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ABSTRACT

This booklet contains a brief analysis of four "real life" alternatives (Minnesota, Michigan, Kansas, and New York) for State systems of funding schools, along with a concise conceptual framework for approaching the study of school finance reform. Because the booklet was prepared as a practical guide for State legislators, the authors avoid highly theoretical discussions of school financing systems and focus on concrete issues of reform within the context of the political atmosphere of each State. The authors see the publication as a guide for interested legislators to better understand the school finance controversy now ranging across the nation and also as a valuable tool for policymakers that should assist them in making better choices when responding to that controversy. (Author)

THE NATIONAL LEGISLATIVE CONFERENCE SPECIAL COMMITTEE ON SCHOOL FINANCE

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A LEGISLATOR'S GUIDE TO SCHOOL FINANCE

Prepared for

THE NATIONAL LEGISLATIVE CONFERENCE
SPECIAL COMMITTEE ON SCHOOL FINANCE

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The National Legislative Conference wishes to express its gratitude to the Special Committee on School Finance for the fine contributions it has made to the field of educational finance reform. Furthermore, we are especially grateful for the excellent leadership provided by the Special Committee's Chairman, Senator Thomas Laverne of New York. Senator Laverne's commitment to education is exemplified by his experience as a former teacher, as Chairman of the Senate Education Committee and as a member of the New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education.

The Special Committee on School Finance was established last February in response to numerous State and Federal Court challenges to the manner by which educational revenues are raised and distributed. Since its creation, the Special Committee has met on four occasions; the fruits of its efforts are well displayed by its excellent recommendations which appear in this Handbook.

John H. Conolly

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REPORT OF THE NATIONAL LEGISLATIVE CONFERENCE SPECIAL COMMITTEE ON SCHOOL FINANCE

Foreword by Senator THOMAS LAVERNE *New York,*
Chairman of the Special Committee

An urgent challenge faces state legislators throughout the nation: the need to reform the way we finance our schools. School finance, once the province of finance technicians and "school men," has now become a critical matter of general public concern.

Sharply mounting costs in education have revealed both the inadequacy and inequity of the present school finance system, with its heavy reliance on the local real property tax. The inadequacy appears both in the financial troubles of the schools and in the incentive provided by the real property tax to play the game of "fiscal zoning." The inequities, which have existed for years, have been highlighted by a series of major court cases—beginning with the *Serrano* case in California.

It is time for a new policy in school finance. Data collected by study commissions at both the national and state levels have pointed up the problems of the present system. The law developing in the courts, requiring changes in state school finance systems, is increasing the urgency of the need to change the old policy. The growing pressure for reform will overcome the obstacles which have prevented reform in the past.

Because of the critical importance of the school finance issue, Representative Bill Clayton of Texas, Chairman of the National Legislative Conference's Intergovernmental Relations Committee, appointed a 15-member Special Committee on School Finance, with its membership drawn from throughout the country. This committee was charged to examine the requirements developing in court decisions, to explore the options available to state legislators and to recommend policy positions at the annual meeting of the National Legislative Conference.

The committee saw its function not as another research group but rather as an action-oriented group. It set out to take advantage of the research of others in carrying out its responsibility of identifying what steps state legislators must take in meeting their challenge. With excellent support from the NLC staff, the committee discussed reports on major research efforts and on proposed solutions and agreed on a set of basic principles.

In its study, the committee reached agreement on a number of basic issues. Chief among these were:

- That states could assume responsibility for seeing that elementary and secondary schools are funded properly, and that the "equal opportunity" responsibility enunciated in *Serrano* be accepted, regardless of the eventual outcome in the courts, because the *Serrano* principle is right;

- That states put their taxing systems in order, by reforming the administration of their real property tax systems;

- That states review the governance of education, the relationships between state education departments and local districts to create effective systems for both accountability and measurement of educational need and effective methods for administering funds, both state and federal.

- That the federal government adopt a program of school support which will enable the states to do what they must and which will create a reliable, permanent and predictable federal role in a federal-state partnership.

The Committee Report

The National Legislative Conference's special committee on school finance affirms the principle that all states have an obligation to provide an equal educational opportunity and quality education to all children attending public school within their jurisdiction. We are in agreement with the principle established in *Serrano* v. *Priest* that the quality of a student's public elementary and secondary education should not be dependent on the affluence of his parents or school district. Regardless of future court actions, we believe that the principle established by *Serrano*, so far as public education is concerned, is essentially reasonable and equitable and ought to serve as a policy objective for every state.

We recognize that varying constitutional dictates and differing tax preferences within the separate states make it impossible to suggest any uniform school finance system that would meet the needs of all states. Each state will have to develop one which best responds to its individual circumstances. Whatever general guidelines are agreed upon by the states, however, must be fair and equitable to both the taxpayer and the public school student, and must, by definition include:

(1) Equalization of property taxes, and

(2) Control of local expenditures.

In order to accomplish these objectives, the National Legislative Conference makes the following recommendations:

I. Money alone will not cure all the ills of our public education system, but no improvements can be made until the manner in which educational funds are raised and distributed is altered.

The states, in line with their clear constitutional jurisdiction over education, should assume full responsibility for raising and distributing the revenue for public elementary and secondary education.

II. Evidence clearly shows that the manner by which local property taxes are levied for financing public education favors wealthy localities with a large non-residential tax base and penalizes those jurisdictions with a small non-residential base.

The states, in fulfilling their responsibility in the area of educational finance, should move toward stabilization of and, where possible, a reduction in their reliance on the local property tax as a revenue source for public education.

States which continue to use the property tax as a source of educational revenue should initiate a review and, where necessary, a reformation of their property tax administration. Specifically, the states are urged to adopt a uniform

system of assessment to assure an equalized property tax burden.

Furthermore, the method of taxation used to supplement or supplant the property tax base should have a growth factor comparable to the increase of educational costs.

III. Local, non-educational public services are financed largely from the property tax, and although the central cities tend to have a relatively large property tax base, the total burden placed upon their tax base usually is heavier than it is in areas where the demand for such public services as sewage maintenance, street lighting, fire and police protection is low.

In the attempt to equalize the costs of maintaining schools, states are urged to recognize those non-educational expenses, for example, municipal overburden, which affect local tax burdens.

IV. An equal educational opportunity implies an equalization of educational resources among school districts. In order to equalize resources among districts, two alternatives are available: (1) reduce education funds from some districts to raise the resource level for others, or (2) provide substantially increased funds to raise the poorer districts' resources up to a level enjoyed by the more affluent districts. The latter is obviously preferable.

No school district should be compelled to reduce its level of expenditure while a state moves toward assuming its full role in financing and distributing educational funds.

The equalization level is a matter to be determined by each state. However, it is recommended that the 65th percentile level of per-pupil expenditures be the minimum standard guaranteed by each state.

V. Equality does not mean identical treatment. The crucial value to be fostered by a system of public education is the opportunity to succeed, not the uniformity of success. While all are equal under the law, nature and other circumstances yield advantages to some, while handicapping others. Hence, as the President's Commission suggested: "To offer children only equal education, disregarding differences in their circumstances is merely to maintain or perhaps even to magnify the relative effects of advantage and handicap. Equal treatment of unequals does not produce equality."

A concept of equal educational opportunity should reflect a sensitivity to the differences in costs and variations in interests and needs of those to be educated. Attempts at relieving disparities by attending to particular educational needs and variations in costs will prove fruitless, however, unless those needs and costs can be clearly identified and fully quantified.

We support the recommendation of the President's Commission on School Finance which calls upon the states to develop both a Cost-of-Education Index and an Educational Need Index.

VI. Although it has been accepted that the responsibility for education is reserved for the states, no level of government—federal, state or local—can escape involvement in the educational process. The acceleration of changes in American society, the vast mobility of its people, and the extent to which gross disparities in education can reflect adversely on the quality of an individual's life have combined to make education a matter of concern beyond the boundaries of the states. For the states to play a full role in the funding and distribution responsibilities for elementary and secondary education, substantial tax increases will be necessary. Many surveys have concluded that the average state would be required to increase its revenue collections by more than thirty percent if it wished to assume ninety percent of the costs of public elementary and secondary education. And yet, the federal tax structure severely impedes the capacity of the states to develop revenues at a rate sufficient to meet increasing educational costs.

The National Legislative Conference recommends that the federal government substantially increase its level of financial assistance (presently at seven percent) for public elementary and secondary education. Increased federal funding should serve the purpose of assisting the states in greater equalization of resources. Federal assistance should

take the form of grants for the general purpose of equalization but should remain otherwise unrestricted.

With respect to P.L. 874 funds, if they are not considered in a school district's ability to pay, any attempt by the state to provide equalization may be distorted. Accordingly, we urge Congress to give consideration to allowing those funds to count as local school district contributions.

VII. Federal assistance is necessary to maintain certain operating programs in elementary and secondary education. However, even with federal assistance, many worthwhile educational programs are delayed or even eliminated because of the uncertainty surrounding the amount and timing of federal appropriations. Adequate foreknowledge of the amount of federal assistance is imperative if states are to structure properly their own appropriations and tax policy. Many educators feel they would rather not have the funds than not be able to depend on their timely authorization.

In full endorsement of the recommendation of the President's Commission on School Finance, we urge the enactment of federal legislation that would guarantee to state and local school systems, in the event of delays in federal outlays, 80 percent of the funds provided in the previous year.

We strongly urge the Congress to restructure its appropriation process so that school districts know well in advance of a school year the exact amount of their federal aid.

Most educators would prefer that federal funds be available in general block allocations rather than in specific categorical grants. The Committee supports this preference but stresses that as a prerequisite to the creation of such a program, the states must instill confidence in the federal government in their ability to handle effectively such allocations and insure, through a monitoring system built into the plan, that such funds are actually being spent as state policy directs.

VIII. If the states are to assume a more active role in public education, especially in the realm of funding, and if they are to expect increased federal assistance, they have a responsibility to improve their governance of education.

States should take immediate action toward strengthening their educational administrations in order to insure the efficient flow of both federal and state revenue and to guarantee that funds, be they federal or state, are applied for the purposes intended.

IX. The argument is made that a greater assumption of school financing responsibilities by the state will undermine, or perhaps even destroy, the tradition of local control of education. We believe that local control is not dependent on local tax raising ability. Local school districts are the creation of and responsibility of the state. Their authority to raise funds for education comes as a result of delegation by the state of its own taxing authority.

There is a distinction between local fiscal control and local control over policy. Local fiscal control is no longer a possibility if financial discrimination is to be terminated in public education. Insistence upon financial control over education by the state in order to eliminate discrimination to taxpayers and students in no way has to interfere with continued administrative and policy control of the schools by the local districts. On the contrary, the new standard of school finance encouraged by *Serrano* suggests that for the first time poor school districts will enjoy significant local control over educational policy, which the lack of resources has previously made impossible.

Evidence fails to demonstrate any correlation between an increase in the state assumption of educational costs and loss of local decision-making authority. If anything, the evidence suggests that local decision-making power to shape the content of local educational programs is enhanced once local boards are freed of the burden of searching for essential financial resources.

Regardless of how the states decide to finance their system of public education, they can and should leave policy decisions and administrative control in the hands of local districts. It is the state's obligation to insure that a basic educational package is delivered to all children on an equalized basis; it should be the local district's prerogative to determine how that package will be delivered.

X. At least 75 percent of current operating expenditures in education go into teachers' salaries and salaries of other employees. Because of the fiscal magnitude of this portion of educational costs, increased state responsibility in this area will be necessary.

The National Legislative Conference recommends that as an essential corollary to state assumption of the fiscal responsibility for public education, the state should play a larger role in the determination of teacher salary schedules.

XI. Some of the fiscal reforms in public education will be nullified if the increased funds flowing to school districts are not used efficiently.

Each state should review the governance of education, the relationship of state departments and local districts, the present and potential effectiveness and accountability of the department of education as a conduit of funds. The creation of a state organization capable of administering federal funds and of supporting local districts may be required.

XII. The issue of school finance reform is only in the initial stages of debate. It is certain that reform will not come overnight—and may not come at all without the ongoing efforts of concerned organizations and interest groups to educate the public and elected officials about the crisis before us.

We wish to express our agreement with the general policy statement on Educational Finance Reform adopted by the National Governors' Conference. In particular, we endorse its two major recommendations calling for immediate action from the states toward equalizing educational opportunities and urging assumption by the federal government of far greater responsibility for the financing of education.

XIII. The next session of Congress promises to be a critical one for the future of public education in the United States. All of the major funding bills for elementary and secondary education will be up for review. The National Legislative Conference looks forward to working together with other concerned organizations, such as the Governors' Conference and the Education Commission of the States to press Congress for the financial assistance which will help states meet their responsibilities in public education.

The Special Committee on School Finance recognized that its task is not completed by submission of this report. The Committee should continue to function in order to encourage the implementation of those recommendations agreed upon by the NLC and to attend to the ongoing developments in the field of school finance reform. It should also expand its lobbying efforts with Congress and state legislative leaders and increase its public relations efforts toward that end.

The National Legislative Conference has offered the preceding recommendations on school finance, aware that reform of the manner in which educational revenues are levied and spent is a necessary precondition for the realization of the societal goals we have established. While there is much to commend about our education system, much work still remains to be done before the promise of quality education is fulfilled. A tremendous challenge is presently before us, for there is no more important business in an open, democratic society than the education of our young.

* * *

This handbook is offered to provide guidance to state legislators in developing a reasonable response to this challenge. It presents in concise form the basic information needed to cope with the school finance problem. It analyzes the elements of the problem and describes four alternative approaches. The handbook was produced for the Special Committee on School Finance by volunteers with the assistance of the Education Commission of the States and the National Program for Educational Leadership.

Besides being a valuable tool for the policymaker, this handbook is a concrete example of an emerging coalition of those who are concerned about schools, school finance and what schools do for children. We are grateful to these cooperating organizations for their part in the production of a timely and useful document. We look forward to their continuing cooperation in the future work of the Special Committee.

We also hope to broaden this coalition to include other organizations interest in school finance reform, such as the Council of State Governments, the National Governors' Conference, the National Education Association and the National School Boards Association. A vigorous and coordinated effort is needed to accomplish what needs to be done in making state legislators aware of their combined challenge and opportunity, in urging Congress to take the steps it must take to make reform at the state level financially feasible, and in explaining to the public their stake in the adoption of a more reasonable and more equitable school finance system.

SUMMARY

PREPARATION OF THE BOOKLET: BACKGROUND AND PURPOSE

This booklet contains a brief analysis of four "real life" alternatives for state systems of funding schools, along with a concise conceptual framework for approaching the study of school finance reform.[1] Since the booklet was prepared as a practical guide for state legislators, it avoids highly theoretical discussions of school financing systems. Rather, it focuses on concrete issues of reform in the context of the political atmosphere of each state. The goal is to enable interested legislators to understand better the school finance controversy now ranging across the nation and provide them with the tools to make better choices in responding to that controversy.

The School Finance Controversy in a Nutshell

The booklet's first major section is an introduction entitled "Issues and Possibilities In School Finance." In a short background discussion of the problems leading up to this nation's current school finance controversy, it describes the controversy as having two basic ingredients: inadequate funding (the "*adequacy* problem") and inequitable collection and distribution of education funds (the "*equity* problem"). The legislators' dilemma is posed in the following way: how to provide new money for *equitable* school finance when there is too little money to fund *adequate* public elementary and secondary education.

The *adequacy* problem is discussed in the context of "the taxpayers rebellion." The *equity* problem is identified as

[1] A printed appendix is available for anyone who would like to study more closely the specific financial situation of the states covered in this report and to examine the legislative provisions of those specific proposals. The appendix contains a complete financial analysis of the school financing systems, both past and proposed, in the four states and, where available, copies of the legislation which embodies the new proposals. State legislators can obtain the appendix, at no cost, by writing Mr. Richard Merritt, National Legislative Conference, 1150 Seventeenth Street, N.W., Washington, D.C. 20036.

having been raised by the widely publicized court decisions beginning with the California Supreme Court's suggestion that that state's school finance system might be unconstitutional because of its reliance on local wealth for funding public education.

Next the introduction briefly analyzes recent and current school finance litigation. In these lawsuits, two common complaints emerge: First, state laws allow taxpayers in wealthy districts to tax at low rates and fund education at relatively high levels, while the taxpayers in poor districts pay more to get less; second, state laws make greater school resources available for children in some communities than for comparable children in other communities.

