



## **Funding Formulas, School Choice, and Inherent Incentives**

### **EXECUTIVE SUMMARY**

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### *Executive Summary*

An array of school choice options now exists across the U.S., including: charter schools, voucher and private schools, interdistrict and intradistrict choice, and home schooling. These options can be contrasted with local public schools, where places are allocated primarily based on residency. This paper examines how these options might be funded and the challenges associated with including them in funding formulas. The primary difficulty is that local public schools and school choice options are not easily compared. Public schools and choice options differ in terms of: (1) mission; (2) regulations; (3) resources provided (staffing and buildings, for examples); and (4) cost of resources provided. They also differ in the characteristics of their student bodies. Consequently, deciding how much funding to allocate is difficult. The result is that states have adopted varied funding approaches to educational choice and created varied incentive structures. This study offers examples of such variety across the Great Lakes states, surveying each choice form but focusing particularly on charter schools, where the evidence is greatest.

Funding formulas are complex in part because they involve funding from many agencies, are shaped by various rules, or both. Because simple absolute differences in expenditures alone cannot reveal whether funding is optimal, a full cost accounting is needed for appropriate allocation of funds.

It is recommended that policymakers and funding agencies considering school choice funding:

- Find the closest comparison schools and examine the funding they receive, taking into account student characteristics, school location, and specific services to be provided.
- Recognize that cost differences are inherent among schools in choice programs because the more flexibility a school has, the more it can lower its costs.
- Consider all revenue sources available to choice schools (grants or tuition, for example) when calculating funding.
- Hold all schools accountable and regularly monitor all choice schools to ensure that funds are spent directly on education.