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Executive Summary

In 2007, Governor Ruth Ann Minner issued Executive Order #98 to recognize Vision 2015 and establish the Leadership for Education and Achievement in Delaware (LEAD) Committee. The Committee was charged with analyzing current methods of generating and distributing funding for public education in Delaware and recommending changes that would enhance the adequacy and equity of the system.

To increase achievement and ensure a high-quality education for every Delaware student, the LEAD Committee identified important reforms for the state’s education finance system. Under the current system, policies prevent funds from being generated fairly, distributed equitably and used cost effectively to serve the diverse needs of Delaware’s students.

LEAD’s vision is that a reformed funding system for public education in Delaware will achieve the following goals:

- Goal 1: Provide equitable access to resources,
- Goal 2: Provide sufficient resources,
- Goal 3: Allocate funds on a direct per-student basis,
- Goal 4: Target funds to meet student needs,
- Goal 5: Allow for flexibility in resource use and support innovation in education delivery, and
- Goal 6: Support a transparent and easy-to-understand funding structure.

Almost two-thirds (63 percent) of Delaware’s education funding comes from the state, which currently allocates most of these funds using the unit system. Units are commitments by the state to pay specified expenses, including teacher and administrator salaries on behalf of schools. How many units a given school receives is determined by how many students in certain categories, or “types” — for example, “regular” high school students; “regular” elementary students; and “mild,” “moderate” or “severe” special education students — are enrolled at the school that year. This system, though well intended, has led to funding disparities for schools and challenges in how effectively available dollars are used.

The recommendations in this report attempt to address four core challenges in Delaware’s existing system for allocating state dollars.

- First, the categories of students currently factored into the unit system do not include some of the most prevalent populations of high-needs students, including those who live in poverty and English language learner (ELL) students. Although the state does provide a modest additional per-student allocation for these other high-needs students, the funds do not provide the learning supports these students need.
- Second, enrollment counts needed to generate a unit are inflexible, if not arbitrary, driving a school’s funding even further from its actual requirements.
- Third, because districts and schools receive so much of their funds in the form of earmarked units, they have minimal flexibility to apply their funds to meet their own students' needs.
- And fourth, because real dollar-spending figures per student type are complicated by unit counts, the system keeps school leaders, policymakers and the general public from tracing the flow of funds to the school level, so it is difficult to connect funding allocations and student impact.

In addition to the substantial state contribution, schools also receive local funds from property taxes and federal funds in the form of grants and payments for services. Because property values vary widely from district to district, the revenues that districts receive from local property taxes are similarly unequal, with districts in less affluent areas being shortchanged. Because
properties have not been reassessed for tax evaluation purposes in decades, current tax revenues in districts no longer reflect existing local property values or address their schools’ funding needs based on their actual student populations, greatly widening inequities among districts. Delaware’s equalization strategy is not working as intended due to outdated property tax assessments and an ineffective formula, so local revenue generation is a source of inequity. Several states have responded with new tax policies to equalize revenue, and Delaware must take similar steps to ensure that no districts are shortchanged.

Throughout the country, states have begun to reform their education finance systems to remove barriers to efficiency, equity and sufficiency. Most states have adopted new foundation, or student-based, allocation systems, which channel more funds to higher-needs students based on formulas weighted to recognize the actual costs of meeting their needs. Delaware’s system was developed 59 years ago and today, it is one of only 10 states that has not adopted the foundation or weighted student funding formula model.

In states like Delaware, where finance decisions are made far from schools at the state level, these decisions are often disconnected from and unresponsive to student needs. With increased flexibility in spending afforded by reformed education finance systems, many states are implementing changes to the traditional school structure to make the most of time and resources. Some of these strategies have yielded increased efficiencies that can help to ensure that states have adequate funds for every student. Under a more flexible funding system, Delaware, too, will be able to explore innovative strategies outside of traditional approaches to increase efficiency and promote the highest possible student achievement.

The LEAD Committee conducted a comprehensive analysis of Delaware’s school finance system in light of the goals the Committee identified and other states’ systems. The Committee believes that a body of research and data must be taken into account when examining school finance. This includes the Delaware Public Policy Institute (DPPI) adequacy study “How Good Is Good Enough?” (2007), the LEAD cost efficiency study (2008), and the recommendations on generation and allocation provided in this report.

The Committee — building on the work of a number of other groups in Delaware and around the country — concluded that the system must be strengthened and proposes the following recommendations for Delaware’s new education finance system:

**To provide equitable access to resources in every school district (Goal 1):**

1. Uniformly assess property values on a more frequent and rolling basis.

2. Link the state share of education funds to local property values to equalize the local property tax yield for any given local tax rate. That is, the state match would make up for shortfalls caused by a district’s lower property values up to a limit. Districts could elect to raise funds beyond the limit.

3. Grant taxing authority to local district boards in a manner similar to that currently available to vocational districts. For regular organized school districts, the amount raised would be limited by the legislature with yearly increases capped at some fixed rate of increase. Additional levies would require voter approval. County vocational districts would continue to use the current process to increase their limits.

**To ensure sufficient resources in every school district and charter school (Goal 2):**

4. Allow property tax reassessments to generate increases in local revenue for all districts. Further, in accordance with recommendations by the Equalization Task Force,
this Committee supports the notion that state equalization funds be applied more effectively on the basis of newly assessed property values.

5. Continue to apply typical yearly increases in funding to the new funding model (see Recommendations 8 and 9) to help ensure that all students have access to sufficient funds.

6. Provide charter schools the opportunity to access resources for facilities. The Committee believes this needs to be addressed by the General Assembly and suggests the consideration of options such as the following:

- Charter schools be provided access to conduit bond funding through counties and/or the state.
- Charter schools receive an additional supplemental, per-student allocation to their minor capital budget allocation based on the school’s previous year’s enrollment.

7. Sustain the minor capital budget allocation at a higher level and revise the formula to reflect building attributes such as square footage, age of structures, type of materials, location, position of property and use of the building (rather than units). If districts spend minor capital funding more efficiently, they should get to keep the funding to put back into programs.

To allocate funds on a per-student basis (Goal 3):

8. Strengthen the method of allocating state resources to better meet student needs. The system should be driven by a foundation or base amount for each student, with additional “weights” (i.e., percentage increases from the foundation or base) addressing variable student needs to provide the resources to ensure the strong academic performance of all children. Appendix A details how this and other recommendations regarding allocations should be implemented over a five-year period.

To ensure funds are targeted to meet the needs of individual students (Goal 4):

9. Strengthen Delaware’s system to allocate additional funds on the basis of student types that require additional resources, such as English Language Learners and low-income students. Additional increments for student types should be funded in the form of a “weight” (i.e., a percentage increase from the base), such that increases in education revenues be applied fairly, equitably and predictably for all students.

To support flexibility and innovation (Goal 5):

10. Give flexibility to districts and schools in how resources are used. Funds should be allocated on a per-pupil basis with the ability to purchase staff and other services at the school level. For schools in districts, funding should be allocated contingent on the district’s approval of the educational success plan or balanced scorecard strategic-planning and performance-setting process. The state should reduce restrictions on the use of allocated revenues and rely more heavily on districts’ and schools’ responsibility for outcomes. Responsibility for outcomes should be reviewed in light of existing tools such as the success plan or balanced scorecard. Similarly, the state should set clear guidelines for when state department leaders would step in to provide oversight and/or intervene on district and school spending decisions.

11. Revise the energy allocation formula to reflect building attributes such as square footage, age of structures, type of materials, location, position of property and use of
the building (rather than units). If districts spend their energy allocations more efficiently, they should get to keep the funding to put back into programs.

To support transparency and understanding (Goal 6):

12. Provide a simple and easily understood accounting of how education dollars are allocated at the school and district levels and make that data available electronically in a straightforward summary in the context of like schools and districts.

The focus of decisionmaking under the proposed system will be on achieving the state’s goals of efficiency and effectiveness in funding student achievement. Districts and schools will be able to tailor resource use to their specific needs, and funds will flow more readily to the students who need them most. On this new and improved track, Delaware’s education finance system will be flexible enough to meet the evolving needs of its students.
Introduction

In 2007, Governor Ruth Ann Minner issued Executive Order #98 to recognize Vision 2015 and establish the Leadership for Education and Achievement in Delaware (LEAD) Committee to study further some of the recommendations in the Vision 2015 plan. The Committee was charged with making recommendations on strategies to continue to improve Delaware public education as it works toward a world-class education system.

Three tasks were set out in the Executive Order, the first two being to oversee the development of a one-page, plain-language summary of key performance measures of the school, district and state; and to conduct a study and make recommendations for improving the fiscal efficiency of the system and reallocating funds among education priorities. These tasks have been accomplished in the form of the performance dashboards or school profiles now available for the state as well as each district and school and the LEAD Committee’s cost efficiency study, released in January 2008.

The third task of the Committee — to address the state’s education finance system — was the genesis of this report.

The Committee shall analyze and make recommendations concerning the optimal way for the State and school districts to generate and distribute State and local education funding in order to benefit students in ways that enhance the adequacy and equity of our State’s system for funding public education. Such analysis shall include consideration of a weighted student funding formula as distinct from the current unit funding system used by the State.

