CREATING AN ADEQUATE AND EQUITABLE SCHOOL FINANCE SYSTEM IN WASHINGTON STATE
Recommendations for State Policymakers

INTRODUCTION

Over the past four decades, states have reformed their K-12 finance systems to equalize funding across school districts. In some states, such as California, Minnesota, and Nebraska, districts that serve higher shares of students in poverty receive more state and local revenues per student. In Washington State, despite recent reforms that increased overall funding, students from low-income households disproportionately attend under-resourced school districts relative to middle and upper income students.

Figure 1, adapted from Baker et al. (2022), shows how this funding pattern intersects with student achievement. The figure shows estimates of “funding adequacy” on the x-axis and average test achievement on the y-axis. Each grey dot represents a school district, with several districts labeled. The average funding gap and achievement level for districts that enroll the highest share of students who are Black, Indigenous and other People of Color are labeled in purple circles corresponding to the highest quintile (approximately 60 school districts). The circles labeled Q4 to Q1 are the fourth quintile to first quintiles, where Q1 represents districts enrolling the fewest share of students of color. The upward sloping pattern displayed in the figure implies that Washington’s inequitable finance system contributes to disparities in educational outcomes.

In this brief, we describe in more detail an analysis of Washington’s school finance system, discuss related research, and offer recommendations for policymakers.

Figure 1. Estimated funding gap and test score achievement for Washington school districts, 2020-21

BACKGROUND

U.S. school districts receive most funding, about 90 percent, from state and local tax revenues, and state legislatures have wide authority for determining the total amount of funding per student, as well as the way those funds are distributed across districts. States vary widely in how much they spend on K-12 education, and how much funds are allocated. Most major reforms to school finance systems have come following state court decisions, and since the 1960s, school finance litigation has proceeded all but two states.

Washington implemented several major school finance reforms following the McCleary v. Washington decision, in which the State Supreme Court ruled that K-12 finance formulas in place at the time did not meet the state’s relatively strong constitutional language pertaining to
Despite recent increases in funding, many Washington school districts have reported budget cuts in recent years, citing declining enrollment, high inflation, staffing shortages, changes to state funding formulas, and loss of federal stimulus funds as causes.\(^{vi}\) While the COVID-19 pandemic presented unique challenges for state and district budgeting, many of the fundamental problems with the Washington school finance system existed prior to the pandemic. Most notably, the finance model could be considered “flat” or “regressive” in that school districts serving the highest shares of low-income students receive about the same, and in many cases less state and local per-pupil revenues than districts serving wealthier student populations. At the same time, recent changes to both the state’s local levy policies, and cost of living adjustments, or “regionalization factors,” have presented challenges for districts across the economic spectrum. In short, Washington’s school finance system has several limitations that would benefit from reform, and multiple reforms are needed to create a more adequate and equitable funding structure.

In this brief, we highlight one aspect of the finance system that state policymakers should consider as they examine possible reforms. As noted in several recent studies, the system allocates state and local revenues regressively with respect to student income and race.\(^{vii}\) One approach to estimating the magnitude of funding disparities across districts is to combine information about funding rates with data on student test score achievement, to determine the cost of producing a specified level of student achievement for each school district. As described in greater detail in the next section, we use a dataset called the School Finance Indicators Database, which provides estimates of the per-pupil cost to achieve national average test score achievement levels, for each U.S. school district. The “funding adequacy gap” is the difference between current funding and the funding amount necessary for students to reach a given level of achievement. Our analysis shows that the Washington school districts with the largest funding gaps are those enrolling greater shares of students of color and those serving higher-poverty student populations. These findings align with other recent analyses of Washington’s school finance system.\(^{x}\)

**DATA AND METHODOLOGY**

The analyses presented in this brief draw on the School Finance Indicators Database, which provides estimates of the per-pupil cost to achieve national average test score achievement levels, for each U.S. school district. The underlying data for test scores come from the Stanford Education Data Archive, which uses state standardized test data, nationally normed based on results from the National Assessment of Educational Progress.\(^{xi}\) As described in greater detail in Baker et al. (2022), cost estimates in the School Finance Indicators Database are calculated using a statistical model regressing spending on academic achievement, with controls for spending inefficiencies and differences in costs such as district size, urbanicity, and local cost of labor.\(^{xii}\) For each school district, the model provides an estimate of the predicted cost needed to reach a specified level of achievement. For example, the database includes estimates of the cost for each school district in Washington to reach national average test score achievement levels, a level many districts currently meet.

