



education policy points

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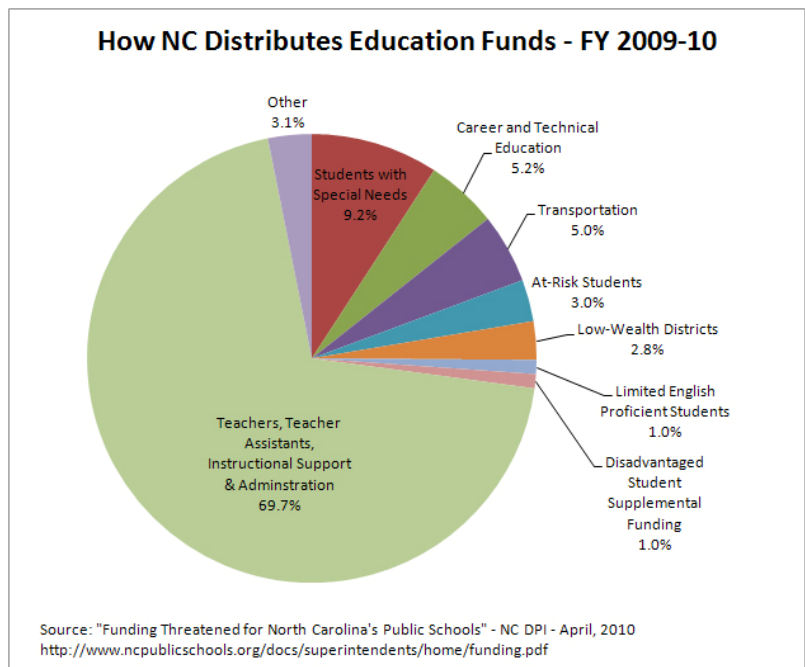
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NORTH CAROLINA'S PUBLIC SCHOOL FUNDING SYSTEM: Underfunded, Unclear, and Unfair

NC K-12 funding ranks near bottom of all states

With a state budget shortfall of at least \$3.5 billion for fiscal year 2011-2012, North Carolina's public school system faces further cuts to an already bare-bones funding scheme. According to the most recent U.S. Census data, North Carolina ranks 45th in the nation in per-pupil spending and 43rd in the nation in per-pupil expenditure as a share of personal income (See Appendix A).¹ North Carolina ranks behind other southern states including South Carolina, Virginia, Georgia and Kentucky. *Education Week* ranked North Carolina 46th in terms of funding adequacy and equity, giving it a D+, the lowest grade any state received.² The Education Law Center rated state public school funding based on funding level, funding distribution, effort (the amount of spending compared to state per-capita Gross Domestic Product), and the number of school-age children attending the state's public schools. North Carolina was one of only four states to receive below-average ratings on all four indicators, including a D for funding distribution and an F for effort.³

While money is not everything in the world of education, it is difficult to imagine how to make cuts to an already insufficiently funded public school system. Adequate funding is a prerequisite to most education reforms that can improve the achievement of all of North Carolina's students and prepare them for success in life after school.



NC School Funding Formula: Complicated, Opaque, and Inequitable

In addition to being among the most underfunded, the North Carolina school-funding system is also one of the most complicated and

nontransparent in the nation. The confusing nature of the funding system makes it difficult to tell where money is really going and leads to unfair results, particularly for high-poverty urban and rural districts, districts with large numbers of at-risk students, and districts with large proportions of special-education students.



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The vast majority of states utilize “foundation systems” where the amount that a school district receives is a function of real property wealth.⁴ Generally, the state takes into account local ability to fund schools, based on property values, and then assigns extra money or “weights” for actual counts of students with special needs, such as children from low-income households, special-education students, and English-language learners. The aim of these systems is to equalize the availability of state and local funding to school districts.

In contrast, North Carolina uses a “teacher allocation” or flat-grant system based on an array of needlessly complex funding formulas that do not take into account actual numbers of special-needs students.⁵

Teacher Allotments

The principal component of the state’s education finance system is the classroom teacher allotment. Districts use a school’s Average Daily Membership (ADM) to determine the appropriate number of teachers based on prescribed student-teacher ratios. School districts are then given money from the state based on the experience and qualifications of the teachers they have hired.⁶

The net effect of North Carolina’s system is that higher-performing school districts receive more state money from the classroom teacher allotment than struggling districts. Teachers in high-poverty districts with more at-risk children are less likely to be National Board-certified, are less likely to be state-certified, and are less experienced.⁷ They are paid less than their more experienced and credentialed counterparts, so districts that are unable to attract as many high quality teachers actually receive less funding for teachers than the districts with the most highly qualified teachers.

This system also fails to address the differences between local salary supplements granted by counties to increase teachers’ salaries above the base state salary. Wealthy districts are able to supplement teacher salaries at a higher rate than poorer districts, increasing the motivation for the most qualified teachers to go to districts that are already performing well.

In short, North Carolina tells districts to hire whoever they can on the basis of student/staff ratios and the state will cover the bill, without considering what factors may make it difficult for certain districts to hire highly qualified teachers. Other states take these factors into account and give districts enough money to ensure they are not at a disadvantage in hiring compared to other districts.