This report is the product of the Committee’s efforts to analyze the current condition of Delaware’s funding system, provide a vision of what an improved system might look like and recommend how Delaware might achieve that vision.

Methodology

The LEAD Committee studied the way the state raises and allocates its K–12 public education dollars and considered a range of alternatives to propose an improved finance system. The Committee’s analysis of the Delaware funding system has required studying how the current system operates, its strengths and weaknesses, approaches used by other states, and the implications of various options for Delaware. The Committee engaged state officials, local and national experts, and stakeholders to assist in its analysis and considerations.

To understand how the school funding system works in Delaware in the context of current reform initiatives, the Committee explored the following questions:

- How are funds currently generated and distributed?
- What are other states doing to improve their education finance systems?
- What are the Committee’s goals for the next education finance system?
- How well does the current system stack up against those goals?
- How can Delaware ensure that the next system achieves these goals?

* Generally, the report addresses operating funds, not capital funds. Unless otherwise noted, the recommendations on the generation of funds apply to public school districts only, not charter schools or vocational-technical schools. (Funding for charter and vocational-technical schools is addressed in Goal 3.)

† Individuals engaged or consulted in this analysis are listed in Appendix E.
ABOUT THE FINDINGS AND RECOMMENDATIONS

Based on in-depth research and careful consideration, the LEAD Committee identified a number of findings and directional recommendations to strengthen Delaware’s education funding system. The Committee deliberated each finding and recommendation and came to some difficult decisions.‡

Call to Action: The Need for a New Education Finance System

Vision 2015 outlines an unprecedented commitment by Delaware to address the most urgent issue of our time: providing top-notch schools and high-quality education for every Delaware student. The LEAD Committee is committed to changing the school finance system to ensure that this vision becomes a reality.

Although Delaware students have been making gains in recent years, as of 2007 the state’s education system ranks 27th in the nation on the National Assessment of Educational Progress.¹ Fewer than eight in 10 students graduate from high school on time, and only one in 10 African American and Latino 9th grade students will go on to complete a two- or four-year postsecondary degree.² Higher aspirations for students call for increases in student scores and graduation rates as well as progress in closing achievement gaps that separate higher-needs students from their classmates. Though Delaware can be proud of the progress it has made at the 4th grade level to close the achievement gap,³ the achievement gap in 2008 between African American and white 8th graders (as measured by the percent scoring “proficient”) was 33 percent, and the gap for Hispanic students was 26 percent.⁴ There is growing consensus across the state that Delaware’s schools have improved, but they are not yet good enough for the challenges of today and the future.

There are clear moral imperatives to see that every student succeeds, and there are economic imperatives as well. On average, every student who graduates from high school and from college generates an additional $1.4 million in lifetime earnings, contributes $120,000 more in state and local taxes, and saves society $71,000 in Medicaid costs and $34,000 in prison costs compared to a high school dropout.⁵ Delaware must take action now to ensure that its schools can adequately prepare students to succeed in the world they will soon face as young adults. With no significant changes to the finance system in decades, Delaware’s system is far behind that of other states — which places its young people and economy as a whole at a competitive disadvantage.

Our funding system does little to address variable student needs, offer flexibility for responsive solutions or promote confidence in the use of public resources. Delaware’s system generally allocates funds as if all students come to school with the same needs, when research demonstrates that students have different needs and that the system often allocates the least to those who may need the most. Delaware’s students live in a rapidly changing world, and flexibility, coupled with clear accountability, is critical to designing responsive solutions. And the system is only understood by a handful of finance experts; it is not designed to enable community members to engage as partners in strategic solutions.

To achieve a bright future for its children, Delaware must work on multiple dimensions of its education system with a coherent and comprehensive set of reforms, including reforms to its system of generating and allocating public education funding. Although it is clear that money alone does not fully explain the differences between higher- and lower-achieving schools, the finance system is a central piece of the puzzle — one that is critical to get right.

‡ For those areas where Committee members wished to make a statement about their position, please see Appendix F.
The LEAD Committee is not the first to suggest these changes, nor is it alone. Over the past decade, groups including the Equalization Committee, Vision 2015 and the Delaware Public Policy Institute (DPPI) have released reports that identified many of the challenges and called for some of the changes recommended here by the LEAD Committee. These previous reports are referenced in the endnotes of this report. The LEAD Committee has identified goals for an improved allocation system that meets the needs of a new generation and proposed specific steps Delaware can take to achieve these goals.

The LEAD Committee recognizes that achieving its goals for students in a rapidly changing world will require that the state rethink the way in which education funds are raised and spent. The current funding system served us well for more than five decades, but today, Delaware’s system of collecting revenues and allocating funds to districts and schools is outdated and must be strengthened to meet increased demands and the needs of all students.

**Goals for a New Funding System**

The LEAD Committee has determined that an effective and efficient state public education financing system will be able to do the following:

1. **Provide equitable access to resources while allowing for community discretion in generating revenue:** Although districts should be able to support their schools as they see fit, the system should not penalize students in lower-income areas.

2. **Provide sufficient resources:** Funds should be generated and allocated in an amount sufficient to meet the needs of all students, regardless of where they live or go to school.

3. **Allocate funds on a direct per-student basis:** Funds should be allocated through a system derived from the overall cost of educating each student.

4. **Target funds to meet student needs:** Schools should receive the resources each enrolled student needs to succeed. Additional funds should be allocated for English language learner (ELL) students, students living in poverty, students with disabilities, gifted/talented students or students with other characteristics that require additional supports.

5. **Allow for flexibility in resource use and support innovation in education delivery:** Schools should be able to use funds efficiently to meet their local needs, including providing flexible learning opportunities and innovative approaches that meet the needs of their students.

6. **Support a transparent and easily understood funding structure:** Funds should be generated and allocated through a simple system that produces accurate fiscal data from the state to the school level.

These expectations are rigorous but well worth the effort. An efficient, effective finance system is a key piece in assembling an aligned, coherent state education system that can (and should) remain in place for years to come.

This report addresses the following questions as they relate to the six goals listed above:

- How does Delaware’s system work?
- How well is Delaware achieving the aspiration?
- How does Delaware compare to other states?
Each section also details the LEAD Committee’s findings and recommendations that address the goal under discussion.
Goal 1: Provide Equitable Access to Resources

This section addresses the broad issue of where Delaware’s school funding comes from. It raises the critical question: Does Delaware’s system of raising funds for education provide schools and students with equitable access to resources, regardless of the wealth of their communities?

How does Delaware’s system work?

Overall, Delaware’s education budget is made up of 63 percent state funds, 29 percent local funds and 8 percent federal funds. From district to district, however, these proportions vary due to a number of factors including the wealth of a district’s population and rate at which they choose to tax themselves, the revenue the district receives from state and federal grants, and the district’s eligibility for funds targeted to specific student populations.

Thirty-four percent of Delaware’s state operating budget is distributed to support public education. In 2007, for example, the state budget was $3.3 billion, of which $1.05 billion went to the education budget. State funds are allocated from the General Fund; there are no dedicated revenue streams for education. From 2000–01 to 2004–05, annual funding increases have averaged 6.9 percent, of which less than 1 percent is attributed to student enrollment increases.

Voters in each district determine their local property tax rates. Each district proposes increases for specific purposes and conducts referenda as needed. Funds generated are based on local assessed property value.

Federal funds target certain student types (e.g., those living in poverty or those using special education services) or are earmarked to provide specific programs or services. Some federal funds allocate money based on the numbers of students in the targeted groups, while others, such as food programs, reimburse for the cost of services. Still others use competitive grants, with funds awarded based on applications. In Delaware, the bulk of federal funds is supplied by just four federal programs: Compensatory Education Basic and Concentration Grants, Special Education Funding, School Food Programs, and Elementary and Secondary Education Act Title II Enhancing Teacher Quality.

How well is Delaware achieving Goal 1?

In taking stock of Delaware’s education finance system, the Committee examined multiple dimensions of equity. The first is whether or not total funds are equitable across districts. It appears that they are not. The highest-funded districts in Delaware receive 50 percent more funding than the lowest, and there is some evidence that funding disparities are growing. Disparities arise when districts tax themselves at different rates, when varying property values yield uneven local taxes at a given tax rate and when state funds are distributed unevenly.
Disparities coincide in part with community wealth. As Figure 2 demonstrates, districts with higher poverty levels tend to receive slightly lower total funds per pupil from state and local sources. For example, in Figure 2, District A (Milford) and District B (Christina) have approximately the same percentage of students in poverty (42 percent and 44 percent respectively), but District B receives approximately $4,000 more per student ($12,864 per pupil in District B versus $8,886 in District A). In a system that targeted funds to meet the additional needs of students in poverty, one would expect the trend line to incline rather than decline. The three points to the far right of Figure 2 represent the state’s vocational-technical schools, each with total allocations exceeding $24,000 per pupil. Toward equalizing these spending differences, The Education Trust — a national policy organization focused on high academic achievement for all students — reports that Delaware ranks fifth worst in the country.

Equalization funding is Delaware’s attempt to prevent students in less-affluent districts from being unfairly penalized by inequities in local tax revenues. The strategy seeks to create equity across districts by distributing more equalization dollars to districts with less property wealth per student than to those with higher per-student property wealth. Equalization funds are based on a formula that looks at how much assessed property wealth a district has available to tax. They are 100 percent state funds.

