



REPORT

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OPPORTUNITIES TO IMPROVE MISSOURI'S EDUCATION FUNDING FORMULA

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KEY TAKEAWAYS

- In Missouri, low-income students, students with disabilities, and students with limited English proficiency don't necessarily generate additional revenue for their districts, in contrast to most weighted-student funding systems. Instead, only districts that exceed a specified threshold for each subgroup of students receive additional weighted student funding for a given category.
- Analysis of Missouri's 2017–18 school finance data indicates that there is a moderate-to-strong correlation between a district's property wealth and the revenue it receives, as districts with higher assessed valuation per average daily attendance (ADA) tend to generate more state and local operating dollars per ADA.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
FOR MISSOURI PUBLIC POLICY

- There are three provisions in Missouri’s funding formula that guarantee districts a funding floor, or holds them “harmless.” These involve guaranteeing at least the 2004 spending per student; using 2005 property values unless property values have declined, but not if they have increased; and using the highest enrollment for the past three years. As a result, a substantial portion of education dollars are allocated inefficiently rather than being spent based on actual need.
- Education revenue raised by Proposition C, a 1-percent state sales tax, diverts state revenue to districts that have no demonstrated need.
- The State Adequacy Target (SAT) is a foundational dollar amount per student that is intended to ensure an adequate level of funding for all districts. Because the SAT is not allowed to decrease, “fully funding” the formula requires increasing spending.
- In the 2018–19 school year, more than 50 percent of Kansas City public school students chose a charter school. Because KCPS receives less funding from the state than what is owed to the charter schools, the charter schools will not be fully funded this year.

INTRODUCTION

In the 2017–18 school year, just over \$12.5 billion dollars were spent on public education in Missouri. Approximately one-third of this total was financed from state coffers via a funding formula that distributes state dollars to each of the 518 school districts in the state.¹ This formula is based (primarily) on the number and type of students in each district and on the district’s ability to raise local funds through property taxes.

Ideally, school funding formulas would fund students, not school buildings—meaning that they would be based directly on the number of students and any unique characteristics that may make them more or less expensive to educate. This would allow for a more equitable flow of funds as students moved between school districts. Missouri’s funding formula is student based to a certain extent, but there are ways that it could be improved.

It’s true that in 2005 Missouri policymakers took important steps toward improving the state’s school finance system, both to better reflect district wealth and to make the system more student-centered. But there are still significant cracks in the foundation that must be addressed. For example, most districts across the state are still using property values from 2005 to demonstrate their ability to raise local funds. In addition, some districts receive additional money from the state for students who have unique characteristics, such as disabilities—but other districts do not. Finally, funding for students who participate in the single public school choice program in the state—charter schools in Kansas City and St. Louis—is problematic and inequitable.

This paper highlights these problems and provides recommendations for student-centered reforms that promote fairness, transparency, and local autonomy. School finance policy is more than just complex formulas and calculations—it’s a foundational component of public education that directly affects all of Missouri’s students and classrooms.

AN OVERVIEW OF MISSOURI’S EDUCATION FUNDING SYSTEM

The core structure of Missouri’s foundation funding formula is straightforward. A revenue entitlement is calculated for each district, which is the total amount of state and local dollars a district is eligible (entitled) to receive. Because education funding is a shared responsibility between state and local revenue sources, the portion of the revenue entitlement that is covered by state dollars is based on how easily districts can raise local dollars.² In general, there is an inverse relationship between property wealth and the level of state support provided, such that districts with less property wealth receive a greater share of their revenue entitlement from state funding sources.

But Missouri’s school finance system also contains numerous provisions and exceptions that add layers of complexity to the formula. The following section provides an overview of this system (for a more detailed explanation see *A Primer on Missouri’s Foundation Formula for K-12 Public Education* by Dr. James V. Shuls.)³

Calculating Districts' Revenue Entitlement

The first step in determining state aid for each Missouri public school district is to calculate its revenue entitlement, which is the product of three factors: weighted average daily attendance (WADA), the state adequacy target (SAT), and a dollar value multiplier (DVM). Each of these is described in detail below.

Weighted average daily attendance

× *State adequacy target*

× *Dollar value modifier*

= *Revenue entitlement*

Weighted Average Daily Attendance

Weighted average daily attendance (WADA) is a measure of a district's student population that accounts for not only enrollment, but also attendance and student need. The first step in calculating WADA is determining a district's average daily attendance (ADA), which is the sum of all term hours attended by a district's students divided by the total number of hours school was in session that term.⁴ Because ADA is a measure of both enrollment and attendance, it can never be greater than a district's total enrollment and is virtually always lower.

The next step in calculating WADA is to adjust a district's ADA for three categories of student need:

- Free and reduced [price] lunch (FRL)
- Individualized education programs (IEPs)
- Limited English proficiency (LEP)

Eligibility for free or reduced-price lunch in the U.S. Department of Agriculture's National School Lunch Program (NSLP) is based on family income and is therefore used as a proxy for low-income status. An IEP is a written legal document, or plan, for students with disabilities and is an indication of that status. LEP students are those who are learning English as a non-native language. Students within these three categories are likely to be more expensive to educate than students who do not meet these conditions.

