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Opportunity and Equity: Fixing Maine's School Funding Formula

Yellow Light Breen

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Fixing Maine's School Funding Formula

by Yellow Light Breen

In its last session, the legislature adopted much needed reforms to Maine's education funding formula. Among other things, these reforms help to establish a link between education funding and student performance, to recognize the true costs of education, and to better measure the communities' relative ability-to-pay. In succinct fashion, Yellow Light Breen explains each of these elements to be phased in over the next several years. He also responds to Peter Mills' argument to eliminate income from the definition of ability-to-pay and on the need for broader changes in how local government is funded. He notes that the recently adopted reforms allow policymakers the necessary breathing room to tackle these broader issues, but cautions legislators to stay the course in completing the reforms they just enacted.

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INTRODUCTION

Ten years ago, I arrived on the campus of fabled Harvard University as a gangly, scared college freshman from the small central Maine town of St. Albans. The move from one of Maine's poorest public school systems to the world's richest private college was dizzying, and I dived into the academic and professional opportunities that had opened up before me. But the stark contrast between the two worlds also fueled two fierce and enduring passions: my abiding love for my native state, and my deep commitment to basic equality in educational opportunity.

Fewer than half of my Harvard classmates had attended the elite prep schools so entrenched in popular stereotype. But most of the rest were products of public schools a world apart from those I went to—public schools in affluent suburbs, with campuses to rival many colleges, advanced placement courses in every subject, virtually universal advancement to higher education, and a dozen or more kids accepted to the Ivy League every year. In contrast, my home School Administrative District No. 48, centered in Newport, has long held a place of pride as one of the lowest spending districts in the state. Computers were scarce, labs were ancient, and only about a third of the graduates would go on to a four-year degree program.

Although perhaps less dramatic, the same gap in opportunity exists today between public schools here in Maine—and so far this decade the gap has been widening. The 20% of Maine's schools with the greatest wealth have on average over $900,000 worth of taxable property valuation behind each student. The poorest 20% have less than $170,000 of taxable property per student. Similarly, the richest district in Maine has a median household income about ten times greater than that in the poorest district.

Maine's school funding formula uses state subsidy to reduce this opportunity gap, but it does not get the job done. Despite the distribution of more than $600 million in state aid (General Purpose Aid to Education, or "GPA"), many of Maine's poorest, mostly rural communities are levying high property tax rates, and—despite receiving a high proportion of state subsidy—have the least amount of money to spend on their students. Public schools in Maine's poorer communities often turn in impressive performance results in core academic subjects, but simply cannot support the breadth and depth of programs that their wealthier counterparts offer.

Although this inequality is frequently blamed on a funding formula that is broken, the formula in fact has considerable equalizing power. The most egregious and pressing inequities (and the easiest to fix) are not a product of a broken funding formula, but of an accounting practice that keeps a considerable fraction of local education spending outside the formula altogether, and thus excluded from the equalizing power of state assistance. This accounting practice—a vestige of the recession of the early 1990s—forces poorer districts to raise disproportionately high tax rates, or cut spending in that portion of the local budget which is arbitrarily excluded from state assistance.

This spring, the Maine Legislature took decisive action to address the most pressing inequities in the school funding formula. An uncommon but overwhelming consensus emerged around a package of significant reforms to state education aid. As Peter Mills argues in the accompanying article, larger questions remain about the viability of Maine's property taxation structure. It is becoming increasingly clear that the GPA distribution formula has been asked to bear more of the burden of producing equity in property taxation than it can reasonably bear alone. But if—and only if—the legislature can follow through on the commitments made this year in fixing the formula, the worst inequities will be moderated and there will be considerable breathing room to broaden the debate.

EQUITY IN ACTION

This spring, the Maine Legislature adopted the unanimous recommendations of its Education Committee to improve equity in the school funding formula. In turn, the Education Committee had endorsed the reform package proposed by the Maine Department of Education.