In practice, however, state equalization funds do not actually equalize access to funds, despite the fact that these allocations vary across districts from approximately $1,100 per unit to more than $20,000 per Division I unit. One problem is that the formula used to determine the equalization funds allocated to a district imperfectly captures disparities in district funds resulting from variations in local property values. As Figure 3 indicates, two districts can tax

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1 While there is no one accepted measure of equity, different perspectives suggest various dimensions of the problem. The Education Trust, for instance, reports on the gap in spending between districts in the highest and lowest wealth quartiles, finding a gap of $954 in 2005. In other words, districts in the wealthiest quartile spend $954 more per pupil in state and local funds than those in the lowest quartile (after adjusting for cost of living). See Appendix C for data included in Figures 2 and 3.
themselves at the same percentage of property value but reap dramatically different per-pupil revenues or “yield.” For example, as shown in Figure 3, Districts C (Caesar Rodney) and D (Laurel) tax themselves at approximately the same rate, yet district D yields nearly double the revenue per pupil ($4,131 in District D versus $2,273 in District C) due to higher property values.

Thus, equalization does not fully counterbalance local revenue discrepancies, and the resulting gap partially explains overall spending differences. The Equalization Committee has concluded in its recent reports that the equalization formula is simply not having its intended effect and has recommended revising the formula and updating property tax assessments.

A related problem stems from the fact that property assessments are so outdated with respect to real property values. For example, it has been 22 years since the last reassessment of property values in Kent County, and it has been 34 years since the last reassessment of property values in Sussex County. As a result, different regions bear dramatically different property tax burdens when it comes to footing the bill for educating Delaware’s children. Without accurate assessment of property values, equalization funds that are tied to local tax revenues will fail to maintain equity in either education funding or property tax burdens across districts and regions. Delawareans agree that assessments should be updated: 71 percent of respondents “strongly favor” (40 percent) or “somewhat favor” (31 percent) a statewide reassessment of real property that would “ensure that everyone is paying the right amount in taxes to fund public schools.”

How does Delaware compare to other states?

Despite these inequities, Delaware ranks favorably relative to other states in minimizing variation in total spending across districts. Delaware has the second lowest “coefficient of variation” (a measure of disparity) across districts among the 50 states.

Voting rules for establishing local school levies vary across the United States. Two states, Maryland and Wyoming, appear to have no voter requirement on district-imposed taxes; however, in Maryland, district-imposed taxes require the county commissioner’s approval, and in Wyoming the state determines local levies. Some states, such as Ohio, allow districts to levy a limited amount (10 mills)** beyond which voter approval is required. Some states, including Connecticut, require the town or county to levy the taxes.

Many states have implemented policies intended to reduce inequities in property tax revenues. Thirty-three states, including Maryland, Massachusetts and Rhode Island, place limits on the amount of local revenue districts can raise. These limits take the form of a property rate restriction, an annual assessment increase limit, a property tax restriction or annual revenue caps. Still other states allow local voters to determine their own tax rates but provide a state match, so that for any given tax rate the revenue generated per pupil is the same for all districts. In other words, all districts with a 10-mill tax rate will receive the same amount per pupil regardless of their comparative property values because state provisions make up the difference.

Along these lines, many states have increased the state share of revenue generation so that the state provides some foundation level of funding. Others reclaim and redistribute a portion of property taxes if the district’s property tax revenues exceed a specified amount. Kansas, Wyoming and Texas, for example, have policies that reclaim some portion of locally generated funds. Texas has implemented Robin Hood policies to recapture some local property taxes and redistribute those funds to districts with lower property values. Some states prescribe local tax rates and then use the funds collected as part of the base (or foundation) funding level for each

** A mill is one one-thousandth of a dollar, so to calculate the property tax amount, one would multiply the levy rate by the assessed value and divide by 1,000. A levy of 10 mills on a $100,000 home equals $1,000.
district, with the state providing the remaining share. Seventeen states had such policies in place in 2004.

Finally, many states use combinations of policy options intended to reduce inequities while capitalizing on state and local revenue sources. For instance, Ohio has implemented combinations of base and local match funding policies.20

Stabilizing year-to-year state revenues is another difficult issue for states. Some, including Pennsylvania, have relied continually on legislative adjustments. In other states, policymakers have lengthened the terms of local levies and other taxing authorities, or added grandfather clauses to protect districts experiencing enrollment declines. Florida and other states have relied in part on dedicated revenues collected at the state level (through earmarked sales taxes, lotteries, etc.).21

Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 1 for a reformed state education funding system: Provide equitable access to resources.

The state's education funding system should be redesigned toward increasing equity and stability of access to locally raised resources for all districts and schools.

FINDINGS

Analysis of actual state and local revenues and property tax rates reveals the following problems:
A.1. Districts with the same local property tax rate receive significantly different local revenues per pupil. The state equalization match — intended to supplement local funds toward equalizing per-pupil yield across districts — does not produce equity.
A.2. Local tax rate does not match yield. Some districts with higher property tax rates receive fewer dollars per pupil (in local and state equalization match) than others with lower property tax rates because the property of some school districts is valued/assessed lower than others.
A.3. Local revenues produce a stagnant funding source for districts because they rely on outdated local property tax assessments.

However, the Committee also finds that:
A.4. Local revenues are an important revenue source for districts, and they play a role in keeping local communities engaged in the education system.
A.5. Districts tax themselves at different rates that produce different revenues. Some inequity in local revenues generated would be tolerated provided that each district’s per-pupil yield was a function of tax rate, not local wealth.
A.6. Revisions to property tax assessment and the equalization formula are fundamental to education finance system reform. These changes will establish a solid base, which is one condition necessary for the establishment of an optimal education funding system.

LEAD COMMITTEE RECOMMENDATIONS

Toward revising the finance system to address the problems above, the Committee recommends districts can continue to raise a portion of funds through local property taxes with the following revisions:
**Recommendation #1:** Uniformly assess property values on a more frequent and rolling basis.

**Recommendation #2:** Link the state share of education funds to local property values to equalize the local property tax yield for any given local tax rate. That is, the state match would make up for shortfalls caused by a district's lower property values up to a limit. Districts could elect to raise funds beyond the limit.

**Recommendation #3:** Grant taxing authority to local school boards in a manner similar to that currently available to vocational districts. For regular organized school districts, the amount raised would be limited by the legislature with yearly increases capped at some fixed rate of increase. Additional levies would require voter approval. County vocational districts would continue to use the current process to increase their limits.
Goal 2: Provide Sufficient Resources

This section bridges the parallel issues of generating and allocating funds for Delaware’s traditional public schools. It addresses the critical question: Are Delaware’s education revenues adequate at current levels to achieve a high-quality education for every student?

How does Delaware’s system work?

While Delaware generates funds sufficient to support some education efforts, state allocations do not address some current categories of public education expenses, such as facilities costs for charter schools. Additional priority needs identified in recent years include expanded access to early education, redesigned teacher compensation systems and additional resources to meet the needs of ELL and gifted and talented students.

How well is Delaware achieving Goal 2?

A DPPI study (2007) conducted by Augenblick, Palaich and Associates concludes that more funds are needed to educate all students to moderate-to-high levels of proficiency.

However, other DPPI analysis (2004) suggests that Delaware’s current education funds could be adequate if they were more effectively used. “It is possible that Delaware’s public education system has adequate resources but that those resources (because of current formulae for distributing the money, institutional forces driving allocations, and other reasons) are not allocated to ensure that there are sufficient resources for all to meet the goals established.”

Although the DPPI analysis (2007), other states’ practices and research indicate that not all students cost the same to educate, the Committee did not feel comfortable putting forward the total amount of funds needed to provide an “adequate” education for all students. Additional funding should accompany students with different needs, but there is no definitive total cost estimate that might define educational "adequacy" for the entire system because the current funds are not being optimized. LEAD’s cost reallocation study demonstrated that the state’s current public education dollars are not used as efficiently as they could be. Moreover, if the state moves forward on changing the way public dollars are generated (in part through a rolling tax reassessment [see Recommendation 1]) and distributed (through a system that is based more on student needs as opposed to units [see Recommendations 7 and 8]), then the definition of adequacy might change in the years to come.

Although there appears to be no definitive answer to the question of adequacy under the current model, there is a clear need to optimize the use of funds Delaware does have while continuing to consider whether the total funds raised are sufficient. And there remain areas of spending that the current system does not address, such as charter school facilities funding and additional resources for ELL and gifted and talented students.

How does Delaware compare to other states?

Whether Delaware’s public education system has enough resources to meet every student’s needs is a difficult question that generates different answers from different experts. Delaware ranks eighth in the United States in its spending per student (adjusted for cost of living), behind Washington, DC; New Jersey; New York; Vermont; Wyoming; Connecticut; and Maine. And in 2006, Delaware was the fourth highest provider of state funding as a percentage of local and state funding. However, as a wealthy state with a high Gross Domestic Product (GDP), Delaware ranks just 49th nationwide in the percentage of taxable resources spent on...
education.\textsuperscript{26} (In other words, the financial size of the resources taxed in Delaware is small, relative to the resources that Delaware could tax.)

