

School funding

Where does it come from? Where does it go?

ACKNOWLEDGEMENT

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Access to a free public education has been constitutionally guaranteed to children for a century. But for about just as long, a debate has raged over how that education will be funded, what the spending priorities ought to be, and who will pay for it. The same fundamental tenets that have shaped – and complicated – the formation of our public school system (see chapter 1) also emerge in the debate over how it is funded. Do *all* children have a right to the *same* resources? Do they have the right to whatever is needed to provide an “adequate” education? Or, do state constitutions guarantee only a basic level of support, onto which districts or states, or individual schools may build to the extent of their political and economic power.

The conservative political climate that has been building nationwide since the 1970s has affected public schools dramatically. The rising power of corporations and the diminished import of the public sector to provide for society's needs have created a difficult climate in which to secure adequate funding for public schools. The result has been fierce battles, unending lawsuits, complicated political maneuvering and usually a stalemate when it comes to making sure resources reach low-income children. Thus inequities remain. The gap in spending between the highest poverty and lowest poverty districts averages \$966 per pupil nationwide, which means in some states the gap is even greater. (*The Education Trust publishes an excellent annual report on the funding gaps between high and low poverty districts, by state. For the 2004 report, see:*

<http://www2.edtrust.org/NR/rdonlyres/30B3C1B3-3DA6-4809-AFB9-2DAACF11CF88/0/funding2004.pdf>.)

The battle over school funding is an important dimension of the modern-day struggle for equal opportunity for low-income students and children of color. The following description of school funding fights in New York State exemplifies the nature of the challenge to obtain equal educational opportunity.

The McDonalds Standard. Is it Enough?

In New York State, a grassroots coalition of more than 230 groups is organizing to shape the way an “adequate education” is defined and how the state should pay for it. The battle in New York provides a model for engaging community groups in school funding debates.

The Alliance for Quality Education (AQE) was formed to establish a grassroots voice to help amplify the legal battle over school funding in the Empire State. The case took off in 1995 when New York’s highest court said litigators with the Campaign for Fiscal Equity (CFE) had standing to challenge the education finance system on the grounds that thousands of students were being denied the “sound, basic education” required by the state’s constitution.

In 2001 Judge Leland DeGrasse ruled in favor of CFE, declaring that New York State had “over the course of many years consistently violated the state constitution by failing to provide opportunity for a sound basic education....” He ordered the state to reform its funding system. Then, in 2002, an appellate court rejected DeGrasse’s decision. Many were outraged by the appellate court ruling, which implied that money is not that important and that an eighth or ninth grade education fulfilled the requirement of “sound and basic.” *The New York Times* decried the decision, writing that it “suggested that the state would satisfy its constitutional duty if the educational opportunity provided students would qualify them for jobs as fast-food cooks or bike messengers.”

A year later, New York’s highest court weighed in again. Money does matter, it said, expressing concern that thousands of students are “placed in overcrowded classrooms, taught by unqualified teachers, and provided with inadequate facilities and equipment.” The decision said that all students are entitled to a “meaningful high school education . . . which prepares [them] to function productively as civic participants.” (*Campaign for Fiscal Equity V. State of New York*). What *that* means must now be defined in New York.

The Alliance for Quality Education is taking the lead in organizing so that the voices of parents, students and teachers can be heard

in that debate. Together with the Campaign for Fiscal Equity, community leaders in dozens of districts across the state are coming up with a definition of what they believe schools need in order to be successful and are conducting local organizing campaigns to demand those resources.

The battle for new school funding systems is being fought throughout the country. Moving from the state courts to the streets and back again, these campaigns are defining “adequacy” and at the same time looking for ways to provide it to all children regardless of where they live.

