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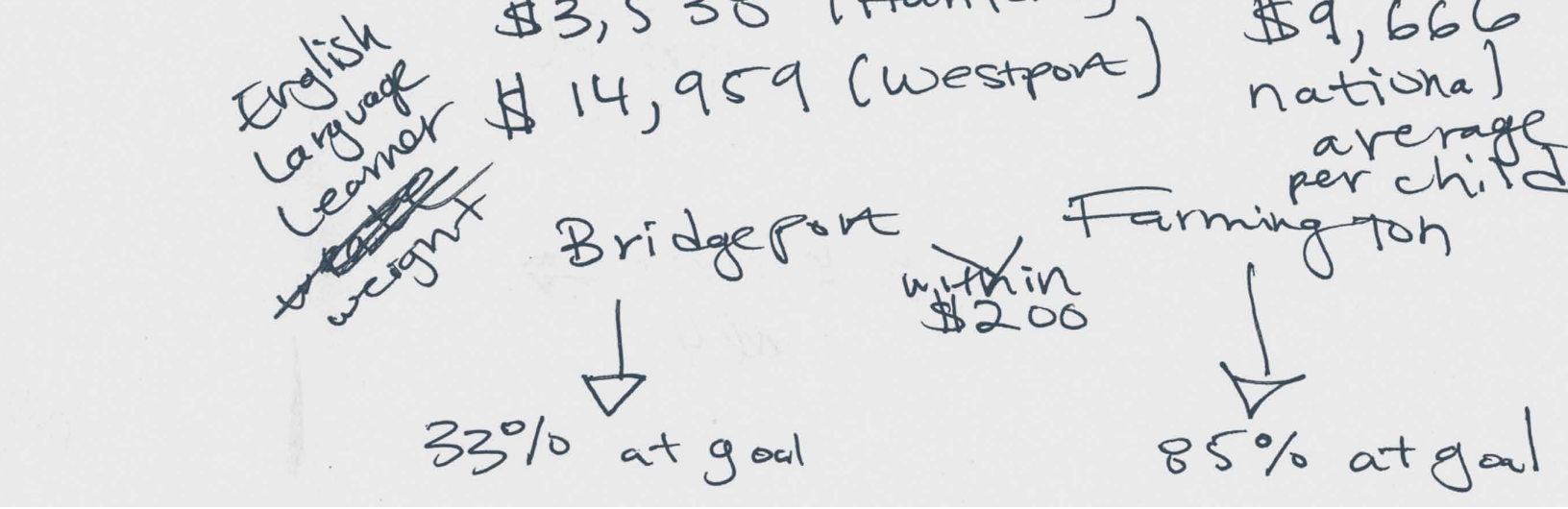

THE TAB

HOW CONNECTICUT CAN FIX ITS DYSFUNCTIONAL EDUCATION SPENDING SYSTEM TO REWARD SUCCESS, INCENTIVIZE CHOICE AND BOOST STUDENT ACHIEVEMENT

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Foreword

ALEX JOHNSTON
CONNCAN CHIEF EXECUTIVE OFFICER

ConnCAN runs on big ideas. We launched our organization almost five years ago with a mission to do nothing less than offer every Connecticut child access to a great public school.

Living in the state with the nation's largest achievement gap is too unsettling to tolerate plodding, incremental change. When more than 90 percent of fifth graders in wealthy Ridgefield can read at or above grade level but only 31 percent of Bridgeport kids can, there's no time to dally. We demand breakthrough success.

ConnCAN has grown into a force: an education advocacy group powered by thousands of advocates who share our impatience. We proved the power of our movement through our hugely successful 2009 'Mind the Gaps' legislative campaign. The campaign made real gains in data transparency, teacher effectiveness and funding for Connecticut's excellent public charter schools.

But the campaign also illustrated the unsustainable way we pay for our public schools. Consider this tale: In 2008, Hartford asked Achievement First to bring one of its excellent charter schools to the city. The Achievement First Hartford Academy opened its doors to kindergarten, first and fifth grade students, with plans to add one grade each year as these students advanced until the school was completed. Because charter schools are funded on their own line item in the state budget, the school will need more money each year to support this natural grade growth. This jewel of a school became a growing line item in the midst of the Great Recession and an easy target.

Our campaign successfully fought for the money that school and others needed to continue on, but it was an eight-month-long battle that could have failed. Similarly, this past summer, hundreds of suburban students attending Hartford magnet schools suddenly found their seats at risk when their home districts balked at paying a share of the tuition bill. It was only a last-minute funding infusion from the legislature that saved the day. We can't continue to take these risks with our children's education. The system is unsustainable. It needs to be fixed.

That is where our hard look at the tab began. ConnCAN's policy planning always starts with research. What are the facts about how we are doing? What does research tell us about how we can improve? This report provides that grounding in Connecticut's messy school finance system for what we hope is the very kind of policy breakthrough we so urgently need.

Many thanks and kudos to ConnCAN's Research and Policy Manager Tori Truscheit for ushering *The Tab* through from idea to completed report. We are honored and thankful that Bryan Hassel and Daniela Doyle of Public Impact, one of the nation's preeminent education research or-

ganizations, brought their expertise and insight to the project.

ConnCAN's work begins with research, but it certainly does not end there. We plan to work with grasstops and grassroots supporters throughout the Nutmeg State to advance this plan. I hope you'll join us in this quest and share your own ideas with us as well. If you ever want to reach me with feedback, you can do so at *alex.johnston@conncan.org* or 203.772.4017.

Introduction

TORI TRUSCHEIT
CONNCAN RESEARCH & POLICY MANAGER

Thirty years ago, the Connecticut Supreme Court forced our state to take stock of its system for funding schools. Our poorest towns had thousands of dollars less per child to spend. Today, our poorest districts spend roughly the same as our richest, but Connecticut's poor children still score far below their wealthy peers.

Our school finance system has begun to resemble a closed-door silent auction: legislators clamor for more education funds for their constituents. District costs rise each year, keeping central office administrators and mayors on edge. Formulas are ignored while backroom budget negotiations layer on more funds for districts with the loudest voices.

This is not conspiracy theory; it happens every year in Connecticut. The tab for our K–12 school system is Connecticut's largest public investment at more than $7 billion per year. But we have created a tangle of funding that disguises how money flows and does little to produce dramatic gains for children who need them.

We have been taught to believe that increased spending will lead to better schools, but our finance system is completely disconnected from what will improve student achievement. We need to connect money with achievement and inputs with outputs. Just as our schools should prioritize student achievement above all else, our finance system should incentivize practices that produce learning and operate with enough transparency that policymakers can determine what works and what doesn't.

Project Overview

In June 2009, ConnCAN released "School Finance in Connecticut," an issue brief that described how school finance works in the state and called for state leaders to rethink school funding in an effort to improve student outcomes.[1] This report is a next step, recommending solutions to the problems that the issue brief summarized.

1 Truscheit, Tori. "School Finance in Connecticut," Tori Truscheit, 2009, available at *http://www.conncan.org/matriarch/documents/IssueBrief_School_Finance.pdf*

ConnCAN asked researchers from Public Impact, among the nation's best minds on school finance, to tackle the issue. Public Impact, an education research and consulting firm in North Carolina, has produced major reports on the design of school finance systems to support student learning, both nationally and in specific states. To prepare this report, Bryan Hassel and Daniela Doyle of Public Impact conducted interviews, carried out extensive analysis of the state's school finance data and policies, and engaged in research about best practices in school finance nationally.

In addition, Public Impact and ConnCAN conducted a three-day "listening tour" with Connecticut policymakers, education leaders, and other stakeholders. The participant list included state legislators, mayors, budget analysts, central office and school leaders from districts, school board members, state board of education members, state legislative staff members, experts on school finance and policy in Connecticut, and citizens' groups. The listening tour was an extraordinary opportunity to hear diverse perspectives and share ideas with individuals and groups representing Connecticut's many regions, including urban, suburban, and rural parts of the state.

Recommendations

Creating a better system will require major reform. This report assesses the current state of our school finance system, outlines the principles of a more effective approach, and proposes detailed solutions, including the costs of those solutions and a transition plan for implementation. Three clear, practical recommendations stand out that are ready to begin a journey through the state's policymaking process:

- Revamp the state's funding formula so that money follows children based on their needs.
- Shine a bright light on education finance by creating a comprehensive and easily accessible data system on school funding.
- Remove fiscal barriers that stand in the way of creating great schools for everyone.

Although Connecticut faces daunting educational challenges, these common-sense reforms can make our state a national leader once again.

The Limits of Equity and Adequacy

Over the past 30 years, Connecticut policymakers worked to design a system that fairly allocates education funding. Changes over time have sought to advance two values: equity and adequacy.

Equity

Local taxes, primarily property taxes, have long provided the bulk of education funding in Connecticut—up to 70 percent at some points in history.[2] Districts with low property wealth, particularly urban districts, had much less to spend per student than wealthier suburban districts. Until the late 1970s, the richest districts' property taxes yielded over eight times as much per student as the poorest districts.[3] As a result, local education budgets in poor districts fell well below those of wealthier towns. City schools in turn were vastly underfunded, resulting in stark differences in teacher quality, school conditions, and resources.[4] In *Horton v. Meskill* (1977), the Connecticut Supreme Court ruled that tying education funding to local property revenues failed to honor the state's constitutional obligation to provide all students with a high-quality education. As a result, Connecticut supplements poorer towns with state dollars to narrow the funding gap.[5]

Adequacy

Some argue that equal funding is not adequate to produce the same level of achievement for students who face disadvantages. Poor children and English Language Learners, for example, may require greater resources, such as more instructional time, to reach high academic standards.[6] If disadvantaged children need added time or other supports, then providing all children an adequate education demands that schools spend more money on these children. For example, scholars have calculated that increasing instructional time by 30 percent could cost up to $1,200 per pupil, depending on how the school or district chooses to staff the additional time and which students participate.[7] Based on this logic, Connecticut policymakers aimed to allocate additional funding to districts based on the number of disadvantaged students they serve.

Reflecting Social Goals in Finance Policy

Connecticut's primary set of tools for achieving equity and adequacy are Education Cost Sharing (ECS) grants, which funnel state funds to school districts. ECS funding accounts for approximately half of all state education spending.[8] The ECS formula considers district wealth so that poor districts receive more money than wealthy districts, thereby ad-

2 Truscheit, 2009.
3 Truscheit, 2009.
4 For a national perspective on inequity across school districts, see "What Research Says About Unequal Funding for Schools in America," Bruce J. Biddle and David C. Berliner, n.d., available at *http://www.wested.org/online_pubs/pp-03-01.pdf*.
5 Truscheit, 2009.
6 "Choosing More Time for Students: The What, Why and How of Expanded Learning." Elena Rocha, 2007, available at *http://www.americanprogress.org/issues/2007/08/pdf/expanded_learning.pdf*; "The Effects of Summer Vacation on Achievement Test Scores: A Narrative and Meta-Analytic Review." H. Cooper, et al, Review of Educational Research, 1996.
7 "Taking Stock of the Fiscal Costs of Expanded Learning Time." Marguerite Roza and Karen Hawley Miles, 2008, available at *http://www.americanprogress.org/issues/2008/07/pdf/elt2.pdf*.
8 "Education Finance and Education Cost Sharing Formula in Brief," Connecticut Voices for Children, 2007, available at *http://www.ctkidslink.org/publications/ece07edufinance.pdf*. The ECS formula was built on a previous system passed on 1989 known as the Guaranteed Tax Base formula. For more, see Truscheit, 2009.

dressing equity concerns. In addition, the ECS formula tries to achieve adequacy by providing additional funding based on student need. The ECS formula allocates 33 percent more per pupil funding for poor students and 15 percent more for students with limited English proficiency. In practice, however, the actual dollar increases per student often fall short of the formula.[9]

Priority School District and Competitive School Grants also direct state funding to Connecticut's poorer cities and towns. Connecticut's poorest districts and schools are eligible for the grants, which support school readiness for preschoolers, dropout prevention, summer school programs, and similar initiatives.[10]

How Dollars Shake Out for Districts

Through this system of state grants to districts, Connecticut has successfully closed the funding gap between poor and rich districts. Yes, spending in Connecticut still differs widely between towns. For example, in the 2007–2008 school year, Connecticut's towns spent between $9,554 (Wolcott) and $18,201 (Sharon) per pupil, meaning that some towns spent almost twice as much on education than others.[11] But spending in the poorest 20 percent of districts is about equal to that of the wealthiest 20 percent, and has been about equal since the late 1990s. Figure 1 shows the ratio between spending in the richest 20 percent and poorest 20 percent of towns. The closer that ratio is to one, the more equitable the system. As the graph shows, the ratio hovered around one between 1997–1998 and 2004–2005.

The state has been able to achieve this kind of equity by providing a much larger share of overall funding in poor districts than it does in wealthy districts. Figure 2 shows local taxes as a portion of net current expenditures per pupil, which includes local, state, and federal funding. Where two towns have approximately the same net current expenditures per pupil, but very different local funding, state funding makes up most of the difference. Towns with less property to tax therefore rely less on local taxes and more on state resources. For example, in 2007–2008, Hartford and more affluent Westport's per pupil expenditures were within $10.[12] Yet in Hartford, local taxes made up $3,538 of total education spending, compared to $14,959 in Westport. Statewide, the local share ranges from $2,121 (Bridgeport) to $17,682 (Sharon).

Narrowing the Dollar Gap, But Not the Achievement Gap

Has this equalization effort paid off for students? The evidence shows that despite 30 years of increasing state aid to poor districts, Connecticut's school finance system still does not deliver for low-income students. In Westport, where just 1.9 percent of students qualify for free or reduced-price lunch, almost 86 percent of the town's 5th graders and more than 91 percent of the town's 8th graders met the state goal on the 2008–2009 Connecticut Mastery Test.[13] Meanwhile in similar-spending Hartford, where 95 percent of children qualify for free or reduced-price

9 Truscheit, 2009. State legislation includes a "hold harmless" provision requiring that some towns receive no less ECS funding than they received the previous year. As a result, actual funding distributions often deviate from the ECS formula.
10 See the State Department of Education website at *http://www.sde.ct.gov/sde/cwp/view.asp?a=2618&q=321612* for eligibility requirements. Based on data from the Bureau of Grant Management, State Department of Education website, available at *http://www.sde.ct.gov/sde/cwp/view.asp?a=2680&Q=320640*, and "School Readiness," State Department of Education, 2009, available at *http://www.sde.ct.gov/sde/cwp/view.asp?a=2626&q=320740*.
11 Based on Net Current Expenditures Per Pupil from the Connecticut State Department of Education. Available online at *http://www.sde.ct.gov/sde/cwp/view.asp?a=2635&q=320562*.
12 Figures include just state flexible and local funds. Authors' analysis based on 2007–2008 data from the State Department of Education. See Appendix for details.
13 Based on data from Connecticut CMT and CAPT Online Reports, available at *http://www.ctreports.com*. The percent of students scoring in goal range determined by averaging the percent of students in goal range in math, reading, writing, and science.

FIGURE 1 Ratio of Spending in the Wealthiest 20 percent of Districts to the Poorest 20 percent of Districts

SOURCE Connecticut State Department of Education, Per Pupil Expenditure Summary

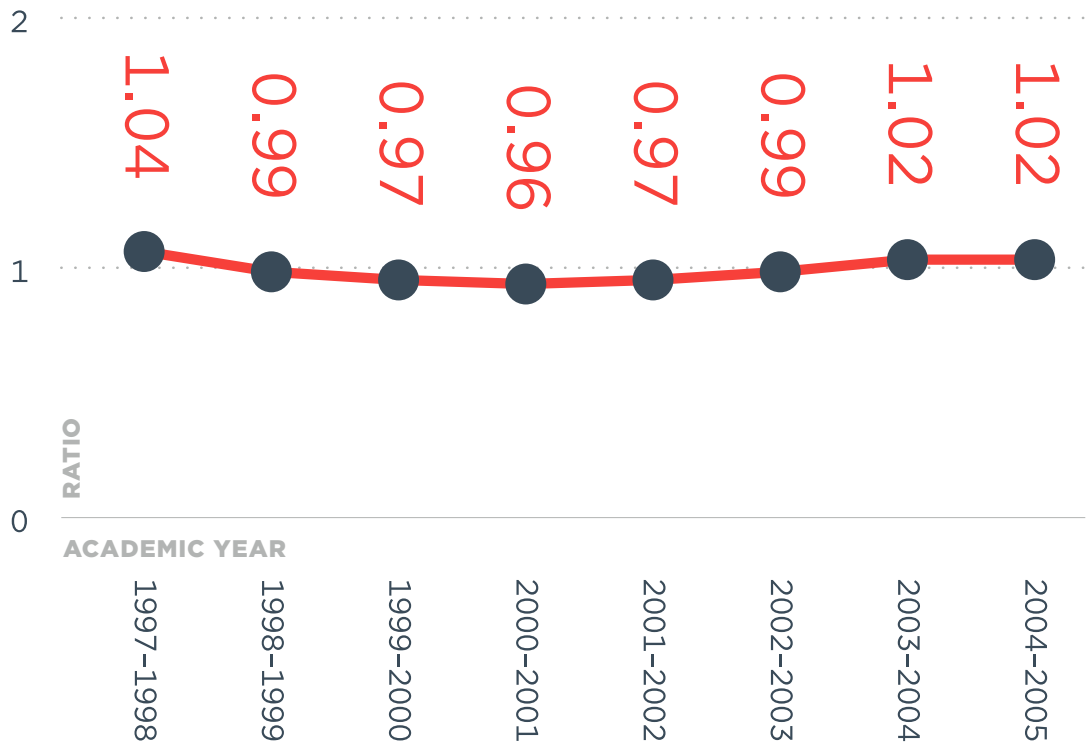


FIGURE 2 Local Funding Per Pupil as a Portion of Net Current Expenditures Per Pupil of Selected Towns, 2007–2008

