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PUBLIC EDUCATION FUNDING WITHOUT BOUNDARIES:

HOW TO GET K-12 DOLLARS TO FOLLOW OPEN ENROLLMENT STUDENTS

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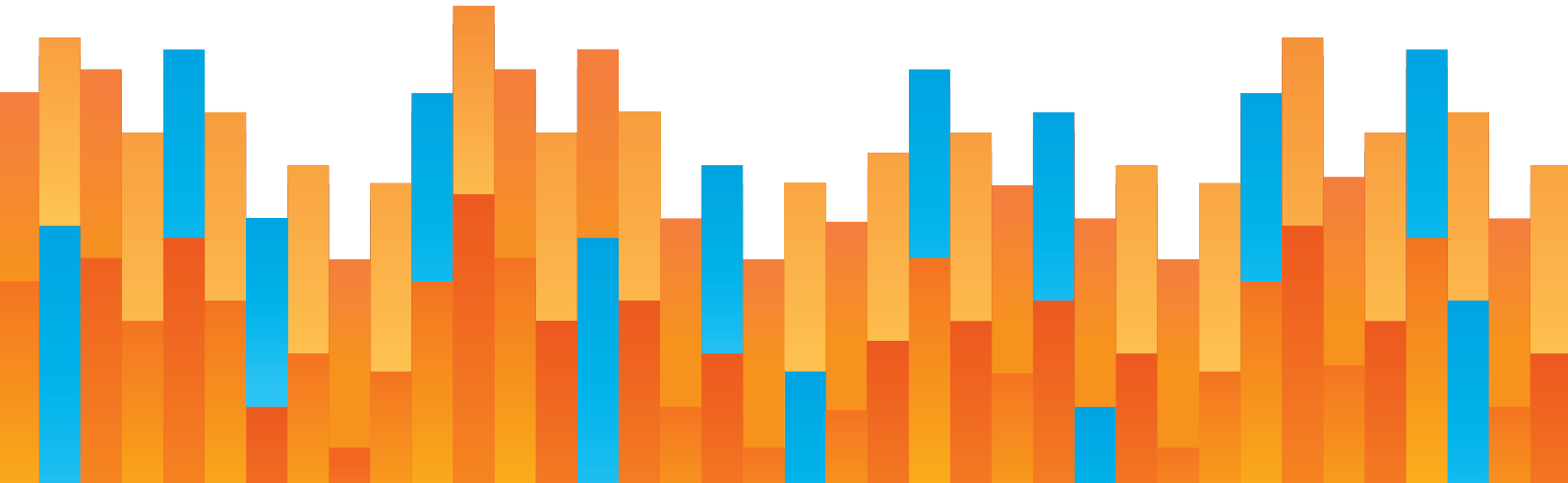

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EXECUTIVE SUMMARY

States are increasingly enacting open enrollment policies that give students options across school district boundaries. But this is only half the equation. Policymakers must also ensure that education dollars follow the child to the school of their choice, a concept referred to as funding portability. Without sufficient portability, school districts have weak financial incentives to enroll transfer students and may limit opportunities for families. Non-portable dollars also reinforce district boundaries, which lock families into public schools based on where they can afford to live, not what is necessarily best for their children.

The primary culprits inhibiting funding portability are districts that are entirely locally funded due to high property wealth, and both local education funding and state funding streams that aren't sensitive to changes in enrollment.

New Hampshire provides a valuable case study that illustrates these problems. In total, 39 of the state's 237 districts are off-formula and don't generate additional state aid when new students enroll. Moreover, nearly two-thirds of New Hampshire's non-federal education dollars are generated locally and aren't portable across school district boundaries. As a result, most districts only receive a fraction of their average per-pupil spending amounts when enrolling additional students, which weakens financial incentives for an open enrollment program.

Ideally, school finance systems should "attach" dollars directly to students so that all state and local education funds flow seamlessly across district boundaries. States vary considerably with how close they are to this vision, and the first step for policymakers is to take stock of funding portability in their state. From there, states can take three different pathways to improve portability: comprehensive school finance reform, targeted solutions, and creating a distinct funding mechanism that supports open enrollment. While all solutions are worth considering, the most direct approach is to follow Wisconsin's lead by establishing a stand-alone funding allotment for public school open enrollment. Three best practices can help policymakers craft this funding policy.

#1: Uniform: Start with a Single Statewide Base Per-Pupil Amount

Open enrollment funding policy should center around a single per-pupil amount that follows students across school district boundaries, an approach Wisconsin has successfully employed for more than two decades. This provides robust transparency while also guaranteeing that all school districts are operating under the same set of financial incentives. There are numerous ways to set this amount, but policymakers should strive to maximize the share of overall state and local per-pupil funding attached to students.

#2: Responsive: Account for Students' Needs

Policymakers can attach weights or additional per-pupil amounts to students with disabilities and other categories of need. For example, Wisconsin provides a greater per-pupil amount for students with disabilities, plus reimbursement for costs that exceed this amount up to a specified limit, which is paid for by students' home districts.

#3: Incentivize: Tap into Local Education Dollars

Ideally, states should ensure that local dollars follow the child across school district boundaries. One way to do this is to deduct a per-pupil amount from home school districts' state aid for each student who transfers out and allow it to follow the child across district lines. Tapping into local dollars ensures that districts' incentives are maximized, and this approach negates the need for district-to-district billing of local dollars, which is undesirable because it reinforces the idea that dollars belong to districts, not the students.

Fundamentally, establishing portable education funding moves states closer to a boundaryless public education system—an idea first pioneered by Milton Friedman. In its purest form, this means eliminating residential assignment and funding students directly so that they can choose whatever option best fits their needs.

