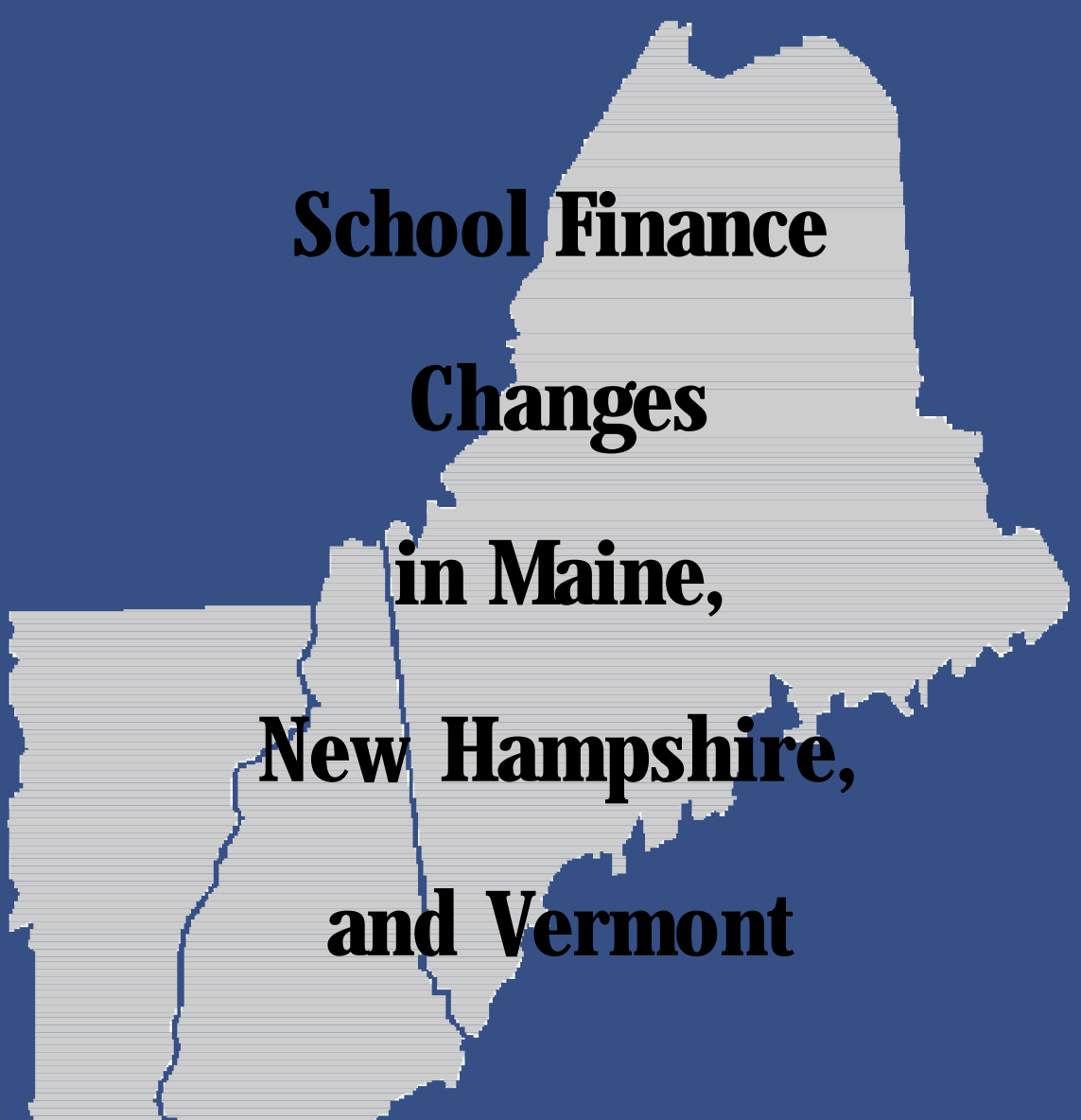


Occasional Paper No. 39



**School Finance
Changes
in Maine,
New Hampshire,
and Vermont**

by Pushpam Jain, Assistant Research Professor
Center for Research and Evaluation

October 2001

a publication of the College of Education & Human Development at the University of Maine
and the Penquis Superintendents' Association

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Abstract

How have the three Northern New England states of Maine, New Hampshire, and Vermont approached the issue of adequacy in funding? Larger changes in school finance policy have shifted the reform focus from interdistrict equity to ensuring an adequate funding level within a state. What are the similarities and differences in the ‘adequacy based’ funding formulas in Maine, Vermont, and New Hampshire? Understanding the three states’ approach towards adequacy can provide some guidance for other states attempting to operationalize adequacy in school funding. Given the regional nature of the three states, one would expect a somewhat

similar approach to adequacy in Northern New England; but all three states approached funding adequacy differently.

