

## Recommendations

The findings in this report demonstrate that the allotment system is hampered by its complexity. Allotment system features and controls are redundant, counterintuitive, lack rationale, and obscure transparency and accountability. As a result, resources are maldistributed across Local Education Agencies (LEAs) and charter schools. Other models for distributing resources that focus on the student as the unit of funding offer opportunities to simplify and remedy issues related to the present allotment system.

Given the current state of the allotment system, the General Assembly has two options:

- 1) overhaul the model for how resources are distributed by developing a plan to implement an allotment system based on the weighted student funding model, or
- 2) reform the current allotment system.

Recommendation 1 provides direction on the first option, whereas Recommendations 2, 3, and 4 provide direction for the second option. Recommendation 5 deals with how funded Average Daily Membership for charter schools should be determined and should be considered independent of the other recommendations.

**Recommendation 1. Establish a Joint Taskforce on Education Finance Reform to work in coordination with the State Board of Education and the Department of Public Instruction to develop a model that uses a weighted student formula to fund the K-12 public education system.** If the General Assembly determines it is in the State's interest to simplify the funding system and distribute resources on a per-student basis, it should establish a taskforce charged with overhauling the allotment system. The taskforce—working in consultation with the State Board of Education and the Department of Public Instruction (DPI)—should be charged with designing a system that uses the weighted student formula model as the basis for distributing resources for K-12 public education.

The Joint Taskforce should consist of 18 members—9 from the House and 9 from the Senate. Two members should serve as the chairs of the taskforce, one from the House and one from the Senate. All members of the taskforce should be selected by the President Pro Tempore and Speaker of the House. Assignment to the taskforce and designation of chairs should occur within 30 days of passage of the law.

As Finding 12 demonstrates, there is not one single model for implementing a weighted student formula allotment system. Therefore, initial taskforce meetings should focus on developing a refined understanding of the weighted student formula model. This task may require consultation from education finance experts and other states that have implemented a weighted student formula model. Should the taskforce chairs determine the need for independent consultation and/or professional facilitation, the General Assembly should appropriate funds sufficient to meet the needs of these requirements.

The taskforce would be responsible for designing the weighted student formula, which includes determining

- the base amount distributed on a per-student basis to cover the cost of educating a general student,
- the student characteristics eligible for weighted funding and the associated weights for each of these characteristics, and
- how the base amount would be augmented by LEA characteristics such as wealth and size.

In addition, the taskforce would also determine which funding elements would remain outside of base and weighted amounts. For example, states that have implemented a weighted student formula typically leave resources for transportation and capital outside of the formula. The taskforce would be responsible for creating a working draft of the formula that analyzes the impact of funding on LEAs and charter schools.

The Joint Taskforce should begin meeting no later than October 1, 2017, and should report to the Joint Legislative Education Oversight Committee no later than July 1, 2018. The report should include recommendations for a system that uses a weighted student formula model as the basis for the distribution of resources for public K-12 education. The report should include proposed legislation that establishes the final formula.

**Recommendation 2. The General Assembly should codify the state allotment system in statute and direct DPI to maintain and make publicly available a comprehensive, relevant, and up-to-date set of policies and procedures that document the entire allotment system.**

Finding 9 demonstrates how a patchwork of laws, policies, and procedures undermines transparency and challenges local education agencies (LEAs), charter schools, policymakers, and the public's ability to navigate the complexity of the allotment system. To improve transparency, the General Assembly should modify Chapter 115C of the General Statutes by adding an article that fully articulates the state K-12 allotment system. The article should establish the following at a minimum for each allotment:

- description of purpose,
- type,
- description of formula and funding factors,
- eligibility, and
- other statutory and session law references.

Codifying the allotment system would ensure the existence of a single statutory reference that could be used by LEAs, charter schools, policymakers, and the public to gain a full understanding of state allotments. Furthermore, this codification would lend greater transparency to legislative changes that have traditionally been made through the use of budgetary provisions and session laws.

