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ABSTRACT

State assumption of all responsibility for financing education would enhance equalization of educational opportunity, fix accountability for educational finance with the governor and the State legislature, accelerate measurement of student achievement, eliminate burdensome property taxes, and undercut the fiscal logic that now supports exclusionary zoning practices in many suburban jurisdictions. The role of the Federal Government should be to use its resources to reduce fiscal disparities among States and to encourage States to build compensatory aid factors into their financing plans. In applying State financing for education, the power to tax must be divorced from the power to spend. (Author/JF)

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
Washington, D.C. 20575

Statement by John Shannon, Assistant Director
Advisory Commission on Intergovernmental Relations
to the
Council of Chief State School Officers
Miami Beach, Florida
November 17, 1970

EQUALIZING EDUCATIONAL OPPORTUNITY--THE STATE AND FEDERAL ROLES

Senior Role for States

The Advisory Commission on Intergovernmental Relations strongly endorses the view that the States should be the senior partner when it comes to financing public elementary and secondary education. The Commission is a bipartisan national body created by the Congress in 1959 and charged with studying and making recommendations regarding Federal-State-local relations. A list of the Commission's present membership is appended to this statement as Attachment 1.

In its April, 1969, report, State Aid to Local Government, the Commission called on the States to relieve the local school districts of virtually all of the responsibility for financing education. Five considerations prompted it to take this position.

First and foremost, State takeover would represent a giant step toward equalization of educational opportunity.

In theory at least, State legislators could adopt "Robin Hood"-type fiscal equalization programs designed to skim off excess property tax wealth from rich school districts and transfer these resources to poor jurisdictions. In practice, however, this is extremely difficult as State legislators can generally be expected to support proposals that will aid their districts and to oppose any bald attempt to transfer their district's wealth to poorer jurisdictions. As a result, most State school aid programs at best are "mildly" equalizing; incredible as it may seem, many of them discriminate against the central cities where educational needs are the most dire. For this reason then, State school aid generally fails to level off the great peaks thrown up by wealth and local fiscal autonomy and only partially fills in the valleys left by anemic local resources.

Our Commission has clearly documented the fact that with each passing year since 1957, the central city school districts are falling further behind their suburban neighbors. In 1957, the per pupil expenditures in the 37 metropolitan areas favored the central city slightly--$312 to $303 for the suburban jurisdictions. By 1965, the suburban jurisdictions had forged far ahead--$573 to $499 for the central cities. This growing disparity between the central city and suburban school districts takes on a more ominous character in light of the fact that the central city school districts must carry a disproportionately heavy share of the educational burden--the task of educating an increasing number of "high cost" underprivileged children. Children who need education the most are receiving the least.

Our most recent reading of metropolitan disparities, based on 1967 data, indicated that 33.5 cents of each central city tax dollar went to education, while out in suburbia 56 cents of each tax dollar was used for this purpose. Central city residents, more than their suburban neighbors, require more "custodial" type services--the demands of law and order and poverty related services are reflected in extremely heavy central city outlays for police, fire, sanitation, and other public services. Thus, about 66% of all central city expenditures go for noneducational programs, while suburban communities devote 44% of their expenditures for noneducational purposes (table I).[1/]

Because of practical political limitations on the power of State legislators to transfer funds, only two ways remain for States to come to grips with local educational fiscal disparities. They can either create, via consolidation, ever larger local districts or attempt to neutralize local fiscal variations by progressively increasing State aid to all local districts in the State. While many States have made remarkable progress on the school district consolidation front, there are practical administrative and political

1/ For detailed analysis of the Commission's findings on metropolitan fiscal disparities, see ACIR Fiscal Balance in the American Federal System, Vol. 2 (A-31), October 1967 and ACIR Information Bulletin, Metropolitan Disparities--A Second Reading, (Bulletin No. 70-1), June 1970.

