The Funding Gap 2004

Many States Still Shortchange Low-Income and Minority Students

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The Education Trust

The Education Trust took its first look at the difference in school funding between the highest- and lowest-poverty school districts in 2001. That report found a gap of more than $1,000 per student nationwide, and similar gaps between white and minority students. The majority of states had a funding gap, with large states like New York, Illinois and Pennsylvania leading the nation in their unwillingness to fairly fund education for their most vulnerable children.

In the years since that first report, many facets of the public education landscape have changed. States and schools have weathered the fiscal consequences of an economic downturn and slow recovery. Integrated state systems of standards and assessments launched in the early 1990s have been refined and more fully implemented. The No Child Left Behind Act (NCLB) created ambitious goals for progress and accountability for success. For the first time, all schools and all districts nationwide are accountable for how well their students learn. Not just some students, not just the best, not just the average—all students.

But development on the funding side of the equation has not kept pace. After a few years of getting smaller in the late 1990s, the national funding gap reversed direction, growing to the point that it is now larger than when we first analyzed school finance trends. To their great credit, some states have made real progress. But the overall gap is growing, and many states remain stubbornly the same—or provide relatively *fewer* dollars to high-poverty and high-minority districts than they did before.

Based on the most recent data, the majority of all states analyzed provide fewer dollars per student to their highest-poverty school districts than to their lowest-poverty districts. Most states also have a funding gap between the schools with the most minority students and those with the fewest. When we add in a widely used adjustment to account for the additional cost of bringing low-income students up to state standards, the picture is even more bleak—36 states have a funding gap, with a nationwide disparity between high-poverty and low-poverty districts of $1,348 per student.

Funding gaps and the lack of progress in eliminating them should enrage every civic-minded and future-focused citizen of this nation. In the tables and pages that follow, we show the most up-to-date estimates of low-income and minority funding gaps in America, with a further look at how those gaps have grown larger over time in some states and smaller in others. We also outline the basic, proven policy reforms that states must enact to finally close their funding shortfalls.

These reforms are vital, but it's also important that they not be implemented in isolation. School finance can't be

seen as separate from, or even as an alternative to, fundamental education reform at other levels. Standards, accountability and improved data systems help make the case needed to close the funding gap and provide low-income and minority students with the education they need.

The Funding Gap

The analyses in this report use annual financial data from each of the nation's 14,000 public school districts, gathered by the U.S. Census Bureau and the U.S. Department of Education. The calculations are based on the total amount of state and local revenue each district received for the 2001-2002 school year, the latest year for which such financial data are available.[1] Federal revenues (which make up less than 10% of all school revenues) are not included because federal education funds are specifically meant to supplement, not supplant, state and local resources.[2] Concentrating on state and local funding also allows us to isolate the specific impact of state policies on the educational opportunities states provide to low-income and minority children.

To calculate funding gaps for each state, we compare average state and local revenues per student in the *highest*-poverty school districts—those in the top 25% statewide in terms of the percent of students living below the federal poverty line[3]—to per-student revenues in the *lowest*-poverty school districts. These quartiles are weighted so each contains approximately the same total number of students. This procedure also is used to compare funding in high- and low-minority school districts.

The analysis accounts for the fact that school districts differ in how much money they need to spend. This variance can be a function of both the cost of educating very different kinds of students and the different prices districts have to pay for goods and services. Accordingly, we adjust our calculation of school district revenues based on the number of special education students enrolled, recognizing that districts with disproportionately more students with disabilities have higher costs and thus, effectively have less money to spend. Similarly, we adjust for the local cost of living, because some districts have to pay more for teachers, utilities, transportation, etc. than others, reducing their spending power.

The results are shown on **Table 1**. In 25 of the 49 states studied, the highest-poverty school districts get fewer resources than the lowest-poverty districts.[4] Even more states have a gap for high-minority districts, 31 in all. Those 31 states educate six out of every 10 poor and minority children in America.

The shortfalls we found, some exceeding $1,000 or even $2,000 per student, are starkly at odds with our national goals for closing the achievement gap. They fly in the face of any reasonable, rational notion of how to support our public schools. Until state policymakers get serious about fixing these problems, they cannot in good conscience pretend to have fulfilled their basic obligations to those students who are most in need of a high-quality public education.

Moreover, these numbers actually *understate* the true extent of the problem because they don't reflect the added cost of educating children in poverty. School funding experts generally agree that high-poverty schools need more resources to meet the same standards. School funding comparisons that reflect this fact have been a mainstay of academic research and various technical analyses of school finance for a number of years. Recent examples of such analyses include publications from both the U.S. Department of Education and the U.S. Government Accountability Office.[5]

The need to adjust school funding based on the additional costs of poverty has also been codified by Congress under NCLB. In creating a formula to reward states that fund education equitably, Congress set a standard that states should provide districts with additional funding per low-income student equal to 40% of the average per student amount. This means, for example, that

Table 1: Funding Gaps, 2001-2002

State	**2001–2002 Gap Between Revenues Available per student in the highest- and lowest-poverty districts** (cost-adjusted dollars, no adjustment for low-income students)	**2001–2002 Gap Between Revenues Available per student in the highest- and lowest-minority districts** (cost-adjusted dollars, no adjustment for low-income students)
Alabama	-$613	-$301
Alaska	$1,231	$2,558
Arizona	-$681	-$709
Arkansas	-$149	$293
California	$173	-$308
Colorado	-$38	-$687
Connecticut	$277	-$13
Delaware	$1,184	-$1,302
Florida	-$74	$136
Georgia	$721	$1,175
Idaho	-$96	-$637
Illinois	-$2,026	-$1,595
Indiana	-$25	$96
Iowa	-$333	-$700
Kansas	$122	-$1,590
Kentucky	-$3	$737
Louisiana	-$725	-$143
Maine	-$79	-$543
Maryland	-$558	-$240
Massachusetts	$1,343	$1,969
Michigan	-$564	$115
Minnesota	$1,031	$810
Mississippi	-$18	$157
Missouri	$354	$737
Montana	-$450	-$2,067
Nebraska	$233	-$1,683
Nevada	$333	-$504
New Hampshire	-$795	-$1,851
New Jersey	$1,260	$1,062
New Mexico	$374	$825
New York	-$2,040	-$1,797
North Carolina	-$392	-$39
North Dakota	$653	-$1,599
Ohio	$186	$130
Oklahoma	$226	-$55
Oregon	$186	$353
Pennsylvania	-$882	-$377
Rhode Island	-$108	-$316
South Carolina	$370	$247
South Dakota	$552	-$1,001
Tennessee	$570	*
Texas	-$388	-$1,061
Utah	$782	-$325
Vermont	-$766	-$1,056
Virginia	-$1,105	-$407
Washington	$160	-$157
West Virginia	-$135	$502
Wisconsin	$108	-$770
Wyoming	$381	-$2,425
USA	-$868	-$797

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 2001-2002 school year.