In developing suggestions for legislative action to improve school funding, Commissioner Duke Albanese and the Department of Education have sought to promote equal educational opportunity for every child everywhere in Maine. This mission includes three basic goals:

- *Adequacy*—that every student in Maine has the support necessary to achieve the high academic performance of the Learning Results;

- *Pupil equity*—that every student in Maine has the same basic educational opportunity, wherever they happen to attend school;
- *Taxpayer equity*—that every community in Maine is able to provide that basic educational opportunity with a similar tax effort relative to its ability to pay.

Maine's school funding formula has tremendous equalizing potential because it combines both aspects of equity. In concept, the formula assumes that each school district will raise an equal minimum tax effort for education, and then distributes state aid to make up any differences so that the dollars available per student in each district will be identical without exceeding the common tax rate. In reality, the school funding mechanism that was in effect prior to this year fell far short of these goals.

FOR RICHER, FOR POORER

This year, a consensus for reform began to coalesce—in part—because the Education Committee finally had available to it clear and comprehensive comparative data on the distribution of fiscal capacity and educational resources across Maine communities. Discussion began to center on the characteristics and impacts of school funding on the quintiles. The Department of Education ranked Maine's 286 school districts based on their ability to pay as defined in the school funding formula (85% weight for property valuation, 15% weight for median household income). The districts were then grouped in five equal sets, or quintiles, from the wealthiest 20% to the poorest 20%.

As the accompanying graphics illustrate, some characteristics of these quintiles made an unavoidable case for change. The property tax effort for education made by the poorest districts is

Figure 1:
Per-pupil Expenditures

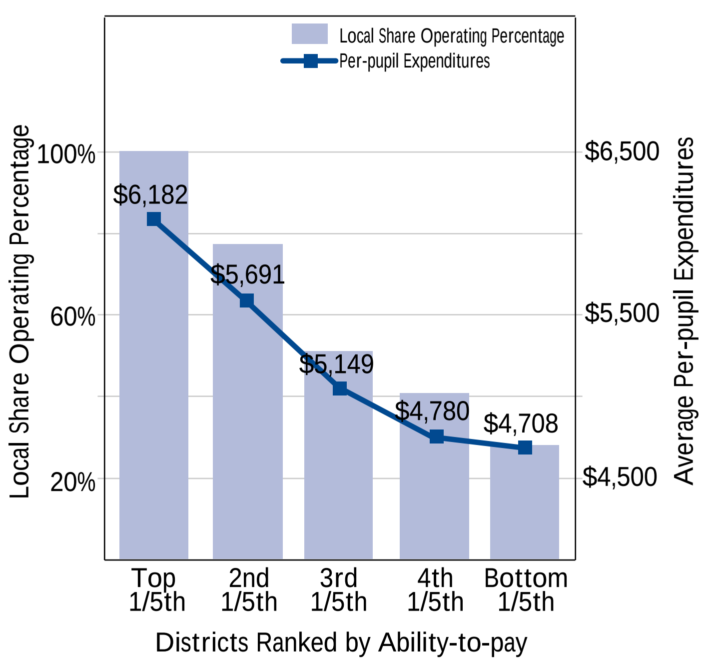
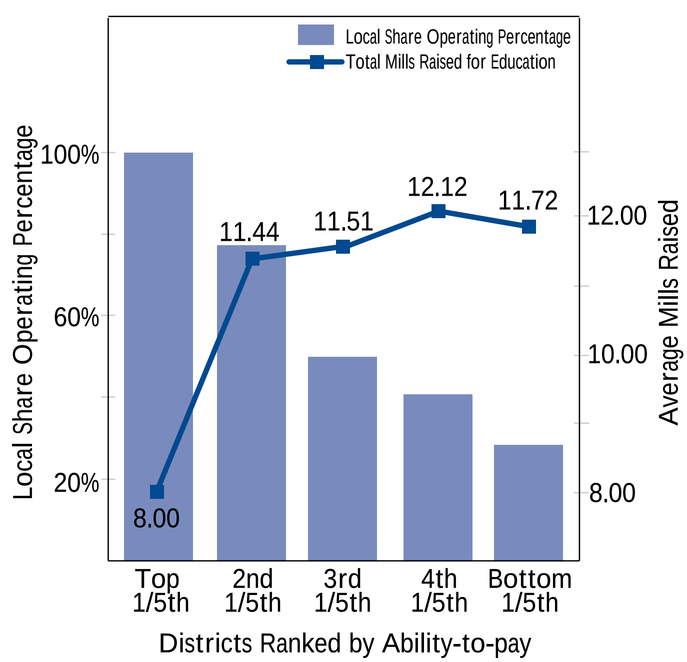


