



Rockefeller Institute Policy Brief

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FISCAL REPORT: K-12 EDUCATION SPENDING BY STATE AND LOCAL GOVERNMENTS: DROP IN STATE REVENUES AFTER LAST RECESSION CONTINUED IN 2005

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Elementary and secondary education (K-12) is the largest domestic policy function state and local governments pay for out of their own revenues. Since the early 1980s, it has comprised a nearly constant share of total state and local spending, ranging between 20 and 21 percent. In inflation-adjusted dollars, however, K-12 spending per pupil has grown from \$6,118 per pupil in 1981 to \$9,810 in 2005 (in 2005 dollars), an increase of over 60 percent.

Yet real spending per pupil has declined since 2002. This decrease in funding has largely been a result of a drop in state revenues, and the decrease in state revenues has been particularly large among low-spending states, that is, states that have traditionally spent the least per pupil. By contrast, revenues from local sources have remained stable, while the federal government's small fiscal contribution has continued to grow steadily.

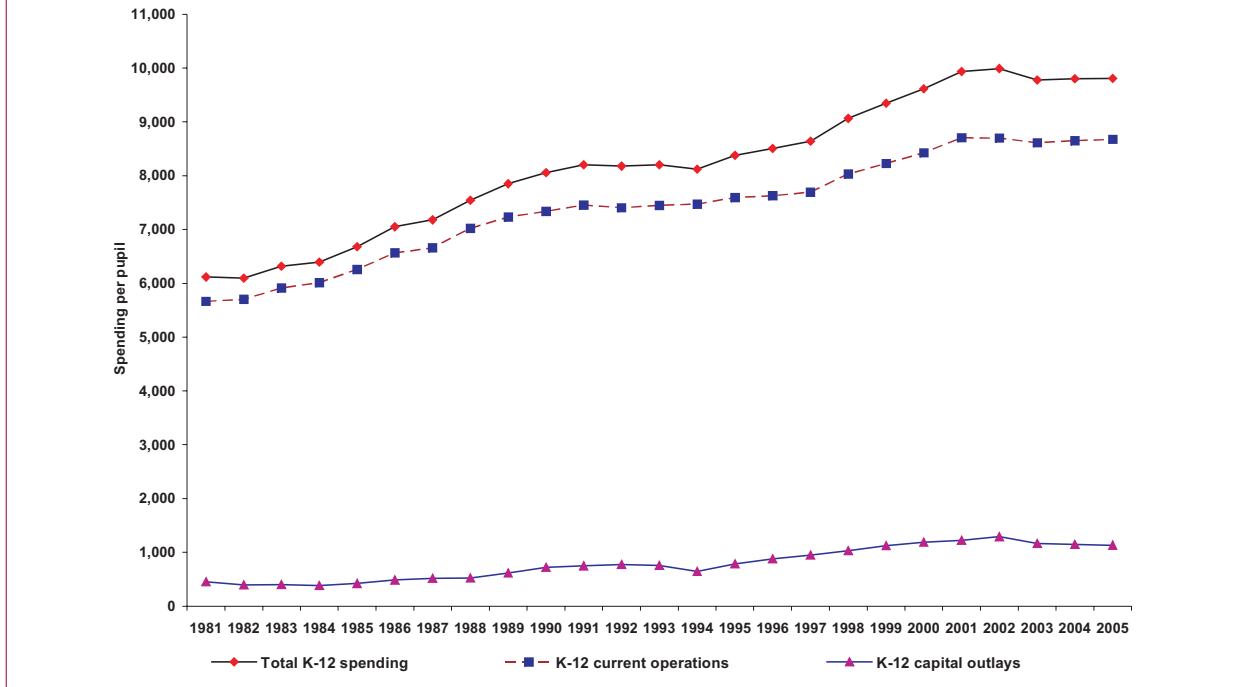
Local revenues, and the property taxes that local districts and governments often rely on, have thus become a larger component of the K-12 financial system. This recent shift toward local sources of revenue reverses the earlier trend in the 1990s toward an increasing reliance on state funds. Because local sources of revenue (such as property taxes) often vary a great deal across school districts, and because the shift toward local revenues is especially strong among low-spending states, these recent developments, if they continue, may lead to greater variation in district-level resources.

