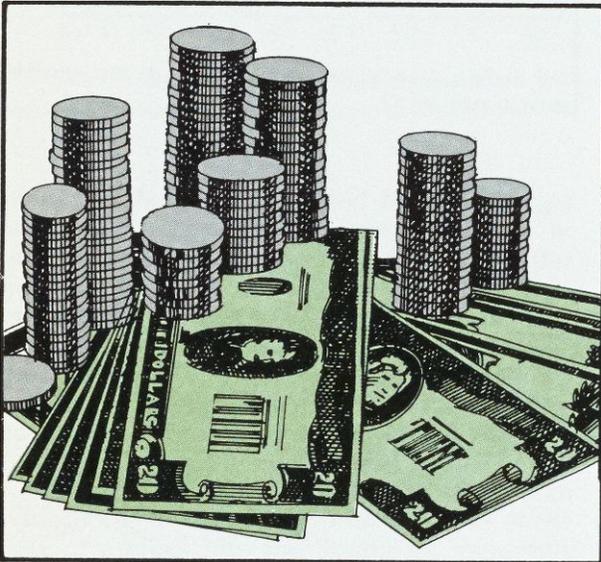


Financing Education in the Southeast

Bobbie McCrackin and Gene Sullivan



Southeastern educational expenditures have surged over the past decade, yet have barely outdistanced inflation. However, lower demand as well as financial and other economic constraints seem to underlie this difference. Since the call for higher quality schools is increasing and states have adopted more flexible financing methods, the outlook for convergence seems brighter.

Why does educational financing warrant public consideration? Education, unlike shoes or bread, is in part a public good. Clearly, many of education's benefits accrue only to those individuals obtaining it; however, society as a whole benefits when its population is educated. For example, education in a democratic society helps citizens make more informed social and political choices. These indirect benefits would not be financed if they were left solely to the private sector. Public policy should be concerned with improving the quantity and quality of education because private investment tends to be insufficient in cases where benefits accrue to society at large. Thus, as in the case of such other public goods as roads and airports, public revenues are required to encourage sufficient production of the activity.

Spending on Education

The United States will spend an estimated \$127 billion to educate its children in 1984—7.3 percent of the year's projected GNP. Through their legislatures, the states will provide the largest share of these funds (\$62 billion), followed by local sources (\$57 billion) and the federal government (about \$8 billion). The Southeast's share of U.S. educational spending has risen over the last decade, owing to its faster-than-national population growth and the recent emphasis on enhancing the quality of education.

States in the Sixth Federal Reserve District will spend about \$13 billion, or 11 percent, of the nation's estimated total spending on primary and secondary education in 1984. Thir-

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teen percent of the nation's school age population resides in District states, which suggests that the Southeast accounts for less than its proportionate share of the nation's education expenditures. The region traditionally has lagged behind the nation in school-related expenditures and despite its rising share of total outlays, progress in closing the gap has been slow.

Table 1 shows that although total expenditures in the Southeast increased almost threefold in the period from 1971 to 1981, the growth was only slightly more rapid than the nation's during the same period. The Southeast's share of national educational expenditures moved up only moderately, from 9.1 percent in 1971 to 10.6 percent by 1981. However, the Southeast's proportion of the nation's school age population also rose from around 12 percent initially to over 13 percent by the end of the ten-year period.

Because the ratios of students to population vary between regions, expenditures per pupil provide a more meaningful comparison than total expenditures. The Southeast's expenditures per student averaged only 76 percent of the nation's in 1971; that share remained below 80 percent through most of the ensuing decade (see Table 2).

Expenditures per pupil differ widely within the region. Alabama currently spends significantly less per student than other states, largely because increases since 1977 have not kept pace with those in other states in the region (see Chart 1). Florida, whose spending has essentially doubled since 1977, spent nearly twice as much per student in 1982 as Alabama. When the numbers are adjusted for national inflation, however, increases in real expenditures amounted to 22 percent for the Southeast as compared with 17 percent for the nation. The

region's more rapid percentage gain primarily reflected its lower starting position. Although the gap in real expenditures was still \$200 per pupil in 1981, as it was in 1971, the real per capita spending ratio converged somewhat because real spending increased both nationally and regionally.