The introduction then clarifies three points about these court decisions which have declared unconstitutional five state systems of school finance. First, the courts do not say that the property tax, *per se*, is an unconstitutional tax. What they say is that, due to large variations in district wealth under the present systems, huge disparities in per-pupil expenditures result. In other words, states have established and maintained systems for funding schools that unconstitutionally discriminate against children residing in poor school districts. Second, the court decisions do not require, nor do they suggest, that states must enact plans to provide equal dollars per pupil. In short, the "one dollar-one scholar" analogy to the reapportionment cases has not been drawn by the courts, nor is it being pressed before them. Third, no court has designated what should be done to correct the unconstitutional systems of funding schools. This task has been left to the state legislators.

Since equal educational opportunity, as defined by the courts, does not seem to call for equal dollars per student, the introduction goes on to suggest certain factors that arguably justify unequal expenditures:

—higher funding levels for students with special handicaps and needs;

—higher funding for socially and economically disadvantaged children and/or for those with health problems; and

—higher funding for high cost districts, such as sparsely populated rural areas that lack economies of scale or densely populated urban areas where land, teachers' salaries, and others costs are high.

What is needed, the introduction concludes, is a "cost of education index" and an "educational needs index." Several techniques are suggested for handling educational needs and cost differentials:

1) Pupils could be counted and aid allocated on a weighted basis, with the weighting based on carefully evaluated exemplary programs;

2) A given district's aid could be keyed to socio-economic characteristics such as family income, student achievement levels, etc.;

3) Aid could be tied to tax capacity or actual educational cost for services similar to those provided in other school districts.

Next the introduction describes in some detail two school finance alternatives which are increasingly being discussed by state legislators. They are "full state funding" and "district power equalizing."

The last section of the introduction discusses briefly how to raise additional tax revenues. No "best" tax is identified, because the history of state taxation and the distribution of wealth among taxable resources vary so widely among the states that a conclusive discussion of state tax alternatives would be wholly inappropriate.

A DESCRIPTION OF FOUR STATE ALTERNATIVES

The four states are discussed in the following order: Minnesota, Michigan, Kansas and New York. This ordering was chosen to reflect the varying stages of acceptance for the specific proposals (see chart below).

Status of the Four State Proposals

	Minnesota	Michigan	Kansas	New York
Proposed Formally By A State-Appointed, Non-Legislative Study Commission	No	Yes	No	Yes
Proposal Formally Introduced as a Bill in the State Legislature	Yes	Yes	Yes	No
Status of Legislation: Passed (P) Defeated (D) Still Pending (S)	P	D, S*	D	—

* Defeated, but modified and re-introduced.

The length of the reports for the four states is directly related to the amounts of legislative consideration devoted to them. For example, the Minnesota report, which discusses a proposed school funding system that has passed the Minnesota legislature, is the longest; whereas the New York report, which discusses an alternative that is yet to be introduced as legislation, is much shorter.

An attempt was made to present the reports in a uniform fashion so as to facilitate comparison. Generally, the following outline was used:

—a description of the previous (or current) school finance formula and the tax structure supporting it;

—a description of the forces for and against change of that formula;

—a description of the proposed changes to the formula;

—a description of the political process surrounding the legislative deliberation over the proposed alternative; and

—a brief statistical appendix for a select number of exemplary districts.

Minnesota

The Minnesota report traces the political evolution of a plan that is largely a revised version of a program now operating in many states—the "minimum foundation program." The significance of the Minnesota proposal, however, transcends its similarities to other programs in other states. It is remarkably innovative in its provisions for special weighting for disadvantaged children, counting pupils according to their enrollment rather than their attendance (thereby eliminating discrimination against school districts which have high instances of absentees), and the establishment of what amounts to a statewide property tax.

Perhaps the most notable fact about the Minnesota legislation is that it passed the legislature and is now law. Therefore, the Minnesota report may be an especially instructive guide to legislative passage of school finance reforms. Certainly, a major component of this success story was the active support and involvement of both the Governor and the finance committee chairman of the legislature.

Michigan

In Michigan, like Minnesota, reform efforts have been championed by the governor, and the proposed changes would again be very dramatic. Governor Milliken's plan would shift school support from its major dependence on local property taxes to much greater reliance on a state income tax. A foundation program, based on a uniform personnel:pupil ratio throughout the state, would be instituted as an approach to "equal opportunity," and local districts would be allowed small local millages for enrichment and categorical programs. Virtually every district could have its per-pupil expenditures increased.

The legislative history of Michigan's efforts so far is a lesson in the political pitfalls that can swallow up even widely acceptable proposals.

Kansas

In Kansas an attitude of austerity prevails. Tax questions seem to be a dominant concern in school finance considerations.

A legislative committee has rejected a school finance bill which would have implemented district power equalizing. The bill, written after proposals offered by educators and farmers were modified by pressure from labor unions, utility and railroad interests and others, was a real compromise measure.

Under SB-716, local effort (rather than local wealth) would have determined education expenditures for each district. The state would have assumed responsibility for all transportation costs. Although hardly radical, the bill was considered too expensive.

In spite of the fact that the bill received little support, it will probably form the nucleus of a new committee effort. The major obstacles to be overcome seem to be a fear of more taxes and an inability to unite behind a proposal.

New York

School finance in New York has been extensively studied, and the initiative for action has now switched to the legislature. Of the states in this report, New York could be characterized as the slowest, most thorough and deliberative in the process of reform. Whether or not this extensive study will pay off is yet to be seen.

The New York report describes the Fleischmann Commission, which was created by the legislature and mandated to study all aspects of New York education and to propose reform. The report deals almost exclusively with the Commission—the reasons for its birth, the conclusions it reached, and the reaction to it.

The Commission, concerned primarily with the problem of equalization, recommends full state funding. A state-wide property tax is proposed, with the rate of taxation to be uniform and frozen at or slightly below its original rate. Revenue would be distributed by the state to bring all schools up to the level of the district spending at the 65th percentile. Expenditures of those above the 65th percentile would be frozen until the rest of the state catches up. Educationally disadvantaged children would be weighted at 1.5.

Legislation is now being written to implement the Commission's recommendations. The New York experience cannot be fully evaluated until the legislature responds to those proposals.

A COMPARISON OF PROPOSALS FROM FOUR STATES

	Specific Features of State Proposals		Minnesota	Michigan	Kansas	New York
TAXES	*Equalizes Property Tax Rates State-wide*		Yes	No	No	Yes
	Provides General Property Tax Relief (i.e. reduces total amount of revenues derived state-wide from the property tax)		Yes	Yes	No	No
	Provides Special Property Tax Relief (i.e. reduces taxes for specially identified classes of tax-payers, such as elderly, renters, farmers, businesses, etc.)		Yes	No	No	Yes
LOCAL DISTRICT CONSIDERATIONS	*Eliminates District Taxes,* i.e. Full State Funding		No	No	No	Yes
	Limits District Contributions		Yes	Yes	No	Yes
	Allows Districts "local leeway" or "local add-ons"	Limited (l) Unlimited (u)	u	l	u	No local add-ons permitted
		Equalized (e) Nonequalized (n)	n	e, n *	e	
GENERAL EDUCATIONAL EXPENDITURES	*Raises Total State-wide Expenditures for Education* (thus requiring a (net) increase in total taxes)		Yes	Yes	Yes	Yes

* Add-on millage for enrichment would be equalized; add-ons for categorical programs would not be equalized.

Specific Features of State Proposals			Minnesota	Michigan	Kansas	New York
GENERAL EDUCATIONAL EXPENDITURES	levelling up percentages	% of students who will receive more $ under the proposed system	99%	99%	depends on tax rate chosen by local districts	67%
		% of districts that will receive more $ under the proposed system	96.4%	95.2%		65%
		% of students who will receive at least as much or more under the proposed system	100%	100%		99.9%
		% of district that will receive at least as much or more under the proposed system	100%	100%		99.7%
SPECIAL EDUCATIONAL EXPENDITURES	*Provides Extra "Weighting" for Educationally Disadvantaged Pupils*		Yes	No	No	Yes
	Varies State Contribution to Districts According to Some Form of Regional Cost Differentials		No	Yes	No	No
	*Provides Extra Funds for Districts With High Non-educational Expenditures** (i.e. municipal overburden)		No	No	No	No
CONSTITUTIONAL CONSIDERATIONS	*Existing System Challenged in Court:* in process (i); decided in favor of plaintiffs (p); defendants (d)		p	i	i	d
	Proposed System Satisfies Serrano Standard		No	Yes	Yes	Yes

* Non-educational costs are municipal costs which constitute the so-called "municipal overburden" which larger urban centers appear to suffer.

A Note on the Statistics

The school finance data included in the handbook after each state study seeks to indicate, in abbreviated form, the characteristics of the present and proposed school finance systems; in particular, emphasis is placed on the fiscal impact that the proposed systems would have on certain types of school districts. Hopefully, these appendices will permit the interested citizen to understand better the overall links between educational need, fiscal capacity, and tax effort, as well as their relationship to the revenue and expenditure outputs of current school finance systems.

There are any number of ways that the illustrative data can be interpreted or represented. The following are just a few observations that can be made:

- Educational need, as measured by Title I ESEA monies per pupil, is largest in cities and rural districts. Suburbs — both of the fast and slow growth variety — tend to have relatively lower concentrations of educational need than cities and rural areas.

- Fiscal capacity as measured by adjusted gross income per pupil or full value of property per pupil is greater for slow growth suburbs and central cities than for fast growth suburbs and rural areas. Central city wealth may be more apparent than real as recent research has shown,[2] but clearly there are suburbs that may be in need of expanded external aid as measured by fiscal capacity per pupil. It should also be noted that the property value measure markedly overstates the wealth of rural areas as compared with a personal income measure.

- *School* tax effort (as contrasted with *total* tax effort) tends to be greater in suburban areas than in cities and rural areas. Cities often are faced with problems of municipal overburden (that is, they tend to have ex-

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[2] Joel S. Berke and John J. Callahan, "*Serrano* v. *Priest*: Milestone or Millstone," *Journal of Public Law*, Vol. 21, No. 1, 1972, pp. 23-72.

tremely high *total* tax efforts[3]), and rural areas have a fiscal capacity that is too low to permit suburban levels of taxation.

- Educational need, fiscal capacity, and tax effort problems rarely run in the same direction. Of all three types of jurisdictions, central cities, by some measures, have the greatest educational need and *total* tax effort problems. Rural areas tend to have above average concentrations of need and relatively low levels of fiscal capacity. Suburbs on the other hand, often have low educational need, above-average capacity, and high *school* but low *total* tax rates. However, there is considerable variation in fiscal characteristics among suburban jurisdictions as this and other data show. Some suburbs are fiscally more hard-pressed than others; yet, as a class, suburbs probably have the least pressing fiscal problems of the three types of jurisdictions.

- Most of the current aid systems in this report only partially offset variations in fiscal capacity and school tax effort. They do not offset variations in overall tax effort or educational need. Yet, some of the alternative proposals, particularly those in Minnesota and New York, would take these variations into account. Throughout, it must be noted that current external aid is usually less than local revenues raised for education. This fact probably accounts for the present disparities in school finance in the states studied.

- Many expenditure variations may not necessarily be related to educational product, as the data suggests the variation in total expenditures is considerably greater than that in instructional expenditures. If instruction is still considered the means of producing educational excellence, many of the expenditure disparities lose some of their pressing urgency. On the other hand, as supportive expenditures increase the excellence of in-

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[3] Seymour Sacks, *City Schools/Suburban Schools: A History of Fiscal Conflict* (Syracuse: Syracuse University Press, 1972); and Joel S. Berke, Alan K. Campbell, and Robert J. Goettel, *Financing Equal Educational Opportunity: Alternatives for State Finance* (Berkeley: McCutchan Press, 1972).

struction, the total expenditure disparity is still relevant.

- Most of the alternative finance plans studied would have the effect of reducing the aid and spending gap between central cities and their suburbs and of considerably raising the levels of aid and expenditures of rural areas.

INTRODUCTION

by Anthony Morley

ISSUES AND POSSIBILITIES IN SCHOOL FINANCE

"Crisis!"

Someone has supposedly remarked that a simple solution to the problem of fair pay for state legislators would be to give each of them a dollar every time someone shouts, "Crisis!" in his ears. That would probably send the lawmakers home wealthy; it would certainly lighten the doomsday mood of public debate.

While some crises may be overblown, however, there is really no question that our nation as a whole has entered a critical period regarding public school finance. The paths leading into this period are complex, as are the possible and practical paths leading out of it. Choosing those paths will chiefly be done in the debates of state legislatures, which this handbook is intended to serve. But the basic ingredients of our present crisis are actually quite simple. There are two of them, closely intertwined:

1. There is not enough money for schools—at least never as much as the schools say they require.
2. What money there is, is neither raised fairly nor distributed fairly—at least not fairly enough to satisfy some courts.

We can call these the *adequacy* problem and the *equity* problem. Obviously, in terms of traditional American values, the equity problem is the more serious—this country can manage with less money; it cannot manage with less justice. In reality, however, the two problems aggravate each other. When money is short, unfair ways of raising and spending it seem even more offensive than in times of plenty. Yet practically speaking, it takes new money to redress old inequities. Thus the legislator confronts a dilemma: how to provide new money for *equitable* school finance, when already there is too little existing money for *adequate* school finance. Without exaggeration, that dilemma is a crisis.

Inadequacy in School Funding

At the root of the fiscal inadequacy problem is the fact that school expenditures have been growing much faster than the economy as a whole, and that therefore school costs have begun to outstrip the ability of traditional taxes to cover them. Between 1949 and 1967 school costs rose at an annual rate of 9.8%. In the same period the yearly increase in gross national product was only 6.4%. To make up the difference required that public school spending absorb a steeply increasing proportion of the gross national product—from 2.3% in 1949 to 4.0% in 1967. Measuring the cost-climb for schools against growth in personal income tells the same story: expenditure per pupil grew nearly three times as fast as income per citizen. Therefore taxpayers have had to try harder, increasing state and local school revenues from 4.0% of personal income in 1961 to 4.9% ten years later.

During most of the 1960's people paid these higher taxes with only the normal grumbling that social custom requires. After all, schools were a "good thing" in any community, the country was prosperous, and who could really object to new buildings for expanded enrollments or better salaries for underpaid teachers? But with the coming of the 1970's this happy picture began to change—drastically.

For one thing, there were signs of a striking shift in public attitude toward the schools. Optimism about their fine work was often undermined by disappointing results, appalling dropout rates, and documented charges that many high school students could barely read. The image of school as a place of order and industry, transmitting a stable culture, was challenged by reports of "student unrest," of our children's rejecting traditional values rather than learning them. Reverence for educators as dedicated professionals suffered from suspicion that teachers were becoming one more pressure group with a hand on the public purse. Assurance that schools were insulated from controversy and animosity was shaken by the discovery that they could become focal points for bitter contention over race, class, morality, and even foreign policy. These shifts of attitude were not uniform or consistent, but they began to add up. They helped erode people's earlier assumption that what the schools say they need, the taxpayers should provide.

Another problem, less philosophical, was that schools faced strong competition for the local tax dollar. Especially in large cities and metropolitan centers, the costs of other public services were also skyrocketing. Welfare, police and firemen, hospitals, sanitation, and public transit were all at least as indispensable as schools in the fight for urban survival, and all could persuasively press their claims.

To pay for those local claims, both state and local taxes had to go up, which they steadily did. State support could come from varying mixes of income and sales taxes, the former usually withheld by employers, the latter paid in hundreds of deceptively small and seemingly painless installments. At the local level, however, there had to be almost total reliance on the property tax, which renters could feel with every increase, and which homeowners could see in stark three or four-figure totals on their annual mortgage statements. Some 90% of school districts levy their own taxes, and in those which do not the proportion of total property tax which goes for schools is usually clearly stated. Unlike the costs of bombers or crop supports or new streetlights, there was nothing invisible about the price tag on education.

Not surprisingly, a growing resistance to high taxes has found popular focus in particular objection to school taxes. Feelings of taxpayer revolt could be effectively expressed in the numerous local referenda which must be held to approve construction bond issues and even operating budgets. The results are clear and sobering. In case after case voters simply refuse to let school budgets rise any higher. Latest figures show that in fiscal 1971 fewer than half (46.7%) the school construction bond issues in the country won approval at the polls—down from 75% in 1965 and 89% in 1960. Schools have suffered in their operating budgets, too. Especially in urban centers such as Detroit, Los Angeles and Cincinnati, teachers have been laid off, class sizes increased, school time curtailed, or experimental programs dropped. The day of easy money for public education is a day of the past.

