

# ALL THAT'S WITHIN THEM

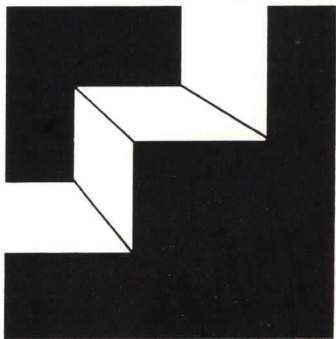
*Building a Foundation for Educational & Economic Growth*



**Findings & Recommendations  
of the Public School Forum  
Rural Initiative Study Group**

*Raleigh, North Carolina*

*December 1990*

**F O R U M**  
  
**R U R A L  
I N I T I A T I V E**

## ACKNOWLEDGMENTS

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# ALL THAT'S WITHIN THEM

## INTRODUCTION

The Public School Forum dedicates these recommendations to the hundreds of thousands of young people attending schools in rural North Carolina.

North Carolina has changed dramatically since 1900. Within and around North Carolina's major urban centers, four-lane highways connect industrial parks, high technology businesses, skylines of towering buildings, growing suburbs and shopping centers, and of course, large school systems. Yet, North Carolina remains a state in transition.

Outside our urban centers is another North Carolina; one that in many cases finds its population shrinking; a North Carolina that is falling farther and farther behind in the competition to find or keep good jobs and opportunities for its people. This other North Carolina is frequently a place of small schools where the courses available to children pale in comparison to those of urban schools; a place in which generations of poverty threaten to limit the horizons of children long before they enter the job market.

North Carolina, despite its economic progress, is not a wealthy state. Its public schools, in the eyes of many, have become a liability to economic growth. Beyond schools, there are stark differences in wealth and opportunity, growth and the quality of life. But there is a way to break the cycle of poverty and economic stagnation. For thousands of North Carolinians – rich and poor, black and white – education has been a gateway to a better life.

Ninety years ago, Governor Aycock affirmed the right of "every child" to attain the best that is within him or her. Implicit in that right is both a promise and an obligation.

Since 1925, there have been five major studies of school finance in North Carolina. With remarkable consistency, each study documented wide disparities in the quality and local support of schools and recommended policies to diminish the impact of those disparities. With equally remarkable consistency, few of those policies were ever adopted. Indeed, disparities in wealth and educational opportunities in North Carolina are widening, rather than narrowing.

The time has come to keep the promise that Governor Aycock and others since him have made to the young people of North Carolina – "Let them burgeon forth with the best that is in them."

*Gerry Hancock*  
Chairman  
Public School Forum

*John Dornan*  
President  
Public School Forum

*"Let every child burgeon forth  
with the best that is in him."*

Governor Charles B. Aycock, 1900

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# PREFACE

## WHY ANOTHER STUDY?

Since the school reform movement began with the 1983 publication of the Reagan Administration's "A Nation at Risk," hardly a month has gone by without yet another study calling for new initiatives in education. North Carolina is no exception. In the waning months of 1990, sweeping recommendations have been issued by Governor Martin's Commission on Workforce Preparedness, the Task Force on Excellence in Secondary Education, and the State Superintendent of Public Instruction's office.

Why then is the Public School Forum issuing yet another study? Answering that question requires setting the purpose of the study in a broader context. Recently, litigation centering on equal educational opportunity for all has been launched in 12 states. Courts in three of those states - Kentucky, Texas and Montana - have struck down state systems of financing schools, claiming that they fail to provide all children an equal education.

While previous school equity lawsuits focused on the narrow questions of whether equal amounts of money were spent on children, regardless of where they lived, more recent litigation has begun to focus on whether all children, regardless of geography, are receiving equal educational "opportunities" and on whether the educational outcomes such as graduation rates, test scores, and numbers going on to college confirm access to equal opportunity.

That trend could pose serious problems if North Carolina were to be faced with similar litigation. While many properly point out that the amounts of money spent locally on education in North Carolina are not as starkly unequal as that in many other states, they are nonetheless unequal. If one looks at opportunity and outcome measures, as the Forum has done, there also appear to be two kinds of North Carolina school systems: one is largely rural and poor, the other is urban and prosperous.

In the midst of the growing number of equity cases in other states, the Raleigh News and Observer ran an award-winning series of articles comparing schools in rural eastern North Carolina to schools in the Research Triangle area. The articles portrayed stark differences and sparked the Forum Board to invite the author to share additional findings with them. At roughly the same time, the North Carolina Rural Economic Development Center compiled data confirming the accelerating shift to this "dual economy" which threatens not only North Carolina, but much of the southeastern United States. These data, like the News and Observer's series, show that North Carolina is in danger of becoming two states within one, a rich state and a poor state, a state divided by wealth and differences in opportunities.

Finally, for three years, the Forum has conducted an exhaustive study of local school finance in all of North Carolina's school systems. While the initial goal was to devise a yardstick that would allow the public and policymakers to measure how much effort counties were making to support their schools, the studies came to confirm the findings of others - that all our counties were not created equal and, without state intervention, the gap would continue to grow.

Within that context, the Forum's Board of Directors elected to study a wide range of issues affecting rural and low-wealth schools. The study formally began in January of 1990 and ended in October of 1990. Supported by a grant from the NC Rural Economic Development Center, the Forum Board members invited seven additional experts to join them as the Forum's Rural Initiative Study Group began its work.

## THE GOAL OF THE STUDY

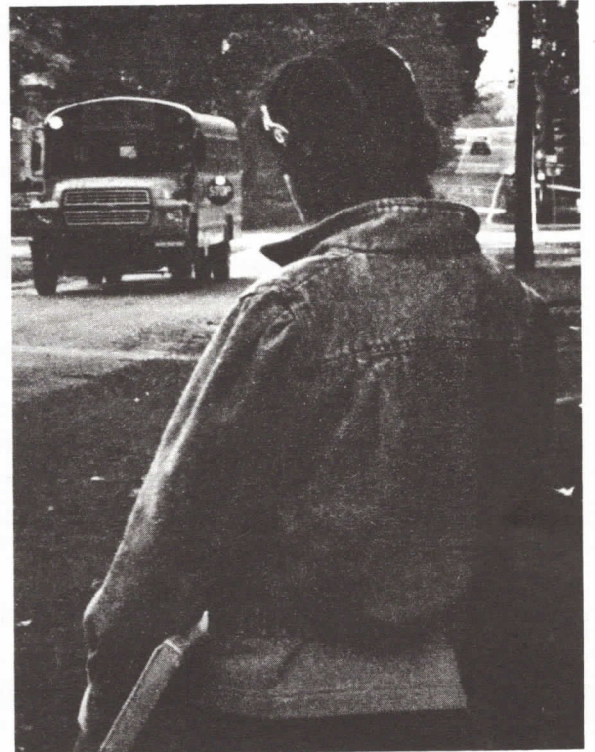
In electing to undertake this study, the Forum had two goals:

- To offer policymakers a set of alternatives that could demonstrate the state's commitment to providing equal opportunity to all young people, regardless of geography, thus buffering North Carolina from the prospect of lengthy and disruptive litigation.
- To offer policymakers a set of alternatives that, if enacted, could narrow the opportunity gap that now affects children living in rural or poor North Carolina.