It is possible that southerners get more for a dollar spent on education than residents elsewhere because of cost-of-living differences. Unfortunately, direct cost-of-living comparisons between the region and the nation are not available. The Consumer Price Index (CPI) compares living costs at various points in time to an index of costs at some base period. The CPI shows changes in prices as a whole and for a variety of specific consumer goods and services including education (see Chart 2). Although the CPI is available for a number of SMSAs as well as for the nation, all these indexes compare costs over time within each area, not between areas. Even if the index in Atlanta had consistently risen faster than the national index, which it has not, it would be difficult to interpret the significance of this disparity without knowing the initial relative price levels in each geographic area. Another problem would be the implicit assumption that, in the case of the Southeast, Atlanta's price index (the only one available for a fairly extensive period of time) is typical of the region's 40 SMSAs.

Although cost-of-living comparisons between states are not available, we were able to determine that teachers' salaries, a major component of educational costs, are 17 percent lower in the Southeast than in the nation. Nonetheless, it is impossible to tell whether this difference reflects cost-of-living or quality differences. That is, on the basis of this information alone

Table 1. Summary of Expenditures for Public Elementary and Secondary Education, United States and Southeast, 1971-1981 (millions of dollars)

Year	United States	Southeast	Southeast/United States
1971	44,424	4,062	9.1
1972	48,514	4,561	9.4
1973	51,905	4,761	9.2
1974	56,970	5,405	9.5
1975	61,629	5,912	9.6
1976	70,829	7,167	10.1
1977	75,014	7,661	10.2
1978	80,844	8,150	10.1
1979	86,712	8,920	10.3
1980	95,962	9,895	10.3
1981	102,484	10,889	10.6

Source: Department of Health, Education, and Welfare, National Center for Education Statistics, *Digest of Education Statistics* (Washington: U. S. Government Printing Office, 1970-1984).

one could infer that southeastern states spend less for schooling because prices are generally lower here and therefore school districts, with proportionately smaller budgets, can purchase an amount of schooling commensurate with other regions. On the other hand, the data also lend themselves to the interpretation that southeastern school budgets are proportionately smaller because the demand for education is lower and consequently teachers' salaries are less than elsewhere. The larger regional differential between teachers' salaries relative to wages generally suggests that lower demand is the preponderant factor. Recent research has indicated that wages in the larger Census Region South are not lower than in other regions when comparable jobs are considered. Indeed, Southern wages, even excluding certain high-wage border areas near Washington, D.C., may be higher than in most other Census Regions when comparisons are drawn on a peer group basis.¹

Table 2. Education Expenditures Per Pupil* for United States and Southeast, 1971-1981 (in nominal and 1972 dollars)

Year	Nominal		Real CPI-All Items		
	United States	Southeast**	United States	Southeast	Southeast/United States
1971	1,008	762	818	618	(0.76)
1972	1,091	856	856	672	(0.79)
1973	1,182	888	852	640	(0.75)
1974	1,281	948	823	609	(0.74)
1975	1,413	1,175	859	705	(0.82)
1976	1,699	1,345	972	769	(0.79)
1977	1,816	1,445	973	774	(0.80)
1978	2,002	1,567	984	770	(0.78)
1979	2,210	1,715	958	743	(0.77)
1980	2,494	1,910	962	737	(0.77)
1981	2,701	2,144	957	757	(0.79)

*Based on average daily attendance.

**The states partly or totally included in the Sixth Federal Reserve District.

Source: Department of Health, Education, and Welfare, National Center for Education Statistics, *Digest of Education Statistics* (Washington: U.S. Government Printing Office, 1970-1984).

Sources of Education Funds

Funds to support education derive from three principal sources: local, state, and federal governments (see Table 3). Property taxes, which contribute most to the pool of local education funds, tend to make up larger portions of school budgets in highly urbanized areas, such as New England, as opposed to more rural areas such as the Plains states, where the population is widely dispersed and in many localities sparse. State education revenues flow from state income, sales, and property taxes, which are part of each state's general fund. Federal monies are allocated to the states based on guidelines written to ensure state compliance with federal legislation and federal court rulings and come mainly from the federal income tax. While state and local funds account for over 90 percent of funding in the nation as a whole, relative contributions of federal, state, and local governments to education vary widely from region to region and within the Southeast.