Inequity in School Funding

One might argue that a spell of stringency would be healthy in education, compelling educators' attention to essential priorities and efficient management after a decade of getting whatever they asked. Unfortunately the matter is not that simple. Another question has been raised, more fundamental and of even greater practical consequence than the generosity or skimpiness of school budgets in general. It is the question of equity. When public revenue is raised for schools, is it raised fairly? And when public money is shared among schools, is it shared fairly?

Recent Court Decisions

Within the past year plaintiffs for both students and taxpayers have persuaded courts in five states that the answer to both these questions is "no." They have challenged their states' school finance statutes on constitutional grounds, and won their arguments. One of the cases [1] has been accepted for appeal before the Supreme Court this fall. Since the statutes under challenge are essentially similar in all states except Hawaii, legislators across the country have been quick to see that these decisions have a "landmark" quality. Even if not upheld nationally (although some of them must be, as they are based in part on *state* constitutional provisions), they have set in motion a rethinking of state responsibilities in school finance which is not apt to die away easily.

The first and most famous of the five cases was *Serrano* v. *Priest*, ruled on by the California Supreme Court at the end of August, 1971. In detailed briefs, the now familiar facts were laid out: The reliance on the local property tax forces some districts to set much higher levies than others, yet typically they receive much less in return. The contrast between affluent Beverly Hills and property-poor Baldwin Park, both in metropolitan Los Angeles, became famous. Beverly Hills' tax rate is less than half what Baldwin Park is willing to bear. Yet the people with lower taxes have more than $1,200 for each child's schooling, while the people who try harder have less than $600 per child. So conspicuous and arbitrary a discrimination, argued the plaintiffs, is in fact a denial of equal protection. Taxpayers and children alike, in districts such as Baldwin Park, are being inequitably treated. The state-legislated

[1] *Rodriguez* v. *San Antonio Independent School District*, 327 F.Supp. 280 (W.D. Texas 1971), probable jurisdiction noted by the U. S. Supreme Court June 7, 1972.

system of school finance, which establishes the inequity, must be changed.

The California Justices agreed. In doing so they stated their opinion that education in the public schools is a "fundamental interest". The Court took care in distinguishing education from other public services, for education, unlike fire protection or sewers, is a service which the state by its own constitution is obligated to serve, and which, as such, may not be conditioned on wealth. To allocate money for schools on the basis of local property values effectively sets just such a condition. "It makes the quality of a child's education a function of the wealth of his parents and neighbors." There is no compelling reason why school taxes should be so raised or so distributed. The state will have to devise a different system.

Barely six weeks after *Serrano*, a federal district court in Minnesota, in *Van Dusartz v. Hatfield*, adopted the California arguments and findings as wholly applicable in that state also. The stance of the state toward its school children, said this judge, must be one of "fiscal neutrality." It is the opposite of neutrality to construct a funding system which rests on disparate tax bases. "This is not the simple instance in which the poor man is injured by his lack of funds. Here the poverty is that of a governmental unit that the state itself has defined and commissioned." By making resources for education a function of that local poverty, the state needlessly violates the equal protection guarantee. Again, the state will have to devise a different system.

Another federal court, this one in Texas, handed down the third *Serrano*-type decision, shortly before the end of 1971. This case, *Rodriguez* v. *San Antonio Independent School District*, will be heard by the Supreme Court in the October, 1972 term, and thus is likely to become even more familiar than *Serrano itself*. In the argument there is special emphasis on the discriminatory effect of Texas' school finance structure against poor children, rather than simply poor districts. The conclusions of the court are the same, however—namely, that the state's "tax more, spend less system" is unconstitutional and must be changed. In this case, unlike the preceding two, the judges gave the legislature a deadline. Barring reversal in the higher court, Texas legislators must act to change their system by the school year 1973-74.

The only post-*Serrano* case in which the plaintiffs have failed, so far, is *Spano* v. *Board of Education*, in Lakeland, New York. In January, 1972, the New York Supreme Court (which actually is not the state's highest tribunal), refused the gauntlet which the other cases had successfully thrown down. It would be inappropriate and imprudent, the *Spano* judge felt, for his court to enter so tangled a thicket as school finance. Among other matters, he was concerned about the effect of a *Serrano*-like decision on bonded debt secured by the *ad valorem* taxes of school districts. The existing school finance system may well be "vestigial, inadequate, and unfair," he conceded, but changing it is a matter for the state legislature or the U.S. Supreme Court.

There was no such hesitation in neighboring New Jersey, when two days later the Superior Court of Hudson County ruled in *Robinson* v. *Cahill*. Here the plaintiffs were not only parents and property owners, but also the Mayor, City Council, and Board of Education of Jersey City. They named both houses of the state legislature, along with state executive branch officials, as defendants. Their complaint, although it contained a *Serrano*-like claim, emphasized the argument that similarly situated taxpayers ought not to be taxed at different rates for a common state purpose. They also maintained that New Jersey's constitutional mandate for a "thorough and efficient" public school system is thwarted by the inequities of New Jersey's school finance structure. The trial judge agreed with both of these contentions. On grounds of the state constitution he voided the key education finance law (taking care not to vitiate obligations to bondholders), and directed the legislature to produce something better. Assuming he is upheld on state constitutional grounds by the New Jersey Supreme Court (which, given that court's past decisions, is most likely), there is no legal basis for appeal of this decision to the federal level.

A fifth victory was recently registered for the school finance reform movement when a trial judge in Arizona declared that state's school financing system unconstitutional. The decision, captioned *Hollins* v. *Shofstall*, was patterned closely after the *Serrano* opinion. The court's order permitted the Arizona legislature approximately two years to develop a system not dependent on local wealth for funding public schools.

What the Courts Mean—and What They Do Not Mean

Five strong cases, then, in less than six months' time, have brought the equity problem in school finance to sharp focus, and to unprecedented public attention. Courts in the west, north, southwest, and east have considered typical state statutes and found them wanting. The success of the plaintiffs has inspired forty or more similar lawsuits in at least thirty other states. With variations and embellishments in the argument, but with remarkably similar tables of undisputed data, all of them press the same two points:

1) that without reasonable justification, state laws force taxpayers in some communities to pay much more for schools than comparable taxpayers pay for comparable schools in other communities; and

2) that without reasonable justification, state laws make available much greater school resources for children in some communities than for comparable children in other communities.

Few people would argue with the facts as presented, in state after state. The courts which have heard them so far (with the somewhat ambiguous exception of New York) have supported the plaintiffs' intepretation that there is an unconstitutional unfairness about the way we finance public schools. New laws must be written.

No court decision so far—and none that anyone anticipates—attempts to spell out what the new laws must say. The point which troubled New York's Supreme Court—that legislative changes are the legislature's prerogative—has been amply respected in all the other cases. Momentous though the judges' rulings may be, they all take the modest route of identifying what a school finance statute may *not* do, rather than positively prescribing any features which it must include. Judge Miles Lord put it most forcefully in his decision in *Van Dusartz* v. *Hatfield:*

> ". . . it is the singular virtue of the *Serrano* principle that the state remains free to pursue all imaginable interests except that of distributing education according to wealth.

. . . Neither this case nor *Serrano* [nor any subsequent ruling] requires absolute uniformity of school expenditures. On the contrary, the fiscal neutrality principle not only removes discrimination by wealth, but also allows free play to local effort and choice, and openly permits the state to adopt one of many optional school funding systems which do not violate the equal protection clause."

That leaves legislators and governors with responsibility for policy in school finance, and with very broad latitude for thinking through what the policy should be. More particularly, it means that elected state officials have the initiative (and the burden) for practical definition of what is equitable. That is doubtless their most difficult question.

Dimensions of Equity in School Finance

As mentioned several times already, there are two dimensions in which school finance policy must be fair—and in which it is currently unfair. The first is in its distribution of the *costs* of education. The second is in its distribution of *benefits*.

Fair distribution of costs means equitable treatment of the taxpayers. Because schools are generally agreed to be of common benefit to all citizens, not just to those who individually use them, we can assume that the taxpayers for education will be all the taxpayers of the state. The first question of equity, then, is a question whether the burden of school costs falls evenly across any given category of taxpayers. This is no problem for any portion of school expenses which is paid from a uniform tax levied statewide. No state income taxpayer in a 3% bracket, for example, pays more or less income tax for schools than any fellow citizen in the same bracket. They are equitably treated in school finance, so far as that tax is concerned. There is a problem, however, for any portion of school expenses which must be paid from a non-uniform tax. All owners of $20,000 homes do not pay the same amount of property tax for schools, and the differences bear no rational relation to any differences in benefits received. As property taxpayers they are not equitably treated in school finance.

Another aspect of tax equity is the strong agreement among Americans that taxation should be proportional to one's ability to pay. In any system of school finance where local units must contribute their own taxes to the support of local schools, this principle will require some estimate of each *district's* ability to pay. The tax burden could then be varied with that ability. At present this type of equity is rarely achieved, and even where an attempt is made, the measure of ability to pay is usually no more sophisticated than property value per pupil. That is far too crude and incomplete a standard for arriving at a community's actual tax capacity to support its schools. To mention only one shortcoming, central cities are relatively rich in real estate and often have relatively few school children. That gives them high ratings in property value per pupil. But they are also relatively overburdened with expensive and necessary municipal services other than education. As a result, their property does not have as much ability to pay for schools as the less valuable, but also less taxed, property in many other communities.

Education tax burdens can be made more equitable, and some of the likely ways for doing it are outlined below. The challenge to legislators—both from the courts and from a growing voter awareness that the tax structure is not fair—is to decide what equity requires in their own states, and then to pass statutes which will bring it about.

Fair distribution of educational benefits, in a democratic society, means making the effort to provide every child with equal educational opportunity. This is a longstanding goal—in fact a fundamental purpose—of free public schools, but that does not make it easy to achieve. Perhaps the most difficult obstacle is the rather wooden (but well-intentioned) notion that equal opportunity exists when all children receive identical educational services. In terms of school finance this would define equity as a matter of spending the same amount (perhaps adjusted for regional cost differentials) on every child. In view of the indefensible disparities in per pupil spending now, the idea has a certain surface attractiveness. It would at least be an improvement over a system which works to short-change so many, so irrationally.

A moment's thought will show, however, that an equal-dollars approach (unless the amount of dollars is extraordinarily high) is inadequate to the goal of equal opportunity. At best, it would produce equality without fairness. Fairness requires recognition that children themselves are not identical, and therefore neither their schooling nor the amounts of money spent on it should be identical. They come to education with different aptitudes, different interests, and from sharply different circumstances. The goal of fairness in public education is that, notwithstanding the differences, all children should stand on an equal footing as they cross the threshold from childhood to independent maturity. They should be equally well equipped to build satisfying adult lives in a free society.

This is an idealistic, egalitarian, democratizing goal, to be sure. It is also a deep-rooted motive force in America's commitment to public schools. Its clear implication for school finance is that those with greater educational need, whether they are educationally disadvantaged or exceptional students, should receive the benefits of greater educational investment. That is easy enough to see in the case of children who are blind or physically handicapped. It is not always so persuasively evident when the marks of educational impediment are poverty, social isolation, or accumulated racial oppression. The challenge to legislators is to decide what educational investment policy will yield the greatest equity dividends in their own states, and then to enact legislation which will make that policy real.

Local Funding: Some Practical Limits

Confronted with the dual crisis of inadequacy and inequity, it is certain that school finance will loom very large on state legislative agendas for the next several years at least. State constitutions, traditions, and realities of our governmental system make it inevitable, desirable, and, indeed to some extent, legally mandatory that financial policies in education will be decided at the state level. In many states the governors will contribute major leadership. But in all states the legislators will cast the deciding votes.

Free public education—often required to be "thorough and efficient" or a "uniform system"—is a self-imposed constitutional obligation in virtually every state. Characteristically the state governments have delegated operating responsibility and much taxing authority to local units. Safeguarding the strengths of local control will doubtless be a high priority in any fiscal policy. But the states have always shared importantly in both setting standards and providing money for their local school districts. The pre-eminence of the state in education is clear.

One reason is the practical impossibility of resolving the inadequacy/inequity crisis at local levels alone. Quite apart from litigation, state governments have been under year-by-year pressure to increase their general aid to local districts. They alone have the taxing capacity to undergird public schools at the levels now required. With the entry of the courts into school finance affairs, the demand for state-level leadership is even greater. The states alone have the breadth of jurisdiction, combined with closeness to local concerns, to insure fair educational treatment of all their citizens.

Another reason is the extreme unlikelihood that the federal government will step in and take over the states' public school funding responsibilities. Washington's financial role in education has hovered around a mere 7% of total school spending since 1966. It is likely to increase substantially under some form of revenue sharing or other aid to hard-pressed states. Perhaps it will even double or quadruple, as often recommended. But public education will remain a constitutional preserve of the states, and no imaginable amount of federal aid will relieve state legislatures of their task in school finance policy.

DISTRIBUTING THE MONEY

Differential Spending

It has already been emphasized that principles of equity and equal opportunity do not call for equal expenditure for every pupil. Nor has any court required such a rigid standard. On the contrary, there are numerous reasonable factors which would justify some districts (or some schools, or some children) having more money available than others. For instance:

- There are student categories with special instructional needs, requiring school programs more costly than the norm. For the most part these are exceptional children or children with unusual learning problems: the blind or deaf, the emotionally and mentally retarded, those with a non-English mother tongue, etc.

- There are larger student categories whose social and economic circumstances create a general need for extra services from the schools. These include the very poor, children in remote and isolated rural areas, those with malnutrition and chronic health defects and those who spend much of the year in migrant labor camps.

- There are school districts whose unit costs for goods and services are significantly above the median for all districts. Where population is sparse, transportation becomes a major item for every student, and the overhead cost of libraries or laboratories or specialized teachers may be out of proportion to what it is elsewhere. In central cities it is salary-scales, land costs, and repair bills which are out of line.

  Still other districts have social characteristics which are regularly accompanied by above-average school expense: crowded housing, one-parent families, tuberculosis, teenage unemployment, etc. The high concentration of disadvantaged children in such areas requires extra-high educational investments.

- And, as already mentioned, a typical fiscal difficulty for city districts is that their local tax base is overloaded with competing requirements for other public services.

It is not difficult to describe generally the factors which call for differential funding in education. Most of them are apparent. It is still extremely difficult, however, to quantify these differences into guidelines for fair and effective distribution of school funds. As pointed out by the President's Commission on School Finance, there is obvious and urgent need for both a cost-of-education index and an education-needs index. With the former, districts could be compared for the purpose of establishing how many dollars each needs in order to purchase a given "market-basket" of goods and services. With the latter, the relative costs of meeting different categories of educational need would be established. If agreed upon and found reliable, the two indices in conjunction would be invaluable aids to those who must set policy in school finance.

Perhaps some individual states will pioneer in developing such cost and need indicators on their own. Meanwhile, legislators are far from helpless. They do have their common sense. They have differing social policy preferences as to which schools or children should be favored with extra resources. They have the testimony and financial experience of schools in their own states and others. They can hammer out their own distribution guidelines—and easily improve on the present pattern of simply giving the rich more.

As a specific aid, the detailed research of the National Education Finance Project has already yielded a preliminary table of relative costs for nine categories of students. In comparison with ordinary pupils in grades one through six, for example, the table shows that kindergarten programs typically have a cost factor of 1.3; compensatory education, 2.0; and junior high school, 1.2. Of course these are not prescriptive figures. Legislators might well make a different value judgment from current practice, and decide, for example, that greater community benefits would result from funding kindergarten or pre-school at 1.8 and compensatory programs at 2.5.

Where these numbers and judgments make a difference is in how the state distributes its aid to local districts. Once one moves beyond a simple equal-dollars-per-child allocation, there are several alternative ways in which typical differences in need and cost might be acknowledged:

- Pupils can be counted (and therefore general aid allocated) on a weighted-category basis. The policy and political questions are what categories to use (grade level? income level? test-score level?), and what weights to assign.

- The state can provide an array of categorical-aid grants targeted on particular types of students (e.g., underachievers or non-English speaking), or in particular fields of instruction (e.g., reading and math).

- The level of a district's general aid can be keyed to certain socio-economic characteristics of the district as a whole, or of its school population. Family income, median educational level of parents, or infant mortality rates might all be factors in determining how much state funding a district receives. This approach particularly recognizes the out-of-school educational importance of the community in which the school exists.

- A district's aid entitlement could vary with its tax capacity and tax effort, or with its market costs for key educational items. The effort here is essentially to equalize the buying power of local districts, regardless of their local wealth or local price index.