Data

Data used in this report come from three sources: (1) the U.S. Census Bureau's Survey of State and Local Government Finances; (2) the U.S. Census Bureau's Public Elementary and Secondary Education Finances; and (3) the U.S. Department of Education's National Center for Education Statistics (NCES).¹ This report focuses on public schools and public school enrollment. All reve-

1 Data are accessible from the following website addresses: (1) the U.S. Census Bureau's Survey of State and Local Government Finances, from <http://www.census.gov/govs/www/estimate.html>; (2) the U.S. Census Bureau's Public Elementary and Secondary Education Finances, from <http://www.census.gov/govs/www/school.html>;

Figure 1. Total State and Local Spending on K-12 Education, Per Pupil, Constant 2005 Dollars, 1981-2005



Source: The U.S. Census Bureau’s Survey of State and Local Government Finances; and the U.S. Department of Education’s National Center for Education Statistics, NCES Common Core of Data (CCD).

nues and expenditures are adjusted with Price Indices for State and Local Government Consumption Expenditures and Gross Investment for K-12 Education and are expressed in constant 2005 dollars.

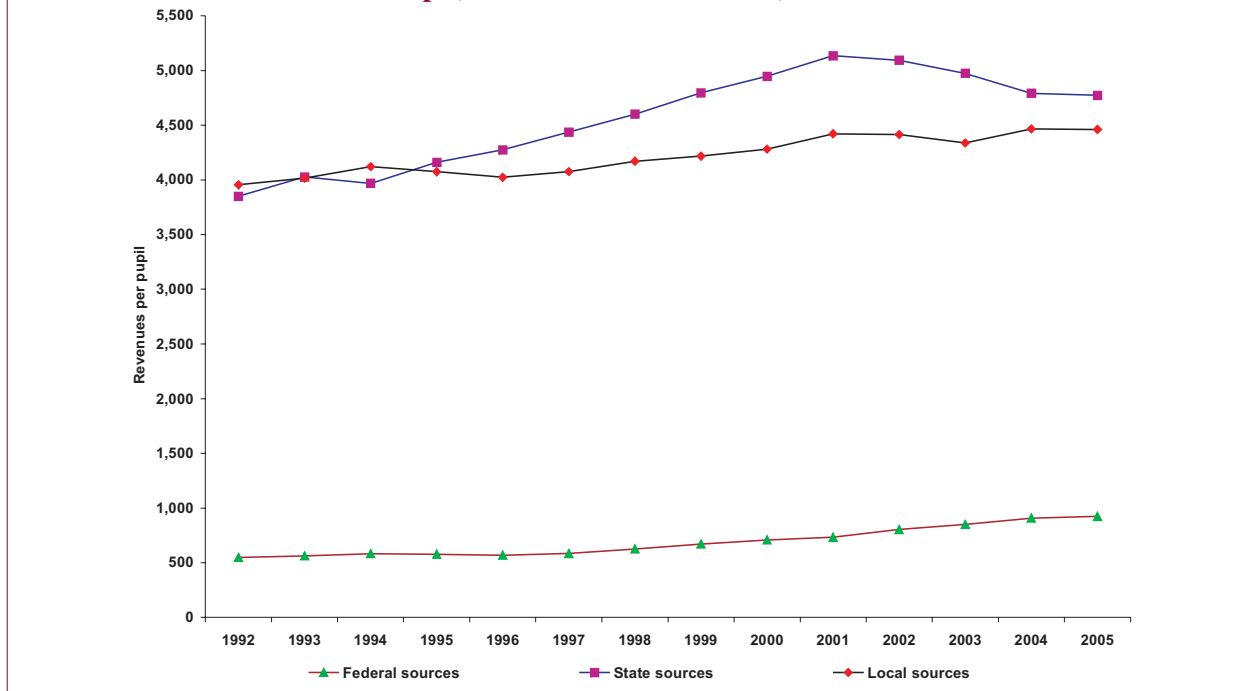
Trends in K-12 Education Spending²

As Figure 1 shows, education spending per pupil grew most years between 1981 and 2005. Even after adjustments for inflation, per-pupil spending on K-12 increased 60 percent from 1981 to 2005, from \$6,118 per pupil to \$9,810 (in 2005 dollars). However, three brief periods showed little or no growth — 1981-82, 1991-94, and 2002-05 — all of which were times when state revenues were tight due to economic slowdowns.

