HOW LOCAL EDUCATION FUNDING FAVORS POLITICS OVER PARENTS—AND HOW TO FIX IT

by Aaron Garth Smith
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EXECUTIVE SUMMARY

The road to robust educational choice is paved with student-level funding equity. Virtually all school finance formulas are embedded with provisions that distribute resources inequitably, but few realize how these inefficiencies obstruct the kind of choice policies that empower parents. A primary source of this problem is local education revenues, which divide communities and restrict families from seeking better opportunities. Local revenues account for about 45% of all U.S. education dollars, with this picture varying widely at the state level. Since the early 20th century states have employed school finance formulas that help equalize funding for districts, but these mechanisms aren’t designed to achieve student-level equity, which means that similar students are often provided with different levels of resources, and funding portability is diminished. As such, local revenues make it difficult to seamlessly fund choice policies such as charter schools and education savings accounts, but their relationship with inter-district enrollment deserves special attention since these revenues play a central role in keeping public school doors closed to students.

Inter-district enrollment provides families with an expanded supply of choice opportunities. Research indicates that a district’s student achievement is a strong predictor of transfer demand and that students cross district boundaries for a variety of reasons, including to seek out specialized curricula such as engineering, performing arts, and college preparatory programs, and also to give those who struggle socially or are bullied a fresh start. But the reality is that districts don’t set enrollment policies based on the ideal of accepting “all comers.” Rather, they evaluate numerous factors and weigh them against each other, with
the marginal costs often outweighing the marginal benefits of accepting outsiders. Two factors in particular can influence a district’s decision to restrict transfer seats.

First, there is the “political wall” as district officials consider the political costs of transfer students. Many superintendents are afraid of creating tension with their peers, who are used to having geographic monopolies over students and their funding allotments. But research finds that the largest political costs come from within district boundaries due to demographics. Superintendents are under political pressure to refuse transfer students, especially if their district’s student achievement or household socio-economic characteristics are substantially greater than that of its neighboring districts.

Second, there is the “financial wall” as districts often have little financial incentive to accept transfer students. In general, state aid follows the child to the receiving district and local funds stay with the home district. While these additional dollars usually exceed the marginal financial cost of serving a new student, it is often far less than the district’s average per-pupil spending. And because of the way that local property wealth can interact with state formulas, some districts might receive no additional funding for transfer students.

In practice, the political and financial walls that divide districts converge to form a unified barrier with local dollars being the common thread, as they inflame political hostilities against open enrollment policies and provide weak financial incentives for many districts to make open seats available to transfer students.

Indiana is a model for school finance reform that highlights the link between funding equity and robust choice. In 2007, taxpayers revolted after property tax bills increased by an average of 20%–30% statewide. In response to public outcry legislators passed HEA 1001 in 2008 to abolish property tax levies as a source of general fund education revenue. As a result of these changes, local revenue would still support debt service, transportation, bus replacement and capital projects, but raising dollars in excess of the tax caps now requires a voter referendum. What virtually nobody saw coming was that by eliminating local operating revenues and improving funding equity, legislators had effectively torn down a major barrier that prevented kids from enrolling in schools outside their home-districts; the number of transfer students skyrocketed from less than 3,000 before the change to over 52,000 students today. Academically, the Hoosier State’s approach to education is paying off and it’s clear that the state’s bold steps did not have the negative
effects that some feared, and that public education can indeed thrive without local operating revenues.

The most prominent arguments against adopting a full-state funding model are both overstated and outweighed by the benefits of adopting a formula that supports robust choice. In particular, the form of “local control” that local revenues provide can be more aptly described as a mix of political and bureaucratic control in which the demands of individual parents have little influence over a district’s decision-makers. In the 21st century local control should mean providing educators with autonomy in the classroom and giving parents meaningful options to hold them accountable for outcomes. This system requires portable funding where money follows a child to their school of choice and three key reforms will help policymakers achieve this. These policies alone won’t solve every challenge related to inter-district enrollment, but by promoting funding efficiency, transparency, and positive financial incentives, they’ll form a solid foundation for an education system that puts students first and minimizes the role of political decision-making.

**#1: Increase Transparency by Revamping Reporting Requirements**

States should at the very least increase transparency in their reporting requirements, since many lack even rudimentary data that should be publicly available. At a minimum, states should publicly report data around things such as capacity, transfer requests, transfer enrollment, and out-of-district transfer tuition.

**#2: Adopt a Full-State Funding Model**

States should move away from local education revenue for operational expenses and adopt a full-state funding model in which dollars are allocated based on a “weighted-student formula” where funding is based on the needs of students. This approach to school finance promotes choice, fairness, and accountability, while helping to break up districts’ geographic monopolies. Short of this, policymakers should seek to deliver local education dollars “as if” they originated from state coffers in a manner that is conceptually identical to a full-state funding model.
#3: Implement a State-Wide Open Enrollment Policy

Policymakers should look to Florida’s Controlled Open Enrollment policy as a model for reform that helps ensure that public schools are truly “public.” Implemented in the 2017–2018 school year, this program allows a child to enroll in any school or charter in the state that hasn’t reached capacity.
TABLE OF CONTENTS

PART 1: INTRODUCTION ......................................................................................................................... 1

PART 2: LOCAL EDUCATION REVENUES AND FUNDING STUDENTS FAIRLY .................... 3
  2.1 Local Education Revenues in the U.S. ......................................................................................... 3
  2.2 The Relationship Between Local Revenues and Funding Equity ........................................... 7
  2.3 Case Study: Dallas County, Texas ............................................................................................ 9

PART 3: LOCAL DOLLARS: A BARRIER TO CHOICE ................................................................. 14
  3.1 The Promise of Inter-District Enrollment ................................................................................. 14
  3.2 Building Walls Around Communities: Barriers to Choice ....................................................... 17

PART 4: AN UNINTENDED CONSEQUENCE OF PROPERTY TAX REFORM: MORE SCHOOL
  CHOICE .............................................................................................................................................. 24
  4.1 Indiana Tears Down the Walls ................................................................................................ 24

PART 5: ADDRESSING THE ARGUMENTS AGAINST MOVING TOWARD A FULL-STATE
  FUNDING MODEL ............................................................................................................................. 30
  5.1 Primary Argument #1: Local Revenues Promote Local Control ........................................... 31
  5.2 Primary Argument #2: Centralizing Education Funding Results in Less Spending ............. 33

PART 6: RECOMMENDATIONS .......................................................................................................... 35
  6.1: Increase Transparency by Revamping Reporting Requirements ........................................... 35
  6.2: Adopt a Full-State Funding Model ......................................................................................... 36
  6.3: Implement a State-Wide Open Enrollment Policy ................................................................. 38

PART 7: CONCLUSION ....................................................................................................................... 40

ABOUT THE AUTHOR ...................................................................................................................... 41

APPENDIX ........................................................................................................................................... 42
INTRODUCTION

The road to robust educational choice is paved with student-level funding equity. Virtually all school finance formulas are embedded with provisions that distribute resources inequitably, but few realize how these inefficiencies obstruct choice policies that empower parents. A primary source of this problem is local education revenues, which give rise to political and financial walls that divide communities and restrict families from seeking better opportunities. Local revenues make it difficult to seamlessly fund choice policies such as charter schools and education savings accounts, but their relationship with inter-district enrollment deserves special attention since these revenues play a central role in keeping public school doors closed to families.

Inter-district enrollment provides families with an expanded supply of choice opportunities and research indicates that a district’s student achievement is a strong predictor of transfer demand and that students cross district boundaries for a variety of reasons, including to seek out specialized curricula and to give those who struggle socially or are bullied a fresh start. But the reality is that districts don’t set enrollment policies based on an ideal that they should accept “all comers.” Rather, they evaluate numerous factors and weight them against each other; often the marginal costs outweigh the marginal benefits of accepting outsiders.
Indiana’s experience in abolishing local operating revenues illustrates how moving toward a full-state funding model can tear down the political and financial walls that restrict families. The most prominent arguments against this are both overstated and outweighed by the benefits of adopting a formula that supports robust choice. In the 21st century local control should mean providing educators with autonomy in the classroom and giving parents meaningful options to hold them accountable for outcomes. This system requires portable funding where money follows a child to their school of choice and the best way to lay the foundation for this is through a full-state funding model that allocates dollars via a weighted-student formula.