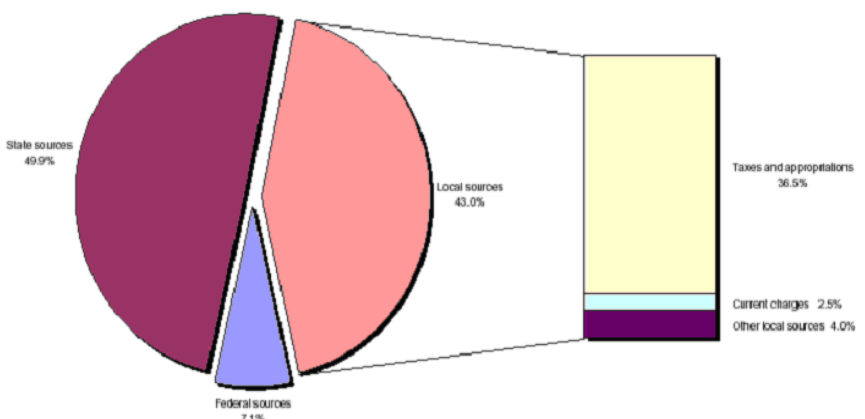
This chapter provides a basic summary of school funding: where the money comes from, and how it is spent.

Where does the money come from?

The State. The share of school funding covered by state dollars varies significantly. The trend, however, has been toward rising state shares: in 1940 states provided 30 percent of school funds, by 1970 it was 40 percent, and in 2000, 49.9 percent. K-12 public education is the single largest expense for state governments, an average of 35.4 percent of their 2000 budgets.

Figure 1. Percent Distribution of Public Elementary-Secondary Education Revenue: 2000-01

Total: \$402.4 billion



Source: Public Education Finances, 2001. U.S. Census Bureau

State-level funding for education is dependent on the revenues generated from sources such as sales and personal income taxes—which together account for nearly 70 percent of total state revenues. Both are strongly affected by the health of the economy, prompting experts and activists to look for ways to stabilize and increase state incomes. An additional challenge is that, reflecting the increase in corporate power mentioned earlier, corporate income taxes have declined in recent decades. As recently as 1989, 9.7 percent of state tax revenues came from corporate income taxes; in 2002 it had fallen to 5.1 percent. Meanwhile, states have tried to raise revenues other ways, such as through state lotteries. However, research shows that lottery revenues earmarked for education tend to supplant, rather than supplement, the existing state education resources.

Local governments provide nearly as large a share of school funds as the states – an average of 43 percent in 2000-01¹. Local contributions were highest in Nebraska (57.7 percent) and lowest in Arkansas (18.7 percent). Most local education funding comes from property taxes. Nationally these taxes provide nearly a third of all funding for K-12 education. In many states local voters must approve increases in property tax rates which also are known as millage rates. As a result, school boards or local governments must ask voters to approve school budgets or special expenses, such as buildings, that will increase millage rates.

In large cities and urban counties with a single district, school funds are often part of the overall budget. These budgets are typically developed by mayors or county executives and their staffs, are finalized by a city or county council and do not require a public vote. Therefore activists have to insert themselves in the process early on in order to have an impact on spending priorities and overall funding.

Regardless of the budget process, the mechanics of property taxes are the same. A mill equals one-tenth of a cent. So, for example, if voters agree to increase the millage rate by one percent, they would pay an additional one dollar for every \$1,000 worth of property. Local officials, or in a few cases state governments, periodically reevaluate the worth of property for tax purposes. The result is known as assessed value and is usually less than market value. So, continuing with the example above, a

house assessed at \$100,000 would be taxed an additional \$100 for each one percent millage rate increase.

Local governments like property taxes because they are relatively dependable, predictable and easy to administer and collect. But property taxes often impose unfair burdens on the elderly and those on fixed incomes as well as property owners whose incomes do not keep pace with property values. These problems can be particularly pronounced during recessions and real estate booms.

In the last 10-15 years homeowners have tended to bear heavier property tax burdens than businesses. Reasons for this include a boom and bust in commercial and office space in the 1980s, underassessment of industrial and commercial property, declines in manufacturing and increased home ownership². The same dynamics that have resulted in reduced corporate income taxes at the state level are allowing companies to reduce their property tax burden as well. [*Education Organizing addressed one facet of this decline in corporate contributions to school revenues. See <http://www.communitychange.org/education/pdf/edorg9.pdf>.*]

Reliance on property taxes contributes to huge inequalities across states and among schools in the same state. Communities with the neediest children often have the weakest property tax bases and, therefore, raise the least amount of money even when they tax themselves at high rates. To date efforts to address these inequalities have been only marginally successful. Every state that has changed its funding formula in response to a lawsuit has in some way restricted the use of property taxes.

Federal government. The federal contribution to state education budgets ranged from 3.8 percent to 17.3 percent in 2000-01. The average was 7.1 percent and most districts received 5-8 percent of their budgets from the federal government.

The source for this funding is Congress' annual appropriation to the Department of Education, authorized by the Elementary and Secondary Education Act (ESEA). Congress enacted the ESEA in 1965, and has reauthorized it every 5-6 years since then. The law was a cornerstone of President Lyndon Johnson's "War on Poverty," and for the first time, targeted federal funds and programs specifically to disadvantaged students.

Title I of the ESEA became the single largest federal expenditure on elementary and secondary education, with appropriations of \$1 billion dollars in 1965. These appropriations have risen to roughly \$13 billion in 2003, though these increases have barely kept pace with inflation and rising student enrollments in elementary and secondary public schools.

This federal intervention was tacit recognition that the states' performance on this front was uneven and insufficient. Title I of the ESEA became the single largest federal expenditure on elementary and secondary education, with appropriations of \$1 billion dollars in 1965. These appropriations have risen to roughly \$13 billion in 2003, though these increases have barely kept pace with inflation and rising student enrollments in elementary and secondary public schools. (*The National Center for Education Statistics has good information on state-by-state Title I allocations, as well as district allocations. See <http://nces.ed.gov>. The U.S. Department of Education website also allows you to search states for Title I allocations by district. See <http://www.ed.gov/about/overview/budget/titlei/fy04/index.html#allocation>.)*

A separate law governs federal funding for children with disabilities. In 1975 Congress passed the first such law, then called the Education of All Handicapped Children Act. The law has been amended numerous times—most recently in 1997—and is now titled the Individuals with Disabilities Education Act (IDEA). A critical aspect of IDEA is the principle that all eligible school-aged children and youth with disabilities are entitled to receive a free appropriate public education (“FAPE”). In addition to FAPE, the other key principles of the law are: appropriate evaluation, individualized education programs, least restrictive environment, parent and student participation in decision making, and procedural safeguards. States must comply with certain minimum rules and standards in order to receive federal IDEA funds. Each state also has its own special education law that may go beyond the federal statute.

Under the law, provision of FAPE must occur, to the extent possible, in the same school and classroom setting that a child would otherwise attend were the child not disabled. In other words, every effort should be made to mainstream disabled students. In the past, children with disabilities were often segregated from other students and stigmatized for their difference. In the early 1970s, more than one million disabled children were excluded from school, and hundreds of thousands were housed in state institutions.³ Children of color and poor children were more likely than white, wealthier children to be separated, and to receive inappropriate educational services. [<http://www.aypf.org/forumbriefs/2002/fb092302.htm>]

The federal government has failed to meet the funding goals set out in IDEA. Originally the law called for a federal target of covering 40 percent of the extra costs of educating children with disabilities. Although federal appropriations for special education increased from roughly \$315 million in 1977 to \$7.4 billion in 2001, the federal contribution today pays for only about 13 percent of the excess costs of special education. States and localities must make up the difference.

Some states try to distribute property taxes more equitably to improve education equity

In recent years efforts to more equitably fund public education have focused largely on the state level, and have been fought primarily in the state courts. In some cases the result has been a state role in the distribution of local property taxes. Kansas, Montana, Texas, Wyoming, and Vermont (see below) require local governments to pool all or some property tax revenues in a state fund. These funds are then distributed more equitably throughout the state. Michigan replaced most local property taxes with a statewide property tax and a higher sales tax in 1994. Per-student spending gaps between the lowest- and highest-poverty districts are below the national average in all of these states except Michigan and Montana. (Source: *The Education Trust based on 1999-2000 U.S. Dept. of Education and U.S. Census Bureau data. See spending gap charts comparing the states at <http://www2.edtrust.org/NR/rdonlyres/EE004C0A-D7B8-40A6-8A03-1F26B8228502/0/funding2003.pdf>.)*

Where does the money go?