Table I

Per Capita, Total, Education, and Noneducation Expenditures
37 Largest SMSA's
Central City & Outside Central City Areas
1966-1967

		Total Exp.		Ed. Exp.		Non-ed. Exp.	
		CC	OCC	CC	OCC	CC	OCC
Northeast							
Washington, D.C.	D.C.	$564	$316	$148	$179	$416	$137
Baltimore	Md.	375	286	124	168	251	118
Boston	Mass.	482	321	92	137	390	184
Newark	N.J.	540	390	169	144	371	165
Patterson-C.P.	N.J.	270	273	97	151	173	122
Buffalo	N.Y.	392	372	128	207	264	165
New York	N.Y.	518	520	146	260	372	260
Rochester	N.Y.	499	403	158	265	341	138
Philadelphia	Pa.	293	255	126	139	167	116
Pittsburgh	Pa.	319	232	104	137	215	95
Providence	R.I.	241	201	94	109	147	92
		(408)	(317)	(126)	(160)	(282)	(145)
Midwest							
Chicago	Ill.	339	234	103	155	236	79
Indianapolis	Ind.	312	268	139	173	173	95
Detroit	Mich.	362	352	[illegible]	209	232	143
Minn.-St. Paul	Minn.	369	424	[illegible]	231	256	193
Kansas City	Mo.	303	238	137	127	166	111
St. Louis	Mo.	295	266	133	146	162	120
Cincinnati	Ohio	460	209	201	107	259	93
Cleveland	Ohio	328	282	132	144	196	138
Columbus	Ohio	299	267	111	162	188	105
Dayton	Ohio	353	228	161	132	192	96
Milwaukee	Wis.	416	383	151	165	265	218
		(349)	(286)	(137)	(159)	(211)	(126)
South							
Miami	Fla.	346	281	136	136	210	145
Tampa-St. Pete.	Fla.	305	216	113	113	192	103
Atlanta	Ga.	316	279	134	154	182	125
Louisville	Ky.	284	250	126	161	158	89
New Orleans	La.	233	318	93	143	140	175
Dallas	Tex.	219	290	91	177	128	113
Houston	Tex.	260	326	113	209	147	117
San Antonio	Tex.	204	208	101	145	103	63
		(271)	(271)	(113)	(155)	(158)	(116)
West							
Los Angeles-L.B.	Calif.	454	376	164	184	290	192
San Bernardino R&O	Calif.	471	435	202	219	269	216
San Diego	Calif	383	391	135	209	248	182
San Francisco-Oak.	Calif.	486	463	131	216	355	247
Denver	Col.	342	278	131	164	211	114
Portland	Ore.	378	256	150	172	228	84
Seattle	Wash.	326	376	127	226	199	150
		(406)	(368)	(149)	(199)	(257)	(169)
Unweighted average 37 SMSA's		363	308	136	170	230	138

limitations upon just how far they can go. The consolidation movement may leave out the districts most in need of such action--the districts regarded as pariahs by their most affluent neighbors. As a result, State assumption of substantially all the non-Federal share of financing education looms as the approach most likely to achieve that long-standing goal of educators and the American people--the equalization of educational opportunity. The current approach too often means that the accidents of local property tax geography determine the amount of resources allocated for a child's education.

Second, State assumption of most of the responsibility for school financing is necessary in order to fix political accountability for educational finance where it belongs--at the doorstep of the Governor and State legislature. If we spent twenty years in research, we couldn't find a system better suited than the present one for passing the educational finance buck. Rather than raise taxes, State legislators can now send parents and teachers back to local school boards in quest of more abundant educational financing. By the same token, the deficiencies of local financing always serve as an argument for larger State appropriations for local schools. The game has now taken on some of the characteristics of three cushioned billiards now that the Federal Government is also underwriting local educational costs, albeit a minor fraction.

Part of this inability to fix responsibility can be traced to the fact that education has burst its local political shell. The independent school boards have a constituency of their own. Governing boards of local general government--city councils or county boards of supervision--lack the ability to integrate educational expenditure needs with the other pressing program requirements of an urbanizing society. Yet, mayors and other leaders of general government are often held politically responsible for the higher property taxes voted by independent school boards.

The necessary corollary of our failure to fix responsibility for financing schools as between State and local officials is the difficulty of formulating effective equalization policies at the Federal level. As an objective of Federal policy, equalization becomes elusive--like trying to hit a moving target in the dark.

<u>Third, State takeover of educational financing responsibility will hurry history along with respect to the measurement of student achievement.</u>

Our present system of divided responsibility for school support has tended to place a great deal of emphasis on the dollars provided each local district rather than on educational achievements. Public attention is diverted to the objective of achieving State aid parity in dollar inputs rather than parity in student outputs. The reluctance of many educators to reveal student achievement scores is matched only by the reluctance of many assessors to reveal the lack of uniformity in property tax valuations.