This policy brief will:

- Explore the relationship between local education revenues and funding equity.
- Illustrate how local revenues serve as a barrier to choice by erecting political and financial walls between communities.
- Provide Indiana as a case study for reform that illustrates the relationship between funding equity and choice.
- Address the two most prominent arguments against adopting a full-state funding model such as Indiana’s.
- Make recommendations for reform.
LOCAL EDUCATION REVENUES AND FUNDING STUDENTS FAIRLY

2.1 LOCAL EDUCATION REVENUES IN THE U.S.

The role of local revenues in education dates back to 1647; by the mid-to-late 19th century the majority of states required districts to finance public schools via property taxes.¹ Public education relied primarily on local funding until the 1970s,² when equity lawsuits that challenged widespread disparities in property wealth helped shift more of the burden to state coffers. Today, state funds account for the plurality of total U.S. education revenue,

² Ibid. 370.
with local funds only slightly behind at 45%, as shown in Figure 1. At the state level, this picture varies widely, with local revenues accounting for less than 5% of funding in Hawaii and Vermont and more than 55% in states such as New Hampshire and Pennsylvania. Figure 2 summarizes revenue sources by state. Nationwide, districts tap several sources of local revenue including locally assessed sales and income taxes, but property taxes account for the majority of funds raised at this level.

**FIGURE 1: U.S. EDUCATION REVENUE BY SOURCE**

![Pie chart showing education revenue sources with Local at 45%, State at 47%, and Federal at 8%]

Source: “2016 Public Elementary-Secondary Education Finance Data.”

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4 Ibid. Note: It’s important to emphasize that property taxes are not always classified as local revenue, as some states, such as Vermont, levy what’s essentially a statewide property tax.

5 Ibid.
## TABLE 1: EDUCATION REVENUE BY STATE AND SOURCE

<table>
<thead>
<tr>
<th>State</th>
<th>Local</th>
<th>State</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>35%</td>
<td>55%</td>
<td>11%</td>
</tr>
<tr>
<td>Alaska</td>
<td>23%</td>
<td>65%</td>
<td>12%</td>
</tr>
<tr>
<td>Arizona</td>
<td>45%</td>
<td>41%</td>
<td>14%</td>
</tr>
<tr>
<td>Arkansas</td>
<td>12%</td>
<td>77%</td>
<td>11%</td>
</tr>
<tr>
<td>California</td>
<td>32%</td>
<td>59%</td>
<td>9%</td>
</tr>
<tr>
<td>Colorado</td>
<td>50%</td>
<td>43%</td>
<td>7%</td>
</tr>
<tr>
<td>Connecticut</td>
<td>56%</td>
<td>40%</td>
<td>4%</td>
</tr>
<tr>
<td>Delaware</td>
<td>35%</td>
<td>59%</td>
<td>7%</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>88%</td>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Florida</td>
<td>50%</td>
<td>39%</td>
<td>11%</td>
</tr>
<tr>
<td>Georgia</td>
<td>46%</td>
<td>45%</td>
<td>9%</td>
</tr>
<tr>
<td>Hawaii</td>
<td>2%</td>
<td>89%</td>
<td>9%</td>
</tr>
<tr>
<td>Idaho</td>
<td>25%</td>
<td>64%</td>
<td>11%</td>
</tr>
<tr>
<td>Illinois</td>
<td>55%</td>
<td>38%</td>
<td>7%</td>
</tr>
<tr>
<td>Indiana</td>
<td>30%</td>
<td>62%</td>
<td>8%</td>
</tr>
<tr>
<td>Iowa</td>
<td>39%</td>
<td>54%</td>
<td>7%</td>
</tr>
<tr>
<td>Kansas</td>
<td>27%</td>
<td>65%</td>
<td>8%</td>
</tr>
<tr>
<td>Kentucky</td>
<td>34%</td>
<td>55%</td>
<td>11%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>46%</td>
<td>42%</td>
<td>12%</td>
</tr>
<tr>
<td>Maine</td>
<td>55%</td>
<td>39%</td>
<td>7%</td>
</tr>
<tr>
<td>Maryland</td>
<td>50%</td>
<td>44%</td>
<td>6%</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>57%</td>
<td>39%</td>
<td>4%</td>
</tr>
<tr>
<td>Michigan</td>
<td>34%</td>
<td>58%</td>
<td>8%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>29%</td>
<td>66%</td>
<td>5%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>35%</td>
<td>51%</td>
<td>15%</td>
</tr>
<tr>
<td>Missouri</td>
<td>49%</td>
<td>42%</td>
<td>9%</td>
</tr>
<tr>
<td>Montana</td>
<td>40%</td>
<td>47%</td>
<td>12%</td>
</tr>
<tr>
<td>Nebraska</td>
<td>59%</td>
<td>33%</td>
<td>8%</td>
</tr>
<tr>
<td>Nevada</td>
<td>28%</td>
<td>63%</td>
<td>9%</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>62%</td>
<td>33%</td>
<td>6%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>56%</td>
<td>40%</td>
<td>4%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>18%</td>
<td>69%</td>
<td>14%</td>
</tr>
<tr>
<td>New York</td>
<td>54%</td>
<td>41%</td>
<td>5%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>27%</td>
<td>62%</td>
<td>12%</td>
</tr>
</tbody>
</table>
While the role of local revenues has diminished over time, it still plays an integral part in funding public education despite the property tax’s widespread unpopularity among taxpayers. Proponents often cite two primary arguments in favor of this approach to school finance:

- **Local Revenues Promote Local Control**: Relying on local revenue is part of America’s long history of democratic control in public education and citizens can “vote with their feet” or at the ballot box to choose the mix of public services they desire. Districts also have diverse needs related to factors such as geography, population density and demographics, and local revenues allow them to address these challenges.

- **Full-State Funding Results in Less Spending**: Shifting the revenue burden to the state level could result in less aggregate education spending in the long run. For example, California placed restrictions on property tax growth in the 1970s and its per-pupil spending fell to among the lowest in the U.S. Additionally, the property
tax provides steady revenues during economic recession compared to alternative sources of tax revenue.

Local revenues have been the bedrock of U.S. education spending for many years and these arguments deserve careful consideration, but the following sections will demonstrate that the advantages derived are both overstated and outweighed by the benefits of adopting a funding system that puts families in control of their education. Part 5 of this brief will address these arguments directly.

**THE RELATIONSHIP BETWEEN LOCAL REVENUES AND FUNDING EQUITY**

The relationship between local property wealth, socioeconomic demographics, and education spending is more complex than one might expect. Districts' family incomes and per pupil property wealth are only weakly correlated, and funding formulas often allocate greater portions of state dollars to districts with more low-income students. Nevertheless, in the majority of states the highest-spending districts still dole out about twice as much per pupil as the lowest-spending districts, and horizontal funding equity—the idea that students with similar needs should receive the same level of funding regardless of where they attend—remains an elusive goal. The interplay of property wealth, local tax policies, and school finance formulas produces both large and small variations for similar students across district boundaries. So, even if a funding formula is relatively progressive in the aggregate, it still produces student-level inequities in which a child's allotment fluctuates based on where they live within a state.

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Such inequity shouldn’t be surprising since school finance systems aren’t designed to achieve student-level funding equity, even though every state formula contains some equalizing mechanism to allocate general aid. The most common approaches are variations of the original Strayer-Haig foundation formula that was developed in the 1920s by Columbia University’s George Strayer and Roger Haig.

