Equity and Equalization

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Topics of Discussion

- Equity Concepts
- Equalization Concepts
- Minnesota Examples
EQUITY

- One of many often conflicting policy goals for education finance programs. Others include:
  - Adequacy
  - Efficiency
  - Stability
  - Local Control
  - Simplicity
  - Accountability
EQUITY

◆ Is it fair?

◆ Involves value judgments about the fairness of the K-12 education finance system

◆ No single generally accepted concept or measure of equity
Equity Concepts *

Fair for whom?
- Children?
- Taxpayers?

*Source: Equity concepts are from Berne & Stiefel, 1984, 1999
Equity Concepts *

What should be distributed fairly?
- Revenues per student?
- Physical inputs (e.g., class size)?
- Outcomes (e.g., achievement)?
Equity Concepts

*How is equity to be defined?*

- **Horizontal Equity**
  - Equal treatment of equals (e.g., comparable baseline funding)

- **Vertical Equity**
  - Appropriately unequal treatment of unequals (e.g., adjustments for necessary cost differences)
Equity Concepts

How is equity to be defined?

Fiscal Neutrality

- Lack of relationship between local wealth and revenue/pupil or physical resources
Equity Concepts

How is Equity to be Defined?

- Ex Ante vs Ex Post Measures

- Unit of Analysis
  - District
  - School site
  - Sub-populations
Equalization

- Strategies included in state school finance formulas to promote equity
  - Wealth equalization
  - Needs equalization
  - Cost equalization
Wealth Equalization

- Funding mechanisms that promote fiscal neutrality by mitigating the impact of differences in local wealth on the ability to raise local revenue for K-12 education.

- Examples:
  - Equalization formulas
  - Full state funding
  - Limits on revenue differences
Equalization Formulas

- State guarantees a certain level of revenue per need unit (e.g., per pupil or per capita) for each unit of local tax effort, regardless of local wealth.

- State aid per need unit increases as local wealth per need unit decreases to guarantee a certain tax base per pupil unit.
Fixed-Level Equalization Formulas

- Fixed amount per need unit from a uniform local tax rate.

- Example:
  FY 2002 General Education Formula: all districts guaranteed $4,068 per pupil unit from a uniform levy of 32% of ANTC
Variable-Level Equalization Formulas

- Revenue per need unit varies depending on local referendum, approved expenditures, or state formula

- State provides a percentage of total revenue depending on district tax base per need unit in relation to guaranteed tax base (equalizing factor)
Variable-Level Equalization Formulas

Example: FY 2005 Operating Referendum

- Tier 1 – (first $405/Pupil Unit)
  Local Share = District RMV / PU
  $476,000

- Tier 2 – (remainder up to $856/PU)
  Local Share = District RMV / PU
  $270,000
Aid Recapture

- Sometimes used with equalization formulas
- If formula tax rate generates more than the guaranteed revenue, the difference is subtracted from other state aids
- Used in MN (called “levy equity”):
  - General educ until FY 2002
  - Community educ until FY 1999
Full State Funding

- MN General Education formula beginning in FY 2003
- Many categorical formulas
- Key issue is whether the amount provided by the fully state funded formula is sufficient to cover the need, or if local supplements are required / allowed
Limits on revenue differences

- MN Examples:
  - Cap on operating referendum revenue to limit high end of continuum
  - Equity revenue to narrow gap between highest & lowest revenue districts
  - Statutory levy limits for each type of levy
Limits on revenue differences

- MN Examples:
  - Statutory requirement to track unrestricted revenue differences and recommend options for preventing increases in ratio of 95th to 5th percentiles to legislature (MS 127A.51)
Ratio of 95th to 5th Percentiles - General Ed

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Needs Equalization

- Adjustments to funding levels for varying educational needs of learners
  - Grade level differences
  - At-risk learners / poverty
  - Limited English proficiency
  - Special education
Needs Equalization

MN Examples:

- Grade level pupil weights
- Compensatory—amount per student eligible for free or reduced price lunch varies with site-level poverty concentration
- Limited English proficiency – base allowance of $700 per LEP student plus up to $250 for concentration
- Special education --% of cost
Cost Equalization

- Adjustments to funding levels for differences in the cost of providing equivalent educational services
  - Pupil transportation
  - Necessary small schools
  - Declining enrollment
  - Teacher characteristics
  - Regional price differences
Cost Equalization

- MN examples:
  - Pupil transportation—regression model based on population density
  - Sparsity—small, geographically isolated schools
  - Declining enrollment – 77 / 23
  - T & E being phased out
  - No adjustment for regional price differences