However, in Missouri, students who fall within these categories don't necessarily generate additional revenue for their districts, as they would in most weighted-student funding systems. Instead, these dollars are allocated to districts based on threshold levels. Only districts that exceed a threshold for each subgroup of students receive additional weighted student funding for a given category.

The thresholds are calculated based on the average student populations in Missouri's "performance districts," which are defined in statute as "district[s] that [have] met performance standards and indicators as established by the department of elementary and secondary education for purposes of accreditation under section 161.092 and as reported on the final annual performance report for that district each year."⁵

While this definition seems a bit confusing, it basically means that the state averages the percentage of students in each of these categories for the districts that met the state's standards and only provides additional funding for districts with more than the average amount. In other words, some districts were able to meet the state's performance standards even though 12 percent (see below) of their students had IEPs. So, only districts with more than 12 percent IEP students receive additional funding. To truly be student centered, the formula would provide additional state funding for every student with an IEP.

Districts receive additional dollars for every student beyond each of the respective thresholds, which are weighted as follows.⁶

Category	Threshold	Weight
FRL	31.42%	25%
IEP	12.06%	75%
LEP	2.50%	60%

Therefore, the weighted average daily attendance (WADA) is a combination of the average daily attendance in each district multiplied by any additional student weights to which the district is entitled. For example, a district with 45 percent of their students qualifying for free or reduced-price lunch would weight 13.58 percent (45 percent –

31.42 percent) of their low-income students as 1.25 rather than just 1.0.

State Adequacy Target

The state adequacy target (SAT) is a foundational dollar amount per student that is intended to ensure an adequate level of funding for all districts. It is determined by summing the operating expenditures of performance districts and dividing this figure by their total average daily attendance.⁷ In other words, the state considers that the average per-pupil expenditure in performance districts reflects adequate, or sufficient, funding per student for all districts.

The SAT is recalculated every two years and can never decrease. However, if the legislature doesn't fully fund the formula, the SAT is adjusted downward to match the appropriation level. For school years 2019–20 and 2020–21 the SAT is \$6,308 and \$6,375, respectively, per WADA.⁸

Dollar Value Modifier

The dollar value modifier (DVM) is a cost-of-living index that is intended to allocate additional dollars to districts that operate in more expensive areas of the state where salaries and other costs are higher. The first step in calculating the DVM is to determine the regional wage ratio, which is each region's average wage per job divided by the state's median wage per job.⁹ The resulting figure for each district is then plugged into a simple equation that yields a number of at least 1.0, meaning the DVM can only adjust a district's revenue entitlement upward.¹⁰ In 2017–18, the DVM ranged from 1.0 to 1.098, with 61 districts having the highest figure.¹¹ It is important to note that the stipulations of making the 1.0 the lowest DVM (rather than the average) and never allowing the SAT to decrease force an upward trajectory in Missouri state public education funding.

Determining the Local Share

Responsibility for funding Missouri's foundation formula is shared between local and state revenue sources. Once a district's revenue entitlement has been calculated, the next step is determining what portion will be covered by local dollars, also known as the "local effort." To do

this, the state's funding formula uses assessed property values from calendar year 2004, local taxes collected for school purposes during the 2004–05 school year, and a performance levy that is set at \$3.43 per \$100 of assessed property valuation.^{12,13}

The performance levy is simply a target, and districts are free to set their own local tax rates subject to voter approval as long as the rate isn't below \$1.25.¹⁴ However, setting it lower than \$3.43 means that they may generate less funding than their revenue entitlement provides, while setting it higher results in dollars in excess of this amount, which they're permitted to retain. Property taxes account for the greatest share of local effort, but other sources of tax revenue also contribute to this, including 50 percent of dollars generated by a statewide sales tax known as Proposition C, a state-assessed railroad and utility tax, and other local levies.¹⁵ Once a district's local effort has been determined it becomes easy to calculate how much funding the state will provide, as follows.

$$\text{Revenue entitlement} - \text{Local effort} = \text{State funding}$$

Hold-harmless Provisions and Other Allotments

There are provisions in Missouri's funding formula that guarantee districts a funding floor. In school finance, this type of arrangement is called "hold-harmless." The most prominent hold-harmless guarantee in Missouri's formula ensures that districts with more than 350 students receive the same level of state revenue per WADA as they did in 2005–06, while guaranteeing that districts with 350 or fewer students receive the same amount of total state funding as they did in either 2004–05 or 2005–06, whichever was higher.¹⁶ In 2018, there were 194 districts (out of 518) that were classified as hold-harmless and were thus funded based on historical revenue.¹⁷

Other hold-harmless provisions in Missouri's funding formula include:

- **WADA hold-harmless:** To calculate revenue entitlement a district's largest WADA figure among the current and preceding two years is used. This is intended to insulate districts with declining enrollments from fluctuations in revenue.¹⁸

- **Property wealth hold-harmless:** Property value assessments from 2004–05 are used to calculate each district’s revenue entitlement. The only exception is when a district’s assessment has declined, in which case current values are used.¹⁹ In other words, districts in which property values have increased over the past 15 years—which should be expected to contribute more school funding through their local effort—can use the lower property values from 2004–05 and be held harmless for this additional local effort.

