

The Funding

Low-Income and Minority Students Still Receive Fewer Dollars in Many States

By Kevin Carey

Gap



The Education Trust

Public schools are under a lot of pressure. Budgets are tight—the recent recession and slow recovery have eaten away at tax revenues, resulting in stagnant or even declining school budgets. Meanwhile, the No Child Left Behind Act (NCLB) is spurring schools to take a hard look at whether they’re successfully educating all students. Many states and schools are finding significant achievement gaps among low-income and minority students, and need to take steps to improve the quality of education those children receive.

In recent months, there has been much focus on funding for NCLB. While federal funding for the Title I program that helps low-income students has grown by nearly \$3 billion over the last two years—an increase of one-third from 2001 to 2003—these new funding levels still fall short of the additional amounts authorized in the original NCLB legislation.

Let’s be clear. Congress and the President need to do their part. School improvement could proceed more rapidly if NCLB were funded at the level authorized in the legislation. The goals of rais-

ing proficiency for all students and closing the achievement gap are too important to be short-changed.

But as we push for full NCLB funding, we shouldn’t lose sight of the fact that federal dollars still make up a small portion (currently less than 10%) of all funding for public schools. To really provide schools with adequate resources to improve, we also have to focus on the source of most school funds—state and local revenues.

And as some states complain about federal funding, we find that many states have a lot of work to do in putting their own fiscal house in order when it comes to funding schools that educate children in poverty. Previous analyses released by the Education Trust and others show that many states provide the lowest levels of financial support to their *highest-poverty* school districts.¹ Students who depend the most on public education for their academic development are getting the least.

Does this mean that schools can’t be expected to improve until these funding gaps are closed? No, definitely not. There

are many ways to improve public education by spending current dollars more wisely.

But resources are nonetheless very important. And it’s not enough to simply provide all schools with identical funding levels. We need to distribute our resources in a way that reflects the basic fact that the schools with the hardest job to do—those with the highest costs and the most disadvantaged students to educate—need additional resources to meet common standards of achievement. Only then will we have truly closed the funding gap.

The Funding Gap

This paper builds on previous Education Trust analyses showing the number of states that provide fewer state and local resources to the school districts serving the largest number of low-income and minority students. As with our previous reports, this report makes adjustments to district funding levels, recognizing that districts with higher costs, more students with disabilities, and more low-income students need additional funding to meet the same academic performance goals as districts with fewer additional

costs. By giving these districts the resources they need for improvements such as providing additional instructional time for low-performing students, recruiting and training highly-effective teachers, and purchasing the most up-to-date school materials, we can give them a better chance for success.

The first section shows how many states continue to provide fewer resources to high-poverty, high-minority schools, even *before* making any adjustments for the cost of educating low-income students. The second section shows how funding gaps have changed over time, detailing which states are improving, and which states are falling further behind. For comparability to previous reports, this section includes a 20% cost adjustment for low-income students. The third section gives the most up-to-date available picture of where states stand right now. The calculations in this section use a 40% cost adjustment for low-income students, based on new federal standards for state support of high-poverty school districts, codified in the No Child Left Behind Act. The report concludes with a set of recommendations for state and federal policymakers, changes that can help close the funding gap and provide all school districts with the resources they need.

Section 1: How Bad is the Problem?

The Education Trust analyzed detailed school district-level funding data collected by the U.S. Department of Education for the 2000-2001 school year,

the latest year available. The analysis includes all state and local revenues (including funds for school facilities) that school districts received. The calculations don't include federal revenues, recognizing that federal funds are meant to supplement, not supplant, state and local funds.² This also gives us a clearer picture of how individual state policies and funding decisions, which control the vast majority of all education funding, impact disadvantaged students.

As readers of our two previous reports on this subject know, our approach differs from that of many other analyses of funding disparities in one significant way. Rather than looking at funding shortfalls regardless of whom they affect, we focus on differences that impact students from low-income families and minority students. For each state,³ we compare average revenues per student in the group of school districts with the most low-income students—the top 25% in terms of the district poverty rate—to the school districts with the fewest low-income students. The groupings are weighted so each set of districts has approximately the same overall number of students. The same process is used to compare districts with the highest and lowest percentage of minority students.⁴

To make comparisons between districts more fair, we adjust our calculations of district revenues based on an index of local price differences from the U.S. Department of Education. This means that a school district in a

high-priced area, like an urban area with high costs for housing and labor, would for comparison purposes have its available revenues adjusted downward, because it has to pay more money than other districts for the same services. In other words, this adjustment allows us to compare the relative purchasing power of school districts, given different local costs.

We also adjust our calculations based on an estimate of the extra cost of educating students with disabilities, using data from a new study of special education costs. (For a detailed explanation of the data sources and methodology used to generate these calculations, see the Technical Appendix).

Most analyses of school district revenues also make an adjustment for the extra costs of educating low-income children. But even before making that common adjustment, we found that in 22 states (see Table 1), the highest-poverty school districts receive less per-student funding from state and local sources than the lowest-poverty school districts. This is also true of the nation as a whole—the top 25% of school districts in terms of child poverty nationwide receive less funding than the bottom 25%.

Similarly, in 28 states the school districts with the highest percentage of minority children receive less funding than districts with the fewest minority children. And again, this is true of the nation as a whole.

It's really inexcusable that this continues to be such a problem.

