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# Systems or Results?

Results-Based Funding & the Public-School Funding Question

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## Introduction

Arizona’s Results-Based Funding (“RBF”) program is the states only dedicated, performance-tied K-12 funding stream. The program this year awards approximately \$68 million to eligible high-performing public schools based on statewide assessment scores. The highest awards are reserved specifically for high-performing, low-income schools, and receiving entities are required to use the monies for teacher and instructor pay and/or to expand or replicate the schools successful learning programs.

This year, the program will make awards to 500 public district and charter schools (out of 1,925 eligible schools identified by the Department of Education) and the average award amount is \$34,400. Under the introduced budget agreement, the program would be repealed, and its funding reallocated to the base funding formula. It would be allocated to all school districts on a per pupil basis, regardless of performance.

## Key Findings

CSI’s analysis of this program, and the consequences of its repeal, find that:

- 92% of the 500 RBF-receiving schools in Arizona would receive less money in basic state aid increases than they are receiving in RBF awards when the appropriation for Results Based Funding is reallocated to the base level. 50% of these revenue-losing schools are low-income.
- Public school funding has surged more than 250% since 1980 (in constant, inflation-adjusted dollars), while performance has been essentially flat and enrollment has climbed only ~25%.
- Enrollment in Arizona’s public district schools has declined by 30,000 students since 2020. Relative to pre-pandemic projections, public school enrollment in Arizona is as much as 80,000 students below forecast.
- Policymakers have responded to declining enrollment by massively increasing public school funding. Over just the past three years, K-12 combined funding has climbed some 21%.
- Despite surging resources and declining enrollments, academic achievement loss has accelerated since 2020. All of the modest academic gains in national standardized test scores between 2000-2020 appear to have been lost during the post-pandemic period.
- The largest beneficiary of RBF dollars – Independence High School – has more than 2,000 students, 92% of whom are non-white, and nearly two-thirds of its students are eligible for free or reduced-price lunches 10. This year, Independence will receive over \$817,000 in RBF awards; next year under the budget plan that would fall to ~\$34,000 in general formula funding.

## Background

Traditionally, public education in the United States was locally funded – often to almost the neighborhood level. Prior to 1980 in Arizona, for example, counties created neighborhood school districts around their local schools which then taxed themselves to provide for all or nearly all of their operating funding. What a school could or could not raise from its neighbors through property taxes, resulted in the maximum funding the school would receive. At the extreme case there was no connection between the funding and student enrollment, educational outcomes, or other measures.

In 1980, Arizona joined what was by then a national trend – beginning in California - in instituting statewide funding formulas intended to equalize funding and tie district spending levels to objective metrics. Between 1980 and 2017, Arizona operated on a strict *per-pupil* funding mechanism: in general, spending levels are (intended to be<sup>i</sup>) tied to actual (weighted<sup>ii</sup>) student enrollment in the district, and state revenue backfills local support to ensure a district has adequate resources to meet its spending formula commitments regardless of the local tax base. While this new system considered weighted student count in a districts spending levels, it continued to neglect measures of academic outcome or student achievement in allocating resources.

In 2002, Federal regulators enacted the *No Child Left Behind Act*, which attempted to institutionalize from the top down a performance-focused public educational philosophy. Tied to substantial new federal funding streams, the Act required annual testing and observable academic progress from local public schools. In 2010, Arizona enacted its school letter grade-system, which was intended to cover existing school-level data sources (standardized testing and progress measures) into a clear, easy-to-understand measure of school performance parents and regulators could understand.

In 2017, the Arizona Legislature enacted the state’s first funding stream dedicated to high-performing schools – Results Based Funding (“RBF”). The legislation contemplated schools earning “A” grades under the state’s letter-grade system receiving additional funding to incentivize the expansion of their successful models to more students and school sites. Higher earmarks were set aside for high-performing, low-income schools. For context, between 20-30% of the state’s schools earn “A” grades.

