

EQUITY IN SCHOOL FINANCE

Contrary to Myth, District Funding Varies Little

Summary: During the 2005 session, state lawmakers are expected to take up the issue of how to comply with court rulings in the *Leandro* case. It is important to discard widespread misperceptions. First, *Leandro* does not require taxpayers to spend more money on public education. Second, public-school funding does *not* differ significantly across counties when all spending is included. Third, the small gap that remains is shrinking, not growing, and is unlikely to explain differences in student outcomes. Finally, local funds are a reasonable way to compensate for elevated labor costs in counties with high housing prices.

One of the most contentious issues in North Carolina politics and public policy during the past decade has been an effort by some school districts, politicians, interest groups, and activists to transform the way state public schools are funded. The celebrated *Leandro* case began in 1994 as an attempt by plaintiffs in five districts — Halifax, Hoke, Cumberland, Robeson, and Vance — to seek supplemental state funding to offset perceived inadequacies in local funding derived from property taxes. Parallel to the legal fight in the state courts was a political fight in the General Assembly, first to create and later to expand state funding to “low-wealth” and “small” districts across North Carolina.¹

As lawmakers and political activists prepare for the 2005 session of the General Assembly, some are calling for an expensive state program to comply with the *Leandro* decisions.² But the debate about school equity in North Carolina is unfortunately based on several misconceptions about the legal and policy environment. For one thing, it is important to remember that the original argument of the *Leandro* plaintiffs — that the state constitution requires school funding across the state to be roughly equivalent — was *rejected* by the Supreme Court. There is no constitutional mandate for equalizing education spending by supplanting local funds with a new stream of state dollars. What the Court did find, and the subsequent trial court has sought to enforce, is that all state students have a constitutional right to the opportunity for a sound, basic education. This opportunity was found to include access to well-qualified teachers, a sound curriculum, and other inputs. If educational opportunity can be provided at current state-spending levels, there is absolutely no legal responsibility for lawmakers to raise taxes or take funds from other programs to comply with *Leandro*.

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This is an important point. Many state dollars expended for public education each year do not address the educational opportunities North Carolina is required by its constitution to provide. For example, the state spends nearly \$400 million a year on teacher assistants. The same studies that estimate a modest educational benefit from reducing average class sizes in primary grades show that adding a teacher assistant to a classroom does *not* significantly affect student performance.³ Some of this funding should be redirected to satisfying the need to attract and retain good teachers, particularly for at-risk students.

More generally, about 31 percent of the state's FY 2004-05 public school fund, or \$1.9 billion, was devoted to non-teaching positions. This fraction has risen since 1994, when the *Leandro* case began. If the share of non-teaching personnel had remained fixed as a share of total spending, some \$130 million additional dollars would be available annually for classroom needs. Still other examples of state expenditures with questionable educational value

