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ABSTRACT

This document, part of the NEFP series, explores the school financing issues raised by the necessity for bringing about educational equality in America. The report analyzes the impossibility of true equality in educational services while such gross variation exists in school districts' fiscal capacities, educational needs, and program costs. This volume presents several models for equalization of tax efforts and educational expenditures through State and federal aid. Some form of equalization aid, according to the authors, appears to be the most viable solution to the problem of educational inequities. Funds for this research were provided by an ESEA Title V grant. Related documents are EA 003 537-540, EA 003 543, and EA 003 673. (RA)

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FUTURE DIRECTIONS FOR SCHOOL FINANCING

A Response to Demands for Fiscal Equity in American Education

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
OFFICE OF EDUCATION

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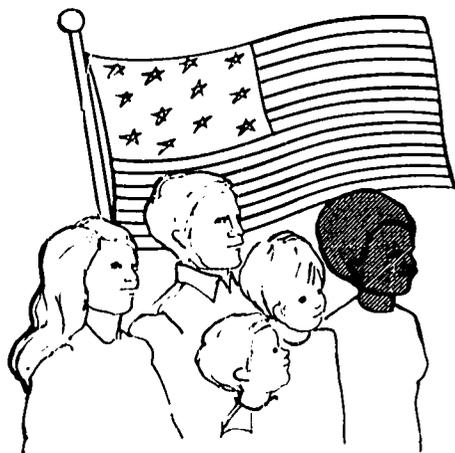
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Education and the American Dream

American education in the early Seventies is a unique and at times explosive mixture of idealism, public necessity and big business. The idealism which has its roots, along with those of the Constitution of the United States, in the founding days of the Nation, is perhaps best expressed in these last years of the century as a firm belief in the right of all Americans to an opportunity for an equal education. The public necessity of education has long been recognized: a progressive, healthy body politic requires an intelligent, educated citizenry. The big business aspect of education is manifest in the annual allocation to the nation's schools of more than \$39 billions in federal, state and local funds or 4.2% of the gross national product; in the 2,359,000 teachers, in the many thousands of policy makers, administrators and other personnel, in the physical plants and equipment, and in all of the other things that go into the awesome task of providing a modern education for the more than 51 million school age children of America.

The business aspects of education are our chief concerns here because without adequate personnel and tools an equal educational opportunity for all is an obvious impossibility. The business of education brings us immediately to the problem of financing such a vast enterprise and to two very basic and important questions:

1. *Where do you get the money needed for education?*
2. *How do you allocate it equally after you get it?*

Each question raises other issues. For example, it is not just a matter of getting money but of how to get it in a fair and equitable manner that will place the burden on those best able to bear it. Then, once the money is in hand, how can it be allocated to insure an equal educational opportunity for all children?

An equal opportunity for all is an integral part of the great American dream. Americans have always said this is true and, in large measure, they have supported it with vast sums of money. American parents rely on it for their children. Equality of opportunity is fundamental in the nation's system of values.

What are some of these values we hold so important in our society, values that are the foundation pillars of education? There are many, but certainly any American educational credo must confirm that:

- We believe the opportunity to obtain a public education should be substantially equal for all children and youth and should be appropriate to their needs.

- We believe public education should strive to remove class and caste barriers and to promote social mobility in our society.

- We believe that every American child, regardless of race, national origin or the economic condition of his parents should be given an equal opportunity in the public schools to develop his talents to their fullest extent in order that he may have full access to the benefits of the American social, economic and political system.

- We believe in American democracy and are convinced that a broadly based and adequately supported system of public education for all children is essential to its preservation.

- We believe that by raising the educational level we not only contribute to the success of popular government, but also to the reduction of poverty, crime and dependence upon programs of public welfare.

- And, most importantly, we believe that the educational opportunity of every individual should be a function of the total taxable wealth of the state and should *not* be limited to the taxing ability of a local school district.

In its detailed study, the National Educational Finance Project found that ideals and fundamental principles of American education must be translated into economic terms if sound and equal financing of the nation's schools is to be achieved.

We Must Find Ways to Equalize Education Among Children

Since children vary in their educational needs, their per pupil costs vary widely and require substantial financial equalization. It is essential to identify the areas of higher cost,—e.g., education for the handicapped, compensatory education, vocational programs—and provide the funds needed to furnish these services. In so doing, we must take a straight look at the differences among children, at the differences in their needs and differences in the educational experiences to which they should be exposed. By the process of weighting different costs it is possible to bring about a high degree of equity in funds for special programs.

We Must Find Ways to Equalize Expenditures Among Districts

Great inequities exist in the availability of funds for education in the school districts of nearly every state. As will be noted in this booklet, the variations are primarily the result of the tremendous differences in the abilities of local districts to finance education and the methods used by the states to allocate their revenues for school support. The time has come to seek new directions in the processes of raising and allocating revenues if we are to achieve the goal of equality in education.

We Must Find Ways to Distribute the Tax Burden Fairly

Financing of the public school systems must not only be adequate, but it should also be provided by an equitable and progressive tax structure primarily based upon ability to pay as measured by income, wealth and consumption.

Equity requires, in addition to distribution of the tax

burden on the basis of ability to pay: a) exclusion from tax of persons in the lowest income groups on grounds that they have no taxpaying capacity, and b) a progressive overall distribution of tax relative to income.

In addition to the total taxable wealth of the state, the taxable wealth of the nation should also be utilized for educational financing to insure the quality and equity of public education in every state. Some of the possibilities of federal participation are discussed in Section VII.

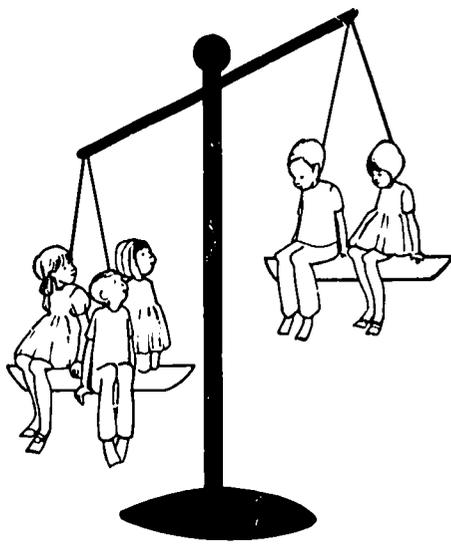
We Must Seek the Highest Possible Efficiency in School Organization

While current tax methods urgently need restructuring, and while federal, state and local districts all have appropriate roles to play in providing public education, decisions concerning education should always be made by the lowest level of government that can efficiently make the decision. The local districts should be so organized as to achieve the greatest possible efficiency in the use of school funds and should *not* be gerrymandered, deliberately or otherwise, to segregate pupils by race, religion, or economic or social class.

We Must Find Ways to Assure Educational Accountability

Accountability, a comparatively new and sometimes disturbing word in education, is in order today. For every dollar put into education comparable value should come out. Everyone is responsible and hence accountable: Congress, state legislatures, boards of education, administrators, teachers, parents and pupils.

Professional educators should carefully evaluate the effectiveness of their activities and should have the necessary freedom to make changes and adaptations whenever necessary to increase productivity and quality.



II The Myth of Equal Education

Americans have said so often that every boy and girl should have the opportunity for a good education that many believe that is what they actually get in all of the 50 states. There is an assumption that universal education and equal education are synonymous. Is that what happens and are the terms synonymous?

Americans repeat over and over that equality is the keystone of our educational system. The terms good, equal and universal are used somewhat loosely and interchangeably. Which ever term is used, is it true that young Americans get an equal education? Do we practice what we preach?

Does the child living in a poor rural or inner-city school district have access to the same quality education as the child living in an affluent suburb or other wealthy community? Even if the parents of the children in the poorer rural or inner-city districts are willing to make unusual sacrifices and tax themselves heavily, do they still receive equal education?

Does the child who attends a school in a district that manages to raise \$500 per pupil per year through struggle and sacrifice have the same opportunity as the child who attends a school that raises \$1,200 or more per pupil per year with a lower level of effort?

Can this be equal educational opportunity?

The answer, of course, is NO on all counts.

In a recent important decision by the California Supreme Court it was pointed out that as a practical matter "districts with small tax bases" simply cannot levy taxes at a rate sufficient to produce the revenue that more affluent districts raise, often with much less effort. The court said affluent districts can thus "have their cake and eat it, too. They can provide a high quality education for their children while paying lower taxes. Poor districts, by contrast, have no cake at all."

Certainly the dollar is not the only requirement for equality in education. Nor does the dollar input give a positive index of educational output. Nevertheless, in our society you generally "get what you pay for," unless you are wasteful or not concerned about values and costs. But though greater expenditures do not absolutely assure higher quality in a product, there is a strong presumption that better quality costs more.

On the other hand, one seldom finds superior quality at a low cost except in very unusual circumstances. This logic of the marketplace is applicable to school expenditures. Although there are no doubt schools with high costs and poor quality it is difficult to find high quality at a low cost. One expert in educational finance said it this way: "I never have found a good, cheap school."

The per pupil expenditure does not tell the whole story of quality and equality in education, but it is a significant index of differences among school districts.

Is this the American Dream of which we are so proud? The California Court said that the Golden State's school financing system, which is similar to that of most other states in that it is based largely on local property taxes, "makes the quality of a child's education a function of the wealth of his parents and his neighbors."

And finally the court said that such a financing system is unconstitutional because it violates the equal protection clause of the 14th Amendment, thus discriminating unfairly against the poor.

In the face of abundant evidence that segregated schools for minority races and ethnic groups are inherently inferior,

our society has accepted the legal principle that a policy of segregation of schools by race is unconstitutional.

In view of another growing accumulation of evidence, including the California decision, it is now proper to ask:

Do low per pupil expenditures deny youngsters in some schools and some districts the opportunity for an equal education?

Are there basic differences in the educational needs of some children which require different educational experiences and expenditures if their opportunities are to be equal?

What causes substantial differences in the quality of education from state to state, community to community, school district to school district? Can we accept the statement that "we generally get what we pay for?"

Wide variations in effort and in ability to support education are a major obstacle to substantial equality of educational opportunity in all states.

How does this happen?

First:

There are great variations among the states, regions and school districts in
—ability or fiscal capacity to raise revenue; and
—the amount of effort the governmental unit puts forth to support education.

Second:

The amount of money available for education will depend upon
—the size of the tax base in relation to the number of pupils served; and
—the tax rate levied.

Differences in the amounts of money raised per pupil by two districts, which may border on each other, and the resulting differences in the quality of education they offer can be quite marked. Such differences can occur in various ways:

A poor district with a *limited tax base* can raise relatively little even if a high tax rate is levied;
or

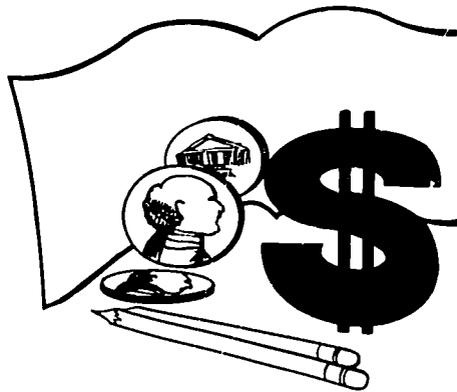
A wealthy district with a *large tax base* can raise substantial revenue even though it levies a modest tax rate, one that may be much lower than the poorer district next door.

The amount of money available in each district thus becomes a fundamental factor in determining the equality of educational opportunity provided America's young people.

The time has come for Americans to say :

**THE NUMBER OF DOLLARS SPENT ON
EDUCATION SHOULD BE BASED ON THE
EDUCATIONAL NEEDS OF THE CHILDREN
RATHER THAN THE WEALTH OF THE
SCHOOL DISTRICT.**

Obviously there are many factors, tangible and intangible that affect the formal education of a child—his home and neighborhood environment, the effectiveness of his teachers and general quality of his school—but a fundamental assumption can be made that equality of resources is the necessary and reasonable starting point toward educational opportunity and equality for all children.



III A Primer of Education Finance

Where do we get the money to support the public schools?