Missouri’s school funding system also has several categorical programs that distribute money “outside” of its foundation formula for specific purposes and are subject to legislative appropriations, including:

- **Transportation:** Transportation funding is available for students who live one mile or more from school. According to Missouri statute, “A district shall receive, pursuant to section 163.031, an amount not greater than seventy-five percent of the allowable costs of providing pupil transportation services to and from school.”
- **Career Ladder Entitlement:** A matching fund career advancement program that provides supplemental pay for teachers, librarians, counselors, and other school personnel.²⁰
- **District Educational and Screening Program Entitlements:** Reimbursement programs for parent education, developmental screening for children under five years old, and programs for delayed children ages three and four.²¹
- **Small Schools Grant:** \$15 million are appropriated each fiscal year to be split among those districts with 350 or fewer ADA.²²

Figure 1: 2017–18 Assessed Valuation per ADA vs. Operating Revenue Per ADA (State and Local Dollars Only)

Districts with high property values (assessed valuation per ADA) tend to spend more per student.



Source: Assessed Valuation per ADA data obtained from <https://apps.dese.mo.gov/MCDS/home.aspx>. Revenue calculations based on data obtained via Public Information Request from Missouri Department of Elementary and Secondary Education.

ANALYSIS

Four main problems substantially affect both fairness and transparency in the Missouri school funding formula.

1. Funding Differences Caused by Local Revenues

Analysis of Missouri’s 2017–18 school finance data indicates that there is a moderate-to-strong correlation

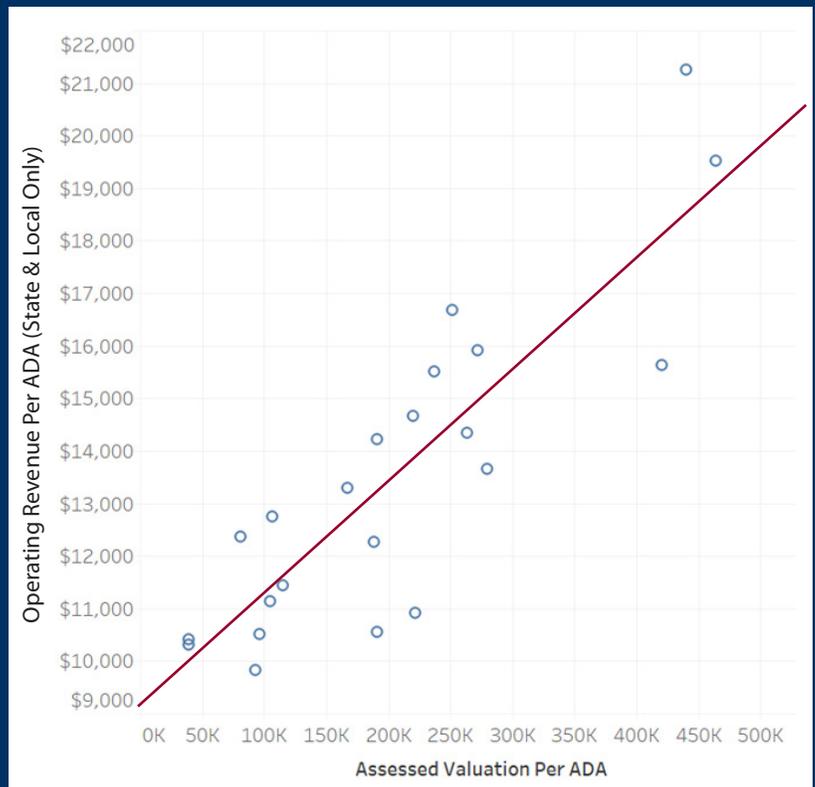
between a district's property wealth and the revenue it receives, as districts with higher assessed valuation per ADA tend to generate more state and local operating dollars per ADA.^{23–25} Technically, the reverse would be expected—districts with greater need would receive more funding. Of course, this relationship is fueled by higher local spending in districts with higher property wealth. Figure 1 shows this relationship for all districts in Missouri in 2017–18.

It is useful to evaluate this relationship within St. Louis County, where the 22 traditional school districts receive the same cost-of-living adjustment through the state's DVM. As Figure 2 shows, there is a clear relationship between assessed property valuation per ADA and operating revenue per ADA, as property wealthy districts tend to generate more state and local dollars. For example, the top three districts in revenue per ADA—Brentwood, Clayton, and Pattonville R-III—have substantially more property wealth than the bottom three districts—Riverview Gardens, Jennings, and Bayless—as summarized in Table 1. Notably, the three former also have much smaller proportions of FRL students, with Clayton only having 5 percent against 91 percent for Riverview Gardens.²⁶

One reason for these disparities is that Missouri's school finance system falls short of completely equalizing local dollars because the state doesn't recapture local revenue raised in excess of what the state formula provides. This is exacerbated by the fact that local effort is based on 2004 property assessments rather than more recent assessments. Using the 2004 assessments underestimates the ability of property-wealthy districts to raise revenue, favoring those with higher growth relative to others. Finally, only students above the threshold in the three weighted categories receive additional funding.

Figure 2: 2017–18 St. Louis County School Districts: Assessed Valuation per ADA vs. Operating Revenue Per ADA (State and Local Dollars Only)

There is a clear positive relationship between property wealth and spending per student for the school districts in St. Louis county.