State and Local Funding 2001

Table 1

States where the highest-poverty school districts get less funding than the lowest-poverty districts

States where the highest-minority school districts get less funding than the lowest-minority districts

Alabama
Arizona
Colorado
Illinois
Iowa
Louisiana
Maine
Maryland
Michigan
Montana
New Hampshire
New York
North Carolina
Ohio
Pennsylvania
Rhode Island
South Carolina
Texas
Vermont
Virginia
West Virginia
Wisconsin

Alabama
Arizona
California
Colorado
Connecticut
Idaho
Illinois
Iowa
Kansas
Louisiana
Maine
Maryland
Montana
Nebraska
New Hampshire
New Mexico
New York
North Dakota
Oklahoma
Pennsylvania
South Carolina
South Dakota
Texas
Utah
Vermont
Washington
Wisconsin
Wyoming

*For dollar amounts, see Technical Appendix. Dollar amounts are adjusted for local cost differences and the additional cost of educating students with disabilities, but *not* for the cost of educating low-income students.

Section 2: Is the Funding Gap Getting Better, Or Worse?

The Education Trust has released *Funding Gap* reports for several years, allowing us to compare these shortfalls over time, looking at whether they're getting bigger, smaller, or disappearing altogether.

As noted earlier, there are three ways we calculate the funding gap in this report. On Table 1, we listed 22 states providing fewer dollars per-student to high-poverty districts and 28 states providing fewer dollars to high-minority districts. To provide a simple, direct comparison of funding in high- and low-poverty school districts, we made just two adjustments to the raw numbers—one for local differences in the cost of purchasing goods and services, and one for the additional cost of educating children enrolled in special education. These are both standard adjustments used in most school funding analyses.

On Table 2, we make a third adjustment, for the additional cost of educating low-income children. This method assumes that schools need an extra 20% in funding above the average per-student funding level for each low-income student, so they can provide additional educational services to help those students overcome the range of problems often experienced by children in poverty. Like adjustments for local price differences and special education, adjustments for poverty are standard operating procedure in school funding analysis, used for many years in academic research, and used

Table 2:

State and Local Funding Gaps Over Time: 1997 - 2001

State	Gap Between Highest and Lowest-Poverty Districts 1997 (cost-adjusted dollars, 20% adjustment for low-income students)	Gap Between Highest and Lowest-Poverty Districts 2000 (cost-adjusted dollars, 20% adjustment for low-income students)	Gap Between Highest and Lowest-Poverty Districts 2001 (cost-adjusted dollars, 20% adjustment for low-income students)	Poverty Gap Change in Dollars 1997 - 2001 (cost-adjusted dollars, 20% adjustment for low-income students)
Alabama	\$742	\$991	\$867	\$125
Alaska	N/A	N/A	-\$996	N/A
Arizona	\$387	\$845	\$1,235	\$848
Arkansas	\$378	\$76	\$134	-\$244
California	\$35	\$59	\$254	\$219
Colorado	\$580	\$587	\$319	-\$261
Connecticut	\$635	\$6	\$87	-\$548
Delaware	N/A	N/A	-\$716	N/A
DC	-	-	-	-
Florida	\$178	\$46	\$65	-\$113
Georgia	\$148	-\$6	-\$445	-\$593
Hawaii	-	-	-	-
Idaho	\$227	\$157	-\$60	-\$287
Illinois	\$1,939	\$2,060	\$2,178	\$239
Indiana	\$614	\$210	-\$123	-\$737
Iowa	\$456	\$471	\$197	-\$259
Kansas	\$451	\$66	-\$43	-\$494
Kentucky	-\$150	-\$133	-\$29	\$121
Louisiana	\$997	\$793	\$857	-\$140
Maine	\$269	\$148	\$407	\$138
Maryland	\$701	\$912	\$1,127	\$426
Massachusetts	-\$705	-\$530	-\$895	-\$190
Michigan	\$1,261	\$1,103	\$866	-\$395
Minnesota	-\$264	-\$601	-\$884	-\$620
Mississippi	\$331	\$133	\$20	-\$311
Missouri	\$253	\$284	-\$65	-\$318
Montana	\$1,538	\$1,535	\$460	-\$1,078
Nebraska	\$318	\$516	\$32	-\$286
Nevada	\$429	-\$280	-\$270	-\$699
New Hampshire	\$1,006	\$733	\$982	-\$24
New Jersey	\$587	-\$324	-\$398	-\$985
New Mexico	\$444	\$86	-\$125	-\$569
New York	\$2,794	\$2,152	\$1,987	-\$807
North Carolina	\$413	\$114	\$197	-\$216
North Dakota	\$32	\$93	-\$462	-\$494
Ohio	\$667	\$394	\$369	-\$298
Oklahoma	\$66	-\$57	-\$96	-\$162
Oregon	-\$170	-\$371	-\$45	\$125
Pennsylvania	\$1,059	\$1,248	\$1,302	\$243
Rhode Island	\$828	\$273	\$361	-\$467
South Carolina	\$427	\$332	\$235	-\$192
South Dakota	\$367	\$171	-\$347	-\$714
Tennessee	-\$138	-\$497	-\$681	-\$543
Texas	\$386	\$518	\$620	\$234
Utah	-\$440	-\$422	-\$528	-\$88
Vermont	\$684	\$939	\$1,232	\$548
Virginia	\$879	\$885	\$1,121	\$242
Washington	\$99	\$145	\$162	\$63
West Virginia	\$340	\$199	\$305	-\$35
Wisconsin	\$676	\$151	\$283	-\$393
Wyoming	\$895	\$715	\$68	-\$827
USA	\$1,139	\$966	\$1,020	-\$119

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 2000-2001 school year.