It is raised by taxes of various kinds levied by the federal and state governments and by the local school district. The bulk of it is raised by the school district from taxes on real property.

In 1970-71 in the nation as a whole, 52% of school revenue was provided by local sources, 41% came from state sources and 7% from the federal government. However, these ratios varied widely from state to state. For example: In New Hampshire 86% of the school revenue was derived from local taxes, 10% came from the state and 4% from the federal government. In sharp contrast, in North Carolina 19% was obtained from local sources, 66% from the state and 15% from the federal government.

Let's look at some of the different forms of taxes:

1. Property Tax

As a general rule, school districts receive about 98% of their local school tax revenue from taxes on property. The major advantages of the property tax are:

- a. It is fairly stable.
- b. Property is not easily moved to escape taxation.
- c. Most benefits go directly to residents of the district.

On the other hand:

- a. It becomes largely a tax on housing.
- b. It tends to discourage rehabilitation of deteriorating property.

- c. It tends to affect decisions by business and industry with regard to locations and plant sites.
- d. It does not bear equally on businesses, favoring those with a low ratio of property to sales.

There are still more problems. Different assessment practices tend to make it unequal for taxpayers. Then, too, ownership of property is not necessarily correlated with either income or wealth, often having little relationship to the ability to pay taxes. Older persons on small fixed incomes are an example. The yield from a given property tax depends on the industriousness of the assessor and the treasurer. Property tax revenues often lag behind national income. And finally the property tax is used so heavily by local governments it is often not capable of yielding significant increases for local schools when increases are needed.

As a practical matter, the vast majority of school districts are limited to the property tax for local revenue, either by law or by the absence of any statute authorizing some other form of local tax. In the 22 states that authorize the use of non-property taxes by school districts, the amount of revenue raised from such taxes has been generally small while the cost of collecting them has been relatively high. As a result property taxes continue to be the principal source of revenue for local districts, followed by revenue from state sources.

Furthermore, NEFP research indicates that the revenue from non-property taxes levied by school districts *has not* had an equalizing effect. To the contrary, those districts with the greatest fiscal capacity as measured by their property tax base have usually obtained the largest amount of revenue from local non-property taxes.

2. Sales Tax

Although most school districts cannot levy sales taxes, they serve as an important source of school income in the form of grants of state money raised by sales taxes. In 1969, the sales taxes levied by 45 states produced 30% of their total state tax revenue.

The primary advantages of a sales tax are:

- a. It is relatively simple to collect.

- b. The revenue tends to increase at about the same rate as income increases.

On the negative side:

- a. A sales tax on all goods becomes regressive relative to income. This can be overcome to a degree by exempting food and medicine or allowing tax credits against income liability for tax paid on minimum necessary purchases.
- b. It may affect economic decisions concerning locations of shopping centers and large retail enterprises. This is particularly true where a bordering state has a lower sales tax or perhaps no sales tax.
- c. It may cause economic distortions as when some goods are exempted from taxation and buyers tend to concentrate on the exempt items at the expense of those that are taxed.

3 Personal Income Tax

This is the largest single source of income for the federal government. Forty-one states also levy income taxes, although their tax bases and rate structures vary widely. Local income taxes are not widely used.

The major advantages of the graduated personal income tax are:

- a. It is directly related to the most generally accepted measure of tax paying capacity—the income of the taxpayer.
- b. It can be adjusted through use of exemptions or credits to take into account special circumstances, e.g., illness of a taxpayer, size of family, unusual expenses or other hardships.
- c. It is easy to collect through payroll deductions.
- d. It has a high degree of elasticity in that revenue increases as the taxpayer's personal income increases, particularly if the rates are progressive.

The negative considerations are:

- a. Revenue declines in periods of economic recession at a faster rate than other tax sources.

- b. Unless special care is taken in administrative procedures, personal income taxes can be extremely complicated and can also present opportunities for evasion.

4 Corporate Income Tax

In addition to federal corporate income taxes, forty-three states levied an income tax on corporations in 1970, and took in an aggregate of \$3.18 billions which was 7.6% of all state tax collections in that year. However, the nature of the state corporate taxes and their rates varied widely.

The primary advantages of the corporate income tax are:

- a. Revenue generally increases with increases in corporate income.
- b. It can be equitably applied.
- c. It can be structured in such a way as to hold administrative costs and problems to a minimum.
- d. It is not likely to cause economic distortions unless the state's rate is much higher than neighboring states.

The disadvantages are essentially the same as those of the personal income tax insofar as administration and compliance are concerned. The corporate tax is not as elastic as the personal income tax, but has more revenue elasticity than most other types of taxes.

5 Other Taxes

Excise taxes on motor fuel, tobacco and liquor produce substantial revenue for the federal and state governments. Such taxes have a very limited use at the local level and little if any potential for greater amounts of revenue in the future.

Estate and inheritance taxes are levied at the state level, but do not produce much revenue and have only a limited potential as a future source of revenue.

Severance taxes on minerals and oil are levied, but are not a major revenue producing source of taxation, particularly in states with limited mineral and oil resources.

There are no major unused tax sources! Not all sources are used in every state, but it is likely, in view of heavy demands for revenue, that all states will use all major tax sources in the immediate future. Thus, it would seem more productive to concentrate on improving the yield of existing tax structures rather than to search for new sources.

Three Important Concepts of Taxation

1 *A tax should not alter economic behavior.*

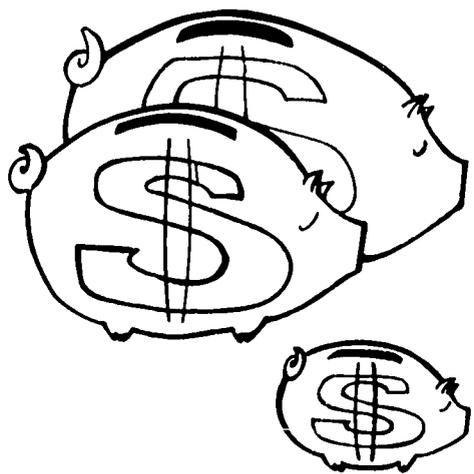
It should not cause goods or services to be reduced or leave the state; it should not alter attitudes or become the basis for decisions on locations of plants, buildings or business sites, and it should not reduce the willingness of people to work and to produce.

2 *A tax should be equitable.*

All persons in the same economic circumstances should be treated equally. The tax should be based on the taxpayer's ability to pay and should be progressive in relation to his income or at least should rise in proportion to the taxpayer's income.

3 *A tax should be collected effectively.*

Tax statutes should not have loopholes, nor should they be so drawn that they can be evaded.



IV Variations in Fiscal Capacity and Effort

Variations Among the States

Since it was long ago determined that education should be a state function and a state responsibility, and that local school districts have no inherent power to levy taxes, NEFP examined variations in fiscal capacity and effort among the states. Two basic methods were used to make the measurements:

First:

The states were compared on economic indicators such as a measure of income per capita or per household to determine relative ability of the state to raise revenue for school purposes.

Second:

The states were compared on the basis of available tax bases and the amounts of revenue these bases would produce if they were subjected to various rates of taxation.

However, personal income per capita is not wholly satisfactory for purposes of comparison inasmuch as it ignores the fact that taxpayers must buy the necessities of life and must also pay substantial federal income taxes.

In its studies, the NEFP developed a net personal income formula by making two deductions from total personal income: 1) \$750 for each person for food, clothing and shelter, and 2) the amount of personal income paid as tax to the federal government. The resulting figure was the *net personal income* and a better measure for determining the amount of income available to a state in its tax program.

On a national basis the net personal income amounts to

69.55% of personal income, but among the states it ranges from a high of 74.68% to a low of 58.94%.

Some examples, on a dollar basis, including the high and low states:

<i>Rank</i>	<i>State</i>	<i>Net Personal Income Per Capita, 1969</i>
1	Alaska	\$ 3,369
5	California	3,096
10	Delaware	2,781
15	Ohio	2,633
20	Minnesota	2,538
25	Wyoming	2,338
30	Vermont	2,239
35	Oklahoma	2,056
40	New Mexico	1,909
45	Louisiana	1,784
50	Mississippi	1,292

Obviously, some states, because of more industry, business and resources of one kind or another, have a greater potential for raising revenue because of the higher individual incomes of their residents.

The next most important factor is the amount of effort a state puts into the business of supporting state and local government, including the schools, in relation to its potential fiscal capacity.

Since about one third of state and local taxes go to support elementary and secondary education, a state with a relatively large potential for raising revenue, i.e., high per capita income, may not have to make the same effort to support its schools as states with a low revenue potential.

If state revenue is largely based on net personal income, two reasonable indices of state effort to support education are:

- the percentage of net personal income devoted to elementary-secondary schools,
- the percentage of the tax revenue of the state and local governments that goes to education.

Once again there are wide ranging differences with the

citizens of some states providing a larger percentage of their net personal incomes to elementary-secondary education than those of other states. Some examples:

<i>Rank</i>	<i>State</i>	<i>Elementary-Secondary Education as a % of Net Personal Income, 1969</i>
1	New Mexico	8.9 %
5	Mississippi	7.84
10	Minnesota	7.36
15	New York	6.99
20	Colorado	
	Wisconsin	6.61
25	Michigan	6.44
30	Alaska	6.21
35	North Carolina	5.89
40	Oklahoma	5.66
45	Illinois	5.39
50	Nebraska	5.00

There are similar variations in the amounts state and local governments allocate to elementary and secondary schools out of their revenues. On a percentage basis a dozen show differences ranging from a top allocation of almost 40% to a low of little more than 25%. The examples:

<i>Rank</i>	<i>State</i>	<i>% of State and Local Tax Revenue Allocated to Elementary- Secondary Education, 1969</i>
1	Utah	39.73%
5	Pennsylvania	38.87
10	Illinois	37.88
15	Virginia	36.80
20	Maine	35.65
25	North Carolina	33.99
30	Texas	32.57
35	Idaho	
	Georgia	32.11
40	California	30.43
45	Hawaii	29.18
50	Wyoming	25.51

These, and other more comprehensive studies, show that there are substantial variations in the fiscal capacity of the states to raise revenue whether one uses one measure, e.g., per capita income, or composite techniques.

The differences in state educational expenditure levels are explained largely by variations in their fiscal ability.

The same studies show there are substantial differences in the willingness of the states to levy higher than average taxes on their populations. A state with limited wealth can approach the expenditure levels of wealthier states only if there is a willingness to bear higher tax burdens.

The five highest ranking states in terms of fiscal ability had twice as much net personal income per capita as the lowest five states. The top five tax effort states devoted an average of 1.56 times as great a percentage of their net personal income to elementary and secondary education as did the lowest five. Therefore, there are substantial differences among the states not only in taxpaying ability but also in willingness to support public education.

In 1970-71, the five states with the highest net income per capita had current expenditures for elementary and high schools which averaged \$1,000 per pupil in average daily attendance, while the five lowest states had an average expenditure of only \$574 per pupil.

SINCE THE STATES ARE NOT ABLE TO ALTER THEIR FISCAL ABILITY IN ANY SUBSTANTIAL AMOUNT, IT WOULD APPEAR THAT ONLY THE FEDERAL GOVERNMENT IS IN A POSITION TO ELIMINATE THE FISCAL VARIATIONS AMONG THE STATES INSOFAR AS EDUCATION IS CONCERNED.

Variations Among School Districts

Variations among districts within a state are greater than the differences among the states in their support of education. Studies have shown wide ranging differences in the fiscal capacities of local governments. For example, a study of 215 standard metropolitan statistical areas, as defined by the Census Bureau, showed the revenue capacities for local government varying from a high of \$343 per capita to a low of less than \$100 per capita.

Fiscal efforts by local governments range from a high of 46% above the national average to 40% below the average.

In one study of 222 school districts in eight widely scattered states for the school year 1966-67, the mean school tax rate on market value of property was 11.479 mills. The districts were classified by type of district and the average tax rate ranged from a high of 13.892 mills in the developing suburbs to a low of 8.971 mills in the major urban core cities. Interestingly enough, the major urban core city districts had the highest mean true market value of property per pupil of any class of school district. However, the major core cities usually have a higher tax rate for municipal government than for other types of school districts.