SOURCE Connecticut State Department of Education, 2007–2008

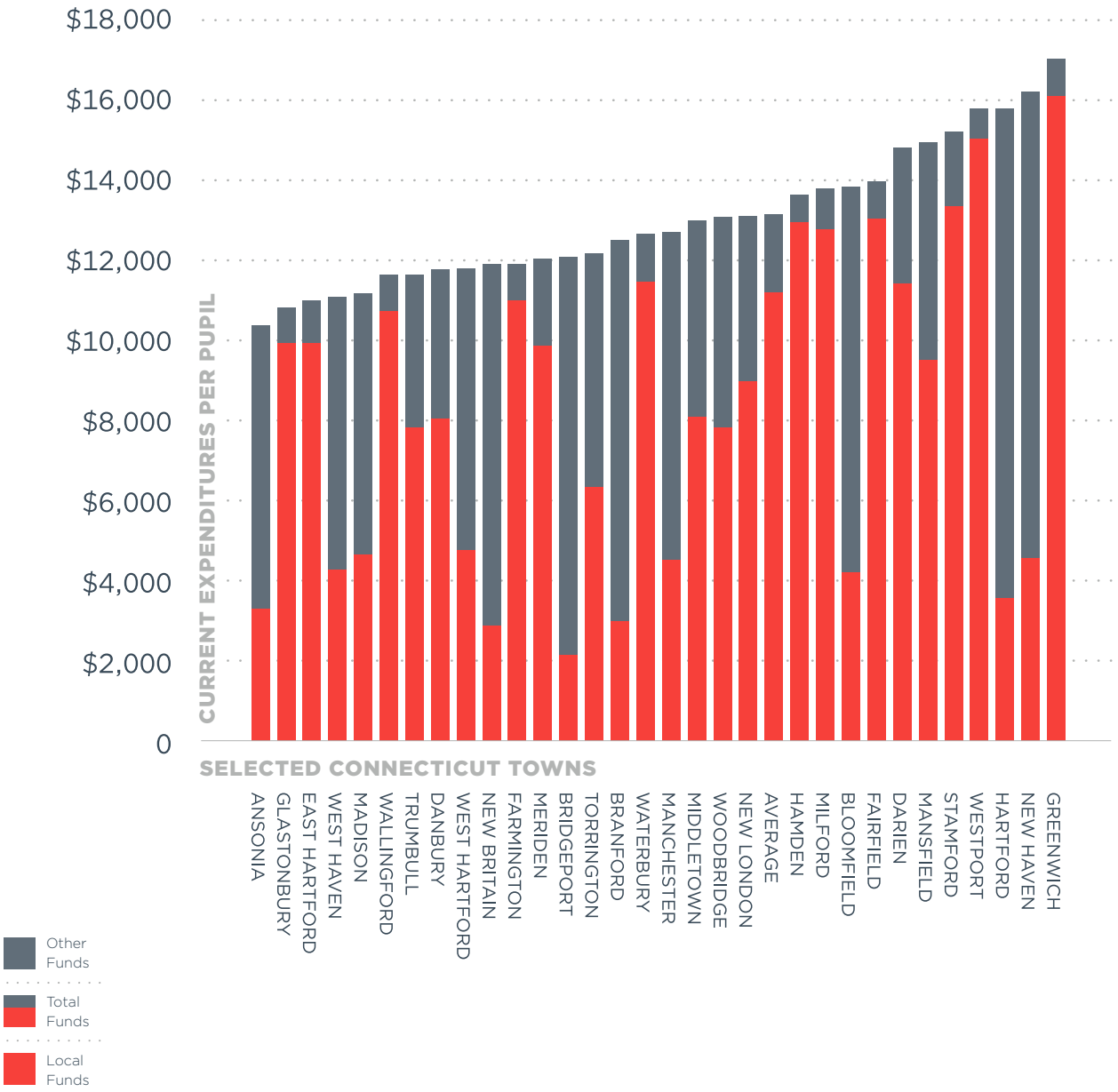


FIGURE 3 Average Education Spending per Student by State, 2006–2007

SOURCE Connecticut State Department of Education, 2007–2008

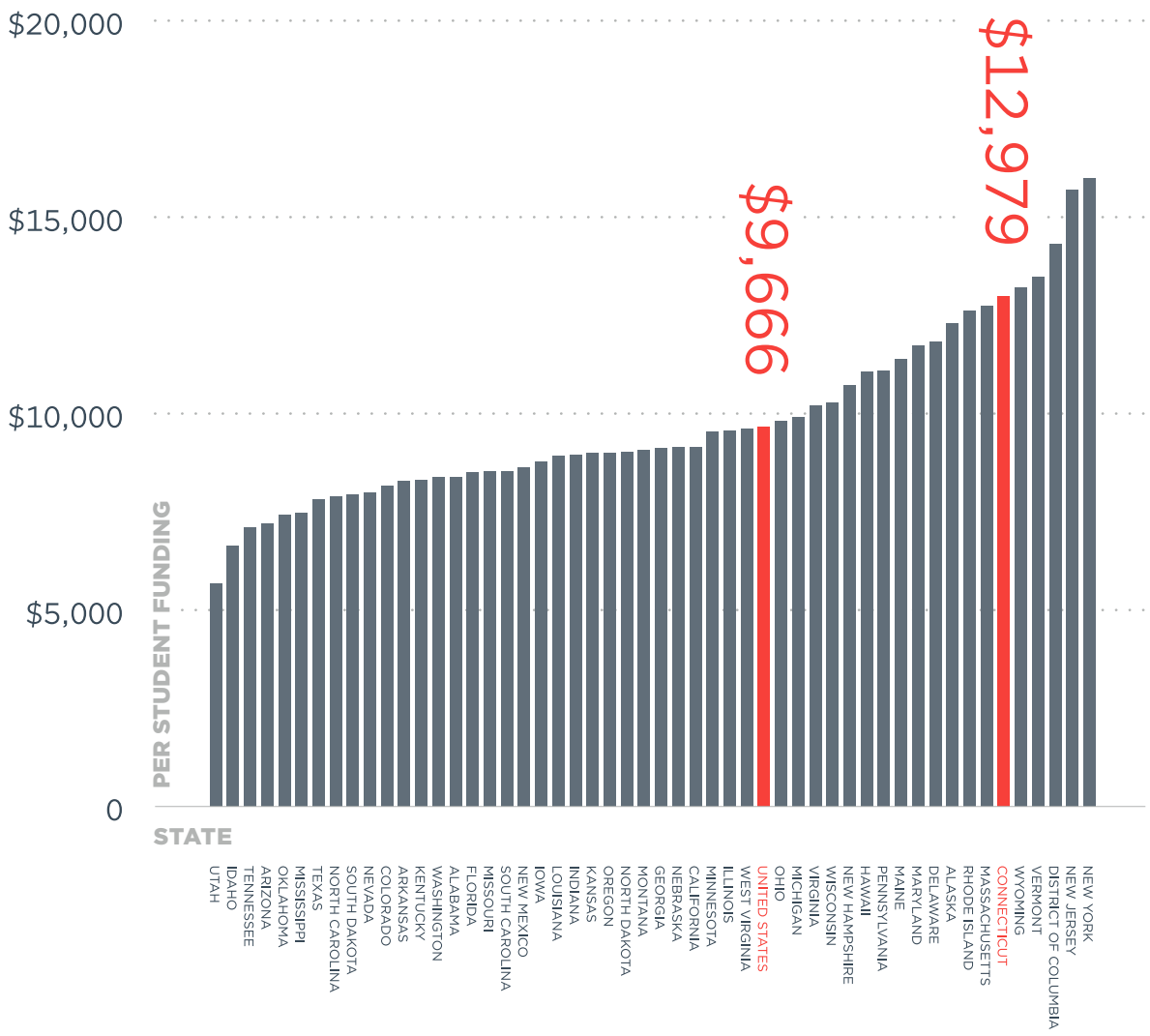
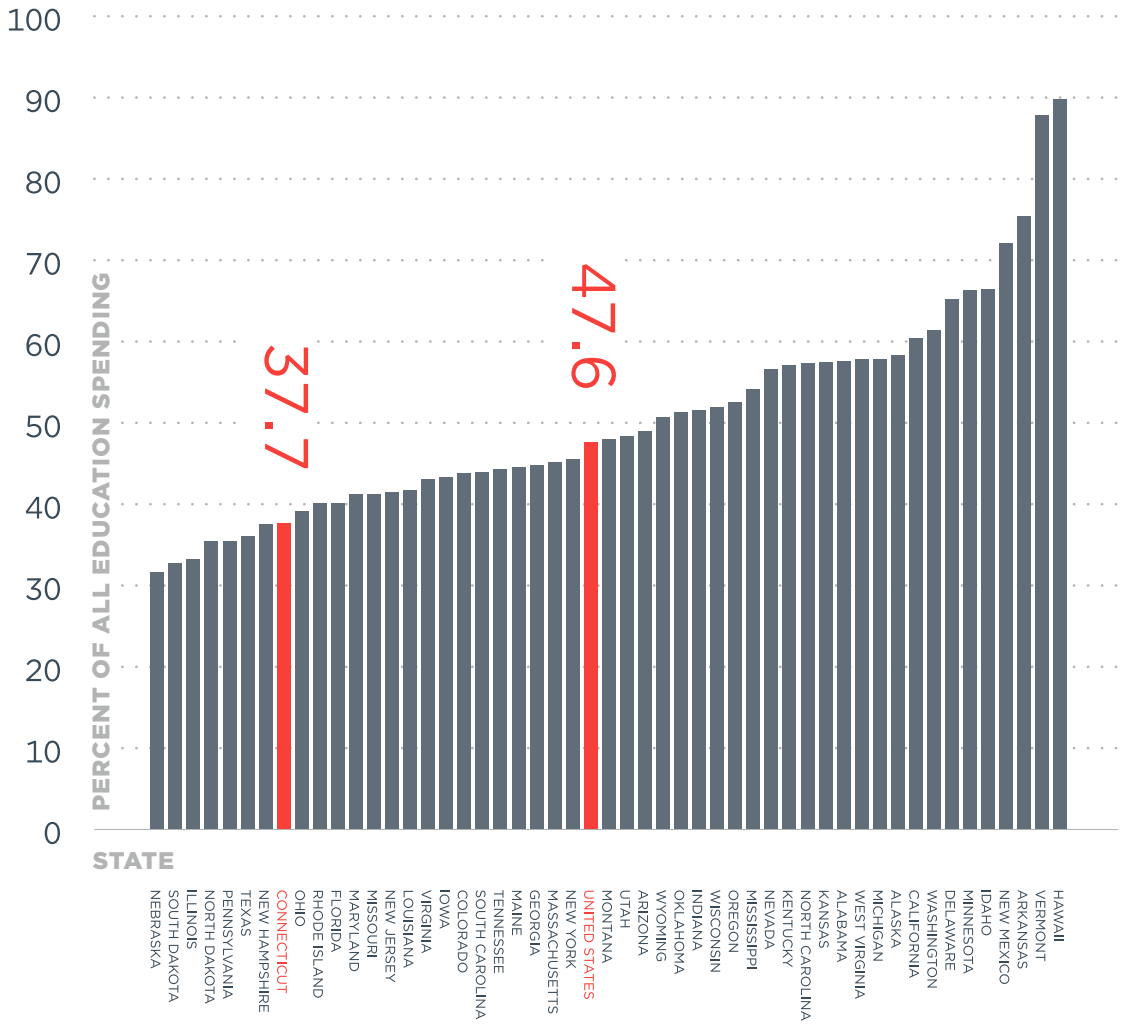


FIGURE 4 State Education Funding as a Percent of All Education Spending by State, 2006–2007

SOURCE 2007 Census of Governments Survey of Local Government Finances–School Systems.



lunch, just 25 percent of 5th graders and 29 percent of 8th graders met the state goal. The same pattern holds true in Bridgeport and Farmington, which receive within $200 of one another. Ninety-five percent of Bridgeport students are poor, and just 33 percent of 5th graders and 28 percent of 8th graders met the state goal. Meanwhile in Farmington, where just 5.4 percent of students are poor, more than 85 percent of 5th graders and 88 percent of 8th graders met the state goal.[14] Equalizing spending between rich and poor districts has not by itself produced equal outcomes for Connecticut's students.

Connecticut in a National Context

Per pupil K–12 spending in Connecticut is among the highest in the country. Connecticut spent $12,979 to educate the average student in the 2006–2007 academic year, more than 45 other states and 34 percent above the national average (See Fig. 3).[15]

Connecticut school districts, like all school districts in the United States, receive funding from three primary sources: federal government, state government, and local government. Unlike most states, though, state funding in Connecticut accounts for only 37.7 percent of all education dollars, significantly below the national average of 47.6 percent. Meanwhile, local funding makes up nearly 58 percent of all education spending, almost 14 percentage points more than the national average (See Fig. 4).

Achievement gaps infect every state education system today, but Connecticut's gaps are among the worst. Connecticut was the only northeastern state to report a Black-White achievement gap larger than the national average in grade 4 math, grade 8 math, *and* grade 4 reading, according to the 2007 National Assessment of Educational Progress, known as the Nation's Report Card.[16] On the 2009 report card in math, poor 8th graders scored an average of 3.41 grade levels below their non-poor counterparts.[17] Despite having equalized spending between rich and poor districts and spending more per student than nearly every other state, Connecticut still has the nation's worst achievement gap between poor students and their wealthier peers.[18]

Why Connecticut School Finance Fails to Support High Student Achievement

Thirty years of tweaking the distribution of money within Connecticut's existing school finance structure has failed to substantially improve edu-

14 Authors' analysis based on 2007–2008 data from the State Department of Education.
15 2007 Census of Government Survey of Local Government Finances–School Systems, 2009.
16 "Achievement Gaps: How Black and White Students in Public School Perform in Mathematics and Reading on the National Assessment of Educational Progress," Alan Vannerman, Linda Hamilton, Janet Baldwin, and Taslima Rahman, 2009, National Center for Education Statistics, available at *http://www.nces.ed.gov/nationsreportcard/studies/gaps*.
17 According to the 2009 NAEP. "Connecticut achievement gap remains country's worst, national assessment shows," ConnCAN, available at *http://www.conncan.org/matriarch/MultiPiecePage.asp_Q_PageID_E_297_A_PageName_E_MediaRoomNewsReleaseOct142009*.
18 According to the 2007 NAEP. "2007 NAEP Gap Tables,"ConnCAN, n.d., available at *http://www.conncan.org/matriarch/documents/2007_NAEP_Gap_Tables.pdf*.

cation or close Connecticut's enormous achievement gap. Connecticut's school finance system is broken and obsolete.

This finance system was born in a world where we accepted that schools would routinely fail to lift many students to high standards. This system is untenable in a society that now expects all children to achieve at high levels. "Fixing" this broken system is no longer an option.

If the old system must be replaced to educate all students, what kind of system should replace it? In 2008, the Center on Reinventing Public Education published its final report of the School Finance Redesign Project, a six-year, six-million-dollar effort funded by the Gates Foundation to outline the principles of a more effective state finance system.[19] The report, entitled "Facing the Future," compared today's system to an old computer "so laden with new applications that it can no longer do anything well."[20] The best option, the report concluded, is "a new model that is optimized to do one thing: that is, ensure that every child learns what she needs to become an involved citizen and full participant in a modern economy."[21]

A Student-Based Funding System

What we need is a system that places students at the center of funding decisions, creating powerful incentives that induce districts and schools to educate all students to high standards. To create those incentives, a student-based funding system needs three interlocking elements:[22]

Money follows children

In a student-based funding system, each student generates a certain amount of funding, which "follows" her to the school district, technical school, magnet school, or charter school she chooses to attend. Students with greater needs, such as low-income students or English Language Learners, bring with them higher per-pupil funding than other students. As a result, this kind of system is often referred to as "weighted student funding" or a "weighted student formula," names that reflect the added "weight" or funding attached to students with a higher level of need. This approach not only ensures that schools have the extra resources they need to meet the needs of all students, but also incentivizes schools to compete for disadvantaged children who are often harder to educate.

Transparency

A student-based funding system needs to provide a level of transparency that allows policymakers, school leaders, parents, and the public to see how funding flows within the state, how dollars are used, and ultimately, how financial inputs affect outcomes.[23] A transparent finance system clearly shows how much money each district receives from different sources, how much money each school generates for its district based on its student population, how much is ultimately spent by or on behalf of each school, and how schools and districts spend their funds.

19 "Facing the Future: Financing Productive Schools," Paul T. Hill, Marguerite Roza, and James Harvey, 2008, Center on Reinventing Public Education at the University of Washington Bothell, available at *http://www.crpe.org/cs/crpe/download/csr_files/pub_sfrp_finalrep_nov08.pdf*.
20 Hill et al., 2008, p. 1
21 Hill et al., 2008, p. 1
22 "Fund the Child: Tackling Inequity & Antiquity in School Finance," Thomas B. Fordham Foundation, 2006, available at *http://www.eric.ed.gov/ERICDocs/data/ericdocs2sql/content_storage_01/0000019b/80/27/fd/0b.pdf*; "First Steps to a Level Playing Field: An Introduction to Student-Based Budgeting." Marla Ucelli, Ellen Foley, Thandi Emdon, and Constance Bond. 2002, Annenberg Institute for School Reform at Brown University, available at *http://www.schoolcommunities.org/Archive/images/SBB.pdf*.
23 Hill et al., 2008.

In this type of system, all of this information is widely available online in a form that does not require technical expertise to access or financial expertise to decipher.

Flexibility
A student-based funding system grants schools and districts great flexibility to use their funding in ways that meet the needs of their students. Instead of receiving funds that must be spent on certain programs or to employ specific kinds of staff, schools and districts receive dollars that they can allocate as they see fit to do what works for their students.

Support for Student-Based Funding

In recent years, student-based school funding systems have gained wide support nationally among experts in school finance from a wide range of political and ideological perspectives.

- The Gates Foundation-funded School Finance Redesign Project report includes 30 separate studies involving more than 40 of the field's leading scholars from policy, education, law and economics. It concluded that finance systems must be revamped in a way that drives dollars to schools based on student need.

- In 2006, the Thomas B. Fordham Foundation released "Funding the Child: Tackling Inequity and Antiquity in School Finance," which made the case for a system of student-based finance. Over 70 signatories endorsed this approach, including five former U.S. Secretaries of Education from both parties, elected politicians in both state and federal government, and representatives from leading think tanks and advocacy groups across the political spectrum.[24]

- The Annenberg Institute for School Reform at Brown University established School Communities that Work: A National Task Force on the Future of Urban Districts in 2000 to "create, support, and sustain entire urban communities of high-achieving schools." The task force, which Carnegie Corporation of New York, the Rockefeller Foundation, and Pew Charitable Trusts all funded, met with education, civic, business and nonprofit leaders over four years.[25] It too concluded that student-based budgeting is "a cornerstone" of a "smart district" redesign needed to achieve results and equity for all students.[26]

- Leading school districts across the country, including Hartford, have recently implemented student-based funding within their district, following a careful review of all possible options to break through decades of flat or declining student achievement. Student-based funding systems also exist today at the state level (Hawaii), and the national level (the Netherlands).

24 Thomas B. Fordham Foundation, 2006, available at *http://www.eric.ed.gov/ERICDocs/data/ericdocs2sql/content_storage_01/0000019b/80/27/fd/0b.pdf*.
25 School Communities that Work, A National Task force on the Future of Urban Districts. Details available at *http://www.schoolcommunities.org/Archive/aboutus/index.html*.
26 Ucelli et al., 2002, p. 11.

Why a Student-Based Funding System?

Why have so many practitioners and thinkers from diverse perspectives arrived at the conclusion that K–12 finance systems should be student-based? Five reasons stand out:

Dynamism and responsiveness
School systems are in a constant state of flux. Demographic shifts change student populations. Immigration brings in waves of new children.[27] Families are more mobile than they used to be, moving as they change jobs or look for new opportunities.[28] The rise and fall of a neighborhood's economic fortunes changes our public schools.

In a student-based funding system, money moves automatically with these enrollment changes. If more students in a district become economically disadvantaged, the district's funding automatically rises. If families flock to a district or magnet or charter school, money follows them and enables their schools to grow and serve them appropriately. If a community has more families learning English as a second language, their schools receive more funding. And as all of these trends ebb and flow, funding streams shift accordingly so that today's funding matches today's challenges for every district and school. As a result, schools and districts will always find themselves with the resources they need to meet the particular demands facing them at a given time.

