School Finance Reform: Aid Formulas and Equity Objectives

Abstract - State education officials have implemented performance standards, but state education aid has not kept up. By focusing on the relationship between spending and property wealth, most existing aid formulas only partially account for cost differences across districts and, thus, fail to fully promote equity in school performance. This paper shows how to estimate comprehensive educational cost indexes that control for school district inefficiency and include them in state aid formulas. It also simulates for New York the impact of several aid formulas on educational performance and evaluates each formula using several equity criteria. The results indicate that outcome-based foundation formulas can achieve adequacy objectives, but that practical policies to promote vertical equity or wealth neutrality do not yet exist.