In some states, courts have called for an adequacy “target,” or per-student dollar figure that state education budgets must meet. New York, Arkansas and Wyoming have been able to dramatically increase their funds by computing which inputs are deemed necessary and converting these inputs to costs.\textsuperscript{27} Some states without access to new funds have made efforts to improve efficiency within their current spending, with the goal of freeing up more funds to make improvements. States such as California, Washington, Kansas and South Carolina have all made moves to improve their return on investment toward this end.\textsuperscript{28}

Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 2 for a reformed state education funding system: \textbf{Provide sufficient resources.}

Delaware’s education finance system should be modified toward meeting all adequacy goals for all districts and schools.

\textbf{FINDINGS}

B.1. The DPPI study “How Good Is Good Enough?” confirmed national research that suggests that certain types of students need significantly more funding than others to educate them to moderate-to-high levels of proficiency. However, DPPI’s study was based on the assumption that the current funding system would remain unchanged. The LEAD Committee’s recommendations reflect systemic changes that should be taken into account when considering adequacy.

B.2. The state and education communities are fortunate to have similar goals, many of which are articulated in Vision 2015. Vision 2015 has identified some new priorities for spending not currently covered by existing allocations (e.g., early education, redesigned teacher compensation systems, etc.).

B.3. State allocations do not address all areas of spending needs (e.g., charter school facilities).

B.4. The LEAD Committee’s cost efficiency study suggested steps toward achieving cost savings in the current system that could free up resources for other higher priorities and for weights as specified in the new funding model.

B.5. High-needs districts and schools do not receive appropriately higher resources to address the most costly needs of their students.

B.6. Education competes with other state priorities for state revenues, and entirely new revenue sources for public education have not been identified.

B.7. Delaware is a wealthy state, with a high GDP as compared with other states. And while Delaware’s total education spending is relatively high (eighth in the country per pupil), comparisons among other states suggest that total state and local spending on education represents a slightly smaller percentage of the state’s GDP than that of all other states.

\textbf{LEAD COMMITTEE RECOMMENDATIONS}

The Committee recommends the state make progress toward increased adequacy for all districts and schools via the following:

\textbf{Recommendation #4:} Allow property tax reassessments to generate increases in local revenue for all districts. Further, in accordance with recommendations by the Equalization Task Force, this Committee supports the notion that state equalization funds be applied more effectively on the basis of newly assessed property values.
**Recommendation #5:** Continue to apply typical yearly increases in funding to the new funding model (see Recommendations 8 and 9) to help ensure that all students have access to sufficient funds.

**Recommendation #6:** Provide charter schools the opportunity to access resources for facilities. The Committee believes this needs to be addressed by the General Assembly and suggests the consideration of options such as the following:
- Charter schools be provided access to conduit bond funding through counties and/or the state.
- Charter schools receive an additional supplemental, per-student allocation to their minor capital budget allocation based on the school’s previous year’s enrollment.

**Recommendation #7:** Sustain the minor capital budget allocation at a higher level and revise the formula to reflect building attributes such as square footage, age of structures, type of materials, location, position of property and use of the building (rather than units). If districts spend minor capital funding more efficiently, they should get to keep the funding to put back into programs.
Goal 3: Allocate Funds on a Direct Per-Student Basis

This section addresses the effectiveness of Delaware’s system of allocating education resources. It asks the critical question: Does Delaware’s system for allocating funds use student-based measures that most accurately reflect each school’s population?

How does Delaware’s system work?

A significant portion of Delaware’s education funding is delivered to schools through use of the unit system, which allocates funds for teacher and administrative salaries and other expenditures to each school based on its student enrollment. In 2005–06, Delaware allocated 62.3 percent of state funds based on the unit system and 37.6 percent based on other formulas.

UNIT SYSTEM

Unit funds are divided into divisions based on category of spending. Division I funds are for teacher, administrative and support staff salary equivalents, and Division II funds are for operations and energy. In addition, minor capital improvement, professional development and supports for some student learning needs, such as limited English proficiency, are provided outside the unit system. State funds also include transportation, debt service and other categories (see Figure 4).

Division I funds pay for teachers and administrative and support staff, such as secretaries and custodians. Each Division I unit is a commitment by the state to pay the state portion of salary and benefits for each staff generated by the unit. Ten teacher units generate one administration unit. Funds are allocated to the districts and charter schools that then add local district/charter school costs and use the state payroll system to pay staff.

Units are assigned to districts based on their enrollments, taking into consideration extra costs associated with populations eligible for different levels of special education services. A district earns one unit for every 20 regular secondary education students, 17.4 regular elementary students, 10 mild special education students, six moderate special education students or four severe special education students. If a district/charter school has more than half of the number of students required to generate a unit, the funds are allocated for a full unit. Other students who need extra supports, such as ELL students or students in poverty, are counted as “regular” students.

Unit counts and funding are allocated to districts, but districts must forward 98 percent of funds to schools that “earn” them through their enrollment counts.

Figure 4. What gets allocated and how?

Source: Center for Applied Demography and Survey Research, University of Delaware.
Because teacher salaries vary by education levels and years of service, a unit that results in a highly qualified teacher represents considerably more in real dollars than a unit that supports the cost of a newcomer. This means that districts that can attract the best teachers are allocated more dollars per unit by the state, while less desirable locations are allocated fewer dollars per unit.

**Division II** units are allocated to districts on a one-to-one basis with Division I units to cover basic operating costs. Energy funds make up approximately one-third of the total Division II allocations. Some Division II funds pay for supplies. While these allocations are generated by unit counts, they do not have to follow teachers. One unit generates a lump-sum allocation of $3,279 for all other costs and $2,678 for energy, which is designated for costs other than salaries and benefits.

In addition, other funds are allocated outside the unit system directly for specific expenses such as minor capital improvements, supports for ELL students, extra time for at-risk students and professional development funds.

While districts recently have received some flexibility in how they use extra time, teacher-to-teacher cadre and discipline funding, some categorical funds, such as those for reading cadre and reading and math resource teachers, must be used for specified purposes.

**OUTSIDE THE UNIT SYSTEM: OTHER STATE FUNDS**

Delaware’s state education budget allots 6.4 percent ($55 million in 2008) to schools and districts to cover 100 percent of the cost of transporting students to and from schools. Funding is allocated on a per-route basis, and districts determine the routes and manage the system. Districts can request additional routes from the Department of Education, and they may operate buses themselves or pass funds through to contractors. There currently is very little coordination of transportation services among 19 districts and 18 charter schools.

Schools and districts are prohibited from spending Division I, II and III state funds on the principal and interest payments on local bonds for capital projects. Instead, districts receive $25 million in state funds specifically to service debt. Local funds, raised by districts via local tax levies, also fund debt servicing. 30

To adjust for inequities in local property tax receipts, **equalization (Division III) funds** are allocated to school districts based in part on local tax revenues. Equalization funds are intended to be inversely proportional to a district’s ability to tax itself (property values) and directly proportional to a district’s effort in taxing itself (tax rate). Division III equalization funds amount to 8 percent of total state funds. As discussed in Goal 1 (Provide Equitable Access to Resources), in recent years the equalization formula has fallen short of intentions and currently is under review.

Other funds, representing 9 percent of state funding in Delaware, are earmarked for specific uses, including categorical programs. Some of the allocations allow some flexibility in how the money is spent, while some do not. 31 Among these other funds are:

- **Programmatic funds**, including special needs programs managed by the Department of Education such as prison education and services for handicapped students; other district operations including school improvement funds and skills and knowledge clusters or pay supplements; driver education; and K–12 pass-throughs such as Jobs for Delaware Graduates, Read Aloud Delaware and Communities in Schools.
- **Block grant programs**, including academic excellence and professional accountability and instructional advancement. The new Education Success grant, which includes extra time, school-based discipline and teacher-to-teacher cadre, is a block grant. Block grants tend to allow for greater flexibility in use by districts.

**FUNDING SYSTEM VARIATIONS FOR VOCATIONAL DISTRICTS AND CHARTER SCHOOLS**

Vocational districts receive local revenues from taxes levied on all county residents. A referendum is not required to raise taxes. In accordance with code, county vocational districts are authorized to levy and collect additional taxes for school purposes upon the assessed value of real estate in such districts without voter approval, up to a specified limit. Vocational units earn more personnel per student than standard units, and vocational districts receive more vocational units than do other districts. In addition vocational districts receive a multiplier on Division II units for the expenses of vocational program delivery. As a result, per-pupil funding for vocational schools exceeds that of comprehensive school districts.

Charter schools are allocated state revenues using the same formula as districts, but their funding is allocated in a large discretionary pool to the school level. They receive local revenues, based on a per-pupil formula, from the school districts each of their students would otherwise have attended. Charters are allocated funds based on the number of units earned for positions, regardless of how many teachers are hired or how much they are paid. Charter schools do not receive facilities funding; these costs are borne by the operating budget of the school. To find affordable funding for their capital projects, some charter schools have explored bond financing through counties or private investors, with varying results.

**How well is Delaware achieving Goal 3?**

Delaware’s complex funding allocation system is based on arbitrary categories using gross estimates of what each category needs rather than directly on student needs. Units that fund teachers and other learning supports are based on the estimated needs of certain student “types” instead of a school’s actual needs.