Note: All dollar amounts shown in this chart have been adjusted to account for regional cost differences,the additional cost of educating students with disabilities. This has the effect of reducing the effective level of funding in high-cost districts and districts with larger numbers of low-income students and students with disabilities. This, in turn, has the effect of increasing the size of the calculated funding gap. For a more detailed explanation of the methodology used in this report, see the Technical Appendix.

*Minority funding gap calculators unavailable for Tennessee because Tennessee does not provide school-level student enrollment data disaggregated by student race/ethnicity (See footnote 11.)

if a state provides districts with $5,000 per non-poor student, they should provide $7,000 per low-income student.[6] We incorporated this 40% standard into our 2003 funding gap analysis and do so again in this report.

By accounting for the fact that high-poverty school districts face stiffer challenges, we arrive at a more complete picture of whether states are really providing equitable resources to all children. On **Table 2**, we show the funding gap after making the 40% cost adjustment for poverty. In 36 states, the highest-poverty districts receive fewer cost-adjusted dollars than the lowest-poverty districts. The national funding gap—the difference between the top 25% and bottom 25% nationwide—is $1,348 per student.[7]

That's for the country as a whole. Individual states vary greatly—some are much better, some are much worse. **Illinois** and **New York** have the largest funding gaps for poor children, each well over $2,000 per student. Other states with gaps of over $900 include **Alabama, Arizona, Louisiana, Michigan, Pennsylvania, Texas,** and **Virginia.** These nine states alone educate over 2.4 million low-income students, 2.8 million African American students, and 2.7 million Latino students.

As the chart below shows, the negative impact of the funding gap for individual schools, teachers, and students can be severe. For example, the shortfall of $2,465 in Illinois translates into a shortfall of $61,625 annually for a typical classroom of 25 students, and almost $1 million annually for a typical elementary school of 400 students. Consider the daily struggle for progress that occurs in many of our poorest schools. What could those schools do with another $1 million per year—resources that their more wealthy peers already enjoy?

Many high-poverty schools, particularly those located in urban areas, struggle with deteriorating facilities and diverse student needs. They also are far less likely to employ experienced, qualified, knowledgeable, effective teachers.[8] This maldistribution of good teachers persists even as the latest research shows that the effectiveness of individual teachers has a huge impact on how much students learn. One study concluded that we could all but eliminate the achievement gap for poor students if we could simply assign them to above-average teachers throughout the elementary grades.[9] And yet we persist in giving those schools less money to go into the job market and hire teachers to fill the *most* challenging positions.

Thankfully, large funding shortfalls don't exist everywhere. States like **Massachusetts, Minnesota** and **New Jersey** provide substantially more resources to their highest-poverty districts, even after taking into account the additional cost of educating poor children. States that either have no gap or a gap of less than $100 per student include **Georgia, Oregon, Utah,** and a number of others.

These states have decided not to radically disadvantage high-poverty districts in distributing education dollars. They have crafted funding policies that at

Per-Student Funding Gaps Add Up

For example, when you consider the cost-adjusted per-student funding gap for low-income students in...	Between two typical classrooms of 25 students, that translates into a difference of....	Between two typical elementary schools of 400 students, that translates into a difference of....
New York	$65,375	$1,046,000
Illinois	$61,625	$986,000
Virginia	$35,750	$572,000
Pennsylvania	$32,700	$523,200
Texas	$23,400	$374,400

Table 2: State and Local Poverty Funding Gaps 2002

State	**Per-Student Funding in the Lowest-Poverty Districts** (cost-adjusted dollars, 40% adjustment for low-income students)	**Per-Student Funding in the Highest-Poverty Districts** (cost-adjusted dollars, 40% adjustment for low-income students)	**Gap Between Revenues Available per student in the highest- and lowest-poverty Districts** (cost-adjusted dollars, 40% adjustment for low-income students)
Alabama	$6,648	$5,705	-$942
Alaska	$6,507	$7,347	$840
Arizona	$6,129	$4,957	-$1,172
Arkansas	$6,136	$5,656	-$479
California	$6,042	$5,741	-$301
Colorado	$6,776	$6,374	-$402
Connecticut	$8,591	$8,257	-$334
Delaware	$7,710	$8,640	$931
DC	*	*	*
Florida	$5,993	$5,745	-$248
Georgia	$7,504	$7,655	$150
Hawaii	*	*	*
Idaho	$6,198	$5,862	-$336
Illinois	$8,075	$5,610	-$2,465
Indiana	$8,139	$7,760	-$379
Iowa	$8,080	$7,512	-$568
Kansas	$7,227	$7,014	-$214
Kentucky	$5,955	$5,597	-$357
Louisiana	$6,226	$5,263	-$963
Maine	$8,099	$7,674	-$426
Maryland	$7,750	$6,979	-$772
Massachusetts	$6,972	$7,746	$774
Michigan	$8,205	$7,119	-$1,085
Minnesota	$7,665	$8,322	$657
Mississippi	$5,127	$4,767	-$359
Missouri	$6,728	$6,612	-$116
Montana	$6,910	$6,100	-$809
Nebraska	$7,361	$7,291	-$70
Nevada	$6,081	$6,336	$255
New Hampshire	$7,683	$6,711	-$972
New Jersey	$9,338	$9,904	$566
New Mexico	$5,748	$5,718	-$30
New York	$9,980	$7,365	-$2,615
North Carolina	$6,595	$5,973	-$622
North Dakota	$6,504	$6,866	$362
Ohio	$7,983	$7,636	-$347
Oklahoma	$5,367	$5,220	-$147
Oregon	$6,643	$6,551	-$92
Pennsylvania	$8,223	$6,916	-$1,308
Rhode Island	$7,261	$6,587	-$674
South Carolina	$7,056	$7,100	$43
South Dakota	$6,437	$6,591	$154
Tennessee	$5,113	$5,393	$281
Texas	$6,963	$6,027	-$936
Utah	$4,950	$5,516	$566
Vermont	$11,656	$10,464	-$1,192
Virginia	$7,764	$6,334	-$1,430
Washington	$6,438	$6,264	-$173
West Virginia	$6,990	$6,574	-$417
Wisconsin	$8,554	$8,217	-$337
Wyoming	$9,275	$9,398	$123
USA	$7,731	$6,383	-$1,348