The Forum has been at the forefront of the campaign to change the ways schools are run. Senate Bill 2 and the Forum's lead teacher project have pointed the way to a restructured school organization in North Carolina. But the Forum Board also recognizes that an adequate resource base is necessary for any business, including schools, to be competitive.

## THE SEMANTICS OF EQUALITY

Terms like "rich" and "poor" tend to strike many as too arbitrary and judgmental. Therefore, it is necessary to define terms as they will be used in this study. Our wealthier counties, many of which are located along the Interstate 85 corridor, are "wealthy" only in contrast to our lower wealth counties. When one compares North Carolina's wealthiest counties to states like Connecticut or to the nation's truly affluent areas in states like California, New York or Texas, the term "wealthy" becomes debatable. Phrases such as "high wealth" or "high tax capacity" that appear in this study are used to contrast counties within North Carolina, not to make a value judgment implying that any county exhibits Beverly Hills-like opulence. The term "poor," however, is not an exaggeration when applied to many of our counties. An alarming number of our rural counties rank among the nation's poorest.



## APPROACHES TO EQUALIZATION

The "Robin Hood" approach of stealing from the rich to give to the poor may have made sense in medieval England, but to apply this approach to school funding in a state already in the nation's educational basement would be disastrous. Some states, like New Jersey, have chosen to give less funding to wealthy schools while giving more to poorer schools. Technically speaking, such an approach quickly results in "equity," but it is debatable whether it results in improved schools. Most would argue that it results in a "leveling down" of quality as richer schools are pulled down to a state average. The Study Group rejected this approach.

The Study Group also rejected a solution used by other states which places a "cap" or limit on local spending per child. The effect of that solution is to guarantee control over a state average by limiting what high-wealth communities or communities committed to quality schools can spend. While this approach does not "take" from the rich, it stifles the initiative of communities that want more out of their schools.

The approach the Study Group recommends is intended not to level down support, but rather to keep poor and rural schools from falling farther and farther behind. Bolstering the educational systems of these counties is not an extension of welfare aid. Rather, it is very possibly the best economic development investment that North Carolina can make.

# EXECUTIVE SUMMARY

To close the gap between rich schools and poor schools, between urban schools and rural schools, the Rural Initiative Study Group makes the following recommendations.

## RECOMMENDATION 1

Any steps to equalize the educational opportunities for all children should not be taken at the expense of high wealth counties. The goal of equalization should be to raise the overall level of education. Finally, equalization steps should not limit the effort that can be made by high wealth counties to support schools, or by counties that place a high priority on educational excellence.

*Estimated Cost: None*

## RECOMMENDATION 2

The General Assembly should establish an equalization fund for low-wealth counties. As envisioned by the Study Group, such a plan would provide a guaranteed funding base equal to the county provided average per child investment in schools (i.e., \$632 per student for all counties in 1988-89). Further, only counties which levy an effective property tax equal to or above the state average rate would be eligible to receive equalization funding.

*Estimated Cost: \$70.9 to \$120.0 Million*

## RECOMMENDATION 3

Recognizing that it is virtually impossible for rural and low-wealth school systems of 3,000 or fewer students to provide an educational program roughly equivalent to the state-supported program offered in larger school systems, supplemental small school system funding should be provided to low-wealth, small school systems.

*Estimated Cost: \$11.9 to \$21.7 Million*

## RECOMMENDATION 4

To provide optimum school construction support to rural and low-wealth counties, the State should issue up to \$133 million in bonds for school construction. To do that, the state should divert the \$10 million per year that is currently appropriated to the state Critical Needs Fund. Local matching should then be provided by county funds designated for school construction from the 1983 and 1986 local option sales taxes.

*Estimated Cost: None, if existing funds are used differently*

## RECOMMENDATION 5

The State should expand the existing Aid to Families with Dependent Children equalization fund to include Medicaid and Special Assistance for Adults; that fund should assure that no county would be required to match state and federal welfare expenditures at a rate above the state average per resident.

*Estimated Cost: \$16 Million*

## RECOMMENDATION 6

The State should require fiscal impact statements for proposed changes in state mandates that have the potential to impose financial burdens on county governments with an eye toward the impact on rural and low wealth counties.

*Estimated Cost: Nominal*

## RECOMMENDATION 7

If an impact statement indicates there will be an increased fiscal burden on counties, the General Assembly should recommend potential new sources of county revenue, or provide additional assistance to low-wealth counties, before additional state spending mandates are imposed.

*Estimated Cost: Undetermined*

## A PROFILE OF RICH & POOR

	*TEN WEALTHIEST COUNTIES	STATE AVERAGE	*TEN POOREST COUNTIES
ADJUSTED TAX VALUATION PER STUDENT	\$395,308	\$230,250	\$107,572
SPENDING PER STUDENT (Operating)	\$989	\$632	\$334
EFFECTIVE TAX RATE (Unweighted Average)	\$0.431	\$0.539	\$0.628
TAX RATE EQUIVALENT SPENT ON SCHOOL (Unweighted Average)	\$0.174	\$0.274	\$0.321
RANK OF C.A.T. SCORES (Eighth Grade Total Battery)	30 <sup>TH</sup>	NA	87 <sup>TH</sup>
S.A.T. SCORES (Unweighted Average)	852	841	750

\* ADJUSTED TAX VALUATION PER STUDENT, 1988-89

## RECOMMENDATION 8

Mandated welfare payments assumed by county governments should be considered in determining local tax capacity for the purposes of implementing the Study Group's proposed equalization fund.

*Estimated Cost: None*

## RECOMMENDATION 9

The State should conduct a study of trends in the jail population in North Carolina and their potential impact on local governments. Further, the study should assess alternatives to incarceration, improvements in the use of existing jails, and recommend ways to improve the use of data collected at the state level for long-range planning.

*Estimated Cost: \$100,000*

# THE RURAL INITIATIVE: AN OVERVIEW

The Rural Initiative Study Group began its work by organizing its 62 members into three committees: Finance, Mandates and Quality.



## THE FINANCE COMMITTEE

The Finance Committee looked at school finance, how much counties are spending on education, and how spending is affected by wealth and poverty. A companion report, *Local School Finance Study*, published in June 1990, describes the effect disparities in wealth and the property tax base have on school spending.

## THE MANDATES COMMITTEE

The Mandates Committee studied the effect of state and federal mandates on county budgets. The committee found, for example, that spiraling welfare and solid waste disposal costs are pushing counties (and consequently, local school funding) toward what could be an impending fiscal crisis.

The complete findings and recommendations of the Finance and Mandates Committees are described in the recommendations section of this report.

## THE QUALITY COMMITTEE

The Quality Committee had perhaps the most difficult task. It was charged with examining school quality, school spending, school size and student performance, in an attempt to answer the following questions.

- Does the quality of schooling make a difference in student performance?
- If quality does make a difference, what factors distinguish high quality schooling from low quality schooling?
- Does money make a difference in school quality and, thus, student performance?

The Quality Committee used a combination of written surveys and interviews to gather data on learning opportunities and instructional strategies. Its findings undergird the entire Rural Initiative Report.



# QUALITY COMMITTEE FINDINGS

Does money make a difference? Will spending more on schools raise student performance? The Study Group members believe that it can and does, though it recognizes that family, community, and school leadership are also key.

Briefly, the Quality Committee made the following major findings.