The incentive to attract—and keep—high-need students in existing schools
When students can choose among public schools, and when money follows children based on their specific needs, children with the greatest need bring the most money. As a result, these children become an asset to schools rather than a liability, changing the way schools view them and reinforcing an expectation for all children to succeed.[29] The result can be vigorous action by schools and districts to improve the education they provide disadvantaged children. When students and parents were not choosing to send their children to traditional public high schools in Minneapolis, for example, the district "re-booted" all seven schools, giving them new paint, a new staff, and a new culture.[30] In Dayton and Milwaukee, competition has forced some schools with dropping enrollments to merge, undergo reconstitution, and even shut down.[31] At the same time, there are signs that school quality is improving overall as a result of these incentives. In a review of 14 studies examining the competitive effects of schools under systems of choice, two researchers from Mathematica Policy Research, Inc. found that nine of the studies showed positive effects on student achievement and none of the studies found negative effects.[32]

The incentive to open new schools that better serve high-need students
In a student-based funding system, potential school operators—whether they are school districts or outside providers—know that if they open a new school that serves high-need children well, they can garner the re-

27 "The New Demography of America's Schools, Immigration and the No Child left Behind Act," Randy Capps, Michael Fix, Julie Murray, Jason Ost, Jeffrey S. Passel, and Shinta Herwantoro, The Urban Institute, 2005, available at, *http://www.urban.org/UploadedPDF/311230_new_demography.pdf*.
28 "Student Mobility," Education Week, 2004, available at *http://www.edweek.org/rc/issues/student-mobility/?print=1*.
29 Hill at al, 2008. "No Longer the Only Game in Town: Helping Traditional Public Schools Compete," Christine Campbell, Michael DeArmond, Kacey Guin, and Deborah Warnock, 2006, Center on Reinventing Public Education, University of Washington, available at *http://www.eric.ed.gov/ERICWebPortal/contentdelivery/servlet/ERICServlet?accno=ED494269*.
30 Interview with Brenda Casselius, Associate Superintendent, Minneapolis Public Schools, June 2009.
31 "The Effects of Competition Between School on Educational Outcomes: A Review for the United States," Clive R. Belfield and Henry M. Levin, The American Educational Research Association, 2002. Campbell et al, 2006.
32 "School Competition and Student Outcomes," Brian Gill and Kevin Book, in Handbook of Research in Education Finance and Policy, ed. Helen f. Ladd and Edward B. Fiske, 2008.

sources needed to sustain the school over time. Nationally, many of the schools that best serve low-income children are new schools that have formed in the wake of policy changes, such as charter school laws, that made it possible for money to follow children to newly formed public schools. One example is the Knowledge is Power Program, or KIPP, where approximately 80 percent of students in 82 charter schools nationwide qualify for free or reduced-price lunch. After four years at KIPP, 100 percent of eighth grade classes outperformed their district averages in both mathematics and literacy, based on state tests.[33] KIPP's ability to grow depends on access to funds that follow children to KIPP schools when they choose to attend.

The incentive to drive as much funding as possible to schools and classrooms
In many cities that implement a money-follows-the-child system, more money goes to schools instead of to districts for administrative costs. Hartford and Baltimore have redirected millions of dollars; as much as 70 percent of all available resources are now in the classroom.[34] In New York City, the Department of Education redirected $170 million from central and regional budgets to schools since adopting student-based funding.[35] In 2008–2009, the first year Denver fully implemented a student-based funding system, schools received between 5 and 11 percent more funding over the previous year.[36]

The incentive to allocate funding fairly within districts
Student-based funding systems shine a bright light on funding patterns within school districts, as well as between school districts. As a result, large districts with student-based funding see a more equitable distribution of funds. In Cincinnati, for example, only 42 percent of schools received allocations within 10 percent of the district average before the district moved toward student-based funding.[37] Four years after making the change, every school in the district received funds that precisely reflected the needs of its students.[38] Houston offers a similar example. Under the previous system, the lowest-funded school received 46 percent of the average school's funding, while the highest-funded school received 291 percent of the average school's funding, for a difference of 245 percentage points. Within four years of adopting student based funding, that difference shrank to just 24 points.[39]

Student-Based Funding in Practice

Conventional finance systems dictate certain staffing patterns in schools and require funds to be spent within strict programmatic line items. A student-based finance system, however, provides schools and districts with real dollars to allocate as needed to meet their students' specific needs. In Baltimore, for example, student-based funding gives principals discretion over at least $5,000 per student, up from just $90 in 2007–2008.[40] Schools and districts gain the flexibility to choose their staff, structure the school day, pick curriculum, and use innovative

33 KIPP. "Knowledge is Power Program." Available at *http://www.kipp.org*.
34 "Weighted Student Yearbook, 2009," Lisa Snell, 2009, available at *http://www.edexcellence.net/fundthechild/Manifesto%20Report.pdf*. Snell, 2009.
35 Snell, 2009.
36 Snell, 2009.
37 Ucelli et al, 2002.
38 "Understanding Student-Weighted Allocation as a Means to Greater School Resource Equity," K.H. Miles and M. Roza, Peabody Journal of Education, 2006, Available at *http://www.financeproject.org/publications/WeightedFundingHouston.pdf*.
39 Thomas B. Fordham Foundation, 2006.
40 Snell, 2009.

strategies to attract and retain top teachers. And research suggests that when granted such flexibility, schools and districts spend their money differently.[41] Perhaps the best example comes from Ohio, where Roza et al (2007) showed that when principals gained greater control over funds, they dramatically shifted funds into classroom instruction.[42]

Student-based funding is not a panacea for closing achievement gaps and raising overall learning.[43] But it can lay the groundwork for meeting those challenges in a way that would be difficult or impossible under a more conventional system of finance that lacks the dynamism, incentives, and flexibility that arise from linking dollars to students.

How Connecticut Falls Short

Connecticut's school finance system falls woefully short of the principles of student-based funding in a number of critical areas.

Problem No. 1
Money Does Not Follow Children Based on Need

Not sufficiently need-based

Today we expect all children to achieve a certain standard, but they do not all come to school equally prepared to learn. Some children require additional learning time or benefit disproportionately from having effective teachers.[44] All of these supports can cost additional money. Poor children are supposed to receive 33 percent more funding through the ECS formula, but they only receive about 11.5 percent because of legislation that directs limited funds for other purposes first, such as minimum allocations and high-density supplements.[45] Similarly, the state finance system contributes an average of only $71 extra per student with limited English proficiency.[46]

Not fully responsive to enrollment shifts

The ECS formula was supposed to address differences in the cost of educating children, but a "hold harmless" provision requiring that districts receive at least as much state funding as they did in the previous year, in real dollars, supersedes the formula. The hold harmless provision allocates more dollars per pupil in districts with declining enrollments, a trend expected to worsen over the next decade.[47]

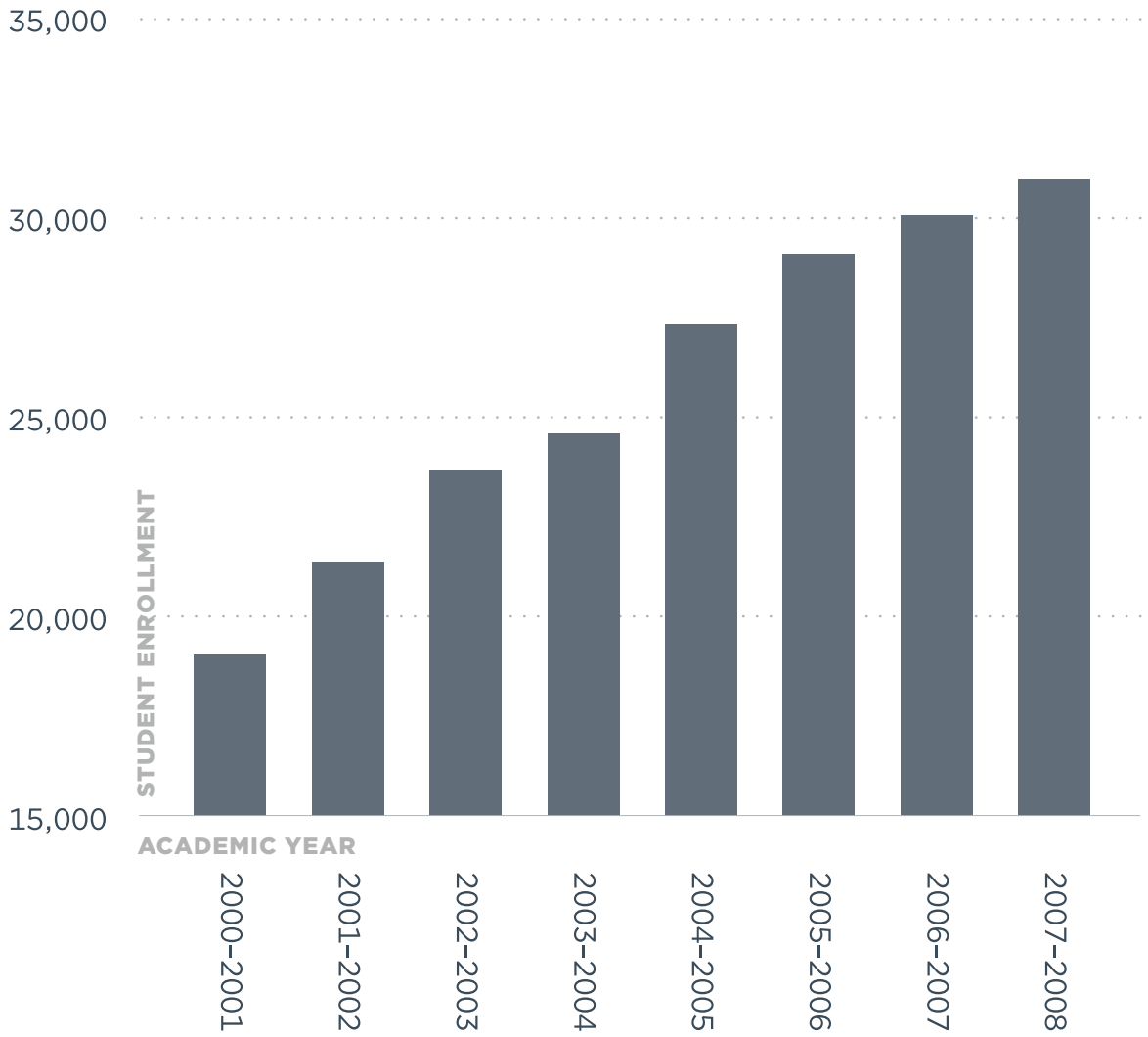
Pays to educate the same students twice

Districts receive money based on the number of students living within their jurisdiction, even if some of those students choose to attend a charter, magnet, or technical school. These schools are paid for from separate pots of money. Taxpayers are paying to educate the same stu-

41 Hill et al., 2008.
42 "Spending Choices and School Autonomy: Lessons from Ohio Elementary Schools." M. Roza, K. Guin, and T. Davis, University of Washington Center on Reinventing Public Education, School Finance Redesign Project, 2007, Available at *http://www.crpe.org/cs/crpe/download/csr_files/wp_sfrp21_rozaohio_jul07.pdf*.
43 "The Dutch Experience with Weighted Student Funding: Some Lessons for the U.S.," Helen F. Ladd and Edward B. Fiske, Edward B. Terry Sanford School of Public Policy at Duke University. 2009. Available at *http://www.pubpol.duke.edu/research/papers/SAN09-03.pdf*.
44 "Choosing More Time for Students: The What, Why and How of Expanded Learning," Elena Rocha, Center for American Progress, 2007, Available at *http://www.americanprogress.org/issues/2007/08/pdf/expanded_learning.pdf*; "The Effects of Summer Vacation on Achievement Test Scores: A Narrative and Meta-Analytic Review," H. Cooper, et al, Review of Educational Research. 1996; "How Large are Teacher Effects?" Barbara Nye, Spyros Konstantopoulos, and Larry V. Hedges, Educational Evaluation and Policy Analysis, 2004.
45 Authors' analysis using 2007–2008 data from the State Department of Education. See Appendix for details.
46 Authors' analysis using 2007–2008 data from the State Department of Education. See Appendix for details.
47 "Student Enrollment Shrinking," Jason Millman, Hartford Business Journal, 2008, available at *http://www.hartfordinfo.org/issues/documents/region/hbj_063008_1.asp*; Connecticut State Data Center. "Where Have all the Children Gone?" Connecticut State Data Center, 2008, available at *http://www.ctsdc.uconn.edu/Educacn/2008_Projections/PR_CtSDC_EnrollmentProjection_08june25.pdf*.