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 2001-2002 school year.

Note: All dollar amounts shown in this chart have been adjusted to account for regional cost differences,the additional cost of educating students with disabilities, and the additional cost of educating low-income students (40% adjustment). This has the effect of reducing the effective level of funding in high-cost districts and districts with larger numbers of low-income students and students with disabilities. This, in turn, has the effect of increasing the size of the calculated funding gap. For a more detailed explanation of the methodology used in this report, see the Technical Appendix.

the very least don't confound the achievement gap. By enacting and supporting some very common-sense, proven strategies for effective school funding—described in more detail later in this paper—they remind us that while school funding disparities may be common, they are by no means inevitable.

Funding Gaps for Minority Students

On **Table 3**, we show the funding gap between districts with the highest and lowest percentage of minority students.[10] These figures are also calculated using the 40% adjustment for the cost of educating low-income children (but do not contain another, separate adjustment for minority students). Thirty-five of the 48 states studied have a funding gap for minority students, with a nationwide gap of $1,099 per pupil.[11]

Race and poverty are often highly correlated, which is why many of the states with the largest shortfalls for students in poverty also have similar gaps for minority students. However, this isn't always the case. The minority funding gap in **California,** for example, is almost twice the size of the shortfall for low-income students, which is particularly troubling given that state's large minority population. Other states that have a significantly larger funding gap for minority students than for poor students include **Colorado, Kansas, Nebraska, Texas,** and **Wisconsin.**

These differences are often a function of the various and distinct intersections of poverty and race in America. Low-income white students are proportionately more likely to live in rural school districts, while low-income minority students tend to be concentrated in urban areas. Rural and urban districts often get shortchanged by school funding formulas when compared to wealthy suburbs—but not always to the same degree, or in the same way.

For example, there are six school districts among the highest-poverty districts in **Wisconsin** that are also among the highest-minority districts, including the large districts of Milwaukee and Racine, which together educate over 100,000 schoolchildren. Within the same high-poverty quartile, there are also 62 districts that are in the *bottom* quartile statewide in terms of minority representation, those with the fewest minority students. Fifty-three of these districts, spread out among places like Kickapoo, Wonewoc, La Farge Village and Rib Lake, educate fewer than 1,000 students. None educate more than 3,200.

The small, rural, high-poverty, mostly white districts in Wisconsin received cost-adjusted funding of $9,386 per student in 2002. The large, urban, high-poverty, mostly minority districts got $7,622—over $1,700 less. This is why the minority funding gap in Wisconsin is almost three times larger than the poverty funding gap. States like this show how policymakers need to play close attention to both race and poverty in crafting funding policies that treat all students fairly.

Table 3: State and Local Minority Funding Gaps 2002

State	**Per-student funding in the districts with the fewest minority students** (cost-adusted dollars, 40% adjustment for low-income students)	**Per-student funding in the districts with the most minority students** (cost-adjusted dollars, 40% adjustment for low-income students)	**Gap Between Revenues Available per student in the highest- and lowest-minority districts** (cost-adjusted dollars, 40% adjustment for low-income students)
Alabama	$6,112	$5,640	-$472
Alaska	$5,875	$8,175	$2,300
Arizona	$5,847	$4,885	-$962
Arkansas	$5,900	$6,022	$122
California	$6,175	$5,602	-$573
Colorado	$6,964	$6,071	-$892
Connecticut	$9,073	$8,538	-$535
Delaware	$8,950	$7,682	-$1,268
DC	*		*
Florida	$5,798	$5,840	$42
Georgia	$7,251	$8,013	$762
Hawaii	*		*
Idaho	$6,076	$5,401	-$675
Illinois	$7,398	$5,536	-$1,862
Indiana	$7,893	$7,836	-$57
Iowa	$8,153	$7,420	-$733
Kansas	$8,115	$6,442	-$1,674
Kentucky	$5,639	$6,485	$846
Louisiana	$6,062	$5,746	-$317
Maine	$8,186	$7,629	-$557
Maryland	$7,271	$6,870	-$401
Massachusetts	$6,553	$8,035	$1,482
Michigan	$7,460	$7,233	-$226
Minnesota	$7,707	$8,361	$654
Mississippi	$5,031	$4,902	-$130
Missouri	$6,341	$6,974	$633
Montana	$7,593	$5,572	-$2,022
Nebraska	$8,475	$6,781	-$1,695
Nevada	$6,778	$6,273	-$506
New Hampshire	$8,074	$6,216	-$1,858
New Jersey	$9,317	$9,810	$493
New Mexico	$5,677	$6,334	$656
New York	$9,739	$7,573	-$2,166
North Carolina	$6,475	$6,353	-$122
North Dakota	$7,733	$6,162	-$1,571
Ohio	$7,700	$7,566	-$134
Oklahoma	$5,378	$5,177	-$202
Oregon	$6,705	$6,986	$281
Pennsylvania	$7,531	$6,948	-$583
Rhode Island	$7,602	$6,728	-$875
South Carolina	$7,093	$7,098	$5
South Dakota	$7,115	$6,088	-$1,027
Tennessee	*		*
Texas	$7,275	$5,864	-$1,411
Utah	$5,135	$4,721	-$414
Vermont	$11,680	$10,669	-$1,011
Virginia	$7,309	$6,715	-$594
Washington	$6,567	$6,233	-$333
West Virginia	$6,577	$7,115	$538
Wisconsin	$8,806	$7,832	-$974
Wyoming	$10,133	$7,734	-$2,399
USA	$7,605	$6,506	-$1,099

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 2001-2002 school year.

