

## Research



# Performance Based Funding: A New Approach to Funding Elementary and Secondary Education

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## The Need for a New Approach to School Funding

U.S. taxpayers spend at least [5.4 percent of the nation's Gross Domestic Product \(GDP\)](#) funding elementary and secondary education, and the current Federal practice for funding schools is based almost exclusively on attendance. This funding method is a fundamentally flawed model that misaligns incentives, rewards sub-par performance, and diminishes the imperative for significant and sustained educational outcomes. School funding, as Michigan [Governor Rick Snyder wrote](#) in 2011, “should be based upon academic growth and not just whether a student enrolls and sits at a desk.”

In this paper we examine a different approach to fund schools: one that rewards schools for both achievement and improvement to promote classroom innovation, competition, and student performance.

## Performance Based Funding

Performance Based Funding (PBF) is a funding policy that allocates money to schools based on the improvement of student achievement. PBF provides an opportunity to make strategic investments in schools by focusing school funding on desired results.

Misaligned incentives can have negative, and at times devastating, impacts. In education, the misalignment between funding and performance is, at best, a drag on the system and student performance, and at worst, a fundamental flaw that prevents our schools from improving as widely and deeply as necessary for this country to be competitive internationally and live up to our founding ideals of equality and opportunity. PBF is a first step in aligning the incentives in the educational system and breaking the current funding structure that pumps money to all schools regardless of performance.

In recent years, over thirty states that fund higher education institutions have transitioned to PBF from attendance based funding policies. It is also prevalent in vocational education. Policymakers have turned to PBF as a way to incentivize educational institutions to improve educational outcomes. However, in our nation's elementary and secondary schools, attendance based funding is still the most prevalent type of funding.

## PBF Efforts For Elementary and Secondary Schools At The State Level

States are leading the effort to implement PBF for public schools. Arizona began a statewide PBF program in

2013. Likewise, Michigan has been implementing a limited PBF model since 2012. Pennsylvania took a slightly different approach, providing funding flexibility in exchange for performance based outcomes. In addition, Florida, Wisconsin, and Oregon have all recently been exploring PBF. In each case, the amounts of funding are modest, but the potential impact promises to be significant over time.

#### **ARIZONA'S PERFORMANCE FUNDING EFFORTS**

Governor Doug Ducey is embarking on a bold initiative to support the best public schools by providing increased student funding for “A” grade performance on the statewide school ratings system. His proposal seeks to ensure student funding is based on a per-pupil formula weighted for specific needs; increased for “A”-grade performance; directly available to the student’s public school of choice. This approach seeks to leverage past efforts to provide performance based funding through traditional district funding channels. For example, in the last fiscal year, Arizona distributed \$21.5 million through an initiative called Student Success Funding, which was centered upon a district or charter school’s achievement profile, improvement category, and high school graduation number. For student achievement, there were five categories of achievement tied to different funding amounts per student.

#### **MICHIGAN'S PERFORMANCE BASED BONUS**

Since 2012, Michigan has provided performance based funding as an extra incentive for elementary and secondary schools. Using a student academic performance change metric, a school district can earn up to \$30 per pupil for both mathematics and reading in elementary and middle school and \$40 per pupil for all tested subjects in high school.

### **PBF at the Federal Level**

Allocating dollars based on educational results is gaining traction because of its potential to drive student performance higher at a scalable level that has system-level implications. Rewarding schools for both achievement and improvement (i.e., longitudinal growth) can promote innovation and achievement.

While the non-financial policy of the Elementary and Secondary Education Act (ESEA) has been radically overhauled since the law’s inception, there has not been a focus on reforming Title I funding for schools. There have been changes on the margins of federal education funding policy, but there has not been a wholesale rethinking of the formulas that drive Title I dollars to states, districts, and schools. With serious efforts to reauthorize the ESEA underway, policymakers should take this opportunity to consider alternatives to how Title I dollars are allocated.

Currently, funds go to states and districts through ESEA Title I based on four separate formulas: the Basic, Concentration, Targeted, and Education Finance Incentive Grant formulas. Once these funds reach districts, they are combined into one funding allocation to be used for the same Title I program purposes. The four Title I formulas are overly complicated and fundamentally flawed. They are the result of political compromise and outdated policy.

As policymakers consider reauthorization of ESEA, incorporating performance based funding into Title I could deliver long-term beneficial results. One way to achieve performance based funding in ESEA would be to consolidate the four Title I formulas into two funding streams: one that provides the majority of funding based on students in poverty and one that rewards performance.

## **Conclusion**

PBF is a policy innovation that is deserving of more attention and analysis, and which can provide a new approach to improving academic outcomes outside the traditional reform approaches, while addressing systemic inefficiency. Nowhere is this more needed than in the antiquated and convoluted Title I funding in the ESEA.