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AUTHOR Hornbostel, Victor O.
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ABSTRACT

In this speech, the author makes recommendations for the development of a national policy that would delineate roles among local school districts, intermediate school districts, States, and the Federal Government concerning the operation of school programs, the financing of school programs, and school governance. The author recommends that (1) States use a classification (weighting system) to express educational load in State school finance formulas; (2) States experiment with either full State funding plans or with foundation programs in revising their school State finance systems; (3) State tax commissions be given sufficient authority to improve the administration of taxes in States where taxes on property continue to be used as partial support for schools; (4) States revise their total school finance systems; (5) the Federal Government assume responsibility for a basic underwriting of general school finance and equalize support among the States in a given year period; (6) intermediate districts be used for the delivery of some school programs and services if they can do so more economically than local districts; (7) the operation of school programs remain the chief responsibility of local school boards; and (8) coordination of educational functions be achieved by assigning a given function to that echelon of the system closest to the student. [Page 1 may reproduce poorly]. (Author/JF)

AMERICAN ASSOCIATION OF SCHOOL ADMINISTRATORS
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SPEAKER: Victor O. Hornbostel, Dean, College of Education, University of Tulsa, Tulsa, Oklahoma

TOPIC: VIABLE FEDERALISM IN SCHOOL FINANCE, A LOCAL, STATE, FEDERAL POLICY

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Developments in financing school have reached the point where it is essential that a national school finance policy be formulated. Such a policy should delineate roles among local school districts, intermediate school districts, states, and the federal government in regard to the operation of school programs, the financing of school programs, and school governance.

SCHOOL PROGRAMS AS BASIS FOR DISTRIBUTING SCHOOL REVENUES

The major point of contention in the current turmoil over school financing is determination of what constitutes equal educational opportunity. Most school officials would suggest that the way to begin planning school programs for equal opportunity is to establish student needs in a given school district. However, the concept of student needs has been too nebulous to be useful to the courts in tests thus far.

This circumstance presents school authorities with a dilemma. How can they develop school programs based upon sound principles and how can they make a case for equal educational opportunity in the courts.

It will probably be necessary to think about the problem along separate lines of reasoning. Most educational theory suggest that program planning begins with education needs. On this basis and in order not to stifle initiative, program development should be regarded as a process engaged in by school authorities and citizens locally. It should be up to them to reach decisions on scope and content of the program, whether it be to concentrate on children and youth from age four through the twelfth grade or to work toward continuing education for all. Whatever the decision is, implementation in our system proceeds most effectively with placing full responsibility upon the professional staffs of local school systems.

This line of reasoning will not be pursued further in this statement because it does not help clarify the issues. The second line of reasoning leads more directly to the point of translating school programs into budgets. At least three approaches for doing this have been suggested by various interested parties. One approach is for a state to outline rather specifically a standard school program to be offered in each school district.

Another approach is to adopt a system whereby local school district officials would negotiate budgets directly with state department of education officials. A third approach is to develop a state system of weightings (classifications) for a complete school program.

The idea of a standard program offering has been suggested by some attorneys as the way to make the case for equal educational opportunity. None of the recent major studies of school finance has suggested this idea as a solution to the problem, and it has not gained support from educators. The main drawback to the idea may be that it appears to impose great state rigidity on program development.

Theoretically, a system of negotiated budgets seems ideal. Under such a system budget building would begin with statements of the needs of students, aggregated to classrooms, aggregated to attendance centers, aggregated to school districts, and finally, aggregated to a statewide budget for schools to be presented to the state legislature. This system is used in some states to accommodate unusual circumstances. Also, it appears to have the advantage of maintaining flexibility in program development by local educators. A disadvantage appears to be that state legislatures may be reluctant to enact such a system.

The question to be faced then is whether a system of reasonable classification (weightings) could be established that would effectively encompass the school program to be financed. There is considerable evidence and argument to suggest that this would be a worthwhile rationale to follow at this time. The basic idea is simply to define as a weight of "1" the cost per student in average daily membership of the regular school program for grades one through six, or some other grade designations. Then programs with unusual cost factors, such as those for special education, the disadvantaged, and vocational education are expressed as an index number in relation to the basic "1".

The notion of weighting has been with us for a long time. Cubberley's ideas could have been expressed this way and some of Mort's modifications of the Straiger-Haig foundation program were developed as weights. Most recently, the report of the National Educational Finance Project provides perhaps the most thorough examination to dateof the concept.