Note: Minority data is unavailable for Tennessee.

Note: All dollar amounts shown in this chart have been adjusted to account for regional cost differences, the additional cost of educating students with disabilities, and the additional cost of educating low-income students (40% adjustment). This has the effect of reducing the effective level of funding in high-cost districts and districts with larger numbers of low-income students and students with disabilities. This, in turn, has the effect of increasing the size of the calculated funding gap. For a more detailed explanation of the methodology used in this report, see the Technical Appendix.

Some States Are Improving, Other States Are Getting Worse

The calculations in Tables 1-3 represent the most up-to-date picture available of state school funding shortfalls. It's also important to understand how much progress has been made—or hasn't been made—over time. **Table 4** shows the funding gap for low-income students in each state and the nation as a whole for 1997, 2001, and 2002.

Results at the state level are mixed. Twenty-seven states shrunk their gaps over that time period, while 22 saw disparities get larger. At the aggregate national level, however, the funding gap got worse. Applying the same 40% cost adjustment for low-income students in each year, we find that the nationwide gap grew from $1,208 in 1997 to $1,348 in 2002. The gap initially narrowed over that time period, only to grow again during the final two years.

What accounts for this reversal of fortune? Despite an ever growing mountain of reasons to improve the education of low-income students, why are we giving them *less* money than we used to relative to wealthy students? Individual state circumstances vary widely, so we can't totally generalize about all state policies and practices. But in aggregate, it appears that the widening disparity is partly a function of how state policymakers make decisions when their budget environment turns from good to bad.

New tax revenues poured into government coffers in the late 1990s, the product of unprecedented economic growth. Public education got a share of that windfall, with total state and local revenues for K-12 schools (unadjusted for inflation) increasing by an average of almost 6% per year from 1997 to 2001. But by the beginning of the 2001-2002 school year, the economy was in a recession[12] that would be followed by a slow recovery. Unsurprisingly, the 2002 increase in school revenues dropped by more than half, to 2.8%.

Along with the slower growth came a change in how new dollars were distributed. From 1997 to 2001, the highest-poverty districts saw an average increase in unadjusted state and local funding per student of 5.9% per year, slightly better than the increase of 5.5% for the lowest-poverty districts. But from 2001 to 2002 the pattern changed, with the revenues in the highest-poverty districts rising by only 2.7%, compared to a 3.5% increase in the lowest-poverty districts.

In other words, when times were good, poor school districts made slight monetary gains. When the economy went south, those gains were immediately erased. Why did this happen? Because when states running low on money need to cut back support for local schools, as they did in 2002, their natural tendency is to shift more of the burden onto local property taxes. When this happens, wealthy districts are in a far better position than poor districts because they have a much larger property tax base on which to draw. Indeed, the difference between the 3.5% increase for low-poverty districts and the 2.7% increase for high-poverty districts is entirely a function of changes in local funding. Increases in state support were equal for both groups, at 2.8%. But high-poverty districts saw local funds increase by only 2.5%, compared to 4.0% in low-poverty districts.

Average Annual Increase in Per Student Funding

	State and Local Funding 1997 to 2001	State and Local Funding 2001 to 2002	State Funding 2001 to 2002	Local Funding 2001 to 2002
High-Poverty School Districts	5.9%	2.7%	2.8%	2.5%
Low-Poverty School Districts	5.5%	3.5%	2.8%	4.0%

Source: Education Trust calculations based on U.S. Department of Education school district revenue data from the 1996–1997, 2000–2001, and 2001–2002 school years. The revenue amounts were not adjusted for inflation or other factors.

Table 4: State and Local Funding Gaps Over Time: 1997—2002

State	Gap Between Highest and Lowest-Poverty Districts 1997 (cost-adjusted dollars, 40% adjustment for low-income students)	Gap Between Highest and Lowest-Poverty Districts 2001 (cost-adjusted dollars, 40% adjustment for low-income students)	Gap Between Highest and Lowest-Poverty Districts 2002 (cost-adjusted dollars, 40% adjustment for low-income students)	Poverty Gap Change in Dollars 1997 - 2002 (cost-adjusted dollars, 40% adjustment for low-income students)
Alabama	-$714	-$1,048	-$942	-$228
Alaska	-$555	$607	$840	$1,395
Arizona	-$906	-$1,149	-$1,172	-$266
Arkansas	-$478	-$256	-$479	-$1
California	-$205	-$418	-$301	-$96
Colorado	-$318	-$392	-$402	-$84
Connecticut	-$980	-$354	-$334	$646
Delaware	-$705	$601	$931	$1,636
DC	*	*	*	*
Florida	-$70	-$269	-$248	-$178
Georgia	-$369	$121	$150	$519
Hawaii	*	*	*	*
Idaho	-$459	-$495	-$336	$123
Illinois	-$2,247	-$2,374	-$2,465	-$218
Indiana	-$626	-$168	-$379	$247
Iowa	-$489	-$468	-$568	-$78
Kansas	-$130	-$150	-$214	-$83
Kentucky	-$119	-$143	-$357	-$239
Louisiana	-$1,085	-$1,026	-$963	$123
Maine	-$214	-$352	-$426	-$212
Maryland	-$961	-$735	-$772	$189
Massachusetts	$459	$748	$774	$315
Michigan	-$1,407	-$1,099	-$1,085	$322
Minnesota	$138	$713	$657	$519
Mississippi	-$348	-$181	-$359	-$11
Missouri	-$196	-$145	-$116	$79
Montana	-$1,380	-$578	-$809	$571
Nebraska	-$195	-$88	-$70	$126
Nevada	-$558	$206	$255	$813
New Hampshire	-$888	-$1,005	-$972	-$84
New Jersey	-$787	$127	$566	$1,352
New Mexico	-$591	-$109	-$30	$561
New York	-$2,938	-$2,264	-$2,615	$323
North Carolina	-$464	-$751	-$622	-$158
North Dakota	$159	$391	$362	$203
Ohio	-$861	-$560	-$347	$514
Oklahoma	-$52	-$72	-$147	-$95
Oregon	$139	-$119	-$92	-$231
Pennsylvania	-$1,209	-$1,469	-$1,308	-$99
Rhode Island	-$986	-$845	-$674	$313
South Carolina	-$370	-$343	$43	$413
South Dakota	-$108	$248	$154	$262
Tennessee	$124	$536	$281	$156
Texas	-$437	-$875	-$936	-$499
Utah	$456	$561	$566	$110
Vermont	-$751	-$1,212	-$1,192	-$441
Virginia	-$972	-$1,341	-$1,430	-$458
Washington	-$163	-$224	-$173	-$11
West Virginia	-$413	-$429	-$417	-$4
Wisconsin	-$576	-$442	-$337	$239
Wyoming	-$210	-$56	$123	$332
USA	-$1,208	-$1,287	-$1,348	-$140