Source: Assessed Valuation per ADA data obtained from <https://apps.dese.mo.gov/MCDS/home.aspx>. Revenue calculations based on data obtained via Public Information Request from Missouri Department of Elementary and Secondary Education.

2. Diverting State Dollars to High-revenue Districts

Missouri's funding formula delivers dollars to districts based on a combination of factors that address specific needs identified by policymakers. For example, WADA

accounts for the varying needs of students, DVM accounts for cost differences among districts, and local effort accounts for property wealth disparities. This strategic approach to school finance is designed to ensure that Missouri's education dollars are allocated efficiently. However, for 194 “hold-harmless” districts that are funded at past revenue levels, the current formula is largely disconnected from need.

Missouri's WADA hold-harmless provision guarantees districts a funding floor of state dollars, which for most is based on state revenue per WADA in 2005–2006. This means that districts receive whatever amount is higher: the state revenue per WADA calculated by the current school finance formula (as described in the section above) or the state revenue per WADA they received nearly fifteen years ago. The hold-harmless provision was intended to help districts transition to a new funding system, but it has long outlived its rationale.

At first glance hold-harmless might seem desirable, because individual districts can only benefit by receiving more, and never fewer, state dollars per WADA than what the current formula provides. But the substantial opportunity costs of this approach affect all of Missouri's school districts, including the 327 districts that aren't funded through this provision: Hold-harmless dollars could otherwise be allocated fairly and strategically through the existing formula (for example, helping to fully fund the State Adequacy Target or increasing the per pupil funding weights for FRL, IEP, or ELL students).

To illustrate, 14 of the 22 districts in St. Louis County were funded through the hold-harmless provision in 2017–18.²⁷ In total, these districts received about \$39 million in state revenue *on top of* what the current school finance formula provides for them, ranging from an additional \$240 per WADA to \$1,797 per WADA as shown in Table 4.²⁸ For example, Clayton ISD is a property-wealthy district and because their Local Effort exceeds their revenue entitlement, Missouri's foundation formula technically wouldn't provide them with any state funding. However, hold-harmless diverts funding to Clayton anyway, and the district was estimated to receive approximately \$515 per WADA in state funding, or about \$1.1 million dollars, as a result. This \$515 per WADA is guaranteed for Clayton until the funding formula is revised.

**Table 1:
St. Louis County 2017–18: Operating
Revenue Per ADA and Assessed Valuation
Per ADA**

District Name	Revenue per ADA	Assessed Valuation per ADA
Brentwood	\$21,250	\$440,000
Clayton	\$19,513	\$464,172
Pattonville R-III	\$16,670	\$251,867
University City	\$15,908	\$271,746
Ladue	\$15,622	\$420,418
Maplewood-Richmond Heights	\$15,515	\$236,792
Valley Park	\$14,654	\$219,946
Kirkwood R-VIII	\$14,334	\$263,347
Webster Groves	\$14,218	\$190,736
Parkway C-2	\$13,662	\$279,683
Affton 101	\$13,298	\$167,226
Ferguson-Florissant R-II	\$12,755	\$106,268
Normandy Schools	\$12,362	\$80,626
Rockwood R-VI	\$12,262	\$188,769
Hancock Place	\$11,447	\$115,291
Hazelwood	\$11,142	\$104,465
Lindbergh Schools	\$10,924	\$221,650
Mehlville R-IX	\$10,555	\$190,948
Ritenour	\$10,506	\$96,362
Riverview Gardens	\$10,416	\$39,098
Jennings	\$10,314	\$39,567
Bayless	\$9,821	\$92,691

Source: Assessed Valuation per ADA data obtained from <https://apps.dese.mo.gov/MCDS/home.aspx>. Revenue data based on calculations using obtained via Public Information Request from Missouri Department of Elementary and Secondary Education.

A TALE OF TWO DISTRICTS

District A and District B are identical in almost every respect, having the same revenue entitlement, 2004 assessed property valuation, and local effort calculation as shown in Table 2. However, District A's assessed property valuation has increased by 50 percent since 2004, while District B's has remained the same. As a result, the two districts receive the same amount of state funding despite the fact that District A raises about \$1,715,000 more in local dollars at the assumed tax rate than District B. So, while Missouri's foundation formula is designed

to account for differences in local property wealth, basing local effort on historical property values favors districts with rapidly increasing assessments. Using more recent property assessments, as shown in Table 3, would allow the foundation formula to work as intended where the two districts receive the same amount of funding through the base formula.