TABLE OF CONTENTS

PART 1

INTRODUCTION: MILTON FRIEDMAN AND BOUNDARYLESS PUBLIC EDUCATION

Milton Friedman's school voucher proposal was inspired by the declining and varying quality of public schools, which he argued had little relation to expenditure levels.[1] Instead, he claimed the core problem was centralized control over K-12 public education in which the consumer (parents and children) increasingly ceded power to the producers (administrators, unions, and teachers) whose interests were different from their own.[2] This problem, Friedman observed, was especially acute in poor neighborhoods where parents don't have the means to hold underperforming schools accountable by paying private school tuition or moving to communities with better schools.[3]

To fix this, Friedman proposed a universal voucher system that would provide families with public funding to attend the school of their choice, regardless of their income level or where they lived.[4] This would put the power back in parents' hands and provide schools

1 Milton Friedman and Rose Friedman, *Free to Choose*, (New York City: Harcourt, Inc., 1980). 151-158.

2 Ibid.

3 Ibid.

4 Ibid. 158-171.

with strong financial incentives to prioritize students' interests rather than their own. Decades later, school choice has now been adopted by 30 states with an estimated 621,700 students participating in voucher, education savings account, and tax credit scholarship programs that provide families with public funding for private school tuition and other educational expenses.[5] Research on these programs is largely positive, showing benefits to key outcomes such as student test scores, parent satisfaction, civic values, and long-term attainment, including high school and college graduation rates.[6]

> *… Friedman proposed a universal voucher system that would provide families with public funding to attend the school of their choice, regardless of their income level or where they lived.*

But Friedman's vision extended beyond private school options for families. Writing with his wife, Rose, he explained that "Parents could, and should, be permitted to use the vouchers not only at private schools but also at other public schools—and not only at schools in their own district, city, or state, but at any school that is willing to accept their child."[7] In this system, all schools—public and private—would compete on a level playing field for the privilege of educating children, and public school enrollment "would be determined by the number of customers it attracted, not by politically defined geographical boundaries or by pupil assignment."[8]

Clearly, ending residential assignment—assigning students to public schools based on district lines and school catchment areas—was baked into Friedman's voucher idea. But residential assignment is still firmly entrenched in education systems across the states. With roughly 84% of U.S. K-12 students attending traditional public schools, the public

5 "The ABCs of School Choice," EdChoice, 2022. www.edchoice.org/wp-content/uploads/2022/01/2022-ABCs-FINAL-WEB-002.pdf (30 Sept 2022). Note: Maine's and Vermont's Town Tuitioning programs are excluded from state counts.

6 "The 123s of School Choice," EdChoice, 2022. www.edchoice.org/wp-content/uploads/2022/04/123-of-School-Choice.pdf (9 Aug 2022).

7 Friedman and Friedman, *Free to Choose*. 161.

8 Ibid. 163.

education sector still makes up the bulk of the marketplace.[9] In other words, students will be better positioned to pursue their best fit education if they're able to choose from both public and non-public options. As such, policymakers would be wise to enact programs to provide parents with power to exercise broader public school choice.

> *Clearly, ending residential assignment—assigning students to public schools based on district lines and school catchment areas—was baked into Friedman's voucher idea.*

To do this, students must be given broader access to public schools outside of their attendance zone. States are increasingly taking steps in this direction by adopting open enrollment laws that provide public school choice both within residentially-assigned districts (within-district open enrollment) and in non-assigned districts (cross-district open enrollment). States such as Wisconsin, Florida, and Oklahoma have policies requiring school districts to accept transfer applications with few exceptions, such as capacity constraints. Open enrollment doesn't do away with residential assignment entirely, but still provides families with options they otherwise wouldn't have.

Research gives cross-district open enrollment high marks, showing students transfer for diverse reasons and tend to enroll in high-performing districts when given the opportunity.[10] Importantly, school districts that lose students to open enrollment respond by increasing parental outreach and making key reforms, highlighting its positive

[9] Calculation based on data provided by NCES Digest of Education Statistics. In 2019-2020, there were 50,437,821 public school students, of which 3,431,220 attended charter schools. That same year 5,485,800 students attended private schools. See "Digest of Education Statistics," National Center for Education Statistics, *nces.ed.gov*, www.nces.ed.gov/programs/digest/d21/tables/dt21_216.20.asp? current=yes and www.nces.ed.gov/programs/digest/d21/tables/dt21_205.90.asp?current=yes (29 Sept 2022).

[10] Aaron Garth Smith, "Open Enrollment Provides Substantial Benefits to Students and Families," *Reason.org*, Reason Foundation, 28 Jan. 2020. www.reason.org/commentary/open-enrollment-provides-substantial-benefits-to-students-and-families/ (17 Nov. 2022).

competitive effects.[11] Open enrollment also has strong bi-partisan support, with 70% of Democrats and 67% of Republicans supporting it.[12]

But moving toward a system without residential assignment is only half the equation. States must also ensure that dollars follow the child across district boundaries, a concept referred to as funding portability.[13] Without sufficient portability, school districts have weak financial incentives to enroll transfer students, resulting in limited opportunities for families. A study by California's Legislative Analyst's Office illustrates this relationship, showing districts reduced or stopped participating in the state's open enrollment program when per-pupil funding for participating students was decreased.[14] Non-portable funds also reinforce district boundaries by keeping dollars in school districts regardless of changes to student enrollment, which prioritizes the needs of school systems over individual students and undermines effective market incentives that advance improvement.

> *States vary in the degree to which their school finance systems promote portability, but virtually all have room for improvement.*

States vary in the degree to which their school finance systems promote portability, but virtually all have room for improvement. This brief provides a framework for ensuring that strong financial incentives accompany district open enrollment programs, laying the foundation for a boundaryless K-12 public education system. This analysis begins with a brief overview of how K-12 school finance works, including an introduction to a commonly used approach to funding school districts. It then examines three key problems with portability using New Hampshire's school finance system as a case study, then explores examples of how some states have improved portability, and follows with recommendations for state policymakers.

11 Gabriel Petek, "Follow-Up Evaluation of the District of Choice Program," Legislative Analysts' Office, *lao.ca.gov*, Feb 2021. www.lao.ca.gov/reports/2021/4329/District-Choice-Evaluation-020121.pdf (17 Nov. 2022).

12 Colyn Ritter, "EdChoice Public Opinion Tracker: Top Takeaways June 2022," *EdChoice.org*, EdChoice, 12 July 2022. www.edchoice.org/engage/edchoice-public-opinion-tracker-top-takeaways-june-2022/ (17 Nov. 2022).

13 Portability can also be used to describe dollars following the child to charter schools and private school choice programs. This brief exclusively uses portability in the context of public school districts, particularly as it relates to public school open enrollment policies.