There are advantages and pitfalls in each of these approaches. When features of one are combined with features of another, on top of existing traditions and expectations in a given state, it becomes immensely complex to estimate just what the fiscal impact and distribution effect of any new proposal might be. Legislators must have such estimates, nevertheless, for no state can simply copy another, and even the best intentioned policy plans can backfire when actually applied. It has to be known before the law is passed, for instance, whether favoring AFDC children will have the unintended effect of penalizing the poor in districts where other measures of family poverty are more accurate. In order to know, legislatures must have skilled staff, available time on computers, and adequate comparable data from every district in the state. The inevitable political trade-offs in actually passing legislation will be sounder and longer lasting—and more beneficial to school children—if they can be made in a framework of reliable prediction.

Full State Funding

The principle of full state funding (FSF) is simply that the state should take direct responsibility for distributing (and collecting) an overall education budget. It is important to recognize that all states already take indirect responsibility for funding, by setting the terms and conditions under which local districts levy taxes, and by supplementing local revenue with various forms of state aid. FSF has often been proposed as a way of gaining flexibility in school finance and providing more adequate revenue from a broader tax base. Now it is strongly urged in many quarters as the most promising way of assuring equity as well. Virtually every specific school finance reform proposal, no matter what proportion of total funding the state provides now, calls for some increase in that proportion, though not many call for raising it to 100%.

The three most difficult questions about FSF, regardless of the distribution formula, are these:

- Would FSF give any district less money than it has now? If so, who can be expected to vote for his own "levelling down"?

- Would FSF "level up" all districts which now have less than the highest spending, or all which have less than some amount agreed (except by those with more) to be adequate? If so, where will the new money come from? If not, what is the gain in equity?

- Would local districts be prohibited from taxing themselves to add on to the FSF figure? If not, won't the pattern of wealth-based disparities persist? If so, isn't commendable local initiative being discouraged? And won't wealthy communities find ways around the prohibition anyway?

These questions are not impossible to resolve by a legislature which has imaginative leadership, time to work out effective compromises, and a realistic prospect of new revenues. Grandfather clauses and save-harmless provisions are an obvious concession to the wealthy. Levelling up by specified steps over a short time-certain period may reassure low spenders and stretch out the tax increase. Add-ons to state support can be power-equalized (see below, pages 29-30), made contingent on referenda, or both. One can speculate that courts will not be rigidly purist where there is a serious effort to achieve equity through full state funding. But one can also speculate that without strong, serious leadership, legislatures will avoid full state funding as long as possible.

More State Funding—Less Local Control?

The simple answer to this question is that it depends entirely on what the legislators decide. Significantly, extensive research by the President's Commission found no correlation between degree of state funding and degree of state control over school programs. A recent conference of southeastern educators and legislators turned up few complaints or fears about centralized control, even though that region generally displays much higher percentages of state support than other parts of the country. Of course any legislature could pay the bills and strip local school boards of their voice in curriculum, personnel selection, or pedagogical style. But legislatures could do that now, without paying any more bills than they do.

There seems little danger of a direct connection between school finance reform and an erosion of policy control at the local level. If anything, school boards might become more active and influential in educational issues if they were relieved of the need to discuss millage rates. That does not mean, however, that a move toward state funding would not provoke some important long-range questions for local school governance.

- If the district tax base becomes unimportant or even irrelevant, would a chief rationale for existing boundaries be removed? Would new consolidations begin to emerge, or new fragmentations? Would districts tend to become larger, as regional service centers, while governance and policy shifted toward the parents and staff in individual schools?

- Would incentive funding from the state, rewarding emphasis in particular program areas, tend to replace rules and regulations as the major means of influencing local policy?

- In response to budgetary pressures and demand for accountability, would the state require increased monitoring and closer evaluation of local programs?

A related point is that any degree of new leadership by the states in school finance will probably require a strengthening of their state executive departments in education. In some states this upgrading will be carried out directly in the governor's office. In others it will be an opportunity for the state education department. Whatever the configuration and politics, it is important for legislators to recognize that reform cannot be accomplished without the administrative instruments to implement it.

What About Capital Budgets?

No legislature will be able to turn its attention to school finance without running into the question of what to do about capital costs. Many states provide some construction aid. At least one (Maryland) has already moved to full state funding of construction in an effort to relieve pressure on local taxes for operation. Capital budgets are indeed a major ingredient in both the adequacy and the equity dimensions of school finance. To revise the way they are funded will require as much attention to detail and policy as is now being given to the task of equalizing operating expenditures.

Power Equalizing: Local Tax Burden and Yield

Under a full state funding plan the state itself would both collect and distribute all (or almost all) the revenues for education. All such proposals call for uniform taxes—property and otherwise—levied statewide, and therefore solve quite simply the problem of equity for taxpayers in regard to school finance.

Redistricting for Equal Wealth Districts

If local levies continue to finance any substantial portion of school costs, however, the equity problem must be met some other way. One approach might be to equalize the property tax base for schools by dividing the state into a few large taxing regions, each with approximately the same value of taxable property per pupil. The voters or taxing authorities of all such regions would then have equal resources to levy against, and could set their tax rates at the levels required to yield the amount of revenue desired. Probably because it seems to subordinate local districts to an artificially constructed intermediate layer of government, this regionalization approach has attracted little support so far.

District Power Equalizing

Much more widely discussed is another proposal which would give all communities equal access to property tax revenue, but do so without rearranging tax bases or tax boundaries at all. What it attempts is to equalize all districts' power to obtain tax receipts, regardless of their property wealth or property poverty. Under district power equalizing, as this plan is called, the state would guarantee that every district taxing its property at a given rate would receive the same number of dollars per pupil in return for that effort. The heart of any power equalizing plan would be a schedule, enacted by the legislature, relating local tax effort to guaranteed tax receipts. Each mill of the local levy, for instance, might have the stipulated "power" to bring in $25 per pupil in the district. If the district had low property values, and the mill levy actually raised less than $25, the state would make up the difference. If the mill levy raised more than $25, the state would recapture the excess and use it for redistribution.

Power equalizing formulas can be combined with flat grants from state taxes, minimum effort requirements, dis-incentives to expenditure above a certain level, and any number of refinements. In all variations, though, school funding is a function of tax effort, not tax wealth, and local districts retain the two-part choice of how much effort they want to make and how much budget they want per-pupil. The local property tax continues as a major revenue producer for schools, but state policy determines how that tax is imposed and how much it will yield.

Needless to say, power equalizing has few attractions for those districts whose property would bring more revenue per mill than the formula allowed. In most instances that includes not only the privileged enclaves of the rich, but central cities with high-value property rolls and low-income school rolls. Unless drastically offset by large categorical grants, or compensatory weightings in flat-grant aid, or a factor acknowledging tax overburden for other municipal costs, power equalizing for urban districts could well mean higher taxes and less money—*less* power, that is, to make school finance reform the servant of school performance reform.

RAISING THE MONEY

Tax policy questions are every bit as complicated as school policy questions, and of course are intertwined with them in the crisis of school finance. In all likelihood most legislatures will find it impossible to take up school finance reform without being pushed toward major revision of their total state-local fiscal system. And in many states, tax reform will be the route by which legislators come to questions of education policy.

Traditionally in this country the *ad valorem* property tax has been the mainstay of local government. Some states protect this mainstay by constitutional prohibition of any state-levied property tax. Since education has been the chief business of local government, the property tax has been in large part a tax earmarked for schools, and is thought of as such. The tradition developed, of course, in a time when property—especially land—was a much truer and more comprehensive measure of wealth than it is today. In any event, the sufficiency of property as a tax base for schools has long since disappeared. Education now draws heavily from other revenue sources in order to survive at all. Although property remains virtually the only source for *local* school funding, in most states' school finance picture it is actually just one ingredient of a tax mix which also includes sales, excise, and (increasingly) income taxes.

That being the case, it seems superfluous to continue assuming that schools have a special claim on property tax receipts. If the states are to expand their role in school finance, they will inevitably seek ways to recapture some local property tax money or to pre-empt part of that tax base with property taxes of their own. Such statewide receipts, however, could be mingled with other state revenues as a single pool for common state purposes. There is no need to earmark one tax for schools, another for health services, a third for the highway patrol, and so forth. There is no particularly appropriate tax for any fundamental state function.

The point is not made just for theoretical neatness. It is made in support of maximum fiscal flexibility for state government. School finance ought not to hinder such flexibility, and with no earmarking of "school taxes", it would not. Legislators could then freely debate the best and most feasible revenue package for their state, without entangling that subject (difficult enough in itself) in their quite different debate about the best and most feasible school funding policies.

MINNESOTA

by Anthony Morley

When the state legislature convened for its biennial session in January, 1971, Minnesota had a school finance system fairly typical of the rest of the nation. Statewide, not counting federal grants, something under half the money for public schools came from general state revenues, and something over half from local school district property tax levies. The state-local ratio (always difficult to calculate precisely) was about 45:55.

When the legislature adjourned — ten months, one gubernatorial veto, two extra sessions, one influential court decision, and innumerable hours of lobbying, costing-out, trade-off discussions, and conference committee arguments later — Minnesota still had a state-local school finance system, but it was no longer typical. The ratio had been dramatically reversed. For fiscal 1973, according to best estimates, the statehouse share will be 70% or more, and local districts will have to raise only 30% or less. Still, H.F. 262, the bill which finally passed and was signed, is a revision of what existed, not a totally new start: it did not revolutionize, it reformed.

This chapter reports on the substance of that reform, and the zig-zag political process by which it came about.

THE STATE-AID PACKAGE AND TAX STRUCTURE BEFORE 1971

Minnesota's state support of its 438 local school districts was (and still is) a combination of flat grants, a foundation aid plan, and categorical grants for particular types of programs. During 1970-71 it looked like this:

Flat grant: Every district in the state received $141 per resident pupil (K-12) in average daily attendance (ADA). Tax-base did not affect entitlement to this subsidy, but it was subject to downward adjustment in those very few districts which made less tax effort or spent less per pupil than the foundation minimums. For purposes of the flat grant, pupils were weighted by grade level: They were counted as 0.5 in kindergarten, 1.0 in grades 1-6, 1.4 in grades 7-12, and 1.5 in vocational-technical schools. The flat grant accounted for approximately 48% of foundation program payments to local school districts.

In addition, school boards received $30 for each child between the ages of six and sixteen in their district from earmarked receipts from the 3% state sales tax (only sixteen-year-olds actually in school were counted). Finally, each district received reimbursement from the state to replace revenues lost when certain types of business personal property were removed from the tax rolls in 1967.

Foundation aid: The state guaranteed foundation for public school operating budgets in 1970-71 was $404 per pupil in ADA (pupil count weighted as above). Local districts were required to tax at least 20 mills on the equalized assessed valuation of their property. (These mills, called EARC mills after the Equalization and Review Committee, are equivalent on the average to about one-third of the auditor's mills actually levied in the counties.) If 20 EARC mills plus the $141 flat grant did not come up to $404 per pupil, the state provided the difference. Every district did tax more than the minimum, and computation of receipts from the minimum millage qualified 368 of them (out of 438) for foundation aid beyond the flat grant. These foundation grants accounted for approximately 33% of state payments for local schools.

The formula, then, for foundation aid, with flat grant minimum, was

(weighted ADA x $404) — (revenue from 20 EARC mills)
equals
state aid, but in no case less than $141

Categorical aid: The chief categorical aid programs in Minnesota were partial reimbursements for transportation, special classes for the handicapped, and vocational education. There was a small supplement ($500,000) for AFDC pupils in the three large cities. All told, categorical programs amounted to about 20% of total state aid.

Money to pay for these various state aids came from Minnesota's general tax revenues. The chief money raisers were a 3% state sales tax, state personal and corporate income taxes, and excise taxes. They produced, respectively, 18%, 45% and

7% of the total state operating budget for all purposes. Elementary and secondary education, in turn, took 36% of the overall state tax receipts. The only tax earmarked for education was a portion of the sales tax, paid directly to districts in the form of per capita aid. The state 45% of public school expense, in turn, took about 20% of the total state operating budget.

At the local level, school support came almost entirely from the property tax. A wide range of EARC valuations per pupil (from $854 to $30,236) accompanied an equally striking range of both local mill levies (from 30 EARC mills to more than 100) and local per-pupil expenditures (from $384 to $1,052). Inexorable arithmetic forced a pattern of poor districts with high taxes and rich districts with low taxes. Since the statewide average was about $710, there could be little equalizing effect in the $404 guaranteed foundation; and, of course, the flat grant provision actually increased disparities by giving rich districts an extra subsidy while adding nothing to the foundation already guaranteed to poor districts.

PRESSURE FOR SCHOOL FINANCE REFORM

There was no great head of steam for school finance reform in Minnesota in 1970. The state's tradition of support for public schools was still strong. While voter resistance to local tax levies and bond issues was increasing, there were no signs that it stemmed from discontent with the schools as such. While there were inequities a-plenty between rich districts and poor, no *Serrano*-type decisions or publicity had yet dramatized them in the public eye. No major district was threatened with bankruptcy. None was seething with tension over teachers' demands, student unrest, racial hostilities, poor reading scores, community control. Some people were concerned, active, and taking sides in all these areas, of course, but for the electorate in general, school issues and budgets to deal with them were simply not very high on the agenda. And since the public was not exercized, neither were the legislators.

The people's chief concern was taxes, and controversy centered on how money was raised rather than on how it was spent. Since so much tax money went for education (53% of local levies, 36% of statewide collections), there was no way that tax worries could not eventually involve schools. But it was tax problems which came first, and education problems second—an order of concern that shaped both the process and the content of school finance reform in Minnesota.

As in other states, local residential property taxes had risen steeply during the 1960's, and thus both parties were under pressure to provide some property tax relief by the time of the 1967 legislative session. Democratic-farmer-labor representatives (DLF) urged increases in a progressive state income tax as the solution. However, Republican legislators, a comfortable majority in both houses, preferred a statewide sales tax and, over deep-seated DFL opposition to any sales tax, enacted a 3% sales tax and abolished all local taxes on business personal property.

The 1967 "Tax Reform and Relief Act" earmarked some of the sales tax for per-capita payments to school districts, as already mentioned. It also reimbursed the districts some $40 million dollars each year for income they would have had from business personal property taxes. (The amount of reimbursement was based on 1967 business inventories, and thus bore less and less relationship to current economic activity or the needs of any district.) Most importantly, the 1967 law gave homeowners a credit for 35% of their real estate tax (excluding levies for bonded debt), up to a $250 maximum. Using sales tax receipts, the state made up this credit by dividing the amounts claimed between local municipalities and local school districts—two-thirds and one-third in the three large cities; equal shares in the rest of the state.

All these features were intended to lessen the burden of local property taxes, but the practical effect seemed, in fact, to *increase* property taxes. With the "homesteader's credit," in particular, school boards and town councils could raise the rates and still make new taxes look like a bargain: a dollar of income for only sixty-five cents on the actual tax bill. In any event, the year after tax relief saw the sharpest property tax rise in Minnesota history—the hikes largely for school districts committing themselves to higher teacher salaries. So despite the changes of 1967, by 1970 property taxes were higher than ever, and homeowners renewed their demands for tax relief.

In the 1970 gubernatorial race, tax policy was bound to be an issue. Wendell Anderson, a state legislator from St. Paul nominated by the DLF, determined to make it the central issue. Douglas Head, Republican nominee and former attorney-general, helped focus the tax question as pre-eminently a school finance question.

Anderson pitched his campaign to the tax-burdened blue-collar homeowner . Without being very specific, he promised a better mix of taxes for people caught between inflation and recession. The Republicans had had their chance in 1967, he said, and only business interests had really benefited. It was a class appeal, along typical lines, on economic issues.

In a mid-campaign debate before the Citizens' League of Minneapolis-St. Paul, the candidates focussed on education funding policy. One League recommendation was that the state should genuinely equalize education aid by assuming the total operating costs of local school districts, possibly by imposing a uniform statewide property tax.

Anderson explicitly endorsed the League's recommendation for equalized school support. State funding by means of a state property levy, he added, could be a possible way to accomplish the goal.

Head was more guarded. On reflection, he treated Anderson's endorsement as an opportunity to go on the offensive against the DFL in regard to taxes. Two days following the Citizens' League debate, Head attacked his opponent for even considering a statewide property tax. State funding of the schools, he implied, would cost far more than mixed state-local funding. Anderson stuck to his endorsement. While still pushing general tax reform, and always charging the GOP with favoritism to business, he let the specific issue of school finance become more and more visible. By the close of the campaign, his promises of property tax relief and of fairer funding for schools were inseparably linked.