Funding amounts were not adjusted for inflation.

Note: All dollar amounts shown in this chart have been adjusted to account for local cost differences, the additional cost of educating students with disabilities, and the additional cost of educating low-income students (20% 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 Technical Appendix.

in recent reports from both the U.S. Department of Education's National Center for Education Statistics and the U.S. General Accounting Office.⁵

If two districts have similar per-student funding levels in absolute terms, but one has far more disadvantaged students to serve than the other, we can't accurately say that the resources available to them are equitable. The "cost-adjusted" amounts in this report provide a more accurate picture of the *effective* level of resources that are available for different kinds of school districts, a comparison of relative purchasing power, given different costs. They reflect the basic fact that some districts need more money than others to achieve similar results, given vastly different student populations.

Once we make these adjustments, what do the numbers tell us? Last year, using the same methodology, we reported on funding in the year 2000, finding that, nationwide, school districts educating the greatest number of low-income students received \$966 less on average in cost-adjusted dollars per student than districts educating the fewest number of poor students.

This year we find that the nationwide funding gap increased by almost 6% in 2001, to \$1,020 cost-adjusted dollars per student.

This is still an improvement over 1997, when the cost-adjusted gap was \$1,139. But we're concerned that from 2000 to 2001, things got worse, not better. This is especially troubling when we consider that the 2001 school year was basically the high water mark for state budgets over the

last 10 years, the final year of a decade-long economic expansion that expanded state coffers, giving states huge new opportunities to use those resources to address historical inequities in school funding. Since 2001, state budgets have shrunk while the number of children in poverty has increased. The fact that the funding gap was growing *prior* to the recent downturn doesn't bode well for the current situation.

That said, it is important to remember that one-year changes can be caused by numerous complex interacting factors, both in the amount of resources provided and the number of low-income children being served. And, as we can see on Table 2, 34 states *reduced* the overall disparity in funding between high- and low-poverty districts from 1997 to 2001. Multi-year funding data are more likely to give us an accurate sense of the long-term trend in state education funding policies, and by and large most states are making progress. In an era where we are more focused than ever before on ensuring that *all* students get a high quality public education, it is critically important that this trend continue, that states not only make funding gaps smaller, but eliminate them altogether.

In examining individual state trends, we see real differences—some states are making significant progress, others are letting a bad situation get worse. For example, New Jersey made much improvement, going from providing high-poverty schools with \$587 *less* in cost-adjusted dollars per student in 1997 to \$398 *more* in 2001, an

improvement of almost \$1,000 per student. Other states that made significant gains include Georgia, Indiana, Minnesota, Montana, Nevada, New Mexico, New York, and Wyoming. Through a combination of legislative initiatives, school funding lawsuits, and public pressure, some states have made real progress. Other states, such as Massachusetts, made smaller gains, perhaps only because larger reforms were implemented in previous years.

By contrast, the biggest increase in the funding gap occurred in Arizona, where the gap between high- and low-poverty districts widened from \$387 in 1997 to \$1,235 in 2001 in cost-adjusted dollars per student, a growth of \$848. Almost half this growth occurred in just one year, from 2000 to the 2001. At least up through 2001, Arizona was recklessly allowing the funding gap to widen, bucking the long-term national trend. Other states that saw a significant widening of the funding gap through 2001 include California, Maryland, Illinois, Pennsylvania, and Virginia.⁶

Section 3: Where Do Things Stand Right Now?

Table 2 shows how funding gaps have changed over time. To allow for apples-to-apples comparisons, we used the same methodology to calculate the gaps on Table 2 as was used in previous Funding Gap reports. As we noted above, this included a 20% cost adjustment for low-income students—a conservative estimate that has been used in school funding analyses for many years.

However, recent changes in federal and state education funding policies suggest that a larger cost adjustment for low-income children is now more appropriate. For this reason, the more detailed calculations of the funding gap for the 2000–2001 school year shown in Table 3 and Table 4 are different from those on Table 2 in one important way—they were calculated using a 40% adjustment for low-income students, rather than a 20% adjustment.

In fact, this 40% adjustment is an important part of new federal standards for state financial support of high-poverty schools, passed as part of the No Child Left Behind Act. One of the less-noted but potentially promising reforms implemented under the law, these standards are used in a newly-utilized formula for distributing one portion of federal Title I funds. For the first time, some Title I dollars are being distributed through an “Incentive Grant” formula. Under this formula, states are rewarded with additional funds based on two factors: (1) A measure of state “effort” in education spending—the overall level of per-student state and local education funding as a percent of state per-capita income; and (2) The extent to which that funding is distributed fairly among school districts.⁷

This is a pretty straightforward idea: the formula gives states a financial incentive to spend more money on education, and to allocate those resources evenly among districts. But there’s one wrinkle: in determining the extent to which a state has distributed funding “evenly,” the NCLB for-

mula assumes that states should already have a 40% cost adjustment for low-income students in place. In other words, if state and local funding provides \$10,000 per student to districts with a zero percent poverty rate, districts with a 100% poverty rate would need to receive \$14,000 per student in state and local funds in order for the state to get a perfect score under the Incentive Grant formula, entitling them to more Title I dollars.

Thus, NCLB has codified the standard of a 40% state adjustment for low-income students into federal law. As it happens, 40% also represents the upper range of the adjustments currently being used by those “frontier states” on the cutting edge of school funding policy, those states whose funding formulas are most beneficial to low-income children.⁸ For these reasons, the funding gap amounts shown on Table 3 and Table 4 include a 40% cost adjustment for low-income students, holding states to a higher standard in providing adequate resources to high-poverty school districts.