Foundation formulas set a per pupil revenue floor that is funded by a combination of state and local dollars; they generally require districts to levy a minimum local tax rate in order to receive state aid. State aid is provided in an inverse relation to property wealth, but since most state formulas allow for local add-ons beyond the minimum expenditure level that are financed locally, some districts can more readily raise additional revenues above the required rate than others. And because most states don’t recapture excess funding from negative-aid districts—those with sufficient property wealth to raise the foundation amount without any state aid—funding disparities can exist even at the required minimum level of taxation.

Another approach employed by states is a Guaranteed Tax Base (GTB) program, which was developed in the early 1970s in response to school finance litigation that challenged the relationship between expenditures and property wealth. GTB programs promote taxpayer equity by guaranteeing access to a minimum tax base such that per-pupil revenue reflects locally determined tax rates and not property wealth. However, district demographics likely play a role in determining locally adopted tax rates, resulting in more-affluent communities’ students receiving additional resources. GTB programs lower the economic price to raise revenue, encouraging districts to spend more than they otherwise would, generating a school finance problem of allocating tax dollars inefficiently: low-wealth districts with low tax rates and low expenditures, and high-wealth districts with high tax rates and high expenditures.

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10 Ibid. 171-174.
11 Ibid.
12 Ibid.
13 Ibid. 181-191.
rates and high expenditures. Table 2 summarizes state counts by formula type and the Appendix provides further detail on how foundation and GTB formulas operate.

### TABLE 2: STATE COUNTS BY FORMULA TYPE

<table>
<thead>
<tr>
<th>Formula Type</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation</td>
<td>37</td>
</tr>
<tr>
<td>Guaranteed Tax Base</td>
<td>2</td>
</tr>
<tr>
<td>Full-State Funding</td>
<td>1</td>
</tr>
<tr>
<td>Flat Grants</td>
<td>1</td>
</tr>
<tr>
<td>Combination</td>
<td>9</td>
</tr>
</tbody>
</table>


As generally implemented, these methodologies inevitably produce student-level inequities because they aren’t intended to equalize funding for students. This might have been chalked up to “local control” in previous decades, but as the following sections demonstrate, the resulting spending variations pose serious challenges to the choice policies that give parents actual “local control”—more say in their children’s education. A case study of the 14 neighboring districts in Dallas County, Texas illustrates these dynamics.

### CASE STUDY: DALLAS COUNTY, TEXAS

With more than 2.3 million residents, Dallas County is the second largest county in Texas. Its 14 school districts serve 443,555 students, all but one having at least 7,000 students. Three key lessons can be drawn from comparing finances of Dallas County’s school districts shown in Table 3.

16 Ibid.
### TABLE 3: DALLAS COUNTY SCHOOL DISTRICT FINANCIAL DATA

<table>
<thead>
<tr>
<th>District</th>
<th>Property Wealth Per Pupil</th>
<th>Local M&amp;O Tax Rate</th>
<th>% Economically Disadvantaged</th>
<th>2015-2016 State M&amp;O Revenue Per Student</th>
<th>2015-2016 State and Local M&amp;O Revenue Per Student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highland Park ISD</td>
<td>$1,896,431</td>
<td>$1.03</td>
<td>0%</td>
<td>$769</td>
<td>$9,352</td>
</tr>
<tr>
<td>Coppell ISD</td>
<td>$710,378</td>
<td>$1.17</td>
<td>9%</td>
<td>$740</td>
<td>$8,445</td>
</tr>
<tr>
<td>Carrolton-Farmers Branch ISD</td>
<td>$556,885</td>
<td>$1.04</td>
<td>65%</td>
<td>$2,173</td>
<td>$9,746</td>
</tr>
<tr>
<td>Dallas ISD</td>
<td>$530,299</td>
<td>$1.04</td>
<td>88%</td>
<td>$2,770</td>
<td>$8,833</td>
</tr>
<tr>
<td>Sunnyvale ISD</td>
<td>$523,041</td>
<td>$1.02</td>
<td>16%</td>
<td>$2,487</td>
<td>$8,990</td>
</tr>
<tr>
<td>Richardson ISD</td>
<td>$442,326</td>
<td>$1.04</td>
<td>56%</td>
<td>$3,059</td>
<td>$8,194</td>
</tr>
<tr>
<td>Cedar Hill ISD</td>
<td>$318,580</td>
<td>$1.04</td>
<td>64%</td>
<td>$4,320</td>
<td>$8,087</td>
</tr>
<tr>
<td>Irving ISD</td>
<td>$259,879</td>
<td>$1.04</td>
<td>79%</td>
<td>$5,102</td>
<td>$8,651</td>
</tr>
<tr>
<td>Duncanville ISD</td>
<td>$259,354</td>
<td>$1.04</td>
<td>75%</td>
<td>$5,243</td>
<td>$8,318</td>
</tr>
<tr>
<td>Garland ISD</td>
<td>$229,997</td>
<td>$1.04</td>
<td>66%</td>
<td>$5,647</td>
<td>$8,490</td>
</tr>
<tr>
<td>Lancaster ISD</td>
<td>$213,324</td>
<td>$1.04</td>
<td>86%</td>
<td>$5,514</td>
<td>$8,363</td>
</tr>
<tr>
<td>Desoto ISD</td>
<td>$210,768</td>
<td>$1.17</td>
<td>72%</td>
<td>$6,020</td>
<td>$9,019</td>
</tr>
<tr>
<td>Grand Prairie ISD</td>
<td>$164,002</td>
<td>$1.17</td>
<td>73%</td>
<td>$6,646</td>
<td>$9,146</td>
</tr>
<tr>
<td>Mesquite ISD</td>
<td>$143,692</td>
<td>$1.04</td>
<td>75%</td>
<td>$6,508</td>
<td>$8,440</td>
</tr>
</tbody>
</table>


First, district boundaries create significant variations in per-pupil property wealth, with the county’s most affluent district, Highland Park ISD, having a tax base that is more than 13 times greater than its lowest-wealth district, Mesquite ISD.\(^{19}\) The resulting Maintenance and Operations (M&O) revenue gap between the districts exceeds $900 per pupil, even though Mesquite puts forth slightly greater tax effort and has a significantly more

\(^{19}\) Ibid.
challenging student population as shown in Figure 3.\(^{20}\) Although Texas’ recapture system helps smooth funding inequities across districts, not all of its funding levels are subject to this provision. Also evident is the arbitrary nature of the district boundaries, with Highland Park literally residing within Dallas ISD as shown in Figure 2.

**FIGURE 2: SCHOOL DISTRICTS IN DALLAS COUNTY**

Despite the fact that 88% of Dallas’ students are low-income, not one of Highland Park’s 7,054 students falls in this category, according to Texas Education Agency data.\(^{21}\)

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\(^{20}\) 2015–16 data obtained from Texas Education Agency via Public Information Request.

\(^{21}\) “2015–16 TAPR Download of Selected Data.” Texas Education Agency.
Second, local tax policies can have a strong effect on variations in per-pupil spending. Lancaster ISD and Desoto ISD are bordering districts with nearly identical property wealth and similar student populations, yet the latter taxes at a much higher rate allowing it to raise $656 more per pupil, or $13,120 for a class of 20 students as shown in Figure 4. This dynamic can also be observed between Mesquite ISD and Grand Prairie ISD, which raises $706 more per pupil. A primary argument in favor of such arrangements—that so-called “local control” excuses these discrepancies—is addressed later in this policy brief.

Source: “2015-16 TAPR Download of Selected Data.” Texas Education Agency; and 2015-2016 data obtained from Texas Education Agency via Public Information Request.