**How does Delaware compare to other states?**

Most states no longer use staffing-based allocation systems. Rather, many have shifted to a foundation-based formula in which funds are allocated to districts based on the needs of students enrolled. Within this framework, different student types command different amounts, which can be calculated via student weights or other means. As Figure 5 demonstrates, 39 states now operate some type of foundation formula in which funds are allocated on the basis of students or student types.
Foundation allocations — also known as student-based allocations — became popular in the 1920s and 1930s because they allowed more equity in funding (allowing states to target funds to specific student types), increased flexibility (allowing districts to decide how funds are used) and simplicity. Foundation formulas also provide stability and predictability. Under Delaware’s system, schools’ hiring needs and abilities depend on the September 30 unit count. Because funding is based on units, districts and schools have more to lose if they are on the cusp of a cut-off (of the number of students it takes to earn a unit). In most states across the country, enrollment is fairly easily predicted, and funding follows by students rather than units.

More states abolished their salary-based allocation systems in the 1970s and early 1980s as a result of court orders that targeted salary-based allocations as a source of inequity. Today, salaries are typically negotiated at the district level and considered part of district reform strategies. Several states also have minimum salary set points, which all districts exceed. This approach is similar to Delaware’s statewide salary schedule, which acts as the minimum above which districts can supplement.

Figure 5. School funding formulas
39 states use a foundation program, Delaware operates a unique system

Although most states now use some version of the foundation or student-based allocation formula, there are variations in the models (see Figure 6.) One important difference is in the way the state targets funds to differing student needs. While some states, such as California and Georgia, rely more heavily on categorical allocations, the majority of states using the foundation model assign additional weight to students’ learning needs so that students with limited English proficiency, disabilities or other characteristics bring more funds.

Many of the forces that have spurred student-based allocation systems at the state level also exist in districts, so that district allocations to schools similarly can result in inequitable or inflexible funding that does not appropriately address variations in student needs. National experts and research support the case for using a weighted formula to deliver state funds from districts to schools as well as from state to districts. A 2006 report by the Thomas B. Fordham Institute urging widespread implementation of this weighted approach received bipartisan support from hundreds of signatories, including three former US Secretaries of Education, two former state governors and many other prominent policymakers.

At the district level, such a need-based allocation system is often called weighted student funding (WSF). Although most foundation formula states currently do not require districts to use WSF to deliver funds to schools, New York City, Houston, Cincinnati, the District of Columbia, San Francisco and several other districts in foundation formula states have opted to do so.

Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 3 for a reformed state education funding system: Allocate funds on a direct per-student basis.

Delaware’s allocation system should be based on individual students’ needs.

FINDINGS
C.1. The current dollar allocations to districts have little bearing on the total student needs evident in each district and school.

C.2. Some funds do exist (either through special allocations or through departmental channels) for some student needs, but these resources are fragmented and unpredictable from year to year.

**LEAD COMMITTEE RECOMMENDATION**

The Committee recommends the state system be based on student needs:

**Recommendation #8:** Strengthen the method of allocating resources to better meet student needs. The system should be driven by a foundation or base amount for each student, with additional “weights” (i.e., percentage increases from the foundation or base) addressing variable student needs to provide the resources needed to ensure the strong academic performance of all children. Appendix A details how this and other recommendations regarding allocations should be implemented over a five-year period.

Additional notes:

- The system should focus on student outcomes, providing autonomy to schools within specified parameters so a school’s autonomy reflects its ability to improve student achievement.
- Some state-defined guidelines for uses of revenue should stay in place — for example, those that consider the health and safety of students.
- Funds generated at the school level should be spent at the school level.
- School and district categorical funding, such as school-based discipline, reading cadre and at-risk funding, should be granted with the maximum flexibility possible to enable schools and districts to make decisions that best meet student needs.
- For allocations outside the foundation or student-based formula, such as transportation, districts should be provided incentives within those allocations such that the districts benefit from imposing cost-saving reforms.
Goal 4: Target Funds to Meet Student Needs

This section addresses equity of Delaware’s system of allocating its education resources. It asks the critical question: Is Delaware’s allocation system targeting sufficient funds to meet the learning needs of each student so that all students can achieve at high levels?

How does Delaware’s system work?

As described in the previous sections, Delaware’s system directs funding based on units rather than directly on student populations. Units provide limited accommodations for some students (such as special education and ELL students) but otherwise do not target funds to individual student needs. The state makes some categorical allocations for students with limited English proficiency, but these funds amount to fewer than $200 per bilingual education student. Fortunately, for these needs, districts do receive some additional funds from federal sources.

How well is Delaware achieving Goal 4?

If schools are expected to educate all students to high levels, it is critical that the state’s education finance system deliver funds to schools based on the actual learning needs of their student populations. Although Delaware has made some accommodations within its unit system for high-needs students, those accommodations do not encompass all the students who need additional support. The dollars that Delaware does earmark for student learning needs are inexact, inequitably allocated and, in many cases, do not coincide with actual needs.

Under the unit system, Delaware lumps students into a few arbitrary categories such as “regular high school” or “mild,” “moderate” or “severe special education.” The state allocates no units to support students with learning needs arising from poverty — even though research estimates that students raised in poverty require an additional 20 percent to 200 percent more resources.38 While the state does provide limited funding for ELL students, that small accommodation is well below the 20 percent to 100 percent more resources that studies estimate are necessary for these students to succeed.39 As a result, some schools with high percentages of low-income or ELL students are chronically shortchanged, and those serving special education students may not always get the resources they need.

In addition, Delaware’s unit-driven system bases its allocations on gross estimates of the quantity of teaching and administrative staff and other support each category needs. It administers funds to meet those needs based on totals of students in qualifying categories enrolled in a school rather than by what it actually costs a school to meet the individual learning needs of its students. Such inexact and inflexible guidelines perpetuate inefficiencies and shortfalls by making them difficult to detect and correct. In sum, while the state can directly accommodate variations from district to district in the cost of energy or transportation, it is unable to support similar variations in the learning needs of many of its students.

Along with its failure to target funds to student needs, the existing unit-based funding system fosters inequities among districts in terms of the actual dollars per student each school has available. In effect, the unit system ushers funding toward districts and schools that are able to attract more experienced teachers.40 As discussed in Goal 3, the value of a unit varies as salaries and services are translated into real dollars at the district level. Each district and charter school is allocated the same amount of state dollars when they hire equivalent staff on the state salary scale. As an unintended consequence of this system, districts receive different amounts of total funding for salaries from the state, because a district that is able to hire a teacher at the top of the pay scale receives more real dollars from the state than a district that can attract someone who is just starting in the profession. For example, teachers in Cape
Henlopen School District average 13 years of experience, and teachers in Woodbridge School District average only 10 years. As a result, the state sends Cape Henlopen nearly 20 percent more funds per teacher than it sends to Woodbridge on the basis of this difference in experience alone. Another source of inequity is that districts then add a local contribution (generated from the local tax base) to the salary of the teachers.

A similar scenario may well play out among schools within a district, so that those with the most attractive working conditions also attract the most dollars per student from the state. Unfortunately, by calculating allocations in terms of units with variable values, the current system obscures this information. That said, there is good reason to worry that the same forces that create inequities in Division I funding across districts also play out at the school level.

Ironically, this means that though, in theory, schools with higher populations of students in poverty should receive more money for supports to meet these students’ additional needs, in practice they receive less — per unit and per student. For example, in Figure 7, only 23 percent of District E’s students live in poverty, yet the state provides $4,377 per pupil in Division I funds. In contrast, District F has double the percentage of students living in poverty (45 percent) but receives just $2,970 per pupil in state Division I funds — approximately one-third less per student.

Numerous analyses have concluded that Delaware’s system should do a better job of targeting funds to meet student needs. A DPPI analysis (2004) concluded that “students who need extra help to reach the standards should receive extra resources.” Vision 2015 stated, “our student-centered approach means establishing a simple and fair funding system in which resources follow individual students and are allocated based on their needs. We know some students, whether struggling or accelerating, will need more resources than others.” And the Equalization Committee reported that “the system should recognize the different costs for achieving the same goal — high educational standards for every student. An equitable student-based finance system would establish a methodology for objectively assessing the level and types of resources needed for different types of students to meet high standards and develop an incremental strategy to progress toward a per-student funding that recognizes the different costs of achieving the same goal.”

The public agrees. Seventy-nine percent of Delaware residents would “strongly approve” (44 percent) or “somewhat approve” (35 percent) of “provid[ing] funding to public schools based on

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**Figure 7. Division I salaries per pupil arrayed by district/school poverty level**

![Diagram showing Division I salaries per pupil arrayed by district/school poverty level.](source: DDOE 2006–07)
the costs of educating a school’s particular student population — for example, giving extra support for each special education, gifted and talented, low-income, or ELL student.”

How does Delaware compare to other states?

Delaware has not kept pace with other states toward targeting funds for different student needs. Twenty-three states now include some weight or adjustment to provide additional funds for students in poverty, and 25 states provide additional funds for ELL students. For instance, poverty allocations range from $111 per poor student in Arkansas to $5,199 in Massachusetts. For example, the state of Washington provides an average of $1,037 on top of the basic allocation for every bilingual education student and an additional $1,435 per student in poverty. Texas allocates an extra $373 for bilingual education students and an extra $1,183 for each poor student.