Table 2:
Using 2004 Property Valuations to Calculate State Funding Allotments

	District A	District B
A. Revenue Entitlement	\$10,000,000	\$10,000,000
B. Assessed Valuation 2004	\$100,000,000	\$100,000,000
C. Local Effort ((Row B/100)×\$3.43)	\$3,430,000	\$3,430,000
D. State Funding (Row A–Row C)	\$6,570,000	\$6,570,000
E. Assessed Valuation 2018	\$150,000,000	\$100,000,000
F. Local Dollars Actually Raised ((Row E/100)×\$3.43)	\$5,145,000	\$3,430,000
G. Total Revenue (Row D + Row F)	\$11,715,000	\$10,000,000
H. Difference in Revenue	\$1,715,000	

Table 3:
Using Recent Property Valuations to Calculate State Funding Allotments

	District A	District B
A. Revenue Entitlement	\$10,000,000	\$10,000,000
B. Assessed Valuation 2018	\$150,000,000	\$100,000,000
C. Local Effort ((Row B/100)×\$3.43)	\$5,145,000	\$3,430,000
D. State Funding (Row A–Row C)	\$4,855,000	\$6,570,000
E. Local Dollars Actually Raised (Row C)	\$5,145,000	\$3,430,000
F. Total Revenue (Row D + Row F)	\$10,000,000	\$10,000,000
G. Difference in Revenue	\$0	\$0

**Table 4:
St. Louis County 2017–18 Hold-harmless
Revenue by District**

District Name	FRL%	Additional State Revenue per WADA	Additional State Revenue from Hold Harmless
Normandy Schools Collaborative	92%	\$1,797	\$7,132,882
University City	70%	\$1,704	\$4,756,821
Pattonville R-III	47%	\$830	\$4,745,652
Ladue	10%	\$578	\$2,244,313
Jennings	89%	\$566	\$1,534,010
Parkway C-2	13%	\$562	\$8,877,626
Brentwood	15%	\$537	\$350,402
Clayton	5%	\$515	\$1,134,934
Kirkwood R-VII	11%	\$470	\$2,408,420
Valley Park	28%	\$450	\$336,846
Hancock Place	66%	\$351	\$485,010
Maplewood-Richmond Heights	41%	\$336	\$414,224
Ferguson-Florissant R-II	74%	\$324	\$3,383,170
Riverview Gardens	91%	\$240	\$1,506,479
Webster Groves	13%	\$0	\$0
Affton 101	34%	\$0	\$0
Rockwood R-VI	8%	\$0	\$0
Hazelwood	62%	\$0	\$0
Lindbergh Schools	14%	\$0	\$0
Mehlville R-IX	25%	\$0	\$0
Ritenour	76%	\$0	\$0
Bayless	59%	\$0	\$0

Source: State revenue figures calculated using data obtained from 2017-2018 Basic Formula Payment Transmittal reports. <https://apps.dese.mo.gov/SchoolFinance/SchoolFinanceMenu.aspx>.

**Table 5:
St. Louis County 2017–18 Hold-harmless
Revenue by District (< 50% FRL)**

District Name	FRL%	Additional State Revenue Per WADA	Additional State Revenue from Hold Harmless
Pattonville R-III	47%	\$830	\$4,745,652
Ladue	10%	\$578	\$2,244,313
Parkway C-2	13%	\$562	\$8,877,626
Brentwood	15%	\$537	\$350,402
Clayton	5%	\$515	\$1,134,934
Kirkwood R-VII	11%	\$470	\$2,408,420
Valley Park	28%	\$450	\$336,846
Maplewood-Richmond Heights	41%	\$336	\$414,224

Source: State revenue figures calculated using data obtained from 2017-2018 Basic Formula Payment Transmittal reports. <https://apps.dese.mo.gov/SchoolFinance/SchoolFinanceMenu.aspx>.

St. Louis County districts with student populations of less than 50 percent FRL benefit disproportionately, receiving more than half of all hold-harmless dollars allocated within the county as shown in Table 5. In fact, five out of eight of these districts are property wealthy and wouldn't be eligible for any state revenue under the foundation formula without the hold-harmless provisions. While it's true that not all districts receiving hold-harmless dollars are property wealthy or affluent, a more effective approach would target these dollars through the current formula instead. In other words, the elimination of hold-harmless does not necessitate taking away state funding from hold-harmless districts with demonstrated need if these dollars are allocated strategically through the formula.

Similarly, education revenue raised by Proposition C, a 1 percent state sales tax, also diverts state revenue to districts that have no demonstrated need. Proposition C dollars are allocated on a per WADA basis "outside" of Missouri's

**Table 6:
St. Louis County 2017–18 Proposition C
Revenue by District**

District Name	Revenue Per ADA	2017–2018 Prop C Revenue
Brentwood	\$21,250	\$639,152.81
Clayton	\$19,513	\$2,176,757.95
Pattonville R-III	\$16,670	\$5,648,402.84
University City	\$15,908	\$2,661,573.13
Ladue	\$15,622	\$3,837,606.09
Maplewood-Richmond Heights	\$15,515	\$1,210,174.31
Valley Park	\$14,654	\$675,040.58
Kirkwood R-VIII	\$14,334	\$5,068,518.69
Webster Groves	\$14,218	\$4,039,610.58
Parkway C-2	\$13,662	\$15,585,305.68
Affton 101	\$13,298	\$2,391,298.28
Ferguson-Florissant R-II	\$12,755	\$9,907,924.54
Normandy Schools	\$12,362	\$3,902,103.13
Rockwood R-VI	\$12,262	\$18,184,591.00
Hancock Place	\$11,447	\$1,368,177.93
Hazelwood	\$11,142	\$17,592,408.91
Lindbergh Schools	\$10,924	\$6,175,595.62
Mehlville R-IX	\$10,555	\$9,667,762.66
Ritenour	\$10,506	\$6,600,020.03
Riverview Gardens	\$10,416	\$6,003,236.43
Jennings	\$10,314	\$2,675,284.05
Bayless	\$9,821	\$1,736,211.68

