

nancing scheme that addresses the court's concerns and has popular support. The result in such cases may be inaction, inadequate legislation, or inadequate funding. The courts have been reluctant to step in and reinvolve themselves in fashioning the remedy for several reasons: (1) separation of powers—judicial deference to the legislative remedy; (2) taxing and appropriations powers—clearly within the legislature's province in state constitutions; and (3) fear that the judiciary's protection of the rights of less powerful groups will result in an organized effort to amend the state's constitution.²²

Another option is for the court itself to formulate the remedy. In Kentucky, the Supreme Court held that the entire system of school finance and governance violated the state constitution's mandate to provide an "efficient system of common schools

throughout the state."²³ The Court then spelled out education standards in terms of equality and adequacy. The legislature was ordered to fund the system adequately.

Most courts, however, have been more cautious in setting forth remedies. And, often there is a "gap between right and remedy [that] can be traced to fundamental conflicts between the interests of the grievants and those of the institutional actors."²⁴

Two Remedies with Drawbacks: Earmarking and Lotteries

Two remedies often relied on by states to provide new revenue for schools, earmarking and lotteries, have significant drawbacks and should

Public School Forum and Center Criticize Education Funding Disparities

by Tom Mather

Not only are there large disparities in the local funding for school systems across the state, but those gaps continue to widen, studies by the Public School Forum of North Carolina and the N.C. Center for Public Policy Research show. But critics say the groups' studies distort the differences between school systems by focusing on measures of local spending and taxes rather than the total educational resources available to students, including state and federal support.

The Center has conducted previous studies of school finance in 1984, 1985, and 1989.¹ The Forum—a nonprofit group of educators, politicians, and business leaders—has published annual studies of local school finance in North Carolina since 1987. The Forum's most recent study, released in October 1996, found that poorer school systems are able to generate much less local money for their schools than wealthier districts—even though many poor systems are taxing themselves at greater rates than wealthy systems.²

Such disparities in the ability to raise rev-

enues—compounded by greater funding demands for welfare programs in poorer counties—translate into wide differences in the abilities of counties to help pay for additional teachers, school buildings, advanced placement courses, and extras such as classes in the arts and foreign languages, the Forum says. And those gaps have been widening.

"What is most startling is not the disparity across this state in property wealth, tax rates, welfare mandates, and capital and current expenditures—we've seen that for years—it is the degree to which these differences continue to grow," says John Dornan, the Forum's executive director.

That conclusion is disputed by others, however, who contend that North Carolina is far ahead of most states in equalizing spending for public schools. Charles D. Liner, a professor in the Institute of Government at the University of North Carolina at Chapel Hill, says measures

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be considered carefully before being implemented in a state.²⁵ Earmarking refers to the practice of dedicating state revenue for a specific program, in this case the financing of public schools. Thirty states earmark revenue for this purpose. There are two ways to earmark funds. The conventional method is to earmark revenue from a specific tax (sales or tobacco tax, for example) to be dedicated to funding public education. California developed another way to earmark funds when it decided to dedicate a certain percentage of its overall state budget to education—40 percent of California's general fund is earmarked for this purpose. Often, once funds are earmarked, it is difficult to obtain additional funds for the specified purpose. Plus, earmarking a percentage of a state budget obviously impacts the funding of other state programs.

North Carolina already earmarks funds for education. In 1983 and then again in 1986, the General Assembly authorized counties to levy an additional one-half cent sales and use tax, with a specified percentage of the resulting revenue earmarked for school construction. Legislators in 1987 increased the corporate income tax and earmarked the additional revenue for school construction by establishing the Public School Capital Building Fund and the Critical School Facility Needs Fund.²⁶ The earmarked funds for capital needs provided school districts with \$1.5 billion dollars from 1984 to 1993, half of the total dollars spent on construction during this period.²⁷ Local governments paid the balance of the school construction bill.²⁸

In a related matter that could have a bearing on such issues, Senate President Pro Tem Marc

such as *local* property tax rates and per pupil expenditures are poor ways to compare the adequacy of different school districts because they disregard the equalizing effect of funding from the state and federal governments.