All the resources that are funneled down from the federal, state and local level end up in school district hands, where they are allocated to schools. Funds are apportioned to the districts in a variety of ways, depending on the source of funds and the formulas used for their distribution, which are described in detail below. Once they reach the school level, funds are used for a number of different purposes; the bulk of resources are used for operating expenses.

Controversy in Vermont

In 1997 Vermont's Supreme Court ruled that every child in the state should have basically equal access to funds for teachers, libraries and textbooks. The legislature responded with Act 60; it says districts that spend the same dollar amount on their students should have the same tax rate. The practical result is that property-rich districts subsidize districts with less valuable property. The act does not require equal spending.

Under Act 60 the state sets property tax rates, combines the monies collected and redistributes funding at a fixed amount per student. The statewide property tax covers about two-thirds of what is needed for Vermont's basic per student grant plus its contribution for special education, transportation, and other categorical aid. (See definition of categorical aid below.) The remainder comes mostly from income and sales taxes.

If a district wants to raise additional funds it must send some of the money raised to the state to be shared with poorer districts. Some districts avoid this provision of the Act by asking for donations rather than raising taxes. Act 60 tries to protect those with valuable land but fixed or limited incomes by allowing low- and moderate-income homeowners to pay up to two percent of their income instead of the property tax.

Act 60 is complicated and controversial. It has cost some politicians their careers and has angered residents of wealthy towns. Still, it has withstood six court challenges. Most importantly, it seems to be working. When the lawsuit reached the state Supreme Court in 1997, one school district in Vermont was spending \$2,979 per student while another spent \$7,726 – a difference of \$4,747 or 160 percent. In 1999-2000, the gap between Vermont's lowest and highest-poverty districts was only \$939 – below the U.S. average.

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Operating expenses are the costs of running schools day to day including everything except capital expenses. Wages, salaries and benefits account for about 85 percent of these costs. When school budgets have to be cut, reductions usually come from the remaining 15 percent of the budget since collective bargaining contracts with employees cannot usually be changed.

Capital expenses cover new school construction, renovations, and major repairs. Capital funds almost always have to be borrowed. Instead of taking out a bank loan, school districts typically sell bonds. Voter approval is usually required before a district can sell bonds. The buyers – most often banks or other institutions – charge a fixed interest rate that ordinarily costs the district less than a typical bank loan. The district also agrees to a repayment schedule. Repayment costs appear in district budgets as “debt service” and cover principal, interest and any fees to banks or other financial agents.

How are state funds divided? One answer is – not fairly. As you will see below, complicated formulas are used to determine how state money is shared among school districts. In most states, formulas were designed or have been adapted, at least in part, to make them more equitable. Nonetheless, in 1999-2000 the *average* national per-pupil-spending gap between the highest- and lowest-poverty districts was \$966 per student.

The states with the largest gaps in 1999-2000 were Illinois, New York and Montana. For example, New York’s wealthiest district was able to spend \$8,598 (including both local and state revenues) per student to fund public schools, while the poorest spent \$6,445 per student. In Illinois the wealthiest district had state and local revenue totaling \$7,460 per student while the poorest had \$5,400. Montana’s wealthiest district had \$6,361 per student, its poorest, \$4,826.

Every state constitution requires a free public education though the precise language differs. About 25 percent say the state is responsible to provide a “thorough and efficient” public education for all students. In recent years this has been understood to mean that states must provide districts with enough money to succeed. Unfortunately there is little agreement about the meanings of “enough” and “succeed.”