and (3) the U.S. Department of Education’s National Center for Education Statistics, NCES Common Core of Data (CCD), from <http://nces.ed.gov/programs/digest/d95/dtab039.asp> (Table 39. Enrollment in public elementary and secondary schools, by level and state: Fall 1980 to fall 1994), and http://nces.ed.gov/programs/digest/d05/tables/dt05_033.asp (Table 33. Enrollment in public elementary and secondary schools, by state or jurisdiction: Selected years, 1990 through 2005).

2 For a historical review on K-12 education revenues and expenditures, see E. S. John, J. Hill, and F. Johnson, *An Historical Overview of Revenues and Expenditures for Public Elementary and Secondary Education, by State: Fiscal Years 1990-2002*, Statistical Analysis Report (Washington, DC: National Center for Education Statistics, U.S. Department of Education, January 2007).

Figure 2. Total Revenues for K-12 Education Across Revenue Sources, Per Pupil, Constant 2005 Dollars, 1992-2005



Source: The U.S. Census Bureau's Public Elementary and Secondary Education Finances.

The largest and longest decline in inflation-adjusted K-12 spending has occurred since the most recent recession of 2001-02.³ After a large drop between 2002 and 2003, K-12 spending per pupil has remained flat through 2005. Spending in 2005 is still lower than its peak in 2002, when expenditures were \$9,992 per pupil (in 2005 dollars).

During these periods of slow spending growth or decline, governments have typically been willing to make larger cuts in school capital projects than in current operations.⁴ For instance, the share of total spending going to capital outlays in public schools increased until 2002 from about 6 percent to 13 percent — but the share going to capital outlays declined to 12 percent in 2005.

Cuts in state revenues account for most of the recent decline in K-12 spending per pupil. Figure 2 shows trends in sources of revenue for K-12 education across three main revenue sources — federal, state, and local — from 1992 to 2005.⁵ State and local revenues have long been the main fiscal

3 Revenue declines, after adjusting for inflation, occurred in each of the four quarters from July 2001 through June 2002. For more information on general state revenue patterns and the economy, see Alison Grinnell and Lucy Dadayan, "Fourth Quarter 2006 State Revenue Report — A Cautionary Tale," *State Revenue Report*, No. 67 (Albany, NY: Rockefeller Institute, March, 2007).

4 State and local spending for current operations also decreased after the 2001 recession by 3.6 percent from 2002 to 2004. See A. Reschovsky, "The Impact of State government Fiscal Crises on Local Governments and Schools," *State and Local Government Review* 36 (2) (Spring 2004): 86-102.

5 When we use the terms "state revenues" and "local revenues" in this report, we refer to money raised by these governments from their own revenue sources. We exclude money transferred from higher levels of government.

supports for K-12 education. Until 2001, state funding had increased nearly every year since 1992. State support per pupil also grew as a share of total K-12 spending during most of this period, increasing from 46 percent in 1992 to a peak of 50 percent in 2001. However, state support has dropped to 47 percent of total revenues by 2005.

In the same period, local revenues for K-12 education grew more or less steadily, from \$3,956 in 1992 to \$4,463 in 2005 (in 2005 dollars), except for small declines in the mid-1990s. Overall, local revenues declined as a share of total education funding, from 47 percent in 1992 to only 43 percent in 2003, though the role of local funding rebounded slightly in 2004 and 2005, when it accounted for 44 percent of total revenues.