Using this calculation, we find that, nationwide, the disparity between high-poverty and low-poverty school districts in cost-adjusted state and local revenues is \$1,256. In 39 out of 49 states, the districts educating the most low-income students have fewer cost-adjusted resources available to do the job than those educating the fewest low-income students.

Individual state policies vary greatly. Ten states have gaps of more than \$1,000 per student

in cost-adjusted dollars. By contrast, ten states have no gaps at all—they provide more resources to higher-poverty districts.

Are these states with no funding gap—those that provide *more* adjusted dollars per student to high-poverty schools, even after we make the 40% costs adjustment for low-income students—somehow providing *too much* money on behalf of poor children? No, absolutely not. The 40% standard is one estimate of the amount of additional funding needed to help low-income students, but there are others. In recent years, a number of states and academic researchers have conducted lengthy, detailed analyses of the amount of money needed to provide an adequate education in high-poverty schools, producing estimates that funding adjustments significantly *above* the 40% level may be required.⁹ Some states have, to their great credit, chosen to match new standards for performance with significant new resources, to help ensure that all children have a chance to succeed.

The Funding Gap Between High- and Low-Minority Districts

In Table 4, we find that the troubling pattern of funding shortfalls repeats itself for school districts educating large numbers of minority students. Thirty-seven out of 48 states provide fewer cost-adjusted dollars (using the 40% cost adjustment for low-income students) to the school districts with the most minority students, with 12 states show-

Table 3:

State and Local Poverty Gaps 2001

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	\$6,362	\$5,342	\$1,020
Alaska	\$6,189	\$7,030	-\$841
Arizona	\$6,281	\$4,832	\$1,449
Arkansas	\$5,796	\$5,505	\$291
California	\$6,244	\$5,758	\$486
Colorado	\$6,549	\$6,063	\$486
Connecticut	\$8,298	\$7,920	\$378
Delaware	\$7,409	\$8,021	-\$612
DC	*	*	*
Florida	\$6,046	\$5,887	\$159
Georgia	\$7,166	\$7,329	-\$163
Hawaii	*	*	*
Idaho	\$5,692	\$5,637	\$55
Illinois	\$7,945	\$5,561	\$2,384
Indiana	\$8,015	\$7,954	\$61
Iowa	\$7,760	\$7,444	\$316
Kansas	\$6,836	\$6,691	\$145
Kentucky	\$5,937	\$5,790	\$147
Louisiana	\$5,917	\$4,947	\$970
Maine	\$7,626	\$7,038	\$588
Maryland	\$7,877	\$6,659	\$1,218
Massachusetts	\$7,221	\$7,754	-\$533
Michigan	\$7,868	\$6,756	\$1,112
Minnesota	\$7,395	\$8,069	-\$674
Mississippi	\$4,585	\$4,403	\$182
Missouri	\$6,734	\$6,540	\$194
Montana	\$6,629	\$5,990	\$639
Nebraska	\$6,918	\$6,732	\$186
Nevada	\$5,902	\$6,143	-\$241
New Hampshire	\$7,124	\$6,043	\$1,081
New Jersey	\$10,038	\$10,026	\$12
New Mexico	\$5,396	\$5,357	\$39
New York	\$9,539	\$7,274	\$2,265
North Carolina	\$6,543	\$6,212	\$331
North Dakota	\$6,202	\$6,511	-\$309
Ohio	\$7,621	\$6,979	\$642
Oklahoma	\$5,309	\$5,235	\$74
Oregon	\$6,484	\$6,409	\$75
Pennsylvania	\$7,991	\$6,472	\$1,519
Rhode Island	\$7,276	\$6,614	\$662
South Carolina	\$7,089	\$6,707	\$382
South Dakota	\$6,322	\$6,481	-\$159
Tennessee	\$4,853	\$5,387	-\$534
Texas	\$6,773	\$5,897	\$876
Utah	\$4,906	\$5,338	-\$432
Vermont	\$11,068	\$9,632	\$1,436
Virginia	\$7,670	\$6,391	\$1,279
Washington	\$6,362	\$6,051	\$311
West Virginia	\$6,648	\$6,217	\$431
Wisconsin	\$8,378	\$7,899	\$479
Wyoming	\$8,050	\$7,878	\$172
USA	\$7,510	\$6,254	\$1,256

Note: All dollar amounts shown in this chart have been adjusted to account for local 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 Technical Appendix.

Table 4:

State and Local Minority Funding Gaps 2001

State	Per-student funding in the districts with the fewest minority students (cost-adjusted 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	\$6,150	\$5,078	\$1,072
Alaska	\$5,068	\$5,889	-\$821
Arizona	\$5,875	\$5,113	\$762
Arkansas	\$5,634	\$5,807	-\$173
California	\$6,233	\$5,652	\$581
Colorado	\$6,561	\$5,834	\$727
Connecticut	\$8,684	\$8,070	\$614
Delaware	\$7,833	\$7,833	\$0
DC	*	*	*
Florida	\$6,141	\$6,102	\$39
Georgia	\$6,980	\$7,544	-\$564
Hawaii	*	*	*
Idaho	\$5,740	\$5,218	\$522
Illinois	\$6,946	\$5,594	\$1,352
Indiana	\$7,879	\$7,803	\$76
Iowa	\$7,787	\$7,290	\$497
Kansas	\$7,845	\$6,033	\$1,812
Kentucky	\$5,746	\$6,279	-\$533
Louisiana	\$5,826	\$5,277	\$549
Maine	\$7,630	\$6,997	\$633
Maryland	\$7,017	\$6,628	\$389
Massachusetts	\$7,028	\$7,970	-\$942
Michigan	\$7,098	\$6,941	\$157
Minnesota	\$7,473	\$8,017	-\$544
Mississippi	\$4,575	\$4,543	\$32
Missouri	\$6,101	\$7,086	-\$985
Montana	\$7,197	\$5,498	\$1,699
Nebraska	\$8,030	\$6,254	\$1,776
Nevada	\$6,084	\$6,077	\$7
New Hampshire	\$7,232	\$5,751	\$1,481
New Jersey	\$9,808	\$9,891	-\$83
New Mexico	\$5,677	\$5,384	\$293
New York	\$9,283	\$7,210	\$2,073
North Carolina	\$6,552	\$6,528	\$24
North Dakota	\$7,411	\$5,733	\$1,678
Ohio	\$7,099	\$6,904	\$195
Oklahoma	\$5,618	\$5,040	\$578
Oregon	\$6,547	\$6,731	-\$184
Pennsylvania	\$7,238	\$6,482	\$756
Rhode Island	\$7,223	\$6,787	\$436
South Carolina	\$6,959	\$6,535	\$424
South Dakota	\$6,872	\$5,615	\$1,257
Tennessee	*	*	*
Texas	\$6,993	\$5,639	\$1,354
Utah	\$5,085	\$4,631	\$454
Vermont	\$10,704	\$9,917	\$787
Virginia	\$6,794	\$6,667	\$127
Washington	\$6,330	\$5,946	\$384
West Virginia	\$6,198	\$6,650	-\$452
Wisconsin	\$8,602	\$7,557	\$1,045
Wyoming	\$8,313	\$6,745	\$1,568
USA	\$7,312	\$6,282	\$1,030

Note: Minority data is unavailable for Tennessee.

Note: All dollar amounts shown in this chart have been adjusted to account for local 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. For a more detailed explanation of the methodology used in this report, see Technical Appendix.

Source: Education Trust calculations based on U.S. Department of Education school district revenue data for the 2000-2001 school year.

ing gaps of more than \$1,000 per student.¹⁰ Nationwide, the gap is \$1,030 per student.

The relationship between minority status and poverty means that minority funding gaps often mirror funding disparities based on poverty—but not always. Kansas, for example, has a cost-adjusted poverty gap of \$145 but a minority funding gap of \$1,812. This is because high-poverty Kansas school districts with few minority students, many of which are in small rural areas, get relatively higher levels of per-student funding than high-poverty districts with many minority students, which are predominantly urban.

Practically speaking, what do these funding gaps mean for local schools? As we can see in the adjacent chart, they mean a lot, translating into large amounts of funding lost every year by a typical classroom or elementary school. In Arizona, for example, the cost-adjusted funding gap translates into a loss of \$36,225 in a typical high-poverty classroom, and more than half a million dollars in a high-poverty school.

If states don't take action to fix these problems, there may come a time when the courts force their hand. Over the last fifteen years, a number of states have grappled with legal challenges to their funding systems based on a failure to provide adequate resources to all schools. It's no surprise that the state of New York, which had both the second-largest poverty gap and the largest minority funding gap in the nation in 2001, recently lost a major court case in which the state was held liable

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 might translate into a difference of...	Between two typical elementary schools of 400 students, that might translate into a difference of
Arizona	\$36,225	\$579,600
Illinois	\$59,600	\$953,600
New York	\$56,625	\$906,000
Pennsylvania	\$37,975	\$607,600
Virginia	\$31,975	\$511,600

*Calculations using 40% cost adjustment for low-income students.

for not providing enough funding to the predominantly low-income and minority schoolchildren in New York City.¹¹

As states work to improve education for all students and close the achievement gap, these funding gaps simply fly in the face of common sense. All school districts are, for the very first time, accountable for the specific performance of their low-income and minority students. To be truly successful, states will need to help these students meet the same high standards as everyone else. Why, then, are states continuing to short-change the districts that have the largest numbers of low-income and minority students to educate?

Section 4: What Can Be Done To Make Things Better?

The idea that low-income and minority children are entitled to the same level of education

resources as other students is as clear-cut and obvious an issue of basic social justice and good public policy as one is likely to find. And yet the data in this report show that many states continue to maintain these harmful funding gaps, year after year.

This is not a matter of not knowing what to do. Decades of research and policy in education finance make the solutions quite apparent, for those who are willing to look for them.

1) Reduce Reliance on Local Property Taxes to Fund Education

This has been a basic component of nearly every successful school funding reform effort that has been enacted. Because local property wealth varies so much from district to district, funding systems that are overly-reliant on local tax revenues tend to produce chronic disparities between districts. For example, a local

Funding Gaps *Within* School Districts

While this analysis focuses on funding disparities between high- and low-poverty districts, a recent study suggests there may also be significant funding gaps *within* districts, between individual schools.

In examining school funding levels in several large districts, the authors found that high-poverty schools received substantially less money on a per-student basis than low-poverty schools (Marguerite Roza and Paul Hill, *How Within-District Spending Inequities Help Some Schools to Fail*, Center on Reinventing Public Education, University of Washington, 2003).