Annual awards under the program have grown from \$34 million in 2017 to \$68 million this year. Today, 500 Arizona public schools receive awards ranging from \$817,000 to \$1,350. Reallocating the funding to the base support level and all 1,925 schools – regardless of academic performance – will lower the average schools award attributable to this money from \$133,000 to \$34,000. Of the 500 high-performing schools currently receiving RBF awards, **459 (92%) would receive less money under the budgets proposed reallocation of these funds to the base funding formula.** Of those, 50% are high-poverty schools.

## School Performance in the United States

The history of K-12 education in the United States has been characterized by three stylized trends: flat or slightly growing student enrollment; flat or declining academic performance; and rapidly growing school funding. Interestingly, the trend in the 1980’s and 1990’s towards formulaic funding models in most states did little to address this trend. In Arizona, for example, policymakers responded to the tying of funding to enrollment and inflation formulas by making large annual increases in the per-pupil funding amounts (called the “base support level”) used as the starting points for these formula increases. Perhaps ironically, these increases are even *larger* during periods of declining enrollment – policymakers effectively backfill funding declines that would occur due to falling enrollments by increasing formula amounts elsewhere. For example, since Arizona enrollment peaked in 2020, policymakers have added \$2.6 billion in new state, local, and federal public-school funding and per-pupil amounts have surged 22%<sup>iii</sup>. Effectively, policymakers utilize the “savings” generated by declining student enrollments to increase per-pupil funding for the remaining counts.

On the other hand, performance – as measured by standardized test scores – has been flat or declining. During the late 1990’s and early 2000’s, acknowledgment of declining performance trends led to a refocusing at all levels on the use of performance benchmarks, performance-tied

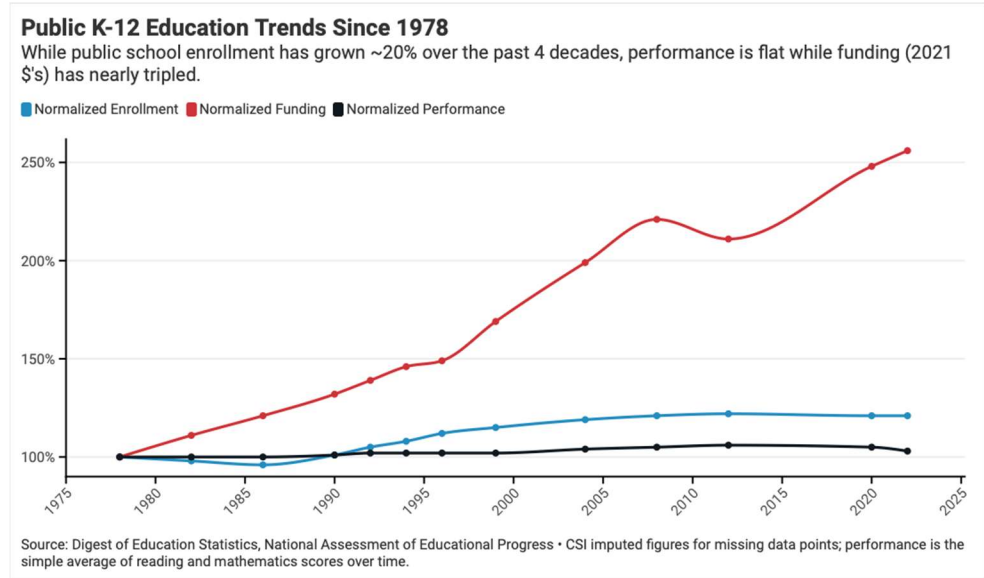


Figure 1

funding, and other reforms<sup>iv</sup> – culminating in the national *No Child Left Behind Act* and Arizona’s adoption first of school letter-grades in 2010 and then creation of the Results Based Funding program in 2017. There is evidence that these reform efforts were resulting in slow but gradual improvement (between 1996 and 2012, for example, composite NAEP scores rose approximately 5% in the United States – versus being effectively flat over the two decades prior). Unfortunately, it appears the disruptions of 2020 have largely undone that progress; initial post-pandemic data suggests student performance by numerous measures is back to where it was in the 1990’s and the progress of the 21<sup>st</sup> century has been largely undone<sup>v</sup>.