14 Petek, "Follow-Up Evaluation of the District of Choice Program."

PART 2

AN OVERVIEW OF K-12 SCHOOL FINANCE

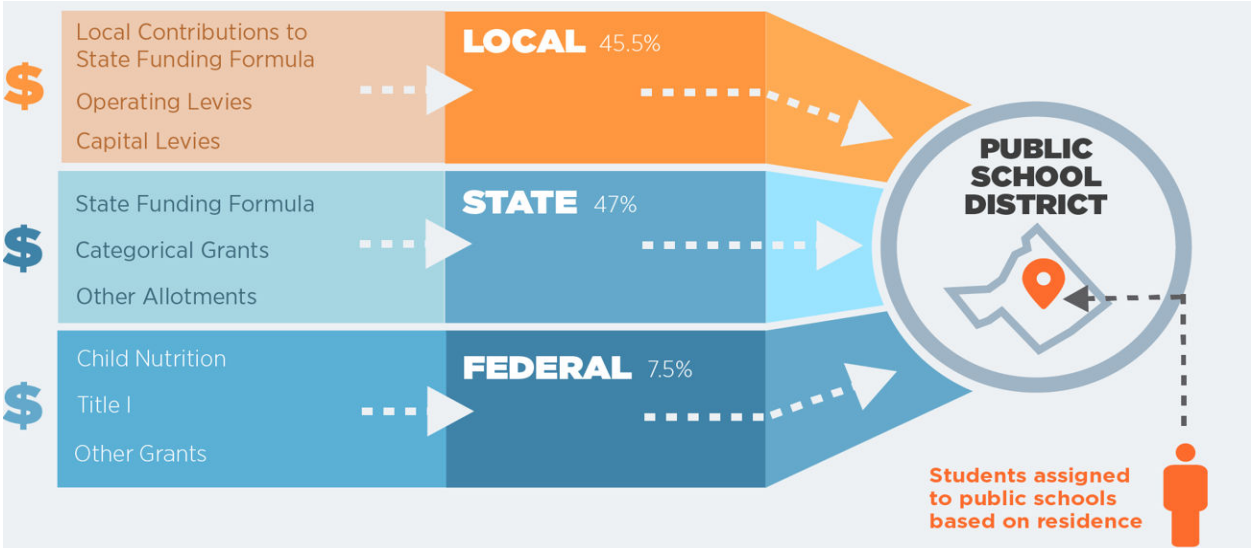
To understand why portable education funding is a problem for states, it helps to be familiar with some basic school finance principles. This section briefly describes how K-12 education is funded, provides an overview of the most common type of school finance formula, and then defines three portability problems that can affect open enrollment programs.

2.1 HOW K-12 PUBLIC EDUCATION IS FUNDED

Funding for K-12 public education is a shared responsibility between federal, state, and local governments. Figure 1 provides a snapshot of these revenue sources in the 2019–2020 school year. Because state policymakers have little say over how federal education dollars are allocated and used, this brief focuses exclusively on state and local funding.[15] While school finance systems vary considerably across states, school districts generally rely on four distinct revenue streams that can be broadly categorized as follows:

[15] It should also be noted that school districts—not schools themselves—are the primary funding unit in almost every state, so this brief examines portability across district lines, not within school catchment areas.

FIGURE 1: HOW K-12 PUBLIC EDUCATION IS FUNDED



Data Source: "2020 Public Elementary-Secondary Education Finance Data," United States Census Bureau, *Census.gov*, https://www.census.gov/programs-surveys/school-finances/data/tables.html (6 Sept. 2022).

- **State Funding Formula Aid:** *a state's primary method of delivering education dollars to school districts.* A combination of state and local dollars fund typical state formulas through a foundation program. Arizona, for example, employs a funding formula where each student receives $4,775.27 per general education student, using weights to augment that funding for students with greater needs. Additionally, each district in the state is assumed to tax at a certain rate locally to contribute toward that per-student amount, with the state filling in the gaps when districts can't cover the full amount locally.[16]
- **Outside-the-Formula State Aid:** *allotments that often come in the form of restricted-use grants for specific purposes such as reading intervention, textbooks, and staffing positions.* These are funded exclusively by the state. Continuing with the example of Arizona, the state allocates various grants outside of its core formula for items like school safety and teacher salary increases.[17]
- **Local Operating Levies:** *local education dollars raised by school districts to support operating expenses such as teacher salaries, classroom supplies, and routine maintenance.* These often require voter approval but school boards sometimes have

16 "Local Education Agency Reports," Arizona Department of Education, *www.schoolfinancereports.azed.gov,* September 2022. https://schoolfinancereports.azed.gov/ (October 14, 2022).

17 "Superintendent's Annual Report 2021, Vol. 2," Arizona Department of Education, *www.azed.gov*, January 2022. https://www.azed.gov/finance/reports (October 14, 2022).

discretion to determine levy amounts within set limits. Georgia, for instance, allows district boards to levy local property taxes above and beyond their formula contribution to support school operations.[18]

- **Local Capital Levies:** *local education dollars raised by school districts to support capital expenses such as construction, equipment, and building improvements*. These usually require voter approval and are often used to pay off bonded debt.

Importantly, every state funding formula is heavily based on school district enrollment. While states vary on how enrollment-sensitive their funding systems are overall, school districts in every state generally gain or lose funds when enrollment increases or decreases, all else being equal.

2.2 STATE FUNDING FORMULAS: HOW FOUNDATION PROGRAMS WORK

Many school finance formulas can be traced back to the 1920s, when foundation programs were designed to guarantee school districts a funding floor while accounting for their ability to raise local education dollars.[19] The key feature of this approach is that state and local tax revenue contribute to what is essentially a single pot of dollars that funds school districts. Although lower-wealth districts receive a disproportionate share of state formula aid under foundation programs, all districts are ultimately funded according to state formula calculations.

Foundation formulas take different forms across states (and not every state uses one), but generally operate using three basic steps:[20]

STEP 1: Determine School Districts' Revenue Entitlement*:* The state calculates how much revenue each district will receive, commonly referred to as a "revenue entitlement." States have varying approaches, but formulas are often based on some combination of enrollment counts, student characteristics, and district characteristics.

[18] "2021 Georgia County Ad Valorem Tax Digest Millage Rates," Georgia Department of Revenue, *www.dor.georgia.gov,* February 2022. https://dor.georgia.gov/local-government-services/digest-compliance-section/property-tax-millage-rates (October 14, 2022).