With funding responsibility clearly fixed, it stands to reason that responsibility for performance will also be more clearly defined. State legislators will have ample reason to insist on knowing how well money is being spent--what level of performance is being achieved. Thus, State financing should give greater impetus to achievement testing and a full disclosure of the results of such testing. The more that is known about student achievement levels the more effective can become the spending of educational dollars.

Fourth, State financing of our schools is necessary because the combined expenditure demands of education and local government are placing too great a burden on the property tax base in general and on our low income householders in particular. It is a bitter commentary on our affluent society when hundreds of thousands of elderly homeowners are forced through the property tax wringer in order to finance the education of the young.

Our Commission ~ow urging all States to follow the lead of Wisconsin and Minnesota and to finance a sophisticated property tax relief program. We call it the "circuit-breaker" plan because it is the most efficient way to protect low income homeowners and renters from property tax overload situations.

But even if all States were able to pull the regressive stinger from the property tax, a powerful case can still be made in support of the proposition that we should not ask the local property tax to serve as the primary revenue instrument for both are schools and units of local general government.

Because educators and parents have the inside budgetary track, the school men are gradually pushing the cities and counties off the local property tax preserve. Year in and year out since World War II, school authorities have carved out an ever-larger piece of the local property tax take. In 1942, the school portion of the property tax was less than one-third; but by 1969 it was very close to 50 percent (Table II).

Moreover, legitimate questions can be raised as to the appropriateness of this tax for financing a function whose benefits are diffused as widely through the community, State, and nation as those of public education. The property tax--a highly localized source of revenue--is better suited to financing local general government (i.e., police, fire, local parks), many of whose functions benefit local property quite directly. Thus, instead of education being senior claimant on the property tax it ought at best to be a very junior claimant.

This development, in turn, could free up almost $15 billion in property tax revenue. This massive resource could be used both to meet the steadily expanding expenditure requirements of cities and counties, and also to provide a significant degree of relief for property taxpayers.

TABLE II --EDUCATION HAS DISPLACED GENERAL LOCAL GOVERNMENT AS THE CHIEF CLAIMANT FOR LOCAL PROPERTY TAX DOLLARS

Fiscal year	Distribution of local property tax collections by type of government					
	All local governments	School districts 1/	Primary units of general local government: Total 2/	Cities 2/	Counties 2/	Townships and special districts
	Amount (millions)					
1942	$ 4,347	$ 1,429	$ 2,571	$1,696	$ 875	$ 347
1952	8,282	3,246	4,351	2,711	1,640	685
1957	12,385	5,307	6,052	3,678	2,374	1,026
1967	25,418	12,433	11,006	6,295	4,711	1,979
1969 est.	31,500	15,800	13,480	7,720	5,760	2,220
	Percent					
1942	100.0	32.9	59.1	39.0	20.1	8.0
1952	100.0	39.2	52.5	32.7	19.8	8.3
1957	100.0	42.8	48.9	29.7	19.2	8.3
1967	100.0	48.9	43.3	24.8	18.5	7.8
1969 est.	100.0	50.2	42.8	24.5	18.3	7.0

1/ Includes est. amounts allocable to dependent city and county school systems.
2/ Excludes est. amounts allocable to dependent school systems.

Source: ACIR staff compilation (including 1969 estimates) based on U.S. Bureau of the Census data.

Fifth, by lifting most of the school financing burden off the local property tax base, the State would also undercut much of the fiscal logic that now supports exclusionary zoning practices in many suburban jurisdictions. The one-acre suburban lot can be denounced as an example of snob zoning, but it is more often justified as an act of local financial prudence--the only sure way of holding down school costs and hence local property tax rates. It must be remembered that in suburbia, education invariably claims at least one-half of the property tax dollar and its share often exceeds 70 percent.

Fiscal logic now calls also for building up the local tax base by zoning great stretches of land for commercial and/or industrial purposes. There is always the hope that a large share of the local tax burden in general and the school tax in particular can be exported to neighboring communities by snagging the giant shopping center, the industrial research park, or the massive public utility installation.

Confining the local property tax to the financing of essentially municipal-type services such as police and fire protection would not only reduce interlocal fiscal disparities in education but it would also tend to mute those competitive forces that are balkanizing our metropolitan society. Confronted with the fact that homes of modest value could pay their own way once relieved of the school financing burden, it would become far more difficult for suburban officials to justify either exclusionary types of fiscal zoning or their frantic efforts to attract the "big" property taxpayer. To put the issue more directly, State financing of education should work the right way on two fronts--less social segregation and more orderly development of the metropolitan area.

