## SUMMARY

We propose and simulate a new framework for a foundation formula to distribute federal K–12 education aid. This program, with full funding and compliance, would provide every school district with the estimated revenues necessary to reach the goal of national average outcomes in reading and mathematics—i.e., universal adequate funding. The framework is designed to allocate federal funds based on **student need** (as is currently the case) <u>and</u> **effort**—that is, how much states and districts contribute to their public schools as a proportion of their capacity to raise revenue.

## WHY DO WE NEED THIS NEW APPROACH?

The vast majority of federal education aid is allocated based solely on student need/costs (e.g., Census poverty rates in the case of Title I funds). This system is reasonable, but it is also "effort neutral." That is, it fails to target crucial aid at states with smaller economies and high costs, states which, despite their strong effort levels, lack the revenue-raising capacity to meet their students' needs. Conversely, it effectively rewards states that do not provide adequate funding for all students, *despite* having the capacity to do so. A federal aid system based on a foundation formula would account for both factors: student need *and* effort. This is conceptually similar to how most states distribute local and state revenue, and it achieves adequacy by distributing the burden reasonably between districts, states, and the federal government.

## PROPOSAL AND SIMULATION

The simulation is a "proof of concept" for the framework we propose. We essentially build a national foundation formula, in which districts and states are expected to meet minimum reasonable effort requirements (if they don't already), and federal aid fills the gaps to bring all districts up to estimated adequate levels without a single district seeing a decrease in funding.

We calculate adequate funding levels for all districts, construct a district wealth and income index to estimate "fair share" local (e.g., property tax) revenue contributions, and determine how much each state would need to contribute in new state and local revenue to become eligible for new federal funding (about 20 states would be "pre-eligible" based on their current effort levels). We then build a national formula to simulate the new state/local investment in each state and district, and propose that new federal aid fill all district funding gaps in eligible states.

## RESULTS

Assuming full compliance with "fair share" effort requirements on the part of all states, **universal adequate funding would require approximately $52 billion in new federal aid annually**. For all states to be eligible for these new funds, however, total K–12 state and local revenue would increase roughly $70 billion, or 13 percent. These increases in state/local and federal revenue vary quite a bit by state, depending on current effort levels and students' needs (e.g., poverty).



**Hypothetical district, pre- and post-simulation**
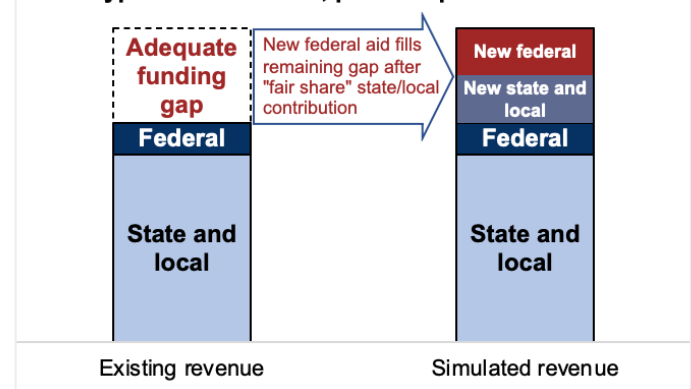
The beneficiaries of this program would include all districts with currently inadequate funding increasing to estimated adequate levels. **Roughly 26 million students (over half of all K–12 enrollment) would no longer attend schools in underfunded districts.**

These students—those whose districts' funding is currently below adequate but would increase to adequate levels—are a large and diverse group, since inadequate funding is a widespread national problem. But a disproportionate share of them would be students in higher-poverty districts and over half would be students of color.

Moreover, the program would reduce "equal opportunity gaps"—gaps in the adequacy of funding between high- and low-poverty districts, and between African American, Latinx and white students—by 60 percent. In several states, these gaps would effectively be eliminated.

- Read the full report
- Use the accompanying online data visualization tool to customize your own federal aid program and see national and state-by-state results