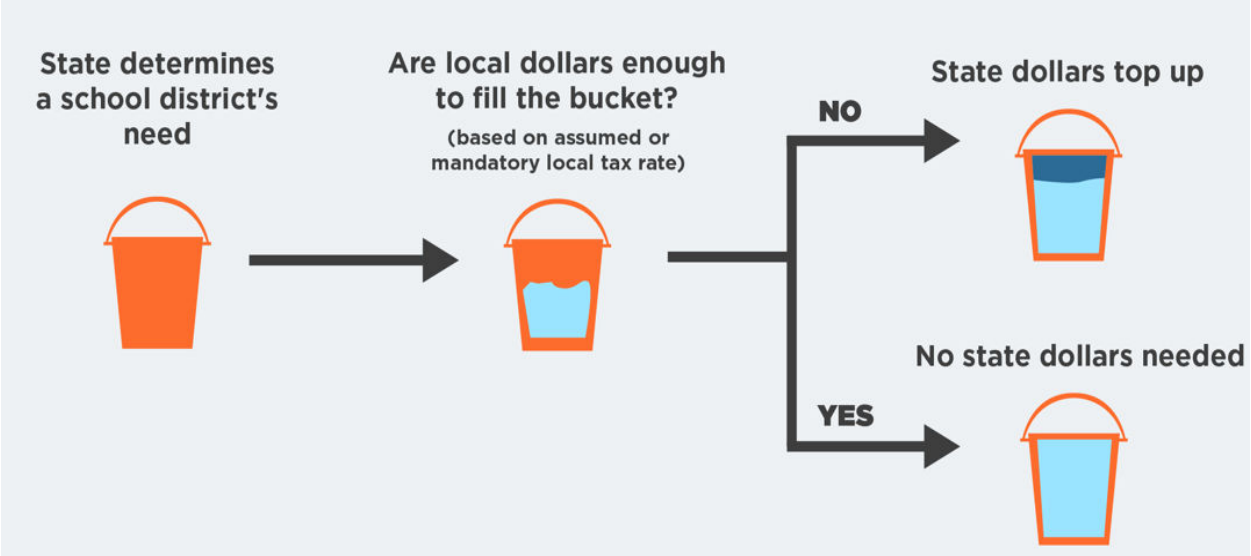
[19] Education Commission of the States, "50-State Comparison: K-12 and Special Education Funding," October 2021. https://www.ecs.org/50-state-comparison-k-12-and-special-education-funding/ (14 October 2022).

[20] Several states have formulas that are entirely state-funded, including Indiana, North Carolina, and Idaho.

STEP 2: Determine School Districts' Local Share: The state calculates the share of each district's revenue entitlement that can be covered by local revenue sources—often property taxes. Usually, this calculation is based on a uniform local property tax rate that is either assumed or mandatory for districts to levy. The higher a district's local wealth (i.e. its ability to pay), the greater its local share will be. Nebraska's formula, for example, assumes each school district will impose a local property tax rate of $1 for every $100 in assessed valuation.[21]

STEP 3: Determine School Districts' State Aid: A school district's local share is then subtracted from its revenue entitlement to determine its state aid. If a school district can't raise its full revenue entitlement from local sources, the difference is backfilled with state aid. Generally, most school districts require state aid to meet their revenue entitlement under a foundation program. However, many states have at least some districts that are off-formula, meaning they raise their entire revenue entitlement locally and don't receive any state aid. Off-formula districts tend be property-wealthy and are generally unaffected by the state's funding formula.

FIGURE 2: HOW A FOUNDATION FUNDING FORMULA WORKS



[21] "Tax Equity and Educational Opportunities Support Act Document, 2022-2023," Nebraska Department of Education, School Finance & Organization Services. *www.education.ne.gov*. February 2022. https://www.education.ne.gov/wp-content/uploads/2022/02/2223SA_TEEOSA_Document.pdf (14 October 2022).

2.3 PUTTING IT ALL TOGETHER: PROBLEMS WITH FUNDING PORTABILITY

Three distinct problems with the above funding system affect the share of education funding that follows the child across school district boundaries.

Off-Formula School Districts: As described above, property-wealthy districts in states with foundation formulas might be funded entirely with local dollars. While enrolling new students increases these districts' revenue entitlement calculation, they don't generate additional state aid under the state's funding formula. In other words, funding for these districts isn't sensitive to enrollment—they don't gain or lose state funding with enrollment changes until their revenue entitlement exceeds their local share. As a result, dollars wouldn't follow transfer students into these school districts. This is the case for California's Basic Aid school districts, which raise all their formula funding locally without state support.

Local Education Funding: Local operating and capital levies are usually determined by a school district's tax effort and tax base (e.g. assessed property valuations for local property taxes). These funding streams generally aren't tied to enrollment levels and therefore aren't portable.[22]

Non-Enrollment Funding Streams: State funding allocations that are tied to factors other than enrollment aren't portable since school districts don't gain or lose funding based on student counts. These can either be part of a state's funding formula or delivered as outside-the-formula aid. Examples include funding that is tied to staffing ratios and hold harmless provisions, which base dollars on historical funding levels. For instance, in 2018 there were 194 districts in Missouri that received funding based on past revenue amounts, which was one of three hold harmless provisions in the Show-Me State's formula.[23]

Importantly, every school finance system is unique, and each portability problem might be more or less prevalent across states. For instance, states without foundation programs whose primary formulas are entirely state-funded (e.g., a full-state funding formula such as

[22] Some school finance formulas include mechanisms that provide state aid based on local tax effort and student enrollment (e.g. guaranteed tax base and district power equalization formulas), but this is less common than foundation programs.

[23] Aaron Garth Smith and Susan Pendergrass, "Opportunities to Improve Missouri's Education Funding Formula," Show-Me Institute, Oct. 2019. www.showmeinstitute.org/wp-content/uploads/2019/11/20191017%20-%20Missouri%20School%20Finance%20-%20Smith_Pendergrass.pdf (17 Nov. 2022).

Indiana's) do not have off-formula school districts but might still have portability problems with local education funding and non-enrollment funding streams. The following section illustrates all three of these portability problems using New Hampshire's funding system as a case study.

2.4 FUNDING PORTABILITY PROBLEMS CASE STUDY: NEW HAMPSHIRE

In 2020-2021, New Hampshire's public school districts received $3.29 billion in state and local education revenue as shown in Table 1. The vast majority of these dollars were doled out via New Hampshire's Adequate Education Formula (AEF)—the state's primary formula for allocating education dollars to school districts—and local education taxes, which accounted for nearly two-thirds of all funding.