Objections to State Financing

Any proposal calling for far-reaching changes triggers many objections. The Commission's call for State financing is no exception to this general rule. Many friends of public education fear that State financing would both sound the death knell for locally administered school systems and reduce the flow of resources into the field of public education.

While there is no blinking away the fact that administrative power gravitates to the financing authority, there is no iron rule that dictates that this development must always take place.

The Commission believes that localities should continue to administer the schools even though the State provides all, or nearly all, of the money. The Commission also believes that localities should be empowered to supplement the State funds from local sources. But, to achieve the recommendation's dual purposes, any local financial supplement should be strictly limited--perhaps to not more than 10 percent. Otherwise the local property tax would not be freed up, and state-wide equality of educational opportunity would not be assured.

State assumption of school financing in the Commission's judgment is not inconsistent with effective local administration. Ample room for local initiative and innovation would remain. Liberated from the necessity of "selling" bond issues and tax rate increase, school board members and superintendents could concentrate on their main concern--improving the quality of their children's education.

Moreover, the long tradition of local control of education and the keen concern of parents for the educational well-being of their children would serve as sturdy defenses against any effort to short change educational financial needs.

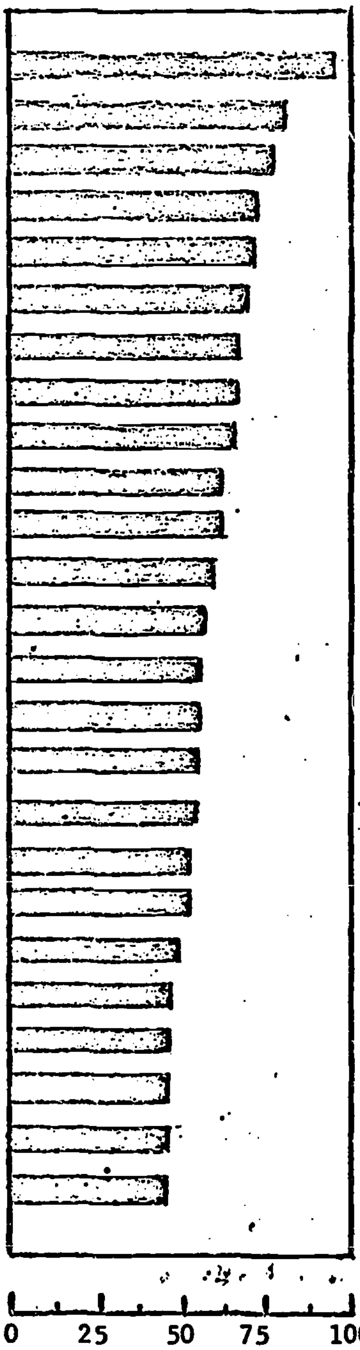
The friends of public education can also take comfort from the fact that there is no direct relationship between total State-local resources earmarked for public education <u>and</u> the share contributed by the State. This should allay fears that putting all or most of the financial eggs in the State basket will mean fewer dollars for public education. A recent survey by the Commission staff clearly indicates that wealth is the principal factor determining the amount of resources earmarked for education--not the size of the State's share of the financing.

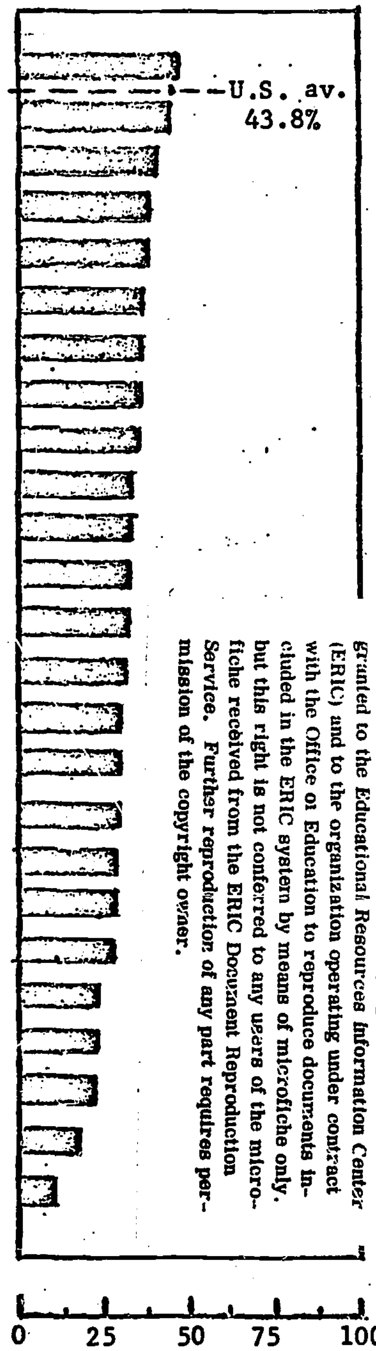
State assumption of responsibility for financing most or all of the nonfederal share of the cost of the nation's public schools is not as radical a proposition as many might be inclined to believe. At the present time, State government in Hawaii finances elementary and secondary education and Delaware, North Carolina and half a dozen other States are within striking distance of this goal (Chart 1).