FIGURE 3: PROPERTY WEALTH, REVENUE, AND TAX RATE COMPARISON: HIGHLAND PARK ISD VS. MESQUITE ISD

The size of the dots is indicative of each district’s low-income student population, with a larger size representing a greater portion of disadvantaged students.
Finally, it’s worth noting that state formulas send Highland Park ISD $769 per pupil even though the district has a large tax base, one of the lowest tax rates in the state, and raises more local revenue than every other district in Dallas County. In total, this amounts to more than $5 million in state funding. It is evident from the data presented that state dollars are distributed rather progressively, with Texas covering a greater share of revenue for less affluent districts, but scarce dollars are nevertheless funneled to districts such as Highland Park with no demonstrated need. In fact, every district in Texas—even those subject to the state’s recapture provisions—receives at least $612 per pupil.

25 “2015-16 TAPR Download of Selected Data.” Texas Education Agency; and 2015-2016 data obtained from Texas Education Agency via Public Information Request.

26 2015-2016 data obtained from Texas Education Agency via Public Information Request.
LOCAL DOLLARS: A BARRIER TO CHOICE

THE PROMISE OF INTER-DISTRICT ENROLLMENT

Inter-district choice dates back to 1988 when Minnesota became the first state to require districts to receive transfer students, i.e., students who reside in other districts. Other states quickly followed suit and today 25 have mandatory inter-district open enrollment policies, while others permit it on a voluntary basis. Although mandatory policies require districts to accept transfers, some states allow them to charge families transfer tuition, and

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28 These policies can vary substantially. For example, Texas is counted as having mandatory inter-districted transfer, but both sending and receiving school districts must approve. This is in stark contrast to states like Florida that mandate open enrollment with limited exceptions. A study by the Thomas B. Fordham Institute reported that 13 states have “mandatory only” policies.

29 Wixom. “Open Enrollment.”
districts are generally permitted to refuse applicants under certain conditions. \(^{30}\) For example, in Colorado districts are permitted to refuse transfer applicants if: \(^{31}\)

- The district has constraints related to physical space or teaching staff;
- The school requested is unable to meet the special needs of a student or does not offer the particular program requested;
- The student does not meet eligibility for participation in a specific program;
- The student’s admission would violate the terms of an established desegregation plan;
- The student has previously been expelled from another district.

Inter-district enrollment provides families with an expanded supply of choice opportunities that promote accountability and innovation. Although research is limited, studies have shown that a district’s student achievement is a strong predictor of transfer demand, suggesting that students tend to transfer to higher quality districts. \(^{32}\) And a recent analysis published by the Thomas B. Fordham Institute indicates that inter-district enrollment could have positive effects on achievement, especially for students transferring out of high-poverty urban districts. \(^{33}\) California’s Legislative Analyst’s Office (LAO) conducted an

\(^{30}\) Ibid.


extensive analysis of the state’s District of Choice program and found that students cross district boundaries for a variety of reasons, including to seek out specialized curricula such as engineering, performing arts, and college preparatory programs, and also to give those who struggle socially or are bullied a fresh start.\textsuperscript{34} The study noted positive results for the program, which serves about 10,000 students\textsuperscript{35} across the state: not only did 90\% of students transfer to higher performing districts, but their home districts improved over time as well.\textsuperscript{36} Indeed, the competitive effects of losing students seem to benefit all students, as the LAO concluded:\textsuperscript{37}

\textit{Several of the home districts most affected by the program implemented new educational programs to attract and retain students. These districts also took special steps to gain greater clarity about the priorities of their communities. In addition, despite some of the fiscal challenges facing home districts, test scores for the students remaining in these districts have continued to improve over time.}


\textsuperscript{35} Most inter-district transfers in California occur through the state’s permit process, with about 140,000 students participating according to the LAO. This method is more restrictive and both sending and receiving districts must grant families permission before transferring. For example, receiving districts can set academic and behavioral requirements for students and sending districts can restrict the circumstances under which they allow students to leave, such as the availability of child care.


\textsuperscript{37} Ibid. 24.
Districts with declining enrollment, such as Riverside Unified School District, can use inter-district transfer policies to reinvigorate their offerings. In 2011, Riverside's board voted to accept transfer students after California expanded its Districts of Choice law and Superintendent Rick Miller urged principals to make their schools unique. Bryant Elementary, which at the time was under-enrolled by 190 and struggling academically, responded by adopting the Core Knowledge curriculum, changing its name to the Bryant School of Arts and Innovation, and overhauling campus culture by dedicating 17 classrooms to the arts and even playing classical music while students play in the school yard. These changes were well received by parents, resulting in full enrollment capacity. Notably, the school achieved markedly higher test scores as well.

BUILDING WALLS AROUND COMMUNITIES: BARRIERS TO CHOICE

The notion that public schools “accept all comers” should be accompanied with an asterisk, as geography still determines where most kids enroll. These district boundaries are one of the greatest obstacles for parents seeking better options outside of their zoned school. Many districts limit the number of non-resident students they admit or prohibit them altogether. While this is sometimes for legitimate reasons such as capacity, other factors restrict the supply of seats that are made available to transfer students. Columbia University’s Randall Reback explains:

Meanwhile, administrators set the supply of transfer spaces in their districts by comparing the marginal benefits with the marginal costs of accepting additional transfer students. Marginal costs are due to the direct cost of services, negative peer effects (actual or perceived) caused by the incoming transfer students, and reductions in house prices due to the partial erosion of the housing premium linked to the district’s popular schools. Marginal benefits include gains in per-pupil state aid, as well as the appearance of compliance with their state’s law and any positive reputation effects associated with incoming transfers.
The reality is that districts don’t set enrollment policies based on the ideal of accepting “all comers.” They evaluate numerous factors and weigh them against each other, with the marginal costs often outweighing the marginal benefits of accepting outsiders. This is regrettable yet rational, as the current structure of public education systems simply fails to incentivize open enrollment for many districts. Two factors in particular can influence a district’s decision to restrict transfer seats.

**The reality is that districts don’t set enrollment policies based on the ideal of accepting “all comers.”**

**THE POLITICAL WALL**

The political costs of accepting transfer students are a significant consideration for district officials. Many superintendents are afraid of creating tension with their peers, who are used to having geographic monopolies over students and their funding allotments. As Michael Kirst, president of California’s State Board of Education, explains, “It’s a professional norm that you don’t try to poach students from other districts.”

But the largest political costs come from within district boundaries. An early survey of open enrollment found that nearly a quarter of superintendents cited political pressure from the community as a central reason to not accept transfer students, and recent research suggests that demographics play a role in this. Rebeck found that a district is more likely to reject transfers if its student achievement or household socio-economic characteristics are substantially greater than a neighboring district. He concluded:

> Capacity concerns may often be valid, especially given pre-existing concerns with overcrowding in urban public schools due to enrollment growth and budget cuts. However, cases in which transfer applicants are rejected may more closely reflect the principal’s or superintendent’s concerns over peer effects than concerns over actual capacity constraints.

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42 Kronholz, June. “California’s Districts of Choice.”

Fordham Institute’s study seems to lend support to the effect of demographics on transfer policy. It found that the roughly 20% of Ohio districts that don't allow transfer students are disproportionately clustered around the state’s urban areas, concluding that the data “paint a picture of prosperous, high-achieving, suburban districts electing not to accept inter-district transfers, while rural districts in the state, which are less affluent and lower achieving, largely choose to accept transfers.”44 Importantly, capacity didn’t seem to play a role in this for non-participating districts, as their average enrollment had actually declined.45

Local revenues inflame political hostilities against open enrollment policies while providing a convenient excuse to keep district doors closed. According to Paul Reed, deputy superintendent and chief business official of Newport-Mesa Unified—a Basic Aid District in California—“There are folks unhappy they can’t go to school here, and I feel sorry for them, but on the other hand their taxes aren’t supporting education in this community.”46 In a system with funding variations, this type of sentiment is common and can have dire consequences. Ohio’s Copely-Fairlawn School District charged Kelley Williams-Bolar $30,000 after a private investigator uncovered that she lived outside of its boundaries, claiming she didn’t have a right to enroll her two daughters in a district she didn’t support with local taxes.47 Williams-Bolar was found guilty on two felony charges and sentenced to

44 “Interdistrict Open Enrollment in Ohio: Participation and Student Outcomes.” Thomas B. Fordham Institute. 11-16.
45 Ibid.
10 days in jail when she refused to pay the fee. District boundaries had forced the low-income mother into a gut-wrenching dilemma that no parent should have to face: let her kids wither in an under-performing school district or break the law to give them a better education. Many families simply don’t have the luxury of moving to districts with higher real estate prices and better schools.