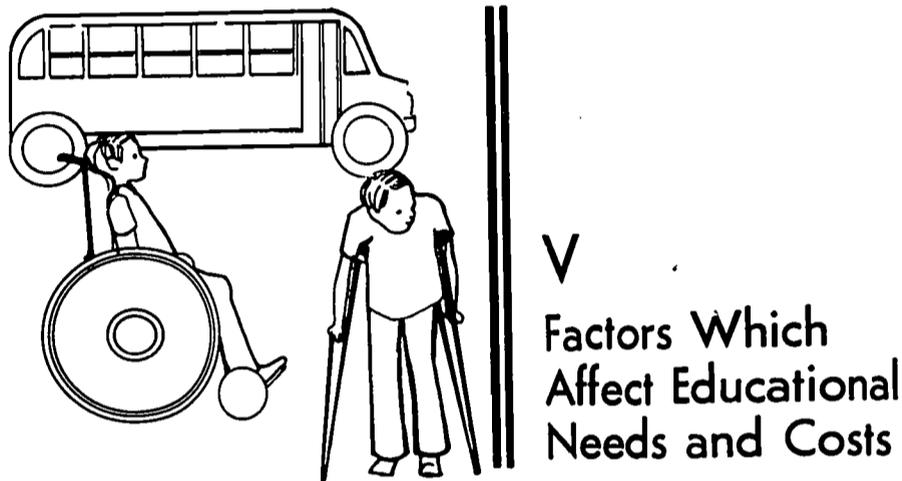
The range in market value of property per pupil in states with large school districts such as Florida might be as great as 10 to 1. In states with a large number of districts, many of which are small, the range in wealth per pupil is typically 50 to 1.

Since the present system of relying heavily on property taxes results in inequities in taxation and inequality of education as noted in Section III, what can a local school district do on its own to achieve some sort of equity on both counts? The answer is "not much." About all it can do under the present system is tax its property owners at an extraordinarily high rate in an effort to provide equal education. Even then it is not always possible to achieve the goal because of legal restraints on the amount of taxes that can be levied and because of understandable taxpayer resistance.

The situation is intolerable if one believes in equality of education for all youngsters and has consideration for the tax-

payers who must support many other governmental functions along with education. Inequities from district to district are wholly inconsistent with our belief in educational equality and may in fact be a violation of the equal protection clause of the 14th Amendment to the Constitution of the United States.

In all of this, only Hawaii is in the clear because the tax revenues for its schools are all obtained from the state and federal sources. In all of the other 49 states, inequity of taxation and inequality of education exist in a greater or lesser degree.



Within the vast area of the 50 states, embracing several time zones and 3,615,211 square miles, the configuration of the population is of major importance in all phases of national life, including education. For the latter there are fiscal implications in the fact that:

35% of all Americans live in cities of 50,000 or more.

38% live in cities of 2,500 to 50,000.

27% live in rural America which includes villages up to 2,500.

Behind the bare statistics of these three classifications some very dramatic and colorful contrasts are afforded by the continental United States. They take in such gigantic cities as the compressed New York metropolitan area and the sprawling metropolis in the Los Angeles basin; the rolling farm lands of the great Midwest, dotted with towns and cities; the wide spreading great plains, deserts and towering mountains of the West; and the Southland which ranges from the semitropics of the Gulf to the Blue Ridge Mountains of Virginia.

The education available to children in all of these varied parts of the nation is as different as their topography, their resources, their people and the many social, economic and governmental problems with which each must cope, including the complex and inequitable system of local property taxes which carries the burden of such a large share of school costs.

At least 80% of the 18,000 school districts in various states do not have sufficient enrollments to provide even minimally adequate programs and services without excessive costs. However, this generalization does not apply equally to all states.

Population characteristics affect financing of education. For example, the needs of a growing population are different from those of a declining population in any given area. In an area with a declining population the gross per capita cost of education will not increase as sharply in communities with few special programs and services as in communities with broad programs.

The age characteristics of the population also are important, with trends in birth rates having a direct impact on school finance. In some communities there is a heavy concentration of persons 65 and older. Where this occurs there may be an increasing demand for various adult education programs or a demand for services that compete with education for the available tax money. Or the older residents, having reared their children and sent them on their way, may not have as much interest in schools and school support as they did in their younger, child-rearing days.

Mobility is a big factor in an America that seems to be constantly in transit. In one community the schools will close because the people leave; in another, with new people pouring in as a result of a new industry or the opening of a new resource or housing development, the local schools will need to expand their facilities quickly and often at more expense than a slower paced and more orderly expansion would require. *Substantial numbers of pupils attend anywhere from two to four schools per year with some slippage in individual progress each time a move is made.* Many schools in the inner cities have an annual turnover equal to more than twice the number who enroll during the first week of the school year!

The composition of the mobile school population is also an important factor. Often the children speak little or no English, come from varying backgrounds: Mexican-American, Puerto Rican, Indian or other ethnic groups.

The socio-economic composition of the population of a school district affects the financing of education in special

ways, whether it is indigenous to the district or migratory. For example:

Children in culturally impoverished areas often require more services to compensate for handicaps and learning difficulties.

While the crest of the farm revolution and resulting migration to villages and small cities has passed, education cannot rest on its oars. Migrations of families at all economic levels will continue, primarily to the big metropolitan areas where industry and technology are concentrated.

However, as population leaves one area the needs of that area will not decrease as fast as one might expect because schools in sparsely populated areas often require twice the expenditures per pupil for staff, materials and buildings as schools in more populous areas.

To meet these challenges two very fundamental changes are necessary:

- 1 The governmental and economic structure on which taxation depends must be revamped; and
- 2 Consolidations of inefficient school districts and school centers must be stepped up.

Still Other Factors Bear on Needs and Financing. There are a number of kinds of programs which will require financial support over and above that required for typical schools if we are to have equality of education.

It is axiomatic that programs that require specially trained instructors, special equipment, supplementary materials, individually designed curriculums and even specially designed classrooms and schools cost more, often much more, than the basic elementary and secondary programs provided by most school districts.

WHAT ARE SOME OF THESE SPECIAL EDUCATIONAL NEEDS OF CHILDREN?

- 1 **Early Childhood Education** There is a growing recognition that educational programs for children in the three to

five year age bracket are important in meeting the needs of children in these formative years. The current programs range from the traditional kindergartens, which are caring for slightly more than three-fourths of the five-year-olds, to day-care centers, nursery schools and parental education.

2. Special Education for the Handicapped Approxi-

mately eight percent of the total school population will require special education programs to assist in overcoming mental and physical handicaps. Children in these categories have needs which often require that they be separated into special classrooms and be taught by teachers with special knowledge and skills. Other categories of handicapped pupils are taught in classrooms with nonhandicapped pupils, but need supplementary services. In many instances, nonteaching specialists of various kinds are also needed.

Because of family mobility and because many families choose their residence on the basis of the availability of programs to help their handicapped child, there is apt to be a concentration of such children in specific school districts.

3. Compensatory Education Young children and older

youth with serious learning problems, emotional difficulties and social maladjustments require tutorial and remedial educational assistance. These children are often the victims of impoverished home and neighborhood environments, hypertension, emotional illness and lower than average mental ability. Some may require institutional care while enrolled in compensatory programs. Such programs for children five and under are usually short-term in nature, but programs for the children in the age 6 to 12 bracket may run longer and be more costly.

The programs are directed primarily, in the older group, to victims of impoverishment and the ills listed above, but also to delinquents, including school dropouts, unmarried pregnant girls and a special group of disoriented dropouts. This last group is made up of youth so disorganized they can no longer function in the regular school environment. They must be served in "continuation schools" which are specifically designed for therapy and rehabilitation.

Most of those requiring compensatory education need nothing so drastic as institutionalizing and special therapy, and can be helped by instruction in regular groups, additional tutoring, small group instruction, extensive counselling and other personalized attention. Core cities and some rural areas frequently have a much higher percentage of disadvantaged pupils in their school enrollment than suburban school districts.

Vocational Education In an expanding technological society, the necessity for youngsters to develop vocational competence along with personal-social traits which will help them relate to other persons, both on and off the job, is ever more urgent. Such programs should be designed to help young persons evaluate their own aptitudes, interests and abilities as they relate to the hundreds of occupational opportunities offered by modern society. Effective citizens and family members require greater knowledge and skills in consumer and environmental education.

Despite the needs and demands of our industrial-technological society enrollments in public school vocational programs have always been low, leading to the fact that needed vocational programs are lacking in many schools.

Adult Vocational Education In the years immediately ahead, programs for adults will require expansion. They generally fall in three categories: 1) young adults and persons on low incomes seeking programs that will boost their earning capacities, 2) high-income adults seeking programs for leisure and non-income activities or simply self-improvements and 3) programs that are mandated for apprenticeships and licenses.

While educators are agreed that the demand for such programs is heavy and will get heavier, most programs in existence today consist of ad hoc collections of short-term courses arranged as teachers can be found and as interest is manifested. Few consist of firm curriculums or have the depth that many adults desire.

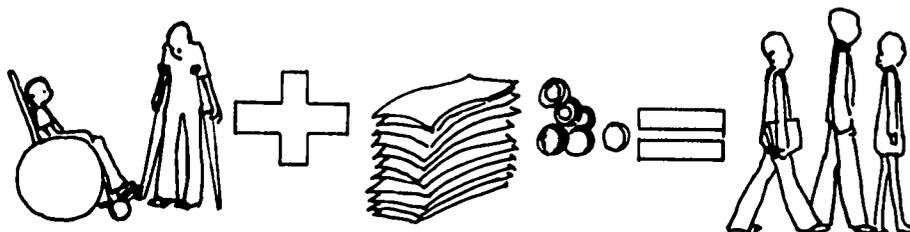
6 Special Services—Food and Transportation At least 37% of the nation's 51 million school children participate in the National School Lunch Program. About 25% of the lunches served go to children from needy families. Cities with populations of over 250,000 serve lunches to the lowest percentages of children because of crowded conditions, lack of facilities and the tradition of "home food service" in neighborhood schools. In 36 large cities the 1,083,263 pupils attending 1,883 schools received no food service whatsoever. However, the demand is growing with the result there will be need for lunch rooms, central food processing units, vending systems and other methods for food preparation and distribution.

School transportation or busing serves a variety of needs and is an explosive issue in some instances where, at the direction of school boards or the courts, it is being used to attain socio-economic-ethnic balance in the schools. It provides a commuting method for students who live beyond walking distance to their schools and facilitates the operation of special services, such as those for the handicapped.

EQUALIZING EDUCATIONAL OPPORTUNITY

If special programs are more costly than basic elementary and secondary school programs—and there is no doubt about it—how are we to determine the financial allocations necessary to support these special programs?

For example:



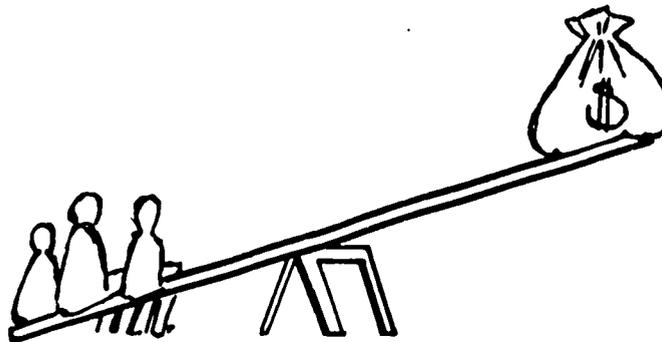
Education for the handicapped *plus* extra funding may be equal to the basic education provided for all children. Thus, special education programs tend to be more equal as the *cost differential* is added.

TO EQUALIZE EDUCATIONAL OPPORTUNITY WE WILL HAVE TO CONSIDER:

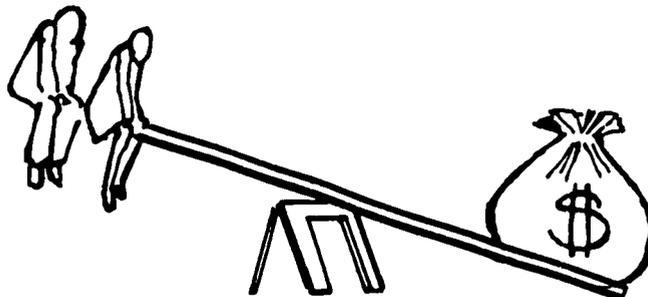
Differences in the ability and capacity to raise educational funds.