How have the three Northern New England states of Maine, New Hampshire, and Vermont approached the issue of adequacy in funding? An “adequate” funding level is crucial to ensure attainment of outcomes on state standards recently proposed in the three states.

In this paper, first, I briefly summarize the larger changes in school finance policy that have shifted the reform focus from interdistrict equity to ensuring an adequate funding level within a state. Second, I examine the “adequacy based” funding formulas, either proposed or implemented, in Maine, Vermont, and New Hampshire. Finally, I explore the similarities and differences between the adequacy approaches in the three states. Understanding the three states’ approach towards adequacy can provide some guidance for other states attempting to operationalize adequacy in school funding. Given the regional nature of the three states, one would expect a somewhat similar approach to adequacy in Northern New England; but all three states approached funding adequacy differently.

Shift from Equity to Adequacy

State and local institutions, including the legislature, the governor, courts, interest groups, and individual school boards, have shaped school finance over the last few decades (Wong, 1999; Ladd & Hansen, 1999; Odden, 2000; Odden & Picus, 2000). School funding dominates state policy because it is the largest single-budget category of spending in all states (NCSL, 1996). At the same time, court challenges to state funding formulas and consequent judicial intervention, has influenced school finance over the last 3 decades (Minorni & Sugarman, 1999).

Traditionally, the school finance debate has focused on achieving equity in interdistrict spending, which somewhat resulted from the establishment of the foundation formula. In spite of a foundation formula that sought to guarantee a minimum funding level, state funding formulas faced several court challenges, starting in the federal court and then moving to individual state courts (Minorni & Sugarman, 1999). While these court challenges may have had some impact on the distribution of resources, the link between school resources and student outcomes remains tenuous (Burtless, 1996). In addition, equity issues vary if one examines the different federal levels of the education system; namely, the federal, state, and local (Wong, 1999).

Given that funding equity remained an elusive target and at the same time the link between academic achievement and school funding remained tenuous at best, the discussion in school funding began to shift from equity to adequacy. Several short-term events converged to propel this shift, which are explained below. A major factor has been recent school funding lawsuits based on state educational clauses, which have targeted the state's responsibility in educating its citizens and ensuring that the citizens receive an "adequate" education (Ladd & Hansen, 1999). In addition, as the focus in education policy shifted to standards in education and away from input factors to an outcomes-based accountability approach, the funding emphasis also shifted towards resources necessary to attain high outcomes (Odden, 2000), in contrast to the elusive goal of equitable funding.

The Kentucky court decision of 1989 in *Rose v. Council for Better Education* (790 S. W. 2d 18), part of the third wave of school finance litigation based on state constitutions (Heise, 1995), propagated a major shift in constitutional challenges to school funding, as it shifted the

debate to adequacy issues. The Kentucky Supreme Court declared the entire state system of elementary and secondary education unconstitutional, for failing to provide all children an adequate education. The court emphasized how little Kentucky currently spent on education as compared with neighboring states and, in turn, how poor was the educational attainment of Kentucky students. The Court based its decision on the state constitution's education clause and held that all Kentucky schoolchildren had a constitutional right to an adequate education (Minorni & Sugarman, 1999). The court ordered the state to overhaul the entire system of education to bring it into compliance. Ladd and Hansen (1999) argue that the Kentucky decision highlighted an important lesson from the educational reforms of the 1960s, 1970s, and 1980s: Improving the fiscal capacity of schools may be necessary, but certainly isn't sufficient to achieve equal educational opportunity. Since the Kentucky decision, adequacy has moved to the center stage in discussions of fairness in school finance systems.

