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# POLICY *brief*

## THE EQUITY OF PUBLIC EDUCATION FUNDING IN GEORGIA 1988-1996

Equity of educational funding has been a dominant concern of school finance research, policy and litigation for the past thirty years. Since the *Serrano v. Priest* decision in 1971, the vast majority of states have faced challenges to their school finance systems. Georgia last faced a challenge to its system of funding K-12 schools in 1981 in *McDaniel v. Thomas*. While the court upheld the constitutionality of Georgia's system, the decision acknowledged the large disparities in educational expenditures that existed across districts. The decision led directly to the drafting of the Quality Basic Education Act (QBE) in 1985, which enacted the current system of state grants to local school districts. This policy brief examines changes in the equity of public education funding in Georgia since the implementation of QBE. It finds that while disparities in per-pupil funding still exist across districts in Georgia, these funding differences are due in part to the differential costs facing districts in different parts of the state and the mix of students that each district serves as well as differences in property wealth across districts. While wealthier districts typically have higher per-pupil revenues than do poorer districts, state funding helps to greatly reduce resource differences across rich and poor districts.

### How Does QBE Work?

The largest component of QBE is a foundation program, in which per-pupil funding is based on the estimated costs of providing each of thirteen (initially twelve) instructional programs. The foundation

program guarantees each district a minimum (foundation) level of per-pupil revenue, with program weights reflecting the estimated cost of providing each program for one full-time equivalent (FTE) student. For example, the most inexpensive program (currently regular classroom grades 9-12) carries a weight of 1.0, with a foundation level of \$1,720 in fiscal year 1996. More expensive programs carry higher weights, thereby earning districts a higher foundation amount for students in these programs.

The QBE Act set the required local contribution to education funding (known as Local Fair Share) at five effective mills levied on each district's equalized adjusted property tax base. Therefore, wealthier districts contribute a larger share of the foundation amount than do poorer districts. The QBE act also added a small Guaranteed Tax Base (GTB) program (known as equalization grants) operating on top of the foundation. The GTB guarantees an equal tax yield from mills 5-8.25 for all districts below the 90th percentile in per-pupil property wealth. Unlike Local Fair Share, participation in the equalization program is voluntary.

### Framework For Analyzing Equity

This policy brief examines three related yet distinct concepts of equity: horizontal equity, vertical equity, and equal educational opportunity. Horizontal equity, defined as the equal treatment of equals, examines the distribution of per-pupil resources across districts. Greater



equality of per-pupil funding across districts indicates higher levels of horizontal equity.

Vertical equity, defined as the appropriately unequal treatment of unequals, is a more difficult concept to operationalize. Not all students have the same educational needs, and funding strategies generally address students' special needs by providing greater resources to districts serving students who might require additional or more intensive services. The level of additional funding that such students should receive is often difficult to define, however. The Georgia QBE program provides an opportunity to analyze vertical equity using the student weights set annually by the Georgia General Assembly. These weights, which reflect the greater costs associated with educating students in various grades and those with special needs, facilitate vertical equity analyses to determine whether students in each of these programs appear to receive "appropriate" levels of funding, as defined by the QBE formula.

Equal educational opportunity examines the relationship between per-pupil revenues and district or student characteristics that might be considered "illegitimate" for the purposes of funding decisions. Since most school districts rely heavily on the property tax for own-source revenues, the most common focus of equal opportunity analysis is district property wealth per pupil and its relationship with revenues for education. A neutral (or negative) relationship between local wealth and per-pupil resources indicates equal opportunity. This principle is also commonly referred to as "fiscal neutrality." If disparities across districts exist, it is important to determine whether these differences are due to "illegitimate" factors (such as differences in local wealth) or other factors (such as differences in local preferences for education).

### **Data and Results**

All revenue and student data used in this study come from district-level financial reports collected annually by the Georgia Department of Education (DOE). Property tax digest data come from the Georgia Department of Revenue. The analyses focus only on state and local per-pupil revenues for education. Federal funds are excluded from these analyses since they are outside the control of the state. The revenues include all resources from the General Fund and Special Programs Fund used to provide direct instruction, student support, instructional improvement, school and district administration, educational media, and facility maintenance and operations (M and O), but do not include funds designated for capital outlay, food service, transportation or adult education.

The data are adjusted to reflect differences in the purchasing power of educational dollars across districts within the state, as well as differences over time. The cost indices used to adjust for geographic cost differences estimate teacher salary differences and other cost of living differences across districts, while controlling for factors outside local districts' control, including amenities that make teaching positions relatively more or less attractive. The analyses use both unadjusted (nominal) and adjusted (real) data to examine resource disparities.

