

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 = $\frac{\text{District RMV}}{\text{PU}}$
\$476,000
 - ◆ Tier 2 – (remainder up to \$856/PU)
Local Share = $\frac{\text{District RMV}}{\text{PU}}$
\$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

FY 1992	1.371
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FY 1999	1.306
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FY 2000	1.285
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FY 2001	1.268
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FY 2002	1.202
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FY 2003	1.187
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FY 2004	1.205
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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