During this time period, the movement for state standards was taking hold. Smith and O'Day (1990) proposed a standards-based systemic reform strategy, suggesting that the failure of the two previous waves of education reform argued for a coherent, state-centered education system. The first wave of education reform in the early 1980s focused on expanding or improving inputs going into a school system (such as longer school day, increased requirements for graduation, and better teachers). Since the publication of a *Nation at Risk* in 1983, focus in education was shifting to outcomes of the education system, as opposed to the traditional emphasis on system inputs. A second wave of reform followed in the middle to late 1980s, which called for a fundamental restructuring of schooling, focusing on decentralization,

professionalization, and bottom-up change. Deeming these two efforts to be failures, Smith and O'Day (1990) proposed a systemic reform strategy at the state level, where a state education system was aligned towards a high standards curriculum, and progress on these standards could be measured through assessments. At the same time, systemic reform sought to hold schools accountable to performance on state standards. As states in the 1990s adopted a standards-based reform strategy and the focus shifted to outcomes, the school funding issues also began to focus on the level of resources necessary to attain those outcomes, as opposed to the previous approach focused on level of resources going into the school. Thus, the court induced adequacy targets, and the shift in education policy towards an outcomes-based accountability propelled a shift in education finance towards adequacy.

Understanding Adequacy

What is adequacy? The Kentucky court provided broad guidelines to the legislature about what constitutes an adequate education, which focused on outcomes and the necessary sufficient knowledge linked to these outcomes. Berne and Stiefel (1999) argue that adequacy specifies a level of resources that is sufficient to meet defined or absolute, rather than relative, output standards. Odden (2000) mostly agrees with this notion, in defining adequacy as resources which are sufficient (or adequate) to achieve some educational result, such as a minimum passing grade on a state achievement test. The unit of analysis for understanding adequacy, in most cases, is either the child or the school. Most importantly, in order to understand funding adequacy, an agreement on adequate performance outcomes is necessary (Ladd & Hansen, 1999).

Adequacy in Northern New England

As nationally the focus in school finance has shifted from equity to adequacy, so also in the three New England states, recent school funding reform measures have sought to target adequacy. How did Vermont, New Hampshire, and Maine develop their measures of adequacy? I first provide a brief overview of the larger reform in the three states individually, and then examine how the three states defined adequacy.

At present, school finance scholars agree on four approaches to operationalizing adequacy. One is to identify a set of inputs based on professional judgment and calculate their costs, but then funds are distributed as block grants rather than categorical funds designated for each specific input. A second approach is to use an econometric model to understand how outcomes are linked to resources within a state, and then define an adequacy standard based on this model. A third approach is to empirically observe resources associated with high outcomes in well performing schools. A fourth emerging market-oriented approach is based on the development of whole-school designs that school districts can buy, which represent the frontier of knowledge about how to produce the desired level of student outcomes (Ladd & Hansen, 2000; Odden, 2000). The first three approaches usually include adjustments for special needs populations, such as students in poverty, bilingual, and special education students.

Maine's Essential Programs and Services

Maine, in the absence of an external imposition such as a court mandate, tackled the school funding issue to determine an adequate level of resources necessary to meet the state

standards. In response, the state board of education devised the Essential Programs and Services (EPS) funding approach. The EPS Committee, in developing an adequacy level, developed a prototypical school and then determined the necessary inputs for such a school to meet the programs and services required under the state standards. A determination of an adequate level of resources was mostly based on committee judgments, which resulted in a final amount of \$4,407 for each elementary student, with adjustments for different student populations (Maine Department of Education, 2000).

In Maine, there was no court case or an external imposition forcing the state to change school funding. Given that in Maine the state contributes a greater share of school funding compared to Vermont and New Hampshire, school funding in Maine has been comparatively more equitable. Similar to national trends, the Maine legislature also became concerned about whether all districts had adequate resources to meet the new state standards (also known as opportunity to learn standards in the past). In response, the state board proposed the Essential Programs and Services approach.

The approach deems the following eight programs as “essential” to meet the state standards: career preparation, English language and arts, health and physical education, mathematics, modern and classical languages, science and technology, social studies, and visual and performing arts. In terms of essential services, the program considers school personnel, supplies and equipment, resources for specialized populations, specialized services, district services, and school level adjustments as essential services. The committee developed prototypical schools at grades K-5, 6-8, and 9-12 with average enrollments. Based on professional judgment, past

experience, and other research in the field, the committee determined the level of resources necessary to attain EPS for a prototypical school. In its final report, the committee set per pupil operating cost of \$4,407 for K-5, \$4,543 for 6-8, and \$5,081 for 9-12 (Maine Department of Education, 2000; Silvernail, 2000).