Most state money for schools is described as **basic** or **general** aid. It is usually distributed using complicated **formulas**. Most formulas take into account each district's ability to raise funds locally. The measure of this ability is usually the value of taxable property, known as **net tax capacity**. State formulas may also consider factors such as personal income, number of students defined as "poor," and other indicators of a district's relative wealth or poverty. Some formulas also consider each district's size and cost of living, including expenses such as teachers' salaries, real estate prices and special education needs.

A majority of states use some version of a **foundation** or **guarantee** formula. This method sets a minimum level of funding per student, the foundation or guarantee. Aid is then allocated based on the difference between the foundation and what each district can raise locally; some states require localities to impose a minimum tax.

"Costing out" is the process of determining the minimum level of state funding per student. Calculations vary from state to state. Here are short descriptions of some "costing-out" methods states use to determine foundation spending or guaranteed minimums. Many states have been influenced by lawsuits filed during the last 30 years (see box below, *Suing for equity and adequacy*) and while some have increased resources available to poor schools, it will be years before we know whether schools improve as a result.

- **Successful schools.** Some states identify schools and/or districts where students regularly meet state standards. Then, they calculate average per-student expenses in those places and that becomes the foundation. One criticism of this method is that it underestimates resources needed to help the poor and children of color because most "successful" schools and districts are suburban, not poor, and mostly white. States using this method or variations on it include Illinois, Mississippi and Ohio.
- **Professional judgement.** A panel of experts lists resources needed to create a "model" school. The cost of creating this school becomes the base funding level that the state must guarantee each district. Critics say this approach is hard to justify because it is based on opinion. States using versions of this model include Maine, Oregon and Wyoming.

- **Teacher allocation.** A few states guarantee that every district will have enough teachers regardless of cost. They use class-size ratios, approved by the state legislature, and district enrollment levels to determine how many teachers each district needs. Then, funds are distributed to make up the difference between that number, plus the cost of state-mandated special programs and local property revenue. Even though districts may hire additional teachers or offer salary supplements at their own expense, critics of this approach complain that it is inflexible.

Alabama, North Carolina, Tennessee, Washington, and West Virginia use versions of this formula. In 1999-2000, with the exception of Alabama, all of these states had a lower than average gap between low- and high-poverty districts; however, their overall spending also tends to be lower than average. Because wages, salaries, and other labor costs make up the vast majority of most districts' expenses, teacher allocation formulas may tend to reduce gaps between rich and poor districts. Another factor, at least in North Carolina, is that many, if not most districts lack the local tax base required to fund budgets much greater than what the state offers, thereby reducing variations in spending among districts.

- **Hybrids/Blends.** Some states use a combination of methods. For example, to come up with its foundation, Maryland calculated budgets based on both the successful schools and professional judgement models. The state found that the second model would cost about 25 percent more and, therefore, used the successful school model. Districts may, however, raise money for the higher budget if they share some of their wealth with poorer districts. In 1999-2000 the gap between Maryland's high- and low-poverty districts was less than the national average. For the first two years Maryland paid for the new plan with tobacco settlement funds; it is unclear where future funds will come from.

States also use: (1) **flat grants** that give districts a set amount for each student or teacher, and (2) **matching programs** that match dollars raised by local districts, thereby encouraging them to raise more money. California, for example, uses a matching program to help fund school construction. In some states the match is dollar for dollar, but more typically matches vary with the size of a district's property tax base, so that richer districts receive proportionally less.

Suing for equity and adequacy

Beginning in 1971 parents and advocacy groups began challenging school district spending gaps in state and federal courts. Just two years later the U.S. Supreme Court ruled in *San Antonio Independent School District v. Rodriguez* that education is not protected by the U.S. constitution, putting an end to the federal suits. With that door closed, so-called “equity suits,” based on language in state constitutions, were pursued in some 20 states. In most of these cases, existing state funding systems were ruled unconstitutional and legislatures were ordered to revise them. Legislative action – or inaction – in response to these orders, has sparked extended debate that can last for years without any discernable positive impact on students in the meantime.