"The advantage of North Carolina's system of school finance is that the state government is responsible for providing from statewide tax sources the resources needed to provide a basic education program in every school system, without regard to the ability or willingness of local taxpayers to support the schools," Liner says. In other words, state allocations to local school systems are not based on money, per se, but on what the schools need to get the job done—such as the numbers of teachers, assistants, and textbooks. Thus, per pupil expenditures from the state tend to be higher in small, rural systems where it costs more money to provide the same level of resources as in urban districts.

The Public School Forum's study analyzes and ranks the state's counties on their relative abilities, actual expenditures, and efforts to support their public schools. It does not examine the impact of state and federal funding, except for the supplemental funding for low-wealth districts that the state began in 1991. Most of the state's wealthiest counties encompass major cities and retirement havens, according to the study. By contrast, most of the poorest counties are located in rural areas in the Coastal Plain and the mountains.

The gap between these wealthy and poor counties is illustrated by their funding for educational programs and school construction. The Public School Forum found that the state's 10 wealthiest counties spent on average \$2,103 per student for educational programs *and* school construction in 1996, compared to \$589 per student

—continues

"The numbers continue to tell the story. Low-wealth, rural counties from one end of the state to the other, continue to try to match the educational opportunities of wealthier counties. But they aren't going to be able to do it without state help. Ironically, the longer the state delays taking action, the bigger the problem becomes."

—JOHN DORNAN, DIRECTOR, THE PUBLIC SCHOOL FORUM OF NORTH CAROLINA

Basnight (D-Dare) in the 1997 session proposed establishing a special dedicated fund for public education in the state budget for the first time. The proposal, still in its preliminary stages, would earmark a portion of the budget for educational programs—such as boosting teacher pay.²⁹

Many states have earmarked funds from lotteries to fund public education. However, lotteries may in fact harm educational funding for the following reasons: “(1) Lotteries contribute only a fraction of the funding needed for education, . . . (2) Lotteries are an unstable source of revenue, due to waning interest over time and their susceptibility to changes in the economy. (3) Education budgets might be reduced, then refilled by lottery proceeds—lessening the actual enhancement of the budget. (4) When lotteries are used, the public may

in the 10 poorest counties—a gap of \$1,514 per student, or 242 percent. That gap was \$1,294 (222 percent) in the Forum’s 1994 study and \$1,280 (267 percent) in its 1991 study. The Forum also found that the 10 wealthiest counties spent on average \$1,441 per student just on educational programs in 1996, compared to \$431 per student in the 10 poorest counties—a gap of \$1,010 per student, or 234 percent. Likewise, the 10 wealthiest counties spent on average \$648 per student for constructing and renovating schools in 1996, compared to \$156 per student in the 10 poorest counties—a difference of \$492 per student, or 315 percent.

Liner, however, says it’s not valid to combine current expenses and capital expenditures when comparing school systems. That’s because current expenses are for present, on-going needs, while capital expenses can occur infrequently to meet long-term needs. The Forum’s study counts construction costs based on a five-year running average—rather than spreading them out over the life of school buildings, which can last 30 years or more. Also, much of the local spending for school construction comes from state aid, including local option sales tax revenues. Another factor is that systems in rapidly growing areas, such as Wake County, tend to have much higher construction costs due to the large numbers of new schools needed to keep up with their population growth—although such differences can be partially offset by higher renovation expenses in poor, rural counties.

falsely believe that schools are adequately funded, making it difficult to raise funds through other sources.”³⁰

North Carolina: Funding Disparities Continue to Increase

In 1984, 1985, 1989, and again in 1996, research by the N.C. Center for Public Policy Research found a significant difference in per-pupil spending among North Carolina’s school districts. “Financial disparity is not the only factor leading to educational disparity, but financial equity does represent the cornerstone of any effort to build a ‘uniform system of free public schools,’” wrote education analyst Lanier Fonveille when the Center first reported this disparity in 1984.³¹

Comparing the gap between *local* spending in the state’s richest and poorest counties is misleading, Liner says, because such gaps tend to be evened out by funding from the state and federal governments. When school districts are compared by spending from all sources, he says, many of the state’s poorest systems rank among the highest in *total* per pupil expenditures. For example, the top 10 school systems in total spending per student include such relatively poor, rural counties as Alleghany (5th in total spending), Graham (7th), Hyde (1st), Jones (8th), Swain (9th), and Tyrrell (3rd). Likewise, some of the state’s wealthiest, urban counties rank lower than might be expected in total per pupil spending, including Orange (25th), Forsyth (28th), Mecklenburg (30th), and Wake (75th). (See Table 2 on pp. 48–55 for a list of all school systems in the state with their rank in local, state, federal, and total per pupil expenditures.)