Unlike 28 other states, Delaware pays no signing or retention bonuses to those who teach high-needs subjects such as math or science or teach in low-performing schools, so the most experienced teachers often opt to work in the higher-performing schools.

Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 4 for a reformed state education funding system: Target funds to meet student needs.

Delaware’s finance system should be improved to provide resources to districts and schools via a more equitable system that delivers the appropriate funds to the education of all students.

FINDINGS

D.1. The current unit-based model relies on allocating units — units work like staff full-time equivalents — instead of dollars. Inequities occur when districts convert their units to staff and bill the state for their actual salary costs, which differ across schools and districts. (The state provides the same funds for equivalent staff based on state salary schedules; however, districts draw down different amounts of state funds based on the experience of the teachers they hire, and local fund availability creates inequity.)

D.2. Evidence from research and practice suggests that some types of students require substantially more resources to meet standards. For instance, the estimated cost of the additional need created by poverty ranges from 20 percent to 200 percent above the base. The current system provides additional units for students with disabilities but provides very limited state funds for other student needs (e.g., poverty, ELL, gifted/talented, etc.) that necessitate additional resources to achieve standards. For instance, additional state funds are appropriated for students in poverty, with limited English proficiency, with disabilities and who are gifted, but not at the level research shows they are needed.

LEAD COMMITTEE RECOMMENDATION

The Committee recommends that the state move to a more transparent, stable and equitable allocation system that delivers more funds for high-needs students via the following:
**Recommendation #9:** Strengthen Delaware’s system to allocate additional funds on the basis of student types that require additional resources. Additional increments for student types should be funded in the form of a “weight” (i.e., a percentage increase from the base), such that increases in education revenues be applied fairly, equitably and predictably for all students.

Additional notes:
- LEAD will recommend to the governor and General Assembly the student types to be weighted and the magnitude of weights. Initial student types will include those in poverty, with limited English proficiency, with disabilities and gifted/talented. Over time, a weights committee will be established to recommend modifications and additional student characteristics to be weighted to address needs.
- Changes in the allocation system should be phased in such that no district or school loses funds in the transition. As the state increases its funds for education (funding increases have averaged 6.9 percent over 2001–05, of which 1 percent is attributed to student enrollment increases), these increases should be used to get all districts and schools up to their target student allocation (or per-student dollar figure based on the foundation and weight amounts determined), starting with the highest-priority student needs.
Goal 5: Allow for Flexibility in Resource Use and Support Innovation in Education Delivery

This section addresses how effectively and efficiently Delaware’s education funds can be applied by districts and schools once they are allocated. It asks the critical question: Do Delaware’s allocation policies allow those closest to the students — the local administrators and educators — the flexibility to use those funds in innovative ways that respond to and support their learning needs?

How does Delaware’s system work?

As described above, Delaware’s state education funds are allocated on the basis of specific purposes or categories, with more than half of the funds (58.3 percent) allocated on the basis of position-equivalent units.\textsuperscript{49} Schools have flexibility as to which teachers they hire for which positions, and schools also have discretion as to whether the mix of positions is sufficient for their needs. The state pays teachers based on the statewide pay scale, which districts can augment with local funds. This tight link between units and funding allocations preserves strong influence by the state on how districts and schools use these dollars, with 83 percent of Delaware’s education funds inflexible at the district level.\textsuperscript{50}

Most local discretion over state allocations is largely limited to Division III equalization funds (amounting to just 8 percent of all state funds). However, even these funds are discretionary only at the district level and not at the school level,\textsuperscript{51} which means that noncharter schools effectively have no formal control over any funds without district involvement.\textsuperscript{52}

Districts retain control of 100 percent of local funds generated through referenda.

How well is Delaware achieving Goal 5?

Any discussion of the link between an education finance system and innovation necessarily boils down to the extent to which the finance model permits flexibility in resource use and provides incentives toward adopting more efficient and more effective practices.

Delaware’s state-level control of such a large percentage of the education budget means that too many funding decisions are made at the state level — far from the individual student. The result is a structurally inefficient system that cannot anticipate or respond to student needs and resists opportunities for improvement or innovation.

Research conducted in the development of Vision 2015 enumerated some of the ways that excessive constraints on the use of Delaware’s education funds inhibit efficiency improvements.\textsuperscript{53} They noted that categorical funding prescriptions prevent spending coherence at the district and school level, impose burdensome accounting and fund management, and force a one-size-fits-all approach to addressing each problem.\textsuperscript{54} While prescriptions on resource use are intended to yield predictability and protect districts from making poor decisions, the negative implications of such prescriptions have become detrimental to districts’ abilities to match funds with student need. Vision 2015 concluded that greater flexibility should be provided at the school level.

Delaware’s system for allocating funds for noninstructional services provides limited flexibility and therefore limits efficiency and innovation. Funding 100 percent of transportation dollars to
Report on Education Funding in Delaware

districts and charters provides no incentive to save money and no mechanism to rethink operations toward more efficiency. And, as a 2004 DPPI report points out, local districts would lose revenue by choosing to contract out food service or cashing in units to obtain greater flexibility.\textsuperscript{55}

Recent instances in which districts have been allowed flexibility in how they use block grant funding have shown promise, with districts creatively using the funds to improve student achievement. For example, in the 2004–05 school year, Maple Lane Elementary School in Brandywine School District was granted flexibility in the use of summer school funds and used the extra resources to add three weeks to the school year. In the first two years of the new program, the percentage of Maple Lane 3rd grade students meeting or exceeding reading standards increased by six points. Those meeting or exceeding math standards increased by nine, and those meeting or exceeding writing standards increased by 29 percentage points.\textsuperscript{56}

Significant innovation in schools is not likely to result from one-size-fits-all prescriptions handed down by state policymakers. To foster true, sustainable innovations, Delaware must embrace policies that allow those working closely with students to try out a range of emerging approaches, anticipate those as yet unforeseen and actively seek those that work best for their students in their local contexts.

Because the current Delaware finance model is prescriptive, inflexible and far removed from the students, it presents a formidable barrier to innovation in education toward increased quality and efficiency.

**How does Delaware compare to other states?**

Few states have education funding systems as prescriptive or inflexible as Delaware’s. North Carolina and Washington use similar position-based allocations with a statewide salary schedule.\textsuperscript{57} California ties up a large portion of its funds in categorical allocations that have a similar effect.\textsuperscript{58}

There are many exciting innovations taking place around the country in education, and it makes good sense that Delaware position itself to take advantage of those models that do indeed show promise. Funding flexibility has enabled numerous innovations. Some innovations have provided instruction using technology, others have redesigned staffing structures to be more efficient and still others have enabled schools to redesign student supports to better meet their population’s needs.

Schools and districts are increasingly taking advantage of distance learning options as part of their strategies for reaching all students and providing top-notch professional development to staff. Schools like the Appleton eSchool and Chicago’s Virtual High School provide students with the opportunity to take some or all of their courses online through their existing operating budgets. And many schools in Maryland are accessing much of their teacher professional development through Thinkport — a Web site with resources for teachers.\textsuperscript{59} Yet for a Delaware-funded public school, converting Division I funds into purchased online services is not an option because of the position allocation system, even when the purchased services could accomplish the task more efficiently and more effectively than the staffing alternative.

Some schools outside Delaware are changing the way they obtain certain services, with the goal of freeing up more funds for core subjects. One school in Washington state has found that using contractors to provide music lessons results in substantial cost savings.\textsuperscript{60} Similarly, many schools are rethinking their school organization and staff roles to provide extended learning time. Schools in high-poverty areas in Massachusetts have lengthened the school day by converting some art teacher salaries into contract services for after-school enrichment programs.\textsuperscript{61} A school in Ohio extended its school day by redesigning teacher contracts to
enable most teachers to work additional days and longer hours with additional compensation.62 Last, schools in 15 states now use handheld assessment devices which have dramatically reduced the time teacher aides spend doing this task, freeing up more funds to support time spent on instruction.63 Delaware schools can find it difficult to investigate options such as these when their funds are restricted to funding salaried positions rather than contracts or purchased services.

School and district leaders have pointed out that accountability reforms need to be matched with fewer restrictions on funds to allow for more strategic use of funds. Their assumption is that those with the best understanding of the unique students and circumstances at each school should be involved in decisions about how resources get used. Just as districts and schools are responsible for results, Delaware’s new finance system must be one driven by outcomes, not compliance.

The last decade has brought about many changes in how schools deliver education, including the growth of magnet and charter schools, school choice, new school designs, computer-aided learning, and distance learning options. This is a natural and positive progression: As technological advancements have dramatically changed many noneducation sectors, there can and should be innovations in schools. Student populations also have changed, with many more students moving among schools and requiring a more complex array of services. As schools are expected to demonstrate results as they prepare their students for a changing economy, their funding system must empower them to explore innovative approaches that land outside traditional finance models.

Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 5 for a reformed state education funding system: Allow for flexibility in resource use and support innovation in education delivery.

Delaware’s allocation system should provide districts and schools with more flexibility (toward efficiency and innovation) in how resources are used at the school and district levels.

FINDINGS

E.1. The unit-based system can limit district and school flexibility and innovation by working to prescribe use of funds in predetermined ways. Vision 2015 calls for increased authority given to building leaders toward encouraging innovation. One analysis suggests that only 17 percent of funds were flexible at the district level and only 8 percent at the school level.

E.2. Advantages to a more flexible system have been identified, and innovative models have grown in recent years.

E.3. Transferring decisions about resource use to districts and schools requires continued accountability systems to ensure that funds are spent well to secure student success.

E.4. Where the state prescribes resource use and reimburses based on costs incurred, districts and schools have little incentive to implement cost-saving efficiencies.

LEAD COMMITTEE RECOMMENDATIONS

The Committee recommends that the state provide schools with more flexibility via the following:
Recommendation #10: Give flexibility to districts and schools in how resources are used. Funds should be allocated on a per-pupil basis with the ability to purchase staff and other services at the school level. For schools in districts, funding should be allocated contingent on the district’s approval of the educational success plan or balanced scorecard strategic planning and performance setting process. The state should reduce restrictions on the use of allocated revenues and rely more heavily on districts’ and schools’ responsibility for outcomes. Responsibility for outcomes should be reviewed in light of existing tools such as the success plan or balanced scorecard. Similarly, the state should set clear guidelines for when state department leaders would step in to provide oversight on district and school spending decisions.

Additional notes:

- Ensure that the state’s new fiscal accounting system (reportable in 2010) will track expenditures to school buildings, thereby ensuring that funds earned on the basis of student needs are actually expended proportionately at the schools with those high-needs students. This system should report real staff salaries at each school (versus district averages).
- To the extent feasible, all current allocations should be wrapped into a student-based allocation system with flexibility granted toward encouraging districts and schools to make cost-efficient decisions at the local levels.

Recommendation #11: Revise the energy allocation formula to reflect building attributes such as square footage, age of structures, type of materials, location, position of property and use of the building (rather than units). If districts spend their energy allocations more efficiently, they should get to keep the funding to put back into programs.
Goal 6: Support a Transparent and Easily Understood Funding Structure

This section addresses the structure supporting Delaware’s education funding system. It asks the critical question: Is the system transparent and easy to understand?

How does Delaware’s system work?

As previously mentioned, the state allocates units — which work like full time equivalent positions (FTEs), not dollars — so it is difficult to follow the flow of funds from the state to districts and schools. For instance, isolating funds that are driven by the needs of students with disabilities means determining how many units were generated and then assigning the actual salaries to those units for the staff hired for those unit positions. The corresponding funds depend on who is hired and where their salaries fall on the statewide schedule.

As a result of this and other structural issues, Delaware’s policymakers and the public do not have access to real dollar spending by student type down to the school level. The current unit count simply does not allow for policy to discern what is working and what is not.

How well is Delaware achieving Goal 6?

Those intimate with the current system believe it to be easy to understand and use and predictable in terms of the resulting allocations. In practice, however, the unit-based allocation system is one that few in the state fully understand: It lacks clarity in real dollar spending and makes it difficult to determine the actual dollars that are allocated for various student learning needs, such as special education or services for ELL students.

The structure of the current education system in Delaware has created barriers to efficiency with its complexity and obscurity. According to a 2004 DPPI study, “[t]he education finance system is simply not organized with the goal of knowing whether how money spent produces results or whether alternate allocations of resources would increase student achievement.”

The LEAD Committee seeks an education finance system that produces solid, accurate fiscal data about revenues and allocations at all levels in the education system. Given increasing evidence of spending disparities across districts or schools, there is an allied need for clear financial data that would enable those in the system to ensure that future allocations are fair and unbiased. Further, making financial data more transparent allows those in the system to more easily identify areas of need and adjust allocations to match changing circumstances. Last, solid expenditure data can better clarify the link between resources and student outcomes.

How does Delaware compare to other states?

In the 39 states using the foundation formula, funding systems are more transparent because dollars follow students and their needs, and funding is allocated in terms of dollars rather than staff positions or other units. Relative to most states, Delaware’s system is complex and hard to understand.

States are improving their financial reporting systems to better track dollars (instead of staff or materials) down to the school level. States such as Florida, Texas and Ohio now have financial systems that report spending per pupil and pupil type for all the state’s schools.
Findings and Recommendations

Based on detailed analysis of current practices in Delaware and other states, the following statements represent the sense of the LEAD Committee regarding Goal 6 for a reformed state education funding system: **Support a transparent and easily understood funding structure.**

**Delaware’s finance system should be transparent and easy to understand.**

**FINDINGS**

F.1. The unit-based system is complex in that in accounting for units (and not dollars), it is difficult to determine how much the state spends for each student type.

F.2. The current system is somewhat complex, making it difficult to determine the actual dollar allocations made to each district and school on the basis of student needs.

**LEAD COMMITTEE RECOMMENDATIONS**

Recommendation #12: Provide a simple and easily understood accounting of how education dollars are allocated at the school and district levels and make that data available electronically in a straightforward summary in the context of like schools and districts.

The focus of decisionmaking under the proposed system will be on achieving the state’s goals of efficiency and effectiveness in funding student achievement. Districts and schools will be able to tailor resource use to their specific needs, and funds will flow more readily to the students who need them most. On this new and improved track, Delaware’s education finance system will be flexible enough to meet the evolving needs of its students.

**Conclusion**

These are bold recommendations, but they are doable — other states and school systems have improved their systems in similar manners. The time for changing Delaware’s education finance system is now. With increased expectations for student performance, there is more evidence than ever that the current finance model will not do the job. In adopting a system in which funds are generated by each student type and fair funding commitments are shared by the state and local taxpayers, this state can eliminate one of the key barriers to an aligned, efficient system that can benefit as new innovations emerge.
Appendices

Appendix A
Proposed Timeline

The Committee submits a proposed timeline for implementation such that Delaware can make the needed changes in ways that are expeditious and strategic given the current policy context. The Committee calls on and looks forward to working with Delaware policymakers to implement these proposed changes.

Proposed Funding System Evolution

2008-10 (FY09+10) Preparation

- LEAD selects initial weights; proposed process for determining foundation
- LEAD recommends associated policy changes
- FY10 state budget developed; OMB/DOE forecast new foundation formula
  - folding out Division I and Division II funds into a student-based formula
  - determining which categorical funding streams get collapsed into foundation or base
- Apply formula to proposed budget to determine each district’s allocation
- Legislative and budgetary actions on governance and accountability policy decisions
- District school allocations confirmed for FY10

2010-11 (FY11) Foundation Formula (4)

- District funds allocated based on weights (FY11), held harmless so no districts lose money
- Use new funds to level districts up to new allocation based on weights
- Allow districts to plan to implement WSF in FY12

2011-12 (FY12) Modified WSF (5)

- Districts voluntarily implement WSF at the school level
- Use new funds to level districts up to new allocation based on weights
- Mandate that districts implement WSF at the school level

2012-13 (FY13) WSF (6)

LEAD or other state-appointed task force modifies weights to address needs

Numbers listed after funding system description refer to those described in Figure 6.
Appendix B
Implementation Lessons from Other States

Any type of policy change in a finance system will bring on challenges, yet the experience from other states suggests that most are not insurmountable. In assessing Delaware’s funding system in light of the history of the state’s funding and current national trends, the LEAD Committee has found a variety of issues that must be addressed to move forward with an improved funding system. Insights from other states on how to handle these are included here.

1. Determine new revenue and allocation amounts. For the foundation model, states must determine the level of the base amount as well as any incremental spending (or weights) on different student types. Given that the total spending level is most often determined by the amount of funds available through historic and foreseeable taxing policies, it makes good sense to work backwards from that to a base amount and targeted amounts. It is often unlikely that the state can immediately meet its desired targeted amounts for all student types, and these targets (or weights) can be adjusted yearly by a state-appointed committee.

2. Determine each local district’s ability to pay. Toward ensuring equity but maintaining some local contribution, states must decide the extent to which local revenues will contribute to the desired allocation. Where this local match is used, fair and reliable property assessments must be in place, and some portion of the local funds must not be subject to voter approval.

3. Minimize the negative impact on districts. Nearly all states opt for phasing in changes or grandfathering allocations to previous years as a means of ensuring that no district loses funds in the transition. One way to mitigate losses in the first year is to tailor weights to reflect implicit weights under the previous spending arrangement. The South Carolina plan does just that. As states adjust to the new system, they can phase in new, more appropriate weights over time.

That said, states can experience difficulties in multiphasing the basic tenets of the new system, as such substantive phases often require additional legislative action and can get derailed. These difficulties have come to light in Hawaii and Texas. Subsequent changes that involve only district behaviors (e.g., implementing school-based WSF) are more realistic, as evidenced by the many districts that have implemented WSF on their own schedules.

4. Balance decentralizing control over resources with appropriate accountability for results. Where states move decisions about resource use down to the level of districts or schools, this decentralization must be accompanied by an effective accountability system.

5. Account for differences in districts and schools. Although new student-based allocation models can be much simpler, states may still need to address districts with unusual circumstances (e.g., rural areas, high cost areas, schools with high energy needs, etc.). The new finance system will want to accommodate unusual circumstances and also foster efficiency and innovation. Reimbursements, line items, flat grants or other categoricals may be appropriate in some cases.