FIGURE 5 Enrollment in Magnet, Charter, and Technical Schools, 2000–2001 to 2007–2008

SOURCE Connecticut State Department of Education and National Alliance for Public Charter Schools



dents twice. Connecticut pays districts more than $186 million a year for students they no longer educate.[48]

Underfunds non-traditional school options
Charter and magnet schools only receive about 70 percent of the average per pupil allocation from the state.[49] Charter, magnet and technical schools are funded through a line item in the budget that forces these schools to fight for funding every year. Meanwhile, the majority of Connecticut charter and magnet schools serve a disproportionately large number of children eligible for free or reduced-price lunch, children the state has already identified in the ECS formula as needing more funding, not less.[50] Furthermore, the number of Connecticut students attending charter, magnet, and technical schools increased more than 50 percent since 2000–2001, from fewer than 20,000 students to more than 30,000 in 2007–2008 (Fig. 5). Given the steady increase of students attending non-traditional schools, underfunding students who exercise choice is a problem that will likely get progressively worse.

Creates disincentives for serving high-need students
Because money does not follow students when they leave, districts keep funding for phantom students. The number of students educated drops, but funding remains the same. For districts, this creates a perverse incentive: for each student who leaves to attend a non-traditional school, the district has more to spend per-pupil for the remaining students. As a result, districts have little incentive to induce children to stay in their schools, especially students who are disadvantaged and may require more time and resources to reach high standards.

Problem No. 2
Fundamental Lack of Transparency

Complicated allocation formulas
The process of distributing state dollars to districts is shrouded in a tangle of formulas, conditional statements, and exceptions to the rule. For example, determining the size of a town's ECS grant involves calculations based on the student population, town wealth, supplemental aid, regional bonuses, caps, density supplements, transitional district minimum grants, and the prior year's grant.[51] Such complicated formulas make it nearly impossible to "unlock" the ECS formula and understand how and why money is being distributed by the state. A long list of line item allocations further complicate the picture since there is no rule dictating how much a particular school should receive in operating expenses, construction costs, or for other functions. With such a complex array of funding streams, districts and schools have strong incentives to "work the system," with more money flowing to the most politically savvy advocates. The process consumes valuable time and energy both policymakers and school leaders could use to improve student achievement.

48 Based on authors' calculations using 2007–2008 data from the State Department of Education. See Appendix for details.
49 Truscheit, 2009.
50 Based on statistics provided by *http://www.greatschools.com*.
51 "Education Cost Sharing Formula," Judith Lohman, Connecticut General Assembly Office of Legislative Research, 2004, available at *http://www.hartfordinfo.org/issues/wsd/education/olr_rsrch_ecs_form.pdf*.

Lack of openness
Hundreds of millions of dollars of changes to the education budget occur each year without open public debate or explanation. At the very end of each legislative session, after the legislature and Governor agree on a state budget, a piece of legislation called, "An Act Implementing the Provisions of the Budget Concerning Education, Authorizing State Grant Commitments for School Building Projects, and Making Changes to the Statutes Concerning School Building Projects and Other Education Statutes," also known as the budget implementer, includes pages of detailed dictates, carve-outs and add-ons to the education budget. The fiscal 2010 budget implementer included spending for capital projects, barred Hartford from charging tuition for students enrolled in its magnet schools from outside the district, and limited transportation grants. These provisions may have a sound rationale, but they had no public hearing or full vetting process. In some instances, specific allocations actually override other state policies. For example, the latest budget implementer includes a new hold harmless provision that ensures districts a certain level of funding before distributing funds based on student need.

Online data is difficult to navigate
Rather than organizing financial data in an easy-to-use form, the Bureau of Grant Management in the State Department of Education offers a series of drop-down menus, requiring interested parties to tally up revenues and expenditures one district, and often one type of funding, at a time. In order to gather the data needed for this report, researchers had to conduct hundreds of separate queries. Additional complications arise because there are up to four grant codes for the same grant type. This practice is extremely tedious and time-consuming, and it is impractical to expect the average policymaker, stakeholder, or interested citizen to know how to accurately perform it. The reporting system also prohibits people from easily comparing finances between districts because the online tool often only allows the user to look at one district's data at a time.

Data unavailable publicly is difficult to get from the State Department of Education
Some data unavailable online is collected by the State Department of Education. Yet our experience suggests that the department often is unable to produce this information in a timely manner as a result of its collection methods. For example, different bureaus sometimes collect small pieces of the same basic data set separately. Obtaining a particular piece of data might require cooperation between several different bureaus, as was the case when we asked the department to provide a count of the number of students from each district attending schools of choice.

Some data of interest are completely unavailable
Most notably, this report does not identify intradistrict transfers between districts and charter and magnet schools, or interdistrict trans-

fers between towns and regional districts. This information is likely reported somewhere, but it is not accessible to the public on the Internet or through an inquiry with the State Department of Education. With 17 regional districts serving nearly 30,000 children, Connecticut's chief reporting system seems to not account for a tremendous amount of education funding. The dearth of good information means that policymakers do not know whether educational investments pay off. District leaders do not know how their own spending patterns compare with more efficient operators. School leaders and parents do not know whether their schools are receiving a fair share of funding based on their students' needs. For example, the state legislature and State Department of Education have begun to employ a "Results-Based Accountability" framework for their decision-making. Under this philosophy, the legislature uses data to determine whether or not a program is working. But when it comes to public education, this framework cannot deliver on its promise because so much data are not available. Without good information, policymakers will struggle to make the right choices for improving schools, policies, and the education of Connecticut's children.

Problem No. 3
Too Many Restrictions on Doing What Works

Constraints on turnaround efforts

Direct constraints prevent district and school leaders from doing what is necessary to turn around failing schools or to take other actions to close the achievement gap. The primary source of direct constraints on school and district practices comes from the collective bargaining agreements school districts enter into with employee unions. A recent analysis of Hartford's staffing practices by the National Council on Teacher Quality, for example, pointed to several burdensome requirements, including:

- The teachers' contract severely limits schedule flexibility, leaving little time for teachers to collaborate or work after school, and making it nearly impossible to extend the school day.

- Principals must let go of the most recent hires first when cutting staff, even if they are more effective teachers. Only superintendents have the authority to make exceptions to this provision.

- Teachers receive 20 sick days, twice as many as the average in the 100 largest school districts. As a result, the average Hartford teacher is not in school for 12 percent of the school year.

- Principals are under pressure to conduct in-person interviews for everyone who applies for a vacant position—rather than focusing their limited time on the most promising candidates—because personnel decisions are subject to grievances.[52]

52 "Human Capital in Hartford Public Schools: Rethinking How to Attract, Develop, and Retain Effective Teachers," National Center on Teaching Quality, available at *http://www.nctq.org/p/docs/nctq_hartford_human_capital.pdf*.

Since such a large slice of the budget goes to pay staff salaries and benefits, districts and schools are forced to spend money in ways that are not optimal for student achievement. The consequences are most serious in the lowest-performing schools.

A large body of research from both inside and outside of education suggests that the operators of persistently and profoundly failing organizations need wide latitude to do things differently, especially with regard to staffing, allocating resources, and using time.[53] After reviewing this literature, the Mass Insight Education & Research Institute concluded in its major report, *The Turnaround Challenge*, that one of the most important conditions for successful school turnarounds is "authority to make choices (particularly regarding the key resources of people, time, money and program)."[54] The entity responsible for turning around bad schools must be able to build an effective team; direct dollars to the highest and best uses; and change the school day, week, and year to give students who are far behind more time to reach high standards. Too often, provisions of collective bargaining agreements stand in the way of this kind of flexibility.[55]

Recent legislation in Connecticut gives the state authority to address some of these challenges in failing schools. Since July 1, 2007, the Connecticut State Board of Education has had the authority to exercise "intensified supervision and direction" over any school identified as "in need of improvement" under the federal No Child Left Behind law.[56] Some of the Board's more notable powers include directing the transfer and assignment of teachers and administrators, using incentives to attract highly-qualified teachers and principals, identifying schools for reconstitution, and spending grants on behalf of schools. To date, the State Board of Education has made very limited use of these considerable powers. As a result, most districts with failing schools continue to face the same constraints that have long stood in the way of dramatic change.

Constraints on new school formation

In some cases, the most promising way to improve chronically failing schools is to provide options to the students or to close the school and open a new, better public school in its place. In Connecticut, new schools can be state-authorized public charter schools, interdistrict magnet schools, or schools that the district creates and runs, such as the Journalism and Media High School or OPPortunity High, which both opened this fall in Hartford.

Opening new charter schools can be prohibitively expensive because of substantial start-up costs.[57] In one survey, almost 70 percent of charter school founders identified a lack of start-up funds as a problem.[58] Start-up costs between $250,000 and $2.5 million likely keep some people from even applying for a charter.[59] Under the federal Charter School Program, the United States Department of Education can award grants for the planning and implementation of new charter schools, but this money is not available to non-charter schools that districts open. In addition, charter schools cannot use this federal grant to pay for one of the primary start-

53 "The Turnaround Challenge," Andrew Calkins et al., Mass Insight Education and Research Institute, 2007, available at *http://www.massinsight.org/resourcefiles/TheTurnaroundChallenge_2007.pdf*; "Turning Around Chronically Low-Performing Schools: A Practice Guide," Rebecca Herman, R., et al., National Center for Education Evaluation and Regional Assistance, Institute of Education Sciences, U.S. Department of Education, 2008, available at *http://www.ies.ed.gov/ncee/wwc/pdf/practiceguides/Turnaround_pg_04181.pdf*; "The Big U-Turn: How to Bring Schools from the Brink of Doom to Stellar Success," Emily A. Hassel and Bryan C. Hassel, Education Next, 2009, available at *http://educationnext.org/the-big-uturn/*.

54 Calkins et al., 2007, p. 44.

55 The recent American Federation of Teachers contract with the city of New Haven is promising in its potential for providing the increased flexibility needed. Available at *http://www.nhregister.com/articles/2009/10/27/news/new_haven/a1_--_reformforum_1027.txt*

56 Sec. 32 P.A. 07-3

57 "The State of Charter Schools 2000," United States Department of Education, Office of Educational Research and Improvement, 2000, available at *http://www.ed.gov/PDFDocs/4yrrpt.pdf*; "New Charter Schools Across the Country and in the District of Columbia Face Similar Start-Up Challenges," United States General Accounting Office, 2003, available at *http://www.gao.gov/products/GAO-03-899*.

58 "A Study of Charter Schools: First Year Report." United States Department of Education. 1997, available at *http://www.ed.gov/pubs/charter/index.html*.

59 "USCS Start-Up Brief: Steps to Starting a Charter School," Uscharterschools.org, available at *http://www.uscharterschools.org/cs/r/view/uscs_rs/1699*.

up costs: facilities. Eleven states offer their own start-up grants or loans, but Connecticut is not among them.[60]

Opening a new district school can be expensive as well. Districts do not have to build a new facility, but they may have to pay for substantial renovations, planning, a new curriculum, and employing a new school leader and faculty a few months in advance of the school's opening. The average cost of opening a new school in Hartford is $500,000, although some schools with more expensive curriculums can cost more.[61] The recent budget crisis forced the district to rely heavily on corporate sponsorship and an "Ingenuity Fund," which was set up to cover the costs of new and redesigned schools. Hartford recognizes, however, that those funds will soon run out, dramatically limiting its capacity to provide great new school options.

Policy Recommendation No. 1
Make Money Follow the Child

Connecticut should "roll-up" all flexible state and choice funds into one pool and then distribute the money using a single formula weighted for student need. More than $2 billion, or 62 percent, of state education dollars come in the form of what we'll call "flexible" and "choice" funds (See Table 1).[62] Unlike more restricted funds for special education or construction, districts can spend these dollars with fewer restraints.

What Would Not Change?

Basic structure of education revenue
Education funding would still include local, state and federal sources, with wealthier towns contributing a higher proportion of local funds and poorer towns receiving a higher proportion of state funding. School districts would not need to make any changes to how they generate local tax funds for schools.

Other state funds
The state would continue to allocate all other state funds in the same way, including the allocation of funds for special education, construction, and debt repayment.

District and school autonomy
The proposed system would not attach strings to the dollars that districts and schools receive or require them to spend the money in any particular way. Districts and schools would continue to enjoy wide latitude in how they spend most state dollars.

60 "Start-Up / Planning Grants," Education Commission of the States, available at *http://www.mb2.ecs.org/reports/Report.aspx?id=87*.
61 Interview with Dr. Christina Kishimoto, Assistant Superintendent for School Design, Hartford Public Schools, October 2009.
62 Based on state data from the US Census Bureau (2009) and authors' calculations for state flexible funds. For the purpose of this report, the term state "flexible" funds refers to funds that are not tied up in fixed costs and allow schools some latitude in how exactly to spend the money. The following grants meet this definition: ECS grant, Early Reading Grant, Early Reading Competitive grant, ECS Accountability Priorities grant, Sheff settlement, and Priority grants. "Choice" funds refer to funds that support school choice beyond per pupil expenditures, including grants for: Magnet Operating, Charter Payment, RESC Unrestricted Formula grant, Open Choice Receiving District, and Interdistrict Cooperative.