Source: Revenue calculations based on data obtained via Public Information Request from Missouri Department of Elementary and Secondary Education. Proposition C 2017-18 revenue figures obtained from Missouri Department of Elementary and Secondary Education's Prop C June Payment Report via e-mail.

equalization formula, with half of this revenue counted toward districts' Local Effort.²⁹ Importantly, this \$901 million funding stream does not account for how much revenue districts are able to raise locally.³⁰ For example, in 2017–18 all districts in St. Louis County received the same \$988 per WADA allotment.³¹ As a result, affluent districts such as Clayton and Ladue received millions of dollars in state funding despite the fact that they're already spending substantially more than neighboring districts. Table 6 shows Proposition C revenue allocated by district in St. Louis County.

3. Weighted Funding Not Based on Individual Students

Missouri's weighted-student funding model strategically provides additional dollars to three categories of students (FRL, IEP, and LEP), but the current methodology for calculating WADA has two primary shortcomings. First, it allocates dollars based on threshold levels rather than individual students. Technically, the SAT has accounted for FRL, IEP, and LEP students through the consideration of the averages of each group in the performance districts. However, a truly weighted student funding formula would use the same base and weights for all students. Considering that the SAT has accounted for some students in special categories, the actual base could end up being lower. However, there would be no logical reason for changing these weights.

Another concern is that the current WADA methodology only employs a single weight for students with IEPs, and thus fails to differentiate among a diverse group of students with substantial cost variation. The advantage of this approach is that it is simple and may reduce the incentive to over-identify students. However, the drawback is that education dollars aren't targeted to districts based on need, with some being undercompensated and others being overcompensated for their actual student populations. Additionally, school choice programs for students with disabilities would be at risk of being underfunded.

4. Shortcomings in Funding for Charter School Students

There are several opportunities for the Missouri school funding formula to be revised in ways that are more

FINALLY...SCHOOL-LEVEL FINANCE DATA

Many superintendents, principals, and school board trustees are in the dark about how education dollars are allocated among schools within their districts, as school-level spending data aren't currently accessible in most states, including Missouri. While financial documents such as budgets and financial statements are readily available to help stakeholders evaluate state and district finances, the same isn't true at the most consequential level of education where learning actually takes place: schools.

This is problematic, since research shows that the resource allocation practices employed by districts can favor some students over others, often shortchanging those in low-income communities. District officials may have no way of knowing whether schools are leveraging their resources effectively and may miss opportunities to gather and share insights from successful leaders.

Public education needs more financial transparency, especially to support effective

leadership. This is why federal lawmakers included a provision in the Every Student Succeeds Act (ESSA), signed into law in December of 2015, requiring all states to publicly report "The per-pupil expenditures of Federal, State, and local funds, including actual personnel expenditures and actual non-personnel expenditures of Federal, State, and local funds, disaggregated by source of funds, for each local educational agency and each school in the State for the preceding fiscal year."³² State officials across the country are working to ensure compliance by next year's deadline, but in order to fully leverage the power of these data states must go above and beyond ESSA's baseline requirements by making the information accessible, comparable, and actionable for education leaders and their communities. Missouri policymakers have an opportunity not only to improve financial transparency but also to give school and district leaders the tools they need to make informed decisions.

student centered and that would allow funding to better follow students. This is particularly important for the one group of Missouri public school students who are choosing non-district public schools—charter school students. The funding formula doesn't fully accommodate this situation in two ways.

The first is known as the "fiscal cliff." When the first charter schools opened in Missouri in 1998, they were considered as schools within their local public school districts. Kansas City Public Schools (KCPS) and St. Louis Public Schools (SLPS) were responsible for distributing local revenue directly to charter schools. In 2007 this was changed, and charter schools were considered to be their own school districts (also known as local education agencies, or LEAs). From that point forward, the Missouri

Department of Elementary and Secondary Education (DESE) gave them their state funding directly and then calculated the amount of local funding owed to charter schools. This amount must be paid to them from either KCPS's or SLPS's state funding.

The fiscal cliff occurs when the total amount of local funding due to charter schools surpasses the state funding provided to the district. At that point, there are no additional state funds from which to distribute what is owed to the charter schools. KCPS has reached this critical juncture. In the 2019 school year, more than 50 percent of Kansas City public school students chose a charter school. Because KCPS receives less funding from the state than what is owed to the charter schools, the charter schools will not be fully funded this year. Of course, KCPS could

choose to pay them their local share anyway, but they are not required to do so. Fixing this funding shortfall would require that KCPS be responsible for fully funding the charter school LEAs, even if it exceeds KCPS' state funding.

The second issue is lack of access to sources of funding that traditional public school districts have. For example, public school districts can impose taxes or issue bonds to build school buildings. Charter schools don't have a similar source of funds for facilities. They must cover their facilities' costs out of their current revenue. Some states provide facilities funding for charter schools, either based on student enrollment or through school bond revenue sharing.

