



## Finance/Funding

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### Background

More than half a century ago Adlai Stevenson said, "The most American thing about America is the free common school system." The public school system in the United States is free only in the sense that all students have a right to attend. According to the National Center for Education Statistics (NCES), it cost an average of just over \$6,500 per student to keep public elementary and high schools (known in the education community as "el-hi") operating in academic year 1998-99. Overall the revenues raised for that school year totaled over \$347 billion.

These revenues came from the federal government, state governments, and local government. (Local government includes individual towns as well as larger municipalities and county governments.) The bulk of that money (nearly half) came from the states. The federal government contributed only 7.1 percent of the revenues. That may seem low, but in fact the federal government has historically contributed only a small portion of public education funds.

Funding for education has always been a contentious issue. Some people believe that education funding should be much higher than it is to ensure that students get the best education they can with the best resources and the most motivated teachers. Others believe that educational expenses should be kept in check so that schools will focus on teaching students instead of adding educational "bells and whistles" that do little to provide real educational value. What constitutes bells and whistles, of course, makes the debate more challenging. In the early and mid 1980s many education experts argued that computers in the classroom were a waste of tax dollars. By the mid 1990s it was clear that computers were in the classroom to stay, a necessary and essential element in the education process.

Still, there are many other issues for people to debate. For example, does increased funding increase student achievement? How long should school equipment last before it is replaced? Do school districts need to fund extracurricular activities, such as athletic teams? The issue of school vouchers (discussed in detail in a separate entry) has raised enormous questions in some communities. The idea of allowing parents to earmark some of their tax dollars for private schooling has generated much controversy. Clearly, taking money away from the public schools puts them at a greater financial disadvantage than they already are. Yet it does children little good to know that the public school they attend is in the first year of a turnaround that may last several more years. Regardless of the many controversies surrounding public education funding, it remains vitally important and guarantees that all children in the United States have access to school.

## What Is Funded?

Educational funding covers a wide variety of expenditures, all of which are necessary to keep school systems running. The U.S. Department of Education defines *current expenditures* as those that take care of a schools' day-to-day operations. Current expenditures include instruction (for example, teacher salaries, textbooks and other equipment), noninstruction (such as cafeteria services and in-school bookstores), and support services (including nurses, libraries, administration, and maintenance). Other expenditures include *facilities equipment and construction*, which covers new school construction including renovation and expansion of older buildings. It also includes the purchase of land on which to build new school structures. *Replacement equipment* includes expenditures for items that are purchased for the long term (furniture, for example). School districts also spend money on programs such as adult education, community colleges, and various other programs that are not actually a part of public el-hi education. School districts often have to borrow money to meet major expenses (such as new school construction) even after they receive government funding. Along with the other expenditures, schools also have to figure in interest expenses as they pay back long-term debt.

## Sources of Funding

Before reading about federal, state, and local funding, it is important to remember that each state has a different breakdown of funds, based on such factors as how much federal funding it gets. The percentages below are average figures for the 50 states and U. S. territories. Using the 1998-99 figures listed above, some states get more in federal funding (in Mississippi the figure was 14 percent), while others got significantly less (in New Jersey the number was 3.7 percent). Likewise, state contributions can vary significantly. In Vermont, 74.4 percent of school funding came from the state, while in New Hampshire only 8.9 percent came from state funding.

Much of these rates are based on the types of programs that exist within each state or the internal tax structure. A state that has more federal education programs for children may end up with a higher percentage of federal funds overall. In general, the breakdowns tend to work. That said, whenever one source cuts back, it has an effect on the other sources. If, for example, the federal government were to decrease its educational contribution across the board by two percent, that would mean states and local communities would have to make up the shortfall. If either of those sources made cutbacks, the remaining source would feel more pressure to contribute more. If the necessary funding was simply not there, the result would either be higher taxes or reduced services.

### **Federal Revenues**

The federal government contributes money to schools directly and indirectly. Part of this funding comes from the U. S. Department of Education, but other agencies contribute as well. The U. S. Department of Health and Human Services, for example, contributes to education through its Head Start program, while the U. S. Department of Agriculture funds the School Lunch program for students who cannot afford to pay for their own lunches. Even with these added contributions, the federal government accounts for less than 10 percent of school revenues. Using its own words, the Department of Education has long seen its role as "a kind of emergency response system" that fills gaps when state and local sources are inadequate to meet key needs. (For example, the 1944 **GI BILL**, a post-secondary program rather than el-hi program, helps fund college educations for nearly eight million World War II veterans.)

The Education Department's measures are not always merely stop-gap. During and after World War II Congress passed the **LANHAM ACT** (1941) and the Impact Aid laws (1950) to compensate school districts

that housed military and other nontaxable federal installations. Today, the federal government continues to compensate communities that house such institutions. Moreover, Title I of the Elementary and Secondary Education Act of 1965 guaranteed aid to disadvantaged children in poor urban and rural communities. The Higher Education Act, passed the same year, provided financial aid programs to help qualifying students meet college expenses.