- Money does make a difference in academic performance. Science and mathematics course offerings in large high schools are substantially more advanced than those in small high schools.
- Money does make a difference in the quality of academic programs.
- The pattern of data suggests that part of the lower performance of students in low-wealth schools is due to inadequate funding.

The committee's definition of a "high quality" instructional program includes innovative instructional strategies, access to technology for teachers and students, and opportunities to take higher level academic courses in high school.

## ACCESS AND OPPORTUNITY

One way money makes a difference in small schools is in access and opportunity. A good example can be seen in North Carolina's showing on SAT scores. In 1990 the scores of North Carolina seniors were 49th in the nation, only a slight improvement from the 50th place they held the year before. No doubt there is more than one cause and more than one solution to this problem. However, the Study Group believes that access and opportunity were influential factors affecting this outcome.

The following scores for the highest and lowest ranked counties for "ability to pay" are an indication of how influential opportunity and access are.

### SAT Scores for Highest Ranked Counties for "Ability to Pay"

1. Dare	890
2. Mecklenburg	862
3. Wake	895
4. Forsyth	864
5. Polk	821

### SAT Scores for Lowest Ranked Counties for "Ability to Pay"

96. Caswell	754
97. Bertie	705
98. Columbus	757
99. Robeson	742
100. Hoke	773

The average (unweighted) SAT score for the five highest ranked counties in "ability to pay" is more than 120 points above the five lowest ranked counties in "ability to pay". While many factors might account for this difference, the Study Group suggests it is not a coincidence that the top five counties in "ability to pay" spend many times more per student for education.

*The Quality Committee findings are based on a survey of 113 high schools selected by size (larger or smaller than 375 students in grades 9-12) and property wealth (above or below 75% of the state average per student) from the 325 high schools in the state. Two school units declined to participate in the study, and 110 surveys were mailed.*

*The research design included interviews with the principal and one teacher from 50 of the 110 high schools and 50 of their elementary "feeder" schools. The Department of Public Instruction provided information on school size and student performance. The Forum's annual study of local school finance provided information on county tax wealth.*

*Seventy-nine percent of the high schools responded to the survey, and the Committee's findings are based on a statistically valid sample of schools. A companion technical report describes in full detail the Quality Committee's methodology and findings.*

The 1990 Profile of SAT-takers in North Carolina, published by the Educational Testing Service, shows that students who had taken calculus scored 129 points higher on the mathematics portion of the SAT than those taking only algebra. They scored 37 points higher than students who had progressed only through pre-calculus. Yet, some consider calculus a course that is not essential to a good high school mathematics program. In fact, it is not even a part of the Basic Education Program (BEP). Instead, the BEP calls calculus – along with trigonometry, advanced algebra, computer mathematics, analytical geometry, and probability and statistics – an elective. And according to the BEP, calculus and these other five courses were not “factored into the costing out of the Program [and] Local administrative units which choose to offer these electives are expected to do so at local expense.” In other words, a community that wishes to offer these

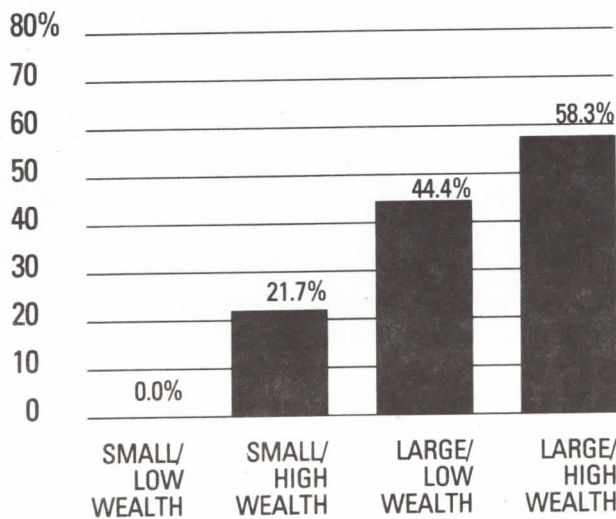
courses must do so with money out of its own pocket. The Study Group’s research clearly shows that small high schools are much less likely to offer advanced science and mathematics courses, including calculus, than larger schools. Obviously, one of the reasons is cost. It is more expensive to offer a course to 12 students than it is to 26 students. Many small schools simply cannot afford to schedule courses for a handful of students. While many factors influence the courses a student takes in high school, if advanced academic courses are not available, students cannot take them.

Another example is the significant differences found by the Quality Committee in student performance on end-of-course tests between high-wealth and low-wealth counties. The differences were most pronounced in chemistry and biology; both are laboratory courses requiring the ability to make substantial investments in glassware, microscopes, chemicals, lab specimens, exhaust systems (for noxious chemicals), digital scales and, increasingly, computers. Test scores for Algebra II, on the other hand, were not noticeably different.

The Study Group also believes that the question of access and opportunity goes beyond simple fairness. The courses that are offered – or not offered – in high schools set the standard by which students can measure their progress. All too often, that standard becomes a ceiling of expectations for students. Why, for instance, should a student take Algebra I in the 8th grade, as many are capable of doing, if Algebra II is the highest level course he or she can take? If Geometry and Algebra II are the highest levels of mathematics offered in a high school, a standard is set and students perform accordingly.

The economic implications of these inequities are obvious. By the time most Japanese students graduate from high school, they have taken the equivalent of one full year of college calculus. Not all North Carolina students will need a knowledge of calculus when they enter the work force, but they will need to have mastered a much higher level of mathematics than most are now taking.

## HIGH SCHOOLS OFFERING ADVANCED PLACEMENT MATH



*Availability of Advanced Placement (AP) Mathematics courses in high schools is an important measure of school quality. In North Carolina small high schools and low wealth schools are much less likely to offer them than large high schools or schools in high wealth counties.*

## SCHOOLING: ITS QUALITY AND APPROPRIATENESS

One of the reasons frequently given for North Carolina's poor SAT scores is the high percentage of students living in poverty. And in fact, the 1990 Profile of SAT-takers did show a strong link between a student's family income and his score. According to the Educational Testing Service, the SAT scores of students with family income greater than \$70,000 were, on average, 229 points higher than students with income less than \$10,000.

Overall 8th grade scores on the California Achievement Test showed a similar pattern. The unweighted average CAT score ranking (from 1 to 100, with 1 being the highest) of the 10 wealthiest counties in adjusted property tax base per student was 30. The unweighted ranking for the 10 poorest counties was 87.