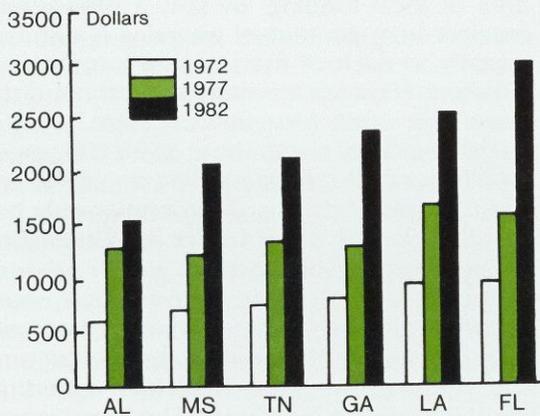
Education and its financing are functions that the U.S. Constitution generally leaves to the states. The cost of all federal education programs for the states, including the highly publicized busing and school lunch programs, amounts to only about 7 percent of total educational spending in the country. However, because the South was an early target of federal programs to improve educational opportunities

for minority groups, the region derives a sharply higher share (13 percent) of its education monies from federal sources. Variations among southeastern states are higher still, with Mississippi obtaining nearly one-fourth of its funds from federal sources compared with 7 percent for Florida (see Table 3). In both the Southeast and the nation, the share of federal funds has declined since 1977. Louisiana experienced the steepest drop in federal funds as the share of local funds increased dramatically.

State revenues, now the largest funds source, have accounted for a growing share of education's support at the national level as well as in both Georgia and Florida, the two most populous southeastern states. In all regional states except Tennessee, the state government source of funds exceeds 50 percent; in Florida and Alabama, the figure is greater than 60 percent.

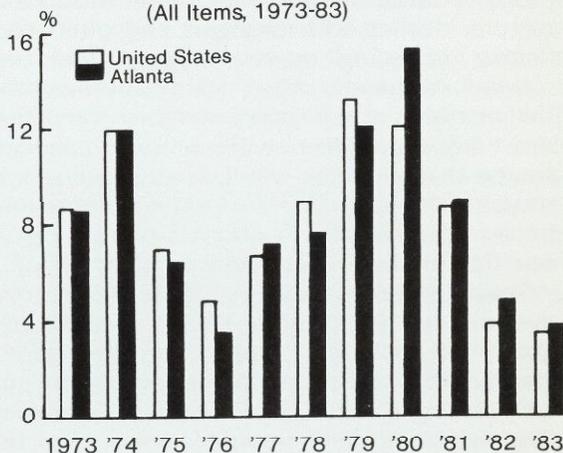
While state funding has accounted for an increased share nationally, the proportion of local funding has been declining since 1977. Nationally, states' shares have risen on average from 40 to 50 percent whereas local shares fell from 51 to 42 percent (see Table 3). The Southeast has been an exception to this pattern of declining local funding because, historically, it has relied less on local funding and because Louisiana's unusually sharp increase in local funding has skewed the regional average. Aided by rising local funding in Tennessee and Mississippi, Louisiana's substantial jump in the use of

Chart 1. Educational Spending Per Elementary and Secondary School Student



Source: NEA Research Memo, *Estimates of School Statistics*, 1972, 1977, and 1982.

Chart 2. Annual Rate of Change in the Consumer Price Index (All Items, 1973-83)



Source: U. S. Department of Labor, Bureau of Labor Statistics, *CPI Detailed Reports*, 1973-1983.

Table 3. Relative Importance of Revenue Sources for Education
(in percent)

	Federal			State			Local		
	1972	1977	1982	1972	1977	1982	1972	1977	1982
United States	9	8	7	40	44	50	51	48	42
Southeast	15	14	13	52	56	56	33	30	31
Alabama	19	13	15	57	65	64	23	21	21
Florida	10	10	7	55	52	62	35	38	31
Georgia	14	11	10	49	53	56	38	36	34
Louisiana	14	15	9	55	60	56	31	25	35
Mississippi	27	23	23	49	54	53	24	23	24
Tennessee	16	13	13	43	50	47	40	37	40

Source: National Education Association Research Memo, *Estimates of School Statistics*, 1972, 1977, and 1982.

this source offset the shift to state funds in other regional states.

Methods of Financing Education

Flexibility in methods of financing has helped some state education planners cope with fluctuating student enrollments and uneven tax bases among school districts. Rigidity has handicapped some other states. Traditional financing, whereby a state contributes from its general fund roughly twice the local assessment from property taxes, seems to allow the most flexibility in dealing with changing and often conflicting financing needs. Atypical financing sources frequently have no relation to the shifting needs of education, and they sometimes resist adjustment to new demands. A financing source that provides windfalls to some school districts and very little support to others may be as troublesome to education planners as one that provides insufficient funding overall.