### ***State Funding***

The states provide most of the funding that keeps public el-hi schools running in the U.S. For the academic year 1998-99, state sources accounted for 48.7 percent of total school revenues. The states raise this money through a variety of means including various taxes. Some states raise money for education through state-sponsored lottery games. Doing so is somewhat controversial because, while the schools may benefit from the added revenue, some see the lottery as nothing more than state-sponsored gambling, a potentially addictive activity that particularly affects poorer individuals.

Each state has an Education Department that oversees state programs (such as state university systems) as well as individual school districts. In some states a governing body, such as the Board of Regents in New York, plays a significant role. The New York Board of Regents provides a series of examinations for students to establish proficiency in various subjects based on established state standards. Many students in New York receive a Regents diploma as well as their regular school diploma when they graduate high school.

State funding for education can cause huge disagreements among communities with the state. The question state governments face constantly is how to distribute the revenues evenly to ensure that each school district gets its fair share. New York and Pennsylvania offer two examples of how state funds can be fought over. New York City holds nearly half the population of the state, yet it receives proportionally less per student from the state government than other districts in New York. Residents of upstate New York have little desire to see their state tax dollars sent to New York City schools, which they see as too bureaucratic and wasteful. Residents of central Pennsylvania feel the same about education expenditures in Philadelphia and Pittsburgh.

Urban and rural areas have separate needs and challenges. A large city may have an established infrastructure that allows its school officials to approach private companies for assistance. A local computer company may donate computer equipment to the city schools, for example. Yet city schools are often decrepit (many school buildings in New York City are heated by coal furnaces), classes are crowded, and teacher turnover is high. In rural areas, classes are unlikely to be overcrowded, and teachers may stay longer in one place. But having fewer students can also mean having access to fewer resources, and there may not be enough students in a given district to justify the expense of, for example, a special education program for developmentally disabled children.

### ***Local Funding***

Local sources make up nearly as much revenue as state sources. Local sources includes intermediate revenues from county or township governments, but the bulk of local funding comes from individual community school districts. Some of the local revenues come from sources such as revenues from student activities and food services. Most of the money comes from property taxes, which are raised to cover all community services as well as education. All homeowners pay taxes based on a local [ASSESSMENT](#) of their houses. Local school budgets are mapped out by elected officials, including mayors and council members, as well as the local board of education. Residents are able to vote on local school budgets in regularly scheduled elections.

Funding schools with local dollars has benefits and drawbacks. The primary benefit of local funding is accountability. Taxpayers can see exactly how their money is being spent. They can see the new cafeteria at the high school, the new science lab equipment, the new textbooks. The local elected officials who submit

school budgets to the voters know that if they fail to keep the promises they make, those same voters will remove them from office in the next election.

Members of the community also have more say in how local dollars are spent. Those who have children in the school system will be particularly interested in how tax dollars are spent. Some of them may become quite active in school affairs by participating in the Parents Teachers Association (PTA) or on the local board of education.

This arrangement can be a drawback to local funding as well as a benefit. Because members of the community know they have a say in the school budgetary process, they may be more likely to examine each expenditure carefully. This scrutiny is not the problem. What creates difficulties is when local residents perceive expenses as unnecessary. Those who no longer have children in the school system may be reluctant to see their property taxes increase for programs that will bring them little if any benefit. Senior citizens likewise may be reluctant to support tax increases (even though in many communities they get a property tax break). People who feel that teacher salaries are already too high or that the old gym is perfectly fine for the students or that new instruments for the marching band are an extravagance, may vote down any school budget increases.

Local elected officials need to be able to show community residents the positive side of spending more money on the schools. Better-equipped schools attract better teachers. Better teachers prepare students better, and more students achieve success. This improvement in turn means more young families, since for young families the quality of the schools is the most important factor when they choose a place to live. As the community becomes more attractive to outsiders, property values will go up; often the rise in value far more than offsets the extra cost incurred by taxes. Of course, higher property values may also mean higher tax assessments, so for the homeowner who has no children and who has no plans to move, the process of increased values may feel like a personal financial burden rather than tax dollars at work. For these and other reasons local funding is more complex than it would appear to be.

### **Sources of Information**

The federal government offers a number of sources of revenue information through the U. S. Department of Education (which oversees NCES), and other sources. Each state has its own education department, which can provide information about state education funding. Because education is such a critical issue to so many people, elected officials are a good source of statistical information on school revenues. Local government sources and boards of education are useful resources for information about local funding. Most public libraries compile information about local school revenue issues as well.

### **Additional Resources**

*Funding Sources for K-12 Schools and Adult Basic Education.* Oryx Press, 1998.

*Goals 2000: A Progress Report.* U. S. Department of Education, 1995.

### **Organizations**

*National Center for Education Statistics (NCES)*  
1990 K Street, NW, Room 9103  
Washington, DC 20006 USA

## Encyclopedia of Everyday Law: Finance/Funding

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Primary Contact: Gary W. Phillips, Acting Commissioner

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### *National School Boards Association (NSBA)*

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