TABLE 1: NEW HAMPSHIRE'S 2020-2021 EDUCATION REVENUE SOURCES

Source	Statewide Total	Share of Education Funding
Local Taxation	$2,147,713,909	65.3%
Tuition, Food, & Other Local Revenue	$44,330,906	1.3%
Adequate Education Formula Aid	$1,011,796,605	30.8%
Other State Sources	$82,116,322	2.5%
Other	$904,410	0.03%
Total State & Local Education Revenue	$3,286,862,152	100.0%

Source: **"State Summary Revenue and Expenditures of School Districts 2020-2021," New Hampshire Department of Education, *www.education.nh.gov*, December 2021, www.education.nh.gov/sites/g/files/ehbemt326/files/inline-documents/sonh/summary-of-rev.-exp-fy2021.pdf (16 June 2022).**

PORTABILITY PROBLEM #1: OFF-FORMULA SCHOOL DISTRICTS

To determine AEF state aid, New Hampshire first calculates each school district's revenue entitlement. The formula begins with a base funding amount per average daily member (ADM), which in the 2021-2022 school year was $3,786.66.[24] It also directs more per-pupil funding to higher-need student categories: low-income, special education, English learners, and third grade students who aren't proficient in reading. As with the base amount, funding for each of these categories is determined by counts of eligible students with per-pupil dollar amounts tied to each.

[24] In New Hampshire, ADM counts from the prior year are used to determine funding for the current year.

Then the state determines districts' local share of AEF by applying a statewide property tax rate—known as the Statewide Education Property Tax (SWEPT)—to property valuations.[25] These two figures are then used to calculate the state portion of AEF for each school district. For most school districts, local funding doesn't cover their full AEF revenue entitlement, and state funds are disbursed to backfill the additional amounts needed. But if a district's local share is sufficient to cover its AEF entitlement, no state aid is disbursed for these off-formula districts.

For most districts, the relationship between AEF funding and student enrollment is straightforward. To illustrate, Table 2 shows the estimated effect of enrolling an additional regular-program student on Bedford School District's AEF revenue entitlement.[26] An additional ADM increases it by $3,786.66, New Hampshire's base grant amount. Notice that Bedford's SWEPT revenue—raised from a statewide property tax levy—is less than its revenue entitlement. As a result, Bedford generates additional funding from the state.[27]

TABLE 2: THE ESTIMATED EFFECT OF AN ADDITIONAL ADM ON BEDFORD SCHOOL DISTRICT'S REVENUE

Bedford School District	Average Daily Membership	Revenue Entitlement	SWEPT	State Grant
Reported	4,112.8	$17,045,548	$7,789,229	$9,256,319
Additional ADM	4,113.8	$17,049,335	$7,789,229	$9,260,106
Estimated Difference	1	$3,787	$0	$3,787

However, 39 of New Hampshire's 237 districts are off-formula and wouldn't generate new AEF revenue from enrolling an additional student or lose AEF dollars if an enrolled student were to leave.[28] This is because their SWEPT levy covers at least the full amount of their

25 In practice, however, slight variations arise in the actual SWEPT rates from district to district because after the Department of Education estimates the amount that must be raised at each district from the local level to get to $363 million, rates may need to be adjusted slightly to hit those targets.

26 For simplicity, this analysis and the estimates provided do not account for the use of hold harmless provisions in determining school district funding. New Hampshire funds school districts based on prior year student counts and, as a result, the effects of student enrollment changes on funding might lag.

27 Note that if the student were classified as one of AEF's higher-need categories, the district would've received additional per-pupil funding. For instance, a low-income student would generate an estimated $5,679.98 in new revenue for Bedford (the base grant amount plus $1,893.32).

28 Many of these districts have small ADM counts, but several—including Hampton, Hanover, and Portsmouth—have substantial enrollment numbers.

revenue entitlement. For example, Portsmouth School District's SWEPT revenue is $2.72 million higher than its revenue entitlement as shown in Table 3. Enrolling an additional student would increase its revenue entitlement by $3,786.66, but wouldn't actually result in more state aid. In effect, Portsmouth's funding is not sensitive to enrollment and the district would have no financial incentive to enroll transfer students under an open enrollment program.

TABLE 3: THE ESTIMATED EFFECT OF AN ADDITIONAL ADM ON PORTSMOUTH SCHOOL DISTRICT'S REVENUE

Portsmouth	Average Daily Membership	FY 22 Revenue Entitlement	SWEPT	State Grant
Reported	2,109.71	$9,320,429	$12,043,851	$0
Additional ADM	2,110.71	$9,324,216	$12,043,851	$0
Difference	1	$3,787	$0	$0

PORTABILITY PROBLEM #2: LOCAL EDUCATION FUNDING

New Hampshire's single largest source of K-12 education revenue is local education taxes that don't contribute to AEF. Districts have broad discretion over how much they can raise, as long as these decisions are approved by the school board with public input. These dollars, which account for 65.3% of education funding in the state, are unaffected by district enrollment levels and therefore aren't portable for transferring students.

PORTABILITY PROBLEM #3: NON-ENROLLMENT FUNDING STREAMS

New Hampshire has several other categories of state and local funding that aren't directly tied to district enrollment counts. Notable examples include school building aid for facilities and stabilization grants, a statewide hold-harmless provision within AEF dating back to 2012. These revenue streams don't change in relation to student enrollment levels.

In summary, it's evident that only a fraction of New Hampshire's state and local education dollars is portable across school district boundaries. Table 4 shows the estimated per-pupil funding that follows a regular program student to three school districts as a share of their respective per-pupil expenditures.[29] This illustrates the relatively small share of dollars that

[29] State data sources that provide per-pupil revenue totals by school district were not found. As a result, these estimates were calculated using per-pupil expenditures, which include expenditures from federal,

follow the child, even for districts whose funding is sensitive to enrollment. In Lebanon, for example, a new student would generate an additional $3,786.66 for the district. This pales in comparison to the $24,240 the district currently spends per pupil. Ultimately, New Hampshire's off-formula districts have virtually no financial incentive to enroll transfer students while the financial incentive for most other districts is weak.

