



America's Most Financially Disadvantaged School Districts and How They Got that Way

How State and Local Governance Causes School Funding Disparities

By Bruce D. Baker July 2014

Introduction and summary

This report explores some of the most financially disadvantaged school districts in the country and identifies a typology of conditions that have created or reinforced their disadvantage. Financially disadvantaged districts are those that serve student populations with much greater-than-average need but do so with much less-than-average funding. The Education Law Center of New Jersey’s annual report, “Is School Funding Fair? A National Report Card,” uses a panel of the most recent three years of U.S. Census Bureau Fiscal Survey data on state and local revenues per pupil in order to determine which states achieve systematically greater funding per pupil in districts serving higher student poverty concentrations and which states maintain school funding systems where higher poverty districts have systematically fewer resources per pupil.¹

The same data have been used in follow-up analyses to identify the local public school districts across states that are saddled with greater-than-average student needs and less-than-average state and local revenue.² As one might expect, numerous poorly funded local public school districts exist in the least fairly funded states. That is, where a state school finance system is such that higher-need districts on average have lower state and local revenue, there tends to be more high-need districts with lower state and local revenue. And as it turns out, there are unfairly funded districts in what are traditionally viewed as fairly funded states. In other words, poorly funded local public school districts exist in states where school finance systems are, on average, progressive. This report looks at why this happens—and what can be done about it.

First, this report lays out a typology of conditions that lead to severe fiscal disadvantage for local public school systems. It then provides examples of states, state policy conditions, and specific local public school districts identified as being severely financially disadvantaged. The causes of fiscal disadvantage are classified as follows:

- **Type 1. Savage inequalities:** How persistent disparities in local taxable property wealth continue to undermine equity in American education
- **Type 2. Stealth inequalities:** How dysfunctional, poorly designed, state school finance formulas fail to correct, and sometimes reinforce, disparities
- **Type 3. Some politics is still local:** How local tax policy and budgeting decisions may undermine state equity objectives
- **Type 4. Not-so-blurred lines:** How small, segregated enclaves embedded in population-dense metropolitan areas reinforce fiscal disparities
- **Type 5. Shift happens:** How the changing demography of exurban and smaller-city America leads to emerging fiscal disadvantage

The report concludes by providing policy recommendations. Approaches to reforming aid should address the following issues:

- **Organizational concerns.** America's public school districts remain highly geographically, demographically, and economically segregated. As long as this continues, leveraging state school finance policies as part of the solution to achievement gaps will be an uphill battle.
- **State policy leverage over local fiscal decisions.** The power of state school finance systems to resolve inequities in funding across local districts is limited. Local district and municipal taxing and spending decisions can—and, in many cases, do—undermine state school finance policy objectives.
- **More-nuanced measures of local capacity and need in state aid formulas.** The cases explored in this paper reveal some additional complexities to the economics and demography of local public school districts that likely require a closer look to determine the best methods for combining state aid and local revenues to overall adequate spending. Such policies could substantively improve equity in both taxation and the raising of revenue across communities that have disparate access to nonresidential tax bases without requiring them to raise and spend additional state aid.

- **Illogical state aid programs.** States must take a hard look at plainly illogical state school finance formulas. Clearly, Michigan and Arizona need to revisit their general state aid formulas so as to allocate more of their existing aid to districts with greater needs, which will mean allocating less aid to districts with fewer needs.

While substantively resolving any one of these problems would move the ball forward on equity, definitively resolving all four is required for making consistent progress across all states and local public school districts. Resolving these persistent disparities between districts remains a prerequisite condition for resolving internal disparities in the most fiscally deprived school districts. Doing so also serves as a prerequisite condition to resolve disparities in essential resources, including teaching quality, class sizes, and access to deep and broad curricular opportunities for all children regardless of the school or district they attend.

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