On election day Anderson won easily, and DFL candidates even came close to capturing the historically Republican legislature. In the new House, Republicans had only a 70-65 margin, and in the Senate less than that, 34-33. Without having stressed education at all in the early campaign, along the way to the statehouse Anderson and the DLF had apparently picked up a mandate for school finance reform.

GOVERNOR ANDERSON'S "FAIR SCHOOL FINANCE PLAN"

In his first budget address, in January, 1971, Governor Anderson offered a "Fair School Finance Plan"—the first such plan ever presented by a Minnesota Governor. Traditionally, the House Education Committee, working closely with staff professionals in the State Education Department, wrote the appropriations bill parcelling out the money designated by finance committees. Now Anderson was bringing tax politics and education politics together into the legislative arena.

The budget address outlined Anderson's view of the inadequacies of the overall state fiscal system, with its heavy reliance on the local property tax. With the per-pupil costs of education, the most expensive public service, averaging $300 more than the maximum guaranteed state aid of $404, local districts were pushed to intolerable property tax levels.

Anderson urged tax relief through a policy of limiting the amount of revenue derived from property taxes and meeting most of the costs of education from state non-property sources. His proposal called for the state-funded, non-property share of school operating costs to rise from the 1970-71 level of 43% to 70% by 1972-73.

Beyond the issue of tax relief, of course, there remained the problem of inequities in the burden of raising the local share (still 30% by 1972-73 under the Anderson proposal). Still eight months before the *Serrano* decision, Anderson's school aid formula was aimed at redressing the imbalance.

The Proposal for School Finance Reform

The governor planned a two year transition period to implement his proposal in the following way:

1. The foundation level for state supported expenditures per pupil would be set at the Education Department's estimated statewide average of actual operating costs for each year. These figures were $780 for 1971-72 and $819 for 1972-73—approximately double the existing foundation of $404.

2. For the first year the local tax-effort requirement would also double, to 40 EARC mills (still well below the statewide average); in the second year it would drop to 33⅓ mills.

3. Since any millage imposed above the minimum would reduce state aid by as many dollars as it raised, in principle the local levy minimum would also become a local levy maximum. If this principle were strictly adhered to, all districts would soon have the same property tax rate, and Minnesota would have enacted a statewide property levy without quite calling it that. In actuality the Anderson proposal required several major exceptions to the uniformity principle:

a) In an attempt to compensate Minneapolis, St. Paul and Duluth for municipal tax overburden, Anderson proposed that these cities would receive in the second year full foundation aid with only 28⅓ mills as their EARC education levy. In effect, the city government would have five mills extra for other needs.

b) Lest any district be levelled down in faculty or programs, a grandfather clause was proposed for all which had been spending above the average. They could continue local taxes at whatever millage (above 33⅓) was required to maintain existing expenditures, plus a cost-of-living increase. Their state aid, of course, would still be pegged to the $819 average.

c) There was also an exception at the low-spending end of the spectrum. Instead of instantly levelling up all districts spending less than the state-wide average, Anderson proposed to stretch the equalizing process over six years. In the first year a low-spending district could advance one-sixth of the dollar distance between its previous year's actual per-pupil cost and the current year's estimated statewide average. In 1972-73 they could close the remaining gap by two-sixths, and so forth. The practical effect would be to start their state-aid foundation guarantee below the average, and bring it up in six annual steps. A proportionate initial increase and the same gradual increase, would apply also to each such district's required local mill levy.

d) Finally, if any district wanted to add on still more to its allowable maximum school millage, it could do so by a referendum.

4. Only in the first year would the Anderson plan have kept a minimum flat grant (raised to $215 from $141 per

pupil in ADA) for every district. In 1972-73 it would be dropped, and state aid determined by the formula alone.

5. The greatly increased state aid was still to be distributed on the basis of average daily attendance, with weighted pupil counts the same as before.

6. Per-pupil payments from the sales tax and reimbursements for the business property exempted in 1967 would be abandoned.

How Reforms Would Be Financed

This plan required $390 million of new state money for education over the biennium. The governor emphasized that the amount was no more than expected cost increases under the old plan. So in a very real sense, he argued, the proposal was for $390 million of property tax relief.

Nevertheless, achieving that relief through so dramatic an increase in the state share of school funding required unrelieving some non-property taxes. New or expanded state programs in addition to school aid required a grand total of $762 million in new revenue — no small portion (if granted) of Minnesota's first $3 billion biennial budget.

Anderson's tax proposals, to a Republican legislature, were in the best DFL tradition. Fully 80% of the new money was to come from increased personal and corporate income taxes. For most of the remainder he would hike excise taxes on cigarettes and liquor. There was no mention of increasing the sales tax.

THE LEGISLATIVE RESPONSE

With proposals this specific, this far-reaching, and this expensive laid clearly on the table, it was time for getting down to brass tacks in the Minnesota political process. Governor Anderson — aggressive and articulate, with a personal staff to match — had thus used his first days in office to press for turning around the tax structure and for a major shift in the approach to local responsibility for school receipts. He could claim a mandate of sorts; he could hold center-stage in the media; he could define the agenda for debate.

The opposition in the legislature, with prerogatives, powers, and status of its own and claims to closer touch with grassroots sentiments, could amend, bottle up, or replace what the governor proposed. And there were many special interest groups which felt that they would be affected by some aspect of the school funding and tax debate. It took ten full months to develop the dialogue which led to Minnesota's resolution of the school finance issues.

First, the governor's proposals were drafted in bill form. Costing out the fiscal effects for every school district showed a need for modifications even before formal debate began. Throughout the spring, testimony was heard by the education and finance committees of both houses, and alternative bills were introduced to counter the administration effort. When the administration bill came to a vote in the House, it was defeated, and a more successful bill did not emerge. At adjournment of the regular session in May, there was no new law for either taxes or school aid.

The legislature was called into extra session during June and July and a "Senate Summit Bill," which was pushed by senior Republican leadership, got through the upper chamber. This bill was acceptable to the governor but not to Republicans in the House. The representatives narrowly rejected the Senators' work and passed a 130-page tax and school-aid bill of their own, basically the old foundation formula with a bit more money attached. The Senate acquiesced, and on the 67th day of the extra session Anderson's proposals were finally scrapped, and Minnesota had the House bill for law.

Governor Anderson vetoed the new bill, angrily denouncing those provisions which assured that "the higher your income and the wealthier your community, the less you pay and the more you get." With the legislature set to reconvene in October, Anderson asked the leadership to appoint a special ten-member Tax Conference Committee, which would go to work immediately on a new compromise that the full legislature could pass in "no more than a day."

Once the legislature had reassembled, seven days of virtually non-stop negotiation and compromise (around the governor's dining-room table) produced House File 262. The "October Compromise," as it is called, cleared both chambers and was signed on October 30th.

THE ROAD TO COMPROMISE

In addition to the governor's strong initiative, there were at least two major strands in the political dynamic of this struggle: the internal life of the legislature itself and the external influence of interest groups and lobbyists from around the state.

As mentioned before, both House and Senate were much more closely divided, between Conservatives and DFL, than before. With almost a third of the legislators newly elected, and with much of the old-line leadership gone, there was inevitable jockeying for power among the members throughout the session. Questions of what positions to take on taxation and school aid sometimes became questions of how to maneuver for influence and stature among fellow lawmakers.

The balance of power was especially uncertain in the Senate, once dominated by a few Conservatives and now divided between 33 Conservatives and 33 DFL, with one independent who voted with the Conservatives. The Conservative leaders were experienced and strong, but of a different sort from the people who had controlled things before. For one thing, they knew that the Senate as a whole now shared many of the views on tax reform which had elected Governor Anderson. For another, both the president pro-tem and some key committee chairmen generally shared those views themselves. Specifically, they personally favored school aid equalization. They were in the liberal-Republican tradition, the sort of men who were comfortable with Citizens' League perspectives and oriented primarily toward achieving harmonious bipartisan rationality in government affairs. They were certainly not partial to the Governor's soak-the-rich rhetoric, but they were not apt to meet compromise with intransigence, either.

The situation in the House was rather different. Though the Conservative majority was slim (70-65), it was still enough for determined Conservative leadership to win in crucial tests of strength — such as the rejection of the "Senate Summit Bill" in July. The House leadership, moreover, appeared to want such tests as opportunities to put a brash young governor in his place. The House Education Committee chairman, in particular, resisted having his committee (and the Education Department as well) pushed to the fringes of policy power. The governor did not lack for quality and willing support among DFL representatives, but they did not quite have the votes in the House, and that nearly cost the governor his program. Things were so balanced as to almost guarantee legislative immobility. On one side was a vigorous Democratic chief executive with a persuasive staff and an arsenal of data from his own state planning agency; on the other, knowledgeable and motivated Republican opposition, one in effective control of the lower chamber; and, in the middle, a mediating Senate, inclined toward change but separated by party allegiance from the governor and by temperament from the House majority. Clearly the fulcrum of forces in this triangle was the Senate. And in the opinion of almost all observers, it was Senate Republican leadership which ultimately managed the October Compromise.

Pressures, Changes, Trade-Offs and Compromises: The various bills at issue in this legislature involved not just education matters but taxes which would have a direct effect on scores of governmental units in addition to school districts. Therefore, virtually every citizens' group or special purpose organization could claim a legitimate self-interest in trying to influence the legislative outcome. A great many did try — some with general expressions of support or opposition, some by focussing on particular provisions they wanted or feared. Of the four large metropolitan dailies, two (in St. Paul) opposed the administration proposals, and two (in Minneapolis) favored them. Business and banking interests testified against income taxes (especially corporate) and in favor of a higher sales tax. The state AFL-CIO and the Farmers Union argued just the opposite. The Minnesota Federation of Teachers went on record for equalized school aid and a statewide property levy. The Minnesota Education Association took no position. The School Boards Association, unofficially, worked against any restriction or removal of local taxing powers. School superintendents testified individually, according to how the proposed formulas would affect their districts. City government officials backed all moves to increase municipal aid. Rural groups were wary in general of an Anderson effort to favor urban areas. The efforts of these groups were reflected in the modifications of the final bill.

AFDC Pupil Count: Explicitly acknowledging municipal tax overburden, the original administration proposal provided a lower millage requirement for education in the three large cities. To Minneapolis public schools, though, this favor was unwelcome. They saw it as a millage ceiling (which it was), potentially blocking the schools from getting their fair share of total city taxes. A large city's true educational overburden, they argued, is its disproportionate share of disadvantaged children whose educational costs are greater anywhere. The three big cities enroll 56% of Minnesota's AFDC pupils. Minneapolis lobbyists claimed that the best way to aid center-city districts directly, and at the same time do justice to the 42% of AFDC children who live in rural and suburban school districts, was not by a tax break, but by extra weighting for disadvantaged pupils in the count of pupil-units. The argument prevailed. The millage differential for first-class cities was dropped, and a 1.5 weight for each AFDC pupil put in its place. For Minneapolis alone the change increased state aid by $4.5 million.

Agricultural Property Differential: Rural opposition to the urban-oriented AFDC provision was strong and emotional, even in the face of clear cash benefits which the weighted pupil count would bring to depressed country districts. To help overcome this rural resistance, Minneapolis schools rounded up urban support for some vocational and special education provisions which would particularly help the rural and suburban districts. However, the key trade-off was the administration offer of a farmland tax benefit to balance cities' educational benefit. Minnesota agricultural property had long been taxed at a lower rate for school support than other property. This "ag differential," required by the state, threw an extra burden on non-farm homeowners and businesses in any heavily agricultural district. The administration agreed to a provision for the state to make up the ag differential by direct payment to the districts.

ADM for ADA: With bi-partisan support, the basis for state aid was shifted from average attendance to average membership so that schools would no longer be penalized for sick or truant or snowbound children. Urban districts, with higher absence rates, would gain most from this change, but virtually everyone agreed it made sense.

Measuring Local Wealth: The Citizens' League and urban government lobbyists pressed for adjustments in the EARC measure of school district tax base through formulas which would take into account municipal overburden. But such formulas seemed impossibly complex, and EARC remained unaltered, while the cities' financial problems were addressed by other additions to the whole tax package. The House DFL leadership tacked on a 30% increase (from $98 million to $125 million) in aid to non-school local governments. This aid is on a per-capita basis, with municipalities in the seven-county Twin Cities metropolitan area receiving $2 more per person than the rest of the state. Moreover, the distribution is proportionate to each government's non-school property levy so that the center cities with extra tax burden get extra state aid. And as additional acknowledgment of metropolitan interdependence, 40% of all future growth in property assessments in these counties is to be treated as their common tax base. Besides serving big-city interests well, the effect is consistent with Governor Anderson's basic intent: to reduce property taxes and shift the costs of local services to a statewide taxing package.

No Losers: A self-explanatory political principle in the administration approach was that no school district should lose money under the new formula. Therefore, the bill included the grandfather provision against levelling-down. Costing-out the proposals, however, showed that districts with declining enrollments would lose substantial aid, without any corresponding drop in costs. Not only some rural areas, but central cities like Minneapolis and St. Paul were in this category. The governor needed their votes, too, so, to lessen the impact of population loss, it was agreed that such districts could use a two-year average in counting pupils for foundation aid. Then, to close off any further possibility of someone's being hurt, the administration added a "save harmless" clause. It said that each district's new foundation aid must at least equal the sum of previous foundation aid and per capita sales tax payments. That still was not protective enough. In final bargaining the new ag differential payments and the old exempt property reimbursements had to be added to the annual guarantee.

Flat Grants: Without any educational rationale, automatic flat grants provide a demonstrably dis-equalizing bonus to the wealthy. The governor proposed dropping them after 1971-72. However, legislators insisted on something for everybody, and flat grant aid continues, at $215 per-pupil, for at least this biennium. As the level of foundation support approaches actual operating costs, the number of districts for which the $215 is an unearned bonus will drop. By the funding terms of the "October Compromise," some 76 districts will be specifically favored by the flat grant in 1971-72, but only 19 in 1972-73.

How High a Foundation?: The governor proposed to set the foundation target level at the actual statewide average district cost per-pupil—$780 in the first year, $819 in the second (actually, the shift from ADA to ADM as the pupil count would have lowered these amounts slightly). This near-doubling of the existing foundation ($404 per pupil) seemed staggering to many people inside and outside the legislature. And the DFL did not have enough votes to put that great an increase all on the state income tax. Major compromise was inevitable on both the amount of foundation aid and the source of new revenue to cover it. The "October Compromise" provided a $600-per-pupil foundation the first year and $750 per pupil the second. The required local tax effort was set at 30 EARC mills. Additionally, the DFL agreed to raise the sales tax.

Slowing Down the Levelling-up: The DFL had to make another concession in the plan to put below-average districts on an escalator leading to substantial parity across the state in six years time. Though a gradualist plan, its probable cost scared the legislators, and they came up with a complicated substitute. Essentially, it keeps a tax-poor, below-average district where it has been relative to others by limiting all districts to the same cost-of-living-per-pupil increase ($87) over the biennium. There will be some levelling-up effect in 1972-73, because $87 is a greater proportionate jump in a low budget than in a high one. Also, in calculating foundation aid, an above-average district must subtract any special education aid from its per-pupil average cost figure. The net effect is to tighten the levy limitation in some grandfathered districts (if they happen to be heavily aided for handicapped children), and to allow it to rise slightly in low-spending districts. That is only minimally equalizing, a far cry from the original proposal.

State Taxes: The final package of new state taxes, of course, was also a compromise. The governor had asked in January for $762 million new revenue in a $3-billion biennium budget. In October he actually got $581 million new revenue in a $2.9-billion budget. Over a third of the new money is a result of raising the income tax on corporations and banks. These were concessions won with difficulty from the Conservatives. In return, the DFL agreed to broaden the sales tax and let it rise from 3% to 4%, thereby creating another quarter or more of the new money. The remainder comes from excises and miscellaneous items.

Over half the increase will go to school districts under the new formula for state aid. By virtue of this aid, and by the limitations on local school levies, property taxes for the state as a whole will drop almost 20%. The figures are well below what the governor first hoped, but they are far above what he threw back to the legislature with his August veto, and they clearly indicate a major change in Minnesota fiscal policy.

PRESENT IMPACT AND FUTURE PROSPECTS

The new fiscal policy resulting from the Minnesota tax and school finance debate has:

1) reduced the homeowner's property tax;

2) levelled out disparities in the burden of property tax; and

3) forestalled any new escalation of property taxes and any re-emergence of the disparities.

To the very large extent that the property tax is a school tax, achieving these objectives will influence the state's educational policy as well.

