The Economics and Financing of Urban Schools: Toward a Productive, Solution-Oriented Discourse

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The Economics and Financing of Urban Schools: Toward a Productive, Solution-Oriented Discourse

Faith E. Crampton

Across the nation, a surprising number of both critics and advocates of urban schools demonstrate a naïveté about the limits and possibilities of funding in relationship to the academic success of urban students. On one hand, critics often argue, without solid evidence or informed analysis, that urban school districts have sufficient funds to educate their students, and hence the real problem is wasteful financial practices (Grubb 2009). On the other hand, some advocates present a unidimensional, and ultimately self-defeating, case that insufficient funding is the sole source of urban school woes; and, by doing so, fail to acknowledge the range of factors in urban environments that contribute to low test scores and graduation rates (Anyon 2005). As a result, both sides end up talking past one another, progress is stalled, and children suffer.

In order to engage in a more productive and solution-oriented discourse, this article proposes a common framework and language for discussing urban school finance and its role in improving children’s lives. It also provides a straightforward description of the basic mechanics of school funding and the relative roles of local, state, and federal government in that function. Together, these provide stakeholders with the tools to incorporate the results of relevant research-based and evidence-based analyses into solution-oriented conversations. The article then closes with eight recommendations for those who seek to improve the education of urban children on how they can become more engaged in this discourse.

Background and Rationale

It is important to begin with major areas where critics and advocates of urban schools agree and disagree because these provide the context for the application of the framework described in the next section. First, many critics as well as advocates of urban schools share a common concern about urban students’ academic success where, for better or worse, success is often narrowly defined in terms of standardized test scores in core subjects and high school graduation rates. Few among them would disagree that academic success is desirable for both students and society. It is well-established that high school graduates in the United States have higher life time earnings than non-graduates and hence a higher quality of living (Day and Newburger 2002). High school graduation is generally a prerequisite for college attendance. In turn, college graduates have higher life time earnings than high school graduates (Day and Newburger 2002). Together, high school and college graduation translate into a better quality of life for urban students and higher tax revenues which benefit society as a whole by providing funds to support a broad spectrum of public programs and services we take for granted, such as police, firefighters, roads, schools, parks, and libraries—to name just a few. In addition, high school graduates are less likely to engage in criminal activity or need social welfare support than non-completers (Lochner and Moretti 2003; Thornberry, Moore, and Christenson 1985). High school graduation thus benefits communities by making them safer while allowing individual taxpayers to spend less on police protection and the criminal justice system.

However, there may be some ambiguity and even disagreement about what makes a school district “urban.” In a solution-oriented discussion, a common definition of terms is essential. In this case, the discussion is complicated by the fact that there is no universal definition of an urban school district, and, so, for example, when reading or hearing media accounts describing “urban” schools, it is possible that a wide range of definitions is being used. Here it helpful to look toward national sources like the U.S. Department of Education which classifies school districts based upon their location within cities, suburbs, small towns, and rural areas (Snyder, Dillow, and Hoffman 2009), a classification which is drawn from the U.S. Census Bureau. In this classification system, cities are divided into large, midsize, and small where large cities are defined as those with a population of at least 250,000, and the population for midsize cities ranges from 100,000 to 250,000. Small cities are those with a population under 100,000. Thus, it is the size of the city rather than the size of the school district’s student enrollment that determines its classification as urban.

In contrast, organizations like the Council for Great City Schools (CGCS) limit their membership to school districts located within large cities and school districts with 35,000 or more students, regardless of type. Importantly, these criteria leave out many small to midsize cities whose school districts, particularly in more rural states, are often considered urban. For example, in Wisconsin, midsize cities like Madison, the state capital, and Green Bay as well as school districts in small cities such as Kenosha and Racine are generally considered urban by Wisconsin policymakers even though they would not be eligible for CGCS membership. (See Table 1.) Nor would these midsize and small city school districts, whose student enrollments range from 20,733 to 24,540, meet the CGCS minimum of 35,000 students. For example, in Wisconsin, only the Milwaukee Public Schools would be considered an urban school district by CGCS because Milwaukee, with a population of 583,624, is classified as a large city.