Figure 2:
Mills Raised for Education



Ability-to-pay is measured according to the school funding formula: 85% based on property values and 15% based on income and COLA.

If Maine's school funding formula has tremendous equalizing power, why is equity so elusive?

typically among the highest of any communities, and yet that tax effort—even with relatively high levels of state aid—produces the least amount of resources behind each child [Figures 1-3]. The poorest districts receive more than 70% of their education funds from the state, and still spend roughly $1,500 less per student than the wealthiest districts. This inequality simply could not be ignored.

Second, the analysis of school districts grouped by wealth was critical to demonstrate that more state funding alone, without changes in distribution, would not in itself significantly improve equity. Because nearly all communities can agree on the proposition that more state funding is a good thing, often there is a focus on the question of adequacy to the exclusion of equity. Last spring, the news media focused heavily on a push by the education community to raise the state's share of total spending up to the 55% level promised in 1984. The 55% target has assumed somewhat mythic proportions, although the state's share never reached higher than 51% even in the heady heydays of the late 1980s.

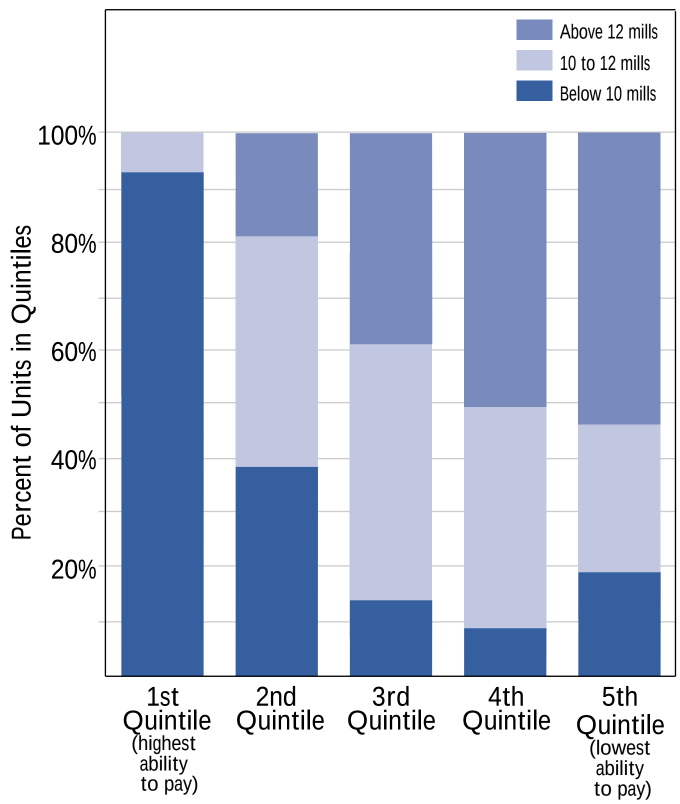
The quintiles starkly illustrated that the push for additional funds does not eliminate the need to distribute the available funds by the fairest possible method. The funding formula in effect prior to this year's reforms did not ensure that additional funds were targeted to the poorest, most needy school districts. For example, if a $30 million additional appropriation had been made this year with no changes, the new money would have flowed out from the existing formula in such a way that it would actually have widened the disparity between educational haves and have-nots. It is true that significantly more astronomical increases in state aid could make the debate over equity somewhat academic—but the lesson of the 1980s and early 1990s is that unless the increases are indefinitely sustainable, they can only temporarily mask the underlying gap.