There are difficulties with the weighting idea. In the area of compensatory education, evaluation reports give conflicting evidence of the effect of cost differences. Traditionally secondary school students in regular programs have been weighted higher than elementary school students in regular programs and one can legitimately ask if they should be. Typically, weights represent existing practice in the state which may or may not be good practice. Any weighting system would need to be made subject to regular review, especially in the early stages.

On the other hand many arguments can be made for the concept of weighting. In the first place most states have three fairly distinct groups of school districts -- city, suburban, and rural. Their differences are sources of conflict in developing state legislation. It is possible that these groups could be brought together if their unique problems could be recognized adequately by appropriate weights in state

school finance systems. It is certain that the days ahead will be much more difficult if school groups are not together.

In the second place many present practices, state and federal, might be expressed as weights. State categorical aids in fact are cost differentials, so why not express them as weights. Title I (ESEA) categorical assistance might just as well be expressed in weights. If it is desired that these budget lines not be obliterated locally, such requirement could be placed upon the weighting system just asit is now on the categorical system.

Thirdly, if regional price differentials within a state or among the states can be justified, they could be expressed in a weighting system. It is conceivable that other such non-program factors might have to be dealt with in structuring a school finance system and they in turn could be expressed as weights.

In the fourth place, the emphasis on accountability will require increased work in cost analysis of different programs. School district staffs are doing some of this work now and will likely do much more of it in the future. We must have this information so why not use it also to establish our school finance structure.

In the fifth place, courts have accepted classifications on other problems. It seems reasonable to assume that a weighting system could be developed that would withstand court tests, or, stated differently, could help achieve equality of educational opportunity.

Finally, coordination of local, state, and federal school finance systems is long overdue. Perhaps the weighting concept would be useful in helping us fit the pieces of the puzzle together.

Recommendation 1. Of the choices available of how to express educational load in state school finance formulas, we recommend that states use a classification (weighting) system. This choice appears imperative if the needs of cities are to be fully recognized as well as if the needs of rural and suburban school systems are to be met. Weighting should give us the possibility of a greater rationality and coordination of the total system.

Raising School Revenues

The minimum wealth base for financing school programs is the wealth of the state as a whole, and not the wealth of a local school district according to the rationale being used in current court cases. Whether or not the Rodriquez case is upheld by the U.S. Supreme Court it seems unlikely that concern for obtaining greater equality of educational opportunity will diminish quickly, nor should it. The question to be examined then is how may one design a state school finance plan so that the wealth of the state as a whole is equally behind the education of each student.

School finance authorities suggest at least three ways to get at this problem. One way is to reorganize school districts so that each has more nearly equal property valuation behind each student. Another way is full state funding. The third way is to revise present school finance formulas to achieve the goal of equal dollars.

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Reorganization of school districts remains a problem in some states. However, the sheer task of attempting to set boundaries that would establish districts of equal wealth per student appears to be a political and administrative nightmare. There's hardly any reason to believe that we would ever reach the goal, and so this approach is not being given serious consideration.

Full state funding has received the endorsement of several study groups including the President's Commission on School Finance and the Advisory Commission on Intergovernmental Relations. One of the advantages of full state funding is that it would accomplish quickly what we have tried to do over the years with our formulas but with little success. It is argued, and on the whole rightly so, that state tax bases are broader than the local tax base, and in those states where substantial amounts of revenues are still obtained from property taxes the property tax could be made a state tax. Making the property tax a state tax would have the salutary effect of establishing a stronger state interest in the improvement of property tax administration. A major argument against full state funding is that it would tend to place greater control in the hands of the state. Proponents counter with the proposal that curriculum and personnel decisions would be left in the hands of local school authorities.

Perhaps the least drastic proposal for school finance reform is to revise formulas so that they reflect the full wealth of the state. Proponents admonish that this is the way to retain local control and that it is also the way to preserve the concept of local leeway for producing local school revenues for the purpose of encouraging local innovations. While these ideas seem fairly simple, the changes in the formulas necessary to meet the equal wealth test are fairly major.

The first requirement for the necessary revisions is that every educational function that is to be financed in part locally must be included in the formula. In prior years when states revised formulas, the tendency was to set the level of financing lower than needed, and also not to include all functions within the formula. As a result, little equalization was achieved and variation in educational opportunities among districts remained great.