In addition, charter schools, which have a sponsor that grants and monitors their charters, are required to set aside 1.5 percent of their state and local funding to pay their sponsor as an administrative fee. Facilities funding and administrative fees take money out of the classroom in ways that traditional public school districts don't experience.

RECOMMENDATIONS

The good news is that Missouri's school finance system already has a solid mechanism for allocating education dollars, but legislators must ensure that it's used effectively. Currently, several provisions compromise the formula's ability to deliver education dollars in a fair and transparent manner.

Recommendation 1: Eliminate the 2005–06 Hold-harmless Provision

Policymakers should eliminate the hold-harmless provision that provides districts with a funding floor based on 2005–06 revenue. This funding stream is disconnected from need, and these dollars should be allocated strategically through the formula instead. For example, legislators could put this money toward the base allotment (i.e., State Adequacy Target) and allocate additional dollars to the FRL, IEP, and LEP funding weights. Doing so would ensure that dollars are tied directly to students rather than to outdated provisions.

Recommendation 2: Base Local Effort on Current Assessments

Local effort should reflect districts' actual ability to raise revenue by using current property value assessments in its calculation. Missouri's foundation formula is designed to divide responsibility between state and local revenue sources, which requires an accurate accounting of property wealth. Using outdated property values only diverts dollars arbitrarily, favoring districts with higher growth relative to others.

Recommendation 3: Base Weighted-student Funding on Students

The weighted-student allocation counts should be based entirely on individual students rather than thresholds. The base amount would likely be a different number than the SAT. This would better align funding with costs and put the right incentives in place for districts to serve the state's most vulnerable students. Policymakers could also consider using multiple weights to deliver funding for special education students in order to reflect variation in the cost of serving individual students.

Recommendation 4: Minimize Local Operating Revenue Disparities

In the 21st century it makes little sense to fund public education based largely on property wealth, and the most effective way to eliminate funding discrepancies between property-wealthy and property-poor districts is to move away from local operating revenues entirely by adopting a full-state funding model in which funding is based primarily on students. Policymakers could still allow districts to raise local tax dollars for facilities and long-term debt, but operating revenue would come from state coffers and still might include property tax dollars. One model for policymakers to look to is Indiana, which abolished property tax levies as a source of general fund education revenue in 2008.³³ This reform has provided the Hoosier state with a solid foundation for a fair and transparent funding formula and an education system that has delivered impressive student outcomes.³⁴

Short of this, policymakers should deliver local education dollars “as if” they originated from the state in a manner that is conceptually identical to a full-state funding model.³⁵ This can be accomplished in several ways, one of which is to limit access to unequalized funding. A good but imperfect model is California’s Local Control Funding Formula (LCFF), which was implemented in 2013. The LCFF allocates funding primarily based on student needs and minimizes the role of local revenue so that money largely flows seamlessly across district boundaries.

Lastly, Missouri policymakers should consider integrating Proposition C education revenue into the equalization formula rather than allocating it based strictly on WADA outside of the formula. Doing so would ensure that education dollars aren’t arbitrarily diverted to high-spending districts that have no demonstrated need for state support.

Recommendation 5: Repair the Funding Disparities between Charter Schools and Public School Districts

The first priority in reforming how charter schools receive state funding is to pay charter schools both their state share and their local share directly, rather than having the funds deducted from district state payments. KCPS is already at a critical juncture and SLPS could be soon.

Secondarily, charter school students, because they are public school students, should have access to all of the same funding sources as traditional public schools. Currently, it is estimated that charter school students receive, on average, about \$1,000 less per student than other public school students.³⁶ Legislation could correct this.

Recommendation 6: Create Financial Reporting Tools for District and School Leaders

In order to leverage the power of financial data, Missouri should go above-and-beyond ESSA’s basic reporting requirements. The good news is that it shouldn’t require much additional investment to do this. The Financial

Transparency Working Group (FiTWiG)—a consortium of state agencies and school districts led by Marguerite Roza of Georgetown University’s Edunomics Lab that collaborates on ESSA implementation—recommends that states use the financial data to make key comparisons for equity, efficiency, and productivity available to stakeholders.

CONCLUSION

Missouri’s school finance system fails to ensure that education dollars are allocated in a fair and transparent manner that maximizes productivity. Although Missouri’s funding formula is designed to allocate dollars strategically, it currently contains provisions that substantially diminish its effectiveness. Policymakers must address these problems urgently since school finance policy is a foundational component of public education: A fair, transparent, and flexible funding system is needed to foster a productive education system that puts students first.

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NOTES

1. Missouri Department of Elementary and Secondary Education (DESE). Finance Data and Statistics Summary for All Districts/Charters. Retrieved September 11, 2019, at: <https://apps.dese.mo.gov/MCDS/FileDownloadWebHandler.ashx?filename=d0a30198-aa17Finance%20Data%20and%20Statistics%20Summary%20for%20All%20Districts.xls>.

2. Federal funding of public education is determined through a separate formula that is based on the number or percentage of low-income students and students with disabilities served in each district. In addition, there are several categorical sources of federal funds. See: <https://www.ewa.org/federal-k-12-funding>

3. Shuls, JV. “A Primer on Missouri’s Foundation Formula for K-12 Education, 2017 Update.” Show-me Institute, 2017. Retrieved October 14, 2019, at: <https://showmeinstitute.org/publication/budget/primer-missouris-foundation-formula-k-12-public-education-2017-update>.