### EIGHTH GRADE CAT SCORES

*Weighted County Averages*

#### Ten Wealthiest Counties\*

Dare	9
Brunswick	33
Currituck	6
Macon	29
Carteret	43
Wake	4
Avery	55
Watauga	10
Mecklenburg	41
Hyde	72

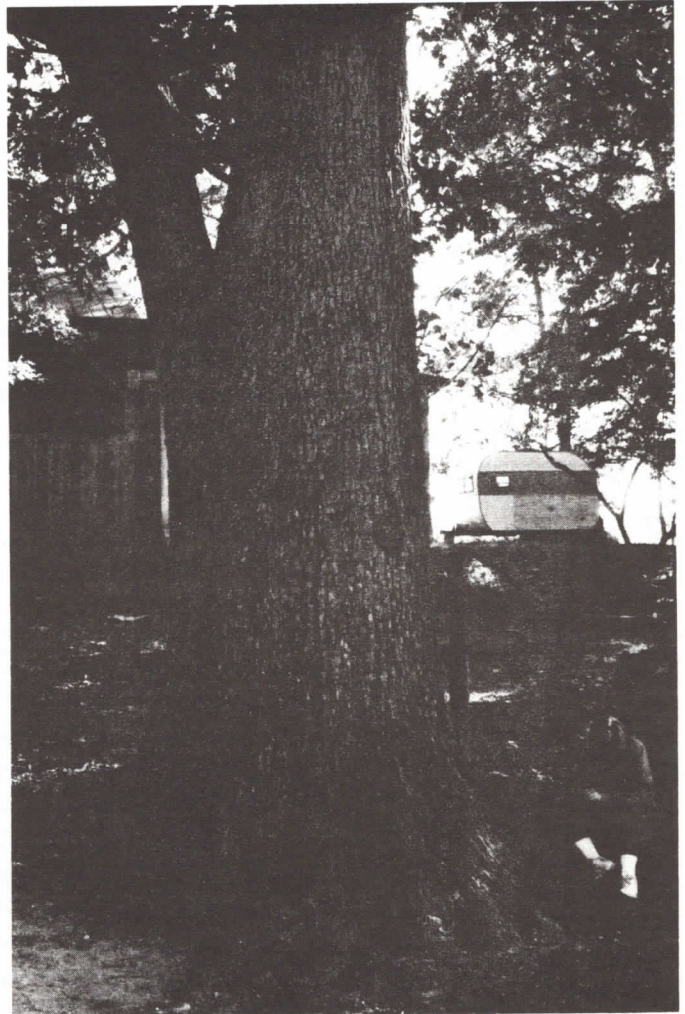
#### Ten Poorest Counties\*

Sampson	68
Greene	96
Anson	98
Edgecombe	86
Richmond	81
Columbus	83
Scotland	95
Bertie	67
Hoke	97
Robeson	99

*\*based on adjusted tax base/student*

The Study Group refuses to accept this disparity as inevitable. Aside from disparities in the educational opportunities between rich and poor schools, the Study Group found ample evidence to believe that producing equal outcomes for students from disadvantaged backgrounds may require a greater investment of resources than for other students. The Study Group strongly believes, however, that these resources cannot simply be used to continue "business as usual." We need to find dramatically different and innovative ways of teaching. The Task Force on Excellence in Secondary Education and the Governor's Commission on Workforce Preparedness have recently recommended much needed reforms in this area.

Improving our public schools is a complicated and unending task. The Study Group calls on policymakers and the public alike to both support its recommendations and commit to charting a new course for excellence.



# SCHOOL FINANCE RECOMMENDATIONS

## AN OVERVIEW

In the course of its work, the Rural Initiative Study Group has found much to celebrate. There are schools of excellence in North Carolina that are preparing young people to live and

work in the 21st Century. Far too many schools, however—a majority, perhaps—are not. Though many factors account for their lack of success, the fact remains that many of our schools are failing to educate young people simply because they lack the resources needed to do the job.

In making its recommendations, the Study Group considered the political and economic climate in North Carolina, as well as the state's pattern of support for public schools. Given those realities, some people may view its recommendations as too optimistic and unattainable. The Study Group believes strongly, however, that any action short of what it has recommended will perpetuate the inequalities in our schools.

The promise of an adequate state basic aid program for public schools is one of long standing. In 1933, the State assumed responsibility for funding

the operating expenses of schools. Yet, in 1948, fifteen years after the state takeover, the governor-appointed State Education Commission found that: "Contrary to general and popular belief, the state school system does not provide or claim to provide a complete foundation program for every child...The present plan of state support does not take into consideration wide variations in the tax paying ability of local school administrative units to provide for certain essential elements in a genuine foundation program of education."

Little has changed since 1948. In 1985, the General Assembly enacted the Basic Education Program (BEP), and the State Board of Education adopted an eight-year funding plan to implement it. That plan has been delayed, however, and future funding for the BEP is uncertain.

Though its recommendations focus on specific remedies that address inequities in local school funding, the Study Group strongly supports the premise that the State should provide a foundation of resources needed to offer a basic instructional program to all students.

The Study Group also believes the educational needs of communities vary greatly across North Carolina and that local flexibility in the use of state funds is essential. Those differences were recognized in Senate Bill 2, which enabled local school units to request waivers of certain state laws and regulations. Thus far, however, Senate Bill 2 has not produced the quantum changes in "business as usual" that are needed. Nor does it allow for the daily adjustments that often occur in the business world. If a school-based plan is failing to work, principals and teachers may have to wait an entire school year before obtaining approval to change it. The Rural Initiative Study Group strongly urges policymakers to consider ways of increasing the flexibility of state education funds, while maintaining strong accountability for student outcomes and student performance.

*In contemplating revisions to the Basic Education Program, policymakers are urged to pay special attention to differing levels of need among communities. At one end of the scale, nearly 80% of Bertie County's students qualify for subsidized school lunches under federal poverty guidelines; at the other end, less than 16% of the students in Davie County qualify for similar subsidies. Although the Basic Education Program provides resources for educating at-risk students, it does not distinguish between different levels or intensities of need. Communities with the largest proportion of these students typically have the fewest resources locally with which to operate.*

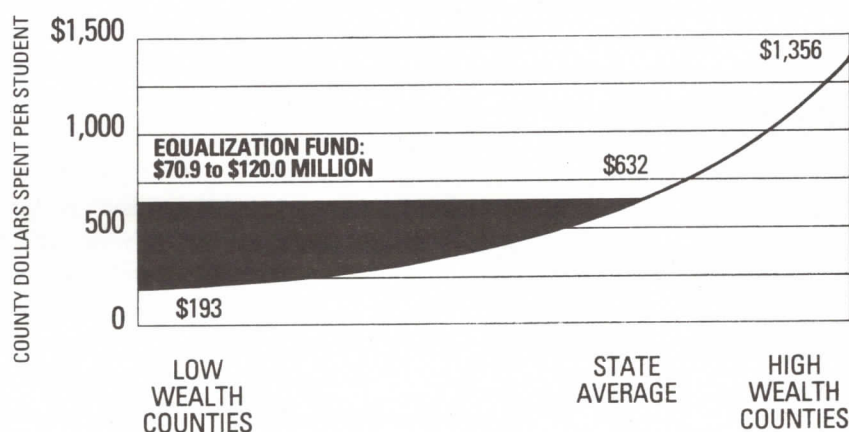
## RECOMMENDATION 1

Any steps to equalize the educational opportunities for all children should not be taken at the expense of high tax capacity counties; further, the goal of equalization steps should be to raise the overall level of education, not to level high spending or high performing schools down to a statewide average. Finally, equalization steps should not limit the effort that can be made by high tax capacity counties to support schools, or by counties that place a high priority on educational excellence.

### Rationale

The Study Group members feel strongly that North Carolina should not follow the path taken by several other states which have actually reduced the level of support for high tax capacity school districts and have redistributed those resources in an effort to equalize school spending. The intent of the Study Group's recommendations is not to "level down" spending in high spending schools, but rather to keep rural and poor schools from falling farther behind their urban counterparts.