Examining average spending levels, the analyses show that real state and local revenues for education have generally declined since 1988. While nominal per-pupil revenues for education (from state and local sources) increased in each year from 1988 to 1996 (rising from \$2,919 to \$4,404 per pupil), real revenues generally declined between 1990 and 1994, and then increased slightly through 1996. Despite this increase, real revenues remained lower in 1996 than in 1988.

Examining disparities across districts, the analyses offer no "smoking guns" in terms of equity. The longitudinal trends show that equity worsened during a time of statewide recession in the early 1990s, but generally improved during the subsequent economic recovery. The greatest disparities are generally found in the early 1990s, particularly 1991 and 1992. While the overall distribution of revenues appears to be more equitable in recent years, the relative share of revenues devoted to students in the lower half of the distribution appears to be declining. Thus, low-revenue districts may not be sharing equally in the revenue increases found in recent years.

The results generally show greater funding equity across districts when student needs are taken into account through the QBE program weights. This pattern should not be surprising, though, since the QBE formula explicitly allocates funds in relation to student needs. Therefore, a portion of the revenue disparities found in the horizontal equity analysis may merely reflect differences in student needs rather than an "unfair" resource distribution. However, to the extent that the QBE weights do not reflect actual differences in the costs of educating these students, the analyses may over- (under-) estimate the level of vertical equity in Georgia.

While the QBE formulas make no adjustment for cost of living differences across the state (and, by extension, the purchasing power of educational dollars), the analyses show that the distribution of revenues across districts appears somewhat more equitable when these cost differences are taken into account. This pattern suggests



that the highest cost districts (which are primarily located in metropolitan Atlanta) tend to also have the highest revenues. The data bear out this hypothesis. In 1996, for example, the twelve districts with the highest cost of education indices (all located in metropolitan Atlanta) faced average costs approximately 15 percent higher than the state average. These districts also had average nominal revenues above the state average.

The revenue differences described also reflect, in part, large disparities in local property wealth across districts. In 1996, the wealthiest 20 percent of districts averaged over three times the wealth of the poorest 20 percent. These wealth differences clearly translate into resource differences as districts in the wealthiest quintile had an average of almost \$600 more in state and local revenue (adjusted for cost differences) per pupil than did those in the poorest quintile. These disparities might be much greater in the absence of state funding, however, since the state's wealthiest districts generated an average of almost three times as much local revenue per pupil as the poorest districts. The data also show that, under QBE, tax effort is relatively equalized across groups of districts. While the distribution of state revenue to districts helps to greatly reduce the inequalities arising from differential property wealth, it does not completely eliminate these resource differences.

Changes in relative state funding over time also appear to affect the degree of funding equity within the state. The state share of basic K-12 revenues generally declined during the first eight years of the analysis, from 60.0 percent in FY 1988 to 55.7 percent in FY 1994. Equity worsened over the same period and particularly in FY 1992, a year that saw a sharp decline in the share of total revenues. When the state increased its share of basic K-12 funding for two consecutive years (FY 1995 and FY 1996), equity improved. State funding for education is strongly influenced by environmental and political factors, such as the health of the state's economy and state budget priorities. These findings suggest that funding trends should not be examined in isolation from the larger educational and economic context of the state.

### Conclusions

While the analyses do not suggest that severe inequities have appeared since the enactment of the QBE reforms, subsequent analyses must also examine the adequacy of funding in Georgia. Despite efforts to increase spending, per-pupil expenditures in Georgia remain below the national average.<sup>1</sup> Additionally, the performance of students in the state has often been among the lowest in the country.<sup>2</sup> With the relatively low share of basic K-12

revenues (under 40 percent) borne by local systems, the state may continue to look to districts to share the burden of any spending increases. The State share of total K-12 revenues including federal revenue decreased from 53.9 percent in FY 1988 to 47.9 percent in FY 1996, while the local share increased from 40.0 percent to 45.6 percent. Total K-12 revenues include all basic K-12 revenues plus revenues for food services, student transportation, and capital outlay. As these equity analyses demonstrate, policy makers must be aware of the potential equity consequences caused by heavier reliance on local funding. The potential tradeoffs between equity and adequacy, and the increasing disparities for low-revenue districts, provide a partial agenda for further study of Georgia's school finance reform efforts.

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<sup>1</sup>US Department of Education, National Center for Education Statistics. *Digest of Education Statistics*, 1997. NCES 98-015 Washington, DC: 1997. Table 168.

<sup>2</sup>For example, in 1998 Georgia's average Scholastic Assessment Test (SAT) scores ranked 21st of 23 states in which over 50 percent of likely high school graduates took the SAT.

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