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 1996-1997, 2000-2001, and 2001-2002 school years. Funding amounts were not adjusted for inflation.

Note: All dollar amounts shown in this chart have been adjusted to account for regional cost differences, the additional cost of educating students with disabilities, and the additional cost of educating low-income students (40% adjustment). This has the effect of reducing the effective level of funding in high-cost districts and districts with larger numbers of low-income students and students with disabilities. This, in turn, has the effect of increasing the size of the calculated funding gap. For a more detailed explanation of the methodology used in this report, see the Technical Appendix.

This pattern underscores an important point—state policymakers do more than just decide how much state money to give to each school district. They also decide, to varying degrees, how much local money each district gets to give to itself. Some states regulate local school property taxes closely, others far less so. If a state chooses to loosen the reins on local tax increases as a back-door way of making up for declining state support, the natural tendency is for wealth-based disparities to widen.

It's been a basic principle of state education finance litigation that states aren't excused from the consequences of the financial decisions they choose to delegate to local school districts in terms of raising money for education. Those local units of government are artifacts of state law—state legislatures authorize their creation, and give them authority to raise money in certain ways for certain purposes. The collective result of delegated decisions remains the responsibility of state lawmakers when we evaluate the fairness and wisdom of their school funding policies.

While the national trend over the last five years has been a growing gap, not all states followed suit. Some states made real progress from 1997 to 2002. They worked hard to target new revenues to where they were needed most, and they didn't abdicate their responsibility to fund schools fairly in the face of a more challenging state revenue climate.

New Jersey stands out as a state that has made real progress in terms of funding. In 1997, the state had a funding gap of $787 per student in cost-adjusted dollars. By 2002, the gap had been erased, and the state had a $566 *positive* difference for low-income students. Starting in 1998, spurred partly by the state's long-running *Abbott vs. Burke* school funding lawsuit, the state implemented a series of new funding programs designed to help low-income students. Districts were only eligible for "Early Childhood Program Aid" to provide preschool and full-day kindergarten and "Demonstrably Effective Program Aid" to improve instruction, school governance, and student health if they had poverty levels above a certain threshold, and per student funding amounts escalated in proportion to the percentage of students eligible for the federal free lunch program.

The New Jersey legislature appropriated more than $500 million for these programs in 2002, and the state achieved an improvement of over $1,300 per student in their funding gap in just five years. New Jersey shows that states can greatly improve the resources provided to low-income and minority children, if they decide to do so. Other states that improved education funding for high-poverty districts by $500 per student or more from 1997 to 2002 include **Connecticut, Georgia, Minnesota, New Mexico,** and **Ohio.**

But these improvements were counterbalanced by states that lost ground during the same time period. The funding gap in **Illinois,** already among the largest in the country in 1997, has grown in size every year the Education Trust has analyzed funding trends. The same is true of **Virginia,** which went from having the 9th largest gap in 1997 to the 3rd largest gap in 2002. Disparities also grew steadily in **Texas,** a state whose gap was once of moderate size compared to other states, but has now grown to almost $1,000 per student.

Overall, the trend over time for state support of low-income students is decisively mixed. The number of states getting better is about the same as the number getting worse. For every large, diverse state making significant improvement, there is another moving in the wrong direction. The aggregate national funding gap got smaller, and then wider again. The improvement of some states underscores the possibility of real change, but the backsliding of others emphasizes the continued challenge of convincing policymakers to take action on behalf of low-income and minority children.

Proven Policies to Close Funding Gaps

The major funding shortfalls found in many states, year after year, demand attention. Moreover, the actions necessary to close gaps aren't unknown. A series of straightforward, proven policy options are available to close the funding gap:

More, Better Federal Funding

While federal funding for NCLB has increased by roughly $6 billion since 2001, this still represents a small piece of the overall school funding pie. The federal government has never provided more than 10% of K-12 funding, and states will continue to be the primary funders of public education. That said, the federal government can and should do more to provide resources for low-income and minority students.

The national funding gap of $1,348 per student is a function of both differences among districts *within* states and differences among districts *between* states. The 50 states vary greatly in wealth and poverty. Per-capita income in the richest state is almost double that in the least wealthy, while the poverty rate varies among states by more than three to one.[13] These underlying structural differences have a direct impact on the size of the national education funding gap, and can only be offset through federal action.

Congress should fine-tune the formula used to distribute funding under the Title I program. Important changes have been made in recent years to better target Title I dollars to high-poverty districts within states. These reforms are good for low-income children and should be continued and expanded. However, the formula continues to provide more money to high-poverty districts in *high-wealth* states than to high-poverty districts in *low-wealth* states—essentially penalizing poor states for being poor.[14] This is counterintuitive, and should be changed.

In addition, the President and Congress should fund the Title I program at the maximum levels authorized in NCLB. The commitment to holding schools and districts truly accountable for student learning, including low-income and minority students, was a bold and vital step by Congress, one that forms the foundation for our goals of closing the achievement gap and improving education for all students. The scope of this new commitment should be reflected in greater financial support than what is currently provided.

