



# School Finance (Part 2) – Does Money Matter? Is the System Equitable, Adequate, and Productive?

by [Thomas Sobol](#) — October 15, 2000

Thomas Sobol:

Some people raised the question: does money matter? Title of this session and of the national research council book that Professor Natriello and I worked on was *Making Money Matter*. But some people question whether money matters at all. Names like Coleman, and to some degree, Sandy Jencks, and certainly Eric Hannushek come to mind. People who have done studies. Have you heard of those people? People who have studied expenditure on education and reached the conclusion that providing additional money made no difference with respect to the results. Now, there's a great deal of controversy in the research community about the worth of all those studies. Some people respect them highly and buy their conclusions. Other people dispute them. A great deal depends on how you phrase the question and what data you look at by way of response. I'm not going to approach it theoretically for the moment. I'm going to see 'cause I'm an old school person- I didn't grow up in this university the way Gary did. I just- I'm out there where you have to find the chalk and do something with it when you get it, right? School person.

You better believe money matters. It is not that- this is me talking now, you don't have to believe me- but I'll tell you one thing- of course it matters! It is not the case, I will admit as any reasonable person would, that all money makes a difference in test scores. We used to have roofs that leaked and we would fix them- it would cost us money to fix the roof, all right? We didn't expect the kids' test scores to go up when we spent that money, All right? We paved the parking lot, we didn't expect their SAT scores to climb, you know? We negotiated increases in fringe benefits for teachers so they got their teeth taken care of, all right? And I'm sure they all smiled prettier, but nobody expected that the kids would learn more from that. Now, I could argue that every one of those purposes was valid and worthwhile: fixing the roof, paving the parking lot, and straightening teachers' teeth, or something like that- you know- tending to the health needs of the staff and a whole host of other things. They won't effectively direct money.

Nor, by the way, does paying people more money to do the same things in the same way change results. I'm not saying you shouldn't pay people more money. Teaching is very very hard work, as we all know, and most of you do. Very very hard work, and it's generally still vastly under-compensated in this society generally and in some particular jurisdictions, like New York City, from my point of view. So it may be socially just and even helpful in the very long term to the quality of school operations to raise teachers' salaries. But why should you expect an immediate increase because you raise the salary if the person is doing the same thing in the same way with the same kids? You wouldn't. So, it is not that all money makes an immediate or short-term difference, but there are some expenditures that clearly do

make a difference in that you can't do without if you want to achieve the effect. If early childhood education, for example, can help those students who would not otherwise receive it, and who can benefit from that kind of experience and be more quote, 'ready to learn' when they arrive in school than the others, you've got to provide it. And if by, in order to provide it, you have to hire teachers and lease the space, or find one or something, and pay people, and pay for the building cost as well, you can't do without it. If you want smaller class sizes, you need more teachers, it costs more money. If you want better trained teachers, you have to spend more money on professional development and so on. And there is a whole range of expenditures, individual expenditures of that sort that are linked to increased productivity, as they call it, or increased achievement on the part of kids in schools, that we know enough to know are efficacious and we shouldn't be embarrassed to assert it. I have a whole list of them here but I won't give it to you right now.

You might want to look at the first portion of the [CFE report](#), the one that's dated February 2000.

I'm going to be talking about that lawsuit in a little while. But here the headline is "Experts are Clear: Money Can Make a Difference". And this is a report that came out of the trial back last winter. And I'll read just the left hand column over there.

In recent weeks, the focus of CFE versus State of New York has shifted to a pivotal question in the case: Can additional resources make a real difference in the success of our students? A string of national experts has addressed this question, and the answer is a resounding yes. This recent testimony provides compelling evidence that more money, well spent - that's the key, isn't it? - can have a direct and dramatic effect on student achievement. Early in the trial, Ronald Ferguson of Harvard University presented landmark findings that show a clear link between better qualified teachers, higher teacher salaries and student performance. Dr. Ferguson was also quick to point out that highly qualified teachers can have a profound effect on students and can help a student overcome other obstacles to success, such as poverty or poorly educated parents. Since then a number of other experts have stressed that targeting funds to specific resources, such as better teachers and smaller class sizes, can get significant results and these experts have based their statements on some of the most cutting-edge research being done in the field of education.

The rest of this report goes on to detail what the various experts said at trial on this matter, including testimony from Hank Levin who was one of the witnesses on the trial and is an expert in education finance here in our own faculty. You can read that later on on your own. But my view, as an individual person who hung around out in the schools for a long time, and the view of all of these experts reporting here, is that money can make a huge difference in the quality of children's education depending upon how it is spent. You can believe that or dismiss it as you choose; it won't be on the test.