THE FINANCIAL WALL

On the benefits side, some districts have little financial incentive to accept transfer students. In general, state aid follows the child to the receiving district and local funds stay with the home district. While these additional dollars usually exceed the marginal financial cost of serving a new student, it is often far less than the district’s average per-pupil spending. And because of the way that local property wealth can interact with state formulas, some districts might receive no additional funding for transfer students.

To illustrate, Table 4 shows the maintenance and operations (M&O) revenue gained from enrolling an additional student for each district in Dallas County. Texas funds districts with a combination of state and local dollars such that per-pupil property wealth and state funding support are inversely related. The additional revenue a new student generates for a district primarily depends on the interplay of state formulas, property wealth, and locally adopted tax rates.

Table 4 highlights two key trends. First, all districts receive less money for each additional student enrolled than their current per-pupil revenue allotment, which means the incentive to offer seats to out-of-district students is weak. Highland Park—a property wealthy district that receives little state support and doesn’t accept transfer students—would have a

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48 Ibid.

49 2015-2016 data obtained from Texas Education Agency via Public Information Request; M&O Revenue from Additional Student data were obtained from “Tuition Limit Report.” Texas Education Agency. www.texas.tea.gov. 2016-2017. Web. <https://tealprod.tea.state.tx.us/fsp/Reports/ReportSelection.aspx> 15 March 2018. Note: According to a Texas Education Agency official, the M&O Revenue from an Additional Student figures do not include Available School Fund dollars, so the M&O revenue gaps are likely slightly smaller than what their reports indicate. However, these estimates are nevertheless conservative, as the figures in Table 1 only include revenue for operational expenditures such as teacher and administrative salaries and the gaps are considerably larger for most districts when revenue for facilities and debt are accounted for. Additionally, it should be noted that the 2016-2017 reports are based on data from the prior school year.
$3,202 per-pupil gap for each transfer student enrolled. In fact, if it weren’t for Texas’ Robin Hood provision that recaptures dollars from property wealthy districts, Highland Park would receive almost no revenue from new students.\textsuperscript{50}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
District & Total State and Local M&O Revenue Per Pupil & M&O Revenue from Additional Student & Gap \\
\hline
Highland Park & $9,352 & $6,150 & $3,202 \\
Carrollton-Farmers Branch & $9,746 & $6,676 & $3,070 \\
Dallas & $8,833 & $6,810 & $2,023 \\
Irving & $8,651 & $6,738 & $1,913 \\
Grand Prairie & $9,146 & $7,261 & $1,885 \\
Lancaster & $8,363 & $6,535 & $1,828 \\
Garland & $8,490 & $6,756 & $1,734 \\
Desoto & $9,019 & $7,311 & $1,708 \\
Coppell & $8,445 & $6,763 & $1,682 \\
Duncanville & $8,318 & $6,708 & $1,610 \\
Mesquite & $8,440 & $6,833 & $1,607 \\
Cedar Hill & $8,087 & $6,546 & $1,541 \\
Richardson & $8,194 & $6,702 & $1,492 \\
Sunnyvale & $8,990 & $7,806 & $1,184 \\
\hline
\end{tabular}
\caption{Estimated financial effect of an additional student on M&O revenue: Dallas County school districts}
\end{table}


\textsuperscript{50} Texas has funding streams outside of its equalization formulas that allocate funds to districts regardless of property wealth.
This is the case in states such as California, where Basic Aid districts are entirely locally funded and don’t have to remit payment for revenues raised in excess of what state formulas guarantee. As a result, non-resident transfer students don’t generate any additional state and local dollars.\textsuperscript{51} To compensate for the local revenue gap many districts across the U.S. charge transfer tuition, which families often can’t afford. And because there’s little transparency around this practice, it’s difficult to determine precisely how the fees are administered.

Additionally, the incentive to enroll transfer students varies considerably among districts since money doesn’t follow a child seamlessly across boundaries. For example, a transfer student would generate about $7,311 for Desoto ISD and $6,535 for Lancaster ISD, despite the fact that the two districts share a border.\textsuperscript{52} This puts districts on an uneven playing field, and quite often it’s the most desirable districts that have the weakest financial incentives since they rely less on state dollars. This seems to be the case in Ohio where Fordham Institute found that districts that don’t accept transfers spend $11,300 per pupil on average and raise about 60% of revenue locally, whereas those that do spend $9,550 per pupil and only raise about 40% locally.\textsuperscript{53} An important point to underscore is that property wealth—and the extent to which districts rely on local dollars—creates varying incentives that can influence open enrollment policies. Simply stated, where dollars come from matters.

**THE WALLS CONVERGE**

In practice, the political and financial walls that divide districts converge to form a unified barrier with local dollars being the common thread. An example of this is Texas’ Sharyland ISD, which has a substantially smaller low-income student population than its neighbor,

\textsuperscript{51} California’s District of Choice program previously allowed Basic Aid districts to collect 70% of an out-of-district transfer student’s apportionment, but this amount was recently reduced to 25% according to an e-mail exchange with an Orange County Department of Education official. However, only about 5% of California districts opt-in to this program. Most out-of-district transfers in California are accepted through the state’s interdistrict permit process, which does not provide Basic Aid districts with any additional revenue. In the 2014-2015 school year, it was estimated that 140,000 students transferred districts via permits compared to only 10,000 students through the District of Choice program.

\textsuperscript{52} “Tuition Limit Report.” Texas Education Agency.

\textsuperscript{53} “Interdistrict Open Enrollment in Ohio: Participation and Student Outcomes.” Thomas B. Fordham Institute. 13.
Mission CISD.\textsuperscript{54} Sharyland recently began accepting transfer students with two major caveats: parents must pay $2,500 in annual tuition and they'll only accept students who excel in the classroom.\textsuperscript{55} According to District Superintendent Robert O'Connor, “We want to allow students in that are very intentional about being great academic scholars (and) have a solid academic background. I don't know how other districts do it, but we are going to be very selective.”\textsuperscript{56} So while Sharyland has excess seats and is facing enrollment declines, the taxpayer-funded district is clearly discouraging low-income students from crossing its boundary in favor of more affluent kids, a move that seems to be aimed at generating additional revenue to offset losses without incurring the political costs of accepting “all comers.” In contrast, Mission already accepts out-of-district students free of charge.

The following section provides a case study of how eliminating the funding inequities caused by local revenues changed the incentives for districts and led to robust choice in Indiana.


\textsuperscript{55} Ibid.

\textsuperscript{56} Ibid.
PART 4

AN UNINTENDED CONSEQUENCE OF PROPERTY TAX REFORM: MORE SCHOOL CHOICE

INDIANA TEARS DOWN THE WALLS

Indiana’s school finance reforms provide a convincing case study of the link between funding equity and robust choice. A 1998 Indiana State Supreme Court decision led to changes in the way property values were assessed. Since the most recent reassessment was based on 1999 selling prices, assessors were left with several years of price appreciation to
In 2007, taxpayers revolted after property tax bills increased by an average of 20%-30% statewide, with some rising by as much as 150%.

In response to public outcry, legislators passed HEA 1001 (Public Law 146) in 2008 to abolish property tax levies as a source of general fund education revenue. At the time, local revenues accounted for nearly 18% of this funding stream, which pays for the bulk of education expenses including teacher and administrator salaries, replacing these dollars by increasing the state sales tax from 6% to 7%. The legislation also enacted property tax caps that varied by property classification as residential, agricultural, and commercial property taxes were capped at 1%, 2%, and 3% of assessed value, respectively. As a result of these changes, local revenue would still support debt service, transportation, bus replacement and capital projects, but raising dollars in excess of the tax caps would now require a voter referendum.