Capped Special-Needs Allotments

There are capped special-needs allotments for intellectually gifted children, children with disabilities, and children with limited English proficiency. These additional funds are capped at a percentage of ADM. In other words, districts receive a percentage increase in funding up to the cap, regardless of the actual numbers of academically gifted students, students with disabilities, and students with limited English proficiency who reside in the district. This leads to inequitable results for the schools with the highest numbers of special-needs students.

Non-Capped Special-Needs Allotments

There are two non-capped special-needs allotments that are designed to provide extra funding to educate students from low-income households – the At-Risk allotment and the Disadvantaged Student Supplemental Fund (DSSF).

Under the At-Risk allotment, each district receives funding for a school security guard in every

high school and the cost of maintaining a drug and alcohol program. The state distributes half of the remaining funds based on the total number of students in each district and the other half based on the number of students receiving free and reduced lunch. The major problem with this allotment is the amount of funding for each at-risk student declines as the percentage of poor students increases in a school district.

DSSF funding amounts to just 1 percent of overall state funding even though it is the primary means for targeting assistance to North Carolina's neediest students. The state estimates the population of eligible students in a district using three indicators – child poverty rate, percent of students in single-parent families, and percent of students with at least one parent without a high school degree – to arrive at a score designed to predict the percent of students who are expected to fail. The amount that this percentage deviates from the state average failure rate is designated as the district's disadvantaged population, although it is unclear if this number has any relationship to the district's actual disadvantaged population. Each school district is then allocated a target teacher-disadvantaged student ratio based on the size of the estimated disadvantaged student population. Finally, the number of teachers required to attain this ratio is calculated and multiplied by the average teacher salary to arrive at the final allotment figure.

While the goals of DSSF funding are laudable, the formula is hopelessly complex and opaque, bears no relation to the actual number of disadvantaged students, and does not provide enough funding to impact the most economically disadvantaged students in the state.

Supplements to Low-Wealth and Smaller Districts

North Carolina also has a Low-Wealth allotment for counties with poor property-tax bases. About half of the state's students live in districts that qualify for this funding. This allotment has a complex formula that aims to bring these counties up to the state average in terms of per-student funding. The formula is based on the county tax revenue per ADM, the property tax base per square mile, and the county per-capita income.

The Small County allotment provides extra resources to rural school districts with high overhead costs because they serve smaller populations of students in geographically larger districts with greater transportation needs. However, the population density of a county is a crude way to measure a county's ability to adequately fund its schools. This allotment is less than 0.6% of the state's allotment to districts.

An Easier Way

This explanation of the North Carolina education finance system is, believe it or not, an attempt to simplify the enormous difficulty of determining where tax dollars for educating students actually go. Other states use a simpler weighting system based on the actual number of disadvantaged students and actual costs of educating them.

The North Carolina legislature commissioned a study by APA Associates, a Colorado company that analyzes public school systems and policies, that examines the state's funding formula. APA recently performed a similar study for Pennsylvania,⁸ and an examination of the results shows there is a much simpler way to create an education funding system that effectively accomplishes the goals of the North Carolina system while providing transparency and accountability.

Under the Pennsylvania system, the average cost of providing a quality education is calculated based on the cost of educating a student to the proficiency level. The state then examines just four factors to adjust this number: 1) enrollment changes over time, 2) district size, 3) regional cost differences, and 4) the cost of educating students with disabilities, students living in poverty, English-language learners, and gifted students. Each of these factors is assigned a weight, and each district receives a lump sum based on the actual cost of educating students.

Conclusion

In addition to being one of the worst-funded systems in the country by any measure, North Carolina's school funding formula is one of the most complex and least effective at aiding needy students. An increase in overall funding and a change from the complicated system of allotments to a foundation system with weights would improve student performance by ensuring that students receive the funding needed to attain a high-quality education.

- 1 U.S. Census Bureau, Public Elementary-Secondary School Finance Data, 2007. (<http://www.census.gov/govs/school>)
- 2 Education Week, EPE Research Center, Education Counts Database. Accessible at <http://www.edweek.org/rc/2007/07/07edcounts.htm>.
- 3 Baker, Bruce, David G. Shiarra and Danielle Farrie, September 2010, Is School Funding Fair? A National Report Card. Education Law Center. Available at www.schoolfundingfairness.org
- 4 Verstegen and Jordan (2009), A Fifty State Survey of School Finance Policies and Programs: An Overview", Journal of Education Finance 34:3 (Winter), 213-230 at 213.
- 5 Ibid.
- 6 See NC DPI Allotment Policy Manual, State Formulas 2009-2010.
- 7 See Clotfelter, Ladd, and Vigor (2007), "Teacher Credentials and Student Achievement in High School: A Cross-Subject Analysis with Student Fixed Effects", Working Paper 11, National Center for Analysis of Longitudinal Data in Education Research (CALDER), October; Gordon, Kane, and Staiger (2006), "Identifying Effective Teachers Using Performance on the Job", Discussion paper 2006-01 (April) The Hamilton Project, The Brookings Institute.
- 8 Augenblick, Palaich, and Associates Inc. (2007), Costing Out the Resources Needed to Meet Pennsylvania's Public Education Goals. Accessible at <http://www.apaconsulting.net/uploads/reports/6.pdf>