Federal grants per pupil grew steadily during this period, from \$548 in 1992 to \$923 in 2005 (in 2005 dollars). Likewise, federal grants as a share of total K-12 education revenues increased from 7 percent to 9 percent during the same period.⁶

In general, state spending has been the most volatile source of education funding, growing during economic expansions like the 1990s and contracting during or shortly after periods of fiscal stress — while revenues from the federal and local governments have generally helped to stabilize education spending.⁷

Differences in Fiscal Trends Between High and Low Spending States

We found that these trends differed substantially across states, and that one important divide was between states that traditionally have spent large sums on a per-pupil basis, and those that have spent less per pupil. To show these differences, states were classified into two equal groups: high-spending and low-spending states, based on average state and local spending on K-12 education per pupil from 1992 to 2005.⁸ (For more information on state classification and average K-12 spending per pupil, see the Appendix.) In the group of 25 high-spending states, the average state spent \$10,825 per pupil during this period, while low-spending states spent an average of only \$7,917 (in 2005 dollars).⁹

For example, “state revenues” does not include money transferred from the federal government to the states. “Local revenues” does not include money received from the federal and state governments.

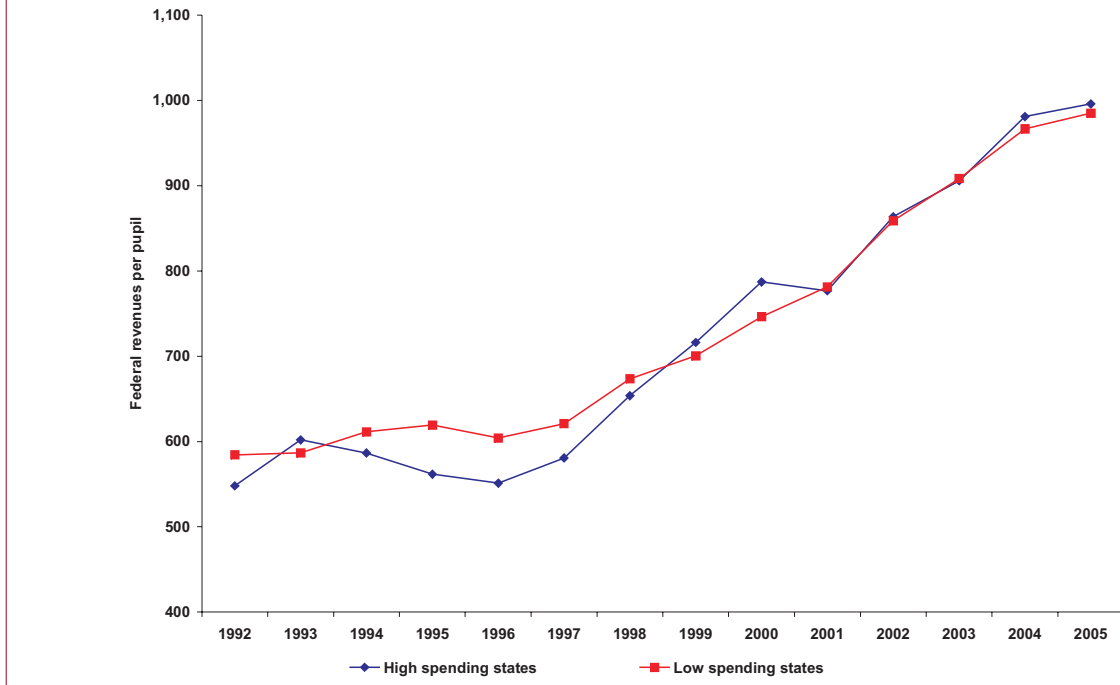
6 Although federal grants constitute a small portion of total revenues for K-12 education, they may have significant influence on revenue allocation across different K-12 functional areas and K-12 policy outcomes. For more details, see C. T. Cross and M. Roza, *How the Federal Government Shapes and Distorts the Financing of K-12 Schools*, School Finance Redesign Project, Working Paper 1 (Seattle, WA: The Daniel J. Evans School of Public Affairs, University of Washington, 2007).

7 This finding is consistent with the conclusions from other studies on the effects of the 2001 economic recession on state supports for K-12 funding. For more details, see, e.g., J. Alm, R. D. Buschman, and D. L. Sjoquist, “Fiscal Problems and Education Finance,” *State Tax Notes* (May 28, 2007): 637-654; L. Kalamodkidis, and A. Reschvosky, “States’ Responses to the Budget Shortfalls of 2001-2004,” *Challenge* 48 (1) (January-February 2005): 76-93; and A. Reschvosky (2004).