From a public finance perspective, the changes caused by HEA 1001 were quite substantial. State support for general fund education revenue grew from $3.8 billion to $6.3 billion—or from $3,900 to $6,400 per average daily membership (ADM is a method of counting a

58 Ibid.
60 Ibid. 40.
63 Ibid. 3.
64 Jackson. "Effects of the Elimination of Indiana General Fund Property Tax and Other Local Sources of Revenue on Student Transfer Policies." 57.
school’s students for funding purposes). But the biggest story was one that virtually nobody saw coming: legislators had effectively torn down a major barrier that prevented kids from enrolling in schools outside their home-districts. Prior to the change, Indiana required students to pay transfer tuition, which was calculated by dividing a receiving district’s local portion of general fund revenue by its ADM. Because local dollars would no longer support this funding stream, the vehicle for charging transfer tuition was effectively eliminated, as was a key political argument often used against out-of-district students—that their parents “don’t pay taxes in this district.” This also strengthened the incentive for districts to attract and retain students because every loss in ADM now resulted in losing a student’s entire funding allotment rather than just a partial reduction. Prior to HEA 1001, a home-district only lost the state portion of revenue when a student transferred, which averaged 80% statewide and was as little as 20% for property wealthy districts.

Ultimately, Indiana’s move away from local funding didn’t create statewide open enrollment per se since districts still had the authority to craft transfer policies, but it did provide the foundation needed for educational choice to flourish instantaneously. The number of transfer students skyrocketed from less than 3,000 before the change to over 11,300 in 2011, leading more districts to open their doors as a result of the new dynamics.

One such district was Elkhart Community Schools, which began advertising on its website “Transfer to Elkhart Community Schools: Our Doors Are Open!” Inter-district enrollment has reached even greater heights today: over 52,000 students now cross district boundaries.

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65 Ibid. 74.
66 Ibid. 10-11.
67 Ibid.
68 Ibid. 13. Prior to 2009 Indiana districts received partial funding for a period of four years for “ghost” students who had left the district. By 2012 this hold harmless provision was fully phased out.
69 Ibid. 13-14.
70 Ibid. 11.
71 Ibid. 77.
72 Ibid. 90.
73 Ibid. 47.
to attend school, more than 17 times as many as before. To be sure, not all of Indiana’s superintendents were pleased with the elimination of the general fund property tax. One study found that the majority surveyed judged it a negative effect, which isn’t surprising as it substantively affected how districts were accustomed to operating. But the same study also revealed that more than 82% of Indiana’s transfer students left for districts performing in the state’s top two performance categories. The author concluded that “the results are clear; the elimination of general fund property tax became another vehicle for school choice.”

Ending its reliance on local revenues also helped Indiana eliminate inefficiencies in its school finance formula, which was plagued by hold harmless provisions that dated back to 1993 when legislators made changes to the state’s Foundation Program. These provisions tried to ease the transition for districts, but continued in perpetuity even though they were intended to expire in 1999. As a result, scarce dollars were allocated based on historical revenue levels, which created inequities. By adopting a full-state funding model, property taxes were no longer a political roadblock to addressing these inefficiencies, and by 2017 the state’s foundation formula was finally fully functional. A study by Indiana University’s

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74 Inter-district enrollment figure obtained from an Indiana Department of Education official. Publicly available data on choice participants are available at https://www.doe.in.gov/sites/default/files/accountability/fall-2017-2018-public-corporation-transfer-report.xlsx. It’s notable that Indiana adopted a private school voucher program in 2011, which now enrolls more than 35,000 students according to EdChoice. Thus, in a relatively short period of time, educational options have increased markedly for many families throughout the state and it is likely that the voucher program also contributed to the open-enrollment boom as districts were further incentivized to meet parental demands in order to keep students in the public school system.

75 Jackson, Andrew S. "Effects of the Elimination of Indiana General Fund Property Tax and Other Local Sources of Revenue on Student Transfer Policies." 90.

76 Ibid. 101.

77 Ibid. 111.


79 Based on e-mail exchange with Thomas J. Sugimoto, a researcher at Indiana’s Center for Evaluation & Education Policy.

80 Ibid. It might have been possible to achieve high levels of equity even with local revenues as a funding source, but this would’ve been much more challenging.
Thomas J. Sugimoto found substantial improvements in equity between the 2008–2009 and 2016–2017 school years. He concluded that “Regression analyses suggest that current funding formula policy improved horizontal and vertical equity throughout the study period, and projections indicated high levels of equity will be achieved in 2017.”

Academically, the Hoosier State’s approach to education is paying off. It has demonstrated impressive NAEP score gains since 2007, increasing its average score and national rank in all 4th and 8th grade math and reading assessments as shown in Table 5. The state’s Free and Reduced Lunch (FRL) students have also boasted improved scores, now ranking no worse than 5th in the U.S. in all four exams as summarized in Table 6. Notably, Indiana’s 8th grade FRL students were especially impressive, going from 22nd overall in reading in 2007 to first overall in 2017. Moreover, a recent analysis by Fordham Institute showed that between 2011 and 2015, Indiana was the only state whose 4th grade students had statistically significant improvements across all races analyzed in both reading and math: Hispanic, White, and Black student sub-groups demonstrated substantial gains. While a causal relationship between school finance reforms and NAEP scores cannot be established based upon these data alone and caution should be used in interpreting the results, it’s clear that the state’s bold steps did not have the negative effects that some feared, and that public education can indeed thrive without local operating revenues. And what makes

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82 The year 2007 was chosen as the base year for comparison since HEA 1001 passed in 2008 and was implemented the following year, which was also the next time NAEP was administered for these subjects.


84 Ibid.

85 Ibid.

this even more remarkable is that this was accomplished during the Great Recession and its aftermath—a time period that saw substantial cuts in education funding.

### TABLE 5: INDIANA’S 4TH AND 8TH GRADE NAEP SCORES: 2007 VS. 2017

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<th>Subject</th>
<th>Year</th>
<th>Score</th>
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</thead>
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<td>2007</td>
<td>245</td>
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<td>4th NAEP Reading</td>
<td>2017</td>
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<td></td>
<td>2007</td>
<td>222</td>
<td>26th</td>
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<td>2017</td>
<td>288</td>
<td>8th</td>
</tr>
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<td></td>
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<td></td>
<td>2007</td>
<td>264</td>
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### TABLE 6: INDIANA’S 4TH AND 8TH GRADE FRL NAEP SCORES: 2007 VS. 2017

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</tr>
</thead>
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<td>3rd</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>235</td>
<td>5th</td>
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<td>4th FRL NAEP Reading</td>
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ADDRESSING THE ARGUMENTS AGAINST MOVING TOWARD A FULL-STATE FUNDING MODEL

Several arguments are commonly levied in support of the local-revenue status quo that is evident in most states. While this approach to school finance has advantages, including greater responsiveness to cost differences in geographically diverse states, these benefits are often overstated. This section will address the two most prominent claims against adopting a full-state funding model: local revenues promote local control and centralizing funding results in less education spending.

This concern can be alleviated by accounting for cost differences in the state’s allocation formula in which districts with higher costs receive a higher per-pupil foundational allotment. However, policymakers should be cautious when considering this approach as these adjustments aren’t based on students and can be politicized. Texas’ Cost of Education Index is an example of such a problem.
The principle of subsidiarity holds that decisions should be made by the lowest, most decentralized entity possible and it is thus understandable that those who value individual liberty and limited government might be skeptical of shifting a portion of revenue discretion from school districts to state legislatures as Indiana has done. At first glance, such a move might also seem incompatible with the general desire of Americans to have democratic control of public education, which has long been characterized by oversight from locally elected school boards. But under closer examination it is clear that this form of “local control” can be more aptly described as a mix of political and bureaucratic control in which the opinions and desires of individual parents have little influence over a district’s decision-makers. As James Shuls of the University of Missouri-St. Louis notes, “Local educational bureaucracies have unfortunately become 14,000 mini-monopolies…Rather than represent the will of the people, they represent the needs of the bureaucracy.”