4. See Missouri Statute 163.011: <http://revisor.mo.gov/main/OneSection.aspx?section=163.011> Note: Average Daily Attendance figures also account for summer term hours.

5. Ibid.

6. Ibid. See Missouri Department of Secondary and Elementary Education June 2019 School Finance Newsletter for thresholds: <https://dese.mo.gov/sites/default/files/finance/memos/documents/sf-June2019.pdf>

7. According to Missouri statute this is calculated as follows: “ ‘State adequacy target,’ the sum of the current operating expenditures of every performance district that falls entirely above the bottom five percent and entirely below the top five percent of average daily attendance, when such districts are rank-ordered based on their current operating expenditures per average daily attendance, divided by the total average daily attendance of all included performance districts.”

8. See Missouri Department of Secondary and Elementary Education June 2019 School Finance Newsletter for State Adequacy Target figures at: <https://dese.mo.gov/sites/default/files/finance/memos/documents/sf-June2019.pdf>

9. Shuls, JV. “A Primer on Missouri’s Foundation Formula for K-12 Education, 2017 Update.” Show-me Institute, 2017. Retrieved October 14, 2019, at: <https://showmeinstitute.org/publication/budget/primer-missouris-foundation-formula-k-12-public-education-2017-update>.

10. Ibid.

11. Data obtained from Missouri Department of Secondary and Elementary Education via public information request.

12. Assessed values from calendar year 2004 are used unless they are lower in the most recent assessment.

13. See Missouri Statute 163.011: <http://revisor.mo.gov/main/OneSection.aspx?section=163.011>

14. See Missouri Statute 163.021: <http://revisor.mo.gov/main/OneSection.aspx?section=163.021>

15. Jordan J, Lehmen T, Richter T. “School Finance Topics, Governance and Transportation.” Missouri Department of Elementary and Secondary Education, June 2017.

16. See Missouri Statute 163.031: <http://revisor.mo.gov/main/OneSection.aspx?section=163.031>

17. “Hold harmless Districts for 2006-07 to 2016-17.” Missouri Department of Secondary and Elementary Education. <https://dese.mo.gov>. Retrieved August 17, 2019, at: <https://apps.dese.mo.gov/MCDS/home.aspx>.

18. See Missouri Statute 163.036: <http://revisor.mo.gov/main/OneSection.aspx?section=163.036>

19. See Missouri Statute 163.011: <http://revisor.mo.gov/main/OneSection.aspx?section=163.011>.

20. See Missouri Statute 168.515: <http://revisor.mo.gov/main/OneSection.aspx?section=168.515>

21. See Missouri Statute 178.693: <http://revisor.mo.gov/main/OneSection.aspx?section=178.693>
22. Jordan J, Lehmen T, Richter T. “School Finance Topics, Governance and Transportation.” Missouri Department of Elementary and Secondary Education, June 2017.
23. The correlation coefficient between Assessed Valuation per ADA and State and Local Revenue per ADA is 0.58. The correlation coefficient between Assessed Valuation per ADA and State and Local Revenue per WADA is 0.62.
24. Federal dollars are excluded from most school finance analyses for two reasons: (1) These dollars are distributed outside of state school finance systems and are largely determined by federal requirements, and (2) These dollars are intended to be supplemental within the context of an equalized school finance system.
25. All revenue figures presented in this policy brief are based on calculations using data received via Public Information Request from Missouri Department of Elementary and Secondary Education. Revenue data include state and local operating dollars, only.
26. FRL calculations based on data obtained via Public Information Request from Missouri Department of Elementary and Secondary Education.
27. Based on data obtained at: <https://apps.dese.mo.gov/MCDS/home.aspx>.
28. Estimates calculated using the Basic Formula Projection Tool (<https://dese.mo.gov/financial-admin-services/school-finance/calculation-tools>) and does not include Proposition C revenue or other outside-the-formula dollars.
29. See Missouri Statute 163.087: <http://revisor.mo.gov/main/OneSection.aspx?section=163.087>.
30. See: <https://dese.mo.gov/sites/default/files/sf-PropositionCPerWADAActualPayments.pdf>.
31. Ibid.
32. See the Elementary and Secondary Education Act, as amended by the Every Student Succeeds Act: <https://legcounsel.house.gov/Comps/Elementary%20And%20Secondary%20Education%20Act%20Of%201965.pdf>.
33. Smith, AG. “How Local Education Funding Favors Politics Over Parents—and how to Fix It.” Reason Foundation, 2018. Retrieved August 19, 2019, at: <https://reason.org/wp-content/uploads/how-to-fix-education-funding.pdf>.
34. Ibid.
35. Odden A, Picus L. “School Finance, A Policy Perspective, Fifth Edition.” New York: McGraw-Hill, 2014. 198-199. Print.
36. Preis S, Rhinesmith E. “Missouri Charter School Funding.” Volume 1, Issue 5. St. Louis University Prime Center. Retrieved October 14, 2019, at: <https://static1.squarespace.com/static/5c8a78c9e5f7d15aab22c61c/t/5d6881eec902690001d40ab8/1567130100141/Charter+School+Funding.pdf>.



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