Do you know how schools are financed? Do you guys know all that background? Do you- it's my next question- you know that generally now? I can't tell whether you're saying yes or no or-

Student:

Yes.

Thomas Sobol:

Yes, all right, I'm not going to talk about that all very much, right? You know that it's a combination of state, local, and federal funding with the federal funding being small. You know that most of the local

funds, outside of the big cities anyway, come from real estate local property taxes. You know that- and it's presided over by boards of education. You know that the state level is presided over by the legislature, and the money derives chiefly from income of sales taxes. You know what the - the New York State finance system is a compilation of formulae, which is very arcane and very long and very complex - but its essence is everybody, every school district gets a little bit for openers, sort of a flat grant whether you would get anything else or not. Just so that you're part of the game, so to speak, politically.

Then you get general operating aid on top of that, which is provided in a somewhat equalizing fashion. That is, poor districts get more and wealthier districts get less. But since the amount of aid is only about half of the expenditure to begin with, or less than half, it doesn't compensate really for the differences that- the disparities that occur, which we'll get to in a moment.

On top of operating aid, there are categorical aids, or specific aids that are targeted to particular expenditures: building construction and building improvement and maintenance, transportation expenses, education of handicapped kids, and so on. They're not just general money that can be used for anything as you wish, but for categorical expenditures of the, that are spelled out in the law.

Then there are a variety of other techniques like save harmless aid which holds districts, which continues to provide the same amount of aid to districts that otherwise wouldn't receive it even though the formula itself, unencumbered by this provision, would not provide that aid.

And you know that this is a very loose system, a very loose decentralized governance system that exercises sway over the use of the aid that is received. It is not a top down uniform coherent system like the old IBM or General Motors. It is individual boards of education, local political jurisdictions, state and so on, and a variety of actors who influence them, making loosely coupled decisions that interact with one another. So it's complicated, decentralized, deeply rooted in law.

By the way, that decentralization has had some good effects, historically, I think. And it has some unfortunate consequences. Without making that whole long speech - historically, it has helped us to - I think you could argue that it has kept the schools closer to the people, in places outside the big cities at least, annual vote of the budget, election of local school board members and so on. Kept the public schools closer to the people than let's say the bureau of transportation, motor vehicles, about which most people don't have warm and fuzzy feelings. It's also that decentralized nature of the system that made it very difficult, if not impossible, for partisan groups or individual demagogues to seize control of the public education system. The flip side of all of that is, of course, it is much more difficult to manage and to change. And at a time such as we're living through, where a lot of people are clamoring for rapid change in the system of schools, the fact that it is such a decentralized and loosely coupled system is a barrier to that. And all right so we didn't do the whole speech, we did a little bit so we know how schools are financed, sort of.

Is that system equitable? Well of course it isn't. If yes, question first-

Student:

Is this how funding is distributed to school boards? Or is it, is this a grant for an individual school?

Thomas Sobol:

It's a grant for a school district. The way money comes to school boards is two-fold, OK, three-fold,

let's say three-fold. First of all, boards of education in most states, and in New York State everywhere except the five large cities including New York City, have the authority under the law to levy taxes for the purposes of education. The board itself has that authority. So it levies a certain tax on local real property and uses the proceeds to help pay for education. That's one source. About half, 40% to 50% of the money that gets spent, on average, varies from district to district.

Second source is from the state. The state legislature appropriates funds from the general treasury derived from income taxes, sales taxes, so on, and licensing fees and so on. And gives some money to the state, and we get a little bit from federal government too, but that's how that works. In that chart, this is the way it looks for a district but it's a typical district, and no district is typical because they're all varied, right?

All right, you bearing with me? I'm coming to number four, all right? I'm trying to work my way down this list as fast as I can so I can get back to where you are where you're going to tell me what system we should have, all right? Number four: is the system equitable? Of course it's not equitable; if it were equitable we wouldn't be here talking about it to begin with, right? The ratio of difference among the various states of the union nationally is about three to one. I've sort of forgotten where they all rank now. It used to be that Mississippi was at the bottom. I think that California, Gary, got down there at one time, did it?

Gary Natriello:

Down low.

Thomas Sobol:

Very very low at this point. Whereas the top ones are Alaska, New York, New Jersey, and so on. And the difference in the amount of money that is being provided for individual kids is on a magnitude of three to one between those, the top and the bottom.