Stanford’s Terry Moe provides valuable insight into why this is the case in his seminal work *Special Interest*. Moe points out that while the autonomy of school boards has eroded in the past several decades due to the expanded roles of state and federal governments in K-12 education, “the equation of school boards with government by the people is one of the enduring myths of public education” and that the “history of American school boards has never been a history of grassroots democracy” but one of special interests. The fact of the matter is that most citizens aren’t engaged, with many districts holding off-cycle elections that discourage civic participation and voter turnout often in the range of 10%–20%. This gives teachers unions a decided advantage in tipping the scale in their favor using the manpower and other resources at their disposal. Moe found this to be true even in smaller districts, which many assume to have stronger democratic controls. His research revealed that in districts with less than 5,000 students, school board elections are rarely vigorously...

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90 Ibid.
contested\textsuperscript{91} and that unions are regarded as electorally important in 52% of these districts.\textsuperscript{92} Moe concludes,\textsuperscript{95} 

\textit{The bottom line is not that the teachers unions consistently dominate their local schools boards. They are constrained. Things don’t always go their way. Nonetheless, they are by far the most powerful groups in the local politics of American education. And they are quite successful at tilting the “democratic” governances of the local schools in favor of their own special interests.}

To be sure, local school boards are often handcuffed by state and federal requirements, and districts need greater autonomy over concerns such as staffing, curriculum, and how they ultimately spend education dollars. Policymakers should address these obstacles and give educators more flexibility over what happens in classrooms. However, “district control” shouldn’t be conflated with “local control,” especially in the context of raising operating revenues. This is now true more than ever as choice policies such as inter-district enrollment, charters, and education savings accounts have redefined the most decentralized and local unit of control. School finance systems should reflect the reality that “local control” is now synonymous with “parent control,” and moving away from local operating revenues would help foster an even more democratic system where parents have the final say over how their children are educated. As Ilya Somin of George Mason University summarizes:\textsuperscript{94} 

\textit{...school choice...is more “democratic” than conventional public schools. In the case of the latter, most individual parents have very limited ability to influence the content of the public education available to their children. They can only do so in the rare case where they can exercise decisive influence over education policy, or by moving to a different school district. By contrast, school choice enables them to choose from a wide range of different options, both public and private. And they can do so without having to either move or develop sufficient political clout to change government policy.}

\textsuperscript{91} Ibid. 127.
\textsuperscript{92} Ibid. 123.
\textsuperscript{93} Ibid. 153-154.
PRIMARY ARGUMENT #2: CENTRALIZING EDUCATION FUNDING RESULTS IN LESS SPENDING

Another primary argument against adopting a full-state funding model is that relying more on state dollars puts deflationary pressure on education spending over time, an assertion that seems to have merit. At the state level, education funding has to compete with other priorities such as health care and infrastructure, thus diluting the influence of interest groups, including teachers unions, that advocate for more education dollars. Additionally, untethering the relationship between real estate values and education spending could result in less support for increasing taxes. As Dartmouth College's William Fischel explains, “When higher spending does little for home values in a community, education becomes just another claim on tax dollars, and higher income people no longer are willing to tax themselves as readily.”

California is often held up as a cautionary example. In 1978, soaring property tax bills prompted voters to approve Proposition 13, which capped property tax rates at 1% and placed limitations on assessed property valuations, effectively shifting control of education revenues to the state level. But while it’s true that California’s growth in education spending has slowed relative to most other states since Proposition 13 was enacted, this ignores the fact that inflation-adjusted per-pupil spending in California nevertheless increased by an astounding 54% between the 1979–1980 and 2014–2015 school years. To put this further into perspective, U.S. per-pupil education spending currently ranks fourth among Organization for Economic Cooperation and Development countries, and California’s expenditures are similar to countries such as Canada, Japan and Finland.


Ibid. 37.


Ibid.

Calculations based on data obtained from https://nces.ed.gov/programs/digest/d17/tables/dt17_236.65.asp?current=yes


Aaron Garth Smith
while it’s true that shifting revenue-raising responsibility to the state level has likely deflated the Golden State’s spending growth relative to most other states, it’s critical to consider the context within which this occurred: a time when education expenditures skyrocketed in one of the highest spending countries in the world.

It’s also notable that California’s centralized revenue model likely helped pave the way for it to adopt its Local Control Funding Formula (LCFF) in 2013, one of the most student-centered and transparent school finance formulas in the country. Importantly, LCFF eliminated more than 50 categorical grant programs and installed a weighted-student formula that bases funding on the needs of individual students—changes that have given educators greater autonomy over how dollars are spent while further ensuring that money follows the child. This helps underscore a critical point: while centralizing education revenues isn’t alone sufficient to optimize a school finance system (i.e. other components, such as allocation formulas, must also be addressed) it can serve as a foundational piece of the student-centered funding puzzle that puts parents and educators in control.

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RECOMMENDATIONS

Three key reforms will help policymakers provide families with more opportunities across district boundaries. These policies alone won’t solve every challenge related to inter-district enrollment, but by promoting funding efficiency, transparency, and positive financial incentives, they’ll form a solid foundation for an education system that puts students first and minimizes the role of political decision-making.

#1: INCREASE TRANSPARENCY BY REVAMPING REPORTING REQUIREMENTS

States should at the very least increase transparency in their state’s reporting requirements, since many lack even rudimentary data that should be publicly available. The good news is that this won’t place an administrative burden on districts since most of this information should already be collected at the local level and used to inform decisions. At a minimum, states should publicly report the following metrics annually for each district:

- Whether out-of-district student transfers are accepted;\textsuperscript{102}
- Whether transfer students are charged tuition and, if so, how much;

\textsuperscript{102} A policy that only allows for transfer students under limited circumstances, such as familial relation to a district employee, should not be counted as accepting out-of-district students.
The total amount of transfer tuition collected;

- The number of transfer students the district serves and summary data indicating their home-districts;\(^{105}\)

- The number of students who transferred out of a district and summary data indicating the districts they enrolled in, including charters;\(^{104}\)

- The number of transfer requests that were received in a given year;

- The number of transfer requests that were denied in a given year.

Additionally, policymakers should consider requiring districts to publish capacity reports that detail the number of seats available at each school. Florida’s Controlled Open Enrollment program provides a model of how to do this. Districts are required to post capacity determinations on their websites that clearly define each school’s capacity and the number of seats currently available.\(^{105}\) These projections should already be part of a district’s strategic planning, and public accessibility will help ensure decision-making is as transparent as possible and transfer rejections are done for legitimate reasons.

#2: ADOPT A FULL-STATE FUNDING MODEL

With the advent of choice policies such as open enrollment, charters, and education savings accounts, local control should no longer be synonymous with geographic monopoly over students and tax dollars. This approach to education might have worked in previous generations when families were less mobile and options limited, but rigid district boundaries have outlived their purpose, as it no longer makes sense to fund similar students at varying levels and restrict educational options based on zip code. The reality is that local funding and the inequities it produces only serve to further entrench district monopolies that favor political decision-making over parental control.

In the 21st century local control should mean providing educators with autonomy in the classroom and giving parents meaningful options to hold them accountable for outcomes.

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\(^{103}\) Texas’ Transfer Report and Indiana’s Public Transfer Report provide good examples of such reporting.

\(^{104}\) Ibid.

\(^{105}\) See Orange County Public Schools’ capacity plan for an example.
This system requires portable funding where money follows a child to their school of choice and is best supported by an entirely counterintuitive reform: centralizing funding in order to decentralize education.

