



# advocate for SCHOOLS



**SPECIAL EDITION**

**Modernizing  
School Funding**

## School Funding Formula: Modernizing or Just Changing?

**A Joint Legislative Study Commission on Modernizing K-12 School Funding has been tasked with researching Alabama’s current school funding formula - the Foundation Program - to see how it can be modernized to better address student needs.** Any new formula would be funded with existing revenue and projected revenue growth for K-12 public education in the Education Trust Fund (ETF) budget.

The study commission, co-lead by House and Senate education budget chairs **Rep. Danny Garrett** and **Sen. Arthur Orr**, met earlier this week to review three new student-weighted funding models. The commission will meet again in January 2025 to determine how to proceed. No meeting date has been scheduled. View the commission’s presentation [HERE](#).

### What We Know

The Foundation Program was created in 1995 as a result of a 1991 equity funding lawsuit. While an improvement over the previous Minimum Program, the Foundation Program still does not adequately fund K-12 public education or address student needs. AASB is committed to the commission’s efforts to research how to align funding with student needs and strongly supports more funding to better meet those needs, increasing per-pupil funding for all school systems and ensuring greater flexibility for local school leaders to allocate state funding to best serve their student needs.

It is critical any new funding program accurately reflects the costs of a modern-day education program using current market costs to determine base funding, and addressing changes in the education landscape since 1995.

**School boards strongly believe any changes to the funding program must:**

- Preserve each local school board’s current level of funding;
- Allow for growth commensurate with new mandates; and
- Regularly reassess the funding base to calculate in real costs and growth, including pay raises and technology.

In raw dollars, per-pupil funding increased by more than \$1,100 per student from 2008 to 2022. But after adjusting for inflation, state funding actually decreased by \$860 per student in that same time period, despite adjustments for raises, insurance costs, and new programs. Annual adjustments for growth due to salary matrix adjustments, cost of living adjustments (COLAs), and other legislatively mandated costs to ensure this problem is resolved are not yet built into any of the proposed funding model projections shared with legislators.

Over the last three years, the Foundation Program budget increased on average 4% annually, primarily due to personnel salary costs driven by the salary matrix. Personnel costs account for 95% of the current funding model, so flexibility is minimal without reducing staff. From FY24 to FY25, state funding for K-12 public education grew by \$287 million, or 5.5%, largely because of Foundation Program increases.

### What Are Legislators Seeking to Do?

A new model would fundamentally change how Alabama funds K-12 public education. Alabama remains one of only six states funding K-12 public education with a Foundation Program model, which is motivating the legislative commission’s intent to change the model.

The Foundation Program is based on average daily membership (ADM) from the previous school year determining how many staff units are funded per school. The student weights would allocate additional funding for students with greater needs. Each of the three models shown are built on a “base” amount that applies to each student plus “weights” that provide more funding as a percentage of the base. Each proposed model would target state funds toward these student groups: poverty, rural, special education, gifted, and English language learners. The proposals would direct more state funding to public charter schools to assist with capital outlay.

### New Money or Not?

The proposed funding models would increase costs to the ETF from an estimated \$143 million to \$165 million per year, totaling \$713 million to \$825 million over a five-year phased-in implementation period. For context, the Foundation Program has grown more than \$150 million each year over the last three years.

The per-pupil funding increases would not be fully realized until 2031. The budget chairmen said any potential changes to the formula would be effective in two years, in FY27, and would reach completion in FY31 - seven years from now.

The additional funds required to implement a new formula would come from combining existing ETF line items and future projected revenue growth. A new formula would be funded by re-distributing existing revenue and relying on future budget growth. **No new revenue stream would be created.** Other states that recently converted to a student-weighted funding formula added new revenue to support the program. For example, Tennessee will be investing more than \$1 billion in new dollars for its program and additional local county revenue may be required.

### Show me the Money!

The average “base” amount of \$7,700 is calculated from the FY25 Foundation Program allocation plus School Nurses and Technology Coordinators divided into the 2023-2024 statewide ADM.

The chart below compares each models’ cost structure. Each model is calculated with a base amount and the student weights are added onto that base.