These disparities occur because the low-poverty schools employed more experienced, well-compensated teachers. High-poverty schools, on the other hand, were often staffed with inexperienced, low-compensated teachers. Instead of giving each school building the same funding level per teacher, or per student, the district simply gave them enough to pay the teachers they employ. The result was differences in funding between schools of as high as \$20,000 per teacher.

One school received almost \$1 million less than it would have if funding was distributed evenly. If districts gave each school the same funding level per teacher, high-poverty schools would have an equal opportunity to hire more experienced, effective teachers, or provide additional training and support to their current teachers. Since a large number of low-income and minority children are educated in large, multi-school districts, this is particularly important for closing the achievement gap.

district fortunate enough to have high-value commercial real estate in its tax base can provide abundant funding for its schools with a relatively low tax rate; a district without that wealth is stuck with a terrible dilemma—impose inordinately high tax rates that burden homeowners and deter the kind of business development they need, or provide substandard funding to their schools.

Over the years, more and more states have rightly chosen to solve

this problem by shifting more of the school funding burden to the state, providing low-wealth districts with extra money to level the fiscal playing field.¹² But some still lag behind. For each state, Table 5 shows how much state and local funding comes from state sources. Illinois and Pennsylvania provide good examples of how over-reliance on local taxes undermines the education of poor students. Both states rank among the top five nationally in

having the largest funding gaps for low-income students. They also rank among the *bottom* five states in terms of the state share of education funding. This is not a coincidence. Their relatively meager state contribution to public education just isn't enough to make up for local differences in property wealth. As a result, low-income children get short-changed.

2) Provide Additional, Targeted Funding for High-Poverty School Districts

In addition to addressing local wealth disparities, states can also adopt funding policies that specifically target additional state funds to school districts based on the number of poor students the districts enroll. State-funded programs of this nature are similar in design and purpose to the federal Title I program, where districts get additional funding above and beyond regular levels, based on the number or percent of low-income students enrolled.¹³

The good news is that over three-fourths of states have already adopted some kind of poverty-based school funding program, so there is ample precedent on which to build and expand.¹⁴ Both the number of states with these programs and the amount of money provided has grown significantly in recent years, as more and more state policymakers have worked to align funding policies with the need to provide adequate school funding and close the achievement gap for low-income children. These programs take a variety of forms, such as creating cost adjustments in basic

Table 5

1) Reduce Reliance on Local Property Taxes		
State	State Share of State and Local Revenues	Rank
Alabama	66.0%	12
Alaska	66.9%	8
Arizona	51.5%	31
Arkansas	81.5%	2
California	65.9%	13
Colorado	44.1%	41
Connecticut	40.0%	45
Delaware	72.2%	4
Florida	54.0%	26
Georgia	51.7%	30
Idaho	66.7%	11
Illinois	39.8%	46
Indiana	53.4%	28
Iowa	52.7%	29
Kansas	65.9%	14
Kentucky	66.7%	10
Louisiana	55.1%	23
Maine	47.0%	35
Maryland	39.6%	48
Massachusetts	43.1%	42
Michigan	69.3%	5
Minnesota	64.8%	15
Mississippi	62.4%	19
Missouri	49.9%	32
Montana	53.6%	27
Nebraska	37.8%	49
Nevada	63.7%	16
New Hampshire	54.6%	25
New Jersey	42.2%	43
New Mexico	82.7%	1
New York	49.6%	33
North Carolina	67.3%	7
North Dakota	44.7%	39
Ohio	45.5%	36
Oklahoma	62.5%	18
Oregon	61.1%	20
Pennsylvania	39.8%	47
Rhode Island	44.4%	40
South Carolina	58.5%	21
South Dakota	40.7%	44
Tennessee	49.5%	34
Texas	45.1%	37
Utah	63.2%	17
Vermont	77.1%	3
Virginia	45.1%	38
Washington	68.4%	6
West Virginia	66.9%	9
Wisconsin	57.2%	22
Wyoming	54.9%	24
USA	53.7%	

Source: U.S. Census Bureau, *Public Education Finances 2001*, March 2003.

2) Provide Additional Targeted Funding for High-poverty School Districts		
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	

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

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

state aid formulas similar to the 40% adjustment contemplated in the Title I Incentive Grants, or providing a fixed additional dollar amount to schools for each low-income student they enroll.

Table 5 shows the average amount of extra poverty-based funding each state provides to school districts for each child living below the poverty line.¹⁵ Again, we see big differences in the way states support children in poverty. Some provide schools with thousands of dollars per low-income child on average, some provide nothing at all.

The best state programs combine significant overall state funding with policies that target additional resources to very high-poverty districts. This ensures that sufficient resources are concentrated among the neediest school districts. For example, the Massachusetts funding formula generates between 34% and 42% more state and local funding for each child eligible for the federal free and reduced-price lunch program, one reason Massachusetts compares favorably to other states in terms of funding gaps on Table 3.

3) Fix Larger State Tax and Budget Issues

School funding is complicated enough by itself, sometimes so much so that people trying to make things better for high-poverty schools can lose sight of the even bigger picture. It's important that states are fair in the way they split up the education funding pie. But it's also important that the pie itself is the right size. K-12 education funding is the largest single expense in state budgets. Therefore, policies that impact

the size of the budget itself also impact school funding.

For example, take the state of Texas, which is currently struggling with some very thorny school funding issues. On the one hand, there is a strong movement to provide all schools in Texas with adequate resources to educate their children. On the other hand, there are heated objections to the current system, which accomplishes the goal of equalizing funding between high- and low-wealth districts in part by redirecting local property tax revenues from one district to another—so-called “Robin Hood” provisions.