What Would Change?

How much districts receive in state funds
Some districts would receive more state education funding and others would receive less in order to more accurately reflect student need across districts. The state would allocate resources to ensure that no district's state education funding declined by more than 5 percentage points per year. The state would also enact provisions stipulating that cities and towns which fail to maintain their local tax effort would not thereby be eligible for more state funding to make up the differences.

How the state funds non-traditional school students
Charter, magnet, and technical school students would no longer be funded through special line items in the state budget. Instead, they would generate the same per-pupil funds as students attending traditional district schools according to the newly proposed formula.

System responsiveness
Funding would continually adjust over time to reflect changes in enrollment and shifts in the student population of districts and schools.

The Long-Term Plan

Our presentation of the proposed new system has two parts. First, we propose a long-term plan implemented in Connecticut in the coming years as the budget allows. Since this long-term plan requires significant sums of new state funding, however, we also propose a short-term plan that the state could implement immediately.

Under the long-term plan, the state would allocate all flexible state and choice funds according to the following formula:

State equalization up to $11,000 per student
The state would supplement local funds so that every district had at least $11,000 per student, significantly above the national average of $9,666. For example, if a district currently raises $9,000 per student through local revenues, the state would provide the district an additional $2,000 per student. As with the current ECS formula, districts would be required to raise local tax dollars at a certain level of effort, based on their capacity for raising revenue, in order to qualify for the equalization funds.

$3,000 poverty weight
Districts would receive an additional $3,000 for each poor child they serve, on top of any other money. Each district would receive this amount from the state for every low-income child, regardless of town wealth.[63]

$400 English Language Learner weight
Districts would receive an additional $400 for each child served who is des-

63 There are several ways to define poverty, including eligibility for Temporary Aid for Needy Families (the current method), eligibility for free or reduced-price lunch, and others.

TABLE 1 What Would Happen to Different Funding Types in a New System?*

SOURCE Grant categorization reflects authors' determination based on descriptions of the grants provided by the State Department of Education.

ROLLED INTO NEW STUDENT-BASED FORMULA		**NO CHANGE IN ALLOCATION**
Choice Funds Funds allocated for choice programs	**Flexible Funds** Funds allocated with no limited restrictions	**Other Funds** Funds designated for a specific activity
Magnet Payments	ECS Grant	Special Education
Charter Payments	Priority School Grants	Construction
Interdistrict Cooperative	Competitive School Grant	Debt Repayment
Open Choice Receiving	Early Reading Grant	After School Grants

* The grants included in Table 1 represent examples, and not a complete list.

TABLE 2 Estimate of the effects of the full implementation of the Recommendation 1†

SOURCE Authors' analysis using data collected from the State Department of Education

ESTIMATES BASED ON SIMULATION	SHORT-TERM OPTION	LONG-TERM OPTION
Number of gaining districts (by state allocations)	69	105
Median gain as a percent of 2007–2008 net current expenditures among gaining districts	2%	6%
Median per pupil gain in dollars	$620	$820
Number of losing districts (by state allocations)	80	44
Median loss as a percent of 2007–2008 net current expenditures among losing districts	–5%	–5%
Median per pupil loss in dollars	–$530	–$580
Median Gain / Loss for Poorest 20% of Towns	+4% of NCE‡ +$700 per pupil	+11% of NCE +$1,570 per pupil
Median Gain / Loss for Wealthiest 20% of Towns	+0% of NCE +$60 per pupil	+1% of NCE +$130 per pupil

† The figures in Table 2 represent the authors' best estimate given the data available to them at the time of publication. The analysis excludes interdistrict and intradistrict transfers, which may greatly change the outcome measures included in this table. The analysis also excludes regional districts and the influence of technical school students as students transferring out of traditional district schools. The analysis estimates the influence of magnet and charter students using district averages for FRL and ELL status. See Appendix for details related to the methodology.

‡ NCE = Net Current Expenditure

ignated as an English Language Learner, on top of the equalization amount or any other grant or weight. Each district would receive this amount from the state for every child learning English, regardless of town wealth.

Full per-pupil funding follows students to non-traditional public schools
When a student chooses to attend a non-traditional public school (e.g. charter, magnet, or technical), the state would send the full per-pupil funding generated by the student directly to the school the student attends. "Full per-pupil funding" would include per-pupil local funding in the student's district of residence, per-pupil state equalization funding for the student's district of residence, and any weights based on the student's poverty and English Language Learner status.[64] As with districts, special education funding would not change under this proposal. Also, in place of the current requirement that districts transport non-traditional school students within district free-of-charge, districts would be required to provide within-district transportation for these students at cost for the non-traditional school if requested.

Extra support for small districts
Districts serving fewer than 3,000 students would receive an additional grant worth $500 per student, on top of other money, to balance out their smaller economies of scale. This grant would not follow children to non-traditional settings, but instead remain in the district. The money is designed to help these smaller districts provide the same learning opportunities as larger districts through the use of innovative technologies.

Long-Term Formula Rationale

This formula allocates funds in a way that reflects national and regional population trends and helps the state meet its obligation to offer all children a high quality education.

Equalization amount
The equalization amount ensures that every district has at least $11,000 per student to provide public education. As a result, per-pupil funding throughout Connecticut would be, at a minimum, substantially above the current national average for per-pupil funding. Based on our estimates, up to 119 Connecticut towns would receive some level of state-provided equalization funds under this system.

Student weights
Ideally, the weight attached to low-income or English Language Learner students would reflect the true added cost of achieving high standards with these students. In reality, research has not yielded solid, consistent estimates of these costs.[65] As a result, we are recommending that Connecticut adopt a weight that makes it a leader among states in enabling funding to follow these high-need children. In the case of poverty, a 2002 report from the Center on Budget and Policy Priorities found that the

64 The state would transfer the full per-pupil amount to the charter, magnet or technical school and deduct the same amount from the funds it sends to each student's district of residence. In the rare case in which funding owed to charter, magnet or technical schools exceeded the total state funding owed to the district under the new formula, the state would use discretionary funds to make up the difference.
65 "Measurement of Cost Differentials," William D. Duncombe and John Yinger, in Handbook of Research in Education Finance and Policy, ed. by Helen F. Ladd and Edward B. Fiske, 2009.

average state provided low-income students an additional 17.2 percent of the base amount of funding.[66] Under this proposal, Connecticut's weight of $3,000 would be almost 28 percent of the newly raised base funding level of $11,000. Combined with federal funding that flows on the basis of poverty and (in some cases) the English Language Learner weight of an additional $400, the $3,000 poverty weight would enable districts and schools to devote considerable resources to meeting the needs of disadvantaged students.

Small district technology grant
One challenge of a system in which money follows the child on a per-pupil basis is that as students leave a district, districts must reduce costs. Districts may not be able to reduce their costs commensurately in the short-term. Large districts have many ways of dealing with this challenge because they can shift resources, people, and students. Smaller districts, by contrast, have much less immediate flexibility. Over time, small districts can adjust to changing enrollment in several ways, such as sharing services and resources with nearby small districts or using technology to carry out functions more efficiently. These adjustments, however, have costs—especially in the short- term. As a result, the proposed technology innovation grant would provide small districts with the funding to cover these costs as they adopt more efficient programs and operations.

Long-Term Effects[67]

The new funding mechanism will create winners and losers as funds are redistributed in a way that better reflects student need. While data limitations made it impossible for us to estimate precisely the effect of these changes on each district, our analysis projected these effects based on the figures available to us at the time of publication. This simulation shows that approximately 105 towns would see an increase in state funding and that 44 towns would experience a decrease in state funding when the recommendation is fully implemented (See Fig. 6).[68] The median loss would be about 5 percent of net current expenditures for 2007–2008, and the median gain would be about 6 percent. The change in funding levels illustrates the fact that current state aid does not reflect a consistent formula grounded in student need.

This plan would require the state to spend an additional $348.5 million for education annually, about 17 percent more than the $2 billion currently devoted to flexible and choice funding. As a result, this plan will likely need to be phased in over time as state education revenues increase.

The Short-Term Plan

We recommend that Connecticut implement the following modified funding formula until it is possible for the state education budget to evolve toward the long-term plan outlined above:

66 "State Poverty-Based Education Funding: A Survey of Current Programs and Options for Improvement," Kevin Carey, Center on Budget and Policy Priorities, 2002, available at *http://www.cpec.ca.gov/CompleteReports/ExternalDocuments/State_Poverty_Education.pdf*.
67 Effects related to technical school students are not included in this report because the necessary data were unavailable by the time of publication.
68 The analysis excludes interdistrict and intradistrict transfers, which were unavailable to us at the time of publication. As a result, we excluded regional districts, which rely heavily on interdistrict transfers. Consequently, the inclusion of these data may greatly change the outcome measures. The analysis also excludes the influence of technical school students as students transferring out of traditional district schools. The analysis estimates the influence of magnet and charter students using district averages for FRL and ELL status. For more detail on the methodology, see Appendix.

- State equalization up to $10,000
- $3,000 poverty weight
- $400 English Language Learner weight
- State money follows student to non-traditional schools
- $500 technology innovation grant for small districts
- Remainder distributed equally by student count

Short-Term Formula Rationale

The only real difference between the long-term and short-term options is the equalization amount. Although the equalization grant is $1,000 less in the short-term option, it still assures that districts receive slightly more than the national average ($9,666) for every student they are responsible for educating. At the same time, the short-term option illustrates the state's commitment to serve each child according to his or her need by maintaining the same hefty weights for student need as the long-term option proposes.

Short-Term Effects

Full implementation of the short-term option would also produce winners and losers. Again using the data available to us, our best estimate shows that 69 towns would gain state funding under the short-term option and 80 towns would lose state funding (See Table 2). The median loss would be about 5 percent of net current expenditures for 2007–2008, and the median gain would be about 2 percent.

Transition Period

In order to ease the transition from the current system to either the long-term or short-term option, the state should gradually implement the new system by setting a floor so that each district's net current expenditure (NCE) is not lower than 95 percent of last year's NCE or 95 percent of last year's per pupil amount, whichever is lower. Although this floor will constrain the amount of money that gaining districts receive each year, it will also allow losing districts a fair opportunity to more gradually adjust their budgets to the new financial reality. Although no new funds are needed to implement the short-term option, phasing in the plan so that no town loses more than 5 percent of its total allocation requires that existing funds be distributed in a way that is not entirely consistent with the proposed formula at first. We estimate that it will take approximately six years to fully phase in the short-term option without new funding. At that point, no further transition period will be necessary to move to the long-term option.

Benefits

The primary implementation challenge for this new system is that some districts will gain funds, and some will receive less from the state over

time. The proposed finance system, however, is both necessary and fair for the following reasons:

It corrects a distorted system
When viewed from the perspective of school districts, this plan unavoidably produces winners and losers. Losing districts benefit today from a funding structure that does not maximize incentives to achieve results for high-need students. A simple, streamlined formula makes sure that funding decisions put students first.

It honors Connecticut's constitutional and moral commitment
Connecticut has an obligation to educate all of its students to high levels. In *Horton v. Meskill*, the Court recognized that the maldistribution of state education dollars had prevented the state from meeting its obligation. In creating the ECS grant, Connecticut acknowledged that some students require more resources to succeed in school. This recommendation advances Connecticut's commitment to an entirely new level, within a system that will adjust automatically over time as demographic and enrollment change continues.

There are provisions to help losing districts
The transition period ensures that districts do not face unmanageable cuts. In addition, the technology innovation grant allows small districts to develop new, more cost effective alternatives to compensate for any financial losses.

It is more transparent
Policymakers, parents, and taxpayers will be able to see how state dollars flow from the state to districts and non-traditional public school options. It will be easier to ensure that all districts receive a fair allocation that reflects the students they serve. Unlike the current system, which often hides the sources and flow of money, the new system will be able to show where money comes and goes with remarkable clarity. It will also permit the State Department of Education's accountants to easily audit districts to check that the formula is implemented with fidelity.

It provides a flexible framework that state policymakers can adjust over time
Since no one knows what the perfect education finance system would look like years into the future, it is vital for policymakers to create a structure that can evolve over time. The student-based system proposed here rests on a small number of key parameters—the equalization amount, the weights for poverty and English Language Learners, and the technology grants for small districts—each of which could adjust over time as policymakers and educators see how the system works in practice. Other student weights, such as for gifted and talented students or children with special challenges, could be added to the model without altering its basic structure.