8 High-spending states are states whose average spending is above the median state, while low-spending states are those that fall below the state median. This classification is remarkably stable. That is, the classification of states between the two groups remains the same regardless of whether the classification is based on average spending over the entire period, or state spending on education each particular year.

9 Averages are unweighted mean values across states within each group of states.

Figure 3. Federal Grants, Per Pupil, Constant 2005 Dollars, 1992-2005



Source: The U.S. Census Bureau's Public Elementary and Secondary Education Finances.

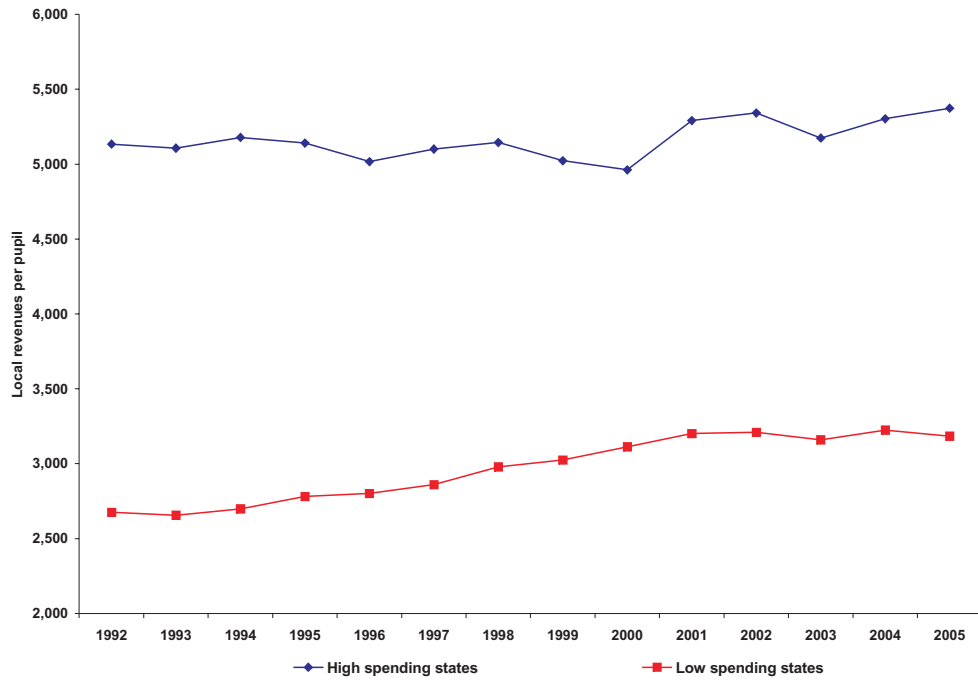
High- and low-spending states differ in several other ways. States that spend more than the median amount per pupil on K-12 education are more likely to be in the Northeast, North Central, and Northwest regions, and they tend to be wealthier states, i.e., have stronger tax bases, measured, for instance, in terms of higher state per capita personal incomes. Low-spending states are more likely to be Border, Southern, and Western states, and they generally have relatively low state per capita incomes.

Figure 3 shows that the large difference in expenditures between high- and low-spending states were not due to differences in federal education grants. In fact, no consistent differences in federal grants per pupil existed between the two groups of states over the period 1992 - 2005.

Figure 4 shows the different trends in local revenues per pupil for K-12 education for high- and low-spending states. Between 1992 and 2005, local revenues per pupil changed little among the higher-spending states. However, local revenues for low-spending states grew substantially, especially in the 1990s, after which local revenues per pupil flattened out. As a consequence, the gap in local revenues between high- and low-spending states narrowed from \$2,458 in 1992 to \$1,849 in 2000, after which it widened slightly to \$2,190 in 2005.

