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School Districts Should Consider Student-based Budgeting to Address Ongoing Literacy Challenges

In a Nutshell

- Michigan public schools rely on age-old centralized staff-based budgeting systems to allocate resources (primarily staff positions) to schools; these models don’t guarantee that greater sums of per-pupil resources will be directed to the highest-need schools.
- Changing or modifying current district-level budgeting policies, strategies, and practices to ensure low-income schools are properly resourced may be fertile ground for addressing Michigan’s early-literacy challenges and the per-student funding inequities found in several large districts and documented by our previous research.
- Weighted-student funding budgeting models use student need, rather than staff positions, as the guiding principle for school-level resource allocation; the use of this school budgeting approach in several U.S. cities has been shown to drive additional resources to higher-need schools, helping them to improve academic outcomes, especially among low-income students.

Despite skyrocketing state K-12 school funding, early literacy test scores continue to tank. One solution to address this persistent decline is for districts to change how they allocate dollars to individual schools, moving away from staff-based to student-need-based budgeting systems. In cities across the country that implemented student-centered budgeting, research found that financial resources were distributed more equitably to schools, driving higher academic achievement for the most disadvantaged students.

If state policymakers are serious about addressing students’ early literacy challenges and eliminating educational opportunity gaps, it is critically important that state investments get to the students and schools with the highest needs.

The Case for District Budgeting Reform

Recently released K-12 student test scores for the 2023-24 school year again revealed the widespread and harmful effects that the COVID-19 pandemic had on the education of Michigan’s youngest learners. Fewer than four in ten third-grade students taking M-STEP tests last spring tested proficient in reading and writing. Notably, this cohort of early learners began kindergarten in the fall of 2020 when many schools were still remote and instruction quality suffered.

But, the pandemic is not all to blame for student struggles as the slide in early-grade reading scores predates the pandemic. Michigan has been ranked in the bottom of states on the national fourth-grade reading test for years, falling from 39 in the nation in 2019 to 43 on the 2022 National Assessment for Educational Progress.

This sustained academic slide has prompted calls by school leaders across the state for Lansing officials to change Michigan’s early literacy policies on several fronts in recent years, including modifications to the state’s third-grade reading law. More changes are likely as state lawmakers are currently considering additional policy interventions targeting struggling readers, including those with dyslexia. Suffice to say, Michigan’s early literacy

policy landscape continues to shift in response to falling test scores.

Notably, the stubborn downward trend in third-grade reading scores comes at a time when Michigan public school funding is at an all-time high. Ongoing state K-12 education funding is way up compared to before the pandemic, while school districts have shared in roughly \$6 billion in federal pandemic relief since early 2020. Relevantly, there have been sizable new state budget investments for district literacy coaches, evidence-based teacher professional development, additional instructional time for struggling readers, and expanded tuition-free pre-school services. These new investments, along with \$1 billion per year in state “at-risk” student funding to support third-grade reading initiatives, demonstrate that districts are receiving resources to tackle Michigan’s early literacy crisis.

Whether these additional financial resources are reaching the individual schools and classrooms with the greatest proportions of struggling readers is an open question. That is because state and federal school funding flows to the district entity, not the district’s individual schools. The problem is that Michigan public schools rely on age-old centralized staff-based budgeting systems to allocate resources (primarily staff positions) to schools. Staff-based budgeting models don’t guarantee that greater sums of per-pupil resources will be directed to the highest-need schools.

Changing or modifying current district-level budgeting policies, strategies, and practices to ensure low-income schools are properly resourced may be fertile ground to address Michigan’s early-literacy challenges, as well as the per-student funding inequities found within several large districts. One popular reform to school budgeting practices adopted by many large districts across the country is a “student-based” or “weighted-student funding (WSF)” model. The use of WSF to allocate resources across schools has been shown to drive additional resources to higher-need schools, helping them to improve academic outcomes, especially among low-income students.

Staffing-Based School Budgeting Drives Funding Inequities

For the layperson, public school finances can be an extremely complicated topic to understand for several reasons. First, three different levels of government control the purse strings. Second, public funds flow to districts through several unique and often complex formulas. Finally, the fact that no two states fund their schools the same way adds further to the confusion surrounding these technical aspects of school funding. Beyond all these factors lies a general lack of transparency and meaningful public reporting of school finance information.

While complexity abounds, there is one simple concept to bear in mind for this current discussion: the central role played by the local school district in K-12 finances, especially as it relates to turning revenues into expenditures. Districts, not the federal or state governments, make myriad decisions on how to spend the dollars they receive, how to allocate funds to each school, and how to balance competing priorities.