Because midsize to small city school districts share many of the same challenges with their larger city counterparts, it is important to include them in any solution-oriented discourse on urban schools. Nationally, urban school districts enrolled approximately 14.5 million students, approximately 30% of the nation’s 48.9 million students in 2008 (U.S. Department of Education 2010b). (See Table 2.) This
representing a large number and a substantial percentage of U.S. school children and, as such, lends a sense of urgency to calls by both advocates and critics for the improvement of academic outcomes. However, when it comes to money, these groups part ways. Critics often assert that urban school districts spend a great deal more than other types of school districts and conclude that this is a marker of inefficient and wasteful practices. Yet, national data do not support this assertion. On average, states spent $10,273 per pupil in 2007-2008 (the most recent national, disaggregated data) while urban school districts spent $9,575 per pupil or 6.8% less. Data from Wisconsin differ somewhat whereby urban school districts spend slightly more than the state average. For the 2006-2007 school year (the latest Wisconsin data available), Wisconsin’s urban school districts spent $10,064 and $12,156 per pupil, or an average of $10,840 (Wisconsin Department of Public Instruction 2008). 

Note: Expenditure per pupil represents current expenditure; that is, expenditure without capital outlay.

A Framework for Analysis of Urban School Funding

The funding of urban schools can be analyzed through the lens of five common school finance principles: equity, adequacy, efficiency, accountability, and stability (Crampton and Whitney 1996). The concepts of equity, efficiency, and stability are grounded theoretically in the disciplines of economics and public finance while adequacy is a relative newcomer to school finance discussions and remains an ambiguous concept given its atheoretical nature (Crampton. 1990). The term adequacy arose in state-level school finance policy discussions and court cases in the 1970s and has continued to increase in importance particularly in school finance court cases in the 1990s up through the present (Thompson and Crampton 2002). Likewise, fiscal accountability is an atheoretical concept that emerged around this time period. Some would link accountability conceptually to efficiency, but, in this article, it stands alone given its importance in education funding discussions. Below each concept is explained in more detail.

Equity

Equitable funding is of particular interest to urban school advocates given the large numbers and high percentages of at-risk students in urban school districts. Although equity is often defined broadly as “equality of educational opportunity,” it is helpful to think of fiscal equity as either horizontal or vertical in nature. Horizontal equity is defined as the equal treatment of equals while vertical equity is defined as the unequal treatment of unequals. For example, if every student district received exactly the same amount of funding per pupil, we would conclude that there exists horizontal equity. However, such an arrangement would likely be met with protests of its unfairness to students who need additional resources to be successful academically. To that end, the principle of vertical equity recognizes that students’ educational needs differ, and so it is necessary to spend more on some students than others. As such, in discussions of equity and equitable funding, discussants need to be careful to indicate whether they are referring to horizontal or vertical equity.

Table 1

<table>
<thead>
<tr>
<th>City</th>
<th>Classification</th>
<th>City Population</th>
<th>Student Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milwaukee</td>
<td>Large</td>
<td>583,624</td>
<td>85,672</td>
</tr>
<tr>
<td>Madison</td>
<td>Midsize</td>
<td>220,332</td>
<td>24,540</td>
</tr>
<tr>
<td>Green Bay</td>
<td>Midsize</td>
<td>100,353</td>
<td>20,749</td>
</tr>
<tr>
<td>Kenosha</td>
<td>Small</td>
<td>96,240</td>
<td>22,622</td>
</tr>
<tr>
<td>Racine</td>
<td>Small</td>
<td>79,572</td>
<td>20,733</td>
</tr>
</tbody>
</table>

Data Sources: U.S. Census Bureau (2006) [city classification and population] and Wisconsin Department of Public Instruction (2008) [student enrollment].