Formula Component	Model A	Model B	Model C
Base	\$7,700	\$7,800	\$7,800
Combined Poverty Weights (dir. cert.)	12% min - 15% max Escalating weight rises from 20%-60% dir. cert.	12% min - 17% max Escalating weight rises from 50%-80% dir. cert.	12% min - 17% max Escalating weight rises from 30%-80% dir. cert.
Special Education Weights	Tier 1: 10% Tier 2: 25% Tier 3: 75%	Tier 1: 10% Tier 2: 25% Tier 3: 75%	Tier 1: 10% Tier 2: 25% Tier 3: 75%
English Learner Weight	10%	10%	10%
Gifted Weight	5%	5%	5%
Rural Weight	0% min - 5% max Starts at 10 students per square mile	0% min - 5% max Starts at 5 students per square mile	0% min - 5% max Starts at 10 students per square mile
Charter Weight	5%	5%	5%
Total Cost	\$713 million	\$786 million	\$825 million
Annual Increased Cost Over 5 Years	\$143 million / year	\$157 million / year	\$165 million / year

### Are There Winners and Losers?

**VIEW** this chart showing how each system would fare under all 3 models after a five-year phase in FY2031. AASB added a highlighted column to provide education leaders with a frame of reference of what funding could be in FY2031 with 3 percent growth annually, which is a conservative projection based on historical growth.

Lawmakers are being told every system will get more money, but going forward, some systems will not get as much of the revenue growth. This is true, but not the whole story. Reviewing the chart, 97 systems would get more money in 2031 with a 3 percent annual growth rate or conversely “lose” under all three models and 46 systems would be big losers, to the tune of \$400-\$1,200 per student. Eighteen systems would “win” under the three models compared to normal growth. For 23 systems, the results are mixed because one or more models are more beneficial when compared to average growth. Keep in mind that the per student increases shown in Models A, B and C reflect the addition of **NEW** dollars compared to the FY25 base so naturally, all systems will receive more.

## **\*\*\*View how your school system funding could look in 2031\*\*\***

### Can Alabama Afford This?

The Legislative Services Agency (LSA) estimates \$78.7 million in ETF K-12 funds could be consolidated to support a new model. The budget chairmen affirmed there is no intent to change the local 10 mill-chargeback required to participate in the state’s funding program.

To ease the transition to a new funding formula, “temporary transition aid” would be provided by the state to ensure no system loses money on a per-pupil basis through the five-year phased in implementation. These funds would likely come from the \$1.2 billion Educational Opportunities Reserve Fund.

LSA shows there is enough anticipated ETF revenue growth to cover the costs of transitioning into a new funding program. These rosy budget projections assume zero changes to new base funding, and that revenue growth continues to exceed the budget cap. Annual adjustments to the base for salary increases and other legislatively-required costs could absorb the majority of ETF K-12 revenue growth.

Lawmakers need to consider other budget pressures such as future pay raises, the Public Education Employees’ Health Insurance Program (PEEHIP) employer contribution rate increase, and proposed initiatives to create new benefit programs for education employees. This does not take into account continued investments in expanding First Class Pre-K, the Literacy, Numeracy, and Principal Acts, or any new K-12 initiatives.

As of now, there are no specifics on what accountability and flexibility could look like with a new formula, which would have to be developed alongside any new model. One example presented to the commission featured an accountability provision withholding funds from systems that do not meet performance metrics. AASB supports clear accountability and transparency mechanisms and opposes penalizing student opportunities as a result of any new funding program.

### Next Steps

Alabama, despite having record education budgets the last few years, is still just 41st in the nation for education funding, but the Legislature is trying to achieve educational equity without addressing overall adequacy, attempting to do so with existing revenue sources. The result will be a loss in real dollars over time for 97 school boards — who are not overfunded — to the financial windfall of others. **No Alabama system is so well funded that it needs to have diminished resources going forward.** Alabama needs to align funding with student needs. It should, and can, be done in a way to provide a real benefit to all public school students.

Modernizing the school funding formula will require a significant commitment to ensure the real-time costs of a K-12 public education are accurately calculated and annually reassessed. It is a once-in-a-lifetime opportunity to address educational inadequacies, resolve funding discrepancies, and close achievement gaps. It is imperative the Legislature get this right. Talk with your legislators now!

**Register [HERE](#) for a webinar at 12:00 p.m. on Wednesday, Dec. 18 to learn more and for next steps to engage legislators.**