### EQUALIZATION FUND



## RECOMMENDATION 2

The General Assembly should establish an equalization fund for low-wealth counties. As envisioned by the Study Group, an equalization fund would contain these elements:

- A "guaranteed tax base" for county current expense appropriations to schools equal to the state average adjusted tax base per student. In 1988-89, this would have "guaranteed" local current expense appropriations of \$632 per student for all counties.
- A requirement that to receive equalization funding the effective property tax rates of low wealth counties must be at or above the state average effective tax rate.
- A condition that low wealth counties receiving equalization funds must also maintain a level of school funding effort equal to the equivalent amount of their countywide effective tax rate currently going to schools. For example, if local current expense appropriations were equal to the amount raised by \$0.30 of a county's effective tax rate, it would be required to maintain that level of support.

### Rationale

The Study Group recognizes that this recommendation potentially will be viewed as controversial. This recommendation was made only after careful consideration of all the factors involved, however, and the Study Group strongly believes it to be in the best interests of the State. The Study Group is especially concerned about the potential for litigation that, if successful, could lead to court-mandated remedies for equalization.

In 1988-89, local funding of schools exceeded \$1.1 billion, of which more than \$720 million,

*In 1988-89, 71 counties could have received equalization funding. Aside from legal and ethical questions of fairness, there is an economic imperative for equalization. More than 60% of all students live in low property wealth counties. These young people represent roughly 60% of North Carolina's future work force and 60% of its future taxpayers.*



or 65%, were spent on the day-to-day operation of schools. Local support of operating expenses for schools is a critical component of school funding and will remain so, even with the full funding of a basic state aid program.

Prior to making this recommendation, the Study Group undertook a study of what economists might term the "marginal effect" of disparities in local school funding. A \$500 per student disparity, for example, translates into a \$13,000 disparity for a classroom of 26 students and \$275,000 for a typical school of 550 students.

In its study of marginal effects the Study Group found a strong link between local resources and the quality of instructional programs that are being offered. While the Study Group readily acknowledges the importance of other such factors as school leadership and parent involvement, many of the most promising instructional technologies available today are beyond the means of low-wealth communities.

Though concerns about school financing are not new to North Carolina, few may recall that in the first third of this century North Carolina had a state equalization fund. An Equalization Fund Commission was authorized "to apportion [equalization] funds on any basis that it might adopt to give a fair and just apportionment to those counties needing money most." In 1925, a minimum level of required local tax effort was made a condition of receiving equalization funds. Counties that had not "levied a tax of at least 44 cents on the \$100 valuation for school purposes" would not receive funds. As recently as

1987, a variation of that principle was incorporated in the School Facilities Act as a requirement that county governments spend 40% of the county share of the 1983 local option sales tax and 60% of the 1986 sales tax for school construction.

The Study Group believes that counties receiving equalization funds under its proposal should be required to make a "good faith" effort to support county services and that state equalization funds should not be used to supplant local current expense appropriations.

The prosperity of all North Carolinians depends on giving a quality education to all of our young people. Yet, North Carolina is increasingly becoming a state of educational haves and have-nots, and the cost of that division – in future economic growth and in the quality of life for all citizens – is rising.

### **RECOMMENDATION 3**

The State should provide supplemental funding for small school units sufficient to offer an educational program roughly equivalent to the state-supported program offered in the majority of schools and school units. Funding should be provided on the following basis:

- OPTION A: County school units with 3,000 or fewer students in final average daily membership for the prior school year would receive supplemental funding for district level staffing. These units would also receive supplemental funding for school level staffing and instructional materials and equipment. Only county – not city – units would receive funding.
- OPTION B: All school units – county and city – with 3,000 or fewer students in final average daily membership would receive funding comparable to that recommended in Option A.

*NOTE: The Board of Directors for the Public School Forum has not taken a position on local merger of city and county school units. The choice between Options A and B is properly left to the General*

*While disparities in local wealth among North Carolina communities are not as stark as in some states, they nonetheless are considerable. In 1988-89, the property tax base per student in our ten wealthiest counties was nearly four times that of the ten poorest counties. Per capita income in our wealthiest counties was twice as high in 1987 as in our poorest counties. These disparities have enabled some communities to spend more than \$1,400 more per student - \$37,000 for a class of 26 students - than others.*

Assembly. The Study Group recognizes the implications of its recommendation for school merger. None of the 15 counties in which the city school units are located would be eligible to receive funding under this proposal if they were merged. None of the 21 county units contains a city unit. Thus, the Study Group is proposing two funding options. One would limit funding to 21 county school units; the other would include 15 city school units.

- Local funds currently spent on schools for either construction or operating expenses could not be supplanted, although they could be shifted from one spending category to another. Assurances similar to those proposed for the equalization fund would be required.

## Rationale

How big is too big? How small is too small? Those were the questions confronting the Study Group when it considered the needs of students attending small schools in many rural areas of North Carolina.

Unlike many states, North Carolina allots public school funds through a system of highly categorical formulas. State funds are allotted in more than 40 categories, and the total number of categories, including federal funds, is more than 80. For the most part, these formulas allocate resources to educate each student in roughly equal portions. Thus, a high school student in Mecklenburg County, a school system of more than 72,000 students, generates roughly the same level of state resources as a high school student in Tyrrell County, a school unit of fewer than 1,000 students. Not surprisingly, the marginal cost per student of providing the same instructional program to students in Tyrrell County is higher than in Mecklenburg County.

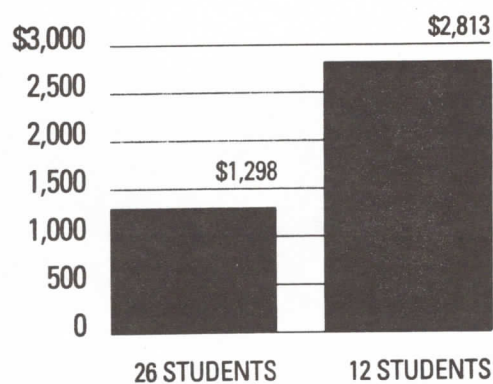
The concept of marginal costs is a familiar one in business. And though students obviously are not widgets, it is less expensive per student to offer an adequate instructional program in a high school of 800 students than it is in one of 275 students. State allotment formulas, such as those for classroom teachers or school counselors, were designed with typical schools in mind. They simply do not work in extremely small schools.

The Study Group believes the need to address this problem goes beyond the issue of equity in local school funding to an even more fundamental question of fairness in the allocation of state school aid. The NC Constitution requires the state to provide a uniform system of public education for all students, no matter how small or remote the community in which they live. If one views this responsibility in terms of opportunities, rather than simply equal dollars or resources per student, the state is failing to meet its obligation in many small schools.

Clouding the issue is a question posed by many: Which small schools are essential and which of them could be consolidated to form larger schools? A growing body of research shows that, when it comes to schools, "bigger is not always better."

At one time or another many rural communities have had to face the dilemma of either failing to provide an adequate instructional program for their young people, or combining two or more small high schools to form one consolidated school. Small high schools, however, have advantages in fostering community support and parent involvement which consolidated high schools do not. The issue need not be an "either/or" proposition. The estimated cost of this recommendation is less than seven-tenths of one percent of the state school budget for fiscal year 1990-91. The Study Group believes this would be money well spent.

**A QUESTION OF SIZE**  
Per Student Cost of Teachers: 12 vs. 26 Students



13

## **RECOMMENDATION 4**

The State should issue up to \$133 million in bonds for school construction in low wealth and small county school units (those with 3,000 or fewer students) that have an adjusted per student tax base that is below the state average.