Table 2

<table>
<thead>
<tr>
<th>U.S. Total</th>
<th>City</th>
<th>Suburban</th>
<th>Town</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Large</td>
<td>Midsize</td>
<td>Small</td>
<td>Fringe</td>
</tr>
<tr>
<td>Student Enrollment (in thousands)*</td>
<td>48,910</td>
<td>7,450</td>
<td>3,157</td>
<td>3,781</td>
</tr>
<tr>
<td>Expenditure per Pupil ($)**</td>
<td>10,273</td>
<td>10,236</td>
<td>9,158</td>
<td>9,332</td>
</tr>
</tbody>
</table>

*2007-2008 school year
**2006-2007 school year


Note: Expenditure per pupil represents current expenditure; that is, expenditure without capital outlay.
is undoubtedly challenging for some laypersons to analyze many and politically motivated reports that purport such inefficiencies. It more affluent school districts. There is no shortage of media articles because their test scores and graduation rates are lower than those of districts are often scapegoated, accused of "wasting" public money with the revenues they have. However, urban school district boards and administrators to be proactive in communicating with the media and public how they hold themselves fiscally accountable. By the same token, those committed to the success of urban schools need to take advantage of the information available to them in the public domain and demand transparency. For example, in many states, like Wisconsin, school districts are required by state law to conduct annual external financial audits as well as to use uniform state department of education budgeting and accounting codes that permit comparison and analysis of expenditures across school districts. Further, in most states, these are public access documents as are district (and school, where available) budgets. School board meetings where budgets are discussed are generally open to the public as well. The above are valuable tools that make all school districts fiscally accountable to their respective communities. In addition, if individual schools have site councils, their meetings are usually open to the public unless they are discussing sensitive personnel issues.

### Adequacy

School districts need adequate funding to meet state and federal educational standards. Adequacy here is defined as "sufficiency." Increasingly, urban school advocates have been successful in school finance litigation cases, such as the Campaign for Fiscal Equity in New York City (2003, 2006), in convincing state courts to overturn state funding systems that do not take into consideration the additional funding needed by urban schools to ensure that all children meet state academic standards. With regard to federal standards, many urban school districts have struggled to meet the mandate of "adequate yearly progress" in the No Child Left Behind Act of 2001, and many now face sanctions as "districts identified in need of improvement" under federal law. Yet, federal funding represents a very small percentage of total school district funding, between 5.9% and 12.8% (Snyder et al. 2009), a level deemed insufficient by many to meet such broad mandates.

### Efficiency

Efficiency refers to making the best use of limited resources. It does not mean simply choosing the cheapest products, services, or personnel (Crampton and Vesely 2006). Many school districts, not just those in urban areas, struggle to provide their students with the type of education required by state-mandated and federally-mandated standards with the revenues they have. However, urban school districts are often scapegoated, accused of "wasting" public money because their test scores and graduation rates are lower than those of more affluent school districts. There is no shortage of media articles and politically motivated reports that purport such inefficiencies. It is undoubtedly challenging for some laypersons to analyze many of these. However, in general, these types of reports are, at best, incomplete and, at worst, biased. Stakeholders should be particularly wary of any report that does not fully disclose its research methods and data sources.

### Accountability

Accountability in this context refers to fiscal accountability. Urban school districts, largely due to their size and visibility, receive disproportionate media coverage as compared to their nonurban counterparts, such that their financial management and resource allocation decisions often receive greater scrutiny. Therefore, for better or worse, it behooves urban school district boards and administrators to be proactive in communicating with the media and public how they hold themselves fiscally accountable. By the same token, those committed to the success of urban schools need to take advantage of the information available to them in the public domain and demand transparency. For example, in many states, like Wisconsin, school districts are required by state law to conduct annual external financial audits as well as to use uniform state department of education budgeting and accounting codes that permit comparison and analysis of expenditures across school districts. Further, in most states, these are public access documents as are district (and school, where available) budgets. School board meetings where budgets are discussed are generally open to the public as well. The above are valuable tools that make all school districts fiscally accountable to their respective communities. In addition, if individual schools have site councils, their meetings are usually open to the public unless they are discussing sensitive personnel issues.