For most of their history, K-12 school districts across the country have employed centralized staff-based budgeting systems to allocate resources – staffing, programs, and services – across the schools they operate. These budgeting systems convert the various funding streams districts receive (federal, state, and local) into classroom and non-instructional “positions” within the various schools they operate.

Resourcing specific classrooms this way is primarily driven by using a district-wide enrollment-based staffing formula. For example, schools might receive a teaching position for every 26 students, a vice principal for every 350 students. Additional, non-formula staff positions are then added to address the needs of specific students (e.g., special education, English learners) or to deliver special programs (e.g., STEM class). For budgeting purposes, the number of full-time positions are totaled and then converted to dollars using district-wide average salaries for each type of staff, not the actual salaries of school staff. Over time, these staffing rules become “hard-wired” into a district’s annual budget development process.

While using staffing-based formulas to drive school-level allocations seems to make sense on its face given that K-12 spending is very heavily concentrated in “people” costs (salaries, benefits, deferred compensation), these systems only provide a false appearance of equity. That is because they tend to allow higher-priced

resources – better-paid teachers – to be allocated to higher-performing schools. A low-income school might receive the same number of teachers with the same staffing ratios as higher-income schools within the same district. And yet, the actual spending patterns can vary widely.

This often leaves schools with the highest concentrations of high-need students with the newest and least-experienced teachers. This presents a serious challenge for students attending high-poverty schools because they need access to the very best teachers the districts have to offer. Extensive research has spotlighted inequities that emerge when lower-income and minority students are taught by less experienced teachers, including wide achievement gaps in early literacy.

The unfortunate truth is that these teacher quality gaps are common in staffing-based funding models and can be a major factor fueling inequitable spending disparities among schools within the same district. The fiscal result is that higher-poverty schools do not receive proportionately more per-pupil funding relative to their lower-poverty school counterparts. That is exactly what we found in our school-level spending analysis from earlier this year.

Using a novel approach to examine variations in school-level per-pupil spending within Michigan districts, while accounting for the concentration of “at-risk” students enrolled in each school, our findings suggest that several large school districts do not always budget the funding they receive in an equitable manner. Our research shows that districts are not allocating more resources per student to the schools that enroll higher percentages of low-income students. Just over one-half of the schools operated by the 15 largest “high-poverty” districts showed equitable per-pupil spending; greater spending to reflect the higher concentrations of “at-risk” students relative to the parent district’s average.

This finding is relevant to discussions about student outcomes because research has established the importance of money, and how it is used, to drive academic success. This is especially salient when it comes to discussions around early literacy funding and outcomes. While third-grade reading proficiency statewide was less than 40 percent in 2023-24, wide achievement gaps exist among several student cohorts. Specifically, high-income students had a proficiency rate more than double (57 percent) that of low-income students (27 percent) on the M-STEP third-grade reading test in 2023-24. If state policymakers are serious about addressing students’ early literacy challenges and eliminating educational opportunity gaps, it is critically important that state investments get to the students and schools with the highest needs.

Weighted-Student Funding

Recognizing the within-district funding inequities that can result from staff-based budgeting systems, several large school districts in the United States have adopted alternative budget models that use student need, rather than staff positions, as the guiding principle for school-level resource allocation. These systems are often referred to as “weighted-student funding (WSF)” or “student-based funding” models.

Generally with WSF budgeting, school-level funding allocations are based on per-student allotments using a “base” allocation for every student enrolled. Schools then receive additional “weighted” per-student allocations based on counts of different student types (e.g., economically disadvantaged, special education). In this way, districts allocate financial resources, not specific staffing positions, to staff classrooms and pay for other services to meet the specific student needs within each school (figure below).