TABLE 4: ESTIMATED SHARE OF PER-PUPIL DOLLARS FOLLOWING THE CHILD

District	Estimated Revenue Change	Per-Pupil Expenditures (Federal, State, and Local)	Estimated Share
Bedford	$3,787	$15,572	24.3%
Exeter	$3,787	$23,409	16.2%
Lebanon	$3,787	$24,240	15.6%

state, and local sources of revenue. Ideally, federal dollars wouldn't be included in this comparison for consistency purposes, but nevertheless only represent a small fraction of overall education dollars for New Hampshire's school districts. Additionally, estimated revenue changes would be slightly higher for the categories of student disadvantage accounted for in New Hampshire's Adequate Education Formula, and non-formula state aid would also provide some dollars.

PART 3

HOW STATES HAVE IMPROVED FUNDING PORTABILITY

Policymakers can learn from states such as Wisconsin, Delaware, and Indiana that have taken steps to improve education funding portability, with policies ranging from targeted fixes to comprehensive school finance reform. To be sure, virtually no state has achieved perfect portability in which all state and local dollars follow the child, but the approaches outlined below have put stronger financial incentives in place and serve as policy models to learn from.

3.1 OPEN ENROLLMENT FUNDING: WISCONSIN'S PER-PUPIL FUNDING FOR TRANSFER STUDENTS

Wisconsin's open enrollment policy spans more than two decades, with cross-district transfers growing steadily from 2,464 students in 1998–1999 to 70,428 students in 2020–2021.[30] Its funding approach is straightforward: transfer students are counted in resident districts' membership, and a statewide per-pupil amount is transferred from the resident

[30] "Public School Open Enrollment in Wisconsin 2020-21," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, November 2021, https://dpi.wi.gov/open-enrollment/data (10 March 2022).

district to the receiving district via each year's final state aid payment.[31] In the 2020–2021 school year, this amount was $8,125 per pupil for regular program students and $12,977 per pupil for students with disabilities.[32]

Between the 1998–1999 to 2012–2013 school years, the transfer amount for regular program students was based on the prior year's average per-pupil cost for four expenditure categories—regular instruction, pupil services, instructional services, and co-curricular activities.[33] But now it is simply the sum of the prior year's amount and $100, plus adjustments for positive growth in statewide categorical aid and the formula's revenue limit.[34] Importantly, funding for students who transfer for less than a full school year is prorated based on the number of days attended in a receiving school district.[35]

The state's transfer amount for students with disabilities was adopted in 2016–2017 and is also adjusted each year.[36] After a student's first year transferring, receiving districts can submit a financial statement to the state if the actual cost of providing a transfer student with free appropriate public education in the prior year exceeds this amount.[37] As such, students who are open enrolled for two or more years generate either the statewide transfer amount for students with disabilities or the actual costs to the receiving district up to $30,000.[38] Prior to 2016–2017, there was no adjustment in state aid payments for transfer students with disabilities, and the resident district paid the receiving district directly as calculated by the regular program transfer amount plus any additional costs incurred.[39]

31 Wis. Stat. § 118-51. See also "Open Enrollment Funding," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, www.dpi.wi.gov/open-enrollment/funding (10 March 2022).

32 "Public School Open Enrollment by the Numbers," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, www.dpi.wi.gov/sites/default/files/imce/open-enrollment/pdf/psoe-at-a-glance-2020-21.pdf (10 March 2022).

33 "Open Enrollment Funding."

34 Wis. Stat. § 118-51.

35 Ibid.

36 Ibid. See also "Questions and Answers About Open Enrollment Actual Costs for Pupils with Disabilities," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, February 2020, www.dpi.wi.gov/sites/default/files/imce/open-enrollment/pdf/qa-oe-actual-costs-pupils-with-disabilities-feb-20.pdf (10 March 2022).

37 "Questions and Answers About Open Enrollment Actual Costs for Pupils with Disabilities."

38 Ibid.

39 "The Wisconsin Inter-District Public School Open Enrollment Program," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, November 2021, www.dpi.wi.gov/sites/default/files/imce/open-enrollment/pdf/2020-21-oe-annual-report-final.pdf (10 March 2022).

Notably, while parents are responsible for transporting students to receiving school districts, the state reimburses low-income families directly for up to $1,218.54 in mileage expenses, with payments prorated if claims exceed available funding.[40] It's also important to mention that students enrolled in public high schools—including open enrollment students—can take up to two courses at any time outside of their resident school district.[41] There isn't a state funding mechanism for part-time open enrollment, but receiving districts bill the district of full-time attendance directly for the cost of a course as defined under administrative rules.[42]

Wisconsin's approach to open enrollment funding offers several advantages. Most notably, establishing a uniform per-pupil amount maximizes transparency and ensures that all districts are financially incentivized to enroll transfer students. It also circumvents the state's convoluted school finance system in a way that is revenue-neutral and easy to administer. Policymakers also have the flexibility to decide whether to account for local dollars when setting the per-pupil amount. The primary drawback is that districts retain a portion of dollars for students they no longer serve, but some might argue that this promotes stability and helps with fixed costs that aren't easy for the sending district to adjust in the short term.

3.2 POOLING LOCAL DOLLARS: DELAWARE'S SCHOOL CHOICE FUND

More than one-quarter of Delaware's students exercise some form of public school choice.[43] In 2016–2017, 11% of its students attended charter schools, 12% used within-district choice, and 3.6% used cross-district choice.[44] The state's open enrollment policy originated in the 1996–1997 school year and features a state DOE-administered streamlined application process and requirements for districts to offer available seats to families up to

40 Wis. Stat. § 118-51. See also "Open Enrollment Transportation and Transportation Reimbursement," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, www.dpi.wi.gov/open-enrollment/applications/transportation (10 March 2022).

41 Wis. Stat. § 118-52. See also "Part-time Public School Open Enrollment," Wisconsin Department of Public Instruction, *www.dpi.wi.gov*, www.//dpi.wi.gov/open-enrollment/ptoe (10 March 2022).

42 Confirmed via e-mail with Wisconsin Department of Public Instruction employee on February 15, 2022. See Wis. Admin. Code § PI 36.19 for details on how this is calculated.

43 Authors' calculations based on data obtained from "2016-2017 Charter School and Across and Within District Choice," Delaware Department of Education, *www.doe.k12.de.us*, May 2017, www.doe.k12.de.us/Page/1528 (15 March 2022). Note: This is the most recent year for which publicly reported data can be found.

44 Ibid.

85% of school capacity.[45] But the most unique aspect of Delaware's program is how it addresses funding, with a mechanism designed to facilitate local funding portability.

