

Race to the Bottom

“Career and College: Ready, Set, Go,” the Governor’s education initiative, received a major boost when North Carolina was one of only eleven states to receive a Race to the Top grant. Winning the competition will mean roughly \$400 million over the next four years.

While winning the Race to the Top competition is something North Carolina should rightfully be proud of, the state is now poised to win another competition – one that will bring only negative recognition to the state, one that could set public education back a decade or more.

In an era when politicians seem fond of racing nomenclature (i.e., the Governor’s “ready, set, go” initiative and the President’s “Race to the Top”) it seems only fitting to dub this competition the “Race to the Bottom.”

Contrary to the picture painted by some organizations, North Carolina has never been a high investing state when it comes to K-12 education. In 2008-09, the last year per national pupil expenditures rankings were available, North Carolina ranked 42nd, only eight from the bottom, on the amount of money it spent on young people attending public schools.

With \$738M of federal stimulus money for schools scheduled to end this year and with another \$1.3 billion of temporary taxes also scheduled to end, there is a distinct possibility that North Carolina could be at, or near, 50th place on investing in its young people when the upcoming 2011 Session of the General Assembly comes to an end.

The Administration recently made an announcement and issued a directive that, combined, have the potential to put North Carolina in a leadership position in its second race in recent months. First the Administration directed all state agencies, including the Department of Public Instruction which oversees K-12 school spending, to

propose plans that would cut 5, 10 or 15% of state income from their budgets. Since K-12 education is the largest single expenditure in the state budget, cuts of those magnitude would represent \$394 million, \$788 million, or \$1.183 billion.

Then the Administration announced that it would be proposing a budget that will not include extending the temporary sales tax enacted in 2009, a tax that brings in nearly \$1 billion annually. Given that the projected size of the state deficit is now estimated to be somewhere between \$3.6 billion and \$4 billion dollars, many observers anticipated that the Administration would propose extending the sales tax to buffer at least \$1 billion of the shortfall.

The combination of these actions makes it clear that unless something unexpected happens in the months between now and the closing days of the 2011 Session of the General Assembly, it appears educational cuts unlike any the state has ever seen are virtually inevitable. Staying with sports analogies, North Carolina is poised to be a legitimate contender for the dubious distinction of winning the race to the educational investing bottom.

Chart One (on the next page) shows North Carolina’s current standing when compared to other states by how much it annually invests in each of the 1.46 million students enrolled in its public schools. Contrary to the perception of many, North Carolina is already in the bottom 10 when ranked on per pupil expenditures.

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Race to the Bottom *continued*

To put that ranking in perspective it would take \$2.112 billion more in public school spending to bring North Carolina up to the national average. Being average would mean spending \$1,447 more on each of North Carolina's 1,460,000 public school students; that would translate to \$36,175 for a class of 25, or

\$868,200 for a 600 student elementary building, or \$2,315,200 for a high school with 1,600 students.

That is sobering, but as noted earlier the most recent per pupil averages for the fifty states are two years old. In the intervening two years, North Carolina's spending on K-12 schools has decreased by \$682

million. While temporary federal stimulus money has propped up the total expenditure on schools, those funds, as also noted earlier, will end this year.

Chart two (below) illustrates what could happen in the 2011-12 school year if the cuts currently under consideration materialize. Column One illustrates

Chart 1: North Carolina's Current Standing in Per Pupil Expenditures

Ranking	State	Per Pupil Exp	Ranking	State	Per Pupil Exp
1	District of Columbia	\$17,638	26	Kansas	\$9,979
2	Rhode Island	\$17,289	27	Georgia	\$9,952
3	New Jersey	\$16,253	28	Indiana	\$9,780
4	New York	\$15,997	29	Washington	\$9,633
5	Wyoming	\$14,732	30	Colorado	\$9,574
6	Vermont	\$14,679	31	South Dakota	\$9,466
7	Massachusetts	\$13,901	32	Ohio	\$9,358
8	Connecticut	\$13,864	33	Montana	\$9,339
9	Maine	\$13,309	34	South Carolina	\$9,286
10	Delaware	\$13,039	35	Kentucky	\$9,259
11	Hawaii	\$12,520	36	Nebraska	\$9,250
12	New Hampshire	\$12,344	37	Iowa	\$9,203
13	Pennsylvania	\$12,032	38	Texas	\$9,036
14	Maryland	\$11,743	39	Alabama	\$8,911
15	Michigan	\$11,197	40	Missouri	\$8,862
16	Virginia	\$11,114	41	Florida	\$8,761
17	Wisconsin	\$11,021	42	North Carolina	\$8,743
18	Minnesota	\$10,996	43	California	\$8,322
19	Alaska	\$10,904	44	Tennessee	\$8,261
20	West Virginia	\$10,747	45	North Dakota	\$8,222
21	Illinois	\$10,714	46	Oklahoma	\$8,066
22	Arkansas	\$10,345	47	Idaho	\$7,730
23	Louisiana	\$10,160	48	Nevada	\$7,615
24	Oregon	\$10,129	49	Mississippi	\$7,484
25	New Mexico	\$10,099	50	Arizona	\$5,932
	UNITED STATES	\$10,190	51	Utah	\$5,912