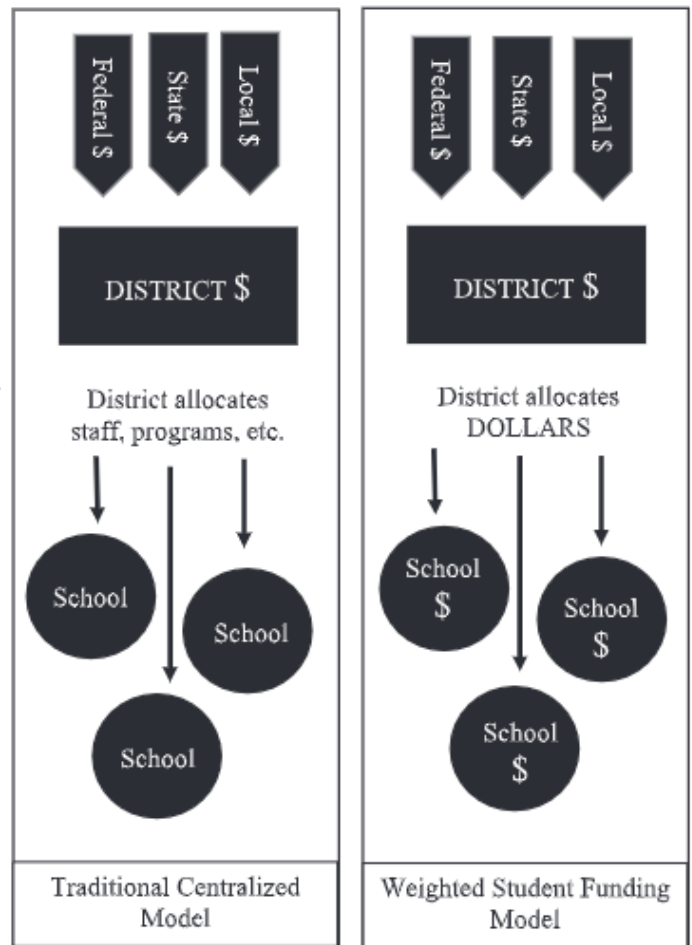
Figure 1

School-Level Budgeting Models

Source: Roza, M., Hagan, K. and Anderson, L. (2021), Variation is the Norm: A Landscape Analysis of Weighted Student Funding Implementation. *Public Budgeting & Finance*, 41: 3-25.

Studies of WSF budgeting systems implemented across several major U.S. cities have found that they distribute resources more equitably to schools by better linking dollars to student needs. Specifically, in districts using WSF, low-income students on average attend schools receiving more per-pupil funding than all other students in the district. In a study of 20 districts using WSF, 18 districts exhibited more “progressive” school funding, driving an average of 3.9 percent more per-pupil dollars to low-income schools. This research also shows that, over time, the use of WSF budgeting increases the progressivity of a district’s school-level resource allocations.

Beyond the research evidence that suggests districts’ use of WSF results in more equitable funding across schools, these student-centered budgeting models have shown to be associated with increased math and reading scores, as well as declines in racial achievement gaps. These academic outcomes are attributed to the additional needs-based funding schools receive, but also the budgetary autonomy provided to principals that accompanies WSF implementation. School-level leaders, as opposed to central district officials, have the ability and know-how to purchase the appropriate mix of educational resources (e.g., staff, curriculum) for students.



While WSF budgeting may be a novel concept for many of Michigan’s 840 local school districts (traditional public and charter schools), it is worth noting that it is not entirely new to discussions around K-12 funding in the Mitten State. Since the adoption of the Proposal A school finance reforms in the mid-1990s, the state K-12 School Aid budget has employed several WSF-like components to allocate state funds across districts. This includes the distribution of state “at-risk” student funding to provide higher-need districts (i.e., those with greater proportions of economically disadvantaged students) with additional state aid.

Michigan’s flagging early-grade reading scores, coupled with persistent achievement gaps across socio-economic and racial dimensions, has prompted state leaders in recent years to provide school districts with hundreds of millions of new dollars for literacy-based investments. In order for the new investments to be most effective at helping struggling readers, they need to get into the budgets of the specific schools and classrooms these students attend. Traditional staff-based budgeting systems can lead some districts to allocate fewer resources to disadvantaged students. Alternatively, WSF models have shown promise for improving equitable school-level funding and driving higher academic achievement.

ABOUT THE AUTHOR

Craig Thiel - Research Director



Craig is the Research Council's Research Director and primary researcher of education and school finance issues. Prior to becoming Research Director, Craig served as the Director of State Affairs and as a Senior Research Associate. During his graduate school studies, he worked for the Council as a Lent Upson-Loren Miller Fellow from 1993 to 1995. Before joining the Council in 2006, Craig worked for ten years as a fiscal analyst at both the Senate Fiscal Agency and the House Fiscal Agency. He previously worked for the Michigan Department of State, Office of Policy and Planning and the United States Environmental Protection Agency in Chicago.

Craig holds a B.A. in Economics and Political Science from Kalamazoo College and a Masters in Public Administration from Wayne State University. He holds positions on various professional, nonprofit, and local government boards/associations.

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Southeast Michigan

38777 Six Mile Rd. Suite 208, Livonia, MI 48152
(734) 542-8001

Mid Michigan

115 W Allegan St. Suite 480, Lansing, MI 48933
(517) 485-9444

Detroit (313) 572-1840

West Michigan (616) 294-8359

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