Because Delaware's primary K-12 funding formula is entirely state funded, there aren't any off-formula districts.[46] As a result, its open enrollment funding policy is narrowly targeted to ensure that local dollars, which aren't portable, follow the child.

To do this, a transfer student is counted in a receiving district's enrollment for state and federal funding purposes, and the local portion is paid for by the student's resident district.[47] By September 1st of each year, the Delaware Department of Education calculates the local expenditure per pupil in the preceding school year for each district, excluding certain categories of expenditures including debt service, tuition, minor capital improvement, local cafeteria expenses, and others as determined by the secretary of education.[48]

In this model, the resident district pays the receiving district the lower local per-pupil expenditure of the two districts, adjusted for inflation.[49] In cases where a resident district's local spending is greater than the receiving district's, excess funds are paid into the state's School Choice Fund.[50] Once all payments have been made to this fund, it allocates dollars on a prorated basis to receiving districts that had a higher local cost per pupil than the resident districts from which the students transferred. Additionally, a separate mechanism is in place to close these gaps even further with available state funding.[51]

By making local dollars portable—and recognizing differences in local spending—Delaware's approach helps maximize the portion of dollars following the child across district boundaries. This strengthens financial incentives for receiving districts to accept transfers while also ensuring that resident districts don't pay out more than what they

45 "Charter School and Across District Choice Statistics and Maps from the September 30th 2004 Unit Count," Delaware Department of Education, *www.doe.k12.de.us*, Dec. 2004, www.doe.k12.de.us/site/handlers/filedownload.ashx?moduleinstanceid=2830&dataid=9509&FileName=dedoe_unitctstatsmaps2004.pdf (15 March 2022). See also "Delaware's Public and Charter School Choice Application," *SchoolChoiceDE.org*, www.schoolchoicede.org/ (15 March 2022) and Del. Code tit. 14, § 1-101

46 "FundEd: Delaware Report," EdBuild, *EdBuild.org*, 2021-2022, www.funded.edbuild.org/reports/state/DE (15 March 2022).

47 Del. Code tit. 14, § 1-101

48 Ibid.

49 Ibid.

50 Ibid.

51 Ibid.

typically spend on students with local funds, while also maintaining revenue neutrality for the state. Yet, the program lacks transparency and reporting, is more complex to administer, and the district-to-district payments could promote the idea that some districts are gaining funding at the expense of others. Crucially, this approach by itself also doesn't address the off-formula districts portability problem since this problem isn't applicable to Delaware.

Mill Levy Dollars Follow the Child in Colorado

Colorado has a policy that makes local mill levy funds portable to charter schools.[52] Under this law, school districts are required to share local mill levy revenue with charter and innovation schools. How much they share is determined by the number of resident students the district has that are enrolled in these schools. Note that "additional mill levy revenue," as defined by the law, are local dollars collected by school districts outside of the state funding formula and approved by local voters. Also, they don't include levies for incurring or repaying bonded indebtedness, or paying for installment sales agreements, purchase of asset agreements, or certificate of participation agreements.

School districts can distribute "additional mill levy revenue" to charters and innovation schools in one of two ways:

1. Allocate an amount equal to at least 95% of the participating districts per-pupil mill levy share to resident students attending charter or innovation schools.
2. Adopt a plan for using additional mill levy revenue for services that benefit all resident students at schools that are participating in the plan, regardless of the type of school. Districts must still distribute funds equitably under these plans. Charter and innovation schools can opt not to participate in the plan and instead receive funding under method #1.

In the 2020–2021 school year, 34 Colorado districts allocated $144.1 million in local revenues to charter schools. Additionally, 11 districts allocated $291.2 million to innovation schools.[53] While this funding mechanism is not directly related to open enrollment, it provides a potential model for states exploring funding options. For example, states could require sending districts to share a student-based proportion of certain mill levy revenues with receiving districts that serve their resident students.

52 Colorado Revised Statute 22-32-108.5.

53 "Mill Levy Override Revenue Report: Fiscal Year 2020-2021," Colorado Department of Education, *www.cde.state.co.us*, September 2022. https://www.cde.state.co.us/cdefinance/milllevyoverriderevenuefy20-21annuallegislativereport (October 14, 2022)

3.3 COMPREHENSIVE SCHOOL FINANCE REFORM: INDIANA'S TRANSITION TO FULL-STATE FUNDING

States can address the root causes of portability problems via comprehensive school finance reform. This means overhauling K-12 funding systems so that dollars are allocated based on students and minimizing any local revenue above the state aid formula amount, ensuring dollars are portable across school district boundaries without the need for a distinct funding mechanism that kicks in for open enrollment students. To be sure, this is a complex undertaking with numerous ways to achieve greater portability, but Indiana provides a useful case study.

> *In 2008, Indiana adopted policies that moved the state's K-12 funding system away from a previous dependence on local property taxes for school operations.*

In 2008, Indiana adopted policies that moved the state's K-12 funding system away from a previous dependence on local property taxes for school operations.[54] While the primary aim of this reform was to alleviate property tax burdens, it also had the effect of increasing funding portability, leading to considerable expansion of the state's open enrollment program in the following years.[55]

Prior to the 2008 reform, property taxes in Indiana had risen more than 30% between 2003 and 2007. There were also stark variations in property tax rates across municipal boundaries that frustrated the state's homeowners. In response to these conditions, Indiana legislators passed HEA1001 with bi-partisan support and the leadership of Governor Mitch Daniels. The reform had two primary aims: (1) to eliminate use of local tax dollars for

[54] Dale Chu, "Indiana's Property Tax, Choice, and Accountability Reforms: Their Consequences for Funding and Student Achievement," Johns Hopkins Institute for Education Policy, 2019. https://jscholarship.library.jhu.edu/bitstream/handle/1774.2/62959/indianapropertytaxreform.pdf?sequence=1 (28 November 2022).

