

## This response was prepared for the New Hampshire Commission to Study School Funding

### Your Question:

After the presentation Education Commission of the States gave at the commission's meeting on March 9<sup>th</sup>, 2020, members requested more information on the following subjects:

1. How Vermont generally funds their state's education system.
2. How some of New Hampshire's peer states address different student cost factors.
3. How some of New Hampshire's peer states address disparities between districts.
4. Research on the relationship between student performance and education funding.

### Our Response:

Our response addresses these questions. The information provided is generalized and may not capture all the nuances within a state's education finance system.

#### 1. How Vermont Funds Education

In Vermont, [school district budgets are decided locally](#) by school boards and approved locally by voters. The state share for districts is determined by the local budgets minus the local, state, and federal revenue received through categorical funding, grants or surpluses/reserves. The state's share for education expenditures comes from the state's Education Fund.

[Vermont's Education Fund](#) receives revenue from various sources. These sources are generally comprised of property taxes (the homestead property tax and the nonhomestead property tax<sup>1</sup>) and other revenue sources such as Vermont's sales and use tax, lottery revenue, and portions of the revenue from the vehicle purchase and use tax and the meals/rooms and alcohol tax.

The [legislature annually sets education property tax](#) rates at the level needed to fund anticipated school budgets; they set a base per pupil spending amount and a base homestead property tax rate to fund that spending amount. The nonhomestead property tax is uniform across towns but the homestead property tax varies in proportion to a district's education spending per equalized pupil. The '[equalized pupil](#)' count is essentially the pupil count weighted for student cost factors (secondary students, English language learners, low-income students, and pre-kindergarten students). According to a [presentation](#) given by Vermont's Legislative Joint Fiscal Office, the homestead property tax rate in any district spending more than the base per-pupil amount is increased proportionally. In other words, if a district spends more per pupil than the base established by the legislature, the homestead tax rate for that district is

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<sup>1</sup> In other states, the homestead property tax rate may be understood as a residential property tax rate and the nonhomestead tax rate as a commercial property tax rate.

adjusted proportionally by the amount of the increase. Additionally, a person's homestead property tax rate can be adjusted depending on the person's income if it is under a certain threshold. There is also an [excess spending threshold](#): for districts with an education spending amount per equalized pupil above the threshold, an additional tax is incurred for the amount above the threshold.

Vermont's [state categorical grants](#) provide funding for special education, transportation, small schools, state-placed students, technical education, Essential Early Education, Flexible Pathways, and teacher pensions.

## 2. [Student Cost Factors in Massachusetts, New Jersey and Vermont](#)

Like many other states, Massachusetts, New Jersey and Vermont allocate funds to school districts based on school and student attributes. These attributes are typically captured by the following funding allocations: funds for English Language Learners (ELLs), students from low income backgrounds (commonly referred to as at-risk students), and rural and isolated school districts.

### *English Language Learners*

Based on our [50-state comparison on K-12 funding](#), 48 states and the District of Columbia provide funding specifically for English Language Learners (ELL). Like funding for other student populations, funding for English language learners looks different in every state. However, states primarily use one of three funding models:

- *Formula Funded*: Funding for English language learners is included in the state's primary funding formula. For example, in the **District of Columbia**, English language learners receive a weight of 0.49 in the funding formula.
- *Categorical Funding*: States allocate funding through separate mechanisms outside of the primary funding formula. For instance, in **Utah**, lawmakers distribute additional per pupil funding for English language learners through a block grant program outside of the funding formula.
- *Reimbursement*: Districts submit expenditures to the state, and the state reimburses districts for all or a portion of their spending once costs are accrued. In **Illinois**, for example, policymakers set aside funding in the budget for districts that offer instructional programs for English language learners, and districts must apply for reimbursement for these programs.

Both [New Jersey](#) and [Vermont](#) allocate additional funding for English Language Learners using a flat weight system in their funding formulas. Districts receive weighted funding for each student who meets specific criteria. Under these systems, the weight or dollar amount is the same for every student that qualifies based on the state's criteria. For example, all ELL students in a state would receive the same weight, regardless of their proficiency level.

[Massachusetts](#) funds ELL students based on a multiple weights system through which more than one weight or dollar amount is assigned based on grade level. ELL students in higher grade levels receive more state aid than students in lower grade levels.

### *Student from Low-Income Backgrounds*

States identify which students come from low-income backgrounds by one or more of the following measures:

- Student eligibility for free- or reduced-price lunch or student participation in the National School Lunch Program.

- Student or family eligibility and/or participation of various federal programs, such as Medicaid, Children’s Health Insurance Program, Temporary Assistance for Needy Families and the Supplemental Nutrition Assistance Program.
- Students that are identified as homeless, foster youth or are English language learners.

States generally use the same funding models that are used to fund ELL students. For example, **Massachusetts** and **New Jersey** allocate funds through their funding formulas using a multiple weights system: additional funding allocations are tied to the percentage of low-income students in a school district, with higher percentages receiving more funding. In addition, both states identify students from low-income backgrounds as those who are eligible for the National School Lunch program.

Alternatively, **Vermont** allocates education funding for students from low-income backgrounds based on a flat weight system. This approach provides extra funding for all students who meet their “at-risk” criteria, which includes students who reside with families receiving nutrition assistance or for whom English is not the primary language.

### *Small, Rural and/or Isolated Schools*

Statutory definitions for rural and isolated schools vary by state. Generally, small schools and districts refer to those with low enrollment numbers within a set range (under 100 students is a common threshold). In many instances small schools are also isolated schools; however, not all isolated schools are necessarily small schools.