Differences in youngsters and their needs and the expenditures necessary to meet the needs.

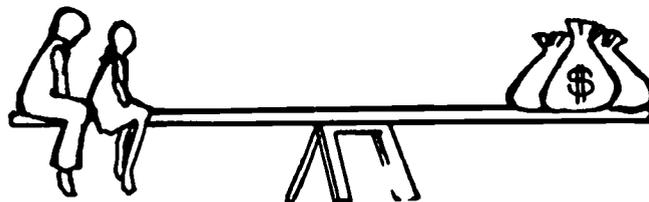
SOME DISTRICTS HAVE AN INADEQUATE TAX BASE AND ABILITY TO SUPPORT SCHOOLS:



THE TAX BASE IN SOME DISTRICTS PROVIDES EXCEPTIONAL SUPPORT FOR THE SCHOOLS:



EQUAL EDUCATION FOR THE HANDICAPPED, FOR INSTANCE, WILL REQUIRE GREATER EXPENDITURES:



How do we establish the cost differentials necessary to bring about equalization?

EDUCATIONAL COST DIFFERENTIALS

Educational programs designed to meet the different needs of pupils vary widely in per pupil cost.

As noted earlier, special programs for exceptional (handicapped) children, and for vocational courses and compensatory classes are "high cost" programs compared to the typical elementary and secondary instruction programs.

One widely used method of comparing the differences in cost is the so-called "weighted pupil" technique. This procedure is based on the assumption that pupil-teacher ratios are less and operating and capital outlay costs are greater for special education programs.

The weight of "1" is assigned to regular pupils in elementary schools. If it is found that the cost of educating an exceptional pupil is approximately twice the per pupil cost of regular pupils in elementary schools, then the full time pupils enrolled in classes for the exceptional are given the weight of "2".

The following sample weights computed in the detailed research of NEFP illustrate the concept of weighting to determine the relative costs of educational programs:

<i>Educational Program</i>	<i>Weight Assigned</i>
Basic elementary grades 1-6	1.00
Grades 7-9	1.20
Grades 10-12	1.40
Kindergarten	1.80
Mentally handicapped	1.90
Physically handicapped	3.25
Special learning disorder	2.40
Compensatory education	2.00
Vocational-technical	1.80

Note: The weights used by NEFP are weights derived from current practice to illustrate methods, but are not final. New techniques and methods may cause the weights to change.

This weighting means for example, if the state foundation program provides \$500 for an elementary pupil, 1.8 times as much or \$900 would be provided for a full time pupil enrolled in vocational education.

Another method for determining differential costs is the "adjusted instruction unit" technique. If we assume that one instructor, plus the necessary supporting staff and facilities, is required for each 25 pupils in regular elementary schools, then 25 pupils becomes an "instructional unit."

Sample numbers of pupils per instructional unit for the various types of programs illustrate this concept:

<i>Educational Program</i>	<i>Pupils per Instructional Unit</i>
Basic elementary grades 1-6	25.00
Grades 7-9	20.83
Grades 10-12	17.86
Kindergarten	19.23
Mentally handicapped	13.16
Physically handicapped	7.69
Compensatory education	12.50
Vocational-technical	13.89

SCHOOL FACILITIES

The school building shortage is a reality which cannot be overlooked in school finance programs. Even with the unprecedented increase in school construction since World War II, a deficit of 500,000 classrooms remained in 1968. This backlog of needed construction accumulated during the depression years and World War II. Especially in urban districts antiquated and educationally obsolete classrooms which normally would have been replaced have remained in use.

Between 1948 and 1968 the number of classrooms constructed each year increased from 30,900 to 75,400, and the average expenditures per classroom increased from \$32,815 to an estimated \$67,432. In 1968 the average construction costs per classroom ranged from a high of \$79,151 in Pennsylvania to a low of \$30,681 in Mississippi.

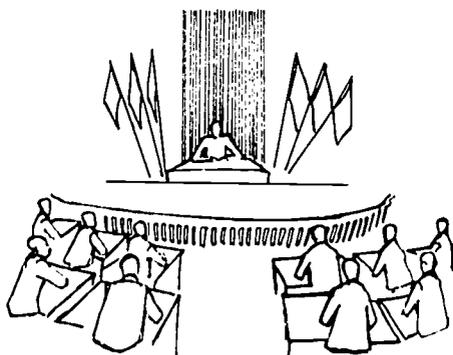
In the decade of the 1970's the nation will need approxi-

mately 120,000 classrooms per year at an estimated annual aggregate cost of \$7.8 billions in 1968-69 dollars. There are those who contend that population control and changes in educational programs such as the extended school year will reduce the need for new and expensive building programs, but often these new educational programs require additional funds in the form of more salaries and additional equipment and materials as well as increased maintenance costs.

The need for new school construction will continue as the public seeks additional educational programs and services and as people move about among and within states and local school districts. Even though a state or local district may be having little or no enrollment growth, new school construction may be required because changes in housing patterns have resulted in an enrollment decline in one area and growth in another. Better utilization of facilities may provide limited relief, but the need for additional and replacement classrooms will remain.

The need for additional school construction is self-evident, but the solution is more difficult. Historically, local school districts have had to assume the primary financial burden for school construction. In programs which ranged from mere token support to responsible partnership 35 states provided funds to local districts for construction in 1968-69. However, in many states heavy reliance on local property taxes, restrictive debt limits and cumbersome referendum procedures have made it difficult for local districts to provide needed classroom space.

If these new construction needs are accurate, positive action must be taken to provide the needed funds or a moratorium on construction will result with millions of school children being ill-housed and ill-educated. Among the possible alternatives are: 1) state and local indebtedness limits can be increased, or 2) structural changes can be made in state and local tax systems, or 3) the state can become an active participating partner in financing school facilities, or 4) federal support can be provided for school construction. In view of the already overburdened local property tax there seems to be little choice except for the state and federal governments to provide funds in the form of grants for new construction and payment of existing debt.



VI Responsibility for Achieving Educational Equality

Q. Who has the authority and responsibility to eliminate educational inequities within a state?

A. The state.

The constitution delegates the responsibility for education to the states and the states in turn created the school districts for administrative purposes and gave them authority to levy taxes. It follows that the states are responsible for the inequities in fiscal capacity which exist among the school districts. It also follows that the state has both the authority and the obligation to remove such inequities. It has the power to reorganize the districts and change their taxing authority as needed. If a state chooses to retain its existing school district organizations and their taxes it can, as many states have already done, distribute school aids in such a manner as to offset inequities.

Among the courses open to the state:

It can eliminate the local district's authority to levy regressive property taxes, providing the district instead with the entire cost of its program from state and federal sources which are derived principally from income and consumer taxes.

If it chooses to retain the existing system it can, as most states do at the present time, reduce inequities in fiscal capacity by providing more state funds per pupil to the districts of less wealth than to the districts of greater wealth or it could entirely eliminate inequities by distributing whatever amounts of state school aid are required to eliminate the differences in local wealth per pupil.

It can reorganize local districts to increase their efficiency and reduce variations in wealth.

It can provide for the extra costs of special education programs and the specialized services needed by some pupils and schools.

As will be seen in Section VIII, it is possible to design fiscal systems that approach the ideal of complete equalization. Some plans provide for a high level of equalization; others do little or simply perpetuate inequalities.

Several general rules of thumb must be considered in the search for equalization:

1 Full state funding is the surest way to achieve complete equalization. But if local school districts are to retain taxing authority, then equalization begins only as the level of state involvement rises above the local effort. No equalization is possible if state dollars are simply matched with local funds on a dollar to dollar basis.

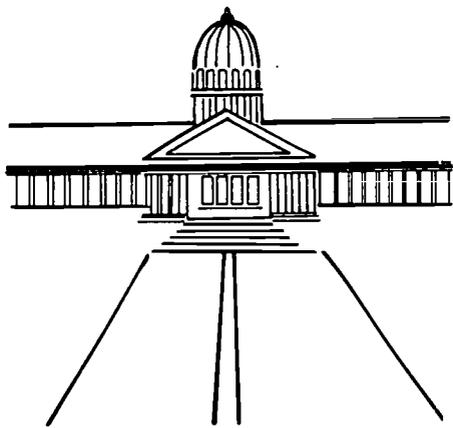
2 When state funds are allocated as uniform flat grants on a per teacher or per pupil basis without taking into consideration necessary variations in unit costs and in local tax-paying ability, very little equalization is achieved.

3 As the state takes into account variations in unit costs, the possibility of equalization through the flat grant method improves somewhat.

4 Most "equalization plans" are designed to assure each school district an agreed upon foundation level of financing per pupil. There are various kinds of plans which provide more equalization than the flat grant type of aid. Under these plans state funds are allocated to the districts to fill the gap between locally raised dollars and the support the state deems necessary for each pupil.

5 Even the "equalization plans" may be inequitable if a high degree of local leeway is allowed above the state foundation financing level.

Equal education can be provided by the school districts only if they have a high degree of equality in financial support. The only way this can be achieved is through a state tax structure and allocation plan which provides each district equal access to fiscal resources.



VII The Federal Role

In 1931, the National Advisory Committee on Education, appointed by President Hoover, said that the American people were justified in using the federal tax system to give financial aid to the states, provided they did not delegate control to the federal government. Seven years later, the United States Advisory Committee on Education, appointed by President Roosevelt, said federal grants should be made available to the states for "all types of current operating expenses for public elementary and secondary schools." The Committee predicted that the American people would object to any use of federal aid as a means of controlling education.

The two reports and subsequent studies emphasized the need for general purpose grants to supplement state and local school tax revenues. In the past few years, however, rather substantial federal aid shifted to categorical grants for narrowly defined purposes.

Among the major road blocks to federal aid for general purposes are the nationwide controversies over school segregation and aid to nonpublic schools.

However, such special issues aside, it must be recognized that all sorts of educational problems transcend state lines, that educational deficiencies cannot be quarantined within state boundaries and that educational isolationism on the part of the states would be unsound national policy. The mobility of today's population makes it clear that the quality of education in one state materially affects all other states.

The federal government clearly has a responsibility to strengthen public schools in all of the states.

Only by so doing can any state be protected from the spillover effects of educational neglect in other states.

In addition to strengthening the general on-going educational program of each state the federal government has special responsibilities to:

Disadvantaged Children Culturally disadvantaged families migrate from one state to another in great numbers and it is a worthy purpose of the federal government to assist the states in providing compensatory education for the children from these families.

Vocational Education Although the federal government has done considerable work in this field, it is generally recognized that unemployment and poverty cannot be controlled without suitable training for the world of work. The economic health of the nation requires sound vocational programs for the citizens of all states.

Handicapped Children Many children are physically, mentally or emotionally handicapped. It is an appropriate purpose of the federal government to assist the states in providing the children the special educational services necessary to give these children a chance to share in the American dream.

Bridging the Gap Another worthy purpose for federal action is to make contributions to the public schools to compensate for deficiencies in the school tax base resulting from the tax exempt status of federal property.

School Food Services For many years the federal government has recognized that "promotion of the general welfare" includes assisting in the elimination of hunger and the improvement of the health of the nation. The appropriation of federal funds for the school food service programs, including school lunch, school milk, special assist-

ance for needy and similar programs, are consistent with legitimate national purposes.

Whatever federal grants are made in the days ahead, they should NOT by-pass state governments; instead, federal grants for public schools should be made to the state education agency for allocation to local schools in accordance with state plans.

Amounts of federal funds to individual states should be determined by objective formulas and in no case should a federal grant be contingent upon meeting requirements which prevent a state from developing a sound and equitable state finance plan. Only by preserving the right of a state to adjust its financial program can the state discharge its obligation to the overall education partnership.

Accounting and auditing safeguards for federal funds should utilize the procedures that the states use to safeguard their grants to local systems. Separate accounting and auditing procedures should be superimposed on the state processes only if the latter are inadequate.