[55] Aaron Smith, "How Local Education Funding Favors Politics Over Parents—And How to Fix It." Reason Foundation, 2018. https://reason.org/wp-content/uploads/how-to-fix-education-funding.pdf (28 November 2022).

school operations, and (2) to have the state take full financial responsibility for school operations.[56]

HEA1001 largely achieved these aims through a tax swap that moved the state from funding 85% of K-12 school operations to 100%. Property tax relief was provided through increased tax credits and property tax caps. In exchange, the state replaced the forgone local revenues with dollars from the state general fund, which were raised in part through a one percentage point increase in the sales tax rate.[57]

By eliminating local property tax dollars from K-12 operations and having the state take full responsibility over operating funds, policymakers inadvertently improved the overall portability of its funding system. This led to a large uptick in students using cross-district open enrollment, which increased from about 3,000 students before the reform in 2008 to just under 75,000 students in the fall of 2021.[58]

A major reason for this increase in transfer students is that, since HEA1001, the state funding formula has guaranteed full per-pupil funding amounts for each of the state's public school students, regardless of where they live or the public school they attend. Although Indiana's cross-district open enrollment policy is far from ideal, the clear financial incentive for districts to accept transfers appears to overcome that obstacle.

"A significant advantage of Indiana's approach is that it ensures there aren't any off-formula school districts, putting the right financial incentives in place for districts."

A significant advantage of Indiana's approach is that it ensures there aren't any off-formula school districts, putting the right financial incentives in place for districts. However, while Indiana's reform limited the use of local education dollars, many of the state's school

56 Chu, "Indiana's Property Tax, Choice, and Accountability Reforms: Their Consequences for Funding and Student Achievement."

57 Ibid.

58 "Fall 2021-2022 Public Corporation Transfer Report," Indiana Department of Education, *www.in.gov*, September 2021. https://www.in.gov/doe/it/data-center-and-reports/ (28 November 2022)

districts still use voter-approved overrides for operations.[59] Also the reform didn't eliminate the local funding portability problem stemming from other local levies such as debt service. Policymakers in other states should also note that comprehensive school finance reform is a challenging process that might take years to move across the finish line.

[59] "2022 Certified Budget, Levy, CNAV, Tax Rate by Fund," Indiana Department of Local Government Finance, *www.in.gov,* February 2022. https://www.in.gov/dlgf/reports-and-data/reports/ (14 October 2022)

PART 4

RECOMMENDATIONS FOR STATE POLICYMAKERS

Ideally, school finance systems should attach dollars directly to students so that all state and local education funds flow seamlessly across district boundaries. Not only does this create strong incentives for districts to accept open enrollment students, it also minimizes the importance of school district boundaries and prioritizes the needs of individual students over school systems.

Ideally, school finance systems should attach dollars directly to students so that all state and local education funds flow seamlessly across district boundaries.

States vary considerably with how close they are to robust funding portability, so the first step for policymakers is to take stock of portability in their state. This involves evaluating to what degree each of the portability problems—off-formula school districts, local

education funding, and non-enrollment funding streams—is prevalent. From there they can pursue one of three policy pathways to improve portability.

First, the root causes of portability problems can be addressed via comprehensive school finance reform. Indiana provides a valuable case study, but this type of undertaking is politically challenging, with myriad competing interests and policy aims. Critically, it might also involve fixing both how a state's funding formula allocates dollars and making substantive changes to tax policies that affect how state and local education dollars are raised. For example, the primary source of New Hampshire's portability problems is not how dollars are allocated through its formula, but rather its heavy reliance on local education funding that is outside of its Adequate Education Formula. In any event, there are numerous ways to address portability via comprehensive reform, and potential solutions will ultimately vary by state.

Alternatively, policymakers can pursue targeted reforms such as Delaware's School Choice Fund, which ensures local dollars follow the child. Other states, such as California and Nebraska, have developed mechanisms that specifically address the off-formula portability problem so that all districts are compensated for serving transfer students.[60] This pathway is nimble and not nearly as contentious, but won't necessarily result in a streamlined and transparent funding mechanism.

While these solutions are worth considering, the most direct pathway is to follow Wisconsin's lead by establishing a distinct funding mechanism for open enrollment students that ensures greater portability and total transparency. This approach circumvents many of the obstacles to comprehensive funding reform and also gets around whatever complexities are baked into existing funding systems. There isn't one right way to do this, but the following best practices can help policymakers craft an effective funding policy that brings states closer portable education funding.

#1: Uniform: Start with a Single Statewide Base Per-Pupil Amount

Open enrollment funding policy should center around a single per-pupil amount that follows students across school district boundaries, an approach Wisconsin has successfully employed for more than two decades. This provides robust transparency while also guaranteeing that all school districts are operating under the same set of financial

[60] California's policy to compensate Basic Aid school districts for transfer students has been substantially weakened in recent years, but still provides a useful example of a targeted funding reform.

incentives. There are numerous ways to set this amount, but policymakers should strive to maximize the share of overall state and local per-pupil funding attached to students. For example:

- **Tied to Formula Amounts:** Many states already have per-pupil foundational grants. These amounts can be used on their own or adjusted upward based on statewide averages of other allocation streams such as categorical grants.
- **Average of Expenditure Categories:** States could use a statewide average of select categories of education expenditures that can be adjusted each year. These could be limited to operating expenditures but could also include consideration for capital expenses.
- **Tied to Charter School Allocations:** Funding for charter school students is generally allocated on a per-pupil basis, and funding for open enrollment students could mirror this approach.

#2: Responsive: Account for Students' Needs

Policymakers can attach weights or additional per-pupil amounts to students with disabilities and other categories of need. For example, Wisconsin provides a greater per-pupil amount for students with disabilities plus reimbursement for costs that exceed this amount up to a specified limit. In many states, these weights or allotments could simply mirror what's already codified in their K-12 funding formulas. Ultimately, this will incentivize districts to take on students who are costlier to educate, affording them the same opportunities as regular program students.

#3: Incentivize: Tap into Local Education Dollars

Ideally, states should ensure that local dollars follow the child across school district boundaries. In states such as New Hampshire, where outside-the-formula local dollars play a large role in K-12 education funding, this is especially important. One way to do this is to deduct a per-pupil amount from home school districts' state aid for each student who transfers out. This amount could be based on a statewide average of local operating levies, or actual per-pupil amounts could be used for each school district. Either way, these dollars would be added to the per-pupil amount that follows the student to the receiving district. Tapping into local dollars ensures that districts' incentives are maximized, and this approach negates the need for district-to-district billing of local dollars, which is undesirable because it reinforces the idea that dollars belong to districts, not students.

PART 5

CONCLUSION

Policymakers should continue to adopt and strengthen open enrollment policies, but must also address portability problems with how state and local education dollars are delivered to school districts. There is more than one way to accomplish this, but the basic idea is always the same: funding should follow the child, regardless of what public school they attend or where they live.

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