Several states in the region have used innovative methods for financing kindergarten through grade 12 schooling. Lately, with the demographic shift toward an older population and with the trend toward fewer children per family, the region's student population has been declining. In states where funding is based on average daily attendance, the demographic

change has meant that schools are receiving less funding at a time when pressures to increase educational quality are growing more intense. Some state education funding systems have been flexible enough to adjust to this evolution, others were overhauled to serve the changing need, and some still are adapting to the new realities.

Florida generates 93 percent of its public school monies internally. Of these, the state's general fund provides 62 percent and local sources 31 percent. Florida is fairly typical of national school funding patterns except in the area of local funding. By law, a proportion of receipts from parimutuel wagering is distributed equally to each of the state's 67 county commissions. (Florida's counties and school districts cover the same geographical areas.) In 1983, each county received about \$500,000, most of which went for education. The equal sharing of these funds, of course, disproportionately benefits districts with small school age populations.

Louisiana generates a much greater proportion of public school revenue from local sources than the regional average, primarily because of a law passed by its legislature before the turn of the century. The state is divided into a geographical grid of "sections." The law states that one-sixteenth of the sections should be set aside as income-producing property to support

Table 4. Consumer Price Index for Education and All Items, 1970-1983
(annual percent change ending in December)

Year	All Items		Personal and Education Expenses*
	United States	Atlanta	
1970	5.5	N/A	9.8
1971	3.4	N/A	9.2
1972	3.4	N/A	4.5
1973	8.9	8.2	5.8
1974	12.2	12.2	6.6
1975	7.1	6.6	7.4
1976	4.9	3.5	6.0
1977	6.8	7.3	6.5
1978	9.1	7.8	8.3
1979	13.4	12.3	8.5
1980	12.3	15.7	11.9
1981	8.9	9.2	13.4
1982	3.9	4.9	12.5
1983	3.5	3.8	9.8

*Includes school books and supplies; personal and educational services (largely tuition fees).

N/A - Data not available.

Source: U. S. Bureau of Labor Statistics, *CPI Detailed Report* (Table 5).

local schools. The "16th Section" lands generate income through oil production, leases for farming, fur trapping, and other sources. Those sections with oil production capacity provide a relative bounty of funds to the local school districts.

To compensate for the differing income production capacities of the "16th Section" lands, Louisiana instituted a minimum foundation program that uses money from the state's general fund to assist schools. This program requires that the millage rate on assessed value of real property reach a certain level before a school district receives a full allocation based on its number of students. In addition, parishes may increase sales taxes by 2 percentage points and raise the millage rate on real property up to 70 mills, both at local option.

Although Mississippi also uses the "16th Section" lands concept and a minimum foundation program to finance its public schools, the state administers its land program some-

what differently from Louisiana. Proceeds from the sale of depletable resources such as oil, gas, and minerals are placed in a trust. Only the interest on the capital held in this trust may be spent by local school districts. However, proceeds from the sale of renewable resources from "16th Section" lands may be used by the local districts.

Mississippi's minimum foundation program provides each district's share of public school funding but does not effectively equalize monies allocated by district or by pupil. In fact, if equalization depended on substantial tax increases the process could take longer in Mississippi, where a law prohibits tax hikes in excess of 10 percent.

Georgia supports its public schools with fairly traditional funding methods. Among regional states, only Florida's proportion of education revenues from the federal government is less than Georgia's quite low rate. Both states appropriate education monies from their general funds.

In Georgia, the sources of education funds available to the state and to local governments are set out strictly in the state's constitution. This document designates that property taxes will be virtually the exclusive source of educational funding for the local districts. It reserves the general fund for use by the state. Local option sales taxes for educational funding have been made available by legislation to only eight of 187 school districts. A few Georgia cities allocate dollars raised by municipal water and electricity systems to the local school district, but these are exceptions to the general rule. Georgia's education dollars from the general fund are allocated on the basis of average daily enrollment of students per school district. Under this allocation scheme, districts with low property tax bases, which generate scant local funding, can suffer relative to those with large and fast-growing tax bases. Of course, fast-growing districts frequently experience mushrooming student populations, which can impose a substantial drain even on an expanding tax base.

Alabama is unique among southeastern states in that state funds designated for education, kindergarten through university level, are held in the Education Trust Fund, which is separate from the general fund. Sales and income taxes are the primary sources of monies for the

Education Trust Fund; during the 1983-84 fiscal year, the state experienced a \$50 million surplus out of a \$1.4 billion education budget. At the local level, the counties must assess a minimum property tax millage rate before school districts get a full share of state funds. Alabama counties assign the revenue from a variety of taxes for education, including gasoline, tobacco, and beer and wine taxes.