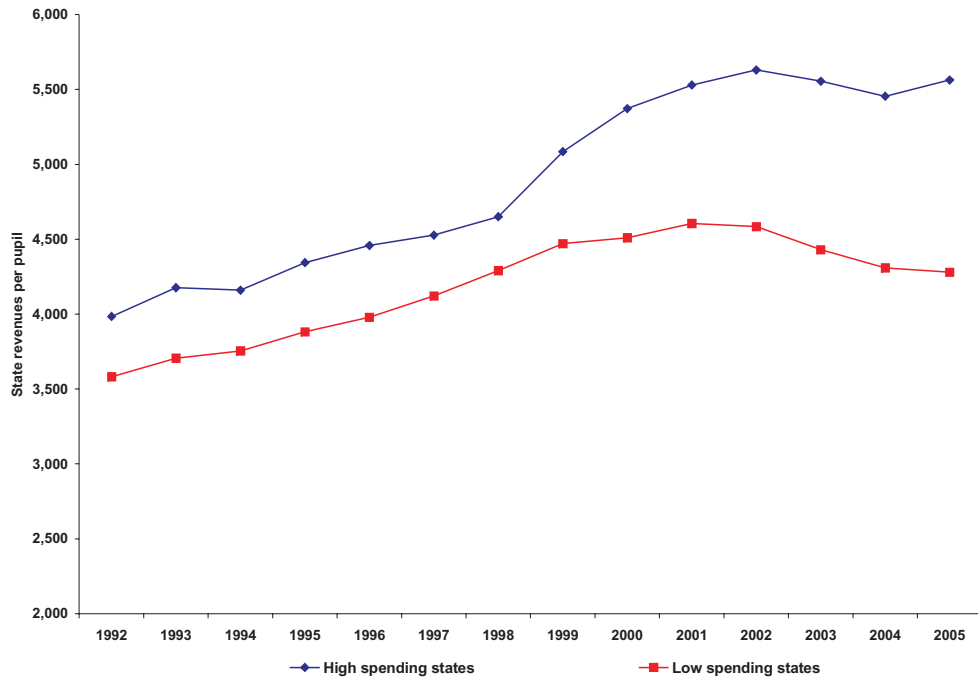
By contrast, as displayed in Figure 5, the gap between high- and low-spending states in state revenues applied to K-12 education grew substantially during this period. In high-spending states, state expenditures increased rapidly through 2002, fell in 2003 and 2004, and then resumed growth in 2005. Low-spending states, however, began to see a drop in state revenues earlier, in 2001, and their decline in state revenues has been greater and more persistent since then. The difference in state funding per pupil between high- and low-spending states thus increased from \$402 in 1992 to \$1,282 in 2005.

Figure 4. Revenues From Local Sources, Per Pupil, Constant 2005 Dollars, 1992-2005



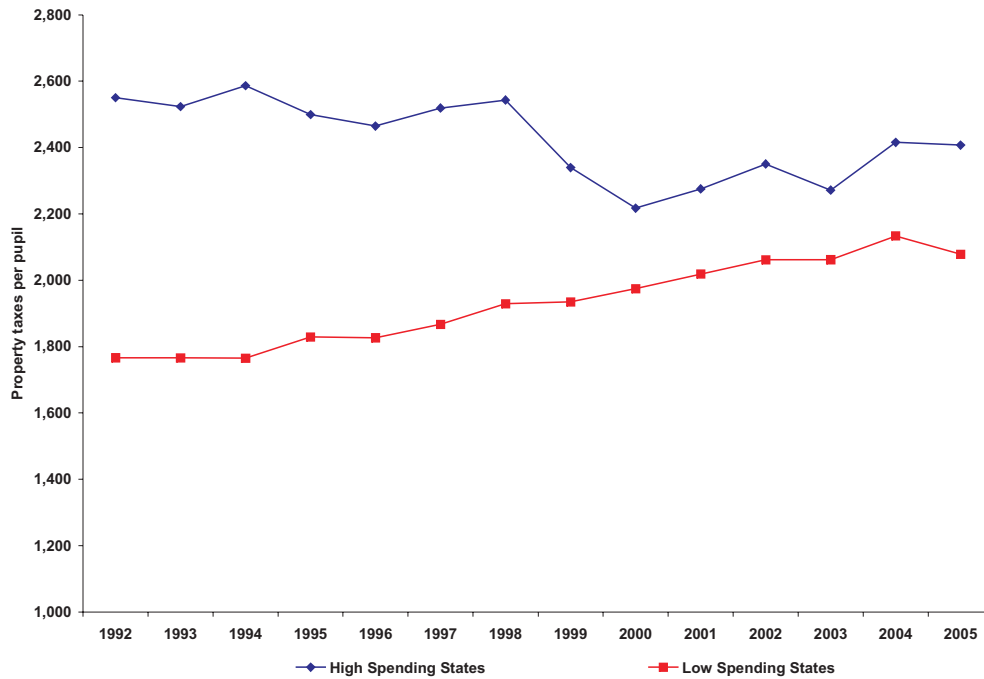
Source: The U.S. Census Bureau's Public Elementary and Secondary Education Finances.