Our primary analysis is based on the expenditures needed to produce achievement equal to the average for the state of Massachusetts, which corresponds to above the 90th percentile nationally. This is a relatively high outcome standard requiring spending levels beyond what many Washington districts currently provide. However, this outcome aligns with the state’s educational goals. The average test score outcomes for Massachusetts are roughly aligned with the college and career readiness standard set by the Partnership for Assessment of Readiness for College and Careers (PARCC). On average, Washington school districts fall below the college and career readiness standard set by PARCC, yet college exploration and preparation are primary goal of the state’s High School and Beyond Plan.\(^{xiii}\)

**FINDINGS**

Our results are displayed in Figure 1, described earlier, and Figures 2 through 4 below. Panel A of Figure 2 shows the relationships between the estimated funding adequacy gap and the percent of students of color in each school district. The graph displays a downward sloping trend, suggesting that the funding adequacy gap among districts increases as the percent of students of color increases. Panel B shows a similar pattern for students classified as low income. Selected districts are labeled – Federal Way serves a more racially and economically diverse student population than most districts in the state, with 73 percent of students identifying as a person of color and 15 percent with household income levels below the federal poverty line.
Yet, Federal Way is significantly under-funded according to our cost estimates. In 2020-21, the district spent $15,700 per student, but needed $35,000 per student to reach the average outcomes of districts in Massachusetts, roughly equal to college and career readiness standard of PARCC, leading to a funding adequacy gap of $19,300. Figure 2 also highlights Yakima School District, which serves an even more diverse student population and is underfunded to an even larger degree.

The bottom panel of Figure 2 shows expenditures per students and the same two demographics. In both cases, the relationship appears mostly "flat" suggesting most districts spend about the same amount per pupil, regardless of the percent of students from low-income backgrounds. Despite the flat funding model, the system could be characterized as regressive when accounting for student cost because, as shown in Panels A and B, the funding adequacy gap increases with the percent of students of color and low-income students. In sum, Washington operates a flat funding model where all school districts receive roughly the same amount per student despite vastly different need. As a result, when accounting for additional student need through cost methodology, the system appears regressive.

Figure 3 displays the geographic distribution of funding gaps across the state. Each dot represents a school, where red dots indicate schools with an income to poverty ratio for students below 185, meaning high levels of poverty and lower household income. Blue dots indicate an income to poverty ratio above 406, implying higher-income student populations. Schools in the Puget Sound region generally serve a higher-income population, but many schools in the region are shaded yellow or orange, indicating higher-poverty levels. Central and Eastern Washington, as well as the Southeast and Olympic Peninsula area, include a large share of higher-poverty schools.
The colored shading in Figure 3 represents estimated funding gaps for each district, based on the cost to produce national average achievement, a spending level that many Washington districts currently meet. The figure shows many areas of the state are underfunded, but adequacy funding gaps are largest among schools with greater shares of lower-income students. While not shown in the map, the Seattle metropolitan area also includes significant geographic disparities in educational opportunity, which studies show stem in part of racial redlining and restrictive covenants in place from the 1920s through the 1960s.

One final point pertains to the overall funding level. Figure 4 displays the current expenditures per students as a percent of the per capita Gross State Product (GSP). That is, the figure shows K-12 spending over time, relative to the size of the state’s economy. In 2005-06, educational spending represented 3.14% of state GSP, compared to 3.75% for the typical state. The state began reducing investment in education in 2009, following the Great Recession, similar to the overall national trend. Since 2012, in the post-McCleary era, Washington has increased spending as a share of GSP; however, at 3.43% in 2019-20, the state is still below the national average, ranking 33rd nationally according to Baker et al. (2022).

**POLICY RECOMMENDATIONS**

Results described above demonstrate that Washington has made large investments in the state’s public school system since the McCleary ruling in 2012. However, total spending as a percent of the gross state domestic product is still below national average, suggesting that Washington underinvests in education relative to the size of its economy. Moreover, the state does not distribute funds to school districts in a way that accounts for (a) differences in the fiscal capacity, or the ability of local districts to generate local enrichment funds; or (b) higher concentrations of student poverty. For Washington’s school finance system to provide all students with equal opportunity, legislators must provide adequate funding levels for each district, where such levels are based on outcome expectations, not simple staffing ratios. One approach would be to redesign the system and conduct additional research and collect community input over a longer term to identify potential reform alternatives. In the shorter term, adjustments to three specific policies would help reduce inequities highlighted above.

**Experience mix and regionalization factors.** First, the state should consider removing the “experience mix” from the funding formula, which provides more funding to school districts with a more experienced teacher workforce. Research on teacher labor markets highlights a typical pattern, where more veteran teachers tend to work in schools and districts enrolling greater shares of White students and students from middle and upper income families, creating a “teacher experience gap” for students of color and lower-income students. The state’s experience mix therefore drives more funding to lower-poverty districts and those serving a greater share of White students. The policy can potentially create a downward cycle, where districts experiencing increasing turnover may receive a lower experience mix, reducing funding and making it even more challenging to provide an adequate salary that retains workers, further reducing average teacher experience, and
so forth. The policy can also work the opposite way, where districts that are more successful at retaining teachers develop more experienced teaching staff, receive a larger staff mix the next year, and therefore receive additional funding that can be invested in supporting teacher retention.