SOME EQUAL TREATMENT IS MORE EQUAL THAN OTHERS

If Maine's school funding formula has tremendous equalizing power, why is equity so elusive? It also seems incredible on its face: poor school districts are receiving the lion's share of state aid, amounting to over 70% of their school budgets, and yet still claiming the system is inequitable for them. As I stated at the outset, the reason is that an accounting gimmick disproportionately shifts property tax burden to poorer districts.

During the early 1990s, an unstoppable obligation met an immovable barrier. On the one hand, the state had committed itself to paying a certain percentage of education costs (the actual

Figure 3:
Mills Raised for Education by Maine School Districts



School districts are ranked from high to low based on their ability to pay. The districts are then separated into five groups, or quintiles.

percentage bears only a vague relationship to the mythical 55% “requirement”). On the other hand, there was no way the state could distribute more funds than it had available in the cash crunch of the time. The state had to reconcile an expenditure-driven commitment with a revenue-driven reality.

Aside from stopgap gimmicks, the answer settled upon was straightforward, if a bit surreal. The state would arbitrarily exclude part of local education costs from the funding formula. The portion excluded was simply calculated so that the money available from the state would satisfy the requisite percentage on the education costs that were counted. So, for example, instead of 55% of education costs, one-fifth of the costs would be excluded from the formula, and the state would pay 55% of 80% of the costs. It was lost on no one that the real state percentage would be 44%.

On the surface, this reduction method was exceedingly fair. Every school district in the state, rich and poor, would forgo the same fraction of its theoretically expected state aid. Cape Elizabeth and Calais would both receive 20% less subsidy than their theoretical maximum.

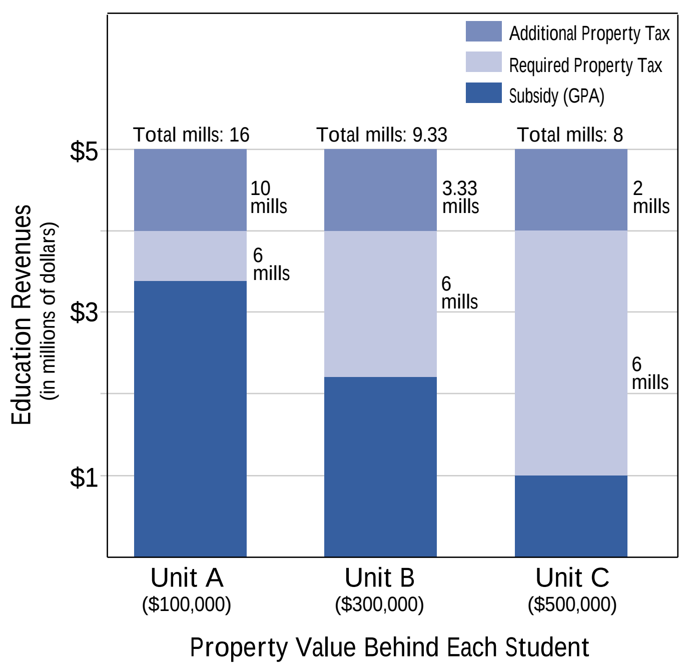
In reality, while the cuts were proportionately equal, the impacts were vastly disparate. The cuts were a flat percentage and thus did not account (as the funding formula did) for differences in local ability-to-pay. First, the impact on school budgets was not proportional: a poor school district receiving 80% of its budget from state aid, when cut by 20%, would lose one-sixth of its overall budget. A wealthier district receiving 20% of its budget from state aid, when cut by 20%, would lose one-twentieth of its overall budget.

Second, and most importantly, when communities turned to local tax assessment to try to complete their budget without state aid, their ability to do so widely varied. A school district with an extensive property tax base could make up the difference with relatively small tweaks to the mill rate levied on property, and maintain the level of funding desired. In contrast, a school district with a minimal tax base could reach an average spending level only with onerous increases in local mill rates [Figure 4].