A major shortcoming of Maine's adequacy approach is that it is not directly linked to outcomes, which is a foundation for any adequacy formula. This is a problem inherent in the adequacy model based upon inputs. In addition, given the lack of information and necessary research, determination of inputs is subjective. For example, simply changing the pupil-teacher ratio the committee proposed can result in major changes in the final adequacy amount¹. EPS remains a proposal which the legislature is in the process of adopting as a concept bill and it remains to be seen whether the state will fully adopt this funding approach.

Vermont's Act 60

Vermont did not treat school funding reform as an adequacy issue, and the state was more concerned with taxpayer equity. In addition, the state sought to reduce spending disparity across districts, or at least ensure that the ability to raise the foundation level was entirely independent of local wealth.

The Vermont legislature passed the Equal Educational Opportunity Act in 1997 in response to Vermont Supreme court's decision in *Brigham v. Young* (No. 96-502 [VT filed Feb. 5, 1997]), which declared the state school funding system unconstitutional because the existing

¹ There is no conclusive evidence on what is the most appropriate pupil-teacher ratio when we are discussing figures of 16, 17, 18, 19 or 20 students per teacher.

system failed to provide equal educational opportunity to students in property poor communities and so it violated a state constitutional right to education. The two major areas Act 60 covers are school funding and standards-based reform. The funding policy is designed to decrease the property tax burden (making the property tax more progressive) and increase equity across school districts, such that the state would contribute 70% to 80% of school expenses. To this end, Act 60 institutes a state property tax with a state rate. The tax formula is income-sensitive, where persons earning below \$75,000 pay their share of the property tax as a percentage of their income. Towns receive Act 60 funds based on the number of students (Jain, 2000). This is highly atypical for a state with a strong tradition of local control, and where local governments contributed 65% to 75% of school expenses (Jain, 1997). Towns can spend above the state level by locally adding on to the state rate and the state guarantees an equal yield to all towns for a given tax rate.

Vermont provides a “General State Support Grant” (block grant) to school districts based on the number of equalized pupils. The statewide education property tax rate was set at \$1.10 per \$100 of equalized grand list. For 1999, the amount was set at \$5000 in FY97 dollars, adjusted for secondary, poverty, and ESL students, and it included special education mainstreaming and essential early education grants. The amount of funding was built upon the existing foundation grant. For categorical grants, the state funds 60% of special education costs, and provides a \$100 grant per pupil to mainstream special education students. For special education costs above \$50,000, the state covers 90% of the costs. The state funds 30% of capital construction and 50% of transportation costs. It also provides additional support for small school with enrollments

under 100. Act 60 created an Education Fund and a Stabilization Reserve administered by the Executive Branch.

Vermont was not as concerned about adequacy as the state legislature, and the larger state policy climate was driven towards improving taxpayer equity and guaranteeing equal yield on a given tax rate in different school districts. The state did not use an adequacy language in outlining its funding reform. The level of funding (or an adequacy amount) was built on the state's previous foundation grant, and Vermont avoided developing a new adequacy-based formula.

Adequacy in New Hampshire

New Hampshire used a statistical approach to define adequacy, examining school districts performing average on the state assessment, and among those districts the state observed the level of resources that the low spending districts utilized. The state used several adjustments to compute an adequacy level, which illustrates that even when utilizing a nationally recognized formula, the final outcome depends on how a state chooses to weight different factors.

The New Hampshire Supreme Court ruled in 1993 that the provision of an adequate education was the constitutional responsibility of the state and that the state must guarantee its funding (*Claremont I*) (Hall, 1998). Subsequently, as part of *Claremont II* in 1997, the Supreme Court ruled that a system with primary reliance on variable local property tax rates to fund public education was unconstitutional. The state has gone through several funding proposals and the issue still remains unsettled. I highlight some of the major funding reforms proposed and the program currently in place.

Governor Shaheen proposed an Advancing Better Classrooms (ABC) plan in 1998 that relied on a statewide property tax, with an adequate spending level of \$4,629. Districts were expected to set a maximum tax rate of \$15.06, with the state subsidizing districts unable to raise the adequate level at the state tax rate.