Public school enrollment was effectively flat from and after 2010, and today it is only about 25% higher than it was in 1980. Nationwide, on the other hand, **inflation-adjusted public-school funding has surged some 250% over the past several decades** – fueling surging school employment rolls and the steady accumulation of land and capital into local school districts<sup>vi</sup>, even as enrollment has flatlined and more recently begun declining, and despite no measurable improvements in educational outcomes.

## Results Based Funding in Arizona

Arizona’s dedicated performance-based funding stream (RBF) was originally adopted in 2017, and today is a \$68 million annual program intended to promote the growth and expansion of high-performing public school academic models. As designed, it was intended that awards would go to schools receiving “A” letter grades (recall, school letter grades heavily weight growth and improvement over raw annual test scores) and that monies would be used to reward successful teachers and expand successful programs.

Since its creation, the program has consistently awarded funding based on the school’s percentile in statewide assessment scores directly, rather than letter grades. For the 2022-2023 school year, the threshold for low-poverty schools was 13% (top 13% of schools statewide were eligible to receive \$225/pupil in RBF

funding) and the threshold for high-poverty schools was 27% (allowing high-poverty schools to receive either \$400/pupil or a lower \$225/pupil RBF award, depending on test scores).

For context, according to JLBC, average per-pupil funding in Arizona this year is approximately \$13,000 per year, and systemwide funding is nearly \$15 billion<sup>vii</sup>. This makes the RBF only about 0.5% of total public-school funding (and less than 1% even of state and local formula funding, only).

The program provides direct financial incentive for schools to achieve measurable results – either through the letter-grade system (as designed) or statewide assessment performance (as consistently implemented since). To reiterate, no other state or local funding component is directly tied to student performance.

By reallocating this funding stream back into the basic state aid formulas, it becomes a *de minimis* revenue entitlement with no associated financial incentive (beyond maximizing official ADM counts). Distributed across the entire system (rather than targeted towards specific high-performing schools), the RBF funding amounts total only about \$60/student – versus the \$225-\$400/student the targeted program can provide.

It is true that the relatively small total appropriations and awards under the program and its reliance on assessment scores over letter grades diminishes the possible incentive impacts. Award amounts are relatively small in the context of the overall formula. On the other hand, benefiting schools are smaller on average than all eligible schools, according to ADE – meaning the money disproportionately benefits smaller schools that otherwise lose out under the state’s strict per pupil funding formulas. The program also specifically reserves its largest awards for low-income, high-performing schools.

For example, the largest beneficiary of RBF dollars – Independence High School – has more than 2,000 students, 92% of whom are non-white, and nearly two-thirds of its students are eligible for free or reduced-price lunches<sup>viii</sup>. This year, Independence will receive over \$817,000 in RBF awards; next year under the budget plan that would fall to ~\$34,000 in general formula funding.

It may be the case, however, that these award revenue losses at high-performing schools would be partially or fully offset by other spending increases (baseline and one-time) included in the 2024 budget agreement. Future loss of these one-time resources and/or exclusion of unrelated baseline increases for enrollment and inflation growth, though, would affect this calculation. Considering just the direct impact of reorienting targeted payments to high-performing schools with general payments for all schools must create winners and losers (winners being relatively low-performing schools, losers relatively high-performing).

Repeal of RBF and replacement with an additional increase in general formula funding only doubles-down on the decades of status quo funding increases that have consistently rewarded American public schools for the

combination of academic failure and declining enrollments. This is particularly true since 2020, when extended academic disruption led to the exodus of as many as 3 million students from the public school system at the height of the pandemic<sup>ix</sup> – and lasting declines of over 33,000 students from Arizona’s district public school system through even today.