The most effective way to accomplish this is to move away from local education revenues entirely and adopt a full-state funding model. In this model, states would allocate dollars based on the weighting of each student according to their needs, known as "weighted-student formula." This approach to school finance promotes choice, fairness and accountability, while helping to break up districts' geographic monopolies. Public education is enumerated in every state constitution and ultimately is the fiscal responsibility of state legislatures. To ease the burden on state coffers, policymakers can still allow for districts to raise local tax dollars for facilities and long-term debt, but safeguards should be established to help ensure they spend only what's needed and that tax dollars aren't misallocated to lavish capital projects that have little relation to outcomes. A full-state funding model such as Indiana's puts greater financial incentives in place for districts to attract students and eradicates the need for transfer tuition that many families can't afford. This can help change the political dynamics that make school finance reforms so difficult, and will result in more options for parents, greater efficiency for taxpayers and a more transparent funding formula.

Short of this, policymakers should seek to deliver local education dollars “as if” they originated from state coffers in a manner that is conceptually identical to a full-state funding model. This can be accomplished in several ways, one of which is to use a foundation formula that sets a maximum local tax rate, minimizes access to unequalized enrichment funds, and eliminates outside-the-formula streams such as minimum aid and hold harmless provisions. A good but imperfect model for policymakers to look to is California’s Local Control Funding Formula (LCFF), which was implemented in 2013. LCFF allocates funding primarily based on student needs and minimizes the role of local revenue such that money generally flows seamlessly across district boundaries. However, its primary shortcoming is that it still allows the state’s most property-wealthy districts to retain excess funding, which permits inefficiencies and discourages these districts from accepting out-of-district students. In fact, some districts phase-out accepting inter-district transfers.


107 For more information on California’s Local Control Funding Formula, see: Snell, Lisa. “Three Reasons Governor Brown’s Funding Plan is Better than the Status Quo and Three Big Ideas to Make the Plan Even Better.”
entirely after reaching Basic Aid status since these students no longer generate additional funding. Nevertheless, money generally follows the child in California’s LCFF and it can serve as a solid model for other states to emulate.

Lastly, policymakers can also look to Delaware’s unique approach to local funding portability, whereby 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 home district. In this model, the home district pays the lower local cost per pupil expenditure of the two district’s. And in cases where a sending district’s local spending is greater than the receiving district’s, any excess funds can then be paid into the state’s “School Choice Fund,” which is used to help close gaps where the opposite is true (i.e. a receiving district’s local share is greater than the sending district’s local share). This model might be a good option for states that encounter difficulties streamlining their school finance formula.

#3: IMPLEMENT A STATE-WIDE OPEN ENROLLMENT POLICY

Policymakers should look to Florida’s Controlled Open Enrollment policy as a model for reform that helps ensure that public schools are truly “public.” Implemented in the 2017–2018 school year, this program allows a child to enroll in any school or charter in the state that hasn’t reached capacity. Students residing in a district cannot be displaced by transfer students, and district enrollment processes must give preferential treatment to:

- Dependent children of active duty military personnel whose move resulted from military orders;
- Children who have been relocated due to a foster care placement in a different school zone;
- Children who move due to a court-ordered change in custody due to separation or divorce, or the serious illness or death of a custodial parent; and
- Students residing in the district.

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109 Delaware Code Title 14 Education §408 http://delcode.delaware.gov/title14/c004/index.shtml
110 2016 Florida Statutes Title XLVIII §1002.31 http://www.flsenate.gov/Laws/Statutes/2016/1002.31
111 Ibid.
There’s no reason for districts with available seats to prohibit transfer students. Virtually all rely on federal and state funding sources to at least some degree, and public schools are supposed to serve “all comers,” especially in an age in which families are more mobile. Implementing a statewide open-enrollment program such as Florida’s would prevent district officials from erecting arbitrary walls for political purposes and ensure families are free to seek better opportunities. Notably, although Florida relies on local operating revenues to fund education, its school finance system is still somewhat equalized and mimics a full-state funding model such that money more readily follows the child.\textsuperscript{112}

CONCLUSION

The benefits of open enrollment are undeniable, giving families opportunities outside of their zip codes and encouraging districts to be more responsive to parental demands. The funding variations caused by local revenues erect political and financial walls that work against these benefits. In contrast, choice and equity have complementary aims: funding equity paves the way for robust choice, as the Indiana case illustrates. Importantly, local control should no longer be synonymous with political control and should instead mean providing educators with flexibility in the classroom and giving parents meaningful options to hold school administrators accountable for results. The best way to achieve these benefits is to eliminate local operating revenues entirely and move to a full-state funding model that allows money to follow the child. Policymakers should also pursue reforms that provide greater transparency around district policies and consider implementing a statewide open enrollment policy that guarantees that public school districts, in fact, accept all comers.
ABOUT THE AUTHOR

Aaron Garth Smith is an education policy analyst at Reason Foundation, a nonprofit think tank advancing free minds and free markets. Prior to joining Reason, Aaron was senior director of analytics at YES Prep Public Charter Schools, a nationally renowned charter management organization serving over 12,000 students in Houston. His writing has appeared in various publications including Education Week, Orange County Register and Los Angeles Business Journal and he has worked in numerous states on school finance reform.
APPENDIX

FOUNDATION FORMULA OVERVIEW

\[ SAPP = FRPP - (RTR \times PVPP) \]

Where

\( SAPP \) = state aid per pupil
\( FRPP \) = foundation revenue per pupil
\( RTR \) = required local tax rate
\( PVPP \) = local property value per pupil

For a state that has set its FRPP at $6,000 and RTR at 1%:

**Example 1:** Property-poor district with property value of $150,000 per pupil and 1,000 students:

\[
SAPP = 6,000 - (1\% \times 150,000) \\
\text{Total State Aid} = 4,500 \times 1,000 \\
= 4,500,000
\]

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Since the property-poor district is unable to raise the per pupil foundation amount using entirely local revenues, the state provides $4,500 per pupil for total state aid of $4,500,000.

**Example 2:** Property-wealthy district with property value of $650,000 per pupil and 1,000 students:

\[
\begin{align*}
SAPP &= 6,000 - (1\% \times 650,000) \\
\text{Total State Aid} &= (500) \times 1,000 \\
&= (500,000)
\end{align*}
\]

Since the property-wealthy district is able to raise the per pupil foundation amount using only local revenues, the state does not provide aid for this portion of the formula. Most states allow property-wealthy districts to keep funds that are raised in excess of the foundation amount (also known as “Negative Aid”), but in states such as Wyoming and Texas these additional dollars are sometimes paid to the state, a process that is known as “recapture” or “Robin Hood.”
GUARANTEED TAX BASE FORMULA OVERVIEW

\[ SAPP = DTR \times (GTB - PVPP) \]

Where
- \( SAPP \) = state aid per pupil
- \( DTR \) = local district property tax rate
- \( GTB \) = tax base guaranteed by the state, in thousands of dollars of property value per pupil
- \( PVPP \) = local district property value per pupil

For a state that has set its GTB at $300,000:

**Example 1:** A district sets its local tax rate at 1% and has per pupil property wealth of $250,000 with 1,000 students:

\[ SAPP = 1\% \times ($300,000 - $250,000) \]
\[ \text{Total State Aid} = $500 \text{ per pupil} \times 1,000 \text{ students} \]
\[ = $500,000 \]

**Example 2:** If the same district in Example 1 were to set its local tax rate at 1.5%:

\[ SAPP = 1.5\% \times ($300,000 - $250,000) \]
\[ \text{Total State Aid} = $750 \text{ per pupil} \times 1,000 \text{ students} \]
\[ = $750,000 \]

District revenues are dependent on their locally adopted tax rate as demonstrated in the above examples, where the district raised $3,000,000 in total revenue at a rate of 1% and $4,500,000 at 1.5%. Districts with taxable property wealth above the guaranteed level are funded entirely by local revenues at this higher level.

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