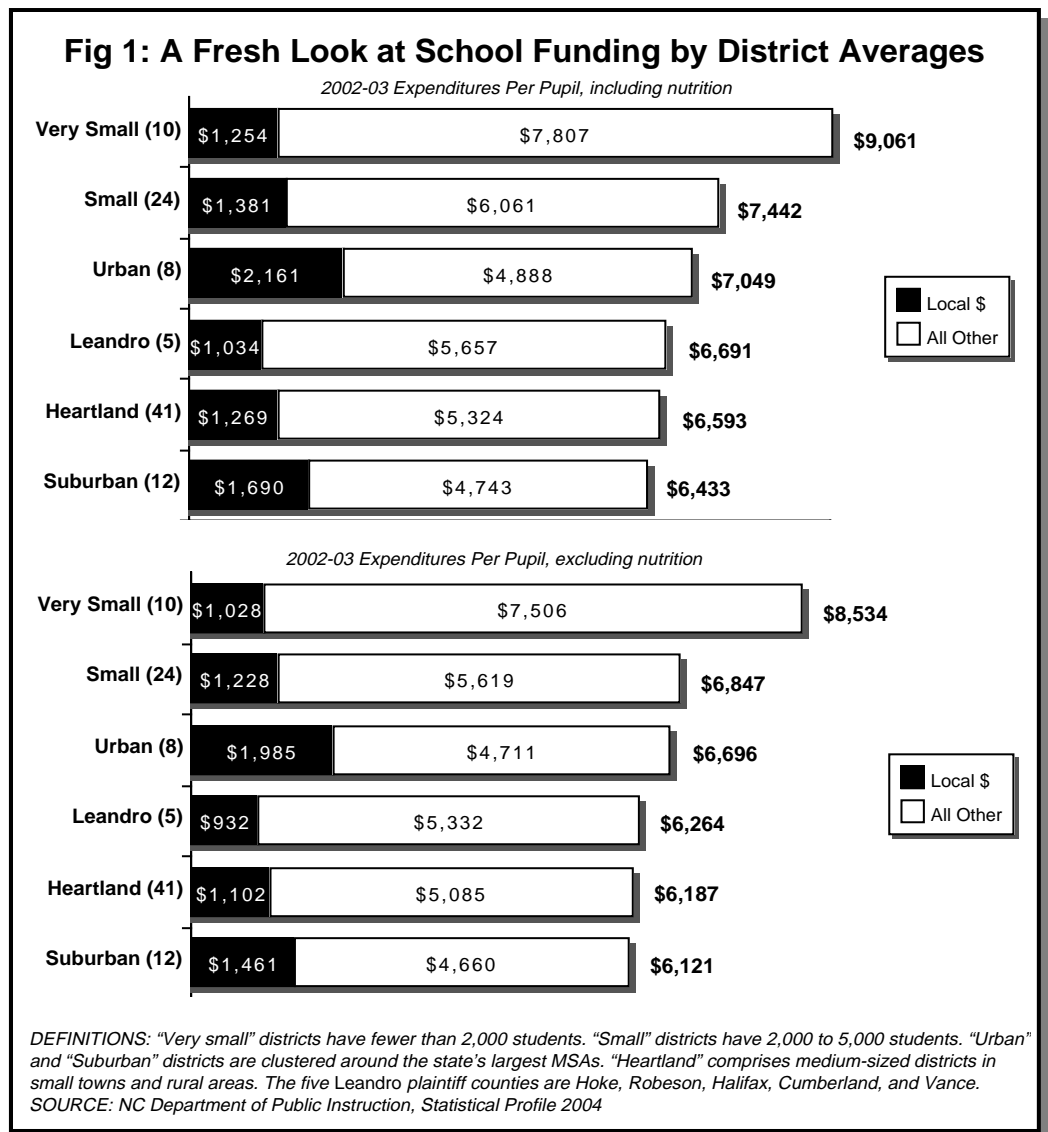
would be the salary supplements paid to teachers who obtain graduate degrees and national board certification⁴; and class-size reductions in grades other than kindergarten.⁵ Policymakers should also redirect these dollars to higher-priority uses.

Exaggerating Disparities in Public-School Funding

A more fundamental problem exists in debates about *Leandro* and school equity in North Carolina: the persistent and largely erroneous belief that education funding differs widely among the state's school districts based on disparities in taxable property or wealth. In fact, North Carolina does *not* feature wildly dissimilar investments in public schooling, for the obvious reason that an average of three-quarters of the schools' operating budget is funded with state and federal dollars, not from local sources. In other states where local dollars predominate, it might be easier to understand why there are lingering debates about school-finance equity. But in North Carolina, this debate was really settled decades ago when state government became the primary source of school funding.

Policymakers appear to have taken to heart a series of reports from the Public School Forum alleging significant funding disparities by county. The Forum has been conducting such research for 17 years, and there is no reason to question its good intentions. But its use of statistics does not stand up to close scrutiny. Its 2004 study concluded that the gap between the 10 highest-spending and 10 lowest-spending districts was the largest ever, that the gap had grown dramatically since the *Leandro* case was filed in 1994, and that the gap is mostly related to differences in wealth.⁶

All three of these statements misstate reality. The fundamental flaw is that the Forum looks only at the quarter of school spending that comes from local sources, including property taxes. But what is educationally meaningful is the total investment in schooling, not just the local component. And its approach grossly exaggerates proportional differences among systems by computing them based only on local dollars. Indeed, if the state were further to increase its share of total funding, disparities in the correspondingly smaller local share would persist or even look bigger in the Forum's calculations.