The method for reconciling state aid with available state revenues utterly ignored the potential consequences for taxpayer equity. In practice, as the quintile analysis showed, the result was that poorer districts raised local tax rates that were typically equivalent to or somewhat higher than the average, and simply put fewer resources behind their children. Rather than absorb grave taxpayer inequity to attain equal spending, or sustain grave cuts in spending to attain equal tax rates, poorer districts have tended to live with meaningful disparities on both sides of the ledger.

This interaction between taxpayer equity and pupil equity illustrates one of the most difficult aspects of meaningful reform in school funding. Real reform requires maintaining a simultaneous focus on both pupil equity and taxpayer equity, and the interaction between the two. Much of the apparent complexity in the public policy debates over fairness in school funding springs from an alarming tendency to focus on each of these three basic goals in isolation. Tactically, one group of communities may focus on its relative lack of resources (pupil equity) while ignoring its relatively low tax effort (taxpayer equity). Another group of communities may take credit for its robust local tax effort on behalf of education (taxpayer equity) while ignoring the fact that this effort produces vastly more resources than in poorer communities making an equally strong local tax effort (pupil equity). This conceptual divide-and-conquer enables virtually any demographic bloc to make at least a superficial case as to why the state distribution scheme ought to be more favorable to it.

Figure 4:
Taxpayer Inequities When Costs Recognized in the Funding Formula are Less than the True Cost of Education



We must be able to establish a link between resources invested in education and the performance we want for students.

THE EDUCATION REFORM PACKAGE

In this past legislative session, the Education Committee recognized the need for action and unanimously recommended an education reform package that, ultimately, was adopted by the legislature. The elements of this package were based on proposals put forward by the Department of Education. Each element (described below) was considered indispensable to achieving the Department's three basic goals—adequacy, pupil equity, and taxpayer equity.

Linking resources to student performance

We must be able to establish a link between resources invested in education and the performance we want for students. If more money is pumped into school subsidy, the amount of money committed should be directly related to creating the opportunities our children need. In the past, the need for funds has been expenditure-driven, based on a percentage of whatever happened to be spent in a prior year—or, as times got tougher, revenue-driven, based on whatever the legislature has been able to appropriate.

A new approach to school funding is required, based on what our schools need to do the job of giving every child the resources to succeed on Maine's Learning Results. The Department of Education has termed such an approach, Essential Programs and Services. In part, it is based on measuring the resources that real, high-performing Maine schools provide for children in faculty, facilities, computers, activities, and so forth, and then calculating the costs of providing those resources.

The legislature's education reform package is directly tied to a longer-term transition to Essential Programs and Services. Emphasis is placed on the amount of resources behind each student—the per-pupil guarantee—which will be raised gradually to create a foundation for the new approach. Over the next several years, while changes are being made to improve equity, additional data will be collected. Implementation will then be accompanied by increasing GPA over several more years to achieve the level of state funding needed.

Recognizing the true costs of education

Inequality persists primarily because the funding formula does not recognize the true local costs of education. In a sense, the funding formula is one of the biggest surviving budget gimmicks of the recession of the early 1990s. The formula distributes subsidy to equalize per-pupil spending and local tax effort, but only counts a portion of total costs. Local costs "outside" the formula are paid solely from local property taxes, and thus are a disproportionate burden on poorer communities. Communities with a low tax base are either unable to raise these needed funds, or require a much higher tax effort to do so.

As a solution to this problem, the per-pupil guarantee in the school funding formula will be increased over several years to better reflect true education costs. The legislature also endorsed the Department of Education's proposal to move toward full funding of program costs (special education, vocational education, transportation). These actions will eliminate the accounting gimmick that keeps more than 20% of education spending unequalized. The legislature's plan achieves these targets over four years [Figures 5-6].