### Stability

Stability refers to a school district’s ability to predict the amount of funding it will receive from year to year in order to plan effectively for student instruction and to maintain successful programs. However, to a great extent, stable funding is outside the scope of control of school districts because they are dependent upon taxpayer funds at the local, state, and federal levels. During economic downturns like the present, school districts often find themselves having to make sudden, deep cuts that threaten their ability to provide all students with the education necessary to succeed. Urban schools are often disproportionately affected in these situations because of their heavier reliance on state and federal funds and low local tax base. In the present state budget crises, urban schools are particularly vulnerable. States without significant reserves or rainy day funds, like Wisconsin, will likely make the deepest and most damaging cuts over the course of a recession. Federal fiscal stabilization funding to states is of assistance, but in many cases it will not be sufficient to make up for state budget shortfalls. The lesson to be learned is the importance for stakeholders to exert pressure on state-elected officials to allocate sufficient moneys to state rainy day funds when the economy is strong and there are revenue surpluses so that publicly funded services like education are buffered during economic downturns.

### How Are Urban School Districts Funded?

In general, urban school districts, like their nonurban counterparts, receive funding (or revenues) from three major sources: (1) federal aid; (2) state aid; and (3) local property taxes. Because the provision and funding of public elementary and secondary education is constitutionally a state responsibility in the United States, state aid comprises a major source of revenue for most school districts (Thompson, Wood, and Crampton 2008). On average, school
districts receive 46.1% of their budgets from state aid and 45.3% from local property taxes with the remaining 8.6% in the form of federal aid (Snyder et al. 2009). These percentages are similar for urban school districts although they generally receive a slightly higher percentage of federal aid and are somewhat less reliant upon property tax revenues. Yet because the property tax is one of the few taxes that the general public votes on (unlike income or sales tax), it is a very visible and unpopular tax, and urban school districts often meet voter resistance to raising property taxes. The role of the property tax is further complicated for urban school districts because the total value of their property to be taxed is lower than that of the suburbs that ring them. This often comes as a surprise to the average taxpayer who looks at beautiful downtown buildings and multimillion dollar high rise condominiums and concludes that the city has vast property wealth that urban schools can access. However, the property tax base comprises all residential and business property in the city, including vast tracts of poor housing and abandoned, blighted or undeveloped properties worth very little.

Because state aid is such an important part of school district budgets, it is helpful to have a clear understanding of it. Generally speaking, school districts receive two types of state aid, basic and categorical. In addition, aid can be weighted or unweighted. State basic aid is general purpose in that school districts may use it for any legitimate operating expenditure, such as personnel, maintenance, and supplies and equipment. On the other hand, state categorical aid is targeted for a specific purpose, such as special education, English language learners (ELLs), transportation, and gifted and talented programs. While basic aid generally addresses horizontal equity issues by allocating a set amount per pupil across the state, categorical aid addresses vertical equity issues by allocating funding to particular types of students who need additional resources to be academically successful. States may also use weighted formulas to provide additional funding to particular groups of students. For example, ELL students might be weighted 1.25 in the state’s funding formula such that they receive 25% more funding than a regular student. As such, weighting may be used instead of or in addition to categorical aid to achieve vertical equity.

Important questions to ask about state aid are: How does your state decide how much to spend on aid to school districts; how is it allocated between basic and categorical aid; what categorical programs are funded and at what levels; and are weights used. and, if so, what are those weights? Answers to all of these questions are decided in the political domain of the state legislature and governor. For example, 49 out of 50 states provide additional funding for special education; and, of those, 20 use some type of weighting (Verstegen and Jordan 2009). However, only 34 states provide additional funding for low income students and only 37 do so for ELLs. Because urban school districts generally have relatively large numbers and high percentages of low income students, ELLs, and students with special needs, they may find themselves disadvantaged by state systems that either do not fund these services or do so in a minimal fashion.