No less than 30% of the funds would be reserved for small county school units. Eligible units would be required to match state dollars on a 1:3 basis. The revenue stream to support the bond issue would consist of the \$10 million annually appropriated to the state Critical Needs Fund and county funds designated for school construction from the 1986 local option sales tax.

Small county school units which have already received grants from the Critical Needs Fund would not be eligible to receive additional funding until all other eligible counties with unmet needs had received consideration. As with any funds received through the equalization fund or the small school supplements, capital funds could not be supplanted.

### **Rationale**

By almost any measure, the School Facilities Act of 1987 has been a resounding success. In just three years, capital spending has more than doubled, from an average of \$168 per student in fiscal year 1985-86 to more than \$428 in fiscal year 1988-89.

Many low wealth and small county school units continue to have problems accumulating sufficient reserves to meet their facility needs. Even such counties as Tyrrell County, which recently passed a school bond issue, pay a disproportionate share of their local tax base to support building new schools. Gates County, for example, which ranked 66th in tax base per student, had a 1988-89 total adjusted tax base of \$270.4 million, or \$168,346 for each of its 1,606 students. A one-cent increase in the effective property tax rate would generate \$27,036. In contrast, a one-cent increase in the effective property tax rate of Guilford County would generate more than \$1.6 million annually. Using the rule of thumb of issuing \$10 of bonds for every \$1 in annual revenue, a 10-cent increase in the local property tax rate would support only a \$2.7 million school bond. The \$6 million for needed renovation and expansion of Gates County High School would necessitate a \$0.22 increase in the countywide property tax rate. In 1988-89, however, Gates County's effective tax rate of \$0.58 was four cents above the state average, though its 1987 per capita income was more than \$2,000 below the state average.

The Study Group believes these inequities need to be corrected, and though the solution it is recommending would not eliminate the problem, it would do much to alleviate it. An advantage of the recommended approach is that it would require no increase in taxes. Both of the revenue streams that would be needed are currently in place. Furthermore, it would allow low-wealth counties immediate access to the \$70 million that otherwise would be available in \$10 million increments over the next seven years.



# MANDATES RECOMMENDATIONS

## AN OVERVIEW

What do garbage dumps, county jails, and welfare programs have in common? For that matter, what does a study looking at the problems of rural schools have to do with leachate removal systems, group homes for the elderly, or alternative sentencing? The answer to both questions is: More than most people think. In its study of rural schools, the Study Group has found that schools, like jails, landfills and welfare programs, are closely linked to how and why our counties are raising and spending local tax dollars.

North Carolina is not alone in this regard. Since 1980, what the Advisory Commission on Intergovernmental Relations calls "fiscal federalism" has undergone dramatic shifts, as state and local governments have shouldered an increasing share of government spending. In 1989, for example, federal aid to schools was half what it was in relative terms ten years ago. At the height of the nation's military buildup from 1982 to 1987, the rate of growth in overall state and local spending exceeded that of federal spending by a sizable margin. Today, it is not an exaggeration to say that, for many state and local governments that have had to choose between raising taxes or cutting back services, the situation is approaching crisis proportions.

In many cases, however, federal "retreat" has been less a source of state and local financial difficulties than mandated compliance with tougher regulations. New landfills, for example, are estimated to cost three times as much to build under new federal standards as the previous generation of landfills under the old regulations. While there is little question that a safe, clean environment or welfare programs for the poor are important, growing demands for county services are increasingly pitting schools against jails, landfills, and welfare programs in a win-lose competition for local dollars. The Study Group believes that competition is threatening to undermine the basic structure of our local school funding. The budget debate during the 1990 General Assembly session mirrors what is happening in our counties. Faced with similar choices, many counties have raised taxes rather than cut back in essential services. In 1990-91, 44 of the 100 counties increased their general property tax rates, and 11 counties lowered their rates. Of the 11 counties where rates were lowered, 10 had recently undergone revaluation.



## RECOMMENDATION 5

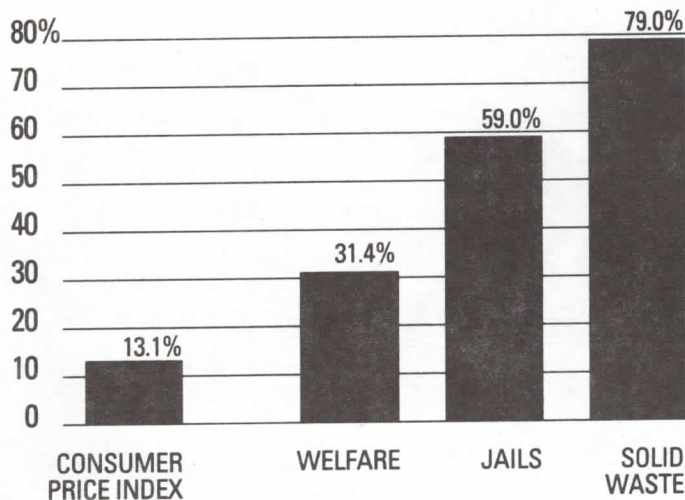
The state should require fiscal impact statements for proposed changes in state mandates that have the potential to impose a financial burden on county governments. Such statements should pay special attention to the effects of new or expanded mandates on low-wealth counties.

### Rationale

In the three years from fiscal year 1986 to fiscal year 1989, county spending for jails rose 59.1% and for solid waste management it rose 79.2%. During those same three years, however, county spending for current operations in schools increased only 21.4%.

### THE RISING COST OF MANDATES VS. INFLATION

Three-Year Percentage Increase in County Expenditures  
Due to Mandates vs. Consumer Price Index (1986-89)



To be fair, county spending for school construction has more than doubled since 1986, but the Study Group believes that has happened because the General Assembly had the foresight in 1987 to designate local sources of revenues specifically for that purpose.

The Rural Study Group believes that the impact of new standards for building and operating landfills and jails is only beginning to be felt. For example, in Rowan County (one of only two counties in the state currently in compliance with new landfill regulations) solid waste expenditures rose more than 590% over three years. Other changes in state policies, such as requiring all misdemeanants to serve their sentences in county jails rather than state prisons, could add to an already growing fiscal burden for counties. While few would argue with the need for such mandated public services as jails, landfills, or welfare programs, the Study Group believes that more information is needed on how those mandates will affect county budgets.

## RECOMMENDATION 6

When an impact statement indicates there will be an increase in the fiscal burden on counties, the General Assembly should recommend potential new sources of county revenue, or provide additional assistance to low-wealth counties unable to raise sufficient additional revenue but whose effective property tax rates are above the state average, using equalization formulas.

### Rationale

The two major sources of county tax revenue are the property tax and the two-cent local option sales and use tax. Together, they provide more than 90% of county tax revenue. Once a county has adopted the local option sales taxes there is little it can do to increase the amount of revenue they produce. Thus, discussions about county tax increases almost inevitably center on the countywide property tax. The Study Group believes many counties are rapidly approaching the limit of property tax burden for many local taxpayers. If counties are to keep pace with growing fiscal demands imposed by mandates and the need to provide essential services, other

sources of revenue must be made available.

The Study Group further believes that many low-wealth counties may require additional help from the State to meet the costs of new mandates. By almost any measure, Scotland, Hertford and Northampton Counties are among the poorest in the state. Yet, in 1989, their effective property tax rates ranked 1st, 2nd and 3rd in the state. Local tax increases are not the answer to this problem, and the state needs to recognize that some counties, despite making an admirable effort to tax themselves, simply need more help.