Declining student enrollments and subsidy, but fixed operating costs

Many poor, rural districts and some cities are losing population and large numbers of students, which results in a significant drop in state subsidy (which is largely based on the number of students) without corresponding decreases in the fixed costs of operating schools. As old industries erode and people move out—at precisely the moment when a community most needs to develop new skills and talents to build a new future—the schools begin bleeding state subsidy based on the number of students in a district. To temper the effects of declining student enrollments, the legislature's plan averages pupil counts over several years—rather than just the most recent year—allowing schools a chance to adjust their fixed costs.

Measuring ability to pay

If school subsidy will be distributed according to communities' relative ability-to-pay, there remains considerable controversy about how to measure ability-to-pay. Currently, the formula measures a community's ability to pay based on two factors: the available tax base, as determined by the amount of property value behind each student (85% weight), and the income of the median household in the community (15% weight). While some have argued against income because it hurts some rural school districts, others have taken the view that income is plainly relevant in concept: the tax is levied on property, but paid in most cases out of our paychecks. Ability-to-pay encompasses not just the tax base, but the resulting financial burden of levying against that tax base. Given two towns with equal valuation and equal mill rates for property tax, the town with the higher household incomes is going to feel less of a tax "bite." However, there is near-universal recognition that household income and the associated cost-of-living (COLA) have proven to be very difficult to measure and to compare.

The legislature's reform package preserves the value of income as a component of ability-to-pay, but adopts the State Board of Education's recommendations to eliminate COLA and freeze income at the 1998 level until more reliable data are available from the 2000 Census. In addition, the State Board of Education was directed to study whether there is a more appropriate mechanism for incorporating income into the formula.

Distributing scarce resources

Any meaningful changes in the method of distribution under the funding formula have the potential for significant shifts in state subsidy, dividing the legislature and the education community against itself in a struggle for scarce resources. To prevent the debate from becoming a zero-sum game, the legislature adopted the concept of a "Hold Harmless," which prevents any school unit from a loss of subsidy due to changes in the formula. The legislature also added a second hardship cushion that guarantees no school district will receive less than they received this year, even due to demographic changes. The whole reform package is sustainable with moderate increases in state aid over several years, and without a radical reduction in subsidy for some school units.

UNFINISHED BUSINESS

The article in this issue by Peter Mills focuses heavily on his argument to eliminate income from the definition of ability-to-pay, and on the need for broader changes in state tax and local

Figure 5:
Increasing the Per-pupil Guarantee
to Match Actual Operating Costs

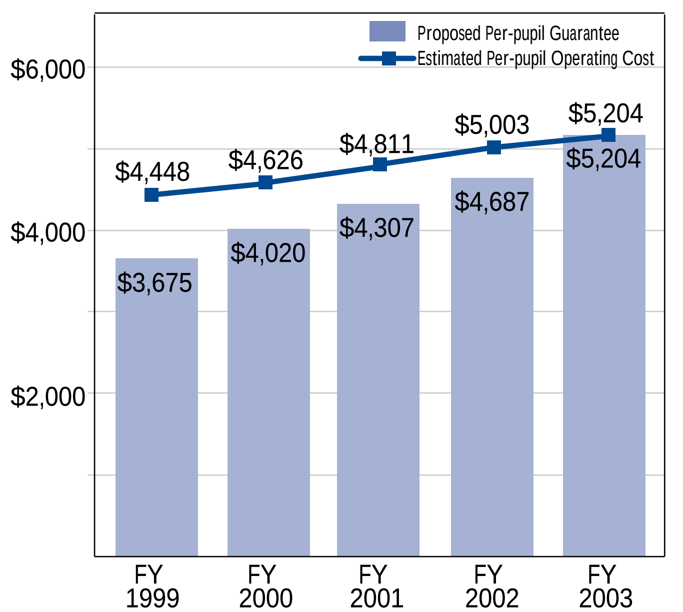
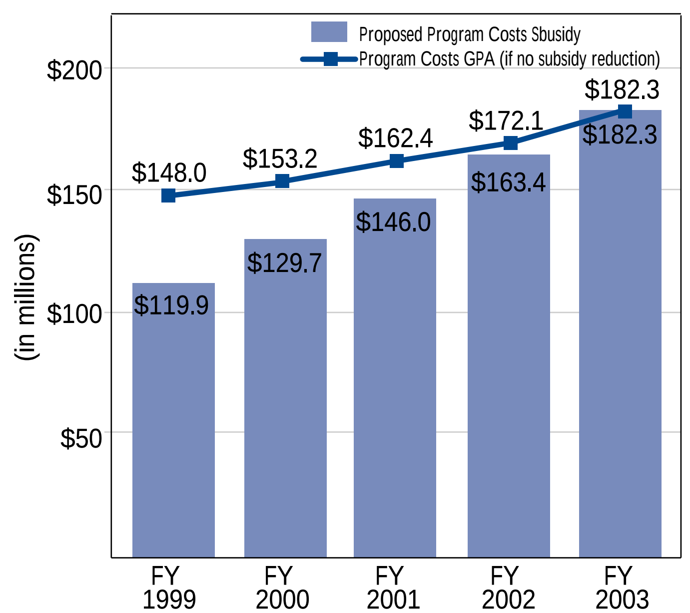