Homeowners' property taxes have already dropped, virtually everywhere in the state, by an average of 11.5%, though the fact that the drop is not much larger reflects how strong the upward pressure on property tax is. The overall reduction comes from a much larger percentage reduction in school operating levies, and (to a lesser degree) from the relief of municipal levies provided by increased municipal aid. Meanwhile, the rise in other local property taxes (for such commitments as school debt service, pensions, metropolitan transit, or county detention homes) is continuing, eating into the reduction afforded by increased school operating aid from the state. In most places these other parts of any taxpayer's total property levy have risen more than originally estimated by the state planning agency, a difference which explains why the average reduction is 11.5%, instead of the predicted 20%. In some areas the lower school millage is almost wholly offset by increases in other categories. In a very few there are even slightly higher rates than before.

Against this must be set the unquestioned fact that without the new law both school and municipal taxes would have risen substantially. Relative to what this year's tax bills *would* have been, property tax savings are far more impressive than 11.5%. "Would have been," however, is difficult to spotlight politically, and even a realist can be disappointed that, with sales and income taxes up, property taxes still seem far from low.

In any event, there is not likely to be much pressure to return to heavier reliance on the local school tax. Indeed, the tangible benefits of this biennium may make it persuasive to propose still greater operating aid for schools, a similar tax-sharing approach to capital costs, a further infusion of money into non-school budgets, or some combination of all three. It is probable that schools (and millage elections) will no longer be the taxpayer's whipping boy. Though still the largest item, they are now a smaller proportion of local government costs, and limits have been set on how fast their spending can increase.

A second aim of the new legislation—to diminish the tax disparities from one district to another—is being partially accomplished, though local tax rates are still far from equal. In the Twin Cities metropolitan area, for instance, the spread between highest and lowest total local tax rates has been reduced from 251 mills to 160 — or by more than a third. The narrowing of the gap results chiefly from new state help to schools in high-tax/low-expenditure districts (typically the modest-income bedroom suburbs) which benefit most from the new school aid formula. Low-tax/high-expenditure districts achieve very little tax reduction. Thus, the ceiling on tax rates is lowered, and the floor remains about the same. Of course, a gap remains. Some homeowners in the metropolitan area still pay 1.5 times the rate of others in total taxes, and more than twice the rate for schools; it is still the wealthier districts which pay the lower rates. This limited progress toward tax-rate equalization is not at all matched by progress toward equalization of resources for school children. As already explained, there is to be very little levelling-up of what poorer districts can spend, and no levelling-down of what wealthier districts already spend. Optimists will say that greater equity in revenue raising is the prerequisite for equity in revenue distribution—and that some gains have been made here. Pessimists will say that mollifying homeowner-taxpayers distracts attention from the needs of children in school—and that now the state has simply taken over a pattern of serving these needs inequitably. Who is right will become much clearer in the next round of actions among the governor, the legislature, and the courts.

To keep property taxes from resuming their upward climb, Minnesota now has a statewide limit on what may be levied for school operation. The limit also strongly constrains property-rich districts from maintaining their budget advantage over the property-poor, and protects poor districts from the extra high millage rates they had been forced to adopt before. Even with grandfather clauses and save-harmless provisions, it does operate to flatten out disparities of tax burden.

The impact on actual school receipts and expenditures is much less striking, for the "October compromise" was finally more concerned with keeping all costs down than with helping low-spenders catch up. In this biennium there will not be a highly visible equalizing effect on per-pupil expenditures, though a number of below-average districts which were near the limit of what their taxpayers could bear have probably been saved from falling still further behind.

In the legislative session next biennium, there will presumably be a strong effort to remove expenditure disparities as well as tax-rate disparities. Perhaps by that time, though, some property-rich districts may be trying just as hard to have their spending limits relaxed. The two efforts cannot both succeed, and again the relationship of fair taxes and fair education will become an issue for debate.

Two factors argue that when that debate emerges in the legislature again, in 1973, it will begin at a very different point from where it began in 1971. One is the influence of court decisions on how Minnesota legislators think about school finance. Judge Miles Lord handed down his *Serrano*-type opinion in *Van Dusartz* v. *Hatfield* during the closing days of the Tax Conference Committee's October negotiations. The immediate effect of that decision was a strengthening of the impetus for a new school aid law. It had the longer-range effect of making Minnesota lawmakers particularly aware of the equity issues involved in their responsibility for school finance policy. The *Van Dusartz* case is now inactive, but interest in its arguments has been heightened by subsequent decisions and by the intervention of Governor Anderson as an *amicus* in the Supreme Court hearing of *Rodriguez* v. *San Antonio Independent School District*. The new Minnesota law, despite its improvement over the old, almost certainly does not meet the *Serrano* principle which Judge Lord adopted—"that the level of spending for a child's education may not be a function of wealth other than the wealth of the state as a whole." Even should the Supreme Court decide against *Rodriquez* early in 1973, the effect would probably be only to slow down Minnesota's momentum toward reform, not to reverse it.

The second factor has to do with that momentum. After ten months of political stalemate, Minnesota moved in a clear direction toward strong control of the total tax system by the state legislature. Fair taxation is not possible, it was finally agreed, without an even-handed, state-level tax policy that avoids having major taxes set by multiple and unequal jurisdictions.

The principle of fair taxation as a state responsibility has been established. The question in 1973 will be how to continue movement along the direction chosen in 1971. There will doubtlss be pressure to equalize further the school tax burden and discussion of the idea that there should be equity in the spending of money as well as in the collection of money.

TABLE 1

MINNESOTA

District (type)*	Need	Capacity		Effort	
	Title I per pupil (1968-69)	Property Value per pupil (1970)	Adjusted Gross Income per pupil (1966-67)	School Tax Burden (%) (1968-69)	School Tax Rate (mills) (1970)
St. Paul (1)	30.49	16,668	16,581	2.54	25.2
Minneapolis (1)	40.32	19,010	16,958	3.09	27.6
Duluth (1)	2.56	8,805	8,960	4.13	42.0
Anoka (2)	5.47	4,964	6,111	4.37	53.9
White Bear Lake (2)	12.53	5,747	9,287	3.07	49.6
Bloomington (2)	3.95	8,857	7,767	4.66	40.9
Edina (3)	1.31	14,074	17,007	2.97	35.9
St. Louis Park (3)	6.79	14,491	17,242	3.50	41.6
Hopkins (3)	5.60	12,943	10,823	4.95	41.4
St. Cloud (4)	18.79	8,412	9,633	2.69	30.8
Middle River (5)	29.54	4,142	4,510	4.37	47.6
Ashby (5)	20.12	10,842	3,923	6.97	25.2
Mean	**14.79**	**10,746**	**10,733**	**3.94**	**38.5**
Maximum/Minimum Ratio	**30.8/1**	**4.6/1**	**3.8/1**	**2.7/1**	**2.1/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 2

MINNESOTA

District (type)*	Revenue/Pupil Local (1968-69)	Revenue/Pupil State (1968-69)	Revenue/Pupil Federal (1968-69)	Expenditures/Pupil Total (1968-69)	Expenditures/Pupil Instructional (1968-69)
St. Paul (1)	421	248	69	698	539
Minneapolis (1)	524	212	81	1,384	561
Duluth (1)	370	301	69	1,007	526
Anoka (2)	267	390	34	1,178	458
White Bear Lake (2)	285	389	34	986	523
Bloomington (2)	362	372	25	1,467	533
Edina (3)	506	248	11	1,249	554
St. Louis Park (3)	603	318	20	1,192	654
Hopkins (3)	536	360	36	1,564	639
St. Cloud (4)	259	421	53	1,536	496
Middle River (5)	197	512	91	2,614	590
Ashby (5)	273	290	37	662	448
Mean	**384**	**338**	**47**	**1,294**	**543**
Maximum/Minimum	**2.7/1**	**2.1/1**	**8.3/1**	**3.9/1**	**1.5/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 3

MINNESOTA

District (type)*	Latest Aid/Pupil (1970-71)	Alternative A ** Aid/Pupil (1971-72)	Alternative B *** Aid/Pupil (1971-72)
St. Paul (1)	$237	$330	$332
Minneapolis (1)	239	360	337
Duluth (1)	354	491	484
Anoka (2)	413	629	623
White Bear Lake (2)	398	514	525
Bloomington (2)	365	365	448
Edina (3)	246	268	346
St. Louis Park (3)	271	271	318
Hopkins (3)	327	327	411
St. Cloud (4)	369	581	589
Middle River (5)	545	762	700
Ashby (5)	359	628	562
Mean	344	461	473
Maximum/Minimum	2.3/1	2.3/1	2.0/1

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

A "Central City" district is defined as having a total population greater than 250,000. "Fast Growth Suburbs" are located close to Central Cities and have population growth rates higher than the suburban median. "Slow Growth Suburbs" are also located near Central Cities and indicate a population growth between 1960 and 1970 below the median of all suburban districts in the sample. Slow Growth Suburbs include wealthy residential communities and suburbs with substantial concentrations of commerce or industry. "Independent City" districts are those which have populations between 10,000 and 250,000 and are located beyond built-up Central City areas. Finally, "Rural" districts are those which contain no communities with populations as large as 10,000.

Note: A word about the sources of data is in order. In the short period of time in which this data was collected, it was necessary to compile pertinent school finance data from a variety of sources. All the data on Table 2 as well as the Title I revenue per pupil data on Table 1 was derived from the U. S. Office of Education Report, *Statistics of Local Public Systems: Finances, 1968-1969.* Adjusted Gross Income Per Pupil was derived from the National Educational Finance Project work, *Personal Income by School District, 1966-1967,* Property Value Per Pupil data on Table 1 was collected from the various published and unpublished reports of the state departments of education in the various states, and data on school tax rates and school tax burdens was derived by dividing local tax revenues obtained from USOE data into Adjusted Gross Income and Property Value in the respective school districts. Data on the effects of alternative school finance plans in Table 3 was developed by the Minnesota Department of Education and illustrates the alternative aid distributions under the "October Compromise Bill" (H. F. 262) and H. F. 5 (the bill that was vetoed by Governor Anderson).

In all, data on more than 25 school finance variables was collected in a total sample of 53 districts in Minnesota. A more comprehensive analysis of this data is currently being prepared and will be included in an appendix which will subsequently be published as a separate volume.

** Alternative A: Mandated 30 mill local levy yielding a minimum of $215/pupil unit (secondary pupils 1.4 units, AFDC pupils .5 additional units). This is the "October Compromise Bill."

*** Alternative B: Mandated 22 mill local levy yielding $180 per pupil unit (secondary pupils 1.35 units). This is H.F. 5, the bill that passed the legislature but was vetoed by the Governor.

MICHIGAN

by Clay Hiles

The move toward revision of the system of financing public education is still in the proposal stage in Michigan. However, a concerted long-term reform effort, led by a governor who has made education his major theme, may break through the political deadlock this year. This November's ballot will include two constitutional amendments that would dictate certain reforms in the tax system and pave the way for others in the method of raising and distributing funds among the local school districts. In addition, the Republican governor and the Democratic attorney-general have joined as plaintiffs in a lawsuit[1] seeking a declaration that the existing school finance system violates both the United States and Michigan constitutions.

BACKGROUND TO REFORM: CURRENT INEQUITIES

The current method of financing Michigan schools relies heavily on local property taxes and results in gross and irrational discrepancies in per-pupil funding around the state. Some general operating funds for Michigan schools under the current scheme consist of state and, to a much smaller extent, federal aid, but the primary source of money for the schools is the property tax levied in the local district:

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[1] *Milliken* v. *Green*. An earlier court challenge by the Detroit school board was initiated in 1968, but later dropped. The basic claim of the Detroit suit, that states should fund education on the basis of individual student needs, was rejected by the Supreme Court in *McInnis* v. *Ogilvie*.

General Fund Revenues of Local School Districts In 1970-71 By Major Sources[2]

		Revenue (Millions)	
Local Sources			
Property taxes[3]	$931.5		
Tuition from patrons	5.5		
Revenue from revolving funds[4]	76.6		
All other local revenues	23.4		
Total Revenue from Local Sources		$1,037.0	
Intermediate Sources		3.4	
State Aid		754.8	
Federal Aid		81.0	
Gifts and Bequests		2.2	
Total General Fund Revenues of Local Districts			$1,878.4
Add State Aid for Pensions and Social Security			155.2
Total Revenues for General Purposes			$2,033.6

In 1970-71 local property taxes provided about 46% of all general fund revenues; state aid provided about 45%; federal aid, about 4%; and all other sources combined, about 5%.

Michigan's 2.2 million public school children are educated in 624 school districts, each of which sets a property tax rate for education in millage elections. The state has made an attempt at equalization of general operating funds by employing a formula which has reduced, but certainly not elimi-

[2] Citizens Research Council of Michigan, *An Analysis of the Governor's Proposals for Financing Elementary-Secondary Public School Operating Costs and a Comparison with the Democratic Party Proposal*, p. 12.

[3] The $931.5 million reported by local school districts as property tax revenues includes collections from the current tax levy, collection of prior year taxes and interest and penalties on delinquent taxes. It also includes any taxes levied by local school districts for community college operations and for public library operations where the local school districts provide these services.

[4] Revolving fund revenue includes revenues from food services, book stores and student body activities.

nated, the disparities among districts. The formula works in this way:

The total assessed property valuation in each district is "equalized" (adjusted to compensate for varying local assessment practices) to obtain a figure representing 50% of the current market values of real property. This amount, reduced to a per-pupil figure, is the state equalized valuation per pupil (SEV) in the district. The state's per-pupil contribution is determined by multiplying the SEV by a "deductible millage" (specified by law) and subtracting it from a "gross allowance" per pupil (also specified by law).[5]

For fiscal year 1971-72, the legislature specified two sets of "gross allowance" and "deductible millage" figures, one set for SEV's above $17,000 and the other for SEV's below that breakpoint:

	SEV's Below $17,000	SEV's Above $17,000
Gross Allowance	$661.50	$559.50
Deductible Millage	20	14

An SEV of exactly $17,000 would, under either formula, provide $321.50 per pupil in general state aid. If the local school millage rate were 26 mills, the 1970-71 statewide average, the combined local and general state aid per pupil would be $763.50.[6] However, as the SEV moved away from $17,000 in either direction, the amounts per pupil, calculated according to the appropriate formula (with the local millage rate held constant at 26 mills), would diverge more and more markedly. These formulas, applied to different SEV's, would pro-

[5] State aid = gross allowance — (SEV × deductible millage)

[6] Combined local and general state aid =
[gross allowance — (SEV × deductible millage)] +
(local assessed valuation × local millage rate)

For the purposes of these illustrations, the local assessed valuation is assumed to be the same as SEV, so that the illustration equation is: combined local and general state aid = [gross allowance — (SEV × deductible millage)] + (SEV × local millage rate). Hence, in a $17,000-SEV, 26-mill district, the two formulas would work this way:

a) Combined local and state general aid = [$661.50 — ($17,000 × .020)] + ($17,000 × .026) = $763.50

b) Combined local and state general aid = [$559.50 — ($17,000 × .014)] + ($17,000 × .026) = $763.50.

vide different combined state and local per-pupil funds in the following pattern (which stays within the actual range of Michigan variations) if the state average of 26 mills were the school tax rate in each case:

	SEV	Combined Local & General State Per-Pupil Funds
A	$ 6,000	$ 697.50
B	10,000	721.50
C	17,000	763.50
D	20,000	799.50
E	40,000	1,040.00
F	60,000	1,560.00

Of course, local tax rates do vary considerably, but even greatly increased millages (which may be much harder for a low-SEV district to bear if the low SEV coincides with low income) can not overcome the low-SEV disadvantage. In order to match District E's per-pupil expenditures (see chart, above), District A would need a millage rate of 83.83; and an owner of real estate assessed at $20,000 would pay $1,676 in school property taxes in District A and $520 in District B to secure equivalent per-pupil education funds.

In addition to the revenue from local property taxes and state aid, calculated according to the above formulas, there are state grants for special categories of educational expenditures: transportation, vocational education, compensatory education, remedial reading and other special education programs.

The result of this scheme of education funding, a grossly uneven distribution of the state's educational expenditures, is shown in Table 4.