Furthermore, the Forum study confuses top-spending districts and wealthy districts. The two groups are not the same. A closer look at per-pupil expenditures reveals that the top spenders are mainly districts with tiny enrollments. They have an economy-of-scale problem: they must spread fixed costs over a small caseload. Expressing their expenditures as dollars per student makes it appear that these districts are making a significantly larger investment in the classroom, but this is a statistical quirk rather than a real difference. Ironically, while a few of these small districts are “wealthy,” most are actually lower-income, rural or small-town districts themselves.

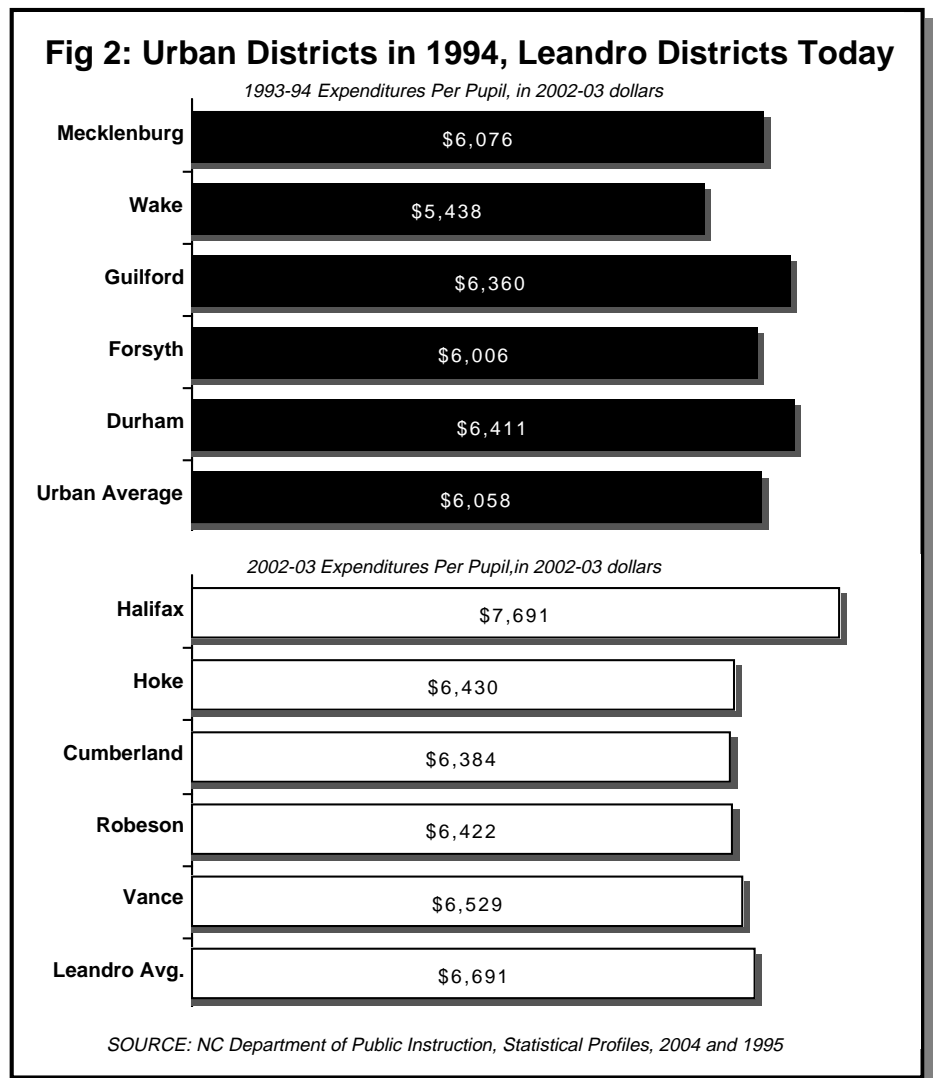
The John Locke Foundation took a fresh look at funding disparities among North Carolina school districts by grouping them into county categories with more analytical meaning than “high-spending vs. low-spending” or “high-wealth vs. low-wealth” (like the Public School Forum, we merged city systems into their counties for comparison purposes, constructing a weighted average per-pupil expenditure for each “merged” county). Specifically, we approached the economy-of-scale issue by separating out school districts with fewer than 5,000 students and grouping them into two categories: 10 “Very Small” districts (with fewer than 2,000 students) and “Small” districts (2,000 to 5,000).