Figure 5. Revenues From State Governments, Per Pupil, Constant 2005 Dollars, 1992-2005



Source: The U.S. Census Bureau's Public Elementary and Secondary Education Finances.

Figure 6. Revenues From Property Taxes, Per Pupil, Constant 2005 Dollars, 1992-2005⁸



Source: The U.S. Census Bureau's Public Elementary and Secondary Education Finances.

As schools in low-spending states rely increasingly on local revenues for financial support, they have also come to rely more on property taxes, a major source of local funding. Figure 6 shows the steady growth of revenues from property taxes among low-spending states — until a small decline in 2005. High-spending states, by contrast, have generally reduced their reliance on property taxes during this period, especially in the late 1990s, when state-level revenue sources grew quickly (see Figure 5). However, since 2000, property tax revenues have grown moderately even among the high-spending states. Overall, differences between high- and low-spending states in property tax revenues have decreased, from \$825 in 1992 to \$346 in 2005 in per pupil terms.

In sum, high- and low-spending states have seen very different changes in their K-12 fiscal systems in recent years. These differences have been especially striking since the fiscal downturn of 2001-02. Table 1 shows these contrasts by displaying changes in average real per-pupil revenues between 2002 and 2005. Both high- and low-spending states received nearly identical revenue increases from the federal government. However, low-spending states experienced larger reductions in state revenues (a drop of \$289 per pupil) when compared to high-spending states (a loss of only \$67 per pupil). Also, low-spending states saw a drop in local revenues, which added to their loss in state revenues, while high-spending states saw an increase in local revenues, which compensated for their decrease in state funding. When these changes are summed, per-pupil revenues increased in high-spending states between 2002 and 2005 by an average of \$150, while they fell \$192 in low-spending states.

Table 1. Changes in Average State Revenues, Per Pupil, Constant 2005 Dollars, 2002-2005

Changes are calculated separately by source of revenues (federal, state, and local) and by states' historical level of spending on education.

<i>Source of Funding</i>	<i>High-Spending States</i>	<i>Low-Spending States</i>
Federal Government	\$119	\$120
State Governments	-\$67	-\$289
Local Governments	\$98	-\$23
<i>All Sources</i>	<i>\$150</i>	<i>-\$192</i>

Conclusions and Implications

Three main findings emerge from this description of changes in state and local spending on K-12 education:

- (1) The general upward trend in K-12 expenditures by state and local governments (after adjusting for pupils and inflation) stopped after 2002 and has not yet resumed by 2005.
- (2) This recent reversal in state and local education spending is a consequence of a decline in state-level revenues. Federal revenues have continued to grow steadily, as have local revenues, which have largely been boosted by an increase in property taxes.
- (3) The recent drop in state revenues has been particularly strong among states that have traditionally spent less on K-12 education. These low-spending states have become more reliant on local revenue sources and especially property taxes, and they have seen a net decline in total K-12 revenues since 2002.

Different people may assess these trends in very different ways. Some citizens may consider the recent declines in spending to be welcome respites from a chronic series of increases in public spending on K-12 education. Others may view these developments as temporary, short-run changes due to the economic downturn and sharp decline in state revenues in 2001-02 — changes that may be found to be reversed when spending data become available for 2006 and 2007.¹¹

It is still too early to know whether this drop in state spending is only a short-run change or a transition to a different long-run balance in the sources of education revenues. However, though there is surely a large short-run component in the fall of state revenues, it is surprising that the decline has continued after more than two years of state revenue growth, and that the declines are es-

10 In eight states — Alaska, Connecticut, Hawaii, Maryland, Massachusetts, North Carolina, Tennessee, and Virginia — local school districts do not raise property taxes. Thus, for example, in 2005, in these states (except Hawaii), they are heavily reliant upon parent government contributions, ranging from 66 percent in Tennessee to 93 percent in Virginia.