Since there are currently in operation 132 educational programs administered by the U.S. Office of Education, the school lunch program by the Department of Agriculture, education programs for Indian children by the Bureau of Indian Affairs, and numerous science programs by the National Science Foundation, a fair question is:

Does the combined effect of all federal programs promote the development of adequate public school programs in all states?

There are serious questions about the effective operation of federal aid programs. There is evidence that the combined effect of numerous categorical aids has produced a deluge of red tape that has hampered public schools; that educational talent has been wasted in preparing applications for small amounts of federal money; that the emphasis upon innovation, and the search for funds to subsidize it, has resulted in the neglect of programs which have proved valuable in the past. In short, there is a growing conviction that the constantly expanding list of federal categorical aids has produced confusion, instability and distortion of educational emphasis.

In its analysis of federal categorical grants, NEFP found

that temporary programs tend to continue beyond their usefulness and that if they were excluded it would be possible to consolidate continuing categorical aids into six major blocks which would simplify application and reporting procedures under state plans. The six blocks:

1 Vocational Education

2 Research and Development

3 School Food Service

4 Education for Handicapped Children

5 Education of Children of Low Income Families

6 Compensation to Schools for Federal-exempt Property

In addition to such block grants, federal action is needed to increase general purpose income for elementary and secondary schools. One approach might be to relieve the states of some of their other burdens, especially welfare costs. However, even if this were done and then supplemented with a revenue sharing program, adequate educational programs could not be achieved in all states unless an adequate part of the shared revenues was earmarked for education.

Herewith are three plans and one combination for general federal aid to education:

Plan I A national foundation program for a minimum level of education for all districts financed by a combination of federal, state and local funds. Under this plan, the federal government would provide the differences between the cost of a national uniform foundation program of education in a state and the amount of funds that a state could raise in state and local school revenue from a nationally uniform tax effort in proportion to the ability of that state.

Plan II Equal grants per student with no requirement of state or local effort to support education.

Plan III Equal grants per student for equal required state and local effort in proportion to ability. This is the same plan as Plan II except that each state in order to receive its full entitlement of federal funds, would be required to make a nationally required minimum tax effort for schools in proportion to its ability.

Plan IV A combination of Plans I and II. Each of the approaches emphasizes a different federal purpose. The purposes would be to:

Equalize educational opportunity among the states.

Transfer the administration and control of federal aid from Washington to the states.

Relieve the state and local tax burdens of all states.

Stimulate or at least preserve state and local tax efforts to finance education.

Develop a plan which would be politically acceptable to all or most of the states.

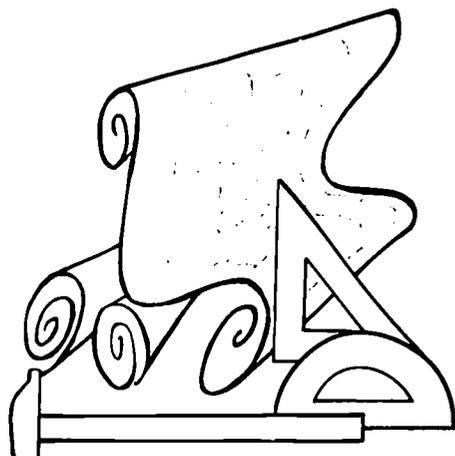
Plan I, or the national foundation program approach, equalizes the financial resources available per pupil better than any other approach. It would also tend to transfer the control of federal aid from Washington to the states. However, it would not relieve state and local tax burdens in all the states, nor would it stimulate state and local effort in all states because under this approach a number of states would receive little or no aid, hence would not be likely to find the plan politically acceptable.

The other plans, too, have strong and weak points. It is not anticipated that any of them would result in a reduction of present state and local support to education. However, it is assumed that the need for further increases in state and local taxes to meet rising school costs would not be so urgent if the

federal government supplied 20% or, better yet, 30% of revenues for the public schools.

[REDACTED] The best one can be determined only in terms of the purposes desired to be served by general federal aid and their order of importance. It is, of course, the responsibility of the people, acting through their elected representatives, to make the determination.

On the question of controls, with proposals ranging all the way from none at all to detailed controls similar to those now being exercised over some categorical grants, the National Educational Finance Project favors the minimum of controls over federal aid necessary to achieve the purposes of the grant.



VIII Blue-Prints for State Educational Equality

All states are faced with the monumental task of providing enough money to assure equal educational opportunity for their citizens. It can be accomplished in a number of ways. It is possible to create a number of alternative models and variations of them for a state to use in financing its school system. Clearly no two states are identical. There are, however, many common elements in their school districts and in their financing problems.

The NEFP found it possible to use certain broad classifications to create alternate models which could be compared for their desirability in achieving the primary educational goal of equal education for all. Through the use of modern research technology and computer systems, it is possible to develop reasonably accurate processes and to analyze and evaluate the probable consequences of the alternate models. Using these models, a state may simulate alternate patterns of school finance to determine which is most effective in meeting the needs of the state, the local school districts, the taxpayers and the students.

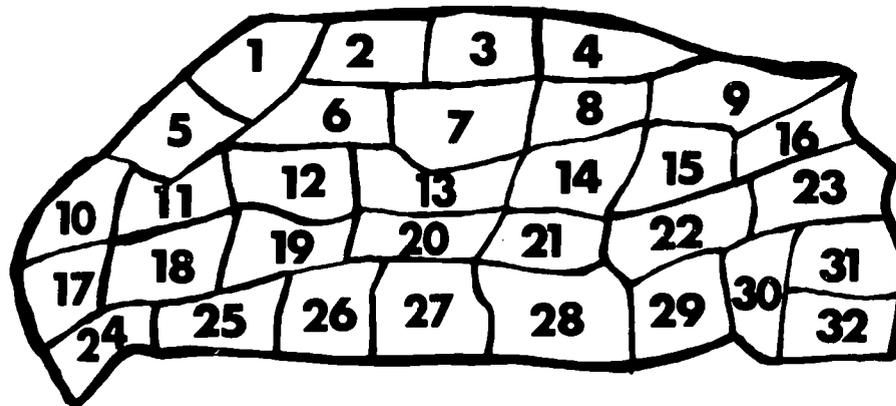
School finance models have two major dimensions—raising of revenue and allocation of funds.

The Revenue Dimension The type of taxes levied by each level of government and the progressivity or regressivity of the different types of taxation are the concern of this dimension. The three principal types of models (exclusive of federal support) are those with complete state support, those with joint state-local support and those with

complete local support. Further considerations can be given by adding various degrees of federal support.

The Allocation Dimension This aspect concerns the ways in which funds are allocated to school districts to meet the needs, services and programs of students. The allocation models are of two principal types: the "flat-grant model" in which state funds are allocated without regard to variations in the districts' local tax paying ability; and, the "equalization model" which allocates greater funds to districts of less wealth (i.e. local taxpaying ability) than to the districts of greater wealth.

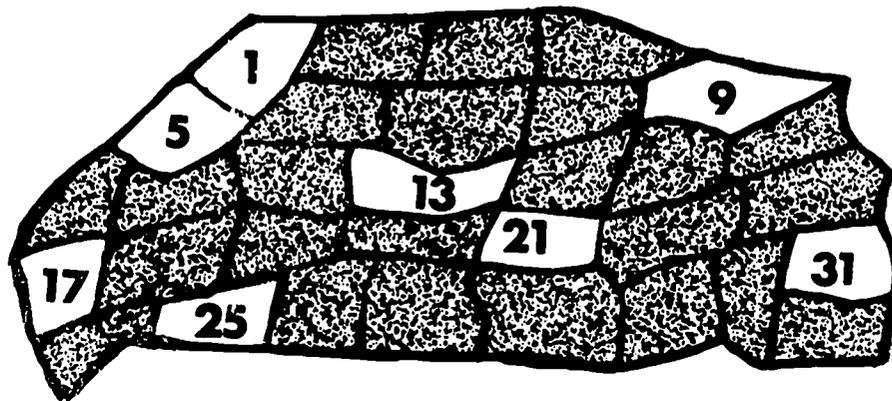
School finance models designed by NEFP were based on a prototype state that had a wide range of conditions among its school districts. The model state had 32 districts of at least 1,800 pupils each in order to eliminate the most inefficient districts from the prototype state. All of the districts of the prototype are types of real school districts that can be found in most states. It is impossible to develop a school finance plan which is equitable to children and also equitable to taxpayers in a state with inefficient small school districts gerrymandered so as to sequester wealth and to disqualify educational opportunity.



The prototype state has 32 districts representing most of the types of school districts now found in the U.S.

The 32 school districts include large core city districts, suburban districts, medium size city districts, small cities and rural districts. Also included in the prototype state are districts with high and low equalized valuation per pupil, districts with high and low personal income per pupil and districts with high and low percentages of culturally disadvantaged.

For the purposes of illustration in this volume, eight districts from the prototype state were selected to show how school finance models can be simulated and how the district would be affected by various methods of obtaining and allocating revenue.



The eight districts selected for the following examples can be identified as follows:

District 1 A large suburban municipality, surrounded by other large suburbs. The backbone of the economy of this district is a very large heavy manufacturing plant, plus several small machine shops. Housing in half of the district is early 1900 vintage and half is post World War II. This district ranks 1st in the state in terms of property tax evaluation per pupil and 2nd in personal income.

District 5 A largely rural district with portions relatively isolated geographically. Over 75% of the land is arable, so agricultural production and food processing provide the principal employment opportunities. There is also a resort and vacation area in a portion of the district. The district ranks 5th in property value per pupil and 6th in personal income.

District 9 This is a sparsely populated rural district. Food production and agricultural activities constitute the principal

sources of income and employment, with some resort and recreational attractions. The district ranks 9th in property value per pupil, but 28th in personal income.

District 13 A rural district with the largest farms in the state. Agriculture is about equally divided between crops and livestock. Food processing is the chief industry. Summer recreational resorts supplement the economic base. The district ranks 13th in property value per pupil and 18th in income.

District 17 A suburban rural district with a city of 28,000 that is part of the state's largest metropolitan area. Industrial plants and a large airport are found in the district. There is some farming, fishing and recreational activity in portions of the district. Two medium sized colleges are found within the geographic area. Although the district ranks 17th in property value per pupil, it ranks 14th in personal income.

District 21 This district includes the state's leading industrial center, although it is basically a rural valley which includes the state's sixth largest city. Over two-thirds of the land area is devoted to fruit production, livestock and dairying. The economy is strengthened by several heavy industries and serves as a wholesale distribution center. Although the district ranks 21st in property value per pupil, it ranks 17th in income and 12th in sales.

District 25 This urban district serves as the center for trade and industry for the state. It includes one of the ten largest cities in the United States. The district maintains the largest school population in the state, nearly 30 percent of the entire state's students. Included in the district are two state supported colleges and eleven private institutions. The district ranks 25th in property valuation, 11th in income and 9th in sales.

District 31 An isolated district in a rather hilly area of the state. The terrain provides opportunities for summer and winter sports and the production of timber and forest products. A small amount of coal is still mined, but in greatly reduced quantities from previous years. Agriculture is very limited and industrial opportunities few. By all economic measures the district is at or near the bottom. The district ranks 31st in property value per pupil and 32nd in personal income.

In order to compare alternate models, assumptions were made that the total revenue available from all sources in each model was the same even though the proportion from state and local sources was different. It was also assumed that all districts levied the legal limit of taxes permitted by the state, except in the model that provides for state incentive grants for extra local effort.