Tennessee's Career Ladder promotion and pay incentive program for teachers received national attention when passed in a special legislative session in early 1984. The session passed the enabling legislation and appropriated the funds necessary for the innovative program. The state's resolve to improve its kindergarten through high school education system also can be seen in the 22 percent jump in the education budget from fiscal year 1983-84 to fiscal 1984-85. Education funding comes out of the general fund, which is replenished principally from sales taxes; Tennessee has no state income tax. For local-level education funding, counties may raise sales taxes by a maximum of 50 percent of the state sales tax rate, now set at 5.5 percent. Property taxes provide 66 percent of local education funding, with local option sales taxes contributing the rest.

Financial Burden of Education in the Southeast

Inflexible, outdated funding systems explain in part why some southeastern states have failed to close the educational spending gap vis-a-vis national norms. Several other factors might explain why disparities in educational expenditures persist. These include soaring education costs and a greater financial burden due to lower personal income levels and a larger portion of school age children relative to the population. We found limited support for the argument that enrollments are higher, but other explanations seemed ambiguous or unconvincing on close examination.

One reason expenditure disparities persist and convergence has not been more dramatic is that educational costs have been rising more rapidly than prices in general (see Table 4). For example, after 1981 there was some moderation in education cost increases as well as in the

overall rate of inflation, but far less deceleration in the cost of schooling than in other goods and services. Indeed, the CPI slowed from a 12 percent increase in 1980 to 3.5 percent in 1983, while the education cost index continued to rise at nearly double-digit rates. However, one cannot draw the conclusion that such increases necessarily reflect education cost increases spiraling beyond the control of school administrators. They might also represent widespread decisions to increase public and private resources committed to education. In either case, the continuing rapid rise in education costs has been increasingly burdensome for many states and municipalities. However, the burden is self-imposed if educational price increases reflect the public choice to devote more resources to schooling.

Other plausible reasons for the South's ongoing lag in providing education for its populace are per capita incomes in the region that are lower than national averages and larger proportions of school age children relative to the total population. Several states within the region have markedly higher student ratios than the region as a whole (see Table 5). In Mississippi and Louisiana, school age children equaled approximately one-third of the adult population in 1982 as compared with 27 percent for the whole region and the nation. All the other states except Florida exceeded the nation's ratio. Florida's relatively low proportion of children to adults is the reason the region compares favorably with the nation. In all southeastern states as well as the nation, the proportion of school age children has declined by around 10 percent since 1972.

The Southeast has no more school age children per family than the country as a whole, but this statistical similarity is due entirely to Florida's low ratio. In the aggregate the region is equal to the nation, with an average of 60 school children per 100 families. However, Mississippi and Louisiana have higher averages of 70 per 100 families. These numbers are offset by Florida's larger population and lower average of 50 per 100 families (see Table 5). Both measures suggest that the burden of financing education in many southeastern states is greater than in the nation.

Where personal income is low, elevating education expenditures to a par with higher income regions would be burdensome to the

Table 5. Selected Demographic and Financial Information, 1982

	School Age/ Adult Population (percent)			Education Expenditure/ Personal Income (percent)			Education Expenditure/ Personal Income, Excluding Federal Contributions (percent)	Average Number of School Age Children Per Family		
	1972	1977	1982	1972	1977	1982	1982	1972	1977	1982
United States	36	32	27	5.7	5.5	4.8	4.4	0.8	0.7	0.6
Southeast	37	33	27	5.4	5.2	4.5	3.9	0.8	0.7	0.6
Alabama	39	34	30	4.4	5.0	4.7	4.0	0.9	0.7	0.6
Florida	31	27	22	5.1	4.8	3.9	3.6	0.7	0.5	0.5
Georgia	39	35	30	5.4	5.3	4.5	4.0	0.9	0.7	0.6
Louisiana	43	38	32	6.4	5.5	4.6	4.2	1.0	0.8	0.7
Mississippi	42	38	33	6.0	5.4	4.8	3.7	1.0	0.8	0.7
Tennessee	36	32	27	4.9	4.9	4.5	3.9	0.8	0.7	0.6

Sources: Column 1 - U. S. Bureau of the Census, *Current Population Reports*;

Columns 2 and 3 - National Education Association, "Education Expenditures Estimated to Equal Current Revenues," *Estimates of School Statistics, 1972, 1977, 1982*; personal income from: U. S. Bureau of the Census, *Personal Income by Region*;

Column 4 - U. S. Bureau of the Census (uses 1980 household data).

local population. Per capita personal income levels in most southeastern states have yet to converge with national norms despite substantial progress since World War II. Florida, the most notable exception, enjoys near parity with the nation, but other states remain as much as 20 percent below the nation.