11 However, Grinnell and Dadayan (2007) found strong state revenue growth only through mid-2006. In the last half of 2006, inflation-adjusted growth in state revenues dropped substantially.

pecially strong among the low-spending states in the West and South, many of which saw smaller drops in overall revenues in the last recession, and have experienced relatively strong revenue growth since then.¹²

If these changes do persevere, for whatever reasons, they may be viewed as creating difficulties for state and local education systems. State education systems have come under growing pressure in recent years to improve performance after the enactment of the No Child Left Behind Act in 2001 and state reforms to increase accountability and boost student achievement. These accountability and performance reforms are particularly challenging to poor urban and rural districts, as student performance on standardized tests is strongly related to family income, and as such districts have typically had fewer resources to attract good teachers, build and maintain facilities, and buy books, computers, and other education materials.

Yet despite the growing demands on schools, real funding per pupil has, as we have shown, leveled out or even declined in recent years. Just as important, the shift in the 1990s toward a greater assumption of education costs by state governments — an action that was often taken to reduce financial disparities across local districts — has been lately reversed. Property taxes and other local government revenues, which often generate large differences in funding across school districts, have become more important as state revenues have fallen. Since these fiscal shifts have been strongest in low-spending states, local-level differences in K-12 spending may be increasing most rapidly in states that devote the least resources to their education systems. The resource problems of school districts in poor localities, in traditionally low-spending states, may therefore be worsening precisely as demands on such districts have intensified.

12 See Grinnell and Dadayan (2007); also, B. T. Stenson and N. L. Kuo, “State Tax Revenue Rebounds on Strength in South and West,” *State Revenue Report*, No. 64 (Albany, NY: Rockefeller Institute, June, 2006). On differences among states in the fiscal impact of the last recession, see D. Boyd, “The Current State Fiscal Crisis and Its Aftermath,” Paper prepared for Kaiser Commission on Medicaid and the Uninsured, The Henry J. Kaiser Family Foundation (September, 2003), especially pp. 32-33.

Appendix
Average K-12 Education Spending Per Pupil, High-Spending and
Low-Spending States, Constant 2005 Dollars, 1992 – 2005

<i>Classification</i>	<i>State</i>	<i>Average K-12 Education Spending Per Pupil, 1992-2005</i>
High-Spending States	New Jersey	14,979
	New York	14,335
	Vermont	13,368
	Alaska	12,823
	Connecticut	12,634
	Pennsylvania	11,742
	Massachusetts	11,499
	Michigan	11,184
	Delaware	11,078
	Minnesota	10,717
	Wisconsin	10,699
	Rhode Island	10,608
	Maryland	10,282
	Maine	10,140
	Wyoming	10,005
	Illinois	9,819
	Indiana	9,808
	New Hampshire	9,788
	Ohio	9,603
	Oregon	9,473
	Washington	9,309
Virginia	9,282	
Iowa	9,187	
Nebraska	9,181	
Hawaii	9,087	
Mean K-12 education spending per pupil		10,825
Low-Spending States	West Virginia	9,069
	California	8,904
	Colorado	8,864
	Florida	8,699
	Georgia	8,689
	Nevada	8,686
	Texas	8,593
	Kansas	8,532
	Missouri	8,474
	South Carolina	8,363
	Montana	8,146
	North Dakota	8,115
	North Carolina	8,043
	Arizona	7,757
	Kentucky	7,746
	South Dakota	7,704
	New Mexico	7,704
	Oklahoma	7,381
	Louisiana	7,366
	Arkansas	7,237
	Alabama	7,230
Tennessee	7,113	
Idaho	6,880	
Mississippi	6,476	
Utah	6,154	
Mean K-12 education spending per pupil		7,917