FINANCE MODELS FOR THE PROTOTYPE STATE

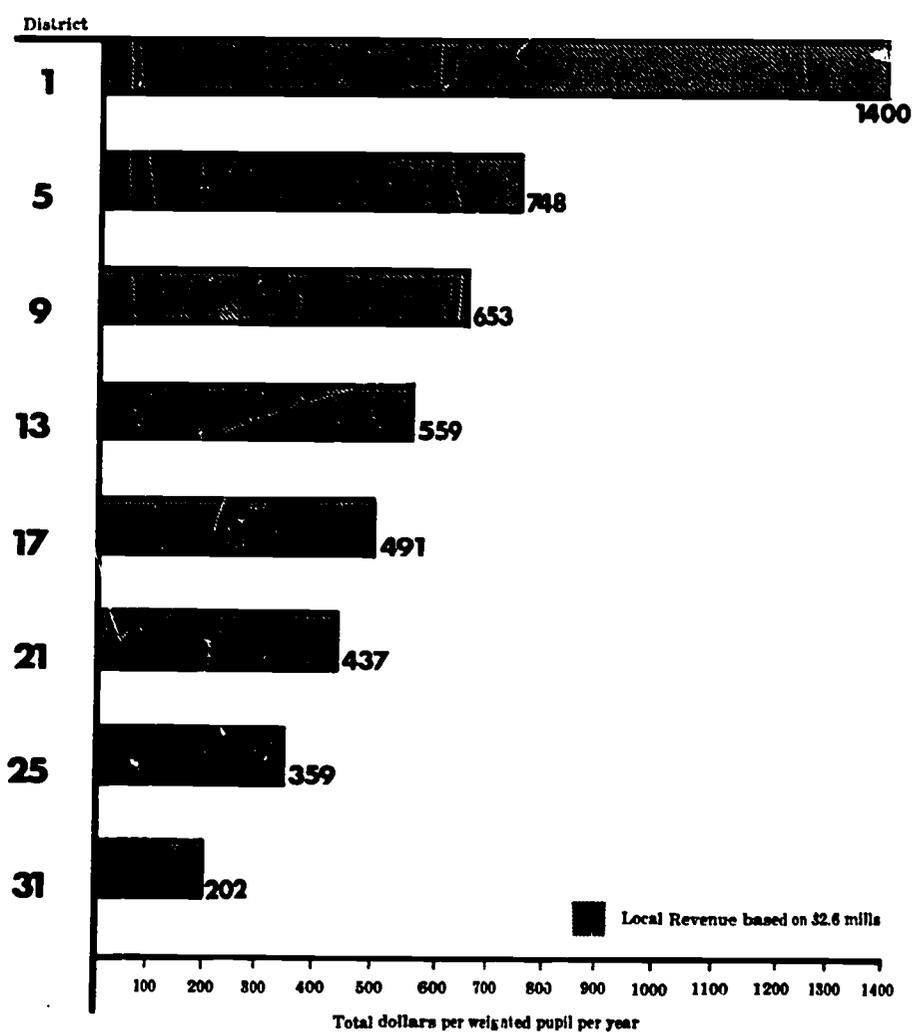
Different models may be designed by altering the percent of state and local revenue derived from various sources and adjusting the allocation of funds within the state. By examining each model it is possible to determine the degree of equity in the state's school finance program in each alternative. The following seven illustrations demonstrate the fiscal impact different financing methods have upon school districts.



This model illustrates the extreme inequity created among districts if schools are totally supported by local revenues. Because local revenue is based largely on property tax valuation the availability of revenue will vary widely according to the comparative wealth of the district. If school revenue were based on a millage such as 32.6 levied on the equalized value of property, the model on page 44 would appear.

It becomes obvious that school revenue based solely on the tax valuation of the local district will provide unequal school financing and thus unequal educational opportunity. A wealthy district, such as District 1, may have several times more money per pupil than the poorer districts (numbers 25 and 31).

Dollars in these models are expressed in terms of weighted pupils in order to provide for variations among the districts in the concentration of high cost pupils. The weighted pupil unit is a more accurate measure of educational need than unweighted pupils because it provides for necessary cost differentials. Revenue for pupil transportation has been excluded



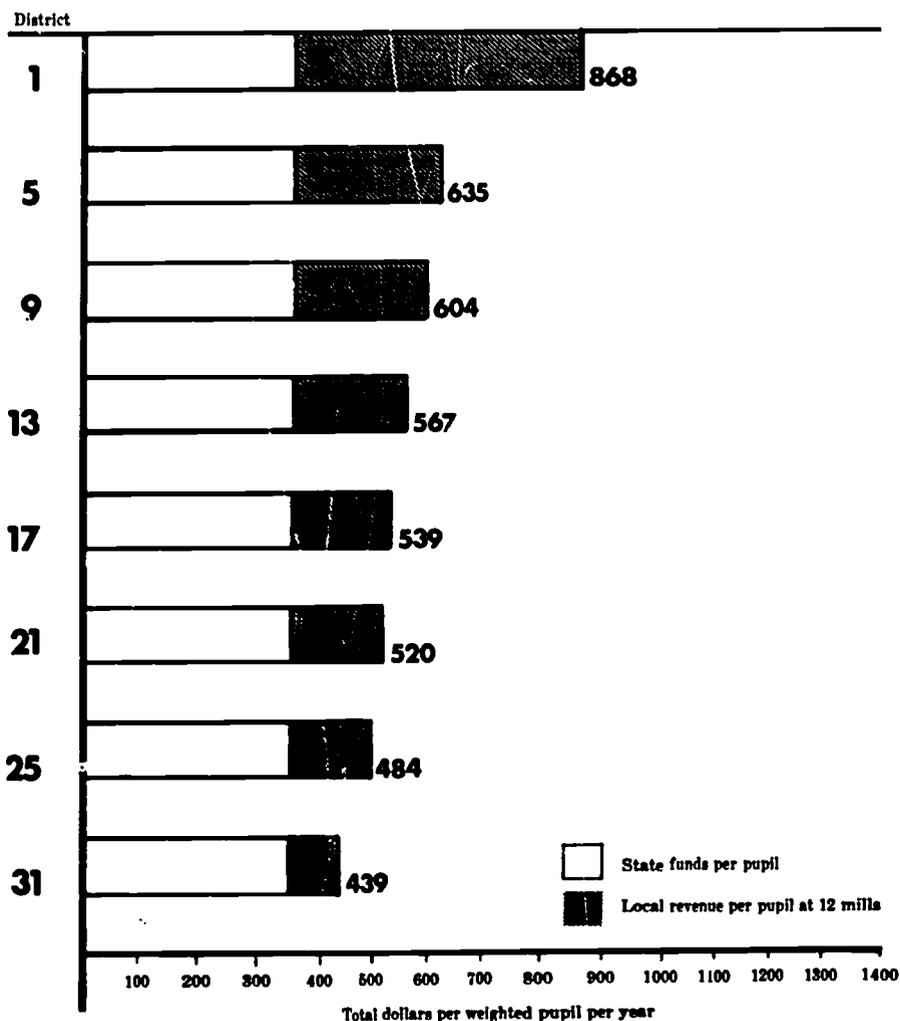
from these charts in order that the educational needs of all districts could be expressed on a comparable basis.

Flat Grant Model

This model provides for a basic state grant to each district based on the number of students without taking into account variations among the districts in local taxpaying ability. Local revenue is provided on the basis of an established millage rate on local tax valuation, such as 12 mills. The actual dollar amount of local revenue will, of course, vary according to the

wealth of the property and other local tax sources. This is one of the most primitive methods of apportioning state school funds (especially if apportioned on an unweighted pupil basis), although still used in many states for allocating a portion of their school funds.

If state funds are allocated on the basis of \$352 per weighted pupil in the prototype state, under the flat grant model the district school revenue would appear as follows:



In this flat grant model, the wealthier districts, numbers 1, 5 and 9, with high taxpaying ability have substantially more resources for schools when the flat state grant is combined with the local revenue raised from the high property tax base.

The poorer districts, with lower tax valuations, such as numbers 25 and 31, have a very low tax valuation base and consequently revenue based on the same 12 mills is not great. In these instances the total funds per child from both state grants and local revenue are nearly half those of the most wealthy district.

Under the flat grant method of school financing, equalization of educational opportunity for all students in the state is virtually impossible, although the higher the percentage of state financing the greater the level of equalization.

The flat grant model presented in this chart assumes that the state funds are distributed in an equal amount per weighted pupil. If flat grant state funds are distributed in an equal amount per unweighted pupil, the inequalities would be considerably greater than those shown in this chart.

The number of weighted pupils in a state is always greater than the number of unweighted pupils. For example, in the prototype state, the number of weighted pupils is 1.37 times the number of pupils in average daily membership. Therefore, a state appropriation of \$325 per weighted pupil is equivalent to a state appropriation of approximately \$482 per pupil in average daily membership. Since the charts for all of the models illustrated are expressed in dollars for weighted pupil, one can approximate the dollars per pupil in average daily membership by multiplying the amounts shown in the charts by 1.37 except that the ratio of weighted pupils to unweighted pupils varies somewhat among the districts.

The level of school financing shown in these models is very low and is not intended to suggest the level needed. The amounts of funds shown in the models are purely for the purpose of demonstrating the relative effect of the alternate models. The relative impact of the different models on equalization would be the same regardless of the level of financing used in the models.

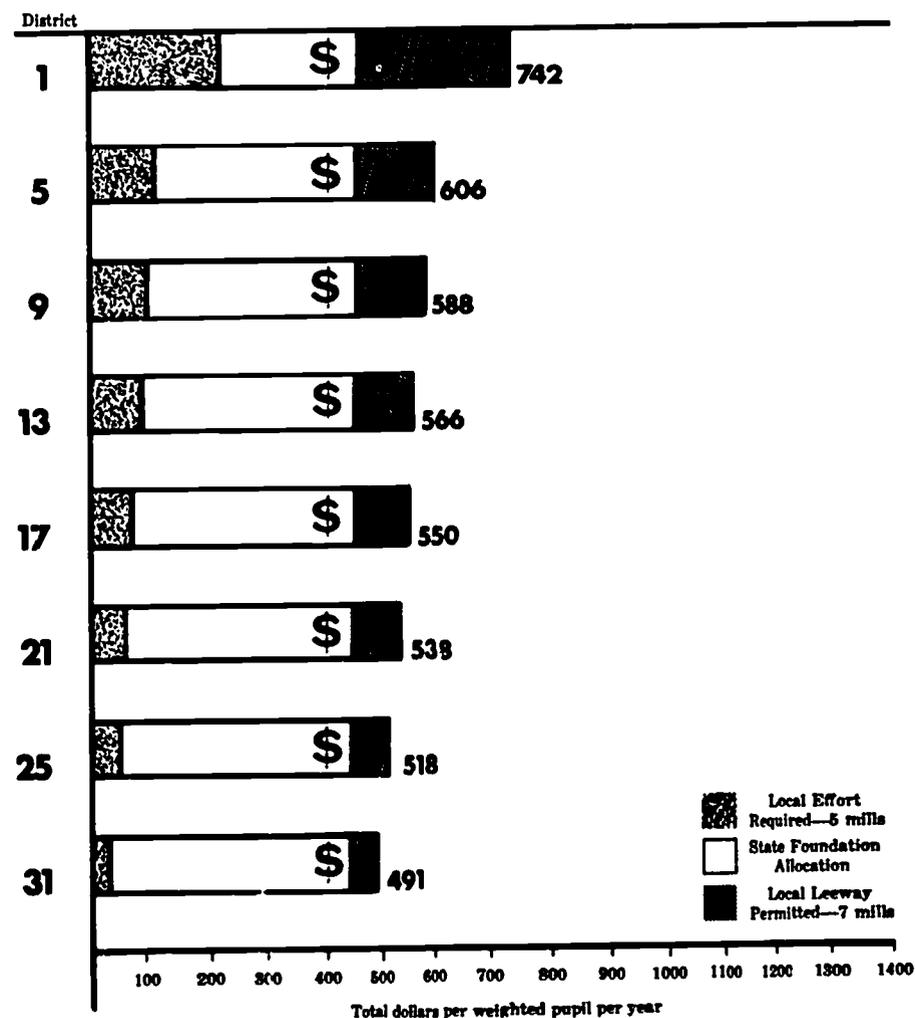
Equalization Model—With Substantial Local Leeway

Various forms of equalization models are designed after the most commonly used method for apportioning state school funds—the Strayer-Haig formula. Under this formula, the cost of the foundation program which the legislature desires to guarantee for each district is computed and from that cost

is deducted the amount of funds which each district can raise locally through a minimum required local tax effort and the difference is allocated to the district from state funds. As the name implies, the model is intended to secure equalization of school funds among the districts in the state through the allocation of state funds.