The General Assembly also should direct the State Board of Education, in coordination with the Department of Public Instruction (DPI), to make publicly available a comprehensive, relevant, and up-to-date manual of policies and procedures. Policies should be listed by PRC and be consistent

with the legislative intent of the allotments. Policies should include but not be limited to

- program report codes linking allotments to the chart of accounts,
- special provisions,
- transfer policies, and
- expenditure restrictions.

To ensure the policy manual is kept current, the State Board of Education should make the necessary changes within 90 days of the adoption of laws or passage of new state policy.

To further improve transparency, the General Assembly should require DPI to publish and circulate the procedures used for calculating and distributing allotments. The procedures should describe the process and timeline for distributing funds. Furthermore, the procedures should specify the process for calculating each allotment, to include but not be limited to

- the name and contact information of the individual responsible for calculating each allotment,
- the data and source of information used in calculating the allotment, and
- the steps and formula used for determining each LEA and charter school allotment.

Together, these steps would ensure LEAs, charter schools, policymakers, and the public at large would have relevant, comprehensive, and up-to-date information necessary to navigate the complexity of the allotment system. Furthermore, it would ensure LEAs and charter schools would have the ability to validate and confirm allotment amounts, resulting in improved transparency and accountability.

**Recommendation 3. The General Assembly should address the individual allotment deficiencies identified in Findings 1-7 of this report.**

This report described several deficiencies related to individual allotments that are redundant, counterintuitive, lack rationale, and result in funding that violates tests of vertical and horizontal equity. To remedy problems with allotments, the General Assembly should direct the following changes in allotment policy and state law. Because the allotment system is used to distribute resources rather than determine the need for resources, each of these remedies can be made revenue neutral.

**Classroom Teachers. Improve the equitable distribution of resources for classroom teachers by allotting dollars instead of positions and broadening the teacher compensation model.** Finding 1 demonstrates how the current position allotment for classroom teachers favors wealthy LEAs. To ensure uniform distribution of resources across all LEAs, the General Assembly should transition away from the use of a position allotment and provide dollars to LEAs to hire teachers. The amount provided for teachers should be based on the number of eligible teachers and an average Classroom Teacher allotment state salary across LEAs. Under this approach, each LEA would receive a lump sum to cover the cost of classroom teachers' salaries and benefits. Converting this position

allotment to dollars would eliminate much of the complexity LEAs must navigate and would prevent failure to maximize resources.

In addition, the General Assembly should continue to consider reforms to the teacher compensation model. Currently, teachers' salaries are a function of a teacher's experience, education, and credentials. Although there is some consensus in the literature about the effects of teacher experience and credentials on student outcomes, there is limited evidence regarding the effects of a teacher's level of education on student outcomes. The State is currently running a pilot that explores compensation based on teaching roles and performance, and the General Assembly should continue to monitor its implementation. To ensure appropriate oversight of the pilot, the General Assembly should consider modifying the reporting requirement from annually to biannually.

**Children with Disabilities. Direct DPI to establish a framework that differentiates funding based on service setting and consider eliminating or restructuring the funding cap.** Finding 2 demonstrates imprecision regarding how the State allots resources for children with disabilities. To ensure services and educational opportunities for children with disabilities are more closely aligned with cost, the General Assembly should direct DPI to establish a proposal to restructure the allotment for children with disabilities that creates tiers for the allotment based on service setting. The proposal should provide estimates of the number of students served within each of the various proposed settings by each LEA. In addition, the proposal should make recommendations regarding funding caps across the different settings. The proposal should be submitted to the Joint Legislative Education Oversight Committee by December 1, 2017.

**Limited English Proficiency (LEP). Eliminate the minimum funding threshold and cap and provide a graduated per-headcount amount for LEP students that observes economies of scale.** To ensure every LEP student who requires services is funded, the General Assembly should eliminate the minimum funding threshold. In addition, to eliminate maldistribution of funding, the General Assembly should eliminate the 10.6% funding cap. To ensure distribution of resources is consistent with inefficiencies that can emerge through diseconomies of scale, the General Assembly should distribute

- 75% of funds based on the weighted three-year average headcount and
- 25% of funds based on concentration.

The concentration factor should ensure LEAs with the lowest concentration would receive more funding per LEP student than those with the highest concentration of LEP students.