Chart 1

STATE PERCENTAGE OF ESTIMATED STATE AND LOCAL
REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, BY STATE, 1969-70 1/

State %		State %	
95.7	Hawaii	45.4	Oklahoma
79.5	N.C.	41.7	Nevada
76.4	Delaware	40.3	Va.
73.7	Alabama	37.6	Md.
73.0	N.M.	37.5	R.I.
71.0	S.C.	36.9	Calif.
66.1	Miss.	36.8	Mo.
65.7	Ga.	36.4	Indiana
65.3	La.	36.3	Illinois
62.5	Wash.	34.3	Conn.
62.2	Fla.	33.1	Ohio
61.0	Ky.	32.8	Montana
58.8	Alaska	32.7	Wyoming
55.0	W. Va.	31.4	Iowa
55.0	Tenn.	30.3	Wisc.
54.8	Arkansas	29.8	N.J.
54.4	Utah	29.5	Vermont
52.7	Texas	29.3	Kansas
52.1	Arizona	29.2	N.D.
49.9	Pa.	27.1	Colorado
47.4	Maine	21.9	Oregon
47.1	N.Y.	21.4	Nebraska
46.9	Michigan	21.3	Mass.
46.8	Idaho	15.3	S.D.
45.9	Minn.	8.9	N.H.





1/ Receipts from own revenue sources.

Source: National Education Association, Estimates of School Statistics 1969-70, Research Report 1969-R 15.

The State and the Municipal Overburden Issue

The Commission recognizes that some States will move more slowly than others toward its recommended goal--the assumption of virtually all school costs. But municipal overburden and its effect on the quality of education is a clear and urgent problem in many school districts. Therefore, as an interim measure the Commission urges States to grant extra financial aid to school districts whose budgets suffer because of the phenomenon of municipal overburden.

The truth of the matter is that a small suburban school district and a large central city district may have tax bases with approximately the same amount of taxable property behind each student, yet because of the phenomemon of "municipal overburden" the central city school district would not be able to allow nearly as much per student for school purposes as the suburban district.

"Municipal overburden" stems from the fact that central cities are forced to pay more per capita than their suburban neighbors for almost all public services--police, fire, sanitation and public health services.

As noted earlier, while as much as two-thirds of all local tax revenue in the central city may be required for these "custodial" type services, suburban jurisdictions can put most of the local tax resources on "developmental" programs, particularly education. Therefore, States must recognize this reality and overthrow the simple assumption that because two school districts have the same amount of taxable property behind each student they are equally capable of raising money for school purposes.

As long as a State requires local school districts to make a substantial tax contribution, it should build a correction factor into its aid formula to compensate for the "municipal overburden" phenomenon. Unless this remedial action is taken, it is virtually impossible for big city school districts to maintain the same dollar level of educational spending as their suburban neighbors.

The State and the Educational Overburden Issue

State plans for aiding local school districts must do more than compensate for variations in both local fiscal capacity and general government pressure on the property tax base. In addition, the Commission has urged all States to compensate for educational overburden--to provide additional aid to those school districts large and small, urban and rural that have more than their fair share of "high cost" students.

The Elementary and Secondary Education Act of 1965 (ESEA) heralded the opening of a new source of substantial financial support for public schools, particularly for those school districts with high concentrations of students from low-income families. In fact, Title I of the act stands out as the first large-scale attack on the educational deprivation caused by poverty.