TABLE 4

FINANCIAL DATA FOR SELECTED SCHOOL DISTRICTS, 1970-71 *

District	SEV/Pupil	School Mills Levied **	Instructional Cost Per Pupil	Available Dollars Per Pupil Exclusive of Federal and State Categorical Grants	Total Cost Per Pupil	Average Teacher Salary
River Rouge	$56,726	20.9	$810.72	$1,251.00	$1,259.49	$13,223
Ann Arbor	25,642	32.55	609.10	1,066.00	1,091.69	11,380
East Lansing	22,584	30.4	762.12	953.00	1,080.83	9,844
Lansing	18,828	30.85	679.34	766.00	953.71	11,422
Detroit	17,720	20.76	583.49	654.00	806.71	11,118
Redford Union	11,433	35.90	612.57	830.00	838.17	11,080
Inkster	6,637	25.9	528.30	672.00	717.56	10,925

* Pinner, Collins and Sederbuns, *Decision Making on the Reform of Educational Finances in Michigan*, A Report to the Urban Institute (1971), p. 38; Michigan Bureau of Programs and Budget, *School Finance Reform in Michigan* (1972), pp. 30, 40, 41. The state aid included in these figures was based on the 1970-71 aid formula:

	SEV's Below $15,500	SEV's Above $15,500
Gross allowance	$623	$530.50
Deductible Millage	20	14

** Since only school millage is shown, the variations in total millage (and the extent of municipal overburden) are not indicated.

The typical problem in presenting proposals for educational funding reform in Michigan is to get them considered according to their own particular merits. The past few years of attempting reform in Michigan have illustrated the need to:

a) clarify proposals so that potential supporters will not be discouraged by fuzzy intricacies in the plans;

b) relate funding proposals to taxing plans which will have sufficient support for passage;

c) avoid allowing the proposals to become embroiled (or lost) in political fights over other issues; and

d) avoid the identification of proposals with unpopular policies or actions, like busing or "governmental centralization," which can be linked to any discussion of "education."

The efforts sponsored by Governor Milliken got underway with a certain amount of political thundering and partisan grumbling. The governor, a former member of the state legislature, has long been interested in education, and he has undoubtedly recognized the political implications and possibilities of education finance reform. He has, of course, been inclined to make this issue his issue. The Democrats, however, are not eager to abandon their claims to this area. The legislature and State Board of Education, controlled by the Democrats, commissioned in 1966 an analysis of educational opportunity in the state. This study, completed in December, 1967, and known as the Thomas Report,[7] noted the marked variations in educational opportunity in Michigan and recommended that the state increase its role in equalizing the amount of money available for public education throughout the state. In response to this suggestion, various proposals were offered, including a plan urged by the Michigan Association of Professors of Educational Administration, whose essential feature, an equalizing distribution scheme based on classroom units, eventually became the central characteristic of Governor Milliken's proposals.

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[7] Alan Thomas, *School Finance and Educational Opportunity In Michigan* (Lansing: Michigan Department of Education, 1968).

COORDINATES OF REFORM: TAXATION AND DISTRIBUTION

Against this initial backdrop of partisan efforts to steal the first scene in the school finance reform show, the governor's advisors worked out a set of proposals for consideration by the 1969-70 legislature:

1. Drastic reduction of inequality of expenditures and inequity of tax burdens between school districts, a goal to be accomplished by:

   a) establishing a statewide property tax to replace the local property tax except for an optional 3 mill enrichment tax (with an equalized yield based on effort rather than district property value); and

   b) guaranteeing a fixed allowance for each student.

2. Introduction of a more "rational" education program that would, through comprehensive student evaluation procedures, direct resources toward the achievement of rationally determined objectives. A more efficient organization of schools into larger, consolidated districts was also an aim.

3. Increased accountability in the operation of Michigan's public education programs, by clarifying the lines of authority and responsibility in the administration of the state's schools. The elected partisan State Board of Education and their appointed State Superintendent would be replaced by a gubernatorial appointee who would have administrative charge of the system. The enlarged school districts, to be called regions, would be headed by gubernatorial appointees.

Milliken did not offer an equally comprehensive taxation system to replace the lost property tax or the increases in overall educational expenditure that would be required by the equalization scheme. Besides the statewide property tax, he mentioned only an increase in the cigarette tax (earmarked for education) and a temporary reduction in the property tax credits against income tax payments.

A POLITICAL DEAD-END FOR THE INITIAL REFORM

Milliken's plans did not get far. The educational community did not like the plan for centralization of power; and it had been somewhat antagonized by the governor's tendency to exclude it from his policymaking. The retention of a property tax (despite the shift to its statewide equalization) and the reduction in property tax credits alienated rural interests.

The furor over aid to parochial schools and proposals to decentralize the schools in Detroit absorbed the legislators' energy and interest and blunted the relatively limited move toward equalization of taxation and school funding. Urban-oriented Democrats and rural Republicans did agree on a plan for providing aid to parochial schools and for allowing local districts to replace the local property tax with a local income tax (with state equalization of the yield from either of these local taxes). However, new taxes necessary to fund this program failed to pass.

ANOTHER PLAN: NEW (SOMEWHAT) AND IMPROVED (MOSTLY)

Milliken was re-elected in the fall of 1970, but the legislature remained under Democratic control. In view of the failure of his earlier plan and in recognition of the fact that compromises with the Democratic leaders would be necessary, Milliken altered and reorganized his goals for the 1971 legislative session, although his education package maintained its major themes:

- *Equality of expenditure and equality of tax burden:* The governor's strategy was to shift the focus from distribution to taxation. The provisions were

    a) elimination of the local property tax;

    b) allowance of a local 6-mill enrichment tax (double the previous 3-mill provision) whose yield would be equalized by the state;

c) replacement of the lost individual property tax revenues through a 2.3% increase in the personal income tax (added to his request for a hike from 2.6% to 3.6% just to finance the general state budget, this would have resulted in a 5.9% flat rate personal income tax);[8] and

d) replacing the lost business property tax through a 2% value added tax.

- *Increased rationality:* The governor called for consolidation so that all districts offered K-12 programs. However, in an effort to remove the apparent threat of centralization in the earlier proposals, the plan was altered to eliminate the provision for governor-appointed regional directors and for regional control over school district budgets. The consolidated units were to be twice as numerous as (and therefore much smaller than) those in the initial plan.

- *Greater accountability:* Because of the reaction against his plan to place the school system directly under the administrative direction of a gubernatorial appointee, Milliken decided to retain the state school board which would appoint the state administrator. However, instead of being elected (and, therefore, directly entangled in partisan politics), the board would be appointed by the governor. Accountability was urged less as a system of more centralized authority and responsibility, and more as a program of assessment, including assessment in which the local school district would play a significant part.

POLITICAL STALEMATE

This set of proposals seemed generally acceptable at the outset. There was a widely recognized need for reform of an overall educational funding system that relied on the relatively inelastic property tax, which, in turn, was dependent

[8] A graduated income tax is currently prohibited by the Michigan constitution.

on the vagaries of local millage elections. And there was no strong opposition to the particular reform measures suggested. However, as in the previous year, school finance issues became overwhelmed by the political battle over state taxing and spending policy as a whole. The political factions in the legislature made agreement on any changes in school funding contingent on the acceptance of their pet programs. The speaker of the House, Democrat William Ryan from Detroit, insisted on increased welfare spending and a graduated income tax. His condition for going ahead on the state budget was a constitutional amendment (to be decided in a referendum election) not only to *eliminate* the existing constitutional prohibition against a graduated income tax, but to *require* a graduated income tax. A Republican bloc in the legislature based acceptance of the governor's budget package on immediate property tax relief—through a fall, 1971, referendum. Additionally, the Republicans insisted on immediate implementation (by August 1, 1971) of the income tax rise in order to balance the budget.

The political bargaining was in a context of considerable time pressure, including two deadlines, the beginning of the fiscal year July 1, and the early fall statutory deadline for placing constitutional amendments on a November ballot. By June, a few concessions had been made:

- The governor, who had pledged no new taxes before 1972, agreed to the August 1 income tax hike.
- The Democrats, who had wanted to keep the property tax for significant operating millage, agreed on 10 mills for school operations.

A special committee of twelve legislators (three members of each party in each house) was suggested by Milliken to work out the details of a compromise on long-range policy as well as to break the stalemate on short-term budget bargaining. This attempt at a short-cut through the legislative operations was not successful. While the legislative session was disrupted and delayed, the committee failed to negotiate any long-term agreements.

The collapse of this committee in mid-July left the state with an immediate need for action on tax levels for the fiscal year, which had already begun, and for support of the schools, which were soon to open. By the end of July, a new tax bill was accepted. It raised personal and corporate income taxes to finance the state for another year—with some increased spending—and it responded to the demand for property tax relief by providing that the tax increase would be void if a constitutional amendment limiting property taxes was not on the ballot by November, 1972.

Right after House approval of this tax bill, Milliken accepted a proposal by Ryan for a constitutional amendment combining property tax limitation and removal of the graduated income tax prohibition (a modification of Ryan's earlier insistence on a required graduated income tax). However, the resolution to put the amendment before the voters was barely passed by the House and remained stuck in a Senate committee until the deadline for putting such an amendment on a November ballot had passed. The debates over tax policy, which failed to arrive at long-term solutions, had again obscured the issue of reforming the system of distributing funds for education in Michigan.

PROGRESS IN 1972

This year Governor Milliken has focussed on the details of both issues—sources of revenue for schools and the distribution of that revenue among the districts. The specifics of his proposals have been clarified, and the Democrats have recommended an alternative similar in its approach to both distribution and taxation.

In view of the legislature's failure to agree on a constitutional amendment altering taxation policy, Milliken's forces launched a successful drive to obtain the necessary signatures (nearly 300,000) to have two amendments placed on the ballot this November. One amendment would simply remove the state constitutional ban on a graduated income tax. The other, directed at the details of tax and school funding reform, would:

a) reduce the present constitutional property tax limit from 50 mills to 26 mills, and, within that limit,

—allow (contingent on voter approval) a maximum of 6 mills, equalized throughout the state, for enrichment in any local school district;

—restrict to 4½ mills the amount of taxes imposed locally for vocational, compensatory and special education, and intermediate school districts;

—limit the taxing power of counties to a total of 8 mills and that of townships to 1½ mills;

—allow an additional 6 mills, contingent on voter approval;

b) exclude from these restrictions property taxes levied for debt service and property taxes imposed "by any city, village, charter county, charter township, other charter authority or other authority, the tax limitations of which are provided by charter or by general law";

c) require the legislature to establish a system of taxation and distribution of school funds "to assure equal and quality educational opportunity for all students"; and

d) require the legislature to establish a method of support for intermediate school districts, vocational education, special education and compensatory education.

The proposed constitutional requirement that the legislature establish an "equal opportunity" program for distributing school funds would presumably be satisfied by the governor's proposals for a rational statewide system of distribution, supported by new non-local sources of revenue. Under Milliken's proposal,

a) the state would take over basic elementary-secondary school operating costs under a foundation program which would distribute state funds to local school districts (separate allocations for professional services, non-professional services and non-salary costs);

b) the state would provide aid to local school districts for transportation; and

c) local districts, in accordance with the proposed constitutional amendment's limitations, could, with voter approval, levy up to 6 mills (equalized) for elementary and secondary school enrichment; and "any taxing unit" could levy up to 4½ mills (not equalized) without voter approval for vocational, special, and compensatory education and intermediate school districts.

The most striking features of the governor's plan are its attempt to recognize, through a personnel unit formula, very fine variations among local school districts in the costs of "equal opportunity" and its allowance of a limited, equalized local add-on.

The governor's foundation formula would have the state provide funds to hire up to 47 professional employees per 1,000 pupils enrolled (or a pupil:professional ratio of 21:1). The basis of support for local school districts would be a professional service allowance which would vary among the districts according to regional variations in salary levels and the experience and training of the professional employees. The existing 59 intermediate school districts would be the "regions." A base professional allowance would be determined for each region with individual salary requirements related to it according to an adjustment for experience and training. The reimbursement to each district would be the base professional allowance (for the region in which it was located) adjusted by the experience-training factor of its professional employees.

In 1970-71 about 41% of the pupils in the state were enrolled in districts with a professional:pupil ratio greater than 47:1000. Under the governor's proposed formula, all of these districts (as well as the districts with a current ratio below 47:100) could provide more than 47 professionals per 1000 students by obtaining voter approval to use the enrichment millage allowance. Only 1% of the students were in districts where the enrichment allowance would be insufficient to provide a per-pupil expenditure level equal to or greater than the current level. These districts would be "grandfathered" to maintain their high level of expenditure.

The governor's proposal calls for a non-professional service allowance for each district of 20% of the professional service allowance before any adjustments for the experience-training factor or any fringe benefit allowance. Non-salary costs would be covered by a statewide allowance of $100 per pupil.

All of these funds would be allotted in a lump sum to the district. The question of local control would be answered by leaving to the local district the responsibility for hiring and for setting salary levels and schedules (with any collective bargaining at the local level) within the limits of the professional service allowance for the district.

The governor's office has estimated the public elementary-secondary education operating costs under Milliken's proposals and compared them to present costs, as shown in Table 5.

TABLE 5

ESTIMATED EXPENDITURES BY SOURCE *
(In Millions of Dollars)

	70-71	Current 71-72	Model 71-72	Difference Between Current and Model for 1971-72
Local Sources				
Basic Program	904	1,000 **	0 ***	−1,000
Transportation	30	32.5	0	− 32.5
Enrichment Program	N/A	N/A	100	+ 100
Total Local Funds	934	1,032.5	100	− 932.5
State Sources				
Basic Program	740	810	1,793 °	+ 983
Transportation	30	32.5	70	+ 37.5
Enrichment Program	N/A	N/A	50 †	+ 50
Total State Funds	770	842.5	1,913 °	+1,070.5 °
TOTAL STATE AND LOCAL SOURCES	1,704	1,875 ‡	2,013 ‡°	+ 138 §
% Increase		(10.0)	(18.1)	(8.1)

* Michigan Bureau of Programs and Budget, p. 54; federal funds not included.

** This assumes a 7% increase in SEV and a 3.1% increase in millage rate over the 1970-71 levels.

*** Represents the shift from the property tax to the state income tax.

† This figure assumes that districts with programs (i.e. staff adequacy ratios) above the basic program provided in this model will choose to maintain their program through the enrichment option.

‡ This assumes an increase in enrollment of 32,000 students over the 1970-71 level.

§ The difference between the current system and the model for 1971-72 excluding property tax relief is as follows:

Net Increase in State funds	$ 38 million
Net Increase in Local funds	100 million
Total Increase in expenditures	$138 million

° Pension and social security costs are apparently not included.

The governor's revenue proposals to replace the property tax for the great bulk of school support deal separately with replacing the tax revenues from residential and agricultural property and business property.

The $600 million now derived from residential and agricultural property taxes could be replaced, the governor estimates, by a 2.3% increase in the personal income tax, from 3.9% to 6.2%. The $500 million now obtained through the tax on business property could be replaced by a 2% value added tax. These two changes would cover the nearly $1,100 million rise in state funding.

The effect on individuals of the personal income tax hike would depend on the relationship, for each person, between income and property value—and current local millage. Obviously, those in a low-property value, high-income category would pay more, while people with relatively modest incomes and high property value—farmers, for instance—would experience considerable tax relief. Similarly, there would be variations in the effect on business of the shift from the property tax to a value added tax, depending on the proportion of value added by different types of business in relation to property value and current local millage.

Beyond these proposals to amend the constitution and to pass legislation to reform the system of taxation and the method of distributing school funds, the governor and the state's attorney general have sought relief in the courts.[9] Claiming that the current system of financing education violates the equal protection requirements of both the U.S. and Michigan constitutions, they have asked the Michigan Supreme Court to take the position of the landmark *Serrano* court, that the quality of a child's education may not be a function of the wealth of his local district. A decision in the Michigan suit, *Milliken* v. *Green*, is expected by the end of the summer of 1972.

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[9] Milliken is the first governor to be a plaintiff in a school finance reform lawsuit.

In any event, in Michigan the groundwork has been laid for restructuring the entire system of funding public schools, a transformation urged by the desire for fairness, compelled by the political necessity of property tax relief and perhaps soon imposed by constitutional law. The forward motion of school finance reform, repeatedly halted and diverted by political roadblocks, has carried the politicians and, probably, the voters far enough now to make major transformation almost certain.