The Public School Forum’s study also looked at local tax rates, concluding that much of the funding gap is due to the wide differences in the tax bases of counties. For example, Wake County generated \$210.3 million in property tax revenue for the 1995–96 fiscal year from a tax rate of 55 cents per \$100 valuation. Yet nearby Vance County was able to generate just \$8.5 million in tax revenues that year—with a higher tax rate of 75 cents per \$100 valuation. Thus, a wealthy county such as Wake can raise substantial amounts of money for its schools with only very small changes in its tax rate.

Fonville, pointing out the wide variety of course offerings among the school districts, said, "expenditure equity is not the same as program equity." She noted that while every school cannot offer advanced Latin, minimum course requirements and creative efforts such as cross-district services and access to community colleges could provide more equality in course offerings. "By funding a minimum, comprehensive program and imposing statewide standards, the state could focus on program equity as well as expenditure equity," concluded Fonville. The Basic Education Program (BEP) was later adopted by the state legislature. Nevertheless, funding disparities have not decreased.

Instead, the disparity in *state per-pupil expenditures* among the 119 school districts actually in-

Such disparities are compounded by the fact that poorer counties generally allocate a higher portion of their locally-generated revenue for mandated welfare payments. For example, welfare payments account for 7 percent of the local revenue in Wake County but 34 percent in Vance County.

These findings have prompted the Public School Forum and the N.C. Center for Public Policy Research to urge the state to do more to level the playing field between the state's wealthiest and poorest school systems. In a news release accompanying its 1989 study, the Center urged the General Assembly to create a State Equalization Fund to address disparities in public school finance. In 1990, the Center's director, Ran Coble, testified before the Equity Subcommittee of the legislature's Education Study Commission and urged lawmakers to establish such a fund, taking into account each school system's local per-pupil expenditures, tax wealth, and its tax effort relative to other counties.

"The long-term goal for this Equalization Fund would be to bring all counties closer to the state average for total per-pupil expenditures," Coble said. "Under this plan, counties which have low tax wealth but which nevertheless tax this wealth heavily for education purposes would receive proportionately more money from the state than those counties having either higher wealth or making less of an effort to fund education. In other words, those counties making the most effort with the least

**"All animals are equal.
But some animals are more
equal than others."**

—GEORGE ORWELL, *ANIMAL FARM*

creased.³² In 1983–84, Hyde County spent the most state funding per-pupil (\$1,761) and Cumberland County spent the least (\$1,345)—a difference of \$416. Hyde County spent *31 percent* more than Cumberland County. In 1987–88, the difference between Hyde County (\$2,967) and Onslow County (\$2,098)—the highest and lowest that year—was \$869, or *41 percent*. In 1994–95, the difference be-

resources would receive the benefit."³³

The combined work of the Center, the Forum, and legislative staff were instrumental in the establishment of both a Low Wealth Supplemental Fund and a Small Schools Supplemental Fund in 1991. By 1996–97, that appropriation had grown to \$47.5 million in the low-wealth fund and \$15.4 million in the small-schools fund, for a total of nearly \$63 million. (See Table 4 on p. 64.) Even so, the disparity between rich and poor districts has increased—perhaps because local supplements have increased, the Basic Education Plan was never fully funded, or federal funding has been cut so sharply.

"The numbers continue to tell the story," says John Dornan, the Forum's director. "Low-wealth, rural counties from one end of the state to the other, continue to try to match the educational opportunities of wealthier counties. But they aren't going to be able to do it without state help. Ironically, the longer the state delays taking action, the bigger the problem becomes."

Liner also is critical of the Forum's use of local tax rates to compare school systems. Although tax rates might be much higher in rural counties, rural property owners actually could pay much lower taxes than urban residents because of differences in assessed values. In some small counties, he says, the sales of property are so limited that such transactions do not provide a reliable basis for adjusting property tax rates.