However, while the federal government should provide more funding through more carefully targeted formulas, this cannot mean suspending NCLB's accountability provisions. Failing to hold schools accountable for helping low-income and minority students will only let these children down..

Reduce Reliance on Local Property Taxes to Fund Education

States should decrease reliance on local property taxes to fund education and increase support from state sources. As **Table 5** shows, the state share of state and local education funding varies widely from state to state, from a high of 83.9% in **New Mexico** to a low of 38.2% in **Nebraska.** Unsurprisingly, states like **Illinois, Pennsylvania, Texas,** and **Virginia,** which rank near the bottom in the percentage of state funding, also have some of the largest funding gaps in the nation. Even as the long-term national trend over the last 30 years has been to increase the state share of school funding, some states are going the other way. Texas, for example, dropped from 37th in state funding last year to 41st in this report, with the state share declining by two percentage points—part of an escalating school funding crisis in Texas that has yet to be resolved.

Because local property values vary widely—often by a ratio of 10-to-1 or more on a per student basis—property-rich districts can raise large amounts of revenue with low tax rates, while property-poor districts are stuck with insufficient funding and high property tax rates that burden homeowners and businesses alike. By cutting local taxes and distributing new state revenues in a way that balances out local differences in property

Table 5: State vs. Local Support of Public Education

1) Reduce Reliance on Local Property Taxes

State	State Share of State and Local Revenues, 2002	Rank
Alabama	65.2%	11
Alaska	68.5%	5
Arizona	50.9%	30
Arkansas	83.1%	2
California	62.9%	18
Colorado	44.8%	37
Connecticut	38.8%	47
Delaware	70.3%	3
Florida	50.9%	30
Georgia	52.3%	26
Idaho	66.5%	8
Illinois	39.3%	46
Indiana	51.2%	29
Iowa	49.8%	32
Kansas	64.4%	13
Kentucky	66.4%	9
Louisiana	55.6%	23
Maine	45.3%	36
Maryland	39.7%	45
Massachusetts	43.5%	39
Michigan	69.3%	4
Minnesota	64.4%	13
Mississippi	63.3%	16
Missouri	48.8%	33
Montana	54.5%	24
Nebraska	38.2%	49
Nevada	64.9%	12
New Hampshire	52.3%	26
New Jersey	43.3%	40
New Mexico	83.9%	1
New York	51.7%	28
North Carolina	66.4%	9
North Dakota	41.3%	44
Ohio	47.2%	35
Oklahoma	63.2%	17
Oregon	61.2%	19
Pennsylvania	38.7%	48
Rhode Island	44.0%	38
South Carolina	55.8%	22
South Dakota	43.1%	43
Tennessee	48.6%	34
Texas	43.2%	41
Utah	64.0%	15
Vermont	60.6%	20
Virginia	43.2%	41
Washington	68.3%	6
West Virginia	67.3%	7
Wisconsin	57.3%	21
Wyoming	53.2%	25
USA	53.0%	

Source: Education Trust Calculations from U.S. Census Bureau School District Revenue Data

wealth, states can help ensure that a child's access to a quality education isn't simply an accident of geography.

Target Extra Funds to Help Low-Income Children

States should do more to specifically target extra funding to high-poverty school districts. The number of states adopting poverty-based funding strategies has increased in recent years, as state policymakers have worked to align their funding and accountability systems toward the goal of closing the achievement gap. In these programs, additional funding is provided to districts based on a measure of the local poverty rate.

Approaches vary—some states restrict funding to districts with a poverty rate above a certain threshold. Others increase per student funding in proportion to the percent of low-income children. For example, a district with 50% of students eligible for the federal free and reduced-price lunch program might get an extra $1,000 per low-income pupil, while a district with a 75% poverty rate might get $2,000 per low-income pupil. Some states restrict these funds for specific purposes, while others simply increase general school support by incorporating poverty measures into their main school funding formulas.

As **Table 6** shows, a number of states provided thousands of additional targeted dollars per low-income student in 2002.

But others provide little or no additional funding to schools to help provide the additional supports and education resources low-income children often need.

Fix Funding Gaps for Individual Schools Within Districts

We need to apply fair funding principles to individual schools as well as districts. School finance analyses traditionally have relied on district-level financial data, because that's the level at which state dollars are allocated. Districts are also distinct financial entities, so it's relatively easy to determine how much revenue one gets compared to another. But for students, the issue of how money is divided between individual schools *within* districts can have as much of an impact as how dollars are distributed *between* districts. This is particularly true in large, diverse, urban or consolidated urban/suburban districts. Researchers have found that in some of these districts, high-poverty schools receive hundreds of thousands of dollars less than lower-poverty schools of similar size.[15]

This happens because most districts simply give their schools enough money to pay the teachers the schools employ. Since high-poverty, hard-to-staff schools tend to employ a disproportionate number of inexperienced, low-paid teachers, these schools end up getting much less money per student

Table 6: Targeted Funding for Low-Income Students

State	Extra Poverty-Based Funding per Student Living Below the Poverty Line, 2002	Rank
Alabama	$197	33
Alaska	$0	39*
Arizona	$121	37
Arkansas	$111	38
California	$403	28
Colorado	$1,739	13
Connecticut	$4,206	2
Delaware	$0	39*
Florida	$0	39*
Georgia	$146	36
Idaho	$0	39*
Illinois	$1,658	15
Indiana	$1,728	14
Iowa	$196	34
Kansas	$1,164	22
Kentucky	$1,642	16
Louisiana	$1,232	19
Maine	$0	39*
Maryland	$2,033	9
Massachusetts	$5,199	1
Michigan	$1,792	12
Minnesota	$3,075	5
Mississippi	$237	32
Missouri	$2,700	6
Montana	$0	39*
Nebraska	$1,215	20
Nevada	$0	39*
New Hampshire	$3,529	4
New Jersey	$3,732	3
New Mexico	$919	25
New York	$2,240	8
North Carolina	$910	26
North Dakota	$0	39*
Ohio	$1,444	17
Oklahoma	$1,876	11
Oregon	$1,380	18
Pennsylvania	$0	39*
Rhode Island	$2,516	7
South Carolina	$1,111	23
South Dakota	$0	39*
Tennessee	$155	35
Texas	$1,979	10
Utah	$247	31
Vermont	$387	29
Virginia	$1,174	21
Washington	$574	27
West Virginia	$0	39*
Wisconsin	$947	24
Wyoming	$252	30
USA	$1,191	