## RECOMMENDATION 7

The State should consider expanding the existing AFDC equalization fund to include Medicaid and Special Assistance for Adults. The expanded equalization fund should assure that no county would be required to match state and federal welfare expenditures at a rate above the state average per resident.

### Rationale

While the Study Group recognizes that welfare programs are operated, by and large, outside the scope of schools, it believes that mandated matching requirements undermine the ability of low-wealth counties to support public schools. Indeed, if the state were to devise a policy that would guarantee that the neediest counties would continue to fall farther and farther behind, we could not do much better than the one we have now.

The Study Group's research showed that in 38 counties matching welfare payments ranged from 10 to 20% of adjusted county tax revenues. In comparison, welfare payments took less than five percent of county tax revenues in 15 counties, including Mecklenburg, Wake and Orange. These expenditures come "off the top" because they have to be made before any other needs can be addressed, including schools. The recommended equalization formula would not eliminate inequities, but it would do much to reduce the burden of mandated welfare programs on counties least able to support them.

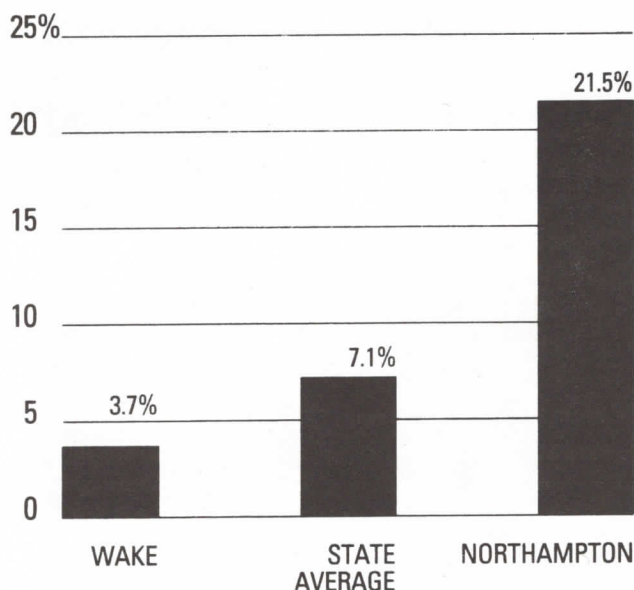
## RECOMMENDATION 8

Mandated welfare payments should be considered in determining local tax capacity for the purposes of the Study Group's proposed equalization fund.

### Rationale

As noted above, mandated welfare payments disproportionately affect low-wealth counties. Even with the adoption of the Study Group's recommendation for equalizing welfare expenditures, in 66 counties the equivalent property tax rate needed to support mandated

**OFF THE TOP**  
Percent of Adjusted County Tax Revenue for  
Mandated Welfare Payments



*Mandated welfare payments come out of county revenue before other spending occurs. Many pay a disproportionate amount for these expenditures, depleting their budgets before issues such as school funding can be considered.*

welfare expenditures would still be above the state average. Thus, spending to comply with welfare mandates should be a factor in the recommended school finance equalization formula.

## **RECOMMENDATION 9**

The State should conduct a study of trends in the jail population in North Carolina and their potential impact on local governments. The study should assess alternatives to incarceration, improvements in the use of existing jails, and recommend ways to improve the use of data collected at the state level for long-range planning.

### **Rationale**

In an effort to determine the effect of non-educational mandates on local school funding, the Study Group focused on three areas—welfare programs, solid waste management and jails. Of the three, the impact of welfare programs was the easiest to assess. As to solid waste issues, the 1990 Session of the General Assembly has authorized \$500,000 for a study of statewide solid waste needs and costs. The Study Group recommends a similar study be conducted of county jails, paying attention to the potential impact of state policies on incarcerating all misdemeanants (rather than some, as is now done) in county jails and of new jail construction and operating standards. The absence of data in this area made it impossible to project the short- and long-term effects of policy changes.

# POSTSCRIPT

At the beginning of this report the question of "why another study?" was raised. It is now appropriate to revisit two other questions:

- Is there any reason to believe that more money is the answer to education's problems?
- Given revenue shortfalls and the economic climate within North Carolina, how can the state deal with this issue now?

Both are legitimate questions that deserve attention. The knottiest is the question about spending. Will, in fact, more money mean better education? Research findings can buttress either a 'yes' or 'no' response to that question. Research tells us, for instance, that spending more on reducing class size can make a dramatic difference – if class size is reduced to 18 or fewer students. Those that say it is impractical even to consider that much of a class size reduction can make an eloquent argument that reducing class size from 26 to 23 is throwing good money after bad.

A recent study of schools, "Politics, Markets & America's Schools", based its findings on one of the nation's most far-reaching studies of high schools and high school students. It found that per student spending was not a powerful predictor of school effectiveness; on the other hand, when the study divided schools into quartiles, it found the top quartile spent 20% more on average than the bottom quartile.

The research done by the Rural Initiative Study Group would conclude that spending more money to fund more offerings in advanced science and mathematics would do much to equalize the educational opportunities for students in poor and rural areas. The same money spent for "more of the same" is another matter. The fear that more money will be spent for more of what is currently being done is at the heart of this issue. If additional money is spent wisely, it should make a difference. If money were spent, as an example, on expanding satellite programs that could bring more advanced courses into rural schools it could make a difference. Can those who are calling for additional funding for rural and poor schools guarantee that money alone is the answer? No. Could money help? Yes, if spent wisely.

Turning to the second question, there is no apparent silver lining behind the storm clouds that are gathering around North Carolina's budgetary situation. It appears that the worst is yet to come.

Having said that, the fate of the Basic Education Program, which is already very much in doubt, is even more uncertain, as are other multi-year initiatives like the new teacher salary schedule and Senate Bill 2. As if those issues were not enough, the multitude of new reports and recommendations are in danger of creating a good idea overload in the upcoming session of the



General Assembly. How then does any group recommend now as the time to deal with disparities between poor and comparatively prosperous counties?

Two arguments can be advanced for considering these proposals now. The first relates to other proposals and half-funded initiatives. Whether one looks at BEP or Senate Bill 2 or calls for longer school years or early childhood education, there seems to be a presumption that all schools in North Carolina are equally prepared to break new educational ground. That simply is not the case. The foundation of support for schools and the capacity of schools to implement new programs is currently very uneven.

This report began by making a case that every child deserves the opportunity to achieve "all that's within them." Yet many schools lack the resources needed to provide a quality education. The Study Group's recommendations are aimed at strengthening the foundation for those schools so that greater educational opportunities can be built. Thus far, the foundation has been ignored.

While this study has focused on the problems created by poverty and the low tax base of many rural communities, they are problems shared by all North Carolinians. If we do not invest in rural schools and communities today, those problems will ultimately find their way to the "doorsteps" of our cities and they will be much more severe and far more intractable. There probably will never be a right time to deal with issues of equal opportunity. But the cost of unequal opportunity mounts each day the current situation continues. How much wider must the division between rich schools and poor schools grow before the time is right, and what will be the cost of delay? If one accepts the premise that investment in education today can prevent higher prison, welfare and unemployment costs tomorrow, the longer the investment is delayed, the higher the costs will be.

