 to 1.21, which also vary due to school districts size. Larger districts typically benefit from the economies of scale that allow for a lower rate. In practice, ECS found that 34 states include ELL funding in the state's primary funding formula; nine states use categorical funding for ELL; and three states reimburse school districts. As with at-risk funding, there is considerable difference in the weighting used by states. Five states use a weight of less than 0.15; 11 states have 0.15 to 0.25; and 10 states have weights above 0.25. The highest weight for ELL students is in Maryland, which has a weight of 0.99. These variations could be attributed to the density of ELL students, the types of services needed, and/or availability of instructors available for the particular language.
In conclusion, given this variance between states, there is a lack of correlation between important student need factors and student success rates (measured by student test scores or graduation rates). Education providers should not be held accountable for demographic differences they do not control, but adequacy studies help states understand how to support those student needs.

**16. Courts have cited school funding reports in recent rulings requiring states to increase public school funding. Is this a possibility with the new study?**
That is not the intent of this study. There is zero interest in our Collaborative advocating or participating in any kind of legal strategy.

The goal is to use data to make recommendations to lawmakers on how public schools are funded in order to provide a top-notch education for every student in Michigan.