In spite of the complexity of many state education funding systems, those concerned about the welfare of urban children must educate themselves about the various funding formulas to ascertain whether or not their school districts are receiving adequate and equitable funding. Then, armed with this information, they need to become politically active, for example, by communicating their concerns individually, or in concert with like-minded grass roots organizations, with elected officials. Clearly, funding to provide equal educational opportunity for urban students is essential. Concerned parents and community members may be surprised to learn that their elected officials do not fully understand the state education funding system, much less how it may work to the benefit or detriment of urban school districts. As such, individual citizens can serve an important role in the political arena by educating their elected representatives.

The Funding Needs of Urban School Districts

The stark reality is that urban school districts require a higher level of per pupil funding than most other types of school districts. There are two major reasons for this: cost factors associated with urban areas; and the higher incidence of at-risk students. With regard to cost factors, the cost of living in general is higher in urban areas than nonurban communities. This translates into higher costs of goods and services not only for individuals but also for schools. While some may argue that the larger size of urban school districts should result in economies of scale, for example, in purchasing supplies and equipment, this is not always the case, and even where it is, the savings may be offset by higher labor and operational costs. In general, workers in urban areas are more likely to be unionized resulting in higher wages and benefits than those for nonunionized employees. Because personnel costs consume on average 70% to 80% of school district budgets (Thompson et al. 2008), urban schools are disproportionately affected. In addition, urban school districts tend to have older facilities than those in nonurban school districts, and these are generally more expensive to maintain and less energy efficient (Crampton, 2003).

Urban school districts also have a higher incidence of at-risk students who require additional fiscal resources to be academically successful. Here, at-risk is defined as at risk of academic failure or failure to graduate high school (Stringfield and Land 2001, vii). More specifically, categories of risk include poverty, disability; minority race/ethnicity; ELL; urbanicity; and low parental education attainment (Land and Legters 2002). There exists now considerable research evidence that these students need additional resources to be academically successful (Duncombe, 2005; Baker and Duncombe 2004; Duncombe, Lukemeyer, and Yinger 2003; Grissmer, Flanagan, and Williamson 1998; Reschovsky and Imazeki 1996). Yet, as noted earlier, urban school districts spend approximately the same amount per pupil as their nonurban counterparts.

Given the research evidence above, it is disturbing that 16 states do not provide additional funding for low income students, and 13 do not fund ELL programs (Verstegen and Jordan 2009). In addition, only 13 states provide additional funding for racial/ethnic minority students while just 10 states fund programs to improve parental education attainment (Vesely et al. 2008). Finally, only two states target additional funding to urban students. Also of concern to urban school districts is state aid for school facilities construction, renovation, additions, or retrofitting. Here, only 39 states provide any assistance, and in those states that do, the aid rarely covers the full cost (Verstegen and Jordan 2009). Yet, there is emerging research evidence that points to the importance of the physical environment of schools in student academic success (Crampton 2009).

Those committed to the academic success of urban students must hold their local school boards and state elected officials accountable for the inadequate and inequitable funding of urban school districts. At the same time, adequate funding of urban schools alone will not
address the systemic problems of America’s urban centers that affect children and their ability to learn (Anyon, 2005). Land and Legers’ (2003) finding that urban students are at risk simply because they live in urban areas, independent of other risk factors, is a case in point. They hypothesized that urban environments impact student learning because they are more stressful for students due to issues such as crime and safety. Anyon (2005) added: low job availability; high tax rates; insufficient public transportation; and the lack of affordable housing. All of these contribute to instability in children’s lives and the high rate of mobility for urban students. High mobility and high rates of absenteeism in turn lead to lower academic achievement and graduation rates. Although adequate, equitable, and stable funding for urban schools is critical, it alone is not sufficient if the conditions in which urban children live are not improved. This fact complicates the task facing those whose goal is to see urban students be academically successful. In order to improve academic success, advocates will need to build coalitions with other individuals and groups who are working toward improving the overall urban environment.