The second requirement for revision of formulas has an old element and a new element to it. The old element is that the state would set a uniform local tax rate for local districts to take part in the foundation program. The new element by one proposal is that the local school budget would be district power equalized. In school districts where the given tax rate would produce more than the amount required for the local program, the excess would accrue to the state equalization fund. In school districts where the given tax rate would produce insufficient funds to cover the local budget, the state would provide the difference. In most, if not all, states, this plan would require state appropriations to the equalization fund in addition to funds obtained from wealthy property tax districts. At any rate, district power equalization is achieved through state revenues regardless of the local district wealth per student.

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In the present school finance turmoil, no one has ventured a firm opinion on what variation, if any, in dollar amounts per student will eventually emerge in state school finance systems. Most seem to think that there will be some variation, but how much is open to conjecture. The proponents of school finance reform through revision of formulas argue the case partly on preserving local tax leeway to school districts. To meet the equal wealth test such revisions must provide that a given leeway rate will produce the same dollars per student in each of the school districts of the state. In other words, local leeway will also be district power equalized. The combined foundation program and leeway would look something like this: The rate to be part of the foundation program might be set at 20 mills. In addition there might be the option that districts could go up another 5 mills. Both rate provisions must be available to all districts and a given rate must produce equal dollar amounts per student in each district which is only possible with a substantial state equalization fund.

At this point it can be observed that in practical terms there is not much difference between full state funding plans and revised formula plans in states that will need to continue to make some use of property taxes at least for the present time. In one case it is called a state tax; in the other case it is a state mandated tax with some local option. There is not a preponderance of advantages with either system at our present state of development.

Recommendation 2. We encourage states to experiment with either full state funding plans or with foundation programs in revising their school state finance systems. Conditions within each state will probably determine the approach that is taken.

Some Implications for Taxation

School finance reform will almost surely involve some shifting of tax burdens, and some shifting in revenue relationships among local, state, and national governments. The changes will be occasioned by which governments impose a given tax and on how the revenues are allocated. For this brief analysis we confine the definition of major taxes to taxes on property, sales, and income.

As stated in the previous section, for at least a time some states will continue to use property taxes for schools regardless of whether they move toward full state funding or toward revising foundation program formulas. In either case school authorities have a continued interest in improved administration of the property tax. This improvement can only take place under the supervision of state tax commissions with authority to take action on some of the major problems such as placing valuations on property. The state, for example, might assess and collect directly property taxes on industrial, commercial, and utility properties as part of the state budget for district power equalizing, or as part of the state budget for full state funding.

Under both plans of school finance reform the state has the same interest in the equalization of assessments of local property, a problem which requires state attention. While school officials should maintain

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an interest in improved property tax administration it appears that court cases on inequalities of property assessments will proceed independently of school finance equality cases. The problems are related but the solutions are sought point by point in separate cases.

In the future it is likely that proportionately more revenues for schools will be derived from sales taxes and income taxes than from property taxes. Both sales and income taxes are better administered by states than by localities and both have revenue production advantages at the state level. Not much can be said for sales taxes in terms of revenue elasticity but something can be said for the revenue elasticity of state income taxes and much can be said for the revenue elasticity of federal income tax. The shifting of some school support to these bases, and under the assumption of a growing economy in the long run, the growth revenues at state and federal levels should remove some of the day-to-day irritations that were of almost constant concern to school boards in raising support through property taxes.

Recommendation 3. We recommend that in states where taxes on property continue to be used as partial support for schools that state tax commissions be given sufficient authority to improve the administration of such taxes. We recommend further that school support be shifted proportionately more to taxes on sales and especially to taxes on income at both the state and federal levels.

State Responsibilities

One element of school finance structure that promises to remain unchanged is that education will remain fundamentally a state function as it has been over the years. None of the recent studies has suggested otherwise. In this regard two observations must be made. In addition to support for the current school program, states will also need to provide for services such as transportation and support for school facilities. The other observation is that the state has the key role in the solution of the school finance problem.

Support for a service such as transportation would be completely state supported under plans for full state funding. States that choose the formula revision approach might continue state and local cost sharing, or they might make transportation a state charge. The main argument for full state responsibility for transportation is that most persons do not regard transportation as an educational function, and thus the issue of control of the program is not pertinent to financing transportation.