Before the passage of the ESEA, the United States Office of Education could identify only three States--California, New York, and Massachusetts--with any investment in compensatory education. By the end of 1967, however, another nine States had enacted programs. These 12 States had set aside almost $200 million to carry out essentially the same purpose.

Combined Federal and State aid for compensatory education (approximately $1.2 billion annually) is not large enough to match the extent of the problem according to the evaluation report of the Office of Education. Large numbers of children and schools in need are still left out,and school administrators at both the local and State levels face hard choices on where to spend the relatively limited amount of Federal and State funds for compensatory education.

The Federal Role

The leadership role that the national government has taken on the compensatory aid front clearly illustrates the type of action that the national government should take in the field of education. In the Commission's judgment, the State should assume primary responsibility for financing the cost of public education. The national government should use its resources so as to reduce fiscal disparities between the States and to stimulate action in certain critical areas. Encouraging the States to build compensatory aid factors into their own financing plans stands out as a clear case in point. In fact, our Commission has specifically urged that the Congress to use ESEA funds for the purpose of reimbursing those States that take corrective action in this area of compensatory education.

The point must also be emphasized that State assumption of primary responsibility for education would certainly be facilitated if the national government assumed complete financial responsibility for public welfare and medicaid, thereby freeing up almost $6 billion of State and local revenue.

If we apply the test of State self-interest, then the States should assume primary responsibility for public education while the national government should do the same for public welfare. A highly successful State financed educational program has its own reward, even if the benefits flow to those who do not help finance it. To educate one's children not only in an academic sense but in a context of social and civic responsibility may be deemed sufficiently worthy for the State to incur the necessary additional fiscal burdens. Moreover, State policymakers are becoming increasingly aware that a high quality educational system stimulates economic development. For this reason, it can be argued that it would be unnecessary for the national government to assume primary responsibility for a program that enjoys such powerful public support at a lower level. The national government's role therefore should be restricted to those aspects of financial aid that have an equalizing or stimulating effect.

Unlike education, public welfare is a "boomerang" function--a classic situation where virtue does not have its own reward. Those States that are unable or unwilling to provide a minimum level of public assistance compatible with family needs find their case loads diminishing, while those meeting this obligation are faced with expanding caseloads and costs. To put it more bluntly, the more generous a State is in setting welfare benefits the more reason it has to fear it will attract the mobile poor from other States. This fear is particularly keen in northern States. In relation to personal income, New York State expends from its own and local property tax resources more than 10 times as much on public assistance beneficiaries as do some of the southern States. There are also appalling variations in public welfare benefit levels around the country.

To make matters worse, recent Federal judicial and administrative actions have largely eliminated State control of welfare eligibility standards. As a result, there is increasing pressure by States and localities for Federal government assumption of complete responsibility for the financing of public programs--a position the Advisory Commission on Intergovernmental Relations strongly supports.

Summary

The essence of our problem is to create a more equitable system for financing public education while avoiding stifling mediocrity so often associated with centralization of fiscal power. We must, however, be willing to face up to the fact that sometimes it is necessary to divorce the power to tax from the power to spend. If we do not, we must be content to accept two bad situations. In the short run, an unwillingness to divorce revenue and expenditure responsibilities will produce a highly inequitable system in which quality of education is largely determined by the accidents of local property tax geography. In the long run, the demand for "equalization" will force the gradual centralization of both fiscal and administrative power with all the attendant risks associated with the hardening of administrative arteries.

Hopefully the measurement of student achievement can serve as the new approach for assuring accountability--with primary financial responsibility at the State level and primary administrative responsibility at the local level. To put the issue more directly, if the general public is given a clear picture of student performance, there is no need to fear the right of the State to tax for education or the right of the local school board to spend for education. Moreover, a full disclosure policy should also provide the best protection against the evils of stiff-necked bureaucracy at either the State or local level.

In our judgment, the central aim of Federal policymakers should be clear--to hurry this development along. They can do this by strengthening the general fiscal position of States through revenue sharing and by full Federal assumption of the welfare burden. This goal of extending educational opportunity will also be more readily attained if the National Government is willing to play a strong secondary role--that of reducing fiscal disparities between the States and in stimulating corrective State action on the equalization front.

ATTACHMENT I

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
October 1970

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- Robert E. Merriam, Chicago, Illinois
- Vacancy

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- George P. Shultz, Director, Office of Management and Budget

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