**Small County Supplemental Funding. Change the funding thresholds to be more consistent with evidentiary education cost function literature and eliminate the use of base funding from other allotments.** Recall that North Carolina sets its threshold for Small County supplemental funding at 3,200 ADM. Using a lower threshold that is more consistent with most other states' practices would result in cost savings to the State. Eliminating Small County funding for districts with ADM above 2,000 would result in an annual cost savings of \$22.5 million that could be redistributed.

To ensure the allotment for Small County Supplemental Funding is more closely aligned with evidentiary education cost function literature, the General Assembly should limit the distribution of Small County Supplemental Funding to LEAs with fewer than 2,000 ADM. Additionally, because this allotment addresses issues that arise from diseconomies of scale, the General Assembly should eliminate base funding factors for the following allotments:

- At-Risk,
- Classroom Teacher,
- CTE Months of Employment,
- CTE Program Support Funds, and
- Limited English Proficiency.

Resources previously dedicated to base amounts should be redistributed within the same allotment formulas across eligible LEAs.

**Low Wealth Supplemental Funding. Eliminate the use of the density factor and provide equal weighting for a county's anticipated revenue per ADM and average per capita income.** Finding 5 demonstrates that adjusted property tax base per square mile is a flawed factor because it fails to incorporate any measure of the student population per square mile that property values are supporting. As a result, the General Assembly should eliminate this factor from the allotment equation. The resulting formula should be equally weighted between the two remaining factors:

- 50% based on the anticipated total county revenue; and
- 50% based on the county's average per capita income.

**Disadvantaged Student Supplemental Funding. Eliminate the hold-harmless provision and redistribute the freed-up dollars across all LEAs and charter schools.** Finding 6 shows how the 16 LEAs that are part of a hold-harmless provision receive almost five times as much per disadvantaged student as other counties. Hold-harmless provisions are ineffective because they remove resources from the allotment. The General Assembly should eliminate the hold-harmless provision in the allotment, which would free up an estimated \$18 million in additional resources that could be redistributed across all LEAs through Disadvantaged Student Supplemental Funding.

**Central Office Administration. Distribute Central Office Administration dollars based on ADM.** For nearly 15 years, funding for central office administration has been decoupled from changes in ADM. Consequently, LEAs that have shrunk receive more resources per ADM, creating an incentive to maintain bloated central office staff. Conversely, growing LEAs have had to make do with fewer resources. The General Assembly should restore the linkage between LEA size and the Central Office Administration allotment by distributing funds on a per-ADM basis.

**Recommendation 4. The General Assembly should prohibit the use of transfers from allotments that serve special populations into the Non-Instructional Support allotment.** Finding 10 establishes the importance of funding for at-risk, disadvantaged, and LEP populations. However, this finding showed that more than \$11 million in funds for these special populations had been diverted away and placed in an allotment designed to provide resources for non-instructional support personnel—clerical assistants, custodians, duty free period, liability insurance, and substitutes. To ensure allotments for special populations are expended on instructional items, the General Assembly should prohibit LEAs from transferring funds into Non-Instructional Support from allotments designed to provide instruction for special populations.

**Recommendation 5. Direct DPI to consider additional student membership data when determining the funded ADM for charter schools.** Finding 11 demonstrates how using the first 20 days of ADM in determining a charter school's funded ADM can underrepresent membership, potentially causing a charter to receive less funding due to student absences at the start of a school year. To mitigate this problem, the General Assembly should direct DPI to calculate charter school funded ADM based on the higher of first or second month ADM, not to exceed a charter school's final projected ADM submitted to DPI. In addition, DPI should define funded ADM for charter schools in the Allotment Policy Manual and ensure that all DPI documents consistently define and describe the process of calculating funded ADM.

---

## Agency Response

---

A draft of this report was submitted to the Department of Public Instruction for review. Their responses are provided following the report.

---

## Program Evaluation Division Contact and Acknowledgments

---

For more information on this report, please contact the lead evaluator, Sean Hamel, at [sean.hamel@ncleg.net](mailto:sean.hamel@ncleg.net).

Staff members who made key contributions to this report include Jeff Grimes and Emily McCartha. John W. Turcotte is the director of the Program Evaluation Division.