The legislature ignored the court imposed deadline of April 1999, in spite of numerous reform proposals under consideration. A school finance legislation passed in 1999 raised the total state commitment to \$825 million, with a funding level at \$4,220 per student. The bill raised additional revenue with increases in the cigarette tax, BPT and BET taxes, as well as a new rental car tax, and a new statewide school property tax of \$6.60 per \$1,000 of equalized property valuation. The bill originally included a phase-in provision for towns facing a tax increase, but the court found the phase-in unconstitutional because it created two distinct classes of taxpayers. The legislature replaced the phase-in provision with a hardship relief measure for low and moderate income taxpayers. The legislation is set to expire in January 2003, compelling the legislature to develop a permanent funding solution and also develop a new formula for adequate education grants.

New Hampshire determined the adequacy amount based on the average expenditure in a sample of districts. The state first ranked districts with 50% to 60% of their elementary students scoring at the basic level or above on the NHEIAP test, by their expenditure. From this group, the lowest spending districts that represented 50% of the enrollment were used to calculate an average base expenditure of \$3,547 per elementary pupil, which was adjusted downwards to \$3,201 to account for costs not required for a constitutionally adequate education. Districts are

then funded based on their average daily membership, with the following weightings: 1.0 for elementary pupil, 1.2 for a high school student, and 2.0 for an educationally disabled child. Poverty weightings are based on the percent of elementary pupils receiving free or reduced meals: If less than 12% are eligible, there is no additional weight; if 20% to 24% are eligible, each child receives an additional weight of 0.5; if 24% or more are eligible, each child receives an additional weight of 1.0. In addition to a weighted pupil amount, districts also receive 70% of local transportation costs. The statewide program total for fiscal year 2000 was \$825 million.

The program faces several court challenges, and a judge ruled in January 2001 that because of variances in property valuation across districts, the property tax cannot be administered uniformly throughout the state. Hence, he ruled that New Hampshire's statewide property tax is unconstitutional and ordered the state to pay back the approximately \$440 million a year it has been collecting through the tax to fund education (Manchester Union Leader, January 18, 2001). Governor Shaheen, in response, has proposed a new plan that will raise more than \$900 million a year for public education. Her plan calls for a 2.5% narrow-based sales tax and for the statewide property tax to be lowered from \$6.60 to \$4.90 per \$1,000.

New Hampshire, Vermont, and Maine each adopted a different approach to school funding. New Hampshire and Maine operationalized two of the nationally proposed adequacy models, but Vermont retained its foundation-based approach. Vermont was more concerned about equalizing spending and also equalizing the capacity to raise revenues across districts. A foundation amount is not necessarily related to student outcomes. New Hampshire examined spending patterns in average performing and low spending districts to establish an adequate amount;

whereas, Maine researched the necessary inputs for a prototypical school to develop an adequacy amount. The case of these three states illustrates that in spite of a broad agreement on the concept of adequacy, there is no standard approach on how to operationalize adequacy. And even when a state adopts a widely recognized adequacy approach, the local formulation of various issues that are a part of the formula, highly influence the final adequacy level.

Lessons for Adequacy

The goal of an adequacy formula is to shift the debate from what is spent in a district relative to another district, to what is adequate for educating a class of students within any district. Yet issues of equity remain poignant and still dominate statehouse discussions, and the focus on these issues may create the push for reform. This was the case in Maine, where the legislature was concerned with the great disparity in spending across districts. Similarly, in New Hampshire and Vermont, the court cases arose out of this disparity across districts. But once the states initiated reform, it mostly followed the path of adequacy, except in Vermont.

Accountability and link to outcomes has to be a key piece of any adequacy mechanism. For most adequacy formulas to be viable at the state level, policymakers need to rationalize that the predetermined level of resources are *necessary* to attain the outcomes they have deemed as important for the states. This needs to be combined with a strong emphasis on accountability because simply an emphasis on outcomes would be irrelevant without holding stakeholders accountable.

Nationally, there seems to be an emerging consensus on the concept of adequacy, understood as an adequate level of resources necessary to attain the predetermined outcome standards. Adequacy was initially proposed as national opportunity to learn standards (Smith and O'Day, 1991), but it has been more widely adopted at the state level. Yet there is no agreement on how to operationalize adequacy, partly because it is an emerging, cutting-edge concept. There are four proposed strategies to operationalize adequacy, but even within each strategy, there is room for great variability.

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