Source: Kevin Carey, State Poverty-Based Education Funding: A Survey of Current Programs and Options for Improvement, Center on Budget and Policy Priorities, November 2002

*38 states provide some additional funds; all states that provide 0 additional dollars are ranked 39th.

than others. Districts should phase out these unfair budgeting practices and instead provide each school with the same amount of money per student, adjusted for student needs. In fact, a new study of two large urban districts that recently adopted this form of "student-based budgeting" found greater funding equity among schools as the result.[16]

Improve State Education Funding Effort

Finally, some states simply should spend more money on public education. The state funding gaps calculated in this report show one important dimension of state education policy—how the resources provided to low-income and minority students compare to the resources provided to their wealthier, whiter peers. There's no doubt that we need to analyze these gaps, understand their origins, and make them disappear. But there are also other elements of the funding story to consider. Some states have relatively small funding gaps, yet still have huge school funding problems to tackle. Instead of funding the wealthy at the expense of the poor, these states are essentially short-changing everyone equally.

Table 7 calculates total state and local education funding per student in each state as a percentage of state personal income per capita, and then compares that ratio to the

Table 7: State Education Funding Effort

State	The Ratio of State and Local Per-Pupil K-12 Spending to State Per-Capita Income, as a Percent of the National Average (3-year average, 2000 - 2002)	Rank
Alabama	91.8%	39
Alaska	124.8%	6
Arizona	87.9%	43
Arkansas	101.7%	23
California	83.7%	47
Colorado	79.8%	50
Connecticut	98.5%	29
Delaware	116.3%	11
Florida	85.5%	46
Georgia	101.1%	26
Hawaii	99.7%	28
Idaho	96.4%	32
Illinois	101.2%	25
Indiana	112.4%	14
Iowa	100.7%	27
Kansas	104.6%	20
Kentucky	110.3%	17
Louisiana	104.1%	21
Maine	128.9%	5
Maryland	96.4%	31
Massachusetts	102.2%	22
Michigan	118.6%	7
Minnesota	91.4%	40
Mississippi	94.8%	36
Missouri	97.5%	30
Montana	116.8%	10
Nebraska	101.2%	24
Nevada	80.0%	49
New Hampshire	88.8%	42
New Jersey	118.6%	8
New Mexico	105.7%	19
New York	129.5%	4
North Carolina	95.8%	33
North Dakota	93.2%	38
Ohio	110.7%	16
Oklahoma	94.8%	35
Oregon	115.7%	12
Pennsylvania	111.3%	15
Rhode Island	131.4%	2
South Carolina	108.7%	18
South Dakota	94.2%	37
Tennessee	86.3%	45
Texas	95.5%	34
Utah	81.4%	48
Vermont	130.4%	3
Virginia	89.7%	41
Washington	87.2%	44
West Virginia	136.6%	1
Wisconsin	116.9%	9
Wyoming	113.6%	13
USA	100%	-

Source: U.S. Department of Education, unpublished special tabulations, 2004.

national average. This chart is a measure of education funding *effort*—the amount of available resources dedicated to K-12 education, relative to other states. States scoring below 100% on Table 7 have below-average education funding effort; those above 100% are devoting a higher portion of their resources to education. This is one of the measures the federal government uses to determine how much extra funding states and districts receive under the Title I Incentive Grant Formula.[17]

States like **California** stand out for their stinginess. A quarter-century after Proposition 13 severely limited local property tax revenues, we see the impact on public support for education. California's cost-adjusted funding gap of $301 per student for high-poverty districts is in the middle of the pack compared to other states. But in terms of education funding effort, the story is quite different—California ranks 4th from the bottom. Despite a large tax base and a dynamic economy, the dollars for education simply aren't there. Funding gaps for high-poverty districts in California only look relatively small because funding for low-poverty districts isn't much better.

Other states with relatively small funding gaps but low funding effort include **Colorado, Florida, Nevada, Tennessee,** and **Washington.** It is very much not a coincidence that of the nine states nationally lacking a state personal income tax, four are on this list, while the fifth—Colorado—has adopted restrictive, artificial limits on state revenue growth.[18] Forgoing the income tax comes at a great long-term cost to schools, because personal income revenues tend to grow in proportion to growth in the economy, while sales and property tax revenues do not. By tying the hand of state policymakers in raising funds for education, or by shackling their school systems to a tax base that is shrinking in relative size, these states have set the stage for future school funding shortfalls as far as the eye can see.

Conclusion

Knowledge of the funding gap and its fundamental unfairness are not new, and the policies needed to close the gaps are relatively straightforward and well known. Yet we've actually *lost* ground since The Education Trust began issuing this annual funding gap report. Recent events, however, suggest that a new opportunity is developing to make progress on this important issue.

The maturing standards and accountability movement has greatly strengthened the case for closing the funding gap. Academic standards represent the essential compact between the public and public education: a promise to give high school graduates the skills and knowledge they need to succeed and thrive. Once adopted, these standards create a moral commitment (and, according to most state constitutions, a legal commitment) that policymakers will provide the policies, oversight, *and resources* to meet those standards. With its emphasis on holding states accountable for student achievement, NCLB is calling on states to make good on this promise.

States already have decided what they expect students to learn in school. But the latest state test results reveal that many students are not being taught to these levels. These results provide the best ammunition for those who want to close funding gaps: The logical conclusion is that schools may need more resources than they have right now to complete the task the state has assigned to them. Standards also greatly enhance our ability to collect data and conduct research about what works and what doesn't in education, information that can help further build the case for more funding.