**Data Source: NEA Rankings & Estimates; December 2009; expenditures include total operational expenditures by local school districts including administration, instruction, health, transportation and food services; direct state expenditures for current operations including salaries, contributions to retirement systems, textbooks and vocational/technical education; totals reflect local, state and federal operational expenditures; they do not include construction and maintenance cost of buildings.*

Chart 2: The Impact of Cuts Currently being Considered

	Final 2010-11	5% Cuts	10% Cuts	15% Cuts
K-12 State Budget	\$7,889,715,059	\$7,495,229,306	\$7,100,743,553	\$6,706,257,800
Amount of Cuts (\$)		-\$394,485,753	-\$788,971,506	-\$1,183,457,259
2010-2011 Projected ADM ¹	1,475,668	1,475,668	1,475,668	1,475,668
Estimated State per pupil Expenditures ²	\$5,347	\$5,079	\$4,812	\$4,545
Reduction in State per pupil Expenditures	\$0	\$267	\$535	\$802
Impact on 2008-09 per pupil Expenditures	\$8,743	\$8,476	\$8,208	\$7,941
Ranking based on possible Budget Cuts	42	42	44	46

(1) ADM equals "average daily membership" or student enrollment (2) State per pupil expenditure based on K-12 state budget/projected ADM.



Cuts of this dimension would dwarf any cuts in recent history, but the picture is incomplete without factoring in the impact of federal stimulus dollars coming to an end.

the impact on state investments if there were to be a cut of 5%; Column Two illustrates the impact at 10%, and Column Three illustrates the impact at 15%. In all cases, it shows what cuts of that magnitude would mean to North Carolina's standing in per pupil rankings when compared to other states and the amount of resources lost to schools.

Cuts of this dimension would dwarf any cuts in recent history, but the picture is incomplete without factoring in the impact of federal stimulus dollars coming to an end. As indicated earlier in this report, North Carolina's public schools stand to lose \$738 million in federal stimulus dollars at the end of this school year. Chart 3 (below) shows what the combined impact of state and federal cuts could represent:

It must be pointed out that there are two new sources of federal dollars that have the potential to buffer a modest portion of these potential cuts. The first is the roughly \$100 million per year of Race to the Top grant funds that will come in each of the next four school years. Of that amount, at least one-half, or \$50 million, is required to go to local schools. However, and this is a large however, the funds are earmarked for new initiatives and will not buffer cuts to existing programs.

The second federal funding source will come from the so-called "jobs bill" that was to protect teachers and other school employees from budget cuts. North Carolina's share of those funds will be close to \$300 million in one-time money. Since the funds have yet

to arrive and do not have to be spent until 2012, most school systems are electing to bank the funds rather than use them in this school year. These funds, unlike the Race to the Top dollars, can be used to make up for cuts in existing programs.

The following chart shows the most optimistic scenario for North Carolina's schools. It shows the impact of projected state and federal cuts offset in part by Race to the Top funds and by an estimated \$200 million of jobs bill funds that will not be spent this year.

Even under this scenario, cuts of 5, 10 or 15% combined with the loss of over \$700 million of federal stimulus dollars dwarf any education cuts in the history of the state – even when making an optimistic estimate of Race to the Top and Jobs Bill offsets.

Chart 3: Estimated Best-Case Scenario

Possible State Cuts	Federal Stimulus Dollars Coming to an End	Potential COMBINED Federal and State Cuts
5% = -\$394,485,753	-\$738,000,000	-\$1,132,485,753
10% = -\$788,971,506	-\$738,000,000	-\$1,526,971,506
15% = -\$1,183,457,259	-\$738,000,000	-\$1,921,457,259

While temporary federal stimulus money has propped up the total expenditure on schools, those funds, as also noted earlier, will end this year.

Chart 4: The Impact of Cuts Currently being Considered

Possible State Cuts	Federal Stimulus Dollars Coming to an End	Minus RTTT \$100 Million & \$200 Million of JOBS Bill	Total Projected Cuts
5% = -\$394,485,753	-\$738,000,000	\$300,000,000	-\$832,485,753
10% = -\$788,971,506	-\$738,000,000	\$300,000,000	-\$1,226,971,506
15% = -\$1,183,457,259	-\$738,000,000	\$300,000,000	-\$1,621,457,259

“It’s Not That Bad,” Some Will Say

Those critical of the public schools will be quick to argue four positions. First, they will say, “Well per pupil expenditures don’t mean anything any way” and will point to low-spending states that do fairly well on national comparisons and to high-spending states that do not do well.