Conclusion and Recommendations
Public elementary and secondary schools in the United States are called upon by society and government to achieve many aims. Historically, they have expected schools to prepare students to become active participants in a democratic society and to equip them with the basic literacy and numeracy skills needed as consumers and workers. More recently, public schools have been charged with providing students with critical thinking skills required to be successful in an information-rich, global economy. Because many urban school districts have lower standardized test scores and graduation rates than their nonurban counterparts (Schneider 2007; Swanson 2004), they have become a focus of local, state, and national concern. At the same time, the demographics of urban school districts differ significantly from their nonurban school counterparts (with the exception of some remote/rural school districts); that is, urban school districts have a higher percentage of students in poverty, students with disabilities, ELLs, and ethnic minority students. Research evidence supports additional financial resources so that these children will be academically successful; yet the data show that on average urban school districts spend at about the same level as nonurban districts.

Because state aid and local property taxes comprise the majority of school district revenues, this article focused on a framework that enables those concerned about the academic success of urban students to engage in more productive, solution-oriented discussions. The concepts of equity, adequacy, efficiency, accountability, and stability provide a framework for analysis of education funding systems to ensure that all children are treated fairly, especially those with additional needs and challenges. This article ends with a set of recommendations for those who would like to become engaged in such a discourse:

- Use the framework of equity, adequacy, efficiency, accountability, and stability to engage others in discussions of urban school funding and student success.
- Challenge unsupported, defeatist statements and negative generalizations about urban schools, students, and their funding wherever they appear, such as media accounts, reports, or pronouncements by “experts” or elected officials.
- Seek evidence-based and research-based information from reliable, objective sources; and use such information in your discourse.
- Be wary of reports whose authors/publishers do not (or will not) cite data/information sources or do not fully explain the research or analytic methods used to reach conclusions.
- Exercise your right to access public documents, like school and district budgets and audits. Some schools and districts even make these available on their web sites.
- Attend community, school council, and school board meetings when school/district budgets and finance are discussed. Ask questions and express your views. If you are unable to attend these meetings, ask if they can be viewed on local cable television programs or the Internet in real time or later. Follow up with emails or phone calls to ask questions and express your views.
- Because state aid is often a significant part of urban school districts budgets, contact your state legislators and governor during state budget discussions to advocate for equitable, adequate, and stable funding for urban students.
- Build or join coalitions with individuals and organizations concerned about urban issues such as jobs, safety, health, and affordable housing in order to pressure elected officials to address all of the factors that affect urban students’ academic success.

Endnotes
1 Others like Fermanich and Kimball (2002) have been somewhat less harsh in their criticism stating urban schools can improve student achievement by reallocation of resources.
2 This is problematic as there are a number of school districts across the country with student enrollments of 35,000 or more that would not be considered urban. For example, some states, like Florida, have only county school districts, many of which exceed 35,000 students.
3 In addition, the largest school district in any state may join so that, for example, a sparsely populated state such as Wyoming whose largest city, Cheyenne, population 55,314, would be eligible to join CGCS.
4 Such as the high incidence of student in poverty and English language learners.
5 2008 represented the latest year of national data available.
8 The Wisconsin and national data presented here refer to normal operating expenditure. As such, expenditures on capital outlay or facilities are not included. In the case of Wisconsin, food and community service were also excluded to make the expenditure data comparable to national data.
9 The best known federal legislation is the No Child Left Behind Act of 2001 (NCLB). However, prior to passage of NCLB, most states had in place academic standards and statewide assessments (Goertz and Duffy 2001).

10 Note that the sources of federal and state aid are federal and state tax revenues. These usually include federal and state income tax revenues as well as state sales tax revenues.

11 Urban school districts might also receive private funds, such as grants from philanthropic organizations, but generally speaking these comprise a very small percentage of total funding.

12 The Milwaukee Public Schools is a notable exception to the national averages in that the district receives approximately 80% of its operating budget in state aid.

13 Note that some urban school districts, under their respective state laws, may not need to obtain voter approval. However, in some cases urban school districts may need the approval of other governmental bodies, such as the city council.

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