Present provisions among the states for financing school facilities have not been given much attention in current discussions of the issues. In most states school districts are authorized by constitution or statute to engage in long-term borrowing in an amount equal to a stated percent of the assessed value of full value of property in the district. It is conceivable that these provisions too will be challenged as being unequal.

If states wish to keep the financing of building as a levy on property, the repayment probably could be established through district power equalizing the same as for current operation of the schools. It would take some other device, however, to provide equal bonding capacity per student to all school districts. One possibility is that the bonding

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capacity might be determined for the state as whole and then allocated to school districts. Another possibility might be to establish a state school building authority.

The foregoing points are rather minor, however, in the present opportunity for states to assume real leadership for the whole of school finance. All facets of financing must be considered as states revise their programs - the regular program, the special problems of cities, transportation, buildings, everything. The states will specify the parameters of local finance as they always have, but the states could also be much more influential in the form that federal support takes.

Recommendation 4. We recommend that states seize the present opportunity to revise their total school finance systems. States still hold the key to the school finance structure but they can no longer ignore the problems that must be faced and solved.

Federal Responsibilities

The time has come when the federal revenue collection power should be placed squarely behind the essential school program for all students. This could be accomplished by expanding the federally impacted aid program (general aid) to all districts in an amount sufficient to provide from 25 to 35 percent of the support for every weighted student unit. This basic program support should be tied directly to our expanding economy so that the amount increases as the economy increases. All federal support should be channeled to state departments and be coordinated with state support programs.

Wealth differences among the states must also be taken into consideration if financial equity is to be achieved. A portion of the general federal support should be allocated on an equalization basis to the states in relation to state per capita personal income or some other income basis. This equalization program should be planned for a period of years so within a reasonable time dollar amounts per weighted student are fully equalized.

Recommendation 5. We recommend that the federal government assume responsibility for a basic underwriting of general school finance and that it equalize support among the states in a five year period. All federal support should be coordinated with state school finance systems.

Intermediate District Responsibilities

Not all states have intermediate districts and some would argue that the basic district organization be such to eliminate need of an intermediate district organization. This may not be possible in all states. A case can be made for delivery of some school services and functions by intermediate districts when the cost per unit is lower than it would be in a local district and when the quality is at least equal to or higher than it would be if provided locally.

Some special programs might be provided by intermediate districts such as vocational education and special education. If the intermediate district provides the service this can take the place of weighting in

the school finance formula or it can take the place of categorical aids to local districts. A service such as data processing might also be provided more efficiently and economically by an intermediate district.

Recommendation 6. We recommend that intermediate districts be used for the delivery of some school programs and services if they can do so more economically than local districts, and if the quality is equal to or greater than it would be provided locally.

Local District Responsibilities

When states complete the revision of their school finance programs so that the wealth of the state rather than the wealth of the district is behind each student, then the main criterion for the organization of school districts is that they be the size that can best deliver educational programs and services. Local wealth should then no longer be a criterion for the organization of districts. Local boards would have some relief from trying to raise funds, and their attention could be focused on the operation of progress. This main responsibility, the operation of programs, should remain with local boards.

Recommendation 7. We recommend that the operation of school programs remain the chief responsibility of local school boards.

Four-Echelon System for Accommodating School Policy

A given state may have four echelons of government involved in school policy development--the federal government, the state, intermediate districts, and local districts. With this many levels of government in the act, the question that must be faced is how can coordination be achieved. Some Michigan administrators have suggested a rationale that might be useful. Emerson has observed that a given school function be allocated to that echelon of the system closest to the student and the ec on where it may be carried out with completeness, equity, efficiency, and responsibility.

He has attempted further definition of these terms from the standpoint of the effective operation of an intermediate school district. Completeness in this list of criteria refers to quality. It implies that the function be accomplished by professional standards. Equity implies that the function is available as a "right". Thus, if a student needs special education he gets it. Efficiency implies that materials and personnel are sufficient to do a professional job with commitments to capacity throughout the year. Thus a special education teacher is employed if the need exists and there is a full load. This does not mean that there could not be part-time responsibilities. Finally, responsibility implies that the function is ultimately controlled by popularly chosen boards representing the constituency served. These criteria appear to follow in the best education tradition of the United States.

Recommendation 8. We recommend that coordination of educational functions be achieved by assigning a given function to that echelon of the system closest to the student and where criteria of completeness, equity, efficiency, and responsibility are met best.

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