"Using tax rates is highly misleading," says

—continues

tween Hyde County (\$5,743) and Onslow County (\$3,060)—again the highest and lowest—was \$2,683, or 88 percent, a significant increase in spending disparity over the past ten years.

The disparity in *total per-pupil expenditures* also increased significantly, despite a decrease between 1983–84 and 1987–88. The affluent Chapel Hill/Carrboro City district spent 58 percent more per-pupil than the poorest district in 1983–84, Davidson County. That difference had decreased to 56 percent when comparing the highest spending Tryon City system in Polk County and the lowest spending Onslow County system in 1987–88. But, in 1994–95, that difference dramatically increased to 96 percent when comparing total per-pupil expenditures for Hyde County (\$7,460) and Onslow County (\$3,809).³³

Liner, who says comparing assessments is mixing apples and oranges. “There is no way I know to reliably adjust for differences in assessments and property tax bases.”

Any effort to guarantee full equality in spending, Liner says, would mean that the state could not allow local units to supplement state funds. “Under our system, you’ll never have total equality, because we allow local counties to add to it,” he says. “If you try to equalize funding, you say to Wake County: ‘You cannot spend money to improve your schools.’”

The high level of state support, together with the state’s method for allocating funds to local systems based on average daily membership, tends to have a strong equalizing effect on the resources available to local school systems, Liner says. In 1995–96, two-thirds (66.5 percent) of the total funding for public education in North Carolina came from state funds—ranking 6th highest among the 50 states. (See Table 1 on pp. 44–45.)

“North Carolina’s system does not seek to achieve equality in spending, but rather sets a basic level of education resources to be provided everywhere,” Liner says. “Under the Basic Education Program enacted in 1985, that level of support is defined as a standard course of study that should be available to every child in the state—and the state government, not local units, is responsible for providing it. We must be sure that our system operates so that the state government is in fact providing the resources that all

And, the difference in *local per-pupil expenditures*³⁴ is still huge. In 1987–88, the Chapel Hill/Carrboro City system spent 5.3 times more money per-pupil (\$1,535) than the Fairmont City system in Robeson County (\$287). The Chapel Hill/Carrboro City system spent 7.7 times more money per-pupil (\$2,252) than the Graham County system (\$292) in 1994–95.

The disparities between rich and poor school districts are reflected in other ways as well, such as course offerings available to students. For example, in the 1996–97 academic year, relatively wealthy West Mecklenburg High offered 294 classes to its 1,400 students—compared to the 131 classes that relatively poor Hoke County High offered to the same number of students. Another wealthy school, Asheville High, offered 190

our children need—regardless of the size of the school system or the ability and willingness of local taxpayers to support the schools.”

Researchers with the Public School Forum and the N.C. Center for Public Policy Research acknowledge that North Carolina does a better job than most states in equalizing state funding, but say that doesn’t eliminate substantial disparities in the quality of education available in different school districts across the state.

“Certainly the state does a lot better job in providing a basic level of education than a lot of other states do,” says J.B. Buxton, director of policy and research for the Forum. “The question is: What is basic? . . . The BEP was never fully funded, never fully implemented—compared to what is on the books.”

FOOTNOTES

¹For previous Center studies on school finance, see: Jody George, “The Right to Education in State Constitutions: Courts Split on School Finance Issue,” *North Carolina Focus*, 1989, pp. 45–50; Bill Finger and Marianne M. Kersey, “Disparity in Public School Financing—An Update,” *North Carolina Focus*, 1989, pp. 250–255; Bill Finger, “Disparity in Public School Financing—An Update,” *North Carolina Insight*, Vol. 7, No. 4 (April 1985), pp. 44–49; and Jody George, “Courts Split on School Finance Issue,” *North Carolina Insight*, Vol. 7, No. 1 (June 1984), pp. 38–41.

²*North Carolina Local School Finance Study 1996*, Public School Forum of N.C., 3739 National Drive, Suite 210, Raleigh, N.C. 27612; phone (919) 781-6833.

³Ran Coble, presentation to the Equity Subcommittee of the Education Study Commission of the N.C. General Assembly, March 14, 1990.