The solution to this problem is straightforward—instead of redistributing local revenues, provide extra state funds to low-wealth districts. This is what most states do. But Texas can't do this, because it doesn't have enough state funds to do the job—Texas ranks dead last among the 50 states in state spending per capita.¹⁶ Why? Texas doesn't have a state income tax as most states do. Instead, the state relies on a regressive sales tax to fund most state services.

The problem in Texas isn't a lack of awareness of the problem, nor ignorance of the solution. It's a larger reluctance to embrace the basic tax policies necessary to raise enough overall state revenue to support a fair school funding system.

4) Fix Federal Funding Policies that Discriminate Against Low-Wealth, High-Poverty States

Given that they provide the lion's share of all education funds, state and local governments have

great potential to improve the way resources are distributed to districts that serve disadvantaged students. States should reduce their reliance on local property taxes and target additional state funds to high-poverty districts. And by tackling larger tax and budget issues, states can lay a strong foundation for fair, adequate education funding.

But even these reforms can only take states so far, because some states have a much larger underlying tax base than others. Average per-capita income in the wealthiest state is almost double that in the poorest state.¹⁷ The percentage of children living below the poverty line is more than three times higher in the highest-poverty state than in the lowest. These basic, underlying demographic and economic factors make a big difference in states' ability to fund education.

The federal government can play an important role in addressing this problem. Recent changes to the formula used to distribute Title I funding have helped focus more resources on high-poverty districts. This is a good thing, an important initiative, and a policy that should be continued as Congress increases Title I funding in the future.

But while Title I is getting better at helping students in high-poverty *districts*, it continues to be distributed in a way that is markedly bad for students in high-poverty *states*. To illustrate this problem, let's take a look at two school districts: Gadsden Independent School District, and Asbury Park City Schools.

At first glance these districts don't appear to have much in

common. Asbury Park is a geographically small school district located in eastern New Jersey on the Atlantic Ocean, while Gadsden is a sprawling district covering 1,400 square miles of southern New Mexico. There are huge differences between them in funding—Asbury Park received over \$17,100 per student in state and local funding in 2001, compared to less than \$6,000 in Gadsden. Local costs in Asbury Park are somewhat higher, but even after making adjustments for those costs—using the same index utilized in the funding gap analysis—available resources in Asbury Park still exceed those in Gadsden by a ratio of more than two to one.

However, they share several very important things. Both educate almost exclusively minority students—98% in Asbury Park, 94% in Gadsden. And both have very high poverty rates—38% of children in Asbury Park live below the federal poverty line, while in Gadsden it's even higher, at 41%. Over three-fourths of the students in both districts are eligible for the federal free and reduced-price lunch program.

Since Title I funding is based on poverty rates, and the poverty rates in these two districts are very similar, you might think they would get similar levels of Title I funding on a per-student basis.

You would be wrong. In the upcoming 2003—2004 school year, Gadsden will receive about \$1,148 per low-income student from Title I. Asbury Park, by contrast, will receive about \$2,122—85% more than Gadsden.

This doesn't make any sense. Why would Gadsden, which has a slightly higher percentage of poor

students and a lot less money to start with, get so much less from Title I? The answer, incredibly, is that they get so much less from Title I *because* they have a lot less money to start with.

Per-student Title I grant levels differ by state. They're based on each state's average per-student education funding level. As we noted previously, states are very different in terms of the amount of money available to spend on education—per-capita income in the wealthiest state is almost double that in the poorest state. States that *have* more money can choose to *give* more money to their schools. Therefore, states that have more money can *get* more money from Title I.¹⁸

This is precisely the *opposite* of the approach used in many other federal programs. Those programs work to smooth out wealth differences between states, particularly for those services that—like Title I—are designed to help low-income people. The Medicaid program, for example, provides more federal support to states with below-average per-capita income, because those states have fewer resources and often more low-income citizens that need health insurance. Even the Perkins vocational education grant program—which, unlike Title I, isn't specifically designed for low-income students—works this way.

Title I, by contrast, makes state-to-state wealth disparities *worse*. New Jersey has the third-highest level of per-capita income in the country, while New Mexico has the fourth-lowest.¹⁹ 11% of New Jersey schoolchildren live below the poverty line—in New

Mexico, it's 24%.²⁰ *Of course* school funding levels in New Jersey are higher than in New Mexico—New Jersey has much more money to start with, and proportionally fewer poor children to serve. Yet Title I essentially penalizes New Mexico for being poor. Thus, Asbury Park gets almost twice as much money from Title I as Gadsden, even though it gets *more* than twice as much money from state and local sources.

This policy is unfair and counterproductive. At the very least each state should simply get a standard per-student grant, so states aren't penalized for having fewer resources and more low-income students.²¹ Title I could also provide more funds based on state funding effort, as it does with the Incentive Grant program. Ideally, low-wealth, high-poverty states should get a *greater* per-student allocation, to help make up for the large underlying differences between states in terms of wealth and poverty.

That said, it's important to remember that federal funds still represent less than 10% of all K-12 education funding. And even with its flaws, Title I remains well-focused on helping districts that serve low-income students, and has become even more focused since the passage of NCLB.

We can improve the way federal funds are distributed, but these funds can't compensate for fundamental flaws in state funding policy. States that continue to provide inadequate resources to disadvantaged students need to renew their efforts to close the funding gap.