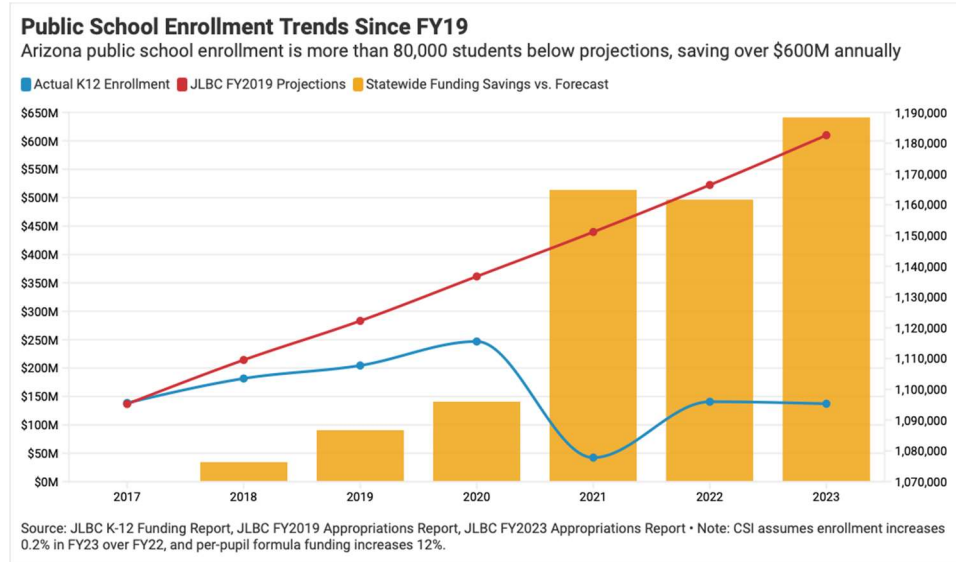


Figure 2

## The Bottom Line

Repeal of the state’s Results Based Funding program means:

- The elimination of the only state K-12 funding line dedicated to rewarding performance.
- Cuts funding for high-performing schools – especially high-performing, low-income schools.
- Distributes a minimal increase in general funding to all Arizona schools at a time when public school revenues are at historic highs.

<sup>i</sup> Under state law, local school districts may avail themselves of various bond and budget override options with local voter approval. These options are entirely supported at the local level with local property taxes and are not available to charter schools or directly tied to enrollment demands.

<sup>ii</sup> Not all students in Arizona count equally for public school funding purposes – for example, students are funded differently based on grade level, special education needs, size of their school, etc. Notably, there is no weight for student achievement or academic progress.

<sup>iii</sup> JLBC Staff, “[K-12 Funding \(M&O, Capital and Other\) FY 2014 through FY 2023 est](#)”, *Joint Legislative Budget Committee* August 31, 2022.

<sup>iv</sup> Hamilton, Laura, Stecher, Brian, and Yuan, Kun, “[Standards-Based Reform in the United States: History, Research, and Future Directions](#)”, *Center on Education Policy*, December 2008.

<sup>v</sup> Lonas, Lexi, “[What Falling Test Scores Mean for US Students](#)”, *The Hill*, May 5, 2023.

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<sup>vi</sup> Brunner, Kamryn and Glenn Farley, "[School Facilities & The Accumulation of District Space Since 2007](#)". *The Common Sense Institute*, February 2, 2023.

<sup>vii</sup> JLBC Staff, "[K-12 Funding \(M&O, Capital and Other\) FY 2014 through FY 2023 est](#)", *Joint Legislative Budget Committee* August 31, 2022.

<sup>viii</sup> "[Independence High School](#)", *Public School Review*, 2023.

<sup>ix</sup> Camera, Lauren, "[As Many As 3 Million Children Have Gone Without Education Since March: Estimate](#)", *U.S. News*, October 21, 2020.