The variations that occur within states are much more dramatic. And let me just give you some examples of that. In New York State, my last figures are about two years old, my most recent figures are about two years old, and I don't think they've changed that much since then. If you took all the school districts in New York state, there are 700 odd of them, and put them in a ranking, all right? With the highest per pupil expenditure at the top and the lowest per pupil expenditure at the bottom, and then you threw out the top 10 percent and you threw out the bottom 10 percent, and you said those are exceptions, those are anomalies, those shouldn't cloud our thinking, let's get rid of those extremes, the gap between the 10<sup>th</sup> percentile and the 90<sup>th</sup> percentile is about 85% in the actual per pupil expenditure. There are huge gaps. Part of that is accounted for, in fairness, by regional cost differences. It costs more to live and work and operate schools in the New York City area than it does up in the north country, for example. All right?

So, a couple of years ago I made this chart up, just comparing school districts within counties. So you would have to think that- you won't find this chart in front of you, OK, this particular one- but let me give you the numbers very very quickly. I just took districts within counties so that you're compensating for the regional cost differences that exist across the state, all right? Here are four districts from Nassau county (out on Long Island for those of you who don't know New York, all right?) Hempstead, Roosevelt, Garden City, and Great Neck. And here were the per pupil expenditures about two, three years ago: Hempstead was about \$11,000 even. Roosevelt was about \$9,400, Garden City was about \$12,000, and Great Neck was about \$16,300. In other words, the difference in per pupil expenditure between Roosevelt and Garden City was 28%. The difference between Roosevelt and Great Neck was

74%.

Now, those are hard for some of us to get our minds around, those numbers. So I wanted to make it more real for school people like me. So I took staff-pupil ratios. Most school, the biggest portion of local school district budgets goes to personnel costs always, salaries and fringe benefits, right? 80 to 85% at least in most cases, all right? So a good proxy for wealth is to look to see what's happening with the staff-pupil ratios, all right? And I did that, and it turns out that at first they don't sound so wild. The pupil-teacher ratio, the pupil-staff ratio in Roosevelt was 16. That is 16 students per each professional person. And the ratio in Great Neck was 10. What does that mean? Well that means that if Roosevelt had the same pupil-teacher ratio as Great Neck, it could hire 110 more teachers, increasing its staff by over 50%, teachers who could reduce class size, provide remediation or enrichment, teach all day kindergarten, counsel students at risk, and all the other things that we know to be effective. Conversely, if Great Neck were limited to Roosevelt's pupil-teacher ratio, it would have to discharge over 200 teachers or about 40% of its staff.

You following the import of those numbers? Now, the illustration I've just chosen is Nassau county, and you could go look it up- you don't have to believe me, you can go look it up- but I'll tell you that pattern is the same for counties across the state even in upstate counties. If you go to Buffalo, the discrepancy between per pupil expenditure in the city of Buffalo and in the suburbs like Williamstown and Amherst and so on is of the same magnitude. There are enormous disparities in funding within the state, enormous disparities of that magnitude. Question over here? No? No, stretcher. May not lose my own place here.

Jonathan Kozol, whom many of you have read, most everybody has read- I can't remember whether its in *Savage Inequalities*, which I'm going to turn to again later, or- what's the name of his other book? What is it?

Student:

*Death at an Early Age.*

Thomas Sobol:

*Death at an Early Age* was an early one; it's not the one I'm thinking of, but I'll think of it again in a minute.

Student:

*Amazing Grace.*

Thomas Sobol:

*Amazing Grace*, thank you! Thank you very much, thank you. I can't recall whether it's in *Savage Inequalities* or in *Amazing Grace*, treats the disparities in funding within a school district. I've been talking about across school districts within a state. Kozol talks about it within the city of New York, and contrasts per pupil expenditures in Riverside, and what the schools in Riverside enjoy, Riverdale I mean, in Riverdale, and as compared with certain jurisdictions in Brooklyn, for example, or in the South Bronx. So there are great disparities there as well.

Suppose we were running a school. And we got all the kids together in the gym, and we said, "all right,

we're going to separate it into two groups." We are all in charge, we're in charge of all these kids, right? We all have this obligation with one another together. We bring all the kids into the gym, and we're going to say, "all right, half of you go over there, and half of you go over here. Now you guys are really lucky, you have well trained teachers, up to date computer equipment, curricula that are cutting-edge, and professional development that matches so everybody knows exactly what they're doing, and so on- And you guys, well, you know, who said life would be fair, right?"

You wouldn't do that! You wouldn't do that to a group of kids that you knew. Would you? I don't think most of us would do that. That's what the society does, however. That's what we are de facto doing across the society. And you don't have to believe me; you can go look the numbers up. Or if you don't want to look the numbers up because the numbers are too abstract, go visit the schools. Go visit the schools. I still live in Scarsdale, where I was superintendent for a long time, bastion of upper-middle class privilege. It's lovely. I like it. I did my time as a poor kid in the city. I did that already. I worked hard, I'm entitled. It's the American Dream and all the rest of that. But the rest of the reality is not lost on me, not lost on me at all. You know, to see what the rest of the world looks like. That's what we're doing societally. Moving toward you but getting there.