Using financial data for the 2002-03 school year, we then tracked four other categories of counties: eight “Urban” systems (Mecklenburg, Wake, Guilford, Forsyth, Durham, New Hanover, Buncombe, and Catawba); 12 “Suburban” systems, mostly consisting of growing communities adjacent to urban cores (Alamance, Cabarrus, Chatham, Davidson, Davie, Gaston, Henderson, Iredell, Johnston, Lee, Orange, and Union); the five *Leandro* counties; and the remaining 41 counties, which include many rural communities, towns, and small cities and bear the descriptive label of “Heartland.” There are, of course, a number of other ways that North Carolina communities might be grouped for the purpose of comparing school spending, but these seemed best to capture the various structural and economic distinctions that come up most often in discussing educational resources and outcomes.

As Figure 1 reveals, the inclusion of spending from all sources results in only modest variation in per-pupil expenditure. Only the Very Small and Small districts are outliers, for reasons previously discussed. The weighted average operating spending was \$6,741 in the 2002-03 school year (\$6,363 if you exclude spending on in-school meals). Most systems, and all the categories with the exception of the small ones, are within +/- 5 percent of the average. Even if one takes at face value research suggesting a correlation between spending and learning, these differences are not large enough to affect outcomes.

Moreover, this range has been shrinking, not growing, over time because of dramatic increases in state and federal funding of public education. Indeed, since the beginning of the *Leandro* litigation in 1994, the “facts on the ground” of school spending have changed significantly. As Figure 2 shows, because of growth in appropriations to all schools, the five *Leandro* counties now spend more real resources per pupil than the five largest, high-income urban systems did in 1993-94.

In short, if the goal — and constitutional mandate — was to give poor counties the same resources that richer counties had when the lawsuit began, the debate should be over. Those who say *Leandro* now requires a hike in state spending on schools must succeed in arguing that virtually the whole state education system was in 1994, and possibly remains today, unconstitutionally underfunded — a proposition that lacks a coherent rationale or basis in history and law.