There are many variations of this plan that have greatly different consequences. The critical element of the equalization models is the degree of required local effort and the amount of local leeway permitted. In the model below, less equalization occurs when substantial local leeway is allowed.

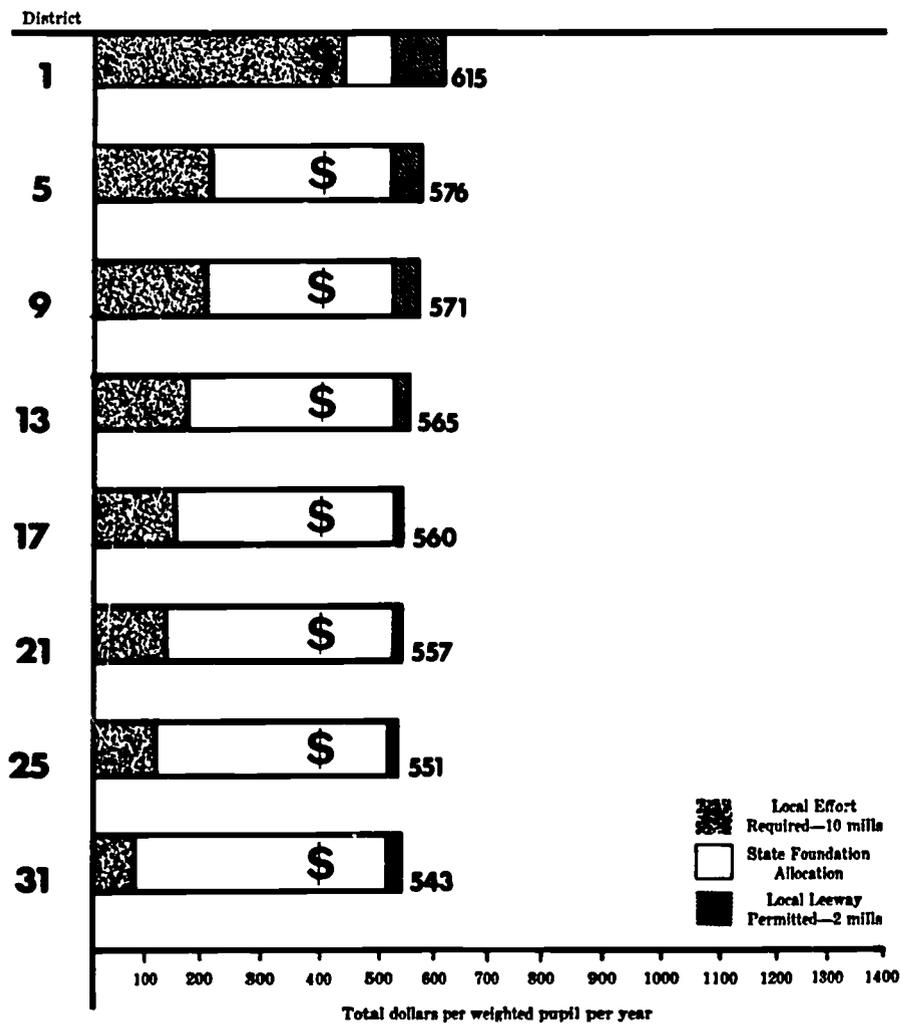
This model demonstrates the result when 5 mills of local effort is required and 7 mills of local leeway permitted.



Although this model approaches equalization, it permits considerable inequity between wealthy and poor districts. It should be noted that a high degree of equalization occurs when the state foundation allocation is added to the required local effort of 5 mills; however, the large leeway of 7 mills tends to disequalize the distribution of school funds among the districts.

Equalization Model—With Minimal Local Leeway

This model illustrates how greater equalization will occur

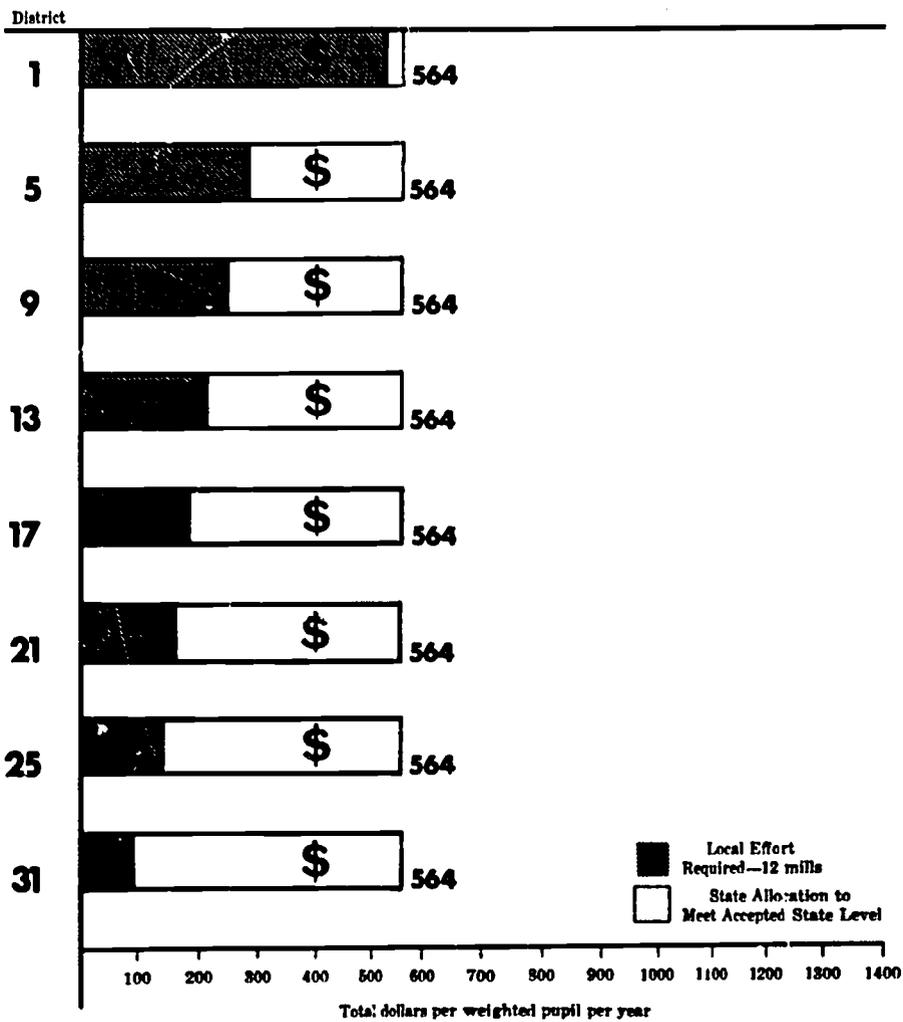


as the amount of required local effort is increased and the amount of local leeway is decreased. In the model 10 mills are required as the level of local effort and the state foundation allocation is made on that basis. Local leeway of 2 mills is permitted.

The small amount of local leeway tends to make the equalization formula more effective in achieving an equality among the districts.

Equalization Model—With No Local Leeway

This plan provides for complete equalization among dis-



tricts in the prototype state by requiring a uniform local effort (i.e., 12 mills) without provisions for local leeway. The Strayer-Haig formula is used as the basis for state allocations. The local effort plus the state allocations brings each district up to the accepted state level of school finance, thereby creating full equalization.

Under the complete equalization plan, the wealthier districts (with greater taxpaying ability) will receive smaller state allocations in order to reach the accepted foundation of school financing for each pupil. This model assures all youngsters in the state equal resources for education.

Full State Support Model

Another plan to achieve complete equalization is to have the state assume full responsibility for school support and allocate funds equally to each district. The full state support model would presumably eliminate local taxes as a basis for school financing.

The full state support model provides essentially the same level of school financing as the "equalization model—with no local leeway." In effect the state has assumed the 12 mills local effort and abolished local taxes for school purposes. This plan, of course, provides for complete equalization. It is equivalent to the Hawaii plan for school financing which operates under a single school system for the entire state.

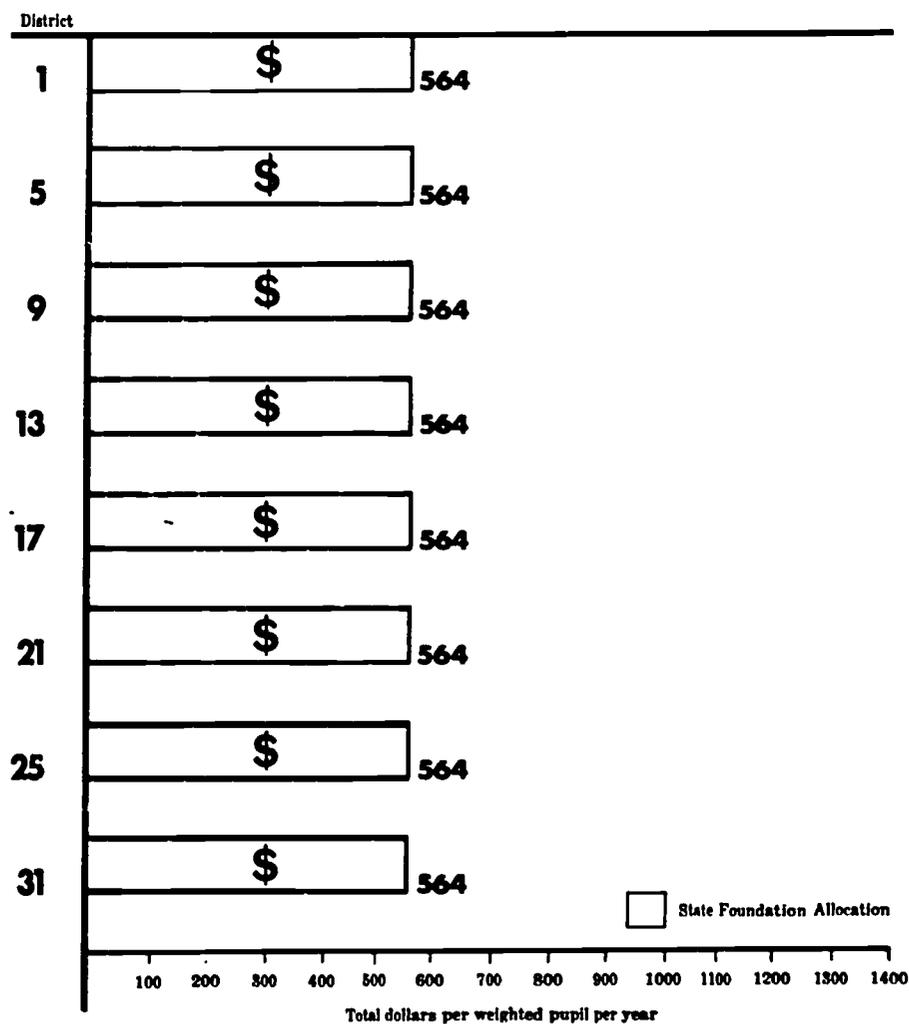
Incentive Grant Model

Many educational and political policy makers are concerned that the various forms of equalization tend to discourage local initiative and special effort on behalf of the local school system. Some communities seem willing to make an additional tax effort to provide a margin of excellence in local schools beyond that required by the state. The incentive grant model was developed several years ago and is used in several states to stimulate innovation and improvement of the quality of education. It is based on the theory that the state should reward the local school districts which exert greater-than-required local finance effort. Under this plan, the state would