OK, so the finance system Sobol argued is inequitable, is it adequate? Difference between equity and adequacy, right? California might be approaching that, by the way. California is about at the place right now where per pupil expenditures are reasonably equitable among jurisdictions, but they got to become so low that they're inadequate to the need. If you had a family with lots of kids, and it was a time of famine in some older world, it would be equitable to give them each a crust of stale bread for dinner every night. They'd all get the same crust. Well maybe since we had the other argument, some kid would have to get more because he'd been sick or something but, that would be equitable. It certainly wouldn't be adequate, right? So, what we're talking about now under adequacy is whether what we, whether the system that we have now is adequate to the need. Now at this point, I've better tell you a little bit about the CFE suit, and what's going on 'cause this is the real world stuff and it's getting around to the part where you come back in- which I promise you we're going to get back to.

There's been finance litigation throughout the states, as I'm sure most of you know, in more than three dozen of the states or something like that. Some of it's gone one way, some of it's gone another way, and so on. Until very recently, the leading case in New York State on those lines was the Levittown case, *Levittown vs. Nyquist* back in the late 70's and early 80's in which the plaintiffs, Levittown and a number of other property-poor districts joined by New York City, argued that the then existing- which is still pretty much the now existing- state finance system violated the state constitution in that it didn't apply the laws equally to all residents. It was unfair. There were these discrepancies. It created, the state created the system and left the system there where there were these enormous unfair unequal discrepancies among districts and schools and the kids in them.

The trial went on for several years and the court held, in the end, that, the court said, in effect, to the plaintiffs, "well, you may be right. Certainly we've seen a lot of evidence here that it's unequal, but we can't find that it is unconstitutional because there's nothing in the constitution that says it has to be equal." I can remember one of the justices had an oral argument saying that, by the way, "where does it say equal?" Literally, "where does it say equal?" Doesn't say that. And he said "you know we don't in this society require that everybody live in the same quality of house or drive the same quality of car, or wear the same quality of watch or whatever, you know? And there's nothing here that says it has to be equal. If you've got a problem with this system, the remedy lies with the legislature that created it- not with those of us in the courts".

So the plaintiffs lost, and the state finance formula stayed in existence, and guess what- by the way- over the years the gaps got wider and wider, all right? So along about 15 years later came the Campaign for

Fiscal Equity people, good group of people based here in New York City who decided to bring suit again against the state. That's the one in which I was the defendant, originally one of the named defendants that I mentioned a minute ago. And they have taken a different line of argument.

What they have said, in effect, is, "hi, Your Honor, good to see you again. Been a long while, of course, you're not the same person anymore. We're the guys who were around here saying it was unequal and unfair. Still is unequal and unfair, by the way, but that's not why we're here this time. That's not why we're here. We're here because the funding is inadequate. Inadequate to what? Inadequate to the state's own definition of what constitutes a sound basic education." One of the things that the Levittown court said to us was there had been no showing in that proceeding by competent authority that the fundamental duty of the state to provide a sound basic education had been breached. Nobody made that argument to us. "Now, Your Honor, we're here to make that argument because in the interim over these past 15 years, it's not we who have come up with a definition of what a sound basic education is that the state ought to be held accountable to; the state has done that itself. If not explicitly, indirectly but very strongly through the standards it set, the new tests that it's giving, the new accountability measures that it has put in place for schools and people who live and work within them. That's what a sound basic education is. And we are here this time, Your Honor, to demonstrate that kids in the jurisdiction that we represent, and in New York City- but PS also, other poor places across the state- are not receiving that sound basic education that the constitution requires."

And that's what's going on now. People at trial are not arguing, any longer, that the system is inequitable, although they know that it is; they're arguing that it's inadequate, and they're giving the state its own measures back as the basis for which. Now I would tell you, by the way, since the world is always more complicated than it seems on the surface, that we knew that would happen when we started writing the standards. And it's one of the reasons that we started writing standards back in the early 90's. And you can look that up too, and find a record of it.

Is the finance system productive? We said does money matter? Yes. Is the system equitable? No. Is the system adequate? Not for many kids. Is the finance system productive? Well obviously it's more productive for some than for others. This is the glass-full glass-empty argument, which I don't want to make at great length. But you could point to a lot of good things the public school system has done and some long-standing unsolved problems, which I won't get into right now. Is it obsolete? Probably it is obsolete- won't get into that tonight with you either because I want to move onto where you come in. So obsolete because of reliance on property tax that may- at least some people think is out-moded.

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