In a time when the entire nation is fighting to regain its competitive edge, can a state which ranks near the bottom in so many educational measures afford to wait even a day before it acts to bridge the gap between its rich schools and poor schools?

We think not.

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# RURAL INITIATIVE FISCAL IMPACT

COUNTY	EQUALIZATION FORMULA FOR SCHOOLS*	SMALL SCHOOL SUPPLEMENTAL FUNDING	WELFARE EQUALIZATION FORMULA	TOTAL IMPACT PER COUNTY	SCHOOL EQUALIZATION FUNDS IF COUNTY WAS AT THE STATE AVERAGE TAX RATE
ALAMANCE	\$0	\$0	\$0	\$0	\$222,388
ALEXANDER	0	0	0	0	929,108
ALLEGHANY	0	622,345	0	622,345	0
ANSON	1,450,867	0	210,217	1,661,084	0
ASHE	0	0	73,807	73,807	0
AVERY	0	473,203	0	473,203	0
BEAUFORT	0	0	199,661	199,661	207,160
BERTIE	1,413,571	0	264,238	1,677,809	0
BLADEN	0	0	451,119	451,119	1,058,650
BRUNSWICK	0	0	0	0	0
BUNCOMBE	0	0	0	0	0
BURKE	0	0	0	0	1,523,634
CABARRUS	0	0	0	0	1,256,823
CALDWELL	0	0	0	0	2,261,034
CAMDEN	158,370	686,593	0	844,963	0
CARTERET	0	0	0	0	0
CASWELL	0	0	67,744	67,744	889,055
CATAWBA	0	0	0	0	0
CHATHAM	0	0	0	0	0
CHEROKEE	0	0	0	0	340,515
CHOWAN	0	457,774	143,703	601,477	316,586
CLAY	0	673,803	11,531	685,334	0
CLEVELAND	0	0	15,820	15,820	2,954,634
COLUMBUS	0	0	707,781	707,781	3,379,286
CRAVEN	2,740,477	0	111,041	2,851,518	0
CUMBERLAND	10,268,827	0	219,091	10,487,919	0
CURRITUCK	0	542,295	0	542,295	0
DARE	0	0	0	0	0
DAVIDSON	0	0	0	0	2,899,162
DAVIE	0	0	0	0	235,424
DUPLIN	2,069,427	0	381,697	2,451,123	0
DURHAM	0	0	354,033	354,033	0
EDGECOMBE	1,426,416	0	853,834	2,280,250	0
FORSYTH	0	0	0	0	0
FRANKLIN	1,195,037	0	234,274	1,429,311	0
GASTON	4,802,660	0	0	4,802,660	0
GATES	273,037	556,050	49,870	878,958	0
GRAHAM	0	607,784	42,428	650,212	108,495
GRANVILLE	0	0	0	0	1,284,934
GREENE	0	473,246	109,480	582,726	831,880
GUILFORD	0	0	0	0	0
HALIFAX	2,695,545	0	1,056,227	3,751,772	0
HARNETT	3,314,683	0	491,814	3,806,497	0
HAYWOOD	0	0	96,647	96,647	0
HENDERSON	0	0	0	0	0
HERTFORD	1,181,845	0	402,999	1,584,844	0
HOKE	0	0	178,912	178,912	1,784,324
HYDE	0	715,782	76,143	791,925	0
IREDELL	0	0	0	0	637,318
JACKSON	0	0	0	0	0

\* Funding for counties above state average effective tax rate in 1988-89



COUNTY	EQUALIZATION FORMULA FOR SCHOOLS*	SMALL SCHOOL SUPPLEMENTAL FUNDING	WELFARE EQUALIZATION FORMULA	TOTAL IMPACT PER COUNTY	SCHOOL EQUALIZATION FUNDS IF COUNTY WAS AT THE STATE AVERAGE TAX RATE
JOHNSTON	\$3,485,090	\$0	\$430,873	3,915,963	\$0
JONES	0	620,126	113,696	733,822	180,751
LEE	782,432	0	95,997	878,429	0
LENOIR	0	0	526,857	526,857	2,730,280
LINCOLN	0	0	0	0	973,810
MACON	0	0	0	0	0
MADISON	562,931	512,532	93,271	1,168,734	0
MARTIN	781,957	0	187,582	969,539	0
MCDOWELL	0	0	15,318	15,318	1,308,793
MECKLENBURG	0	0	0	0	0
MITCHELL	0	518,701	16,001	534,702	118,028
MONTGOMERY	554,063	0	105,572	659,635	0
MOORE	0	0	0	0	0
NASH	0	0	302,693	302,693	3,148,804
NEW HANOVER	0	0	622,496	622,496	0
HORTHAMPTON	1,121,725	0	458,244	1,579,969	0
ONSLow	0	0	0	0	4,018,244
ORANGE	0	0	0	0	0
PAMLICO	47,234	550,949	125,097	723,280	0
PASQUOTANK	0	0	189,181	189,181	871,917
PENDER	0	0	203,217	203,217	0
PERQUIMANS	0	613,193	101,779	714,972	195,096
PERSON	0	0	187,977	187,977	0
PITT	2,612,050	0	551,182	3,163,232	0
POLK	0	493,855	0	493,855	0
RANDOLPH	0	0	0	0	1,380,127
RICHMOND	2,640,985	0	99,387	2,740,371	0
ROBESON	9,361,352	0	1,495,496	10,856,848	0
ROCKINGHAM	2,291,397	0	203,152	2,494,549	0
ROWAN	0	0	0	0	951,925
RUTHERFORD	0	0	210,377	210,377	1,149,834
SAMPSON	2,713,472	0	383,005	3,096,477	0
SCOTLAND	2,387,672	0	452,764	2,840,436	0
STANLY	0	0	0	0	1,019,371
STOKES	0	0	0	0	841,001
SURRY	0	0	0	0	1,664,702
SWAIN	0	661,585	8,635	670,220	308,178
TRANSYLVANIA	0	0	0	0	0
TYRRELL	72,457	678,926	60,465	811,848	0
UNION	0	0	0	0	859,695
VANCE	0	0	383,590	383,590	1,833,390
WAKE	0	0	0	0	0
WARREN	419,712	487,212	279,232	1,186,156	0
WASHINGTON	806,364	483,317	210,421	1,500,102	0
WATAUGA	0	0	0	0	0
WAYNE	5,018,854	0	522,271	5,541,124	0
WILKES	0	0	0	0	1,727,925
WILSON	2,309,202	0	1,138,128	3,447,331	0
YADKIN	0	0	0	0	528,970
YANCEY	0	483,798	0	483,798	150,096
STATE TOTAL	\$70,959,711	\$11,913,069	\$16,578,070	\$99,450,850	\$49,081,437

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## **THE RURAL INITIATIVE**

*For three years, ground-breaking school finance studies done by the Forum's Director of Research, Peter Leousis, have laid the foundation for many of the recommendations contained in this study. He was responsible for the overall coordination of the Rural Initiative Study Group and provided staff support to the Finance and Mandates Committees.*

*Dr. Roy Forbes, Director of the Center for School Accountability, has worked extensively at the national and state level on many projects. He coordinated the work of the Quality Committee.*

*Teresa Taylor, a graduate student at NC State University and a summer intern at the Forum, provided valuable assistance during a critical part of the study group process.*

*The entire Forum staff provided invaluable service to the Rural Initiative Study Group as it worked to forge these recommendations.*

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