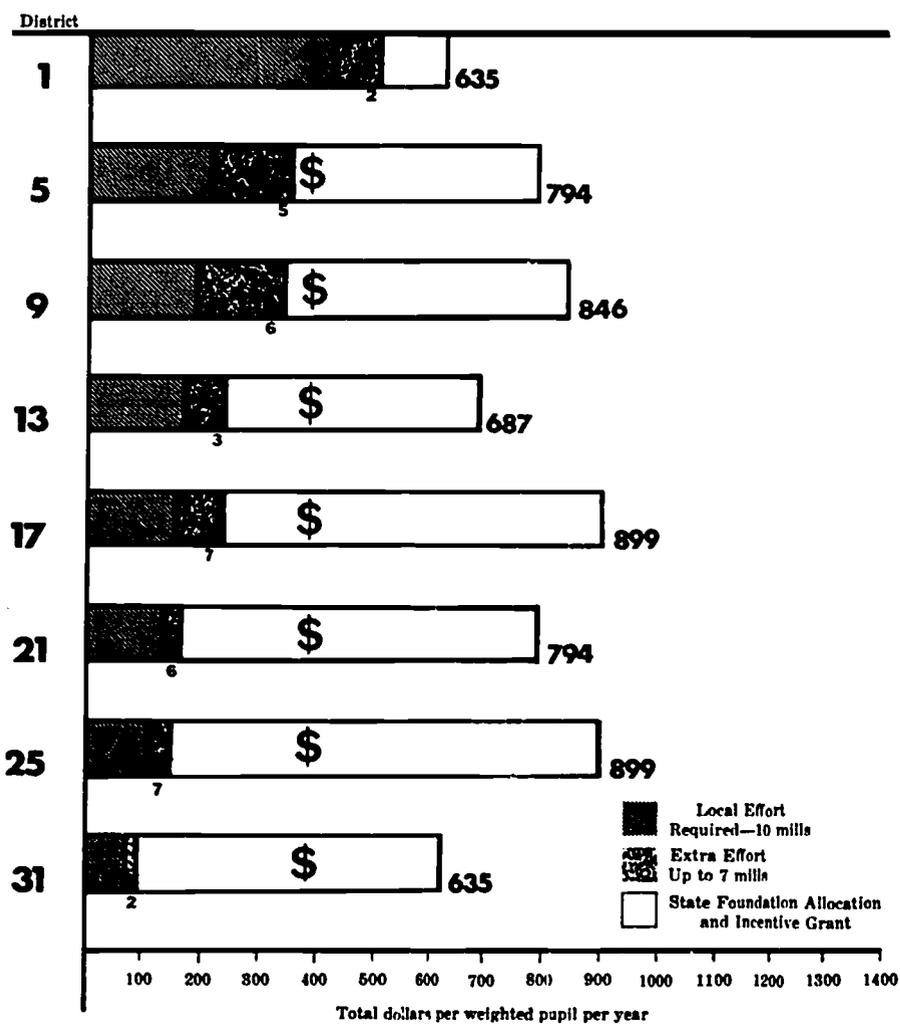
increase the level of the state foundation allocation when the local tax funding effort was increased above the uniform level.

It is important to note that under this plan all students in the state, regardless of wealth, would have at least a minimum state foundation program at the same level. If the state increases the allocation to match the increased local effort, the effect is the establishment of a *variable level* foundation program.

If local effort of 10 mills is required with extra-effort local



leeway up to 7 mills permitted, and incentive grants added to the state foundation, the model would appear as follows:



The incentive grant is especially important to districts, such as 17 and 25, where the full 7 mills extra local effort was made. In both of these moderately poor districts the extra local effort was rewarded by very substantial grants from the state. This model encourages both the state and local districts to provide a higher level of school financing than the other models, although the benefits of this extra effort are spread unequally over the state.

The incentive grant model is desirable from the standpoint of encouraging local effort, initiative and innovation in some

districts, although it has a number of undesirable side effects. Primarily, it tends to disequalize educational opportunity within a state and it makes the quality of a child's education dependent upon the willingness of the people of his district to vote extra local property taxes. The plan also tends to increase local taxes and expands state allocations proportionate to the expansion of local taxes. Many believe that a system which allocates funds on the basis of "the more you spend locally, the more you get from the state" is irrational as a basis for allocation of the nation's resources.

Other Variables Influence the Models

In comparing these seven alternate models and others which can be designed, consideration should be given to a variety of other factors that influence educational costs.

These models illustrate possible ways in which state and local governments might approach the task of securing revenue and allocating it to support school districts. It is obviously impossible to cover in this limited presentation of models all possible variables that could possibly change the allocations of funds and the revenue effort required by the state and local districts.

These factors include:

As an alternate, the adjusted instructional unit technique could be used to account for differences in types of districts, special programs required and the like.

Costs for transportation of pupils may vary greatly among districts according to geographical distribution of pupils or desire to use busing to achieve racial balance.

Cost of living differences among various districts may be substantial and require adjustments among districts.

The allocations of federal funds may affect other finance allocations by substitution for or supplementation of state or local funds.

Differences among districts for food services and other special facilities to meet local needs may require financial adjustment.

Capital outlay needs may differ greatly among school districts and add to the task of obtaining equalization.

Equal access to quality teachers may require supplements to salaries or other incentives for personnel in remote rural or urban ghetto areas.

These and other factors must be considered by school finance designers and state policy makers in creating the model to meet fully and equitably the needs of each state.

What Guidelines are Suggested by These Models?

These school finance models, and a dozen others created by the NEFP researchers, offer the states' political and educational leaders a number of fundamental guidelines for establishing educational equality among school districts. The following principles are applicable to nearly all states and school districts:

- 1 State funds—distributed by any model examined—provide for some financial equalization, but some finance models provide more equalization than others.**
- 2 The flat grant model provides the least financial equalization for a given amount of state aid of any of the state-local models because it does not take into account the variations in wealth of the district.**
- 3 A flat grant model which takes into account some of the cost variations per pupil (i.e., weighting pupils, even though it ignores variations in wealth, provides more equalization than the flat grant model which fails to provide for any cost differentials and variations in wealth.**
- 4 The equalization models which take into account cost differentials of various programs and variations in school district wealth are the most efficient methods for equalizing financial resources in states using state-local revenue allocations.**

- 5 In equalization models, the greater the local tax leeway the less the equalization.
- 6 Complete equalization is attained only under a plan of full state funding or an equalization plan which includes all local school taxes in the required local effort for the state foundation program.
- 7 The higher the percentage of school revenue provided by the state, the greater the equalization of financial resources among districts.
- 8 The higher the percentage of school revenue provided from local revenue, the greater the possibility for unequal financial resources and unequal educational opportunity in the state. A complete local support model provides no equalization among districts whatsoever.
- 9 The higher the percent of state funds provided, in relation to local revenue, the greater the progressivity of the tax structure for school support. State tax sources are generally more progressive than local tax sources.
- 10 The higher the percent of federal funds provided in relation to state and local revenues, the greater the progressivity of the school tax structure because federal taxes are generally more progressive than state and local taxes.

WHICH MODEL IS BEST?

After analyzing these models and the many variations of them, what plan would be considered *best* for a state or school district?

The answer depends entirely on the values and goals of those making decisions on school finance in the state and districts.

IF YOU BELIEVE . . .

**YOU WILL UNDOUBTEDLY
PREFER . . .**

- 1** That educational opportunities should be substantially equal, but that districts should be left with some tax leeway for enrichment of the foundation program . . .

An equalization model with tax leeway provisions for the district. The more equalization desired, the less leeway will be provided.
- 2** That educational opportunities should be completely equalized financially . . .

A complete state support program.
- 3** That all children, regardless of variations in their ability, talent, physical condition, cultural background or other variables, have a right to an education to meet their individual needs . . .

A model which will incorporate the necessary cost differentials to meet the needs of all pupils.
- 4** That educational opportunity should be substantially equalized *among* the states . . .

A model which provides a substantial percent of federal support apportioned in a manner to equalize opportunities among states.
- 5** That taxes for the support of public schools should be relatively progressive rather than regressive . . .

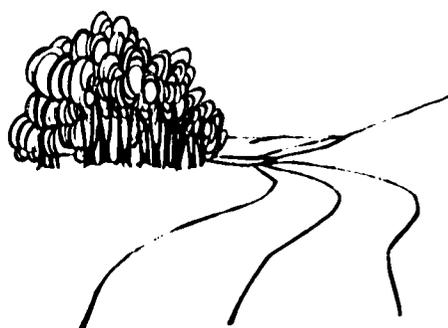
A model which provides a high percentage of revenue from state and federal sources.
- 6** That public education should tend to remove the barriers between caste and class and provide social mobility . . .

A model which does not promote the segregation of pupils by wealth, race, religion or social class.

IF YOU BELIEVE . . .

**YOU WILL UNDOUBTEDLY
PREFER . . .**

- 7 That all essential functions of state and local government should be equitably financed in relation to each other . . .
- A model which does not encourage state and federal funds to be allocated to local governments on the basis of "the more you spend locally, the more you get from the central government."
- 8 That the educational output per dollar should be maximized . . .
- A model which promotes efficient district organization and efficient schools within districts.
- 9 That a "federal" system of government is most desirable — providing clearly responsible local, state and national authority . . .
- A model which will enable public educational decisions to be made at the lowest level of government where they can be made efficiently. Thus, decisions should not be made at the federal level if they can efficiently be made at the state level; states should not make decisions when they can be made efficiently at the local level.
- 10 That education for all is essential to the successful operation of a democratic form of government in a free enterprise system and that it is essential to the economic growth of the nation and to the fulfillment of the legitimate aspirations of all persons . . .
- A model of education sufficiently financed to meet each state's and each individual's educational needs adequately to enable each person to attain his highest level of potential.



IX What Lies Ahead?

The pressing needs of the schools have met steadily increasing resistance upon the part of the people who foot the bills, the taxpayers. Inflation, heavy federal expenditures for an unpopular war, a high rate of unemployment, an unstable economy and the rapidly rising costs of practically all state and local governments (including expenditures for education) have undoubtedly all contributed to the taxpayer revolt that is not confined to taxes for education.

The Vietnamese War is being brought to a close and steps have recently been taken to halt inflation, stabilize the economy and reduce unemployment. It is hoped that these measures will remedy the major causes of the taxpayer revolt, not only to financing education, but also to financing other functions of government that are essential to the welfare of the nation.

The problem of educational equality also will be a major one in what remains of the 1970's and no doubt in the decades beyond. The California State Supreme Court decision, which held that the unequal financing of public schools through the use of local property taxes discriminates against the poor, and the filing of similar suits in other states insures a struggle to restructure school financing in the days ahead. The road to fiscal equality in education may be more tortuous than the one that leads toward racial integration in education.

If the legislatures meet the tax problem forthrightly and are able to institute equitable taxes for the schools, they will have taken an important step toward restoring public support of education.

What more should we expect during the Seventies?

Economists are confidently predicting that the remainder of the decade will see a steady growth in population and that it will be more affluent and better informed than ever before. They predict individuals will earn more, spend more and save more. If there is validity in their optimistic expectations, then we must anticipate and prepare for continued growth in education.

Americans can properly expect expansions in the field of early childhood education and programs for exceptional children. Vocational education and adult education at all levels will need to be expanded to meet the needs of a growing and more demanding nation.

If we are to have equality of education, which ought to be a Number One goal in all states, it will be necessary to move ahead on all fronts. It calls for combined and concentrated effort on the part of all three levels of government—federal, state and local. But the first and most important step is to set up long range, equitable financing for education. A hodge-podge, patchwork system of property taxes, varying from district to district and state to state will no longer meet the requirements of American education *nor will the taxpayers tolerate it.*

If the American dream of quality education for all the nation's children is to be met, then the policy makers and concerned citizens, which should include everyone, must ask themselves some searching questions:

- What educational programs and services will be funded in the states' school finance plans and for whom will these programs be provided?
- Will state funds be apportioned on the flat grant basis which ignores differences in the wealth of local school districts or on the equalization basis which provides more state funds per unit of educational need to poorer districts than to richer districts?
- Will necessary variations in unit costs of different educational programs and services be recognized or ignored in allocating state funds on either the flat grant or equalization basis?
- What proportion of school revenue will be provided by the state and what proportion from local sources and what proportion by the federal government?

- How progressive or regressive will be the state's tax structure?
- To what extent will the state provide for financial equalization of educational opportunity among school districts of the state?
- To what extent does the federal government have the responsibility to eliminate educational inequalities among the states?
- What are the financial needs of the public schools and how nearly can these needs be met taking into consideration needs for other governmental services and the financial ability of the state to provide them?
- Is America willing to take the bold steps necessary to make the dream of equal educational opportunity for all truly a reality?

THE CORRECT ANSWERS MUST BE FOUND
BY "WE THE PEOPLE"