Figure 6:
Increasing the GPA for Program Costs



subsidy policies to alleviate broader inequities in property taxation, especially for service center communities. Without joining these issues in full, the quintile analysis done by the Department demonstrates definitively that bringing the school funding formula more in line with actual education costs has a much greater positive effect on equity than the elimination or modification of income does. Moving to a formula that considers a community's ability to pay for real costs, without an accounting gimmick, is more significant than tinkering with the components used to measure ability-to-pay.

With respect to service center communities, one of the conclusions of the numerous data runs done this spring on a host of proposed reforms is that it proved impossible to isolate changes in the school funding formula that would have a consistently positive impact on service center communities. Within the funding formula, demographic differences seemed to outweigh the common status as service center. It is notable, however, that retaining income as an element of communities' ability-to-pay was overwhelmingly beneficial to the larger, more urban communities. This may be due to a variety of reasons, including the greater prevalence of younger, single-person households in cities.

As tempting as it is to consider the need for other changes in state subsidy and the property tax, it is important not to lose sight of the work still needed to complete the reforms just enacted. As significant as the legislature's actions were this year, even more critically important will be persevering to meet the targets over the next three years of this far-sighted reform package. Action will be required in each budget year to recognize the real costs of education instead of arbitrarily excluding some portion. This debate will be politically charged each time. Just as poorer districts are penalized by having their poverty excluded from part of the calculations, wealthier districts are benefitted by having their wealth excluded from part of the calculations.

CONCLUSION

In the end, it's not about money, it's about opportunity. Against the odds, many Maine communities with the least resources available are among the highest performing in terms of the achievement of their students. One reason is that they have assets that count in raising children that are not in any ledger. The future of education funding, which we have labeled Essential Programs and Services, pushes us to ask what are we buying in education, rather than simply focusing on what we each have available to spend.

Without high-quality educational opportunity for all children—and not just our own—we risk making a myth out of the basic American tenets of political democracy and economic free markets. Both of these fundamental principles are a myth without a meaningful commitment to a common core of knowledge and skills, and a level playing field so that all citizens can participate and compete based on their merits rather than on their pedigree. Free public education is the most important ingredient of this commitment.

It will take much more than more state school funding distributed more fairly to ensure that children everywhere in Maine have equal opportunities to learn and to dream. But it's a good place to start.

The author especially thanks Jim Watkins and Suzan Cameron of the Department of Education for the data and graphics used in this article.

Yellow Light Breen is Director of Special Projects and External Affairs for the Maine Department of Education. He is a product of public schools in Saint Albans, Maine, and is a 1989 graduate of Nokomis Regional High in Newport. After earning a B.A. in Government from Harvard College, he received his law degree from Harvard Law School in 1996. Yellow Light has previously served as deputy counsel and policy advisor to Governor Angus S. King, Jr.