Table 5 compares each state's spending for public elementary and secondary schools with personal income. Using this measure, we found support for the widely held view that the South has not made the "tax effort" to finance education that other regions have. Mississippi is the only southeastern state for which the percentage of personal income devoted to education rivals the national norm. Alabama comes in a close second, with its percentage only fractionally lower than the national average. However, this measure of educational support is misleading, since in 1982 almost one-quarter of Mississippi's educational spending was derived from federal sources and 15 percent of Alabama's total came from Washington. Every other state except Florida was more dependent on federal funds than the national average of 7 percent (see Table 3). Discounting federal funding, southeastern expenditures for education as a proportion of personal income are consistently lower relative to the nation (see Table 5). Whether this lower effort reflects a lack of ability and thus a greater burden, or

simply unwillingness because of different "tastes" for education is unclear. That is, we cannot determine whether these ratios reflect the lower income level, which typically reduces purchases of most nonessential goods and services, or whether they reflect social choices determined by southeastern states' historical preferences to consume less education than other regions.

Table 5 also shows that the proportion of personal income devoted to education has been declining both nationally and regionally. This change is not surprising in view of federal cutbacks for education spending and declining school enrollments as the postwar baby-boom generation matures.

Prospects for Future Financing

As the baby-boom children pass through the school system and enrollments fall, school districts could find themselves with more money to spend on fewer students. In areas where property tax revenues account for a significant portion of school funds, this would be most noticeable. But in areas where funding is proportional to student attendance, which is frequently the case as an increasing share of financing is obtained from state general funds, educational financing will decline unless allocation formulas are adjusted. However, declining

school enrollments also suggest less pressure on school systems' capital budgets to expand physical facilities.

Southeastern schools still have a long way to go before reaching the national average in financing for education. School officials can ill afford to lose funding if they hope to maintain progress in upgrading the region's educational quality. The growing belief that education plays a vital role in economic development seems likely to strengthen support for increased educational funding among leadership groups throughout the Southeast. The rising numbers of parents who have reached much higher educational levels than their forebears are likely to demand even better educational opportunities for their children. The combination of these potentially influential forces suggests that ways will be found at least to maintain, if not increase, the funds provided for public schooling.

Summary and Conclusions

The Southeast's educational expenditures lag behind the nation's on both a proportional and a per pupil basis. Although growth has been rapid during the past decade, expenditures have increased only moderately faster than the rate of inflation. On a constant dollar basis, the spending gap between the Southeast and nation has remained at about \$200 per pupil during the past decade, although the percentage difference narrowed from 26 percent to around 20 percent. Comparisons of cost-of-living differentials can be interpreted to suggest that at least part of the Southeast's lower educational expenditures reflect social choices to commit fewer resources to education, rather than entirely reflecting ability to purchase more education for fewer dollars because of its lower labor and other costs.

The financial burden of education is somewhat more severe in most southeastern states than in the nation as a whole. The major reasons for the relatively greater burden include a larger number of students in proportion to the adult population and lower per capita incomes. A greater share of federal funds for education than other states receive helps lessen this burden in Mississippi and Alabama.

The relative shares of funds for public education from local, state, and federal governments have been changing. Federal and local financial support has been declining, relatively speaking, but local funding has declined less in the Southeast than nationally. State governments are now the major source of education funds, although proportions vary markedly among southeastern states. A variety of methods are used to generate funds for education, but general sales and income taxes are playing a growing role in this process.

If states can devise ways to maintain an undiminished flow of funds to support education in the face of diminishing school enrollments, opportunities for improving the quality of education will increase in the years ahead. However, if funds are cut as enrollments decline, progress will be difficult, if not impossible, to attain. Growing public support for education and the rising educational level of the Southeast's adult population would seem to indicate that the future demand for education will be sufficient to give a dramatic boost to the priority of school funding throughout the region.

(Charlie Carter and Joel Parker contributed to this article.)

¹William E. Cullison, "Equalizing Regional Differences in Wages: A Study of Wages and Migration in the South and Other Regions," *Economic Review* (Federal Reserve Bank of Richmond), vol. 70 (May-June 1984), pp. 20-33.