Policy Recommendation No. 2 Create a New Financial Reporting Data System

The State Department of Education should create a new, more transparent, financial reporting system. Money following children to schools based on a straightforward formula would make Connecticut's financial system more transparent. The current financial reporting system impedes good decision-making because too much important data is nearly inaccessible.

Vision

The proposed financial reporting system would clearly identify how education dollars flow from the state level down to schools in a way that is accessible to the average citizen. The system would allow for comparisons between districts and schools to identify efficiencies and bring attention to poor spending choices. The new framework would connect education dollars to student outcomes to make it possible for analysts to estimate "output per dollar." Connecticut's financial reporting framework would become a model for the rest of the country.

To create a state-of-the-art transparent financial reporting system, we recommend that the state pursue the following steps:

Immediate Steps

Create a single repository for all finance data
All financial data should be collected and maintained by a single data warehousing system that would enable access by any relevant department or office. Data could be imported from all levels (school, district, state) and create customized reports. A single repository would make it much more likely that that all relevant data is always available and accessible to a variety of audiences.

Identify additional data needs
This report has highlighted several data needs that the current reporting mechanism cannot easily address, including figures for local revenue and interdistrict and intradistrict transfers. But more importantly, the fiscal information should be available to enable policymakers at all levels to use fiscal data to inform strategic resource allocation decisions. The state should identify key features of leading data warehousing systems to identify additional information gaps and recommend new reporting requirements.

Issue a request for proposals to build a new financial reporting framework
The framework should be custom-built to be consistent with both Con-

necticut's accounting methods and the nuances of Connecticut's education system. The winning proposal should:

- Include all revenue and expenditure data for the state and district levels, including transfers of students and dollars between and within districts and schools of choice;
- Allow for comparisons between districts along any of the variables collected;
- Be user friendly, so that the average citizen can find what they're looking for without needing a background in technology or finance;
- Have the capacity to easily add dimensions over time, including school-level data, student demographic and achievement data, teacher and program information, and operational data.

Short-Term Steps

Build and implement the new financial reporting system

Begin to collect all needed data

Medium-Term Steps

Expand the framework to include school level data, including:

- The amount of funding that each school effectively generates for the district based on the characteristics of its student population.
- The amount of funding that is actually spent on behalf of each school, either as a direct grant to the school or as a central office expense attributable to the school. This accounting should be based on actual staff salaries and benefits earned at each school, not averages, in order to capture true spending patterns.

It is important to note that this report's proposal focuses on districts as the recipient of state funding. Districts would be free to make allocations however they see fit among their schools—potentially in ways that run contrary to the state's intentions of boosting support for low income students and other students with additional learning needs. By shining a light on how much money schools generate for their districts compared to what their districts spend on them, however, the financial reporting framework would promote better allocation and spending choices within districts.

Expand the framework to include data pertaining to service delivery, including but not limited to:

- Services delivered to specific students (e.g. bilingual education)
- After school programs
- Custodial services
- Building maintenance
- Food services
- Counseling

Data pertaining to service delivery would enable schools and districts to identify opportunities to save money so that they could redirect funds to other areas.

Long-Term Steps

Expand the framework to include a measure for "output per dollar"
Ultimately, Connecticut's financial reporting framework should link spending to student outcomes, such as gains in achievement, so that policymakers can see how spending choices affect results. No state has yet reached this step, offering Connecticut the opportunity to be a national leader in financial transparency.

Implementation Challenges

Building a new transparency framework represents a substantial change from the status quo. Connecticut will have to invest significant time, money, and talent to develop and implement the new system. Schools and districts will have to change how they collect and report fiscal data.

Connecticut's current financial reporting system takes up significant swaths of school, district and state resources without shining much light on how money is being spent and how it could be adjusted for better results. The system wastes resources without benefiting students or the public. In an era of technology opening up unprecedented levels of data, it is simply unacceptable to continue to invest in a broken financial information system. If Connecticut wants to improve its public schools, it has no choice but to spend some of its resources to make these modest changes. Even an investment of $10 to $20 million for reporting on the billions of dollars that Connecticut spends each year on K–12 education is a relatively small price to pay given the potential to spur continuous improvement.

The basic changes outlined in the immediate and short-term stages of this recommendation represent baseline standards to which many states' financial reporting systems already adhere. The medium and long-term stages require that Connecticut extend itself beyond the average state so that it can be an educational leader. By investing a little more time and energy to expand the state's database, Connecticut can serve as a model for financial transparency and give itself a significant leg up in improving student outcomes.

Benefits

A more transparent system of financial reporting would produce numerous potential benefits for Connecticut, including:

- More effective incentives, since districts and schools could much more clearly see the fiscal effects of changes in student enrollment and the financial value of attracting and retaining more high-need students;
- Cost savings, as districts and schools would be able to see more clearly how their own expenditures compare to those of similar organizations, and thereby take steps to excise inefficiencies;
- Service improvements, once the data system enables analysts to link outputs with expenditures, informing district and school leaders about what programs and approaches to expand and which ones to discard; and,
- More engagement by parents and community members who, armed with easier-to-understand data about funding flows in the state, would be in a much stronger position to hold school, district, and state officials accountable for revenue and spending decisions.

Policy Recommendation No. 3 Remove Barriers to Creating Great Public Schools

Sensible and transparent funding is not enough. Connecticut also must ensure that fiscal constraints do not hinder great results for students. Connecticut places fewer fiscal constraints on districts and schools than most states, but two policy changes would help remove the remaining, substantial barriers. These policies will especially aid efforts to create great schools for previously underserved students.

Enable Substantial Reallocation of Resources to Turn Around Failing Schools Within a Designated "Red Zone"

Revamping Connecticut's funding formula will help school districts meet one of their most pressing challenges: creating dramatic gains in the worst schools. Since such schools almost universally teach high-poverty students, the proposed formula will provide them with resources to extend the school day and year, to attract and retain the most effective

leaders and teachers, to use technology creatively to offer the best instruction for their students, and to take other actions needed to make rapid improvement.

As explained before, however, districts and school leaders currently face significant barriers to allocating, and reallocating, resources to get results in chronically low-performing schools. To address that challenge, we recommend that Connecticut policymakers create a "Red Zone"—a voluntary initiative in which districts gain added flexibility and funding in return for agreeing to engage in dramatic change strategies in their lowest performing schools.

Red Zone eligibility

Each year, the state would identify schools that are eligible for the Red Zone based on their performance on state assessments. These could be all schools that are designated as "low-achieving schools" in Connecticut's accountability system. Alternately, the state could establish a narrower eligibility range, such as the lowest achieving five percent of schools statewide that have not made significant gains over the past three years.

Benefits to placing schools in the Red Zone

Districts would not be required to place eligible schools into the Red Zone, but they would gain two significant benefits from participating:

- *Freedom from constraints that stand in the way of successful efforts to fix failing schools.* For schools in the Red Zone, districts would gain full flexibility to use all of the per-pupil resources generated by the school (via the new formula described in Recommendation #1), without the constraints of the collective bargaining agreement or any state policy impediments that the district identifies as problematic. To enact this flexibility, the state would invoke the authority it already has under the state accountability law to direct funds, make staffing decisions, and exert other powers in failing schools. The district could then use this flexibility to operate the school in dramatically new ways as district-run schools, or it could contract with an outside entity and confer that flexibility (and the per-pupil funding) on the operator. Key flexibilities include the power to staff the school as needed; to pay teachers and leaders as needed to attract, retain, and induce strong performance; to use time as needed (extended student learning time, extended staff collaboration and planning time); and to reallocate all of the school's resources as needed to their highest and best uses.

- *Access to specialized funding for fixing failing schools.* The district (or its contracted operator) could also apply for special state funding, in addition to the fully flexible per-pupil dollars, for its efforts to fix its failing schools. Money could come from either the New Schools Start-up Fund described below (in cases where the district is closing and reopening new schools in failing school buildings) or a new Turnaround Fund that

enables the district or school operator to invest in incentives to attract new teachers and leaders to its failing schools, extend the school day and year, and engage in other viable strategies to achieve dramatic change. To receive new school start-up or turnaround funds over two to three years, districts or their contracted operators would need to submit proposals to the state itemizing their planned uses of funds, documenting the research base behind these uses, explaining how the uses of funds would support the district or operator's overall plan for fixing the failing school, and demonstrating the financial sustainability of its plan beyond the life of the grant. In the near term, Connecticut could finance such funds primarily with the substantial infusion of federal "school improvement" funds it will receive under section 1003(g) of the Elementary and Secondary Act. After that federal funding is exhausted, the state would need to allocate $500,000 to $750,000 annually per identified school to maintain the levels expected to be available under 1003(g) guidelines.

Commitments districts must make for Red Zone schools

To be eligible for the flexibility and funding, districts would need to make several commitments regarding their planned interventions in failed schools. Specifically, districts would have to commit to (and show evidence over time of actually carrying out) the following:

- *Undertaking dramatic, rather than incremental, change strategies* in Red Zone schools, including either "starting fresh" by closing and reopening the school under new leadership and staff, or by pursuing a "classic turnaround" in which a highly capable new leader receives a clear mandate from the top to engage in bold reforms.

- *Fully extending both the funding and the flexibility* allowed in the Red Zone to schools in the Zone. Schools or the district's contracted operator would need full control of staffing decisions, use of time, program, and funding allocations. Districts would need to demonstrate that they had established the necessary policies and infrastructure to support this flexibility within this subset of schools (e.g., through a special office within the district reporting to the superintendent and having wide latitude to contract with school operators, hiring turnaround leaders, and granting the flexibilities envisioned for Red Zone schools without requiring the continuous re-approval of other district offices or the board of education).

- *Meeting ambitious targets* for improving student achievement over a short period of time (e.g., three year performance goals with annual benchmarks).

Potential payoff of the Red Zone

If districts respond to Red Zone incentives, dozens of high-potential efforts could move forward in the next few years to fix Connecticut's chronically failing schools. Because these efforts are so challenging, they will not all be successful. But if even a subset of the bottom five percent

of schools makes substantial gains, thousands of children will avoid an otherwise desperate situation.

Create a "New Schools Start-Up Fund"

New public schools offer students in failing schools an opportunity for something better. Whether replacing a closed school, or providing an alternative to the status quo, new schools can raise student achievement, especially for students with the greatest need. New schools are an important complement to other efforts, such as attempts to turn around existing failing schools.[69] Connecticut has an opportunity to provide incentives for both the closure and reopening of failing schools and the creation of new high-quality schools by offering one-time grants from a "New Schools Start-Up Fund." As explained above, access to start-up funds is one critical constraint on the supply of new schools.

Eligibility for the new schools start-up fund
It is important to target start-up funding at Connecticut's most disadvantaged students. New schools will only help if they are better than the alternative. Grant eligibility must therefore provide a mechanism through which to identify high-quality schools. The Fund would adopt the following eligibility requirements:

- The applicant (a school district, magnet school operator, charter operator, or charter management organization) must offer evidence that the new school intends to serve students with low family income and low rates of success in their current schools.

- The applicant must show that there is sufficient demand among families to support the creation of the new school.

- The applicant must submit a plan for the school, showing how that school meets a definition of "high quality," including an education program likely to support very high student achievement, highly capable leadership, watchful financial stewardship, and responsible governance. In the case of charter schools, the state's quality bar for receiving these funds should be higher than the bar for obtaining a charter. Not all charter schools serving high-need students would necessarily receive these investments. Instead, grant money would flow to schools that, based on their plans and the track records of their founders, have a very high likelihood of success with students.[70]

- The applicant must present a budget for the use of the start-up funds that demonstrates a well-designed plan to launch the school, while moving toward sustainability over time.

Start-up fund grant details
The Fund's effectiveness will also depend on how well its grants meet

69 "Starting Fresh: A New Option for School District Leaders Under NCLB," National Association of Charter School Authorizers, 2009.
70 For more on the standards leading charter school authorizers apply when vetting school applications, see NACSA's "Principles and Standards for Quality Charter School Authorizing," *http://www.qualitycharters.org/i4a/pages/index.cfm?pageid=3393*.

critical needs. The grants must be large enough to fill the short-term funding gap new schools face. They must also allow school leaders to use the money in the ways that contribute most to the schools' success. Therefore, the grant program should include the following components:

- New school providers should be eligible to receive between $250,000 and $1 million to use over a three-year period.

- Providers may use the funding towards any planning or implementation activity, including but not limited to: paying for a facility, acquiring supplies, developing a performance management system, developing a curriculum, recruiting students, paying staff salaries and benefits before the school's regular funding begins to flow, and teacher signing bonuses.

- The award recipient must detail how it spent the grant in a year-end report for every year the recipient receives funding.