That argument turns a blind eye to differences in demographics and differences between states. North Carolina serves nearly 705,000 young people living in poverty. Over the last census period North Carolina had a flood of immigrants from Mexico and Central America, the largest percentage growth of that population in the nation. Many of the young newcomers to the state grew up in families with low levels of education; most had to master the English language and were substantially behind their English-speaking classmates.

Beyond demographics, critics of public schools also turn a blind eye toward the old adage “you get what you pay for.” It is worth noting that the most highly regarded private high schools in North Carolina now charge tuition ranging from \$15,000 - \$18,000, a far cry from the \$8,743 spent on a public school student in North Carolina and considerably more than the national average per pupil expenditure for young people in public schools of \$10,190.

Critics will then be sure to point out, “but North Carolina just won \$400 million in the Race to the Top competition.” True, but the money will be paid out over four years, or roughly \$100 million per year. More importantly, it is earmarked for new programs and initiatives clearly spelled out in the grant proposal submitted to the federal government. It is

also worth noting that only roughly one-half of the Race to the Top \$100 million per year will go to local school districts.

North Carolina always has been a low-investment state when it comes to K-12 education and it remains a low-investment state today.

“It’s Not That Bad,” Some Will Say *continued*

Third, some will say, “But North Carolina ranks below average on national cost-of-living indexes. You would expect us to spend less than the national average.”

Fair enough, but upon closer examination that argument also fails to hold up. North Carolina’s cost-of-living rating is below the national average. On the index North Carolina is rated at 96.4% of the national average, or 3.6% below the national average.

What would happen if North Carolina were to make a per pupil investment of 96.4% of the national average per pupil expenditure of \$10,190? The state would have to move from investing \$8,743 per pupil to \$9,823 per pupil – or \$1,080 more per pupil just to become “average” even when adjusting for cost-of-living.

What would investing at a rate equal to North Carolina’s cost of living ranking mean? It would mean

investing \$2.054 billion more in education than is invested today. That would translate to \$27,000 more for a classroom of 25; it would mean \$648,000 more for a 600 student elementary school; it would mean \$1,728,000 more for a high school with 1,600 students.

To underscore what to some is an “inconvenient truth,” even if you account for differences in cost of living, North Carolina always has been a low-investment state when it comes to K-12 education and it remains a low-investment state today.

Last but not least, others will say “but the per pupil numbers you are using are two years old and other states have cut education spending too.” Correct, and it is absolutely necessary to point out that per pupil rankings will change dramatically once national data collection catches up with the impact of the current recession.

There will be some variance in the numbers and rankings because of increases or decreases in state spending. However, it should be pointed out that a number of the states that, like North Carolina, are making deep educational cuts are those currently ranked in the top fifty percent on spending – states like New York, Illinois and New Jersey. The one exception to that is California which ranks with North Carolina in the bottom ten on per pupil rankings. Given the state of California’s economy, their education cuts may propel them to the bottom of the list. If that were to happen, we might find us in the unimaginable position of being able to say “thank the Lord for California.”

Summary...



K-12 schools are not the only area of state government facing draconian cuts. Unless members of the General Assembly determine that the cuts are simply too deep and that services cannot be eliminated or severely reduced, especially in a time when tens of thousands of North Carolinians are out-of-work and more dependent on the government than before, budget cuts will be felt across the board – by those who rely on the state’s health care programs; by those driving state roads; by college students faced with higher tuition; by the unemployed who need new job skills offered through community colleges.

The severity of the problem facing North Carolina is larger than any but that faced in the Great Depression. At that time, however, the General Assembly made what was a counter-intuitive decision. With schools closing their doors across the state, the General Assembly assumed the primary

responsibility for public education and enacted a sales tax. That bold move prevented school doors from closing until the economy turned around.

It is not an exaggeration to say that a similar challenge now faces those elected to serve in the North Carolina Senate and House of Representatives in 2011 and the Governor. Education cuts enacted in the 2009 and 2010 Sessions of the General Assembly already total \$682,656,546. \$738M of federal educational stimulus funds are about to end.

The state’s investment in public education, which has been one of its primary marketing points to businesses who have chosen to locate here, could be reduced to near or at the bottom of national rankings. And the probability of creating a world class system of schools “on the cheap” is slim to none.

With no action, North Carolina in one year could win both the Race to the Top and the Race to the Bottom. However, it is the Race to the Bottom whose

impact could be felt by young people for years to come and to the state whose economic hopes and aspirations rely on a strong education foundation. The Race to the Bottom is a race North Carolina cannot afford to win. *

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