More recent lawsuits, involving 25-30 states, have urged the reworking of formulas to ensure “adequate” funding for all districts. Adequate funding usually means money needed by a particular district to meet goals, inputs or a combination of the two. It is also sometimes described as ‘opportunity to learn’ or succeed. **Goals**, also known as benchmarks, usually apply to student results. Examples include graduation rates, attendance rates and test scores. **Inputs** measure district effort, such as teacher qualifications, accreditation, or access to college-preparation or Advanced Placement (AP) courses. Of 28 suits filed since 1989, states have lost 18 times.

Texas and Vermont (see sidebar on *Controversy in Vermont*) made some of the most dramatic changes, opting for what is sometimes called a Robin Hood solution. In both states local property taxes are now collected by the state and then distributed more or less evenly among school districts—yielding dramatic decreases in per-pupil spending gaps. In 1999-2000 both states had spending gaps below the national average. Both programs also have political enemies constantly looking for ways to undermine equalization.

Neither equity nor adequacy suits are easily settled. Both tend to give rise to additional cases. In New Jersey, where the first suit was filed in 1970, it took eight years for the state to respond to a 1990 Supreme Court order. Now, a commission appointed by the governor is revisiting the 1998 plan, which based minimum per student allocations on the spending of the state’s wealthiest 100 districts.

Despite the ongoing legal wrangling, more money is available to poor districts in New Jersey.

Districts that adopt a comprehensive school reform program from an approved list receive extra state funds. As a result, in 1999-2000 state and local spending per student was higher in New Jersey’s high-poverty districts than in low-poverty districts. That year basic per-student spending in New Jersey was \$10,903—compared to national average of \$7,392. This costing-out model, based on research and proven practices, is sometimes called **evidence-based** or **comprehensive reform**. Arkansas and Kentucky are considering adopting similar approaches.

What other kinds of aid do states give? State funds typically come to districts as **categoryical** or **general** aid. The first is for a specific use such as transportation, special education, or buildings. The second can be used for any purpose. Some states use 'state-adjusted payments' to help small districts cover costs, such as busing students over long distances, which larger districts may not have.

Aid is usually based on a count of students in class each day, Average Daily Attendance (ADA), and the number of students enrolled, Average Daily Membership (ADM). States make these counts at least twice a year. In some places these numbers are weighted to account for expenses that vary from district to district such as busing, cost-of-living, or the number of students requiring English language instruction. When weighting is used the abbreviations are WADA and WADM.


What's the Future of School Spending?

A number of states are now wrangling over how to redesign their school funding formulas in order to achieve greater equity. But experience has shown that the legal side of these cases can and does go on for years. With the latest fiscal crisis forcing states to reduce, rather than increase spending on public schools, community organizing for school funding becomes more and more important.

A number of state funding coalitions, like the Alliance for Quality Education in New York, the Ohio Fair Schools Campaign, and others, have formed to demand that state policymakers maintain and increase support for public schools.

In Mississippi, the organizing collective Southern Echo is experimenting with a call for "Justice Funding," arguing that neither equity nor adequacy is enough in school districts with historic disparities between educational opportunities for children of color and white children. (For a description of Justice Funding, see *Education Organizing #18, Winter 2004-2005* at <http://www.communitychange.org/issues/education/publications/>.)

Vigilance at the local district level is critical as well. New research (see *Where to Find It*) is demonstrating that, even in a district that



purports to spend equally on all students, schools in low-income communities tend to receive fewer resources than schools in more affluent neighborhoods. In addition, local corporate tax abatement programs, like Tax Increment Financing, often draw away local revenues used for schools, and channel them back to corporations or developers.

Whether at the local, state or federal levels, communities can provide a powerful voice for more resources for low-income students.

Endnotes:

¹ The District of Columbia and Hawaii are special cases: 89% of D.C.'s funding is local since it lacks statehood. Hawaii has just one school district and nearly 90% of funding comes from state government.

² Robert Strauss, professor of economics and public policy, Carnegie-Mellon University, quoted in *Money Matters: A Reporter's Guide to School Finance*, 2003, Education Writers Association, Washington, D.C., www.ewa.org.