Isolated schools and districts indicate geographic isolation or a need for increased resources, compared with non-isolated schools and districts. States identify isolated schools and districts based on whether they meet one or more of the following factors:

- Distance between schools.
- Distance or time required for students to travel to their school.
- Population density of the area surrounding the school.
- Total geographic area of the school district.
- Whether geographic barriers are present.

While neither **Massachusetts** nor **New Jersey** provide extra funding to small or isolated schools, **Vermont** offers districts support through a small school support grant. Districts qualify if they have one school with an average grade size of 20 students or fewer. Additionally, the state board of education is given discretion to grant small school support to districts based on lengthy or inhospitable transportation requirements and operational efficiency factors, such as student-to-staff ratios and a high number of students from low-income backgrounds.

### **3. District Disparities in Massachusetts, New Jersey and Vermont**

In most education finance systems, states rely on local funding to contribute a portion of the total amount necessary to fund education for their school district. This is commonly referred to as a local effort requirement or expected local share.

States typically use local effort to determine how much state education funding certain localities will receive. First, the state determines the total amount of funding that is necessary for a certain district. Second, the state subtracts

the local effort requirement from the total amount. The result is the amount the locality will receive through state education funding.

Many states do not require the same local effort from every school district. In general, the district's wealth and income are considered when states determine local effort. Below are state examples that demonstrate local effort requirements in states near New Hampshire.

- **Massachusetts** expects municipalities to provide a certain amount of property tax revenue toward their local school districts. The expected local effort for municipalities is based on a municipality's overall property wealth and residential income, as municipalities with higher levels of wealth and income will provide more local funds compared to funds they receive from the state. The state annually sets local effort requirements for municipalities ([M.G.L.A. 70 § 2](#), [M.G.L.A. 58 § 10](#)).
- **New Jersey** requires local school district to provide revenue for their schools. The state annually sets the local effort requirement based on a combination of the district's property values and residential income. The state uses a districts average property rate and income level to determine the overall education funding required for a district, then subtracts the amount of allocated state aid for that fiscal year and the local school district is expected the remaining amount of required funding ([N.J.S.A. 18A:7F-52](#)).
- **Vermont** does not require localities to contribute revenue to their schools. Since 2003, Vermont has primarily supported education through a statewide property tax ([32 V.S.A. § 5402](#)). Disparities between districts are generally addressed through the statewide property tax rates determined by district spending levels—districts that spend more per-pupil over a base amount set by the legislature will essentially incur a proportional increase in their property tax rate.

#### 4. [Research About Education Funding and Student Performance](#)

We included links to research about the relationship between education funding and student performance, although this is not a comprehensive list of available research. It is important to note that it is difficult to clearly examine or determine causal impacts of school spending on student outcomes given the multiple factors that may influence student results and how they are measured.

- [School Finance Reform and the Distribution of Student Achievement](#) (2016 NBER Working Paper No. 22011 by Julien Lafortune, Jesse Rothstein, and Diane Whitmore Schanzenbach)
- [Does School Spending Matter? The New Literature on an Old Question](#) (2018 NBER Working Paper No. 25368 by C. Kirabo Jackson)
- [Schooling During the Great Recession: Patterns of School Spending and Student Achievement Using Population Data](#) (2019 AERA Article by Kenneth Shores and Matthew P. Steinberg)
- [School Finance Reforms, Teachers' Unions and the Allocation of School Resources](#) (2018 EdWorking Paper: 18-35 by Eric Brunner, Joshua Hyman, and Andrew Ju)
- [Spending more on the poor? A comprehensive summary of state-specific responses to school finance reforms from 1990-2014](#) (2019 EdWorking Paper: 19-52 by Kenneth A. Shores, Christopher A Candelaria, Sarah E. Kabourek)

- [Delayed Benefits: Effects of California School District Bond Elections on Achievement by Socioeconomic Status](#) (2019 EdWorking Paper: 19-18 by Emily Rauscher)
- [The Effect of Increased Funding on Student Achievement: Evidence From Texas’s Small District Adjustment](#) (2019 EdWorking Paper: 19-58 by Daniel Kreisman and Matthew P. Steinberg)
- [Who Benefits from Local Financing of Public Services? A Causal Analysis](#) (2019 EdWorking Paper: 19-131 by Carlos X. Lastra-Anadón and Paul E. Peterson)
- [School District Operational Spending and Student Outcomes: Evidence from Tax Elections in Seven States](#) (2019 EdWorking Paper: 19-25 by Carolyn Abott, Vladimir Kogan, Stéphane Lavertu, and Zachary Peskowitz)
- [Sharing the Wealth: How Regional Finance and Desegregation Plans Can Enhance Educational Equity](#) (2019 EdWorking Paper: 19-187 by John Brittain, Larkin Willis, and Peter W. Cookson Jr.)
- [Investing for Student Success: Lessons From State School Finance Reforms](#) (2019 Report by Linda Darling-Hammond, Learning Policy Institute)
- [California’s Weighted Student Funding Formula: Does it Help Money Matter More?](#) (2017 Brief by Elena Derby and Marguerite Roza, Edunomics Lab)

### [Additional Resources for Information about Vermont’s Education Funding System](#)

- [Vermont’s Statutes Annotated, Title 16, Chapter 133: State Funding of Public Education](#)
- [An Evaluation of Vermont’s Education Finance System](#) (2012) – Study prepared by Lawrence O. Picus and Associates (study conducted pursuant to House Bill No. 436 of the 2011 session of the Vermont Legislature)
- Introduction to Vermont’s Education Finance System ([2019](#) and [2018](#)) – Presentations prepared by Vermont Legislative Joint Fiscal Office
- [Vermont Education Funding System](#) (2017 Video) – Vermont School Boards Association
- [Vermont State Summary of Education Funding Policy](#) – EdBuild
- Vermont’s Education Funding System (2011) – Vermont Department of Education (report attached to email)