6. Collapse categoricals to target funds to some student types. To leverage funds from different programs, some new allocation systems have redesigned their categorical allocations to provide more flexible and more effectively targeted funding for students with identified needs (poverty, limited English proficiency, etc.). By targeting the funds to student types, rather than fund specific programs or services, the funds reach districts in ways that allow more flexibility and reduce burden in compliance and reporting.

7. Carefully consider whether the state will impose restrictions on class size or teacher work rules.
While the state can provide funds in a more flexible manner, other seemingly nonfiscal regulations also can effectively work to constrain the use of funds. State decisions about class size, teacher roles, teacher compensations, etc., must be considered carefully as they work to interact with decisions about how to allocate funds to restrict district decisions on resource use.

For more information, please refer to:

- Annenberg Task Force on School Communities that Work (2002). *First Steps to a Level Playing Field: An Introduction to Student-Based Budgeting*.
- New York City Schools (2007). Fair Student Funding proposal.
### Appendix C
Supplementary Data: Figures 2 and 3

**Figure 2: Total state and local funds per pupil as compared with percentage of students in poverty**

<table>
<thead>
<tr>
<th>District</th>
<th>Total state and local funding received in 2006-07</th>
<th>Total enrollment</th>
<th>Per-pupil state and local funding</th>
<th>Percentage of low-income students</th>
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<tbody>
<tr>
<td>Appoquinimink</td>
<td>$64,977,102</td>
<td>7,296</td>
<td>$8,905.85</td>
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<td>Brandywine</td>
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<tr>
<td>Caesar Rodney</td>
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<td>6,291</td>
<td>$11,468.52</td>
<td>0.311263972</td>
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<tr>
<td>Cape Henlopen</td>
<td>$51,305,937</td>
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<td>$11,740.49</td>
<td>0.36979405</td>
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<tr>
<td>Capital</td>
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<td>Christina</td>
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<td>$12,864.15</td>
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<tr>
<td>Colonial</td>
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<tr>
<td>Indian River</td>
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<td>Laurel</td>
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<tr>
<td>Milford</td>
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<td>Red Clay</td>
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<tr>
<td>Seaford</td>
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<td>Smyrna</td>
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<td>Woodbridge</td>
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<td>1,943</td>
<td>$10,017.20</td>
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</table>

Figure 3. Tax Rate versus Funds Generated Per Pupil (Includes State Equalization Funds)

<table>
<thead>
<tr>
<th>District</th>
<th>Annual property taxes collected on a home valued at $100,000</th>
<th>Funds generated per pupil (including state equalization funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appoquinimink</td>
<td>$217.28</td>
<td>$3,065</td>
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<tr>
<td>Brandywine</td>
<td>$363.22</td>
<td>$4,638</td>
</tr>
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<td>Caesar Rodney</td>
<td>$150.12</td>
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<td>Cape Henlopen</td>
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<tr>
<td>Capital</td>
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</tr>
<tr>
<td>Christina</td>
<td>$368.08</td>
<td>$4,666</td>
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<tr>
<td>Colonial</td>
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<td>Delmar</td>
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<td>Indian River</td>
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<td>Lake Forest</td>
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<td>Laurel</td>
<td>$144.00</td>
<td>$2,273</td>
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<tr>
<td>Milford</td>
<td>$170.80</td>
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<td>Red Clay</td>
<td>$325.25</td>
<td>$4,272</td>
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<td>Seaford</td>
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<td>Smyrna</td>
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<tr>
<td>Woodbridge</td>
<td>$192.51</td>
<td>$2,615</td>
</tr>
</tbody>
</table>

Appendix D
LEAD Committee

Marvin N. “Skip” Schoenhals, Chairman, WSFS Bank (Chair)
Valerie A. Woodruff, Secretary, Delaware Department of Education (Vice Chair)
Jean W. Allen, President, Delaware State Board of Education
Kevin E. Carson, Superintendent, Woodbridge School District
Sally C. Coonin, Education and Policy Advisor, Office of Governor Ruth Ann Minner
Jennifer W. Davis, Director, Delaware Office of Management and Budget
Diane Donohue, President, Delaware State Education Association
Henry Smith, Secretary, Delaware Department of Services for Children, Youth and Their Families
Paul A. Herdman, President and CEO, Rodel Foundation of Delaware
Frank R. Ingram, Jr., Board Member, PolyTech School District
H. Raye Jones Avery, Executive Director, Christina Cultural Arts Center
Vincent A. Lofink, Education Chair, House Education Committee, Delaware General Assembly
Gregory Meece, Director, Delaware Charter School Network; School Director, Newark Charter School
G. Scott Reihm, Executive Director, Delaware Association of School Administrators
Daniel Rich, Provost, University of Delaware
David P. Sokola, Education Chair, Senate Education Committee, Delaware General Assembly
Connie Bond Stuart, President, PNC Bank, Delaware
William H. Willis, President, Willis Auto Group
Appendix E
Research Support

RESEARCH SUPPORT PROVIDED BY:

Marguerite Roza, PhD, Research Associate Professor, Center on Reinventing Public Education at the University of Washington. Dr. Roza’s research focuses on education spending and productivity. Recent research has documented the real dollar implications of education policies once realized inside schools, across schools and within districts. Her calculations of dollar implications and cost-equivalent tradeoffs have prompted changes in education finance policy at all levels in the education system. Her work has been published by Education Sector, the Brookings Institution, Education Next and the Peabody Journal of Education.

Ellen Cunniffe, Research Assistant at the Center for Reinventing Public Education at the University of Washington

Jerry Gallagher, State Finance Analyst, Department of Education

Michael Griffith, School Finance Analyst, Education Commission of the States

Leah Jenkins, Education Associate, School Accounts, Department of Education

George Meney, Superintendent, Colonial School District

Michael Morton, Office of Controller General

Robert Smith, Superintendent, Milford School District

Dorcell Spence, Associate Secretary, Finance and Administrative Services, Department of Education
Appendix F
Committee Member Statements

The LEAD Committee developed this report using a consensus process. Individual Committee Members were given the opportunity to submit an unedited statement related to the recommendations. The following statements were submitted:

Barbara Grogg, President, DSEA (succeeded by Diane Donohue in September 2008)
DSEA supports the need to look at how the state funds facilities and minor cap allocations for Charter Schools. The ideas put forth within the Report are worthy of consideration. However, LEAD should recommend that it be done within the context of the General Assembly’s intended review of the whole charter school law and the total funding needs for all public schools.

G. Scott Reihm, Executive Director, DASA
Both Recommendations 8 and 9 deal with the allocation of resources. There is no mention of where funds for vocational programs fit in the model. Should it be part of the “base amount” or assigned an additional “weight” which addresses the need for additional funds due to the nature of the programs?

Kevin E. Carson, Superintendent, Woodbridge School District
The Delaware Chief School Officers Association (CSOA) has appreciated the opportunity to participate and contribute to the work of Executive Order No. 98 and specifically to provide input to the LEAD Committee. The review of the current funding system in Delaware and the opportunity to provide additional emphasis in the areas of adequacy and equity is critically important to our collective movement forward to improve student achievement.

As a group, we support the goals and recommendations contained within this document and would like to call specific attention to three primary areas for continued attention and emphasis:

1. The CSOA is very committed to the review and implementation of a new property tax assessment system. Our organization is supportive of the work being done and as prescribed in House Joint Resolution No. 22 which was passed by the 144th General Assembly directing various state agencies to provide recommendations to “provide a mechanism for a fair and equitable reassessment of all real property within the State.” This report is due to the Governor and the General Assembly by November 26, 2008.

2. The CSOA endorses the inclusion of high needs students within the state public education funding formula specifically, the inclusion of those students who live in poverty and students who are English language learners.

3. The CSOA endorses the removal of the archaic energy allocation formula currently in place and supports a formula which provides energy funding based upon square footage, age of structures, and the use of the building for education purposes beyond the normal school day.

Our organization stands ready to assist the Governor, General Assembly and state agencies to work towards a funding system which provides the best possible opportunity for all students within the state of Delaware.
Endnotes

13. See note 11 above.
14. See note 10 above.
15. Delaware Equalization Committee, Report and Recommendations, 2006, Prepared in response to requirements specified in Delaware Code, Title 14, Section 1707(i).
16. See note 11 above.
18. See note 8 above.
21. See note 19 above.
25. See note 6 above. Ranking excludes Hawaii, which operates as a single district. National Center For Education Statistics, Table 1: Revenues and Expenditures for Public Elementary and Secondary Education.
26. See note 8 above.
29. See note 10 above.
32. Delaware code, Title 14, § 2601


41. See note 23 above.


44. See note 17 above.

45. See note 19 above.


49. DDOE Education Statistics, Division I Funding.


51. DDOE “Education Statistics”; Brandywine funding information.

52. Source for local discretionary spending data: DDOE “Education Statistics”; Brandywine funding information.


55. See note 23 above.

56. Maple Lane Elementary School, Superstars in Education Application, 2006.


58. Ed Week Survey 04–05; Bryan C. Hassel and Marguerite Roza, “Funding the Child.”


63. Interviews with Marguerite Roza, University of Washington.