But new money alone will not ensure that more students reach these standards—or that we will close achievement gaps. Whether increased funding translates into better educational opportunities for students depends entirely on what we do with the money. The inequitable distribution of resources we find between districts is often just as pervasive *within* districts. Giving more money to high-poverty districts doesn't ensure that they will effectively direct that money to the students who need the most help.

And even if they distribute new money fairly, most schools are also in need of many other non-financial reforms. The large majority of states and schools need to significantly raise performance expectations for students and educators alike, fully align academic standards with classroom practice, and reform the way teachers are educated, assigned, evaluated and paid. In these and other areas, there is much work to be done. For this reason, advocates for more funding must also be advocates for more reform. To convince policymakers and the public to fix funding gaps in education, advocates must embrace a reform agenda that convinces people that more money will translate into more student learning.

Unfortunately, debates involving American public education too often are bound by an unspoken truce: On one side of the political spectrum, people call to reform the public education system; on the other side, they call for more money. One side has been unwilling to fund education adequately and fairly; the other has been unwilling to adopt tough-minded reforms and spend education funding more wisely. Instead of confronting the limitations of their own policies or beliefs, both sides have been content to use the failings of the other side for political gain.

It's the students from poor families who lose out in this pointless tug-of-war. The schools and districts educating poor students do not get enough resources, and they do not make the best of the resources they have. The magnitude of the loss to generations of low-income children is hard to fathom.

But if advocates for closing funding gaps seize this new opportunity to embrace standards and accountability, to use the information standards provide to support the difficult, fundamental reforms our public schools need, and to hold policymakers to their end of the bargain, then real change is possible where we have fallen short in the past. Students deserve nothing less.

About The Education Trust

The Education Trust, Inc. was created to promote high academic achievement for all students, at all levels—kindergarten through college. While we know that all schools and colleges could better serve their students, our work focuses on the schools and colleges most often left behind in education improvement effort: those serving African American, Latino, Native American, and low income students.

The Education Trust works side-by-side with policy makers, parents, education professionals, community and business leaders—in cities and towns across the country—who are trying to transform their schools and colleges into institutions that genuinely serve all students. We also share lessons learned in these schools, colleges and communities with policy makers.

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ENDNOTES

[1] Local revenues include local property taxes used for school facilities, construction bonds, etc. For a more detailed explanation of the data sources and methodology used to generate the numbers used in the report, see the *Technical Appendix,* available as a separate document on The Education Trust web site, www.edtrust.org.

[2] Non-supplantation language is common in federal education statutes; for an example see Section 1120(A)(b)(1) of the No Child Left Behind Act, which says, "A State educational agency or local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds."

[3] In 2002, the poverty line for a family of four was $18,100 per year in household income.

[4] The poverty rate in this analysis is defined as the percent of people age 5 to 17 living in each school district with a household income below the federal poverty line, as estimated by the U.S. Census Bureau. It should be noted that this is a more restrictive definition of poverty than eligibility for the federal free or reduced-price lunch programs, which include students with income at or below 130% and 185% of the poverty line, respectively. Hawaii and the District of Columbia are excluded from inter-district funding analyses because each operates a single, state-wide school district.

[5] See for example, *Inequalities in Public School District Revenues,* U.S. Department of Education, National Center for Education Statistics, 1998, and *School Finance: Per Pupil Spending Differences between Selected Inner City and Suburban Schools Varied by Metropolitan Area,* U.S. General Accounting Office, 2002.

[6] For a more detailed explanation of this formula, which is called the Education Finance Incentive Grant, see Page 6 of the 2003 version of this report: *The Funding Gap,* The Education Trust, 2003, available at http://www2.edtrust.org/edtrust/product+catalog/main

[7] This is not the same as the average of each state's funding gap. Rather, it is the difference between the aggregate cost-adjusted per student funding level in the poorest districts among all states and the least poor districts among all states.

[8] Kevin Carey, *The Real Value of Teachers: Using New Information About Teacher Effectiveness to Close the Achievement Gap,* The Education Trust, 2004.

[9] Eric Hanushek and Steven Rivkin, "How to Improve the Supply of High Quality Teachers," in Dianne Ravitch (Ed.), *Brookings Papers on Education Policy,* 2004.

[10] Minority students are defined as those who are American Indian, Asian, Black, or Hispanic.

[11] In addition to Hawaii and the District of Columbia, which are excluded because they operate a single school district, the funding gap analysis for minority students does not include the state of Tennessee. This is because Tennessee, alone among the 50 states, has failed to submit school-level enrollment data to the U.S. Department of Education broken down by race/ethnicity. This has been true in every year that The Education Trust has conducted a funding gap analysis. Given that Tennessee receives hundreds of millions of dollars per year in financial support from the federal government for its public schools, and given the over-riding public interest in basic demographic information about those schools, and given that the data obviously exists, there is no reason that this yearly reporting failure should be allowed to continue.

[12] The National Bureau of Economic Research Business Cycle Dating Committee has determined that the most recent recession began in March 2001 and ended in November 2001. The March 2001 beginning date was announced on November 26, 2001. The November 2001 ending date was announced on July 17, 2003.

[13] According to the Department of Commerce, Bureau of Economic Analysis, per-capita personal income in 2003 ranged from a high of $43,173 in Connecticut to a low of $23,488 in Mississippi. According to the U.S. Bureau of Census, Current Population Survey, the two-year average percent of people living below the federal poverty line for 2001 – 2002 ranged from a low of 6.1% in New Hampshire to 18.9% in Mississippi.

[14] *The Funding Gap,* 2003.

[15] Margueritte Roza and Paul Hill, "How Within District Spending Inequities Help Some Schools to Fail," in Dianne Ravitch (Ed.), *Brookings Papers on Education Policy,* 2004.

[16] Karen Hawley Miles and Marguerite Roza, *Understanding Student-Based Budgeting as a Means to Greater School Resource Equity,* University of Washington, Center on Reinventing Public Education, working paper, July 2004.

[17] See *The Funding Gap,* 2003, page 6.

[18] Colorado amended its constitution in 1992 to adopt "TABOR" provisions that limit the growth of state revenues to the growth of inflation and the states' population.