Depending on how much funding the state is able to devote to a New Schools Start-Up Fund, this policy could realistically spur the creation of five to ten new schools each year, serving between 1,000 and 5,000 students. If successful, students attending Connecticut's worst schools will be able to catch up to and even surpass their more advantaged peers like students in Connecticut's existing high-performing charter and magnet schools already do. More importantly, new high-quality schools can change the life trajectory of Connecticut's most disadvantaged students. This new life trajectory will benefit the children and the entire state.

Paying for Change

Many of the recommendations in this section and the two previous sections require additional funding. The largest cost is the long-term recommendation for the new funding formula for state dollars, which would cost $348.5 million per year in today's dollars, or about 5 percent more in total K–12 public school spending. Other components would cost less, but would still require additional resources, including the new transparency system ($10 million) and new school and turnaround funds ($500,000 to $1 million per school).

These recommendations, together, will lead to considerable cost savings as districts and schools know more about spending patterns and are incentivized to use dollars as efficiently as possible to meet students' needs. These cost savings, however, will not accrue to the state itself in a way that can be reallocated to the new funding formula or other recommendations here.

In the absence of accurate financial forecasts for Connecticut's education spending, it is difficult to predict how long it will take to raise the additional money needed to support and transition to the new funding system proposed in this report. Under different scenarios, however, we can forecast the length of the transition. If for example, the education

budget grows by 3 percent each year, all new flexible funds are applied to this recommendation, and enrollment patterns remain constant, it would take approximately eight to nine years to raise the necessary funds. If Connecticut is able to direct more money towards this recommendation, either because it raises more revenue or redirects funds from elsewhere in the education budget, implementation could take less time. Conversely, smaller contributions would extend the implementation period.

Conclusion

Connecticut's school finance system is not getting the job done for students. Even after decades of reform, low-income students continue to lag far behind. They lag behind their more advantaged peers here in the state, but Connecticut's students also lag behind low-income students in almost every other state.

Finance experts, leading districts and cutting-edge states are all concluding that state school finance systems need a fundamental makeover. To put funds to work to close the achievement gap, Connecticut needs to:

- Make money follow children based on their needs to the schools they choose to attend;
- Shine a bright light of information on the flow of funds; and
- Remove barriers to creating great schools.

No doubt, this makeover will require strong leadership from Connecticut policymakers. The reforms have costs: financial, but more significantly political, since some districts and schools will lose money to make real change possible.

But meaningful reform may be more feasible for Connecticut now than it has been in decades. As of September 2009, the state's projected budget deficit for fiscal year 2010 was $1,171 per capita. That deficit is larger than any other state—and it is based in part on a structural imbalance of spending and revenue that will likely persist even beyond the current economic downturn.[71] Spending Connecticut's education dollars more effectively is paramount. Education spending represents a substantial portion of the state budget. Amid a financial crisis there is an opportunity to remake the state's public schools by changing the way it pays for them. These are changes that may not be feasible at any other time.

The first signs of change already exist in Connecticut. Since 1998, the Open Choice program has allowed students in large urban districts to attend surrounding suburban schools if space is available. In the 2008–

71 "Highest Per Capita State Deficit," Many Eyes, Accessed September 30, 2009. Available at *http://manyeyes.alphaworks.ibm.com/manyeyes/visualizations/highest-per-capita-state-deficit-as-/*; Based on data from the Center on Budget and Policy Priorities, available at *http://www.cbpp.org/cms/?fa=view&id=711*.

2009 school year, more than 1,800 urban students attended schools in more than 60 suburban districts.[72]

More high-performing charter schools are opening as well. One of the most successful networks of schools in the nation, Achievement First, opened three new schools in Connecticut in the past three years. On average, Achievement First's poor students outperform the non-poor students in their district.[73] Interdistrict magnet schools like Rogers International School in Stamford, where Hispanic and low-income students outscored their peers across the state, are also making a difference.[74]

Momentum is building at the federal level as well. The American Recovery and Reinvestment Act, also known as the "stimulus package," includes $4.35 billion for education in the Race to the Top. The Race is a competition for states to raise standards, improve data collection and use, elevate teacher and leader quality, and turn around struggling schools.

Education Secretary Arne Duncan has also made it clear that he expects state funding and policies to support the same priorities to be competitive. One criterion in the draft guidelines for the Race is fair and equitable funding of charter schools, most readily achieved through an overall state funding system in which money follows the child to any public school.

Duncan has also proposed new plans to distribute federal school improvement funds to support only bold, dramatic efforts to turn around the nation's lowest performing schools. Now more than ever, investing resources to promote maximum student learning is an imperative for all states, including Connecticut.

The Need to Act

Even if all of these stars were not aligned, the case for change would be strong. It is morally indefensible for Connecticut to allow its most disadvantaged students to achieve at such low levels when the consequences—lower earnings, poorer health, higher rates of incarceration—are so devastating.[75]

Connecticut also must act because its economy depends on it. A poorly educated work force undermines Connecticut's economic competitiveness. Achievement gaps are choking Connecticut's economic growth. Research by consulting firm McKinsey & Company shows that closing the gap between white students and students of color in the United States could increase the growth of the economy up to five percent a year.[76]

McKinsey also showed that closing the gap between the United States and its higher performing international peers would grow the economy as much as 19 percent. It is reasonable to believe that Connecticut would experience similar growth by closing its own achievement gaps, which could increase the state economy by more than $36 billion.[77] Continuing to lag our international peers in educational outcomes is the equivalent of a self-imposed, perpetual recession even larger than the one the state now faces.[78]

72 E-mail with Janet Foster, Education Consultant, State Department of Education, Bureau of Choice Programs. 14 August 2009.
73 Public Impact analysis of Connecticut performance results, 2008.
74 "The State of Connecticut Public Education: A 2008 Report Card for Connecticut Public Schools," ConnCAN, 2008, available at *http://www.conncan.org/matriarch/documents/StateOfCTPubEd_2008%2020-26-30%282%29.pdf*.
75 "The High Cost of Low Performing Schools," ConnCAN, 2006, available at *http://www.conncan.org/matriarch/documents/IB_Connecticut_Cost_Schools(1).pdf*; "Left Behind in America: the Nation's Dropout Crisis," The Center for Labor market Studies at Northwestern University in Boston and the Alternative Schools Network in Chicago, 2009, available at *http://www.flvs.net/areas/aboutus/NewsArchives/Reports/CLMS%202009%20Dropout%20Report%204-30-09%20(2).pdf*.
76 "The Economic Impact of the Education Gap in Our Schools," McKinsey and Company, Social Sector Office, 2009, available at *http://www.mckinsey.com/clientservice/socialsector/achievement_gap_report.pdf*.
77 Ibid.; Estimate based on 2005 GDP at *http://www.localcensus.com/state/Connecticut/*.
78 McKinsey and Company, Social Sector Office. 2009.

Reforming the state's funding system will not, by itself, overcome all of Connecticut's educational challenges. Money is just one ingredient in the mix that makes up the state's complex educational system. But redesigning the funding system will create incentive—and opportunity—for districts and schools to focus their resources on the goal of creating great schools for all and eliminating Connecticut's appalling achievement gaps.

Appendix: Data Sources and Methodology

The research team drew on numerous reports, websites, and public documents to prepare this analysis. Generally, the report provides the sources of all information in footnotes or in source notes for specific figures and tables.

One critical aspect of the analysis was to project the effect of new funding systems on districts. To create those projections, the research team needed first to calculate the amount of funding that districts receive under the *current* system from local, choice, and flexible state sources. The team did not examine federal funding because the recommendations do not affect any federal funding stream. Similarly, the team did not examine non-flexible sources of state funds, such as those intended for special education and construction, because our recommendations do not affect the distribution of those funds.

As described in the report, determining each district's current local, choice, and state flexible funding proved extremely challenging due to the state's lack of a straightforward set of reports or a data system that easily yields this information. As a result, our estimates of current state and local funding by district are truly estimates. For the same reason, projections of gains and losses under new arrangements are also estimates.

Data Sources

Most of the information for these estimates of current funding came from the Connecticut State Department of Education website, including finance, demographic and enrollment data. Table 3 displays the types of information we collected to estimate districts' current funding levels.

Caveats and qualifiers related to these data sources

- *"Flexible" state funds.* For the purpose of this report, "flexible" state funds refer to education funds where recipients have considerable latitude in

TABLE 3 Collected Data (2007–2008)

VARIABLE	DESCRIPTION
Unaudited Average Daily Membership	All children enrolled in K–12 in a particular town regardless of what school they attend
Local Funds	All local funds
Original state flexible funding	Flexible state funds under the current system, including: ECS grant, Early Reading Grant, Early Reading Competitive grant, ECS Accountability Priorities grant, Sheff settlement, Priority grants
Original state funds for choice, charter, magnet, interdistrict, and transfer funds	Funds to support choice beyond per pupil expenditures, including: Magnet Operating grant, Charter Payment, RESC (Regional Education Service District), Unrestricted Formula grant, Open Choice Receiving District, Interdistrict Cooperative grant
Percent of students eligible for free or reduced-price lunch	Percent of students in the district who are eligible for free or reduced-price lunch
Number of students who are English Language Learners	Number of students who are English Language Learners by district
Students transferring out	Students leaving traditional district school to attend a charter or magnet school

TABLE 4 Variables Included in the Simulator

VARIABLE	DESCRIPTION
Equalization amount	The minimum funding allocated to each child. Under our proposal, if local funding at an agreed upon level of taxation cannot support the equalization amount, then the state would supplement local dollars up to the equalization amount.
Poverty weight	The amount of additional money allocated to districts and schools for each poor student they enroll, identified as qualifying for free or reduced-price lunch.
English Language Learner weight	The amount of additional money allocated to districts and schools for each student they enroll who is designated as an English Language Learner.
Technology grant cut-off	The maximum Average Daily Membership for which a district is still eligible to receive a technology grant.
Technology grant per pupil	The amount of additional money allocated to each student in a qualifying district. Districts must have an ADM below the technology grant cut-off to qualify.

how they spend the money. In contrast, most other state funds are earmarked for specific uses such as special education or construction.

- *Regional districts.* Towns send some of their funding to regional districts for uses such as regional high schools. For purposes of our model, however, we counted these funds as belonging to the towns. In this way, we treat regional districts just like other vendors or organizations with which towns contract for services, rather than as "districts."

- *Interdistrict and intradistrict payments.* We were not able to identify payments between districts or between districts and charter or magnet schools for students in charter and magnet schools given the unavailability of such data from accessible sources. The model therefore assumes that all state flexible funds currently stay with the town. Such an assumption may overstate the "loss" some districts face under the new options, since some districts already transfer some of this money under the current system.

Methodology for Projecting Funding under New Scenarios

Using the data listed above, we created a "simulator" to assess how different funding structures would change the way state flexible and choice funds are allocated across Connecticut's towns and the state's total costs. The simulator allows the research team to adjust variables listed in Table 4 in order to project the effects on towns and the state.

Using a series of formulas, the simulator is able to project estimates of two outcomes of interest based on the values of the variables listed above for each town:

- The gain/loss in state flexible funding as a percent of all funding per pupil (before interdistrict transfers are made).

- The change in flexible state per pupil funding in dollars.

The simulator also determines the total increase in state funding needed to cover the added costs associated with a given funding structure, if any.

Caveats and qualifiers related to the simulator

We did not have all of the necessary data to include the impact of students attending technical schools at the time of publication, so those students are included in the district Average Daily Membership. As a result, the model overestimates the state flexible funding that towns with students attending technical schools in other districts will receive.

The equation does not produce an exact figure, however, because we weren't able to identify Free or Reduced-Price Lunch and English Language Learner status for each leaving student. If leaving students are disproportionately poor or more likely to be English Language Learner students, then this figure will be larger than predicted, and vice versa.

Children qualify as "poor" under the current ECS formula if their families are eligible for Temporary Aid to Needy Families. We did not have access to those data. Instead, our calculations use free or reduced-price lunch eligibility as a proxy for poverty and this data appears to be unaudited in some districts, introducing the possibility that the simulator would overstate state flexible funding for towns which have overstated their free and reduced-price lunch eligibility.[79]

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79 "Governor's Proposed ECS Grant," Brian Shepard, Memo from the Connecticut General Assembly Office of Fiscal Analysis to the Appropriations Committee, 8 February 2007.

About ConnCAN

In the tradition of Connecticut's great advocacy movements—from the Connecticut Woman Suffrage Association to Harriet Beecher Stowe and the abolitionists—the Connecticut Coalition for Achievement Now (ConnCAN) is building a new movement of concerned Connecticut citizens working to create fundamental change in our education system.

About Public Impact

Public Impact is a national education policy and management consulting firm based in Chapel Hill, North Carolina. We are a small, growing team of researchers, thought leaders, tool-builders, and on-the-ground consultants who help education leaders and policymakers improve student learning in K–12 education. We believe that if we focus on a core set of promising strategies for change, we can make dramatic improvements for all students.

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