Under this reform, districts that employ a more experienced teacher workforce – those currently benefiting from the experience mix – would need to consider tradeoffs to maintain a more qualified instructional staff. Such districts, however, should not receive additional state aid as a reward for employing more experienced teachers. The state should also revise a similar policy, “regionalization factors,” which provides additional funds for districts in high-cost-of-living areas, leading to similar economic and racial funding disparities between school districts. While districts operating in geographic regions with higher labor costs do need additional support, the state's staff experience mix and regionalization factors are not directly tied to regional labor costs, are not commonly used in other states, and are not effective school finance policy tools. Instead, the state could consider using a cost of labor index, which typically provides slightly greater funds for districts in urban settings, but also in rural settings, where higher relative salaries are sometimes needed to attract and retain workers.

**Levy lids.** A second driver of school finance inequity in Washington is the state's new levy lid system, which limits the amount of funding school districts can raise through local property taxation and limits the property tax payments of corporations like Amazon, Microsoft, and Boeing.

As in many states around the country, the state uses tax and expenditure limits to prevent property owners from having to pay exorbitant property taxes. Tax and expenditure limits, or “levy lids” also prevent wealthier school districts from generating large sums of local revenues and driving up funding disparities. Levy lids also benefit corporations and commercial enterprises, which pay lower property tax rates as a result. Under the new levy system, districts can only raise the lesser of $2.50 per $1,000 of assessed value (the “rate cap”), or about $2,500 per pupil (the “revenue cap”). By design, wealthier districts and those with commercial property will hit the revenue cap first, limiting the property tax rate that households and businesses will pay, while less wealthy districts will hit the rate cap first, forcing those districts to pay higher rates, but limiting the amount of revenues raised. Yakima School District, for example, levies the rate cap of $2.50 and only generate $920 per pupil.

The ultimate outcome brings negative consequences for districts across the economic spectrum. For districts that have significant commercial property within their residential boundaries, like Seattle and Bellevue, households and corporations both benefit from a lower average property tax rate, but the districts are capped by how much revenue they can bring in. Conversely, for districts like Auburn and Federal Way, or Yakima, Othello, and Grandview, which lack significant commercial property from which to generate local property tax revenue, households pay a much highest tax rate and generate less funding for students compared to wealthier school districts.

To help fix the levy lid system, the state could expand Local Effort Assistance, or LEA, which equalizes the tax base between school districts. Under current policy, any district that passes an enrichment levy of $1.50 per $1,000 of assessed value (i.e., a 0.15% property tax) will receive at least $1,500 per student regardless of the total property value within the district's residential zone. For example, a low-wealth district that passes an enrichment levy of $1.50 per $1,000 might generate only $600 per student from that levy, but would receive $900 in LEA, bringing them up to $1,500 per student. As long as the district levies $1.50, LEA ensures it receives $1,500 per student, even if the tax base does not generate that amount of funding from a 1.50 tax rate. If property values decline in that district, LEA will kick in, ensuring the district is still able to raise at least $1,500 per student through an enrichment levy of $1.50 per $1,000. However, additional rate increases beyond $1.50 per $1,000 of assessed value are not matched with any LEA. Thus, if this district increased their rate to the maximum of $2.50 per $1,000 of assessed value, they would face a much higher “tax price,” meaning that additional property taxation of residents would generate far less additional revenue for students. The state should fully equalize tax bases up to the levy lid by expanding LEA, and legislators should consider providing LEA for capital and technology levies.

**Lack of student weights.** A final problem with Washington's current system is the lack of any student weights for multi-language learners or low-income students, a feature present in the vast majority of state school finance systems. In all states, including Washington, most funds are allocated to school districts on a per-student basis. But most states (other than Washington) use enrollment weights, so that students who are multi-language learners or who come from low-income households are weighted more heavily in enrollment counts, generating more funds. In Texas for example, students who are low-income are weighted at 1.2, generating an additional 20% of funding for each student classified as low-income. California uses a similar poverty weight that gradually increases with higher district-level
poverty rates, recognizing the unique challenge of concentrated poverty. Both states consider multi-language learners as part of their weighted student funding system. Adopting a similar model for Washington, and running the entire Prototypical School Funding model, the state’s funding formula, through weighted enrollment counts could fundamentally shift the way Washington allocates tax revenues to K-12 school districts.

In summary, adopting each of these policies would not solve all the system’s inequities but would represent an important first start. Even districts that receive adequate funding levels may face other short term fiscal challenges, such as unstable funding sources, or a changing mix of personnel resource needs. School board members, parents, and state legislators should celebrate the large and much needed investments to Washington’s school finance system made over the past 10 years. However, vested stakeholders should never be satisfied with the structures in place if those structures lead to large, identifiable differences in opportunities, and eventual life outcomes for students. State legislators have both the authority and resources available to remedy these policy deficiencies. Reforming Washington’s school finance system will not be easy, but this work is necessary to ensure all of the state’s students have equal educational opportunity.

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References


vi Washington Constitution (1889), Article 9, Section 1.


Washington is currently updating subject-based standards, including their Common Core State Standards for math and English language arts, and those changes would have implications for cost estimates. See:


