EXAMINATION OF REVENUES FROM STATE AND LOCAL CAPITAL OUTLAY ON THE EQUITY OF SCHOOL CAPITAL OUTLAY FUNDING IN THE STATE OF FLORIDA

By:

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A DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL OF THE UNIVERSITY OF FLORIDA IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF EDUCATION

UNIVERSITY OF FLORIDA

2005
TO

MY DAUGHTER

MY SON,

AND THE MEMORY OF MY PARENTS
ACKNOWLEDGEMENTS

I express my sincerest thanks to the special People below that enabled me to finish a dream. Without their assistance, wisdom, and support my doctoral studies would have remained just a dream.

Dr. David S. Honeyman, chairman of my doctoral committee, guided and directed my interest in this area of educational finances. I greatly appreciate the support and guidance he gave me. I wish also to thank the other members of my committee: Dr. R. Craig Wood, Dr. Phil Clark, and Dr. Paul Sindelar; I appreciate their time and support.

Other people who helped me complete the research are two people who endured reading my handwriting and typed this research – Kelly Sullivan and Valerie Rudelis; I thank them for the hard work. Ava Lemon, a fellow colleague, who aided my understanding of data analysis was invaluable.

A special thank you goes out to my family and friends who never gave up on me. My education would never have been completed without their understanding and backing throughout the years of study.
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Abstract of Dissertation Presented to the Graduate School
Of the University of Florida in Partial Fulfillment of the
Requirements for the degree of Doctor of Education

EXAMINATION OF REVENUES FROM STATE AND
LOCAL CAPITAL OUTLAY FUNDS ON THE EQUITY OF
SCHOOL CAPITAL OUTLAY FUNDING IN THE STATE OF FLORIDA

By

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May, 2005

Chairman: David S. Honeyman
Major Department: Educational Leadership, Policy, and Foundations

The purpose of this study was to extend the concept of fiscal equity in the
distribution of revenue to K-12 public schools in Florida for general education funding to
capital outlay for schools. This study presented the results of a study comparing the
equity of total capital outlay revenue for a selected year in Florida, 2000-2001, and the
equity of the state and local components relative to each other, to the total capital outlay
and general educational revenue. This research, a replication of the statistical analysis of
Gaylon Currie, who used 1988-89 data, attempted to answer the following question:
What is the relationship of the equity of state, local and total capital outlay revenues
relative to the equity of general educational expenditures?

This study focused on horizontal equity for students and equal educational
opportunity, using fiscal neutrality of revenues as a measure. Four variables were
analyzed: general educational expenditures, local capital outlay revenues, state capital
outlay revenues, and total capital outlay revenues. Horizontal equity was measured by the range, the restricted range, the Federal range ratio, the relative mean deviation, the McLoone Index, the variances, and the coefficient of variation. Regression measures were used to examine the relationship between district wealth and capital outlay revenues. Fiscal neutrality was examined by use of the Gini Coefficient and the Lorenz Curve.

Two conclusions emanated from the statistical analysis of the four variables. The first conclusion was the measure for general educational revenue (FEFP) consistently reflected greater horizontal equity and greater wealth neutrality than measures for any of the capital outlay revenues (state, local or total). The second conclusion was that the lack of wealth neutrality in total capital outlay was explained by a strong lack of wealth neutrality of local capital outlay. This lack of wealth neutrality did not lessen the effect of local capital outlay even when the additional state aid to low-wealth school districts was considered.
CHAPTER I
INTRODUCTION

The ability to finance public education in any state is of major importance to legislators, citizens and students. Public school finances according to almost every textbook written on educational finance for the past 50 years, states that it was big business\(^1\) with states like Florida spending half of its state revenue on public education.\(^2\) Fiscal equity in financing public education has been a constant issue with a long history in school finance literature.\(^3\) Fair treatment of all students, including equivalent educational support regardless of individual needs, was fundamental to the concept of fiscal equity.\(^4\)

Fiscal equity in the public schools can be defined as a system of finance that was fair and just in the collection and distribution of funds for public education. The plausible target groups of a “fair and just” school finance schemes were students and taxpayers.\(^5\) The rationale for students and taxpayers, as targets of equity, was:

Students are often selected because they are the recipients of the benefits of education, and taxpayers are logical targets since . . . they simultaneously pay the cost of education through taxes . . . .\(^6\)

The goal of “equity” in public school finance systems would be expressed as “equity of educational opportunity.” In reality, this concept has been limited to mean providing equal dollars per student or sufficient dollars to promote comparable programming for students with differing needs.\(^7\)
The three basic equity principles included horizontal equity, vertical equity, and fiscal neutrality. The horizontal component of equity generally required equal treatment of equals.\(^8\) Stated in another way, horizontal equity was "... Equal treatment of people in the same circumstances."\(^9\) The vertical component of equity meant that students with legitimate difference were entitled to appropriately unequal treatment in the distribution of funds. Vertical equity would be thought of as "... treatment of students in different circumstances in accordance with relevant differences."\(^10\) The principle of wealth neutrality, also known as fiscal neutrality or equality of opportunity, required that the quality of education a student receives would not be a function of the wealth of the local school district. In a wealth neutral condition, the level of fiscal support that students receive was not linked to the wealth of the local community in which they are educated.\(^11\)

Ellwood P. Cubberley was the first to broach the subject of equality of opportunity when he proposed a state system of finance instead of a local system in his doctoral dissertation (1906),

> In the first place, I have conceived a state system of Schools instead of a server of local systems. Without such a conception no equalization of either the burdens or the advantages of education is possible... maintenance of school is in part for the common good of all and hence should be... in part assumed by the state as a whole.\(^12\)

Public education was considered primarily a function of the states, and most states have made constitutional provisions to educate their citizenry.\(^13\) The Tenth Amendment of the United States Constitution provided "[t]he powers not delegated to the United States Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."\(^14\)

A variety of school finance programs have been developed by the states to
distribute revenues for implementation and maintenance of the public school system. However, a comprehensive and equitable state school finance program required four fundamental components: 1) the fiscal capacity of local school districts to provide the education, 2) adequacy of revenue for a student's education regardless of the efforts of the local school districts, 3) the educational needs of the child and, 4) the provision for additional revenue to local school districts that were unable to provide programs and services of comparable quality due to high cost.\textsuperscript{15}

**Statement of the Problem**

The objective of this research was to extend equity analysis from its traditional concern with general educational expenditures to capital outlay. Over the past decades there has been heightened attention given to educational spending on curricula and other student opportunities which had increased equity. The same has not been true for the funding of capital outlay in public education. The failure to extend equity theory to include expenditures for capital outlay as well as general expenditures constituted an equity problem. This becomes a very serious issue when the need for capital outlay expenditures was much more intense than normal. Declining enrollment states do not have the problem that existed in Florida – capital outlay was of critical importance with increased school population each year. The purpose of this research was to answer the following question:

What is the relationship of the equity of the state, local and total of capital outlay and revenues relative to the equity of general education expenditures?
Court challenges have traditionally addressed general educational expenditures and have resulted in a recognition that students have a right to at least a basic level of opportunity and quality in their education. Most educators and legislators would agree that the need for adequate facilities was part of the foundation of educational quality. Three such cases that broadened the question of equity to include capital outlay expenditures were Rose v. Council for Better Education (Kentucky 1990), Abbott v. Burke (New Jersey, 1990), and Edgewood Independent School District v. William N. Kirby (Texas, 1989). Although these expenditures for capital outlay were a small portion of the total educational outlay that came from the state it was the local character of capital outlay which creates extreme differences in the tax burden and the ability to fund facilities among the local districts.

Florida has made a major effort to create equitable funding formulas for its general public school expenditures but has made less effort to answer equity in capital outlay. The Florida Educational Finance Program (FEFP) which allocated funds to school districts in Florida is explained in Chapter 2.

Capital outlay was financed in a variety of ways, and a number of local and state sources of revenue contribute to these funds. In Florida there was the potential to overburden the poorer districts, as in 1999, less than one-eighth of capital outlay funds came from state funding. The majority originates from local sources: bonds, local millages and discretionary sales tax.

Florida and its 67 school districts had a wide disparity in wealth from district to district. If more than seven-eights of its capital outlay was being funded from sources so widely disparate in ability to fund, problems in equity would be potentially great.
In 1999, Florida’s K-12 capital outlay was over two billion dollars. This need when combined with locally generated capital outlay funding from differentiated district wealth, created a very difficult capital outlay funding program. Florida was examined on its methodology for general educational expenditures because they would appear to be highly equitable. When capital outlay expenditures were considered, there was the potential for increase in inequity.

Purpose

The major objective of this research was to extend the concept of fiscal equity in the distribution of revenue to K-12 public schools in Florida for general educational expenditures to capital outlay expenditures. Florida was chosen as the sources of data for this analysis because of its attempt to create equitable formulas for general expenditures and capital outlay. This study attempts to compare the equity of state and local components of capital outlay to each other and total capital outlay revenues.

Significance of the Study

Florida state law allowed districts the flexibility to transfer capital outlay dollars from the two mill Capital Improvement Tax Levy to the general fund for school district operations. Districts have also utilized state Public Education Capital Outlay (PECO) maintenance dollars to supplant general fund maintenance funding. In 1994-95 districts statewide transferred $350 million in capital improvement tax funds and PECO maintenance funds from the capital outlay fund to the general fund and in the 2000-2001 school year over $836 million was transferred. State regulations and unfunded mandates have created challenges for many school boards and resulted in a redirection of funds from inadequate maintenance budgets. Thompson, Wood, and Honeymoon
believe the reality of forced choice was most apparent in capital improvements and maintenance, where districts have had to choose between spending for programs for students or spending for facilities. This flexibility created inconsistencies in the equalization intent of the Florida Education Finance Program (FEFP) and disequalized the funding of Florida schools when districts levied and transferred the potential discretionary two mill Capital Improvement Tax Levy and the Public Education Capital outlay dollars. Legislation that permitted the expenditure of capital outlay dollars for non-capital purposes was similar to assuming education lottery dollars for non-enhancement purposes.

Transfer and utilization of capital outlay funds for general operation purposes was not the solution for education funding situation. A study by the General Accounting Office (GAO) illustrated that the nation’s schools needed about $112 billion to repair or upgrade American multibillion-dollar investment in public school facilities. Honeyman estimated a cost of about $230 billion to bring existing buildings up to an acceptable standard. Transfers out of capital outlay funds make it more difficult to meet school district capital outlay needs.

The Florida Facilities Task Force projected significant shortfalls in capital outlay funding. The task force projected the average annual shortfall in capital outlay funding for Florida school districts at $240 million dollars annually through the years 1989-1994, and the average annual shortfall for 1995 through 1999 at $141 million dollars, with a ten year unmet need of nearly $2 billion dollars.

Limitation of the Study

This study did not address adequacy. The question of how much of an
expenditure was sufficient enough to address adequacy was not considered. The focus of this study was equity in the resources that were available for capital outlay. This equity focus was on student equity, not taxpayers' equity. Any local option sales tax not part of the discretionary one-half sales tax for capital outlay was not considered in the calculation.

Definitions

Capital improvements tax was a local discretionary tax levy not to exceed a maximum of two mills against the non-exempt assessed valuation for school purposes to fund new construction and remodeling, maintenance, renovations of facilities, the purchase of school buses and vehicles, new and replacement equipment, and the repayment of certain loan and lean payments.39

Capital Outlay was revenue for the purpose of improving or purchasing fixed assets, including buildings, land and equipment.30

Debt Service was revenue or expenditures for the payment of interest and principal on general long-term debt.31

Florida Education Finance Program (FEFP) the Florida education program had been the funding mechanism for public schools in Florida since 1973. The intent of the law was to guarantee each student in the Florida Public School System the availability of substantially equal programs and services to his educational needs regardless of geographic differences and varying local economic factors.32

Public Education Capital Outlay (PECO) was funds distributed to districts for capital outlay purposes from revenue generated from state utility taxes.33

Weighted FTE was the sum of the products of the full time equivalent students
and the weight assigned to each based on extra program expenses by special student characteristics of that weighting class to which the student had been assigned.\(^{34}\)

**Summary**

Equity in providing educational services to children was a major concern to educators, parents and legislators. The funding of capital outlay was an important factor in educational funding. Inequities in capital outlay expenditures decreased the equitability of overall educational expenditures.

Florida was chosen for analysis because of its large state and local capital outlay resources. The purpose of this study was to compare the equity of state, local, and total capital outlay to FEFP.
Notes


6. Ibid.


10. Ibid. 13-14


14. U.S. Constitution, Amendment X.


18. Ibid.


20. Fla. Stat. 236.25 (2)


25. Ibid., 12.


29. Fla. Statute 236.25 (2).


32. Fla. Statute 236.012 (1).

33. Florida Department of Education, 155.

34. Fla. Statute 236.081 (c).
CHAPTER II
REVIEW OF LITERATURE

Introduction

This chapter is an examination of the literature relevant to this study. The literature related to the fiscal equity of educational resources is extensive. This chapter begins with a review of the history and theory of educational funding equity, which included state (Florida) fiscal equity funding methodologies. The chapter has a review of court cases at both the state and federal level related to equitable distribution of funds for public education.

History of Educational Finance Equity

The study of public educational finance and the idea of equity was first introduced by Elwood P. Cubberly in his doctoral dissertation in 1906.1 This publication was the first to advocate the concept of state responsibility that provided a minimum level of education. This concept of equal educational opportunity was a new idea at the turn of the century.2

Cubberly's central theme was that the state had the responsibility to equalize educational opportunities by providing state financial aid to districts not able to produce revenues equivalent to other areas of the state.3 Cubberly's major contribution was his concept of state education aid to local districts.4

Theoretically all children of the state are equally important and are entitled to have the same advantages; practically this can never be quite true. The duty of the state is to secure for
all as high a minimum of good instruction as is possible, but not to reduce all to this minimum: to equalize the advantages to all as nearly as can be done with resources at hand ...  

In 1923, George D. Strayer and Robert M. Haig developed the concept of a minimum educational foundation for educational funding. Strayer and Haig believed that a minimum educational foundation had three components: (1) established schools that were adequate to assure a prescribed minimum educational opportunity for each child in the state, (2) tax levies for education were based on taxpayers ability to pay, and (3) a statewide oversight of the schools by a state department of education.

The Strayer-Haig formula proposed a required local effort (like Florida), the state provided the difference in revenue raised by that tax to a minimum floor. This plan, in theory, guaranteed that any deficit between revenues generated by the richest district and other districts at the same rate be made up by the state.

Strayer believed that the same tax rate for local effort should be applied throughout the state. The concern was that permitting districts to generate tax dollars beyond the statewide local effort would have disequalizing effects. Strayer differed from Cubberly in his conception of local effort, in that Strayer believed local districts should have the discretion to tax above the local required level.

Harlan Updegraff proposed, in 1922, that districts should be rewarded for effort that provided equal yield for an equal effort. His system provided equity funding and maintained local control over education.

Paul R. Mort in The Measurement of Educational Need extended the concept of educational need. Mort believed that the measure of cost for an educational opportunity
approximated the measure of educational need. Satisfactory minimum educational opportunity was regarded as the satisfactory educational equalization.

According to Mort, three elements were required for satisfactory educational equalization programs. These three elements represented a measure of educational cost, which identified educational needs. Mort’s three components were (1) common educational activities; (2) unusual costs for special needs; and (3) extraordinary costs for special conditions.

Mort criticized Strayer and Haig’s proposed economic indicators (Mort was a student of Strayer) because it defined theoretical taxing capacity under an ideal system of taxation instead of the actual situation. According to Mort, the power to tax belonged with state legislation, not to the local taxing unit. Mort created the weighted pupil concept and continued to expand the concepts of per-pupil equity cost variation.

Roe L. Johns and Edgar L. Morphet (both students of Mort) continued to expand the idea of equalization of educational opportunity considered educational need. Johns and Morphet identified additional variables that impacted costs of various educational opportunities including costs attributed to factors such as population density and sparsity.

Henry C. Morrison reasoned in the 1940’s that education was a state and not a local function; therefore educational systems should be state funded. If educational funding remained a local function, rich districts would always have greater resources than poor districts.

Morrison advocated each student be provided with an equivalent level of funding from revenues generated through state taxes. He was the first who proposed that states
had power over public education and that school districts were subdivisions of the state and local districts were bypassed for educational funding control.\textsuperscript{21}

These early researchers built the concept of fiscal equity. This concept recognized that varying educational needs, depending upon the varying needs of children and expectations of communities, impacted the costs of educational services.

**Equity Principles**

Educational leaders were interested in other issues of education funding such as adequacy and efficiency, but the primary emphasis on research has been equity.\textsuperscript{22}

Researchers used these principals to measure the equity of the fiscal resources for education. These principals were horizontal equity, vertical equity, and fiscal neutrality. Equity principals were applied to determine whether a state school-funding program was equitable.\textsuperscript{23}

Horizontal equity was the equal treatment of equals. Horizontal equity meant that students who were equal should receive equal shares. Horizontal equity was determined by the distribution of shares, such as resource inputs.\textsuperscript{24} The difficulty with horizontal equity was determining which students were equal. Equal students were required to receive the same share of the resources distributed for horizontal equity.\textsuperscript{25}

Vertical equity was the unequal treatment of unequals. Vertical equity recognized that different students be treated differently and received unequal shares of the resources distributed. Differences included student related variables, school related variables, and program related variables.\textsuperscript{26}

The third principal, fiscal neutrality, or equal opportunity, meant that educational
resources should not be a function of local wealth.\textsuperscript{27} It was generally accepted that equity required fiscal neutrality.\textsuperscript{28}

Thompson, Wood, and Honeyman divided equity into two issues, equity for students and equity for taxpayers.\textsuperscript{29} Studies of equity targeted these two groups, students used educational services and taxpayers funded the delivery of educational services.\textsuperscript{30}

Taxpayers equity was concerned with both horizontal and vertical equity. Taxpayers in the same financial status paid the same amount for horizontal equity. Taxpayers in different financial status paid different amounts for vertical equity.\textsuperscript{31}

The core of horizontal equity was the equal treatment of equals principle. That required equal per-pupil revenue in each state school district.\textsuperscript{32} Relating per-pupil wealth and revenues of local districts fiscal equity required that a student’s access to educational revenues did not differ substantially among localities.\textsuperscript{33}

Equity was determined by inputs per student because output and process variables were difficult to utilize. Inputs were the resources used to educate students. Then inputs were measured in physical resources, such as, number of teachers, books, money expended, or in adjusted dollars.\textsuperscript{34} The current study of the impact on equity of districts use of the discretionary sales tax used as a revenue per student or inputs. Most equity research in studies of state finance formulas used dollar measures either as a revenue or expenditure.\textsuperscript{35}

\textbf{Foundation Method of School Funding}

Schools in Florida have been funded through a minimum foundation system. Minimum foundation programs were popular due to their political and substantive benefits. Foundation programs allowed states to control costs while offering local
control, front-end equality of expenditures, and financial aid was in inverse relationship to ability to pay.\textsuperscript{36}

In a foundation program, the state and local districts formed a financial partnership to provide each child the required minimum foundation. The state formed a partnership with each school district to finance the required program cost. Local districts contributed to this base level through the required local effort determined by the state. The foundation plan was based on each district’s ability to pay for a minimum educational program.\textsuperscript{37}

Strayer and Haig’s foundation formula was based on a theoretical model that addressed four key points: (1) the wealthiest district was used as the base for determining the minimum educational program; (2) local tax initiatives were encouraged; (3) efficiency was rewarded; (4) and districts became fiscally competitive regardless of local ability to pay.\textsuperscript{38}

The foundation plan encompassed the idea that all children in the state, regardless of the school district in which they live, received the same specified minimum amount of funding. The local government was required to tax a certain minimum rate but was allowed to exceed the rate. Therefore, some school districts had more pupil dollars to spend on educating its children than other school districts.\textsuperscript{39}

Unfortunately, this guaranteed level of funding was a function of politics governed more by available revenue than by a rational determination of educational need and costs.\textsuperscript{40} Even with this misgiving foundation plans were the preferred method for financing public education in the state.\textsuperscript{41} Forty states have used some form of foundation program to finance public education.\textsuperscript{42}
Traditionally, financing the construction of public schools was a function of local government. Until the 1940’s, only 12 states provided a financial assistance for school construction. State participation increased during the baby boom of the 1950’s, when local communities needed classrooms and states had surplus revenues. Even with such increases, local school districts were mainly responsible for school facilities construction.43

In the 1970’s, litigation in many states highlighted disparities in school district’s ability to raise money for public education. Court decisions resulted in many states that increased funding levels and played a larger role in lessening financial disparities between rich and poor districts. Although their decisions have pertained mainly to the state’s role in providing for instruction rather than to focus on buildings, the past 20 years have seen a general increase in state involvement with facilities related matters. By 1991, state funding for school facilities totaled more than $3 billion or about 20 percent of all funds used for public school construction.44

According to Thompson, Stewart, and Honeyman, there has been a common belief that state aid was only required for general educational expenditures.45 Redefinition of equity was developed because of a growing body of legal decisions that has caused expansions of the equity concept.46 Expanded equity concepts have included transportation and large special education mandates – this applies to children who were disadvantaged and geographically isolated.

Capital outlay and adequacy was a problem in virtually all states. In early 1994 members of congress requested that the General Accounting Office (GAO) investigate
the physical condition of the nation’s public elementary and secondary schools. GAO responded with a series of six reports that detailed the condition of America’s schools. The first report was issued in February, 1995; the last was issued in June, 1996. GAO concluded that about $112 billion was needed to bring schools up to “good” condition, did not include the cost of meeting soaring enrollment (Florida) or upgrading schools for modern technology.47

In the words of Thompson, Steward, and Honeyman, “[f]acilities appear destined to occupy an important part of the expanding definitions of adequacy and equity.”48 Emerging evidence showed that adequacy and equity concepts applied to facility construction and maintenance. All parts of the educational system impacted on equal educational opportunity, therefore, states would be responsible for facilities assistance to school districts.49

Interest was increasing in the interdependency of instructional programs and how they are financed, with the possible expansions of the equity formula would be the inclusion of capital outlay. Thompson, Camp, and Steward stated that “[j]ust as there are concerns about teacher quality, instructional resources, and other achievement variables, there was a concern that equality of opportunity was affected by bricks and mortar.”50 Richard Salmon, a school finance expert on the faculty of Virginia Tech. summed up questions of capital outlay very succinctly, “We will never get uniformly high quality facilities across a state unless the state provides substantial aid to districts for school construction.”51

FEFP Overview

The Florida Education Finance Program was created by the Florida Legislation in
1973, it was a series of procedures, formulas, and schemes developed to allocate state funds to the 67 school districts, reimbursed districts for certain expenditures they incur, controlled the spending levels and tax rates of school districts, and regulated how districts revenues were expended. The goal of the FEFP was to promote equalization of educational funding. This goal was achieved by factoring into the FEFP a district wealth equalization scheme and made adjustments in funding based on students needs and geographic costs.52

District wealth equalization was a plan to equalize the availability of access to the basic educational resources and revenues among the 67 school districts in Florida. Not all school districts had the same capacity to fund their basic educational system due to differing tax bases or potential revenue sources. With this differing capacity some school districts generated different levels of revenue for equal tax effort. Some districts have high levels of potential local revenue per student (Collier, Munroe) while other districts have low levels ( Levy, Liberty). Districts with low wealth, or assessed property valuation, have limited potential revenue to spend for education unless local tax rates were increased. The FEFP was an attempt to reduce disparities in potential revenues by establishing minimum and maximum levels of revenues that districts have available to spend on education.53

The FEFP also adjusted funding based on student needs and differing costs. Adjustments address varying costs of providing a similar level of educational service due to differences in student population and geography. Wage scales and cost of living differences were also calculated in FEFP formulas. In addition to the basic component of the FEFP, the equalization foundation formula, the state provided categorical funding and
special allocations to fund specific educational needs in the school districts. The FEFP was created by the legislature to:

"... guarantee each student in Florida public educational system the availability of program and services appropriate to his or her educational needs which are substantially equal to those available to any similar student not withstanding geographic differences and varying local economic factor."^55

History of the FEFP

The funding of schools became an issue after Florida became a state in 1845. In 1851 an amendment to the Florida Legislature School of Law included a provision to address both adequacy and equity. This amendment, mandated the legislature provided state funding for each child if the school district was unable to yield a certain level (two dollars per child), created Florida's first educational equalization system. The issue of equitable funding was addressed in the School Law of 1853 by mandating that the state fund schools by the number of students residing in the district rather than by the number of students enrolled in schools. These laws were an attempt to address the issue of equity, the issue of adequacy were far short. The funding did not meet the basic needs in the school districts. When the Civil War came educational funds were redirected to the war effort and schools were closed.

In 1893, the Florida Legislature passed an act which required state funding for education to be distributed to each district in proportion to the average attendance in each district. The State superintendents of school reported to the governor in 1924 a concern over the unequal distribution of wealth between districts and the consequent effect on poorer districts to maintain their school without additional state aid.

In 1927, adequacy and equity in Florida School funding was addressed again.62
The state legislature increased the state property tax and levied a gasoline tax with the proceeds reserved for education. Funds generated were appropriated to the districts with one-half cent distributed to districts on the basis of average daily attendance and the other one-half cent set aside to deal with equity concerns. Even with these additional funds it did not provide adequate funding for poorer districts to meet the state statute that required school had to be open for a minimum 120 day school term.\(^{63}\)

In 1929, George Strayer led an educational survey team commissioned by the legislature to look at school funding in the state of Florida. They determined that the school funding inequity was a result of the way Florida School districts were determined.\(^{64}\) The primary reason was the constitutional requirement that funds be expended in the districts in which they were generated. The recommendations made by Strayer’s commission to address equity were not passed by the legislature until 1945.\(^{65}\)

The Florida Code was implemented in 1939 as an equalizing mechanism for school funding. This funding provided aid to smaller school districts in greater proportion than larger school districts.\(^{66}\)

The State Foundation Fund was created by the Florida Legislature in 1945 to relieve inequities created by the wealth differential between school districts in the state. The educational needs of the students and the tax paying ability of the districts were provided for in this plan.\(^{67}\) The State Foundation Fund evolved into the Minimum Foundation Programs (MFP) in 1947, which was developed by Roe L. Johns from the University of Florida and Edgar Morphet from the Florida Department of Education.\(^{68}\) The MFP had two equalizing provisions. One was the redistricting of schools according to county lines with the requirement that funds generated within a county be used for all
the schools in that country. The second provision was the required local effort (RLE). RLE was calculated by multiplying the county’s portion of the total state assessed property value by the yield of a six mill tax on all nonexempt property in the state. The required local effort was subtracted from the state calculated cost of the minimum foundation program for the district. County school districts were allocated state aid in terms of the difference needed to provide the minimum foundations level of funding determined by the state – Educational funding in Florida was substantially equalized by this calculation.

FEFP Calculation

Florida had, by the turn of the 21st century, the fourth largest K-12 population in the nation, with over 2.3 million students. The state had sixty-seven county school districts with unweighted full time equivalent membership (twenty-five hours of instruction per week was considered one FTE) ranged from 1,036 students in Lafayette County School district to 361,615 student in Dade County School district. Florida’s sixty-seven school districts were fiscally independent and were based on county lines (one school district per county). Each district provided evidence of its effort to maintain an adequate school program throughout the district.

Under the FEFP the standard for determining state allocation was changed from average daily attendance to weighted pupils based upon the cost of providing educational service to students depending upon the program in which they were enrolled. The FEFP, established by the Florida legislature in 1973, defined as the highly modified foundation plan, was characterized by the relatively high percentage of state aid largely driven by weighted per-pupil formula. In its attempt to provide equalization of educational
opportunity of the FEFP formula recognized: (1) varying local property tax basis, (2) varying program cost factor, (3) district cost differentials, and (4) differences in per-student cost for equivalent educational programs due to scarcity and density of populations.\textsuperscript{74}

The FEFP based financial funding for education on the number of students participating in a particular educational program. The FEFP was calculated by multiplying the number of full-time equivalent students (FTE’s) in each of the educational programs by cost factors to obtain weighted FTE’s.

The FEFP addressed vertical equity by recognizing the differing costs of providing educational services based on specific student needs.\textsuperscript{75} Program cost factors were determined by the legislation and represented relative cost differences among the FEFP program (three year averaging for the last three years).

Horizontal equity was considered by the application of the district cost differential (DCD). The district cost differential was incorporated to account for differences in costs to provide educational services in districts where the cost of living varied from the statewide average. The FEFP instituted a power equalizing provision, which guaranteed each school district the same revenue for the same property tax rate. The power equalization provision equalized the disparities in funding generated by the required local effort in counties with lower assessed property values and addressed taxpayer equity.\textsuperscript{76}

Revenues to fund the FEFP were generated from state and local sources. The state portion of FEFP was provided by legislatures appropriation from funds generated primarily through sales tax collection.\textsuperscript{77} Revenues from local sources were generated from local property tax levies.\textsuperscript{78} In order to participate in the FEFP the local school
boards levied the required local effort millage rate established annually by the legislature. The required local effort was only one of eight requirements to participate in the FEFP. Each district must provide evidence of its effort to maintain an adequate school program throughout the district and must meet at least the following requirements: (1) maintain adequate and accurate records for periodic reports, (2) operate all schools for a term of at least 180 actual teaching days, (3) provide written contracts for all instructional staff and required not less than 196 days of service for all members of instructional staff, (4) expend funds for salaries in accordance with the School Board adopted schedule, (5) observe all requirements of the State board relating to budgets for the district, (6) levy the required local effort millage rate, (7) systematic evaluations of educational program needs of the district and develop comprehensive annual and long range plans for meeting the needs, and (8) base salaries for instructional personnel on performance demonstrated under s. 231.99, FS (1997 enactment).79

All local school districts were required by statutes to apply a specific millage into the aggregate assessed property value as part of the required local effort provision of the FEFP. The millage rate for each district was completed annually as the product of an equalization factor times the aggregate assessed value in the district.80

Required local tax effort in property taxes for calculation of district required local effort millages for the 2000-2001 fiscal year was set by the legislation at $4.119 billion in the Appropriations Act. Using the certified tax roll of 2000 from the Department of Revenue, the Commission of Education computed and certified the required local effort millage rate for each district. In calculating the FEFP for the 2000-2001 fiscal year, each
district's deductions for required local effort was the certified millage on 95% of the non-exempt assessed property valuations of the district.\textsuperscript{81}

The amount produced by applying the average computed required local effort millage rate of 5.940 mills to the tax roll certified July 17, 2000 was adjusted by an equalization factor for each district. The millage rate resulted from the application of this equalization factor when added to each district's required effort millage rate as were additional required local effort rate for equalization. The total of these two rates were each districts total required local effort certified millage rate.\textsuperscript{82}

Each school board participated in the state allocation of funds for the current operation of schools levied the millage set for its required local effort. Based on the 2000 tax roll provided by the Department of Revenue, the commission of Education certified the required millage of each district. Certification varied from 6.516 mills to 5.512 mills due to use of assessment ratios designed to equalize the effect in the FEFP of differing levels of property appraised in the counties. Millage rates were also adjusted because required local effort may not exceed 90 percent of the district's total FEFP entitlement. The 90 percent limitation reduced three districts (Collier, Monroe and Walton) required local effort, with Monroe's as low as 4.027 mills.\textsuperscript{83}

In addition to the required local effort millages, districts were also permitted to levy discretionary operating millages. In 2000-2001 school districts were permitted levies of 0.51 mill discretionary and 0.25 supplemental discretionary. The supplemental discretionary levy was guaranteed to generate $50 per student, if it did not the state added funds to equalize it to $50 per student.\textsuperscript{84}

The state also provided educational revenues in addition to the basic foundation
funding. These appropriations included discretionary lottery funds, categorical program funds, and special allocations. In 2000-2001 over $473 million in the district discretionary lottery funds were distributed to the districts in proportion to their base FEFP funding levels (WFTE x BSA x DCD). Categorical programs for 2000-2001 included Supplemental Academic Instruction (SAI), Instructional materials, student transportation, public school technology, Florida Teacher Lead Program, Teacher training and school lunch/breakfast match supplement. These categorical programs listed were not discussed in detail because they were not included in the analysis of the research study.85

The total state and local FEFP dollars available to the district were the result of the addition of supplements, incentives, and adjustments to the product of the weighted FTE and BSA. The amount calculated for the district required local effort was subtracted from the state and local FEFP dollars resulting in the state’s share of FEFP dollars, which was $6.45 billion in 2000-2001.86

The state FEFP amount was subject, by the Department of Education, for prior year adjustments. These adjustments were allocated for litigation, arithmetical error, assessment roll change, full-time equivalent membership errors, or audit errors. The foundation of FEFP was comprised of the net state FEFP funds and the required local effort.87 State and local capital outlay funding to school districts were not presented in this section but will be discussed in detail later in this chapter.

FEFP Summary

Sixty-seven school districts existed within the state of Florida congruent
geographically with the sixty-seven counties in the state. Each school district was governed by an elected school board, which has the authority to levy tax millages.\textsuperscript{88}

The student enrollment (unweighted FTE) reported in Florida in 2000-2001 was 2,388,755.80.\textsuperscript{89} Enrollment in Florida schools has steadily increased over the past three decades while the national school enrollments have declined over the same period.

The school districts in Florida served over 2.3 million students and received over $18 billion in funding in the 2000-2001 school year. School districts in 1998-1999 received 51-76 percent of their financial support from state sources, 40.51 percent from local sources, and 7.73 percent from federal sources.\textsuperscript{90}

\textbf{History of Capital Outlay Funds}

Capital Outlay for school facilities had low priority for states according to Thompson, Stewart, and Camp.\textsuperscript{91} There have been many formulas created for operating budgets, transportation, and special programs, but much less attention has gone to debt service and capital outlay at the state policy level.

Building costs were simpler and schools were built with volunteer labor and materials before the 1900’s. They were not concerned with how long the building would be useful as a school.\textsuperscript{92} This rural independence and self-sufficiency ended at the turn of the century. Early in the twentieth century, inadequacy of cash reserves led to the beginning of bonding for school construction. The assessment of railroads, oil and gas, and other industries wealth became important to financing school construction.\textsuperscript{93}

As this country was transforming from agricultural to industrial economics base it created rapid urban growth which, in turn, required many new facilities. Tax base adequacy and property valuation became an issue.\textsuperscript{94} Some states such as Alabama and
Delaware aided school facility constructions at the beginning of the century. Most states followed the traditions of relying on local source of income which were often inadequate. The equalization formulas used for general revenue were ignored when states looked at school facility need for construction. Facility finance received a low priority from local and state officials.

The Depression of the late 1920's and early 1930's caused more states to aid local school districts with school construction funding. This increase in state expenditures did not meet the increased needs for new facilities. After World War II there was a reconceptualization of instructional procedures and educational objectives that made existing school plants obsolete. There were tremendous backlogs of needs that had been generated by the economic aftermath of the First World War, the Depression and the Second World War. This backlog of needs necessitated the reconsideration of the local and state roles in capital outlay funding for school construction. There was a sharp increase of population after the Second world War and states were reorganizing into larger school districts, and people moved from the cities to the suburbs exacerbated the problem of providing school facilities to this larger more mobile society. By the late 1960's 125,000 school districts had consolidated into 16,000. There were resistance to this consolidation of school districts but the state governments used as an inducement to districts their willingness to help aid the new districts with state aid for facilities. The “pay-as-you-go” plans were much less practical because of the increased cost of educational construction. This increased cost of construction and state limits on bonding created more difficulties for school districts to meet their facility
needs. There was an unprecedented number of facility construction from the end of the Second World War to the beginning of the 1970's. By the mid 1960's, 80 percent of the states provided some aid to districts for capital outlay and debt service.

**History of Capital Outlay in Florida**

Several laws authorized rental collection and fines for transpassing were channeled into school funds for construction and operation during the period 1829-1838. In 1912, the legislature, which had previously passed legislation authorized cities and towns to issue public school construction bonds, created a constitutional amendment allowing districts to issue bonds for the purpose of building schools and to assess an additional 5 mill levy to float and retire these bonds. During the late 1920's, growing state financial problems forced schools to issue bonds for current operating expenses, as well as, for capital outlay. The recognition of the inadequacy of school buildings, as well as, low teacher salaries were instrumental in the creation of the Minimum Foundation Program in 1947. This program included the provision of allowing $300 per instructional unit for capital outlay, an amount based on average depreciation of the school plant. In 1952, the Governor appointed citizen's committee recommended the legislature propose an amendment to the state constitution which allowed motor vehicle license plate revenues be placed into public capital outlay. This amendment was approved by the electorate and created the capital outlay and debt service (CO & DS) revenues. In 1957, each county was allotted $200 for each additional student in average daily attendance starting with the 1955-56 school year, if the county matched the total allotment and put the money in a fund for the school construction separate from the school fund for the county.
In 1972, a legislative act stipulated that additional capital outlay funds for the K-12 program were allocated for the number of instructional units greater than the number that existed in 1967-68. Reforms of 1974 to capital outlay spending were intended to provide equal educational facilities, just as equal operating funds were being provided. A constitutional amendment passed in 1974 allotted a share of the gross receipts utilities tax to the public schools (PECO). The Special Facility Construction Account was established in 1976 for the provision of funds to school districts with insufficient resources for immediate needs in school construction. The 1980-81 legislature authorized school boards to create an additional 2 mills levy on non-exempt assessment valuation for capital outlay purpose.

The Florida Capital Outlay Formula

General education expenditures were funded in Florida through the Florida Educational Finance Program (FEFP), this program allocated funds on the basis of the product of program cost factors, full time students, and a base allocation per student that was adjusted for conditions such as district cost differentials and sparsity. A required local effort was required from each district to participate in the foundation program. Capital outlay was financed in a variety of ways. On the state level, gross utility taxes provided revenues for the Public Education’s Capital Outlay funds (PECO), and motor vehicle licensing revenue funded the Capital Outlay and Debt Services (CO & DS), distributed on the basis of instructional units. A third state level for capital outlay was from the Bonded Lottery funds which were available in November 1997 Special Sessions of the Legislature. Local source included a 2 mill levy not requiring an election, another 2 mill levy for a maximum of two years that then required a vote of the
electorate, and the Local Capital Improvement Fund for long-term bond issues. Local school boards now also have a discretionary half-cent sales tax available to them for capital outlay projects but must be approved by voters. Impact fees and other fees played a minor role in the capital outlay financial role. A large majority of funds were locally generated.

The system for funding capital outlay for public education in Florida was complex and involved a number of discrete state and local sources. The first of the three major provisions for the state capital outlay fund was Public Capital Outlay (PECO) funding. Funds for remodeling, renovations, maintenance, repairs, and site improvement were allocated to school districts by a formula based on a “sum of the digits” methodology. The major subsections of s.235.435, F.S., affecting public school districts, include: sum-of-the-digits or special maintenance, Special Facilities Construction Account (SFCA), capital outlay for new construction allocated by formulas, joint use projects, and vocational education projects. Unlike the CO&DS Trust Fund discussed next, funds that composed the PECO Trust Fund do not belong to any educational district or agency and the ultimate recipient has absolutely no authority over the fund. These funds were only available by annual appropriation by the legislature to any educational agency.

PECO funds were allocated to each district by the commissioner of Educations via a PECO Annual Capital Projects plan based upon the “sum of the digits” formula which calculated the square footage of buildings in the Florida Inventory of School Houses (FISH); determined the age value of the buildings; and established a relative need. The need was calculated pursuant to the following basic formula: the building value times the building age over the sum of the years’ digit assuming a 50 year building
life. For relocatable facilities, a 20 year life was used. “Building Value” was calculated by multiplying each building’s total assigned square feet times the appropriate net-to-gross conversion rate found in State Board Rules and that product times the current average new construction cost. “Building Age” was calculated by multiplying the prior year’s building age times one minus the prior year’s sum received from this subsection divided by the prior year’s building value. To the net result is added the number 1. Each entity (school district) receives the percentage generated by the preceding formula of the total amount appropriated for the division (K-12 public schools). At least one-tenth of a board’s annual allocation provided under this section will be spent to convert unsafe, unhealthy, or unsanitary conditions in the educational facilities.

Under PECO the provisions of funds for Special Facilities construction must be for a specific project recommended and appeared on the district’s approved Project Priority List for which they lack sufficient resources at present and cannot reasonably anticipate sufficient resources within the next three-year period.

PECO funds for survey recommended projects were allocated between the 67 school districts and for developmental research schools based upon the Capital Outlay Formula set forth in s.235.435(3), F.S. This formula provided for 40 percent of the appropriations allocated among the school districts based upon their respective percentages of a base fiscal year Capital Outlay FTE (COFTE) Membership. The other 60 percent was allocated based upon their growth COFTE membership from the highest of the previous three years to the current fiscal year, as determined by the Educational Facilities Budgeting Office. After the appropriation has been allocated and approved by
the Commerce of Education on a PECO Annual Capital Projects Plan, each school
district was advised of their annual entitlement.  

PECO funds could not be used for the construction of football fields, bleachers,
site lighting for athletes facilities, tennis courts, stadiums, racquetball courts, or any other
competition type facilities not required for a physical education curriculum. Local funds
will be used for extra enhancement of athletic and performing arts facilities.

PECO funds were appropriated for Cooperative Use Facilities when two or more
district school boards, community college board of trustees were choosing to
cooperatively establish a common educational facility to accommodate students, may
request funds under this provision. Only one joint-use facility for any given board was
approved in any five-year period.

PECO also provided cooperative funding of Vocational Educational Facilities.
Each district school board that operated a designated area technical center submitted,
prior to August 1 of each year, a request for funds to plan, construct, and equip a career
educational facility identified as critical to the economic development and the work force
needs of the school district. When the project is approved, the commission included up
to 60 percent of the total cost of the project in the legislative capital outlay budget. The
participating school board provided 40 percent of the total cost of the project.

The second significant state source was Capital Outlay and Debt Services
(CO&DS), also known as Motor Vehicle License Revenue, (MVLR) and tag money.
Revenues derived from the licensing of motor vehicles were allocated to school district
for capital outlay funding and debt services. Trust funds were allocated to school
districts according to a formula specified in the Florida Constitution. This formula
provided $600 for each instructional unit for the 1967-68 base year and $800 for each “growth” unit or the increase of the current year from the 1967-68 base year. Each instructional unit calculated by the Division of Public Schools represented approximately 23 full-time equivalent student memberships or FTE. The base, plus the growth allocation, equals the district’s total entitlement. The Board of Education managed a sinking fund, and issued bonds for capital outlay, the district CO&DS allocations were used to repay these bonds. Districts conducted a five-year survey of their capital outlay requirements, created a long-range plan based on the survey, and submitted a capital outlay budget with expenditures specified by projects from all available funding sources. Funds were automatically distributed in the late fall and late spring of each year. The debt service on outstanding bonds and the administrative expense of the Educational Facilities Budgeting Office withheld 1.5 percent from each district. The net debt service was paid from the first disbursement, then the balance was distributed to districts twice annually. Interest from the sinking fund was prorated on the basis of entitlement of the districts. Districts participated in Capital Outlay Bond Issues (COBI) sales, up to a bonding capacity equal to the sum of the entitlement for the previous year and the estimated entitlement for the current year, divided by two (or the lower of the two figures in the numerator if the entitlement was declining). Costs of dept services to old bonds were subtracted from the entitlement, which was then multiplied by 90 percent to calculate the net available for new bond issues. Bond issues must listed projects for which funds were to be expended.

The third and relatively new sources for Capital Outlay for districts was created in November 1997 Special Sessions of the Legislature which created the Classroom First,
Effort Index and Small County Assistance program. It was the intent of the Legislature that $2.5 billion created by bonding Florida Lottery winnings would help stop the "crisis" of overcrowding in Florida's public schools and began the elimination of relocatable or portable classrooms.\textsuperscript{143} Twenty-five percent of the appropriation was prorated to the districts based on each district's percentage of base capital outlay full-time equivalent membership specified for the allocation of funds from the Public Education Capital Outlay and Debt Services Trust Fund by S.235.435(3), F.S. Ten percent of the appropriation was allocated among districts school boards according to the allocations formula in.235.435(1)(a), F.S.\textsuperscript{144}

There was one other source of capital outlay money from the state and that was Racing Commission Funds with each county commission receiving equal amounts. Many county commissions have shared this revenue with school districts directly or according to legislative acts of local applications. These amounts were distributed by the state directly to the school districts. Racing Commission monies were generally dedicated to payment of debt service on revenue bonds issued for facilities construction.\textsuperscript{145}

Facility Funding Methods

Introduction

In Florida, during the 2000-2001 school year, (last year statistics are published) the state funded 424.7 million in PECO funds for school construction and facility updates. The total amount spent from all funds for capital outlay and debt services was over 3.7 billion.\textsuperscript{146} The difference was made up by local school districts.

The financial burden for capital outlay was shared in some partnership between
states and local school districts. Wood has stated, "the financing of public school facilities in America is a formidable undertaking." Some have suggested that states handle all the financing but state legislation said there would not exist any local fiscal prudence or they would be under funded because of limited state resources. Poor school districts have experienced overt disadvantage in ability to carry out facility construction because of low property value which did not generate needed funds. The wealth disparity was great, in some states, fiscal ability range between the wealthiest and poorer districts was ten to one. In half the states in America, according to Jordan and Stewart, local school districts are restricted to their own tax base for capital improvement funds.

State Options

Six options exist for state aid to capital outlay for public schools. These options are flat grants, full state funding, percentage matching, equalization plans, state loans and building authorities.

Flat grants

These were among the earliest forms of state aid to schools. A Fixed amount of funds were paid to the districts by the state for debt service and construction. The amount paid to the districts were often based on average daily membership (attendance) or on the number of students in the district. It was very easy to administer because the amount of funds coming from the state was known and with this influx of state funds it helped local districts to reduce property tax for education. At the turn of the century 38 states were using flat grants to aid schools. As school finance litigation began to escalate in the 1970’s, states were forced to implement a more equitable distribution of state aid.
The flat grant did not look at need, it was equal distribution of funds per student for all districts. All were treated the same, no matter the wealth of the district. Flat grants are still used today in most states to provide categorical or supplemental aid.\textsuperscript{154}

**Full State Funding**

The state assumed all construction and debt service cost of the local building programs in all districts.\textsuperscript{155} The local need determination was made at the state level and local assessed valuation does not limit ability to receive required funding for capital outlay.\textsuperscript{156} Very seldom were all requested projects funded, however the advantage of this method was the high degree of equalization for the allotment of funds that was more need-based, than dependant on wealth and desire of districts.\textsuperscript{157} This method was desirable from the equity view-point. With full tax funding tax burdens were more equitably shared, high need districts were served first. One disadvantage is concentration of control at the state level and others were insufficient funding, building minimal facilities, reduced innovation, and erosion of maintenance and operations budgets.\textsuperscript{158} Although several states have experimented with different forms of full state funding for facilities, only Hawaii and California have provided sufficient revenue to facilities, most have some cost share program.\textsuperscript{159}

**Percentage matching**

This method provided aid to districts for facilities and debt payment by providing funds from a legislatively determined percentage of total facility cost, regardless of need.\textsuperscript{160} For example, the state determined that it will share in facility costs in a 40:60 ration. The state provided 40% of total facility cost and the local district provided the
remaining 60%\textsuperscript{161} Although politically attractive, the obvious disadvantage of wealth bias (not based on need or ability to pay) has prevented wide adoptions of this process, it was an effort by the states to recognize districts needs which more neutrally aided districts.\textsuperscript{162}

**Equalization plans**

Equalization plans for funding school facilities were similar to the equalization formulas found in general funding. Equalization aid to facilities usually involves grants to local school district-based on some method by which facility aid increase as ability to pay decrease.\textsuperscript{163} This was the critical factor – the cost share based on ability to pay. There were two advantages to this cost share program, (1) aid flowed in inverse proportion to local wealth and (2) allowed a greater degree of local control wherein a district decided its tax effort, either to purchase better facilities or to provide tax relief.\textsuperscript{164} There were now 21 states using some form of a modified facility equalization grant.\textsuperscript{165}

**State Loans**

A loan program was what the name implies: the state loaned money to local school districts for facility needs. State facility loans were exceptions to the fairly strict cash basis operation of school systems throughout the United States.\textsuperscript{166} The funds were backed by the states full credit, so a slightly lower interest rate resulted.\textsuperscript{167} The disadvantages were significant because this method was not related to equity, wealth and ability to pay was not considered and districts with the greatest need may be the least able to afford the extra cost of borrowed money. Eight states used some form of loan mechanism for facility funds to local districts.\textsuperscript{168}
Building authorities

State and local building authorities were legislatively created when local school districts were allowed to borrow capital project funds without traditional bonding against the wealth of the local school district.\(^{169}\) Private bond funds were usually utilized to construct facilities, which were then leased to the districts and at maturity the districts received the title. Debt limits were not applied and no bond referendum was required.\(^{170}\) Although this method usually gave districts the ability to obtain needed facilities in a shorter period of time there were opponents of authorities. They argued that it was legislative "subterfuge" because it avoided referenda and greater costs were associated with higher interest rates inherent where private capital was used to build needed facilities for the district.\(^{171}\)

Local Option

Current revenues. Local school districts payed the entire capital outlay cost that were derived from local taxes in the current year.\(^{172}\) This pay-as-you-go method was a cash basis method that avoided the high costs involved in borrowing money, no interest paid. This cash basis method kept down extravagance if the revenue had to be available prior to expenditure and the people who used the facilities were the ones who played for them.\(^{173}\) The obvious draw-back was the high tax rate that had to be in place in order to generate the revenue needed to build new school facilities. Most states limit the maximum millage levied against the local tax base for capital projects. It was impossible to levy the millage required to raise adequate funds in poor districts. The use of current revenues for capital projects were usually limited to small projects and annual maintanance.\(^{174}\)
Building reserve funds. Taxes are collected and accumulated in special funds, if the state allowed this practice, which were also called sinking funds, capital reserve funds, building funds, capital outlay funds, and cumulative building funds. All of these funds were used to accumulate funds over a period of years to finance capital projects. A sinking fund was thought of as a savings account that was allowed to accumulate until it is large enough to pay for some project with cash money. This encouraged saving for public projects and as in the current revenue method there was no borrowed money and its associated high cost. The disadvantages were that sinking funds are still dependent on the wealth of the local district, inflation greatly reduced the value of money over time, many sinking funds have a history of being mismanaged, and over time needs changed in a school district. When revenue was accumulated from a tax levy there were Internal Revenue Services regulation on how this money must be spent.

Bonding. When current revenues and sinking funds did not produce sufficient revenue to fund major capital projects in school districts they turned to the most common method of local financing – the general obligation municipal bond. General obligation bonds were issued by governmental agencies, local school district or state, with the full faith and credit of that governmental body that the bond debt will be paid. The bond also did not create either a mortgage nor collateral, just a pledge by the governmental agency to repay the debt. The advantages of bonding were smaller annual tax burdens during the term of the bond issue, generated large amounts of funds for needed buildings and desirability of tax exempt bonds to investors. The benefits received principle were generally respected because the buildings were in use during the time of payment. The disadvantages were the increased facility cost because of interest over the life of the bond.
and the larger community debt. In Florida tax levies for bonding and debt services were limited by State Board of Education Rule to 6 mills and 20 years duration. Local school districts were prohibited from issuing school bonds in excess of 10 percent of the nonexempt assessed valuation of the school district.

School districts in Florida can not issue local bonds or participate in COBI bond sales (Capital Outlay and Debt Service Bonds issued by the State Board of Education on behalf of a district and pledged Motor Vehicle License Revenue as repayment), all districts were at least participants in the proceeds derived from the sale of Public Education Capital Outlay Bonds – PECO. Because of the large amount of revenue generated by bonding it was important to understand the Internal Revenue Code/Tax Reform Act of 1986 enacted by the United States Congress with regard to the investment limitations and arbitrage rebate provisions concerning bonds and other types of debt borrowing by tax-exempt agencies. (This was why sinking funds and other forms of saving to accumulate large sums of money for capital projects were difficult.)

Arbitrage was the investment income derived from the investment of proceeds allocated to a bond issue in excess of what would have been earned if those proceeds had been invested at the interest yield paid on those bonds. The objective of the U.S. Congress was to develop regulation to deprive tax-exempt borrowers of the opportunity to earn an “Arbitrage Profit” by investing borrowed funds at higher yields than they paid in interest on those funds and kept those extra earnings.

Prior to December 19, 1989, tax-exempt agencies’ only choice was to return any “Arbitrage Profit” to the Federal Government. Since that date, agencies have an option to use the so-called spend down requirement method. This option allowed the agency to
earn as much profit as possible and keep that profit, provided the proceeds (including interest on the proceeds) were expended in accordance to the following table:

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<tr>
<td>10% within 6 months</td>
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<tr>
<td>45% within 12 months</td>
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<tr>
<td>75% within 18 months</td>
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<tr>
<td>100% within 24 months</td>
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If these spend down requirements were not met, a “penalty” equal to one and one-half (1 ½) percent of the amount of the proceeds not expended according to the above schedule was accessed and paid to the federal government. This required proper planning and accounting by local districts and the “Arbitrage Profit” was significant when hundreds of millions of dollars were bonded by local school districts. This generated additional revenue for the district and their capital projects if they met the required deadline.

**Certificates of Participation.** Certificates of Participation or COP were allowed in Florida. They were a way of generating a general obligation bond without going to the electorate for a referendum. It pledges the bond amount to be paid by funds generated from property taxes. The same as a voted bond, but the school board acts as a legal body holding the COP until it was paid and reverted to the local school district. This was not a frivolous way of doing business because during the school year 2000-2001 in Florida local school districts issued just under 5 billion dollars in COPs. Unfortunately, with the critical needs of school districts for facilities and the growing unrest of the general public, school boards were doing what they saw as necessary to provide for the needs of the district. This will come under legislative review because of large amounts of funds generated by COP’s and bonded, but without referendum.
Half-cent discretionary sales tax. During the 1995 legislative session Florida Statute 212.055(6) was passed that authorized local school districts to levy a sales surtax of up to 0.5 percent for capital purposes if approved by referendum. The new authorization became law July 1, 1995 and that fall local-option school sales tax referenda were held in eight Florida counties. Six were defeated and two passed, more detail presented later in this section. This surtax took effect on the first day of any month, but may not go into effect until at least 60 days after the date approved by the electors. The resolution that provided for the imposition of the surtax required the local school district to develop a plan for use of the funds for fixed capital expenditures or fixed capital costs associated with construction, reconstruction, or improvement of school facilities and campuses which have a useful life expectancy of five or more years. The plan addressed any land acquisition, land improvement, design, and related engineering costs. The plan included the costs to retrofit and provided for technology implementation, which included hardware and software.

Surtax revenues were used for the purpose of servicing bond indebtedness to finance authorized projects and any interest which accrued be held in trust to finance such projects. Neither the proceeds of the surtax nor any interest accrued can be used for operational expenses.

Any school district imposing the surtax had to implement a freeze on non-capital local school property taxes at the millage rate imposed in the year prior to the implementation of the surtax, for a period of at least three years from the date of imposition of the surtax. This provision did not apply to existing debt service or required
state taxes. The Department of Revenue distributed the surtax to the school board that imposed the tax.\textsuperscript{196}

**History of half-cent sales tax.** When the 1995 Florida legislature passed the bill to allow local school districts to go to the voters for a half-cent sales tax for capital projects\textsuperscript{197} eight school districts went quickly to the voters.\textsuperscript{198} The six counties that rejected the proposal to increase local taxes for schools were Broward, Hillsborough, Leon, Pasco, Pinellas, and St. Lucie. Only two counties passed the proposal Okaloosa and Munroe.\textsuperscript{199} Okaloosa will not show up on the charts or further discussion because it passed the additional tax for only four years and was not effective during the years of this study.\textsuperscript{200} St. Lucie County had an interesting referendum in the fall of 1995 by taking two tax proposals to the voters, beside the request for the half-cent sales tax the voter’s also voted on a Referendum Regarding Issuance of General Obligation Bonds by the School District to Finance Educational Facilities, not to exceed 60 million principal amount when bonds mature within 10 years. The voter’s passed the General Obligation Bond 50.8\% to 49.2\% but not the half-cent sales tax.\textsuperscript{201} St. Lucie County School Board came back to the voters in July, 1996 and passed the half-cent sales tax for ten years.\textsuperscript{202}

There are thirteen counties currently collecting the half-cent sales tax for schools but there were only eight in the 2000-2001 school year which is the year of statistical data that was used for this paper. See Table 1 for the list of counties for date passed and length of levy.

Escambia county was the largest county of the eight and generated over 18.8 million per year with the half-cent sales tax, or approximately 95 million over the 5 years.

Monroe was a medium sized county with effective date of 10 years, this generated
### Table 1
Local Discretionary Sales Surtaxes
Summary of Surtax Impositions, Rate Changes, Repeals, and Extensions

<table>
<thead>
<tr>
<th>School Capital Outlay Surtax – s. 212.055(6), F.S.</th>
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<td>County</td>
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<td>Bay</td>
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<td>St. Lucie</td>
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<td>Santa Rosa</td>
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approximately 106 million and even Gulf county, a small county in the Panhandle of Florida will generated over 7 million over its 20 year period. This was significant funds raised by this half-cent sales tax and is not equalized by the distribution of PECO funds. In the year 2003, the thirteen counties levying this tax generated about 269 million. It was easy to understand the eagerness which school boards went after this new revenue stream.

There was another paradigm in the Florida equation of how local schools received capital outlay funds. One was interlocal agreement between county, cities and school boards to share in the proceeds of a one cent sales tax. This has to be stipulated on the ballot and the percentage of distribution. One example in Florida was Seminole County when a referendum was passed in September 2001 to become effective 1/1/02 – 12/31/11, a one cent local sales tax for capital outlays needs for county and city transportation (mainly roads) and education. This was estimated to generate approximately $534 million over the 10 year period. With ¼ going to education and ¾ to county and city transportation. That ¼ overtime will have over 133 million for Seminole County
schools. Other counties have respect for those counties that can have the county commission, city councils and school board work together for a common cause.

Voter’s Attitude. There was evidence that Florida public schools were losing the battle with the public and their confidence in schools. The classic funding battle in the Florida Legislature has been “schools versus prisons” and at the local level it has been “schools versus everything else.” This paper addressed this issue because when a school referendum was proposed, it was proposed for capital outlay projects in the form of bonding or sales tax. This battle for money will be intensified in the next decade due to the states rapidly changing age structure and its long history of opposition to new or higher taxes. Megatrends author John Naisbitt saw this coming over a decade ago where he observed a “growing tension between the state’s older and younger residents” due to Florida’s unique age demographics. Older voters and their growing proportional makeup of the voting age population (1990 persons 65 years of age and older made up 18.2 percent of Florida’s population, but 22.8 percent of its voting age population, by 2000 18.5 percent of the population, but 24.1 percent of its voting age population), have school districts concerned. When the issue came down to funding for schools versus funding for public safety or health care, educators feared schools will lose. We know school officials were not connecting with older voters but, at the same time, they seemed to have not reached the youngest voter members.

Florida’s public schools have been losing their local battles and the trend against voter approval of school taxes can be traced back to the negative fallout from the adoption of the Florida Lottery in 1986. Constituents soon learned the lottery would substitute for, not supplement, general fund dollars earmarked for education. Since then,
the backlash against earmarked taxes, and the sales techniques used by public officials to push them, has, if anything, intensified. It was at the community, rather than the state or federal level, where voters expressed their anger the most.\textsuperscript{211}

One of the challenges facing Florida was how to narrow the widening gap between public schools and their communities. Susan MacManus posed six questions that needed to be answered before school boards considered voter referendums. The answers to these questions were generated from studies of the eight half-cent sales tax referendum in the fall of 1995.\textsuperscript{212} The six questions that needed to be answered first were:

- Were the strategies used by school officials to promote their taxes offensive to a substantial part of the electorate? If so, why?
- Who turned out to vote in school tax referenda elections?
- Were taxes per se the primary reason Floridian’s voted against school taxes?
- To what degree have concerns about efficiency and effectiveness of school operation affected voter decision?
- Were these clear differences in generational perspective regarding school tax proposals? If so, why?
- Have post-tax election actions of school officials narrowed or widened the gap?

Based on the data, the answers to the six key questions were as follows:

Question 1: Were the strategies used by school officials to promote school tax offensive to a substantial part of the electorate? Answer: “Yes.” Large portions of the electorate were not swayed by the traditional tax sales tactics employed by school officials, such as the tax being temporary, touted the proposed tax as one heavily impacted by non-residents, and holding the election “off cycle.”\textsuperscript{213} Broward County School officials tried to keep voters “in the dark.”\textsuperscript{214} Hillsborough and other counties thought held election off
cycle would generate a disproportionately favorable voter pool, and another rationale for holding elections off-cycle was to take advantage of the fact that a number of the retirees who have moved here from other places would not yet have returned from their summer trips back home. Question 2: Who turned out to vote in school tax referendums in Florida? Answer: Older voters, whites, and voters with no ties to the public school system (no kids in school; no family members employed by the school system), and conservatives – a growing portion of Florida’s population. The biggest miscalculations made by the local school officials were their projecting the relative turnout of persons associated in some way with the school system and the level of support among those persons for the school tax proposal. Question 3: Were taxes per se the primary reason Floridian’s voted against school taxes? Answer: “Yes and No.” While a large majority of those who voted against these taxes acknowledged that taxes in their county were already too high, an equal, or even greater percentage cited other reasons for voting No. They were concerned about the inefficiency and ineffectiveness of how current school operated and a general lack of trust in the sales tactics, motives, and truthfulness of school officials. Much of this skepticism emanated from their bad experience with information regarding the use of Florida Lottery funds. Question 4: To what degree have concerns about efficiency and effectiveness of school operations affected voters decisions? Answer: “A lot.” A large portion of the voting electorate was aggressively demanded to see clear evidence linking spending with positive results. They are particularly skeptical of claims that building and equipment produced improvements in student performance. Question 5: Were there clear differences in generational perspectives regarding school tax proposals: If so, why? Answer: “Yes,” the primary
reason was they were at different stage of the life cycle, a person’s priorities and policy preferences vary. Older voters (and to a certain degree the very youngest voters) were the most opposed to school taxes. They were the most likely to think taxes were already too high and that schools have deteriorated. Older voters were especially prone to question the integrity of school official’s messages and sales methods. The real significance of these findings was to signal to public officials that all age groups tended to vote their economic self-interest, not just the elderly. Question 6: Have past tax-election actions of school officials narrowed or further widened the gap between schools and their communities? Answer: “Early evidence suggested they may have widened it.” Many school officials have reacted to voter’s rejections of the tax in less than optimal ways. Some made post election statements that gave the public the appearance it was being chastised for being uninformed, uncaring, selfish, and ignorant. Subsequent actions such as cutting positions that turned out to be vacant lines, reassigned administrators to the classroom but did not cut their pay, and cut popular programs with little or no community or teacher input have done little to restore the respect of voters.

The answers to these six key questions were evident that Florida’s educational community has some major repair work to do to reconstruct community support for public schools. The National Conference of State Legislature (NCSL) released a study titled Voters and School Finance: The Impact of Public Opinion. After they studied the success and failures of state laws and initiatives that dealt with school finance, the report concluded that referendums had the best chance to be passed:

- Taxes other than property taxes are submitted for voter’s approval (sales, income, excise, corporate, or “sin” taxes);
The increased revenues would go to purposes that were clearly detailed or earmarked and explained to the public;

The proposed tax was a temporary one; and

A Strong Coalition consisted of the business community, education groups, and policy makers demonstrated voter support for the proposal and funded a campaign to support it.224

A study by the National Education Association, Tax Options for States Needing More School Revenue, recommended two additional strategies:

- Increased existing tax rather than create a new one; and
- Structure the tax to pass more of it on to non-residents (tourists and commuters).225

The most important activity local school boards and school personnel needed to do was to develop ways to connect with constituents who had no direct ties to the public school system; the bulk of the Florida electorate met this description

Finance Equity Litigation

Legal Principles

The Federal Government through the United States Supreme Court had been the initial instrument in education’s equity litigation when its early decision moved the efforts of reform to the state courts. The state courts have over the past thirty years, embarked on their own efforts to effect dramatic change in public education. These efforts have focused on the financing disparities among school districts. Since the U.S. Supreme Court ruled in San Antonio Independent School District v. Rodriguez (1973)226 that school financing inequities did violate the legal protection clause of the Fourteenth Amendment,227 state supreme courts in 27 states have ruled on school financing suits under provisions of state constitution. Twelve ruled in favor of greater equity and fifteen
ruled against it (see Table 2 and 3). The trend of using state courts for the protection of civil rights under state constitution for school finance decisions had the potential to alter the fiscal policies of state governments – with consequences for both the amount of resources allocated to public education and the equity of that distribution.

The courts have been the moving force for equity changes in state public school distribution system. Legal challenges to state school finance systems have varied from federal and state courts. Three basic arguments have been used to pursue school finance litigation. First, education is a fundamental right because of its impact on the economic and social structures of the state. Second, funding disparities create unequal opportunity. Third, the correlation of wealth and school expenditures causes a lack of equal protection.

Federal courts have typically focused on whether the program created unconstitutional classifications or violated the equality and uniformity requirements of taxation in determining the constitutionality of state school finance programs. The argument was that the funding system treated students who reside in poorer districts unfairly and that these students were deprived of an equal educational opportunity.

Wood and Thompson had analyzed state school finance litigation and concluded that litigation based on claims grounded on the states constitutions language was more favorable than federal courts. State litigation was based on the legal principle of equal protection, the states education article, or both. State finance cases were based on the common assumption that a strong correlation exists between expenditures and the quality and quantity of students' educational opportunities. Prior to the court cases in the early 1970's the courts primarily ruled that the state were free to distribute taxes as it chose.
Efforts in federal courts to invalidate state school finance systems had failed. The courts found that the equal protection provision of the Fourteenth Amendment did not extend to disparities in educational funding, that education did not have the status of a fundamental interest, that fiscal disparities did not create a suspect class based on wealth, and that the lack of a judicially manageable standard with which to measure educational need created a problem.234 A 1969 case in Illinois McGinnis v. Ogilivice established that there was a violation of the Fourteenth Amendment equal protection rights due to a school funding system that allowed large spending disparities. The plaintiffs sought spending based on educational need. The court rejected the claim and noted that the remedy sought was judicially unmanageable.235 This was the start of closing the federal court door and sending plaintiffs to state courts for remedy.

Through characterized present day judicial activity in school finance had occurred in three waves. The first wave from 1971 to 1973, plaintiffs alleged violations of the equal protection clause of the Fourteenth Amendment of the U.S. Constitution.236 This first wave of court challenges were largely unsuccessful because of the lack of a “justifiable standard” and because of the defeat in the landmark San Antonio Independent School District v. Rodriguez237 case on school finance equity.

The second wave of litigation from 1973-1989, plaintiffs turned to state courts and focused on the state education article, the equal protection clause, or both provisions of the state constitution to invalidate inequitable school finance schemes.238 The result of court decisions during this period were mixed, twelve cases were ruled in favor of greater equity and fifteen had ruled against it.239 Several school funding disparities created by systems were invalidated due to the disqualizing effect funding disparities created by
systems that relied heavily on local property taxes for revenue. Equal educational opportunity was found to be a fundamental interest that subjected the state system to the strict scrutiny standard of judicial reviews. The courts established the judicially manageable standard of fiscal neutrality. This new judicial activities caused state legislature to modify their school finance plan in an attempt to make them more equitable and to stay out of courts. States also had to raise additional funding to counteract the disqualifying effects of local funds raised from property taxes. This second wave of litigation indicated the impact of the courts in leveraging improvements focused on equity and adequacy.\textsuperscript{240}

The third wave of school finance case began in the late 1980’s where the public school finance system of several states were found to be unconstitutional by their state supreme courts. The supreme courts in Kentucky, Texas, Montana and New Jersey made landmark rulings that redefined the required level of education a state must provide from a minimum to a quality education, and the courts relied on both input and output indicators that measured constitutional compliance.\textsuperscript{241}

The Helena Elementary School District Number 1 v. State\textsuperscript{242} decision ended the third wave of judicial activity and moved the standard for the state responsibility for public school education from a minimum to a quality system.\textsuperscript{243} Disparities in per pupil funding were found to violate equal protection guarantees and the fundamental right to an education was upheld. The Court also began to review personnel, curriculum, and facilities, not just per-pupil expenditures, they compared educational opportunities.\textsuperscript{244}

In 1976, three years after the ruling in Rodriguez, the U.S. Supreme Court
redefined the two level standard, rational relationships versus strict scrutiny, to include a
third “intermediate” standard. The court said:

There are three standards generally accepted for determining constitutionality under the Equal protection
Provision of both the U.S. and State Constitutions. (1) The rational relationship test; (2) The intermediate level of
scrutiny; and (3) The strict judicial scrutiny standard. Under the rational relationship test a statutory classification
is presumed valid and will comport with constitutional standards as long as it bears a reasonable relationship to
legitimate governmental purpose. The intermediate level of judicial scrutiny requires that a classification be
substantially related to a governmental objective. Application of a strict scrutiny test means that the classification
is not entitled to the usual presumption of validity and that the state bears the burden of proving that the
classification system “has been structured with precision” and is “tailored” narrowly to serve legitimate
objectives and that it has selected the less “drastic means” for effecting its objective.245

According to Underwood there were three approaches to litigating finance equity
cases. The first approval was based on the constitutional doctrine of equal protection.
This doctrine prohibited the government from treating similar individuals differently
without a strong justification. The practice of inequitable funding treated students who
reside in poorer districts differently from those who reside in more affluent districts by
allowing a disparity to exist in the funding of educational programs.246

Most courts have applied traditional rationality standard when they evaluated
whether states finance systems were constitutional with this standard. The state’s
constitution was upheld if the classification was rationally related to a legitimate state
interest. Most school finance systems were upheld under this test since it was the lowest
judicial standard. The strict scrutiny standard was employed when state legislation
impacts on a suspect classification to differentiate people for treatment. To be upheld,
the classification must be necessary to further a compelling state interest. Generally, courts have been unwilling to use this higher standard of scrutiny in school finance cases because neither property poor school districts nor students within these districts were a suspect class.\textsuperscript{247}

Underwood’s second approach to litigating finance equity cases also involved the constitutional doctrine of equal protection. This argument was focused on lower funding levels in poorer districts. Such disparate funding resulted in a deprivation of education to students residing in these poorer districts. The determination of a public education as a fundamental right was central to their approach.\textsuperscript{248}

Recent cases have indicated that deprivation of a minimal level of education triggers mid-tier scrutiny under the equal protection clause. This argument was based on the assumption that each student had the right to be provided with the opportunity to develop the skills needed to be productive and participate in the democratic process.\textsuperscript{249}

The third approach was based entirely on the state’s education clause. Central to the theory was the argument that the state legislature had failed to live up to its state constitutional obligation to provide an education for all children in the state. Key to the litigation was the state education clause. Wood and Thompson have listed each state’s education clause and articles.\textsuperscript{250} Although the articles varied among the states, all emphasized the importance of education, required the state to provide a system of free public education. Education clauses have relied on the states constitutional history and the judiciary’s method of interpretation.\textsuperscript{251}
This section addressed the legal principles involved in equity challenges to public school financing. In the next section, the specific cases related to public school finance equity were discussed. The cases were addressed in a chronological order.

Federal Court Cases on Finance Equity

The first case to have a major impact on court equity decision was in 1954. The U.S. Supreme Court stated in this case that education was one of the most important state functions and vital to developing an informed citizenry.

Education is perhaps the most important function of the state and local governments...it is doubtful that any child may reasonably be expected to succeed in life if he is denied the opportunity of education. Such an opportunity, where the state has undertaken to provide it, is a right which must be made available to all on equal terms.

The Brown case challenged the “separate but equal” doctrine in Plessy V. Ferguson that served as the basis for the practice of segregating white and black children in public schools. In overturning Plessy, the court stimulated equity concerns by prohibiting the states from denying any person the equal protection of the law. The U.S. Supreme Court established that

Where a state has undertaken to provide an opportunity for an education in its public schools, such an opportunity is a right which must be made available to all on equal terms.

This decision by the U.S. Supreme court was on the court’s interpretations of the equal protection clause of the Fourteenth Amendment and served as a cornerstone for legal challenge for state school finance programs.

In 1968, McInnis v. Shapiro was the first major case that challenged a public school finance system. The Illinois public school finance statutes were challenged based on the wide variations in per-pupil expenditures throughout the state. The plaintiff's
claim that the Fourteenth Amendment rights to equal protection were violated was not supported by the Federal District Court. They dismissed the suit, the court also held that the public school finance system was not discriminatory.\textsuperscript{257} Considering the state’s foundation program guaranteed a minimum expenditure per student, the court ruled that the decision of the Illinois legislature to permit local choice and experimentation in school expenditures were reasonable. The court was sympathetic to the plaintiff’s case by arguing that poorer school districts should have more funds with which to improve their schools, it stated that the inequality was an “inevitable consequence of decentralization.”\textsuperscript{258}

In 1969, in the \textit{Burrus V. Wilkerson}\textsuperscript{259} case the plaintiff argued that the equal protection clause of the Fourteenth Amendment was violated by the substantial disparities in educational opportunities in different districts throughout the state of Virginia. The case was dismissed in federal court. The court stated they, “have neither the knowledge nor the means, nor the power to tailor the public monies to fit the varying needs of these students throughout the state.”\textsuperscript{260} The court found the Fourteenth Amendment, in this case, afforded no protection from the disparities in educational opportunities in the Virginia public schools finance program. The courts continued to be confronted with a judicially unmanageable standard because of the absence of an acceptable measure of educational need.\textsuperscript{261}

The federal school finance equity landmark was in 1973 with the Texas case \textit{San Antonio Independent School District v. Rodriguez}.\textsuperscript{262} U.S. Supreme Court reversed a lower court ruling that the Texas school finance program was discriminatory and upheld the Texas school finance system against an equal protection challenge. As in other cases,
the plaintiffs alleged the funding disparity between more and less efficient school districts in the state was a violation of the federal equal protection clause of the Fourteenth Amendment.\textsuperscript{263} Plaintiffs from poor property districts contended they were a "suspect" class because of these disparities, and such a classification was discriminatory. A second claim was that education was a "fundamental right."\textsuperscript{264} The U.S. Supreme Court held that there was no violation of the Fourteenth Amendment equal protection claim because Texas provided a basic education, promoted local control, and did not disadvantage a suspect class.\textsuperscript{265} Education, as a right, was not protected by the U.S. Constitution, therefore education was not a fundamental right.\textsuperscript{266} There was no violation of the Fourteenth Amendment equal protection clause and the Texas foundation system withstood the rational relationship test.\textsuperscript{267}

How courts ruled in the Rodriguez case limited the federal judicial role in public school finance reforms. The State court system became the principle means of challenging the equity of state finance systems because of the precedent established in the Rodriguez case.\textsuperscript{268}

There was one more federal case before we go to state court cases and that was Plyler v. Doe\textsuperscript{269} a Texas case in 1982. Where the ruling suggested that federal involvement in educational equity problem remained a possibility.\textsuperscript{270} At issue was the state’s refusal to educate illegal aliens.\textsuperscript{271} The U.S. Supreme Court ruled that mid-level scrutiny was required, necessitating substantial relations to an important state interest. The case was concerned with total educational deprivations, the court did not rule on fundamentality.\textsuperscript{272}
State Court Cases on Finance Equity

In 1971, the Supreme Court of California was the first state high court to strike down a school funding system. In *Serrano v. Priest* the court declared that the state education plan could not be a function of local property wealth. With the decision, based on the equal protection guarantees of the state and federal constitution, the concept of wealth neutrality was established for the state of California. Fiscal neutrality required that distribution of education funds not be a function of local school district wealth. The California Court revisited the issue in 1976 in *Serrano II* recommendation was prompted by the U.S. Supreme Court decision in *San Antonio Independent School District v. Rodriguez*, as well as, allegations that the state legislature had failed to adequately address the school financing issues. Based on state constitutional grounds, wealth neutrality was upheld in 1976 when the California State Supreme Court reviewed *Serrano II* considering the U.S. Supreme Courts decision in *San Antonio v. Rodriguez* which denied federal equal protection claims. The court acknowledged a cost-quality relationship by asserting “equality of educational opportunity require that all school districts possess an equal ability in terms of revenue to provide students with substantially equal opportunity for learning.” The decision in *Serrano II* was based on wealth neutrality using the cost-quality concept. This created the standard for assessing the equity of state finance programs and student equity.

Wise defined student equity as “the provision of equal resources or equivalent services to the children of the state.” Burrup and Brimley expanded the definition of student equity to “fairness in the amount of revenue and service provided for children – the actual expenditures per child.”
Six weeks after Serrano, a United States District Court of Minnesota in Van Dusartz v. Hatfield held that the state’s system of public school finance violated the equal protection guarantee of the Fourteenth Amendment. The court found that public school students had a right to the level of spending for their education unaffected by variations in the taxable wealth of their school district.\(^{285}\) The Van Dusartz court did not require obsolete uniformity of school expenditures but instead looked to the state legislature to remedy the situation. The court encouraged the state “to adopt one of many options financing schemes which do not violate the equal protection clause.\(^ {286}\)

The Serrano decision relied on the equal protection clause of the California Constitution, the New Jersey Supreme Court relied on the equality guarantee of the state constitution to declare New Jersey’s state school finance system unconstitutional in Robinson v. Cahill,\(^ {287}\) a year after the Serrano case. This decision was rendered after a prolonged legal battle for which there were seven state Supreme Court rulings.\(^ {288}\) The court did not find that education was a fundamental right.\(^ {289}\) The New Jersey Supreme Court ruling was the first decision based only on state constitutional provisions where the plaintiffs prevailed.\(^ {290}\) The court ruled that the large disparities in the school in the school finance system resulted from reliance on local property tax and created unequal educational opportunities. The court decision was based on the idea that quality of educational opportunity was influenced by the dollar investment.\(^ {291}\) Both Serrano v. Priest and Robinson v. Cahill were decided on the belief that quality and quantity of educational opportunities were dependent upon funds invested and that equal protection requires equality from the government. Application of the strict scrutiny standard to the school finance system found no compelling state interest to justify the system. The New
Jersey Supreme Court ordered that the state legislature immediately devise a new financial system for public education in the state.\textsuperscript{292}

The \textit{Robinson} case caused states to review their methods of funding public school by scrutiny of their education clauses that had language such as thorough and efficient, adequate, or ample. The \textit{Serrano} case focused on equity, the \textit{Robinson} case focused on equity and adequacy.\textsuperscript{293}

In 1973, the Michigan Supreme Court held that the state’s system of school finance relied on the wealth of local school districts in \textit{Milliken v. Green},\textsuperscript{294} which resulted in substantial inequality of funds to support public schools. The plaintiffs argued that such inequality denied equal protection as guaranteed by the Michigan Constitution.\textsuperscript{295}

The court found that the state met its constitutional obligation of providing a basic system of schools throughout the state and that the Michigan Constitution did not require equal expenditures for all students for there to be equal educational opportunity. The Michigan foundation program was upheld constitutionally valid because the court did not require absolute equality in the distribution of state resources to each child in public schools.\textsuperscript{296}

The Supreme Court of Idaho, in 1975, was another state where the constitutionality of the state’s public education finance program was upheld in the \textit{Thompson v. Erkeling}.\textsuperscript{297} Again the issue was the disparity in per-pupil funding among districts due to the variation in local property wealth and the amount of tax funds generated by local districts.\textsuperscript{298} The court found that smaller per-pupil expenditures did not result in a denial of equal protection.\textsuperscript{299} The court also found that promoting local
counties of education to be a rational basis for promulgating the state’s foundation finance system. The court was also very wise in its avoidance of equal protection arguments, they said it “would be an unwise and unwarranted entry into the controversial area of public school financing, whereby this court would convene as a ‘super legislature,’ legislating in a turbulent field of social, economic, and political policy.”

The court determined that education was not a fundamental right, therefore the strict scrutiny test was not applied.

In Olsen v. State of Oregon, 1976, the constitutionality of a state foundation finance system was upheld. The same issue was brought by the plaintiffs, the disparity in per-pupil spending due to reliance in local wealth for funding schools and the reduced educational opportunity of students in poorer districts. The court declared that the Oregon Constitution was required to provide only a basic level of education to all students and not prescribe uniform per pupil funding throughout the state.

Horton v. Meskill in 1974 and again in 1977 challenged the Connecticut funding system on the basis that it violated the state equal protection clauses, federal equal protection clause and the state education clause. The Connecticut superior Court relied on the reasoning of Robinson for the basis that the state funding system violated the equal protection clause of the state constitution but not the federal constitution. Serrano was used as reasoning that education was such a basic and fundamental right than any infringement of that right must be “strictly scrutinized.” The Connecticut Court acknowledged a relationship between the quality of educational program and the funds expended to provide the opportunities.
The West Virginia Supreme Court in *Pauley v. Kelly,* 1979, declared the finance system of the state discriminatory and in violation of the state constitution because a thorough and efficient system of education was not provided. The court did not assess equity solely on neutrality, but required the state to go beyond basic skills education to develop the whole child for future work, citizenship and economic participation. The *Pauley* case was important because student success was defined not only by fiscal input, but by student output. The court stated that children should not be educated to a standard of adequacy, but to their capacity.

In *Board of Education of City School District v. Walter,* 1979, the Ohio Supreme Court examined the state’s finance distribution system. The court applied the rational relationship test to the system but did not apply the strict scrutiny standard. The Ohio court found that the state had a rational purpose promoting local control over education and that the constitutionality of legislative acts should be assumed unless a clear violation were evident. The state General Assembly had a record of amending the disparities in per-pupil inequities. The court ruled that the system of distributing funds was not in violation of the state constitution and the funding system was not irrational.

The Georgia Supreme Court in *McDaniel v. Thomas,* 1979, ruled that the school financing system met the state constitutional requirement of providing basic educational opportunities to all children. The court ruled that education was not a fundamental right guaranteed in the state constitution and that the state did not violate the adequate education provision in the state constitution. The court said the state financing system had a rational relationship to the state purpose of providing a minimum level of funding to each student. The funding system did not violate the Georgia Constitution but the
court urged the legislature to develop a more equitable system of funding schools to reduce the disparities in per-pupil funding.\textsuperscript{316}

The New York courts addressed school funding in a 1982 case \textit{Levittown v. Nyquist}.\textsuperscript{317} At issue were per-pupil funding inequities among districts that were caused by variation in local property wealth. The plaintiffs claimed that these large variations were violation of the equal protection clause of New York and U.S. Constitution. Two lower courts upheld the claim of the plaintiffs, the Court of appeals reversed on the basis that there was no claim that the education provided under the financing system fell below the minimum standard for the state. The court found that the state constitution required only that a free public schooling system be provided, not equitable per-pupil funding.\textsuperscript{318}

In \textit{Hornbeck v. Somerset},\textsuperscript{319} 1983, the Maryland Supreme Court heard the challenge to the state school funding formula. The court ruled that exact per-pupil funding levels were not required.\textsuperscript{320} The court, citing \textit{Rodriguez}, ruled that education should not be declared a fundamental right. The strict scrutiny test was not applied but when the rational basic test was applied, the court determined the state had a rational basis for using the formula to promote local control as promoted by the “thorough and efficient” requirement in the state constitution. The state supreme court found that the funding formula did not violate either the state constitution or the Declaration of Rights.\textsuperscript{321}

The Arkansas Supreme Court in \textit{Dupree v. Alma},\textsuperscript{322} 1983, declared that the state foundation plan violated the Arkansas Constitution. The court dismissed the claim that the goal of the foundation plan was to advance local control of education that more equitable funding would not decrease local control. The court ruled that the financing
system failed to meet the state’s education obligation and did not find a rational relationship between the disparity of per-pupil funding among districts and the needs of the individual districts.  

In Fair School Finance Council of Oklahoma v. State, 1987, the Oklahoma state school finance system was upheld as it withstood a challenge to its constitutionality. The plaintiffs stated that the state education plan was inequitable and violated the equal protection clause. The court found a rational relationship existed between the finance plan and a legitimate state purpose – to allow local control of education and autonomy. The court held that a law would be found constitutional when it could be demonstrated that the legislature acted arbitrary or capriciously. The Oklahoma public school finance system was upheld as constitutional because the court could not find such a violation.

In Richland v. Campbell, 1988, the South Carolina state Supreme Court found the school finance system valid. The court found that the foundation system allocated more funds to poor districts and therefore had a rational means of equalizing educational opportunity. The South Carolina school finance system was found constitutional.

In Helena Elementary School District v. State, 1989, the Montana Supreme court declared that the state school finance system was unconstitutional. The court interpreted equal educational opportunity as a constitutional guarantee and found that the finance system did not ensure equality of opportunity. There were significant differences among school districts in per-pupil funding, even after the state equalizing provisions were executed. The court ruled that the funding disparities violated student rights to equal educational opportunity under the state’s education article. The court rejected the state’s argument of fiscal difficulties, need for local control and that outputs
should be used to measure equal opportunity and not just inputs. The court ruled that Montana’s minimum foundation program did not provide revenue for even a minimal quality level of education and that the system was in violation of the state’s constitution.332

In Edgewood v. Kirby,333 1989, the Texas Supreme Court found that the state’s constitution was violated because the requirement in the state constitution for an efficient public school system was violated. The court found that the difference in property wealth of school districts was substantial. The legislation had made attempts to reduce the disparities by awarding more state aid to poorer districts, however the funding did not cover the minimum requirements mandated by the state.334

The concept of efficiency was the focus of the court’s discussion, even though the constitution did not define efficient, the state argued that efficient meant simple and inexpensive. The court required a strong relationship between tax effort and available resources, and equal access to similar revenues per pupil for similar tax effort. The court ruled that the state legislature had the responsibility to maintain an efficient system if a state were to make education a fundamental right, including funding adequacy, and uniformity of educational opportunities.335

The Wisconsin Supreme Court case in Kukor v. Glover,336 1989, upheld the state’s school finance plan against charges that it violated the constitution’s uniformity requirement and equal protection provisions. The case involved both spending disparities and denial of educational opportunity.337

In Rose v. Council for Better Education,338 1989, the Kentucky Supreme Court went further than any other court. The court ruled that the entire state public school
system, as well as, the finance program violated the state’s constitution’s requirement for efficiency. The court found the state school system under funded, inadequate and lacked uniformity among districts in educational opportunities. The court found that education was a fundamental right, but that fundamental right could not be assured when (1) the state education system was under funded and inadequate; (2) there were inequalities among districts; and (3) there were not uniform educational program offerings. These disparities were the result of a lack of uniformity and lack of adequacy of the local and state funding system for education.

In Abbott v. Burke, 1990, the New Jersey Supreme Court found the public school finance system unconstitutional as it had nearly twenty years earlier in the Robinson decision. At issue in the Abbott case was the level of education received by students in poor urban districts did not receive the thorough and efficient education mandated by the state constitution. According to the court, the state had an obligation to provide a minimum level of educational opportunity. The court ordered that the funding system be guaranteed by the state and that the system be revised to provide adequate funding for the poor urban districts.

In 1991, the Oregon case of Coalition for Equitable Funding v. State presented a different point of view from other cases where the state finance programs was challenged by plaintiffs that the state had failed to ensure local districts with necessary funds to meet state standards established by the state constitution, which included a provision for schools of uniform quality. The Oregon state court upheld the state’s education finance system because a constitutional Amendment had been passed in 1987 that provided for a remedy to disparities. It gave the local school districts the right to
levy local taxes, without voter approval, to raise the funds that were not available from the state.\textsuperscript{347}

In \textit{Gould v. Orr}\textsuperscript{348}, 1993, the Nebraska Supreme Court ruled on the issue of equality of education across the districts where plaintiffs claimed that children in poor districts did not have equal access to resources necessary for them to compete with their counterparts in wealthier districts due to funding disparities. The state constitution guaranteed free education, not equal instruction, and the plaintiffs did not establish a direct relationship between funds spent and quality of education.\textsuperscript{349}

In \textit{Tennessee Small School System et al. v. McWheter},\textsuperscript{350} 1993, the court found that education was a fundamental right, applied the strict scrutiny test, and found that the state system failed the strict scrutiny and rational relationship standards. The court determined that local control was not a compelling basis for a school finance system when the resulting effect was inequity in educational opportunities. The court ruled that the state’s education system was unconstitutional and directed the legislature to develop an appropriate funding system.\textsuperscript{351}

In the Alabama case \textit{Alabama Coalition for Equity and Adequacy v. Hunt},\textsuperscript{352} 1993, the issue was adequacy. The court found the Alabama schools inadequate and established specific criteria for adequacy that used the states guidelines and policies for guidance. In their evaluation of Alabama schools the court declared that “if inadequate educational opportunities exist in some systems, then the system as a whole must be deemed inadequate.”\textsuperscript{353} The court stated that the Alabama constitution defined the essential principle to provide an adequate education for students.\textsuperscript{354}
In Hunt, McDuffy v. Sec'y of the Executive Office of Education\textsuperscript{355}, and Pawtucket v. Saunders\textsuperscript{356} the court’s findings have been more definitive relative to adequacy. In these three states Alabama, Massachusetts and Rhode Island where the courts found their finance system unconstitutional, the courts definition of adequacy was critical.

**Florida Court Cases**

The education finance system in Florida has withstood several recent challenges. Florida’s constitution mandates that “adequate provision shall be made by law for a uniform system of free public education.”\textsuperscript{357} The interpretation of adequacy was critical to states, like Florida, where constitution mandates an adequate provision in the state education clause.

Legal challenges to the state’s public school funding systems have focused on whether the funding system violated the state equal protection clause or the uniformity requirement. The first case litigated in Florida concerning the funding system challenged the optional local millage. The court in 1979 upheld the discretionary local effort and found that:

> “The Florida education funding formula, in allowing leeway millage, does not violate the equal protection clause, and substantial equality of education is not prevented by the use of leeway millage.”\textsuperscript{358}

In 1991, the Florida Supreme Court in the St. Johns County, Florida v. Northeast Florida Builders Association\textsuperscript{359} upheld the state constitutional requirement of a uniform systems the court found that:

> The state constitution requirement of “uniform system” of public schools only requires that systems be provided that gives every student equal chance to achieve basic
educational goals prescribed by legislation, not that every school district in the state receive equal funding or that each educational programs be equalivent.\textsuperscript{360}

Justice Kogan encouraged the legislature to evaluate the purpose of the restraints for real fiscal purpose as to impediments to educational enhancements.\textsuperscript{361}

In \textit{Florida Department of Education v. Glasser},\textsuperscript{362} 1993, the Florida Supreme Court upheld the legislature’s authority to establish a cap on discretionary millage, effectively limiting taxes above the legislature’s cap in order to preserve programs place at risk because of decreased educational funding.\textsuperscript{363}

Although the Florida Supreme Court ruled against the Sarasota School district, more important than the ruling were the opinions of the justices. Justice Barkett encouraged school districts to direct their efforts “toward assuring the adequate state funding for all the educational needs of all children.”\textsuperscript{364} The court did not define adequate state funding but implied that the situation at the time was other then adequate. Justice Kogan concurred: “The time may come when the competing legal restraints of the constitutional requirements for education uniformity v. the constitutional restrictions on the tax base cannot be reconciled in at least some countries without substantially altering the present taxing system.”\textsuperscript{365}

In 1994, the Coalition for Adequacy and Fairness in School Funding Incorporated,\textsuperscript{366} together with various individuals and 45 districts, filed suit in Leon County circuit court against the state of Florida over certain aspects of the school finance formula. The plaintiffs were seeking declaratory relief under Chapter 82 Florida Statutes, alleged that the defendants had violated their obligation under article 1, section 1 of the Constitution of the State of Florida that “adequate” provision shall be made by law a
uniform system of free public schools, in violation of the constitution in the following respects, as follows:

1. The State funding mechanisms were inadequate to provide all public school students with the educational opportunity required to gain proficiency in the English language.

2. The public school funding provisions of the legislature resulted in a deprivation of liberty and property for all public school students.

3. Defendants have failed to utilize lottery funds to supplement funds otherwise provided for public education.

4. Defendants have imposed on local school districts burdensome requirements.

5. Defendants have failed to make provisions for adequate educational opportunities for students, particularly in areas with high poverty and low tax bases.

6. Defendants have prohibited local school districts from raising sufficient additional local funds to provide adequate educational opportunities.

7. Defendants have failed to make adequate and equitable provision for compensation of teachers.

8. Defendants have failed to provide adequate funding for educational facilities.

9. Defendants have failed to make adequate provision for students who have special educational needs, including foreign born population.\textsuperscript{367}

The plaintiffs alleged that funding of the public schools were rendered inadequate as measured by certain outcomes, including "the number of students failing to achieve sufficient oral and written communication skills; an unusually high rate of student dropouts; a large number of student unqualified for any college curriculum; foreign born students not being assimilated; lack of enrichment programs; and teachers leaving the school system."\textsuperscript{368}

The plaintiffs alleged, because of the outcomes just listed, that the students in the public school were deprived the opportunity to obtain an adequate education. The
parents of many students were deprived of an opportunity to provide an adequate education for their children; and school districts and educational professionals were deprived of the ability to carry out their constitutional and statutory responsibility.\textsuperscript{369}

In the more recent cases from Alabama, Ohio, and New Jersey the focus had been on adequacy. The court's interpretation of adequacy was vital to a state such as Florida whose constitution expressly mandates an adequate provision in the state constitution.

For some states the decisions of the state supreme courts have not resulted in desired outcomes. The Alabama case \textit{Alabama Coalition for Equity and Adequacy v Hunt} addressed in 1993 the educational system in Alabama as being unconstitutional but in 2002 the Alabama Supreme Court refrained from ordering equity remedy. The court stated that “because the duty to fund Alabama’s public schools is a duty that for 125 years the people of this state have rested squarely upon the shoulder of the legislature, it is the legislature, not the courts from which any further redress should be sought.”\textsuperscript{370} To the Alabama Supreme Court it was a question of separation of power but to the students in poor districts it meant that there will be a continued witnessing of the disparity of educational opportunity in the State of Alabama. Ohio had the same situation with the Ohio Supreme Court ruling May 16, 2003 that the system for financing education violates the state constitution and that the duty to fix the problem lies with the legislature. In its final ruling, the court also made clear that the long running case (1991 \textit{DeRolph v State of Ohio}) was over; that neither the state high court itself or any other court had jurisdiction over the case\textsuperscript{371} Because Ohio had not resolved their flawed funding problem the State had to bail out 18 bankrupt school districts with cash advances.\textsuperscript{372} New York courts saw it differently from Alabama and Ohio, the New York Supreme Court was to
name overseers in New York City if the school system was not funded at levels high enough to ensure students there receive a sound basic education as guaranteed by the state constitution. 373 Ironically, in New York City, an analysis of city schools done last year revealed that some of the worst-performing city schools were among the best funded. 374 Dr. Paul Reville, executive director of the Pew Forum at the Harvard Graduate School of Education said that this can not serve as an excuse to pull back on funding because “the injury of poverty is so potent as to severely mitigate the degree to which education can impact children.” 375

There are two states that have school funding issues that have had serious political implications and have yet to be resolved by the legislature. One is California where the 1999 case William v State of California involved a class action lawsuit filed on behalf of some one million needy students whose crowded classrooms, run down facilities, and outdated textbooks, make it impossible to receive an adequate education. 376 The settlement would require all students to attend school for 180 days, instead of the 163-day schedule used by the 746,000-student Los Angeles Unified School District. 377 The other state Alaska had filed against it a lawsuit seeking greater cash infusion for the state’s schools and a more equitable distribution of funds. The lawsuit asked the State Supreme Court to force the state to conduct an analysis of the costs of increasing necessary services to schools, and then to increase funding to meet those costs. Alaska joined 22 other states currently defending themselves against school finance lawsuits, according to the Campaign for School Equity, an advocacy group located in New York City. 378

Back in the 1970s, when the first school funding court case was adjudicated the focus was on equity. The goal was to erase the huge gap that existed in some areas
between what wealthier districts were able to give to their schools and what poorer districts offered. Today the focus was instead on adequacy. States were not necessarily being told they must erase spending gaps, but they were required to make sure every child’s schooling met a certain minimal level.379

**Legal Summary**

Central to fiscal equity was the belief that the education a child received should not be dependent on the wealth of the district in which that child resided. Fiscal equity was determined by the per-pupil expenditure for each district.380 This concept of equity, per-pupil expenditures, had been broadened to require that every child received adequate educational opportunities and because cost varies, the criteria for determining equity had been more output related.381

Recent litigation has focused on adequacy that emphasized equity. Plaintiffs suits have gone beyond per-pupil expenditures and have called into question whether the funds provided equated to an adequate or fair level of resources to meet constitutional provisions. The definition of adequate education was still in its formative stage and conjures different interpretations from different states. What was considered inadequate in the New Jersey and Alabama was relative. The courts reliance on state accepted accreditation standards and comprehension plans encouraged individual discretion by the states. Both adequacy and equity were issues in school funding challenges today.382

State school funding systems can be challenged based on the state constitutions equal protection clause or the interpretation of the wording of the state’s education clause.383 Interpretation of what was equitable and what was adequate depend on the wording and emphasis on education in the individual state constitutions.
Thro categorized state education clauses into four groups and analyzed each group in relation to challenges of state school funding system. Category I clauses imposed a minimum state educational obligation and have generally not been successful in school finance litigation. Category I states have an education clause that provided for a system of public schools and nothing more.\(^{384}\) Category II clauses required more state obligation, mandated certain minimum standards such as thorough and efficient and have had some success in school finance litigation.\(^{385}\) Florida was listed in Category II. Category III clauses included a more specific and strong state mandate for education.\(^{386}\) Category IV clauses have the strongest state obligation, usually called for education as a fundamental right.\(^{387}\) Thro stated that "because the state education clauses have limited utility as vehicles for public finance reform, litigates have searched for alternative state constitutional provisions that would be more effective.\(^{388}\)

Several cases have been decided on state constitutional wording and some states have determined education to be a fundamental right and other states determined otherwise. Some states have had their finance system challenged and they were upheld and other were overturned or found unconstitutional. Some states finance systems have been overturned based on the state’s equal protection clauses and some states funding formulas have been declared unconstitutional based on wording of the individual state constitutions. Finance systems of the future must not be grounded in just minimum standards but must be equitable and have full educational opportunity for all children of the state.
### Table 2

State Supreme Court Decisions on School Finance IN Favor of Greater Equity

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<tr>
<th>State Supreme Court ruling in favor of greater equity and/or adequacy</th>
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| California | Serrano v. Priest (Serrano I)  
Serrano v. Priest (Serrano II) |
| New Jersey | Robinson v. Cahill (Robinson I)  
Abbott v. Burke (Abbott II) |
| Montana | State ex. Rel. Woodahl v. Straub  
Helena Elementary School District No. 1 v. State of Montana |
| Connecticut | Horton v. Meskill (Horton I)  
Horton v. Meskill (Horton III) |
| Washington | Northshore School District No. 417 v. Kinnear  
Seattle School District No. 1 v. State of Washington |
| West Virginia | Pauley v. Kelly |
| Wyoming | Washakie County School District No. 1 v. Herschler |
| Arkansas | Dupree v. Alma School District No. 30 of Crawford County |
| Kentucky | Rose v. Council for Better Education |
| Texas | Edgewood Independent School District v. Kirby  
(Edgewood I) |
| Massachusetts | McDuffy v. Secretary of the Executive Office of Education |
| New Hampshire | Claremont School District No. 229 v. State |
| Kansas | Unified School District No. 229 v. State |
| Arizona | Roosevelt Elementary School District No. 66 v. Bishop |
| Vermont | Brigham v. State |
| Ohio | DeRolph v. State |
Table 3

State Supreme Court Decisions on School Finance, Against Greater Equity

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Summary

The relevant literature in the study of school finances was reviewed in this chapter. Other main topics were theory of finance equity, Florida distribution plan (FEFP), distribution of PECO funds for capital outlay, Florida school taxes and finance equity litigation. The next chapter will be the explanation of the methodology used for the statistical research for this study.
Notes


2. Ibid., 16.

3. Ibid., 100.

4. Ibid., 17.

5. Ibid., 219.


7. Ibid., 174.


10. Ibid., 175-176.


13. Ibid., 6-7.


15. Ibid., 6-7.


20. Ibid., 195.

21. Ibid., 155.


24. Ibid.


27. Ibid., 17.


33. Ibid., 5.


35. Ibid., 219.

36. Ibid., 219.


40. Ibid., 225.

41. Ibid.

42. Ibid., 224.


49. Ibid., 29.


53. Ibid., 14.

54. Ibid., 20-21.


57. Laws of Florida (1851), Chapter 343, p.104.

58. Shiver, 37.

59. Ibid., 39.

60. Ibid., 47.

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62. Ibid.

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71. Florida Department of Education, 5.

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92. Ibid.

93. Ibid.


97. Ibid.
98. Ibid.


100. Ibid.

101. Ibid., 346.


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105. Guthrie, Garnes, and Price, School Finance, 236.


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129. Ibid., 21.

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134. Florida Constitution Article XII, section 9 (d) (8) (c).


136. Florida Statute, section 235.15.

137. Florida Statute, Section 235.18.


139. Ibid.
140. Ibid., 11.

141. Ibid.

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148. Ibid.

149. Ibid.


154. Ibid., 218.

155. Ibid., 559.

156. Ibid., 562.

157. Ibid.

158. Ibid.

159. Ibid.

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162. Ibid., 563.


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165. Ibid., 563.

166. Ibid., 564.


168. Thompson, Wood and Honeyman, Fiscal Leadership for Schools, 564.

169. Ibid.

170. Thompson, “Examination of Equity,” 43.

171. Thompson, Wood and Honeyman, Fiscal Leadership for Schools, 565.

172. Ibid, 566.


177. Ibid.


180. Ibid.

182. Ibid., 569.


185. State Board of Education Rules, Sections 236.31 – 236.42, F.S.

186. Florida Administrative Code (FAC), Rule 6A-1.037.


189. Ibid., 7.

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192. Florida Statute 212.055(6)


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197. S.212.055(6)


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222. Ibid., 5.

223. Ibid., 6.


233. Ibid., 3.


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239. Reed, “Court Ordered School Finance Equalization,” 2.


241. Ibid., 238-250.


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264. Ibid., 16.

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281. Guthrie, Garms, and Pierce, 196.


283. Burrup and Brimley, Financing Education in a Climate of Change, 58.


285. Ibid., 877.

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330. Ibid., 689.
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332. Ibid., 689-690.
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357. Florida Constitution article IX, section 1.
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369. Ibid., para. 75 A-H.


374. Ibid.


377. Ibid.


379. Ibid., 32.


381. Underwood, ‘School finance Litigation,” 143-144.

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385. Ibid., 1661-1662.
386. Ibid., 1666.
387. Ibid., 1666.
388. Ibid., 1667.
390. Ibid.
CHAPTER III
METHODOLOGY

Introduction

The objective of this research was to extend the concept of fiscal equity in the distribution of revenue to K-12 public schools in Florida for general education funding to capital outlay for schools for the most recent year available in Florida. The state of Florida was chosen as the source of data for this analysis because the state has attempted to create equitable formulas for general expenditures and capital outlay.

Research Design

Equity measures were applied to capital outlay. Four components of educational spending in Florida were analyzed in this research.

Four revenue variables were studied: FEFP, the general educational expenditures for Florida; State Capital Outlay, state capital outlay and debt service revenues; Local Capital Outlay, local capital outlay and debt service revenues; and Total Capital Outlay, total capital outlay and debt service revenues. Each variable was discussed separately. The unit for analysis of the four categories was weighted FTE for each school district. The raw data used to compute these revenues are found in the Appendix.

The first variable (FEFP) for analysis was the aggregate of total dollar value of current operating revenues, the Florida Education Foundation Program. The FEFP value was equal to the total gross FEFP.

The second variable for analysis was the total dollar value of state capital outlay revenues for each district. Revenues were used instead of expenditures because they
allowed analysis by source, state or local. The variable State Capital Outlay included Capital Outlay and Debt Services Fund revenues, Public Education Capital Outlay (PECO) revenues, and other capital outlay revenues from the state.

The third variable for analysis, Local Capital Outlay, was the total dollar value of local capital outlay revenues. A large majority of local capital outlay revenue was raised through local millage, so the revenue was related to property wealth, with the exception of the districts that also used the ½ cent sales tax that generated funds for local capital outlay.

The computed values for Local Capital Outlay included all revenues received from local government for Debt Service Funds and all revenues received from local sources for Capital Project Funds. These categories, state, local, total, and state total were used in this study as defined by the Florida Department of Education.3

The fourth variable for analysis, Total Capital Outlay, was the sum of State Capital Outlay and Local Capital Outlay. The use of this variable compared equity measures for State Capital Outlay and Local Capital Outlay to those for the entire capital outlay allocation, Total Capital Outlay.

Each of these four variables was subjected to equity analysis. The monovariate and bivariate/multivariate statistics utilized are in the following section.

**Measures of Equity**

The standard measures of equity used in this study were mean, median, range, restricted range, federal range ratio, inter-quartile range, variance, standard deviation, coefficient of variation, relative mean deviation, and McLoone Index. The variable measure for horizontal equity was reviewed per WFTE per district.
Simple regression and correlation coefficients were used to measure fiscal neutrality as well as the Gini Coefficient and the Lorenz Curve. The dependent variable was capital outlay revenue per weighted FTE per district. The independent variable was assessed revenue of non-exempt property in each district.

Mean

The mean was the measure of the central tendency of the distribution of observations. It represented the average value of capital outlay revenue per weighted FTE in each district. The mean took in account all the observations in the distribution. The mean was calculated with the following formula:

\[ \sum \frac{X_i}{n} \]

Where SUM was the sum of all districts, Xi was the capital outlay revenue generated in each district i, and n was the number of districts.\(^4\)

Median

The median was defined as that number in a distribution of measures below which 0 percent of the cases lie (which means that the other 50 percent would be above the point). The median was the middle number in a rank ordered distribution list of numbers with 50 percent above and 50 percent below that number.\(^5\)

Range

The range was the difference between the highest and lowest observations in a distribution.\(^6\) The range calculated in this study was the difference between the highest and lowest capital outlay revenue generated per student per district. The smaller the value of the range, the smaller the variation in the distribution of student equity. The smaller the variation, the better the equity of distribution student equity. As a measure of equity, the usefulness of the range was limited. Range was based on only two values,
does not indicate the pattern of variation, and was not sensitive to change within the distribution.\textsuperscript{7}

The range was calculated with the following formula:

\[ \text{Highest } Xi - \text{lowest } Xi \]

Where \( Xi \) was the average capital outlay revenue in district \( i \).\textsuperscript{8}

**Restricted Range**

The restricted range was the difference between the observation at the 95\textsuperscript{th} percentile of the distribution of the 5\textsuperscript{th} percentile. Due to sensitivity of the range to extreme values, the restricted range disseminates values below the 5\textsuperscript{th} percentile and above the 95\textsuperscript{th} percentile. The smaller the value of the restricted range, the smaller the variation in the distribution of capital outlay revenue per student per district, the smaller the variation, the better the revenue distribution. Understandably, like the range, the restricted range was subject to the same limitation as a measure of equity.\textsuperscript{9}

The restricted range was calculated with the following formula:

\[ Xi@95 \text{ percentile} - Xi@5 \text{ percentile} \]

When \( Xi \) was the capital outlay per weighted FTE in district \( i \).\textsuperscript{10} The revenue weighted FTE per district was arranged in descending order.

**Federal Range Ratio**

The federal range ratio was the restricted range divided by capital outlay revenue per weighted FTE per district \( @ \) the 5\textsuperscript{th} percentile. The value was expressed as a ratio. The smaller the value of the federal range ratio, the smaller the variation was for distribution of capital outlay revenue per weighted FTE per district. The smaller the variation, the better the equity of the distribution of revenue. As a measure of equity, the federal range ration was subject to same limitations as the restricted range.\textsuperscript{11}
The federal range ratio was calculated with the following formula:

\[
\text{Restricted Range/Xi at 5 percentile}
\]

Where Xi was the capital outlay revenue per weighted FTE in district i, but district i falls at the 5\(^{th}\) percentile.

**Interquartile Range**

The interquartile range was the distance between the first and third quartiles, a simple measure of spread that gives the range covered by the middle half of the data. The formula to determine the interquartile range was:

\[
\text{IQR} = Q_3 - Q_1
\]

\[Q_1 = \text{the value of the range at the first quartile}\]

\[Q_3 = \text{the value of the range at the third quartile.}^{13}\]

**Variance**

The variance was the average of the squared deviation from the mean. The smaller the value of the variance, the smaller the variation of the distribution of capital outlay per weighted FTE per district.\(^{14}\) The smaller the variation, the better the equity of the distribution of the revenue. The average of the variance over the measure previously discussed was that the variance takes into account all observations. However, the variance was not expressed in original units and was sensitive to the outliers.

The variance was calculated with the following formula:

\[
\frac{\sum P_i (X_p - X_i)^2}{\sum P_i}
\]

Where sum was the sum of weighted FTE in all districts, Pi was the number of weighted FTE in district i, Xp was the mean capital outlay revenue per weighted FTE and Xi was the revenue per weighted FTE in district i.\(^{15}\)
Standard Deviation

The standard deviation was the square root of the variance. The smaller the value of the standard deviation, the smaller the variation, the better the equity of the distribution. The advantage of the standard deviation was that all observations were included in the calculation and that the units of measurement were in original scale. The standard deviation was sensitive to outliers.\(^1^6\)

The standard deviation was calculated with the following formula:

Square root of the variance

Coefficient of Variation

The coefficient of variation was the standard deviation divided by the mean or square root of the variance divided by the mean. It was expressed as the ratio of the standard deviation of the distribution to the mean of the distribution. The smaller the value of the coefficient of variation, the smaller the variation in capital outlay revenue per district. The smaller the variation, the better the equity of the distribution of revenue. It was sensitive to outliers but not to changes in the scale.\(^1^7\)

The coefficient of variation was calculated as follows:

Square root of the variance/Xp

Where Xp was the mean capital outlay revenue per weighted FTE for all districts.\(^1^8\)

Relative Mean Deviation.

The relative mean deviation was the absolute value of the differences of each value from the mean, summed, and divided by the total of all values in the distribution. The smaller the value, the greater the equity. The formula used to calculate the Relative Mean Deviation was:

\[
\text{Relative Mean Deviation} = \frac{\sum (|X_i - \bar{X}|)}{X_p \sum P_i}
\]
Where \( P_i \) = number of weighted FTE in district \( i \); \( X_p \) = mean revenues per weighted FTE for all weighted FTE; and \( X_i \) = mean of revenues per weighted FTE in district \( i \).\(^{19}\)

**McLoone Index**

The McLoone Index was the ratio of the actual values below the median, summed, and the total of values below the median if all values were at the median. In public school finance studies, it measures the amount of revenue required to raise the lower half to the state median. The closer the value to 1.0, the greater the equity.\(^{20}\)

The McLoone Index was calculated with the following formula:

\[
\sum (1...j) P_i X_i / M_p \sum (1...j) P_i
\]

Where districts 1 through \( j \) were below the median, \( \text{SUM} \) was the sum of weighted FTE in all districts 1 through \( j \), \( P_i \) was the number of weighted FTE in district \( i \), \( X_i \) was the capital outlay per weighted FTE in district \( i \), and \( M_p \) was the median revenue per weighted FTE for all districts.\(^{21}\)

**Fiscal Neutrality Measure**

The equity measures previously discussed have focused on the dispersion of the distribution in measuring the horizontal equity for the four variables. Fiscal neutrality measures assess the relationship between district wealth (tax values of assessed property) and revenues. These measures include the Gini Coefficient, the Lorenz Curve (a visual representation of the Gini Coefficients), and several regression measures: the correlation coefficient and the regression coefficient (or slope).

**Gini Coefficient**

The Gini Coefficient indicated how far the distribution of the capital outlay revenue was from providing each percentage of students with the same percentage of revenue. The smaller the value of the Gini Coefficient, the more equitable the
distribution of the revenues in providing a specified percentage of the students with the same percentage of revenues. Values ranged from zero to one. The coefficient compared revenues at each level with revenues at every other level and was sensitive to changes throughout the distribution, though not to outliers.\textsuperscript{22}

The Gini Coefficient was calculated with the following formula:

$$\frac{\sum \sum Pi Pj |Xi-Xj|}{2 (\sum Pi)^2 Xp}$$

Where SUM was the sum for all capital outlay in districts i and j, Pi was the number of weighted FTE in district i; Pj was the number of weighted FTE in district j; Xi was the revenue per weighted FTE in district i, Xj was the revenue per weighted FTE in district j, and Xp was the mean revenue per weighted FTE for all districts.\textsuperscript{23}

Lorenz Curve

The Lorenz Curve graphically illustrated the Gini Coefficient. The Lorenz Curve was depicted by the cumulative percent of weighted FTE on the abscissa and the cumulative percent of revenue on the ordinate. Equality in the population exists if the Lorenz Curve falls on the x=y line. The greater the line falls from the x=y line, the greater the inequity of revenue. Data used to plot the Lorenz curves were revenues per weighted FTE for each of the school districts.\textsuperscript{24}

The foregoing measures dealt with the dispersion of variation or variation of a single variable, capital outlay revenues per weighted FTE per district. There were other measures that described a relationship between two variables that were regression-based measure. Correlations and slopes were such regression based measures.

Simple Correlation

Simple correlation described the degree to which two variables were associated. In the present study, the two variables were wealth (ability to generate property tax
revenue) in each school district (independent variable) and the corresponding capital outlay revenues per weighted FTE (dependent variable).

In the study of school finance, these two variables were used to describe the fiscal neutrality of a state school finance system. A fiscally neutral system was indicated by no relationship between wealth (tax roll) and capital outlay revenues per weighted FTE for education.

The correlation coefficient has values that range from -1.0 to +1.0. When two variables were positively associated, larger values of one tend to be accompanied by larger values of the other. When two variables were negatively related, larger values in one tend to be accompanied by smaller values of the other. A value of +1.0 indicated a perfect positive linear relationship and a value of -1.0 a perfect negative linear relationship. A value of 0 indicated no linear relationship between the two variables. As a measure of fiscal neutrality, a correlation coefficient of 0 indicated no linear relationship between the two variables and, therefore, a fiscally neutral system.

Scatter plots were graphs of the bivariate data. The value of the independent variable was plotted on x-axis and the dependent variable on the y-axis. The square of the simple correlation, the coefficient of determination, was the portion of variation in the dependent variable explained by the relationship to the independent variable.

The simple correlation was the Pearson correlation coefficient and was calculated using the following formula:

$$\frac{\sum P_i(X_i - \bar{X})(W_i - \bar{W})}{\sqrt{\sum P_i(X_i - \bar{X})^2} \sqrt{\sum P_i(W_i - \bar{W})^2}}$$

where the SUM was the sum of weighted FTE in all districts, Pi was the number of weighted FTE in district i, Xi, was the capital outlay revenue per weighted FTE in district i, X was the mean capital outlay revenue per weighted FTE for all districts, W was the
wealth per weighted FTE in district i, and W was the mean wealth per weighted FTE for all districts.28

Slope of the Regression Line

The regression equation was used to describe the relationship between two variables. That equation was as follows:

\[ Y = a + bx \]

When Y was the estimated value, at the intercept (value of Y corresponding to \( x=0 \)), and to the slope or regression coefficient (line of best fit described the relationship between the independent and dependent variables).29 The slope of the regression line measured the magnitude of the relationship between two variables. The slope indicated the size of the change in the dependent variables associated with a one-unit change in the independent variable. A fiscally neutral public school funding system had a slope of zero. The higher the value of possible slope the more inequitable the relationship between wealth and revenues per weightable FTE per district.30

The calculation of the slopes were based on the mean values of the independent and dependent variables. The following formula was used to calculate the slope:

\[ \sum Pi(Xi-X)(Wi-W)/\sum Pi(Wi-W)^2 \]

Where SUM was the sum of weighted FTE in all districts, Pi was the weighted FTE in district i, Xi was the capital outlay revenue per weighted FTE in district i, X was the mean capital outlay revenue per weighted FTE in all districts, Wi was the wealth (sales tax) per weighted FTE per district, and W was the mean wealth per weighted FTE per district.31
Summary

Appropriate methodologies for equity analysis for use in this study were discussed. A wide variety of measurement tools intended to extend equity analysis to capital outlay were described. These were used to determine the equity of capital outlay as a whole and the equity of each of its state and local components.\(^\text{32}\)
Notes


3. Ibid., 136-7.


7. Ibid.

8. Ibid.


10. Ibid., 66.


12. Ibid., 249.


14. Berne and Stiefel, 19; Thompson, Wood and Honeyman, 249.

15. Thompson, Wood, and Honeyman, 249.

16. Ibid.

17. Ibid.

18. Ibid.


21. Ibid., 251.


23. Ibid., 28.


28. Thompson, Wood and Honeyman, 251.


30. Thompson, Moore, and Honeyman, 252.

31. Ibid.

32. Currie, An Examination of the Equity of Capital Outlay . . . , 110.
CHAPTER IV
ANALYSIS OF DATA

Introduction

The purpose of this study was to extend the concept of fiscal equity in K-12 public schools in Florida for general educational funding of schools to capital outlay for schools. This chapter presented the results of a study comparing the equity of total capital outlay revenues for a selected year in Florida, 2000-2001, and the equity of state and local components relative to each other, the total, and general educational revenues. This research, a replication of the analysis of Gaylon Currie who used 1988-1989 data, answered the following question: What was the relationship of the equity of state, local and total capital outlay revenues relative to the equity of general educational revenues? The raw data used for the statistical calculations are listed in the Appendix.

Horizontal Equity Measures

Four variables were used for the analysis of horizontal equity and wealth neutrality. The first variable for analysis was the sum of total dollar value per weighted pupil of current operating revenues, the Florida Educational foundation Program (FEFP). The second variable for analysis was the total dollar value of state capital outlay revenues per weighed pupil (State Capital Outlay) for each district. The third variable for analysis was the total dollar value of local capital outlay revenues per weighted pupil (Local
Capital Outlay). The fourth variable for analysis was Total Capital Outlay, the sum of State Capital Outlay and Local Capital Outlay. Measures used to compare the horizontal equity of these four variables were the range, the restricted range (5\textsuperscript{th} to 95\textsuperscript{th} percentile), the Federal Range, inter-quartile range, the relative mean deviation, the McLoone Index (the ratio of all the summed values below the median and the total of all if funded at the median level), the standard deviation, and the coefficient of variations. These are found in Table 4.

**Range Measures**

The range was a measure used to examine the spread of the per-pupil revenue distribution. The 67 counties were arranged in ascending order according to weighted per-pupil revenue. The smaller the value of the range, the better the equity of the funding formula.\(^2\)

The restricted range was a measure used to examine the spread of the distribution by ignoring the extremes.\(^3\) The 67 counties were placed in ascending order according to weighted per-pupil revenue. The calculations for the restricted range was the difference between the weighted per-pupil revenue at the 95\textsuperscript{th} percentile and weighted per-pupil revenue at the 5\textsuperscript{th} percentile. The smaller the spread in the distribution indicated a better equity in the funding formula.

Raw range measures are difficult to compare if there are substantial differences in the total amount of the variables.\(^4\) More useful comparisons may be made among measures that include a ratio of the raw range measurement and a standard value from the variables, such as the Federal Range Ratio, the Relative Mean Deviation, the Coefficient of Variation, and the McLoone Index.
Range and Restricted Range

Although the ranges and restricted ranges may not be directly compared for the four variables, they give, when compared to each other within a variable, information about the extreme differences within the distribution. The ranges for the variable FEFP was $3,310.90 and the restricted range was $1,592.96. This means that the upper and lower 5 percent for the variable accounted for about 52 percent of the range. The range for the variable State Capital Outlay was $1,771.07, and the restricted range was $163.58. This means that the upper and lower 5 percent of the variable accounted for about 90 percent of the range difference, a much larger portion than FEFP. This would indicate a far greater significance for extremes for the State Capital Outlay variable influencing equity. The range for the variable Local Capital Outlay was $2,035.20, and the restricted range was $526.58. This means that the upper and lower 5 percent of the variable accounted for about 74 percent of the range difference. This would indicate a lesser significance for extremes in this variable than for State Capital Outlay.

The fourth variable Total Capital Outlay, the range was $4,631.44, and the restricted range was $736.15. This means that the upper and lower 5 percent of the variable account for 84 percent of the range differences, more than for FEFP or Local Capital Outlay, but less than for State Capital Outlay (similar results as Currie), which would indicate an importance for extremes similar to FEFP but differing from State Capital Outlay. Of the four variables, State Capital Outlay would seem to have been most influenced by extreme values. This would indicate more equity for State Capital Outlay than for the other variables because of the existence of values extremely different
from the others in distribution. Some school districts received a small amount of funds per weighted FTE while others received a much higher amount.

The smaller the restricted range, the greater the equity. The advantage of the restricted range over the range is that it examines values that are more representative. The restricted range constitutes a much smaller portion of State Capital Outlay than the other three variables, indicating that greater extremes exist in state capital outlay revenues than in total capital outlay revenues or general education revenues. This indicates a possible horizontal equity problem for distribution of State Capital Outlay to districts or an attempt to address differences in Local Capital Outlay caused by the lack of local revenues.

Federal Range Ratio

The federal range ratio was calculated by taking the restricted range value and dividing it by the weighted per pupil revenue at the 5\textsuperscript{th} percentile. The federal range ration expressed how much larger the observation at the 95\textsuperscript{th} percentile was than the observation at the 5\textsuperscript{th} percentile.\textsuperscript{6} The smaller the federal range ratio, the greater equity of the distribution.

The federal range ratio for the four variables may be compared directly, because they are standardized by using a value at a common, fixed point within the distribution, the value at the 5\textsuperscript{th} percentile.\textsuperscript{7} The federal range ratios for the three capital outlay variables were 1.15 for State Capital Outlay, 2.62 for Local Capital Outlay, and 2.05 for Total Capital Outlay. They were all greater than the value of 1.05 for FEFP. This indicated a lesser variability for state or total capital outlay revenues than local capital outlay revenues, which had very low values at the 5\textsuperscript{th} percentile. This suggested an
equity problem at the lower end of local capital outlay distribution, and a much greater variability for capital outlay revenues than for general revenues, as measured by this equity statistic. This would indicate lesser equity for capital outlay revenues than for general revenues by this measure, and a lesser equity for local capital outlay expenditures than for state local capital outlay revenues.

**Inter-quartile Ranges**

Inter-quartile analysis was the analysis of means and distributions for quartiles of wealth and expenditures. If the spread of values was great, the range will be higher than it would be if the spread is small.  

The inter-quartile range for FEFP was 500.51, about one-third the restricted range. The inter-quartile range for State Capital Outlay was 83.71, about half the restricted range. The inter-quartile range for Local Capital Outlay was 406.96, about four-fifths of the restricted range. The inter-quartile range for Total Capital Outlay was 436.84, about six-tenths the restricted range. Extreme values outside the inter-quartile range would appear to have made FEFP less equitable than State, Local or Total Capital Outlay by this measure. State Capital Outlay was the less equitable in Currie’s study.

**The Standard Deviation**

The standard deviation was a measure of distribution of data about the mean, the square root of the variance. The smaller the value of the standard deviation, the smaller the variation, the better the equity of the distribution. In a normal, bell-shaped distribution, approximately two-thirds of the values in the distribution fell within one standard deviation from the mean in each direction, and about 95 percent with two standard deviations. In a distribution of sixty-seven school districts, twenty-five would
fall within one standard deviation both above and below the mean, and thirty-two within
two standard deviations above and below the mean, leaving only one district more than
two standard deviations above the mean and one district more than two standard
deviations below the mean.

The four variables do not exhibit the patterns expected of the normal distribution
described above. In each of the distributions, where one district would be expected to fall
above two standard deviations above the mean, there are a number of districts that were
more than two standard deviations above the mean. No district is more than two standard
deviations below the mean in any of the distributions, where one would have been
expected in each distribution. In each of the capital outlay distributions, there are more
districts below the mean than above the mean: State Capital Outlay has 17 above and 49
below; Local Capital Outlay has 19 above and 47 below. Distribution for the four
variables was not normal.

The Coefficient of Variation

The coefficient of variation was the square root of the variance (standard
deviceation) divided by the distributions mean.\textsuperscript{11} A decreasing value indicated increasing
equity. Unlike the standard deviation and the range, it was not overly sensitive to scale
changes, because the mean value of the distribution was used in the ratio. Coefficients of
variation for the four variables were compared directly, because they were standardized
by using a value at a common fixed point within the distribution (in this case, the mean)
as part of the ratio.\textsuperscript{12} The coefficient of variation measured the relative variation in the
distribution about the mean.
The coefficient of variation for the FEFP was 0.32. This means that approximately two-thirds of the distribution fell within 32 percent of the mean, a closer distribution than any of the other variables. The coefficient of variation for State Capital Outlay variable was 0.75. This means that approximately two-thirds of the distribution fell within 75 percent of the mean. The coefficient of variation for Local Capital Outlay variable was 0.54. This means that approximately two thirds of the distribution fell within 54 percent of the mean, indicating a closer distribution than for State Capital Outlay. The coefficient of variation for the Total Capital Outlay variable was 0.60. This means that approximately two-thirds of the distribution fell within 60 percent of the mean. This means that local capital outlay revenues had a tighter distribution than either of the other two components, particularly state revenues. As with previous indicators, capital outlay variables displayed far greater variability than general expenditures, with state revenues showing more variability than local or total revenues. In this context greater variability indicates possible equity problems for these variables. All Capital Outlay measures were much higher than general education revenues in this measure, signifying, again, a much higher degree of horizontal equity for FEFP.

The Relative Mean Deviation

The relative mean deviation is the absolute value of the difference of each value from the mean, summed, and divided by the total of all values in the distribution. The smaller the value, the greater the equity. Relative mean deviation for the four variables were compared directly, because they are standardized by using a value at a common fixed point within the distribution (in this case, the total) as part of a ratio. The capital
outlay variables perform about the same on this mean (pattern), but, again, exhibited less equity than FEFP.

The relative mean deviation for the variable FEFP was 0.24. This means that the average deviation of a value in this distribution from the mean was 24 percent of the mean, much less than for any of the capital outlay variables.\(^{15}\)

The relative mean deviation for the variables State Capital Outlay was 0.58. This meant that the average deviation of a value in this distribution from the mean was 58 percent of the mean. The relative mean deviation for the variable Local Capital Outlay was 0.60. This means that the average deviation of a value in this distribution from this mean was 60 percent of the mean. The relative mean deviation for the variable Total Capital Outlay was 0.50. This means that the average deviation of a value in this distribution from the mean was 50 percent of the mean, less than for the other two components of capital outlay revenues. The pattern from the coefficient of variation was repeated by the relative mean deviation to the extent that capital outlay revenues appeared to be much less equitable because of their greater variation than general revenues.

**The McLoone Index**

The McLoone Index was the ratio of the actual values below the median, summed, and the total value below the median if all values were at the median. In public school finance studies, this index measures the amount of revenue required to raise the revenue of districts in the lower half to the state median.\(^{16}\) Unlike most measures, the greater the value, the greater the equity. Only the equity of the lower half of the distribution was considered. The McLoone Index showed that a greater percentage of the
variable was required to bring the lower districts up to the median in capital outlay revenues than in general educational revenues. Indicated a much better performance for FEFP with regard to horizontal equity in this measurement.

The McLoone Index for the FEFP was 0.80 and the McLoone Index for the State Capital Outlay variable was 0.66. This means that 66 percent of the revenues needed to fund all WFTE in districts below the median at the level of the median district were determined. The McLoone Index for Local Capital Outlay was 0.15. The McLoone Index for Total Capital Outlay was 0.17. This indicates a similarity between Local Capital Outlay revenues and Total Capital Outlay in this measure. The equity of general revenues as measured by this equity statistic was greater than for any capital outlay revenues. All capital outlay revenues appeared to perform about the same pattern as with the last variables. With State Capital Outlay more equitable than Local or Total Capital Outlay, the lower half of the districts received approximately two-thirds of what they would have received if they were at the level of the median district for State Capital Outlay. This was one of the few measurements where State Capital Outlay was more equitable than the other capital outlay variables.

Fiscal Neutrality Measures

The equity measures previously discussed have focused on the dispersion of the distributions in measuring the horizontal equity for the four variables. Fiscal neutrality measures assess the relationship between district wealth (tax value of assessed property) and revenues. These measures include the Gini Coefficient, the Lorenz Curve (a visual representation of the Gini Coefficient), and several regression measures: the correlation coefficient and the regression coefficient (or slope).
### Table 4
Horizontal Equity Measures

Horizontal Equity Measures for FEFP, State Capital Outlay, Local Capital Outlay, and Total Capital Outlay: Range Measures, Measures of Dispersion from Mean, and Comparisons Median Values.

<table>
<thead>
<tr>
<th>Statistical Measure</th>
<th>FEFP/WFTE</th>
<th>STATE CAPITAL OUTLAY/WFTE</th>
<th>LOCAL CAPITAL OUTLAY/WFTE</th>
<th>TOTAL CAPITAL OUTLAY/WFTE</th>
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<tr>
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<td>$360.72</td>
<td>$791.14</td>
<td>$1151.86</td>
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<td>$238.56</td>
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<td>$950.78</td>
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<td>$2035.20</td>
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<td>$526.58</td>
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<td>2.62</td>
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<td>Interquartile Range</td>
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<td>83.71</td>
<td>406.96</td>
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<td>Standard Deviation</td>
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<td>266.09</td>
<td>424.83</td>
<td>692.61</td>
</tr>
<tr>
<td>Coefficient Of Variation</td>
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<td>0.75</td>
<td>0.54</td>
<td>0.60</td>
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<tr>
<td>Relative Mean Deviation</td>
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<td>0.58</td>
<td>0.60</td>
<td>0.50</td>
</tr>
<tr>
<td>McLoone Index</td>
<td>0.80</td>
<td>0.66</td>
<td>0.15</td>
<td>0.17</td>
</tr>
</tbody>
</table>
The Gini Coefficient

The calculation of the Gini Coefficient indicated how far the distribution was from providing each percentage of students with an equal percentage of revenues. Because the Gini Coefficient was a wealth neutrality test, the calculation indicated the relationship between the school districts' wealth and the per-pupil revenues of the school districts. In this study, wealth was defined as the taxable property value of each district. The closer the calculated value was to zero, the more equitable the revenue distribution in providing a given percentage of students with an equal percentage of revenue. The smaller the value, the greater the equity.

Values of the Gini Coefficient for the four variables are displayed in Table 5. The Gini Coefficient for FEFP was 0.1180. The Gini Coefficient for the State Capital Outlay variable was 0.3536, the largest of the four variables, indicating the greater the inequity of revenues. The Gini Coefficient for Local capital Outlay was 0.1971, for Total Capital Outlay was 0.182. This indicates that when these variable distributions were ranked by wealth, that FEFP came much closer to providing any given percentage of weighted FTE with the same percentage of the revenue than did Total Capital Outlay or Local Capital Outlay, and Total Capital Outlay was closer than Local Capital Outlay.

The FEFP performed best in this measure and state capital outlay revenues the worst. In Currie's study local capital outlay was the worst performing. This difference was caused by the additional funds local school districts were funding capital outlay. When Currie did his study, eleven years ago, the state was funding one-third of the total capital outlay, in the year 2000-2001, the state was only funding one-eighth of the total cost of capital outlay.
### Table 5
Fiscal Neutrality Measurers

Fiscal Neutrality Measurer for FEFP, State Capital Outlay, Local Capital Outlay and Total Capital Outlay

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<thead>
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<th>Statistical Measure</th>
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<tr>
<td></td>
<td>FEFP/WFTE</td>
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<tr>
<td>Gini Coefficient</td>
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<tr>
<td>Coefficient of Correlation</td>
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<td>Correlation Squared</td>
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<tr>
<td>Regression Coefficient Slope</td>
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</table>

**Lorenz Curve**

The Lorenz Curve was a graphic picture illustrating the Gini Coefficient. The school districts were sorted in ascending order for per-WFTE revenue. The horizontal axis represented the cumulative proportion of students per weighted FTE. The vertical axis represented the cumulative proportion of total revenue accounted for by the school districts. The 45-degree (diagonal) line represented perfect equity indicating that 10% of the students received 10% of the revenue, 20% of the students received 20% of the revenue, etc. A funding formula that was not equitable would result in a concave curve.
that existed below the perfect 45-degree line (perfect-equity line). The concave line represented an inequity in the funding formula in meeting the needs of the students. The Gini Coefficient represented the concave lines variation from the perfect line of equity. The Gini Coefficient was the ratio of the area between the curve and the perfect-equity line. The closer the curve was to the perfect line of equity, the better the equity of the distribution.

Lorenz Curves for the four variables are displayed in Figures 1-4. The Lorenz Curve for FEFP, displayed in Figure 1, demonstrates an equivalent percentage of expenditures and percentage of weighted FTE. The Lorenz Curve for State Capital Outlay displayed in Figure 2, showed a larger state input at the 40-50 percent of the continuum or mid-range. The Lorenz Curve for Local Capital Outlay, displayed in Figure 3, shows a close relationship at the lower and upper ends of the distribution, the same for Total Capital Outlay displayed in Figure 4. This showed that both Local and Total Capital Outlay provided the percentage of Capital Outlay revenues equivalent to percentage of weighted FTE. The lowest 10% and the highest 10% were very close to the 45-degree line. With State Capital Outlay the lower half received approximately 22 percent of the expenditures, where FEFP the lower half received approximately 50 percent of the expenditure. Local Capital Outlay the lower half received approximately 40 percent and Total approximately 38 percent. The Lorenz Curve depicted FEFP with a small concave line and State Capital Outlay with the largest or deepest concave line, which was a visual representation of inequitable funding for State Capital Outlay on a continuum among the school districts.
Figure 1: FEFP Lorenz Curve Graph
Figure 2: State Capital Outlay Lorenz Curve
Regression Measures

The investigation of fiscal neutrality, the relationship of expenditures or revenues and wealth, involved an analysis of each of the four variables in a measure of wealth, the adjusted assessment of taxable property wealth per weighted FTE (tax roll). The scatter plots for these regressions are displayed in Figures 5-8.

The scatter plot for FEFP, displayed in Figure 5, does suggest a strong general correlation between wealth and FEFP, but it is a strong inverse relationship with school districts at the low end of property tax wealth receiving greater state funding for schools. In Figure 6 the scatter plot for State Capital Outlay indicated a larger number of districts being funded at the low end of the tax roll per weighted FTE, but at a much lower amount of funds as compared to FEFP. The scatter plot for Local Capital Outlay, displayed in Figure 7, appeared to demonstrate a strong relationship between wealth and local capital outlay revenues. The scatter plot for Total Capital Outlay, displayed as Figure 8, illustrates the same general pattern as FEFP and State Capital Outlay with most districts clustered at the low end of the distribution. A large number of less wealth districts were receiving lesser amounts of their variable, as demonstrated by their concentration in the lower left of the chart. The appearance of two districts in the upper left quadrant shows the large inputs of state aid to a small number of districts.

The degree to which changes in revenue were effected by changes in wealth was measured by the regression coefficient (or slope) of the regression equation. The regression coefficient for the regression of State Capital Outlay and Tax Roll was -.00025. This indicates that an increase of $1000 in tax roll would result in an increase of
$0.25 in State Capital Outlay. This was compared to $2.20 for Local Capital Outlay and $1.90 per $1000 increase in property tax.

The correlation coefficient was utilized to determine the strength of the relationship between each of the four variables and wealth variables. The correlation values for the four variables are found in Table 5. The correlation between State Capital Outlay and Tax Roll was 0.07, very weak. The correlation of Tax Roll with Local Capital Outlay was 0.75, strong relationship, with Total Capital Outlay was 0.47, moderate relationship and with FEFP was 0.95, very strong relationship.

By squaring the correlation coefficient, the proportion of variance in the dependent variable explained by the independent variable was determined. The squared correlation coefficients (R squared) are displayed in Table 5. Property values accounted for 0.49 percent of the variation in State Capital Outlay (very little effect). Property wealth accounted for 56 percent of the variation in Local Capital Outlay. Property wealth accounted for 22 percent of the variation in Total Capital Outlay. Property wealth accounted for 90 percent of the variation in FEFP.

The possibility has been stated on several occasions in this chapter that violations of horizontal equity by State Capital Outlay might be justified if deficiencies caused by lack of local wealth were being addressed on a district-by-district basis. To test this, Local Capital Outlay was correlated with State Capital Outlay in order to see if state capital outlay revenues were systematically addressing local capital outlay revenue deficits. A high negative correlation would have indicated that the system was designed to address deficits on a district-by-district basis. The correlation coefficient of Local Capital Outlay and State Capital Outlay was 0.74, indicating that deficits were not
Figure 5: FEFP/WFTE vs Tax Roll/WFTE
Figure 6: State Capital Outlay/WFTE vs Tax Roll/WFTE
Figure 7: Local Capital Outlay/WFTE vs Tax Roll/WFTE
Figure 8: Total Capital Outlay/WFTE vs Tax Roll/WFTE
effectively addressed on a district-by-district basis by state funding. The squared correlation of State Capital Outlay and Local Capital Outlay was 0.55, indicating that very little of the variation in local capital outlay was explained by capital outlay revenues.

**Discussion and Interpretation**

Some clear patterns emerged among the four variables in the calculation of the dispersion statistics indicating horizontal equity. With regard to the range, comparison of ranges for each variable indicated a lesser effect of extremes in the State Capital Outlay/WFTE variable. When restricted ranges were compared, the Total Capital Outlay/WFTE had the smallest range of the capital outlays. The FEFP/WFTE had the largest restricted range, over double the Total Capital Outlay.

The Federal Range Ratios for capital outlay variables were different from each other, with Local Capital Outlay having a greater value than the others, but all were larger than the value for FEFP. Inter-quartile ranges demonstrated a greater range effect by Local Capital Outlay than by State Capital Outlay on Total Capital Outlay revenues.

On the coefficient of variation local capital outlay revenues had a tighter distribution than either of the components, especially state revenues. The coefficient of variation for the FEFP variable was smaller than for any of the capital outlay variables. The variation in local capital outlay revenues would, by this measure, be much less than for state capital outlay measures.

The relative mean deviation showed a rough equivalence between local and state capital outlay revenues, with somewhat less dispersion for total capital outlay revenues.
Again, FEFP had a much more equitable value than any of the capital outlay revenue variables.

The McLoone Index values indicated a similarity between local capital outlay and total capital outlay revenues on this measure. The McLoone Index for FEFP was much higher, close to 1.00, which was perfect equity on this measure, but State Capital Outlay also performed better in this index for equity than any of the other measures.

Consistently, the equity of general expenditures, as measured by these dispersion statistics was much greater than for capital outlay revenues. The relative equity pattern for Local Capital Outlay and State Capital Outlay, relative to each other and to the total were somewhat consistent but State Capital Outlay was less equitable than the others.

Fiscal neutrality measures showed a somewhat similar pattern of results as did the dispersion statistics. The Gini Coefficients demonstrated that when these variable distributions were ranked by wealth, FEFP came much closer to providing any given percentage of weighted FTE with the same percentage of the variable than did any of the other capital outlays, with Local Capital Outlay and Total Capital Outlay very close. The value of State Capital Outlay indicated the most inequity in the distribution of funds compared to wealth.

Scatter plots for the variables demonstrated certain trends. Concentrations of districts in the lower left quadrant indicated groups of districts with low wealth who received little of the State Capital Outlay and Total Capital Outlay variables. Local Capital Outlay had a high correlation of wealth for distribution of local capital outlay per weighted FTE. State aid to low wealth districts seems to be sporadic, affecting several
low wealth districts very strongly, but most low wealth districts little compared to higher wealth districts.

The Lorenz Curves demonstrated, in both Local Capital Outlay and Total Capital Outlay, a change in slope at around the 60th percentile of weighted FTE. The existence of the change in slope at the same place on the graph indicated a connection between Local Capital Outlay and Total Capital Outlay. The Lorenz Curve for State Capital Outlay demonstrated the most inequity, it was the greater distance from zero.

Regression of the four variables on the wealth measure yielded two negative slopes for FEFP and State Capital Outlay and two positive slopes for Local Capital Outlay and Total Capital Outlay. Plots of their equations demonstrated a wealth dependency for more of the districts in the Local and Total Capital Outlay distributions, lessening at higher levels of wealth.

Correlation coefficients showed that State Capital Outlay had very little correlation with tax roll or wealth, but was rather high for Local Capital Outlay. When the correlation coefficients for distribution were squared, tax roll seemed to explain very little of the variation in State Capital Outlay, about 56 percent of the variation in Local Capital Outlay, and about 90 percent of the variation in FEFP.

The correlation coefficient of Local Capital Outlay and State Capital Outlay was 0.74. The squared correlation of State Capital Outlay and Local Capital Outlay was 0.55, indicating that 55% of the variation in local capital outlay was explained by state capital outlay revenues. The state revenue did not effectively address capital outlay shortfalls in local revenues per weighted FTE on a district-by-district basis. This demonstrated the lack of moderation of wealth neutrality violation in local capital outlay by state revenues.
The mitigation of lack of wealth by state revenue was limited to only a few districts, and did not change the overall pattern of wealth dependence for local and total revenues.

Fiscal neutrality measures suggest greater fiscal neutrality for general revenues (FEFP) than for capital outlay, when the three capital outlay variables were compared to FEFP. The measures gave differing evaluations of possible neutrality problems among the other variables. The square of the correlation coefficient suggested that a strong fiscal neutrality problem existed in the area of local capital outlay revenues and State Capital Outlay showed a wealth neutrality for its distribution to wealth. The scatter plots showed a group of low wealth districts that fared poorly in local and total outlay revenues. The Lorenz Curve indicated that a distinct break occurred around the 60th percentile of wealth per weighted FTE, and that those above that point of wealth fared better in terms of local and total capital outlay revenues per weighted FTE than those below that point.

Summary

General revenues or FEFP demonstrated in dispersion measures a high level of correlation, and Local and State Capital Outlay revenues violated the wealth neutrality analysis, although State Capital Outlay appeared to be wealth neutral. The diligence used to create conditions of horizontal equity in the planning of general educational expenditures, FEFP, was not extended to planning for capital outlay. Special state revenue inputs for a few low wealth districts did not change the overall pattern of wealth dependency for local capital outlay revenues.
Notes


3. Ibid., 66.

4. Ibid.

5. Currie, 177.


9. Currie, 120.


11. Ibid., 107-131.


13. Ibid.


15. Thompson, Wood, and Honeyman, 249.

16. Ibid., 151.

17. Ibid.
18. Ibid.

19. Ibid., 152.


CHAPTER V
SUMMARY, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Summary

Considering the fact that in Florida alone in the 2000-2001 school year more than 18 billion dollars were spent on K-12 public schools,¹ we can consider that education was, and will always be, a “big business:² and a costly enterprise.”³ Education affects the lives of the people who participate in it and therefore, affects the citizenry of the country.⁴ Too much funding can make an institution inefficient even though that level of funding can still maintain a high quality of education. On the other hand, too little funding can negatively impact the educational process and therefore, the well being of the nation.⁵ The equitable and adequate distribution of State funds guaranteed taxpayers and politicians that education would benefit society and be cost effective.⁶ Therefore, the question to many State legislators was how to distribute State funds that was both adequate and equitable to all districts in the State system.⁷

When advocates could not receive relief by use of the federal courts they turned to the state courts because it was the state’s responsibility to provide education. The State Constitutions provided language that dictates the responsibility of the state for education. Fiscal equity has been the goal of school finance litigation for the past 35 years, when fiscal equity traditionally measured the per-pupil revenue for each district. Fiscal neutrality, was the belief that the quality of education that a student received should not
be dependent on the wealth of the district where they live but equitable distribution of funds from the state in which they reside.

Florida, like most states, has funded education through a foundation financing program. The foundation program guaranteed each student in the state a minimum level of fiscal support. Local districts could levy discretionary taxes that generate revenue above the foundation; these levies by local districts caused some inequity to exist.

Most recent court rulings have not just focused on equity but also on adequacy. Are the funds generated by the state and given to the individual school districts adequate to provide for the needs of all students?

The objective of this research was to extend the concept of fiscal equity for general education funding of schools to capital outlay for schools. Four components of educational funds in Florida were analyzed: the aggregate of total dollar value for general operating revenue, FEFP program; the total dollar value of State Capital Outlay revenue for each district; the total dollar value of Local Capital Outlay revenue, and the sum of State Capital Outlay and Local Capital Outlay (Total Capital Outlay). This research attempted to answer the following question: What was the relationship of the equity of state, local and total capital outlay revenues relative to the equity of general educational expenditure for the year 2000-2001 in Florida? Horizontal equity was measured by statistics that reflect dispersion in a distribution; range, the restricted range (5\textsuperscript{th} to 95\textsuperscript{th} percentile), the Federal Range Ratio (the restrictive range divided by the 5\textsuperscript{th} percentile) inter-quartile range, standard deviation, coefficient of variation, the relative mean deviation, the McLoone Index (the ratio of all the summed value below the median and
the total of all if funded at the median level). Fiscal neutrality analysis was utilized to examine the relationship between district wealth and revenue; regression measures, correlation coefficients, the regression coefficient (or slopes) Gini Coefficient and the Lorenz Curve.

Findings

The range measures used to determine the horizontal equity of these four variables were the range, the restrictive range, the Federal Range Ratio, and the McLoone Index. The Federal Range Ratio for Local Capital Outlay (2.62), was larger than for State Capital Outlay (1.15), or Total Capital Outlay (2.05), all capital outlays were greater than for general educational revenues by this measure, FEFP (1.05).

There were two statistical analysis where state capital outlay measurements were more equitable than the other capital outlay measures. One was restricted range where state capital outlay had the smallest restricted range at $163.58, which was even smaller than FEFP. The smaller the restricted range, the greater the equity. The other was the McLoone Index where state capital outlay was more equitable than the other capital outlay. Only FEFP had a higher value (0.80) than State Capital Outlay (0.66). In public school finance studies, it measures the amount of revenue required to raise the lower half to the state median. The closer the value is to 1.0, the greater the equity. The McLoone Index is not concerned with the distribution of all data, and would be of less value to those who would emphasize equal education for all, rather than a level of basic education for those at the lower end.

The standard deviation, coefficient of variations, and relative means deviation of the mean are measures of differences from the mean. In a comparison of the coefficients
of variation, state capital outlay revenues were almost three times as variable as local or total revenues (1.63 to 0.54 and 0.60). All capital outlay measures were greater than general educational expenditures (0.32) on this measure, again demonstrating a higher degree of horizontal equity for FEFP. Analysis of relative mean deviations displayed decreased variability and increased equity of Total Capital Outlay (0.50) compared to State and Local Capital Outlay (0.64 and 0.60). Again, the capital outlay variables had higher value than FEFP (0.24), indicating less horizontal equity. On the McLoone Index, the value presented a similar pattern for capital outlay revenue variables (0.66 for State Capital Outlay, 0.15 for Local Capital Outlay, and 0.17 for Total Capital Outlay.

Fiscal neutrality measures were used to assess the relationship between district wealth and revenues. These measures included the Gini Coefficients, the Lorenz Curve (a visual representation of the Gini Coefficient), and several regression measures—the correlation coefficient and the regression coefficient (or slope).

An analysis of Gini Coefficients indicated that when these variable distributions were ranked by wealth, FEFP (0.118) came much closer to providing any given percentage of WFTE with the same percentage of funds than did Total Capital Outlay (0.1820) or Local Capital Outlay (0.197). Total Capital Outlay (0.182) was closer than Local Capital Outlay. This indicated that when these variable distributions were ranked by wealth, that FEFP came much closer to providing any given percentage of weighted FTE with the same percentage of the variables than did any of the capital outlay variables. The calculation of the Gini Coefficient indicated how far the distribution was from providing each percentage of students with an equal percentage of revenue. Because the Gini Coefficient was a wealth neutrality test, the calculation indicated the
relationship between the school districts wealth and the per-pupil revenue for capital outlay of the school district. Wealth was defined as the taxable property value of each district. The closer the calculated value was to zero, the more equitable the revenue distribution in providing a given percentage of students with an equal percentage of revenue. The smaller the value, the greater the equity. The FEFP performed best on the measure and State Capital Outlay revenue the worst (0.353). In Currie’s study he also found FEFP performed best but Local Capital Outlay performed the worst.8

The correlation coefficient was utilized to determine the strength of relationship between each of the four variables and wealth. The correlation between State Capital Outlay and tax roll was 0.07, very weak. The correlation of the tax roll with Local Capital Outlay was 0.75, strong relationship; with Total Capital Outlay was 0.47, moderate relationship, and with FEFP was 0.95, very strong relationship. When the correlation coefficient for distribution was squared, tax roll seemed to explain very little of the variation in State Capital Outlay 0.49 percent, about 56 percent of the variation in Local Capital Outlay (0.56), and 0.22 percent of the variation in Total Capital Outlay (0.22), and about 90 percent of the variable in FEFP (0.90).

Conclusions

Conclusions were made from the analysis of the four variables, which addressed the research question. The first conclusion was the greater horizontal equity was consistently reflected for FEFP over Total Capital Outlay. This also answered the question that was part of this research, were the general principles of equity used in the distribution of capital outlay funds? Clearly they were not, FEFP was more equitable in all the statistical measurements, which included Federal Range Ratio, the Coefficient of
variation, the relative mean deviation, the McLoone Index, the Gini Coefficient and Lorenz Curves, and the squared correlation with wealth. Measures for FEFP therefore indicated greater horizontal equity and wealth neutrality than measures for Total Capital Outlay. This was the same conclusion as Currie found in his statistical analysis.\(^9\)

Another conclusion was developed from the comparison of the components of Capital Outlay to each other and to Total Capital Outlay. Local Capital Outlay was less fiscally neutral than State Capital Outlay, and less neutral than Total Capital Outlay, as demonstrated by greater R squared value (Coefficient of Correlation squared) and a higher Gini coefficient. Results similar to Currie's analysis.\(^10\)

Local capital sales tax was included in the local capital outlay funds but the year selected for analysis, 2000-2001 school year, the local optional half-cent sales tax was not large enough to make any significant difference in the statistical data. The seven school districts that levied the optional sales tax for Capital Outlay only generated $24,809,723 per year;\(^11\) that was 1.3% of Local Capital Outlay and 0.3% of Total Capital Outlay.\(^12\) The Local tax had a minimal impact for the local district but not significant in state analysis.

**Comparisons with Previous FEFP Studies**

The results of this study were somewhat consistent with several earlier equity studies conducted on FEFP, they are as follows:

Stark, Honeyman, and Wood examined the interdistrict effects of the Florida Lottery on the state finance program 1989-90. This study concluded that the inclusion of lottery funds impacted the equity of the system. Equity increased in certain districts clustered around the mean level of funding and decreased for districts below the mean.
The wealth neutrality of the FEFP was relatively unchanged by the addition of lottery funds.\textsuperscript{13}

Chambers examined the effects of additional revenues for capital outlay transfers on the equity of the FEFP for the year 1994-95. The results of Chamber's study indicated that the effects of the capital outlay transfers were similar to the effects of the application of discretionary millage on the FEFP. The equity in the distribution of funds among Florida's School districts decreased.\textsuperscript{14}

Currie studied the relationship of the equity of capital outlay revenues relative to the equity of general education revenues for the year 1988-89. Currie concluded that, measures for general educational revenue indicated greater horizontal equity and greater wealth neutrality, the FEFP was equitable.\textsuperscript{15}

Wilson, using 1996-97 data, analyzed the effects of local discretionary levies on the fiscal equity of a state foundation finance system. By analysis of the various discretionary components of the FEFP program she concluded that the additional revenue from the discretionary levies had disequalizing effects on the FEFP.\textsuperscript{16}

Recommendations

This was a one year study that only analyzed one school year data (2000-2001). The results of this study merit further research into capital outlay finance issues as follows:

1. This was one year of analysis, there needs to be an analysis of multiple years to see if there are trends and to reduce the effect of single, one time high cost state capital outlay projects in small districts.
2. Trends in provision of state and local support may become clearer in a multiyear study; how is state and local support increasing or decreasing over time? Currie's data for 1988-89 had the state supporting 1/3 of the capital outlay for districts and in this study the state was only supporting 1/8 of the total funds for capital outlay for the year 2000-2001. Will this trend continue or will the legislature provide greater state capital outlay?

3. The local optional half-cent sales tax will be more significant in future years. The year 2000-2001 the seven school districts collected $24 million per year and in 2003, the thirteen districts generated over $269 million with the addition of Marion County in 2004 to add $10 million per year starting in 2005. The optional half-cent sales tax is more aligned with district wealth and less fiscally neutral, what will the state do to counteract this disequalization?

4. As more and more school districts pass the half-cent sales tax and the amount of funds generated by this tax increase, how will this effect the definition of the district wealth? Property wealth and sales tax capacity may both need to be considered.

5. The adequacy of the tax base for state capital outlay should be studied -- capital needs of the districts continue to grow because of technology, hurricane hardened buildings, and other needs not present 10-15 years ago.

These recommended studies would be informative to legislators, state educational officials, local school boards and the general public. Further analysis of educational funding for equity and adequacy will become more complex. These studies will involve
a more complex economy, public perception of tax fairness and tax burden and the public’s understanding of school accountability. Funding for schools in Florida are becoming more political because of the cost to operate a system such as the one in Florida that is constantly growing in number of students but not equally distributed across the state. We now have education involved in a struggle for limited resources in a more complex political economy. ¹⁷
Notes


5. Honeyman and Bruhn, “A Struggle to Survive:” 1-12.


7. Ibid.


9. Ibid., 160.

10. Ibid., 164.


15. Currie, 129.


17. Ibid.
## APPENDIX

WFTE, FEFP, ROLL, AND CAPITAL OUTLAY REVENUES
FOR ALL FLORIDA DISTRICTS
2000-2001

<table>
<thead>
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<th>DISTRICT</th>
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<th>ROLL</th>
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Florida Constitution Article XII, Section 9(d)(c).


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United States Constitution, Amendment X.

United States Constitution, Amendment XIV, Sec. 1.


BIOGRAPHICAL SKETCH

James Harrell Harrison, Jr. was born on October 20, 1943, in Ruston, LA. He moved to Pensacola, FL during World War II and attended public schools, graduating from Escambia High School in 1961. He received a Bachelor of Arts degree from the University of the South, Sewanee, TN in 1965 and a Master of Arts degree from the University of South Florida in 1973. He was a high school teacher and coach at various high schools in Florida, becoming a middle school principal in Lake Butler, FL in 1981 and in 1983 was selected as Superintendent of Schools in Maryville, TN. He came back to Florida in 1988 as Assistant Superintendent in the Marion County School System. He has remained in Marion County as an Administrator for the past 17 years. He has two grown children, Kim in Tallahassee, FL and Tripp in Roseville, CA and is the proud grandfather to four grandchildren – all girls.
I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

David S. Honeyman, Chair
Profession of Educational Leadership, Policy, and Foundations

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

R. Craig Wood
Professor of Educational Leadership, Policy, and Foundations

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

Phillip A. Clark
Professor of Educational Leadership, Policy, and Foundations

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Doctor of Education.

Paul T. Sindelar
Professor of Special Education
This dissertation was submitted to the Graduate Faculty of the College of Education and to the Graduate School and was accepted as partial fulfillment of the requirements for the degree of Doctor of Education.

May, 2005

__________________________________________
Dean, College of Education

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Dean, Graduate School