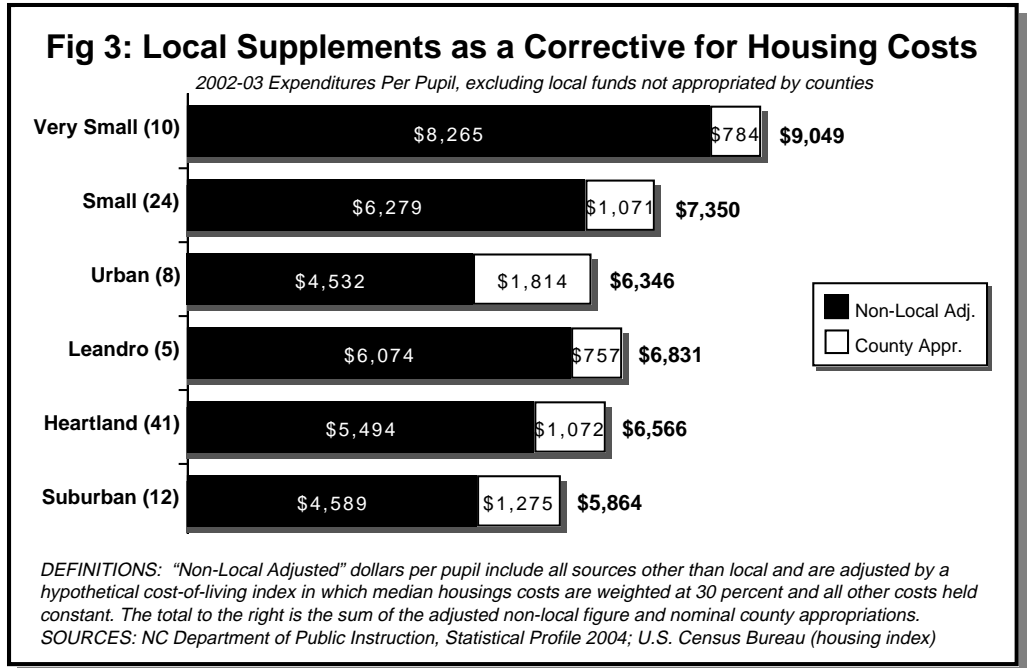


The Flip Side of “Wealth” — How County Dollars Shrink Funding Gaps

Finally, the Forum has admitted that it hasn’t considered the possibility that differences in local funding are a rational outgrowth of local differences in living costs. Obviously, a higher salary is required to buy a given standard of living in a community where housing and other goods are more expensive. The Forum’s omission is puzzling — because urban systems often explicitly say they use local supplements in part to compensate for higher compensation demands by current and potential workers — and significant because 83 percent of all public-education expenditures are for employee salaries and benefits (and other spending categories, such as purchased services, are also influenced by wage rates for local contractors).⁷

There are no good data comparing all costs of living across all counties. Such indexes do exist for large metropolitan areas across the United States, and typically include such factors as housing, utilities, health care, and transportation. In one case,

housing, useful county data *do* exist in the form of median housing prices and rents from the U.S. Census Bureau. To test the hypothesis that communities with high levels of taxable property — which is just another way of saying communities with high prices for buildings and land — often use local funds to balance out cost-of-living differentials, we used housing costs as a proxy for living costs by giving them a weighting of 30 percent in a hypothetical index (which happens to be its approximate weighting in most indexes). We then used the statistic to adjust the value of all non-local funding per county. Next, we computed average county appropriations for each group (a number that is somewhat smaller than the “local” expenditures previously employed, for the latter includes all sources of funding that are not federal or state appropriations). These averages reflect what local officials have chosen to add to the funding base.



The results are summarized in Figure 3. With the small districts again serving as outliers, it is evident that county funds serve partially to compensate for differences in the real buying power of federal and state school funds. With their significantly higher living costs, urban systems fall 23 percent below the statewide average in adjusted non-local funding, but after county appropriations are added the differential falls to 9 percent. Suburban systems also use larger county appropriations to reduce the impact of higher costs. Essentially, county funding acts to *reduce* real variations in educational investment across school systems — a role diametrically opposed to the one funding-equalization advocates usually attribute to it.

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Conclusion

If policymakers continue to debate perceived injustices in county education funding, injustices said to be derived from overreliance on property taxes, they will continue to miss the point. There may well be a good reason to adjust the state’s funding formula to address needs such as high concentrations of poverty. But there is no reason to fret over variations in total school funding, which are modest and shrinking, or in local funding, which is a relatively small share of the pie and serves largely to correct for local variation in labor costs. Nor should *Leandro* be interpreted as a mandate to go on another spending spree with taxpayer money. Public education already receives a significant amount of money. Policymakers should focus more effort on getting higher value for the dollars already invested.

— John Hood, President

NOTES

¹ For background, see John Charles Boger, “*Leandro vs. State: A new era in education reform?*” *Popular Government*, Spring 1998, p. 7.
² “That money gap” (editorial), *The News & Observer* of Raleigh, December 6, 2004.
³ Jennifer Fernandez, “Small classes yield higher test scores, GPAs, expert says,” *News & Record* of Greensboro, December 11, 2004.
⁴ See, for example, Dan Goldhaber, “The Mystery of Good Teaching,” *EducationNext*, 2002, <http://www.educationnext.org/20021/50.html>; and Michael Podgursky, “Defrocking the National Board,” *EducationNext*, 2001, <http://www.educationnext.org/20012/79.html>.
⁵ See Eric Hanushek, *The Evidence on Class Size*, 1998, www.edexcellence.net/library/sunhanu.html.
⁶ “2004 North Carolina Local School Finance Study,” Public School Forum of NC, 2004, www.ncforum.org.
⁷ “North Carolina Public Schools Statistical Profile 2004,” NC Department of Public Instruction, 2004, p. 44.