Conclusion

Closing funding gaps is a goal we can all agree on. The good news is that the long-term trend remains positive—most states have reduced the size of their gaps over the last four years or eliminated them entirely, actions that lay the groundwork for giving all schools and students a fair chance to close achievement gaps and reach proficiency for all students. Working to align state funding policies and state educational goals in this way is critically important to the nation-wide effort to raise the achievement of low-income and minority students.

But there remains much work ahead. Many gaps that are smaller have yet to be closed, and some recalcitrant states continue to sit on their hands and do nothing, or even make things worse. Given the atrocious budget problems that many states are currently grappling to solve, can anything really be done to

get rid of these shortfalls once and for all?

Unfair school funding is such a large, persistent problem—like smog, or bad network television—that it has acquired an unfortunate air of inevitability. Politicians come and go, blue-ribbon commissions are formed and eventually disband, lawsuits are filed only to embark on a seemingly endless journey of decision and appeal, and meanwhile another school year begins in which low-income and minority children are educated in schools that receive less funding than their peers in wealthier schools. This has gone on for so long that some states have come perilously close to accepting this as the natural order of things.

It's hard to summon any rationality to justify this sad state of affairs, so defenders of the status quo often substitute futility, meekly crying that it is "Politically impossible."

A good rule of thumb in the world of politics and policy is to be immediately suspicious of anyone who tries to define away the possibility of doing the right thing, not by saying that it's not actually the right thing, but by saying that it's politically impossible. This argument is simplistic and pusillanimous.

All it means is that the people who benefit from the current system have a lot of influence over the process that make it what it is. Times change, people change, politics change, and the only way to make things better is to get started. It will take political courage and true leadership to make the needed changes, but it absolutely can be done.

States have a crucial role to play in making sure that schools get the resources they need to get the job done. Too many states are simply falling short. It's time to put old excuses aside and close the funding gap.

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

- ¹For example, *The Funding Gap*, the Education Trust, 2002.
- ²ESEA Section 1120 (A).
- ³Hawaii and the District of Columbia are excluded from this analysis because each operates a single, state-wide school district.
- ⁴The percent of minority students is defined as the percent of students who are Black, Hispanic, Asian, or American Indian, as reported by schools, to the National Center for Education Statistics.
- ⁵See 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.
- ⁶Some states have taken action to correct the problem since 2001. Maryland, for example, implemented major funding reforms designed to help high-poverty school districts in 2002 (see note 9 below).
- ⁷ESEA Section 1125 (A). Education Finance Incentive Grant Program.
- ⁸Kevin Carey, *State Poverty-Based Education Funding: A Survey of Current Programs and Options for Improvement*, Center on Budget and Policy Priorities, November 2002.
- ⁹For example, a blue-ribbon panel in Maryland recently conducted a study of the state's education funding needs (Maryland Commission on Education Finance, Equity, and Excellence, *Final Report*, 2002). Legislation subsequently enacted based on the report's recommendations contains a 97% cost adjustment for low income schoolchildren that will be gradually phased in over the next five years. For an example of recent academic research in this area using statistical analyses of funding levels, poverty, and student achievement to estimate the cost of educating low-income students, see William Duncombe, Anna Lukemeyer, John Yinger, "Financing an Adequate Education: A Case Study of New York," *Developments in School Finance 2001-2002*, William J. Fowler, Jr., editor, U.S. Department of Education, National Center for Education Statistics, 2003.
- ¹⁰Minority enrollment data was unavailable for Tennessee.
- ¹¹Campaign for Fiscal Equity vs. New York, www.cfequity.org.
- ¹²From 1970 to 2000, the percentage of all education funding deriving from states sources increased from 40% to 50% – National Center for Education Statistics, *Digest of Education Statistics 2002*, Table 156.
- ¹³Additional poverty-based funds are different from programs that provide resources to level the playing field for districts with low levels of property wealth. Those funds help ensure that districts have equal access to revenues regardless of the size of the local tax base, a goal for which many states continue to fall short. Additional poverty-based funds help compensate for the additional costs of educating low-income students.
- ¹⁴Carey, *supra*, fn.6.
- ¹⁵These amounts can vary from district to district. For example, Minnesota provides extra poverty-based funding on a sliding scale, based on the poverty rate within each school. The higher the percentage of low-income students, the greater the extra grant provided per low-income student.
- ¹⁶U.S. Census Bureau, *Survey of State and Local Government Finances*, 2003.
- ¹⁷According to the U.S. Department of Commerce, Bureau of Economic Analysis (BEA), 2002 per-capita personal income in Connecticut was \$42,828, compared to \$22,370 in Mississippi.
- ¹⁸The Title I formula limits the extent to which differences in state per-student funding result in differences in per-student Title I allocations. States get no more than 120% of the national average, and no less than 80%. But hold-harmless provisions that ensure that districts don't get less funding to serve low-income students even if they have fewer low-income students to serve than previous years can drive these differences higher.
- ¹⁹BEA, 2002.
- ²⁰Estimate of the percentage of children aged 5 to 17 living below the federal poverty line in 1999, U.S. Bureau of Census, *Small Area Income and Poverty Estimates*, 2003.
- ²¹Some progress was made in this respect with the portion of Title I funds distributed under "Incentive Grant" formula mentioned previously, in which the disparity between rich and poor was somewhat reduced. Rather than a maximum difference of 80% to 120% between poor and rich (See Endnote 18 above), the maximum difference for Incentive Grant funds was reduced to 85% and 115%. The Incentive Grant formula controlled 13% of all Title I funding in federal fiscal year 2003, an increase from less than 8% in FY 2002.