TABLE 6

MICHIGAN

District (type)*	Need	Capacity		Effort	
	Title I per pupil (1968-69)	Property Value per pupil (1968-69)	Adjusted Gross Income per pupil (1966-67)	School Tax Burden (%) (1968-69)	School Tax Rate (mills) (1968-69)
Detroit (1)	41.61	16,797	14,833	2.62	23.1
Lansing (1)	11.25	17,390	12,100	3.98	27.7
Kalamazoo (1)	18.32	19,652	17,914	3.04	27.7
Dearborn Heights (2)	4.41	7,260	7,306	3.08	31.0
Portage (2)	2.59	14,304	6,001	7.76	32.6
Farmington (2)	7.10	12,733	11,965	3.77	35.4
East Detroit (3)	.66	10,139	12,619	2.03	25.2
Grosse Pointe (3)	0	29,070	29,392	2.87	29.1
Grand Ledge (3)	.83	9,324	8,362	2.18	19.5
Battle Creek (4)	22.75	18,166	11,510	4.28	27.1
Burt Twp. (5)	17.82	26,811	4,079	12.94	19.7
Peck (5)	20.45	10,070	4,057	4.02	16.2
Norway-Vulcan (5)	14.89	10,263	8,280	3.66	29.5
Mean	**12.32**	**15,976**	**11,678**	**4.33**	**26.4**
Maximum/Minimum Ratio	**50.1/1**	**3.1/1**	**7.2/1**	**6.4/1**	**2.2/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 7

MICHIGAN

District (type)*	Revenue/Pupil			Expenditures/Pupil	
	Local (1968-69)	State (1968-69)	Federal (1968-69)	Total (1968-69)	Instructional (1968-69)
Detroit (1)	388	342	101	1,019	543
Lansing (1)	481	329	36	1,564	589
Kalamazoo (1)	544	323	63	968	615
Dearborn Heights (2)	225	417	7	908	434
Portage (2)	466	275	12	932	531
Farmington (2)	451	334	15	1,695	514
East Detroit (3)	256	375	11	819	470
Grosse Pointe (3)	845	246	5	1,458	669
Grand Ledge (3)	182	373	6	722	350
Battle Creek (4)	493	345	76	1,014	591
Burt Twp. (5)	528	287	109	1,168	594
Peck (5)	163	362	31	658	366
Norway-Vulcan (5)	303	386	26	718	449
Mean	**419**	**334**	**39**	**1,077**	**522**
Maximum/Minimum	**5.2/1**	**1.7/1**	**21.8/1**	**2.6/1**	**1.9/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 8

MICHIGAN

District (type)*	Latest Expenditure/Pupil (1970-71)	Alternative A ** Expenditure/Pupil (1970-71)	Alternative B *** Expenditure/Pupil (1970-71)
Detroit (1)	$654	$890	$1,070
Lansing (1)	726	823	1,003
Kalamazoo (1)	910	789	969
Dearborn Heights (2)	688	826	1,006
Portage (2)	745	773	953
Farmington (2)	816	871	1,051
East Detroit (3)	788	849	1,029
Grosse Pointe (3)	1,062	923	1,107
Grand Ledge (3)	640	703	883
Battle Creek (4)	818	768	948
Burt Twp. (5)	N.A.	N.A.	N.A.
Peck (5)	N.A.	N.A.	N.A.
Norway-Vulcan (5)	699	810	990
Mean	777	820	1,001
Maximum/Minimum	1.7/1	1.3/1	1.3/1

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

A "Central City" district is defined as having a total population greater than 250,000. "Fast Growth Suburbs" are located close to Central Cities and have population growth rates higher than the suburban median. "Slow Growth Suburbs" are also located near Central Cities and indicate a population growth between 1960 and 1970 below the median of all suburban districts in the sample. Slow Growth Suburbs include wealthy residential communities and suburbs with substantial concentrations of commerce or industry. "Independent City" districts are those which have populations between 10,000 and 250,000 and are located beyond built-up Central City areas. Finally, "Rural" districts are those which contain no communities with populations as large as 10,000.

Note: A word about the sources of data is in order. In the short period of time in which this data was collected, it was necessary to compile pertinent school finance data from a variety of sources. All the data on Table 7, as well as the Title I revenue per pupil data on Table 6, was derived from the U.S. Office of Education Report, *Statistics of Local Public Systems: Finances, 1968-1969.* Adjusted Gross Income Per Pupil was derived from the National Educational Finance Project work, *Personal Income by School District, 1966-1967.* Property Value Per Pupil data on Table 6 was collected from the various published and unpublished reports of the state departments of education in the various states, and data on school tax rates and school tax burdens was derived by dividing local tax revenues obtained from USOE data into Adjusted Gross Income and Property Value in the respective school districts. Table 8 data was taken from a report entitled, *School Finance Reform in Michigan* (Lansing: Office of the Governor, 1972).

In all, data on more than 25 school finance variables was collected in a total sample of 70 districts in Michigan. A more comprehensive analysis of this data is currently being prepared and will be included in an appendix which will subsequently be published as a separate volume.

** Alternative A: Governor's Finance Plan to permit all districts to have a staff pupil ratio of 47 teachers per 1,000 pupils.

*** Alternative B: Alternative A plus an optional six mill supplementary local levy.

KANSAS

by Robert Norris

In early 1972, after a frustrating period of rising property taxes, declining state aid to education, several legislative studies of school finance, various legislative proposals from interest groups, and a growing concern among educators and legislators about the inequality in the distribution of education funds in Kansas, Senate Bill 716, the *School District Equalization Act,* was offered as an answer to these problems.

This bill, commonly referred to as the "district power equalizing" plan, was the first plan submitted to the legislature that attempted to remove a school district's wealth as the major determinant of its operating funds for schools. It was considered by some legislators to be not only an answer to the dissatisfaction with the current system of financing public schools, but also an answer to the issues raised by the *Serrano* decision in California.

The legislation did not pass. In fact, it did not get out of the Senate Education Committee. However, momentum for change has been established in Kansas, though it is difficult to predict when the changes will actually pass. There is some hesitancy among legislators because of uncertainty about the Supreme Court's pending *Rodriguez* decision. It is likely that the degree of change finally adopted in Kansas will be greatly affected by the *Rodriguez* decision and by decisions in local *Serrano*-like cases.

This chapter describes the nature of the system of financing public primary and secondary education in Kansas, the forces at work to change that system, the events leading up to the drafting of new proposals and some estimates of what the future will hold.

CURRENT SCHOOL FINANCING SYSTEM

The basic program of state aid to public education in Kansas, a foundation plan passed in 1965, was designed to

a) equalize per-pupil expenditures among districts by distributing relatively less state aid in counties with higher income and property wealth; and

b) reward districts that strive to improve educational quality by hiring and retaining highly qualified teachers.

A foundation support level—the "state guarantee"—is determined for each district according to two principal factors:

—teacher training and experience ("criteria of quality" or COQ)*

—pupil/teacher ratio (PTR)*

To assure local districts the state guarantee, the state supplements local school funding. It does so according to a formula based on a district's portion of the county taxing ability (in terms of both property and income); that is, the state attempts to make up the difference between the state guarantee and the amount of revenue which the local districts are able to provide.

The *economic index* (which determines county ability) and the *criteria of quality*, are the two most important elements in the general state aid formula. They can be manipulated by legislative action along with lesser factors such as the fixed dollar multiplier and the PTR factor. As we shall see, the legislature, growing more and more dissatisfied with the formula, has become inclined to build a new vehicle rather than tinker further with the old.

In 1965, there was a 15.7% reduction in tangible property tax operating levies for schools and a [illegible]5.5 million increase in total state spending for public schools, raising the state aid portion of the schools' operating budgets from 25.1% to 36.8%. But by 1966, property taxes for school operations were almost back to their original level, climbing 14.6%. State aid rose also, but only 8.5%. In 1967, property taxes rose 14.1%; in 1968, 16.7%; at the same time state aid was falling. The formula was proving inflexible.

The foundation plan had a feature which was supposed to keep spending for schools down to save taxpayers dollars. It was called the "104% budget control" provision: "No district shall budget or expend for operating expenses *per pupil* more than 104% of the amount legally budgeted for such expenses *per pupil* in the preceding school year." The original law contained six grounds for budgetary appeals. By 1969-70, the

* State guarantee = COQ × 760 (multiplier set by law) × PTR

grounds for appeal had increased to 16. Nearly 73% of the school districts appealed their 1969-70 budgets and won.

In 1969 the legislature passed a supplemental aid bill which provided for the distribution of $26 million in a manner different from the foundation program. It was passed in 1969 as a one-shot relief of property tax burden and it passed again in 1970 on a continuing basis.

The $26 million was to be distributed according to a guarantee per pupil and per employee, modified according to the wealth of a district (using an index of adjusted valuation per pupil). In 1969 the guarantee was $70.40 per pupil and $1,235.00 per certified employee.

In 1970 the legislature further attempted to halt the property tax and school budget spiral with a tax lid and a restriction on local district budget increases.

However, neither the foundation plan nor the supplementary state aid plan nor the tax and budget controls produced equality of educational opportunity or lessened the property tax burden.

While the costs of running schools have climbed, the state aid has fallen, and the property tax has borne the brunt. The failure of all the attempts to relieve the local property tax burden is evident in the following chart:

School revenue breakdown in Kansas in percentage of total revenue

	YEARS							
Sources	64-65	65-66	66-67	67-68	68-69	69-70	70-71	71-72
Local *	55.3	35.6	40.0	43.6	47.3	45.2	45.3	46.2
County **	16.3	20.1	16.7	16.0	15.5	14.9	15.7	15.7
State †	23.7	35.3	34.5	32.2	30.1	34.2	33.0	29.9
Federal	4.7	9.0	8.8	8.1	7.1	5.7	6.0	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Revenue ‡ in millions	233.6	259.5	292.3	319.5	355.7	390.9	402.4	430.5

* Property taxes.

** Basically from the county foundation fund (also property tax).

† Bulk from the state school foundation fund. Since 1969, 6 to 6.5% of the state aid figure has been made up of the supplemental state school aid.

‡ These figures include small amounts for junior college aid.

PRESSURE FOR CHANGE

The pressure for major changes in the financing of Kansas public schools has been building for several years. Prior to the 1970 tax lid and supplemental aid plan considerable backstage work was being done by various state organizations and interest groups to develop alternative finance schemes.

The *Kansas NEA*, the state teachers' organization developed a funding scheme based upon local district *tax effort* rather than upon district *wealth*.

While the teachers were at work with their plan, the *Kansas Farm Bureau* was urging a shift of much of the property tax burden to a state income tax.

The *Kansas Association of School Boards* had difficulty agreeing upon a reform proposal because of the diverse nature of its constituency. Like the Farm Bureau, however, KASB's objective was to reduce the property tax burden and it proposed a state-local revenue sharing plan based on per-pupil operating costs.

The *State Board of Education*, though not a major force in shaping new education programs in the Kansas legislature, did develop a plan similar to the KASB proposal.

In addition to these formalized plans, other interest groups, particularly the utility and railroad interests, were making their presence known through lobbying. Also the labor unions pushed for their interests—reduction in residential property taxes and personal income taxes and increased business and professional taxes.

None of these plans considered the higher costs of educating special categories of children, nor did any address directly the problem of municipal overburden.

THE LEGISLATIVE RESPONSE

Out of all these proposals and pressures came two new school finance bills in 1971, written by the Joint Committee on School Finance, created in April of 1970 and chaired by Republican Senator Joseph Harder, a telephone company executive from Moundridge, Kansas, a combined rural, urban district.

In the earlier meetings of the committee the various proposals were studied and in the later meetings the two bills were forged through intricate compromise. Innumerable computer runs were employed to show the committee members how all of the school districts fared under the various plans.

The majority report combined several proposals into a new scheme, whose main features were these:

a) A per-pupil guarantee based on district enrollment categories with the per-pupil guarantee inversely related to district size.

b) a 1.5% tax on district taxable income:

c) an economic index based upon district taxable wealth and taxable income per pupil;

d) a tax rate factor which penalized districts taxing under the median adjusted rate for the state twenty-one mills in 1969);

e) a grandfather clause based on a 100% guarantee for the first year that the formula would not reduce revenue), then 90% for the second year, etc.—until 1975 when the clause expires;

f) no change in transportation allowances;

g) no change in the county school foundation funds; and

h) the same budget restrictions as in the amended foundation plan, except the budget increases would be limited to 5% per pupil rather than 4% and new, more limited, appeal provisions would apply.

This proposal failed to get out of committee in the 1971 legislature. The governor stood adamant against any new taxes until the tax system was reformed. This meant his influence was mostly negative throughout. His popularity, notably improved by his previous hardnosed tax stands, scared other legislators from taking pro-tax stances.

In the spring of 1971, a new Special Committee on School Finance was created under Senator Harder. Needless to say, there was less than overwhelming enthusiasm for the task of coming up with another set of proposals.

Then came *Serrano* which changed the committee's attitude toward the potential scope of the school finance problem. The committee felt that the plans which had been considered would not meet the test of removing district wealth from the finance equation.

Senate Bill 716

At this point the committee reviewed and reformulated its proposal so that it would be based not on local district wealth, but on district tax effort. In doing this, the committee did not completely discard its previous work. They retained and updated the concept of a state guarantee per pupil based on district enrollment.

In addition, the committee adopted a district power-equalizing scheme, whereby there would be a direct correlation between local tax effort and per-pupil expenditure.

This proposal, SB 716, established a prescribed tax rate of 1.75% of the combined adjusted property valuation and the taxable income of a district. Under SB 716, a school district taxing itself above the 1.75 rate would be rewarded with more funds from the state; a district with a lower rate would receive less. A formula was developed by the committee which designated the amount of funds guaranteed for differing rates of local taxation.

Under this proposal, the state would be "fiscally neutral." The local school boards would determine the local tax rates, which would, in turn, dictate the state contribution. A district could choose to make its local effort through

a) a property tax;

b) a district income tax; or

c) a combination of the two.

But here is the political rub. If the local taxing effort in a given district were to produce more revenue than necessary to finance its school education budget, the excess amount would be remitted to the state for distribution among districts entitled to state education aid.

Senate Bill 716 had three other significant features:

First, the state would assume 100% of the transportation costs; second, the ten-mill county school foundation fund levy would become a *state* property tax to help finance the increased state aid; third, the tax lid on school districts would be dropped and budget controls imposed (however, instead of placing the same tax increase limitation on all districts, as had been the case under the old system, poor districts would be given preferential treatment; that is, they would be allowed to increase expenditures faster—by as much as 20%—than high-budget districts—limited to 5%).

Under SB 716, the maximum budget of all districts in 1972-73 would have been $391.6 million compared with $364.8 million in 1971-72 under existing budgetary controls. However, general state aid was planned to increase from $102.4 million to $122.4 in 1972-73. Local sources would provide $171.7 million. State transportation aid would go up from $6 million to $11 million.

This increase under SB 716 would have been met by the ten-mill state property tax, producing $64 million. This would leave some $52 million to be raised by new state taxes.*

Most districts would have benefited under the bill, which is not hard to imagine with over $50 million in new money. In some cases the improvement was spectacular. For example, the Turner district had an adjusted property tax rate of fifty-nine mills. It could have cut this more than half to twenty-seven mills and still have had an increase in budget per pupil from $653 in 1971-72 to $711 in 1972-73. The property tax could have been reduced even more if the district imposed a local income tax as authorized by SB 716.

THE FUTURE—CHANGE ALMOST CERTAIN

Meanwhile a *Serrano*-like case, *Caldwell* v. *Kansas*, has been filed in a state district court in Kansas with Robert F. Bennett, a Republican State Senator and member of the Joint Committee on School Finance, involved as an attorney in the case.

The following tables, used in the case, illustrate how, in 1970, the *Serrano* situation very much existed in Kansas:

* (It was assumed that $6.5 million in PL 874 funds for federally impacted areas could be taken into account in determining state aid.)

TABLE 9 — TABLE 10

SAMPLE TAX RATES AND REVENUES PER PUPIL FOR LOW AVPP * DISTRICTS—1970

School District	Enrollment 9/15/70	1970 AVPP	1970 Adj. Gen. Tax Rate (Mills)	Amount Per Pupil: Dist. Gen. Fund Tax	Gen. & Supp. State Aid	Other Dist. Gen. Fund Revenue	Total
Galena	971	$ 4,627	34.46	$ 159	$ 250	$ 106	$ 515
Turner	5,305	4,852	53.22	258	228	105	591
Elwood	305	5,348	42.16	225	345	137	707
Mulvane	1,551	5,705	34.35	196	235	163	594
Rose Hill	677	5,856	27.58	161	231	164	556
Leavenworth	5,419	5,924	31.22	185	262	118	565
Maize	912	6,119	39.44	241	229	115	585
DeSoto	1,797.5	7,746	41.23	320	187	156	663

SAMPLE TAX RATES AND REVENUES PER PUPIL FOR HIGH AVPP * DISTRICTS—1970

School District	Enrollment 9/15/70	1970 AVPP	1970 Adj. Gen. Tax Rate (Mills)	Dist. Gen. Fund Tax	Gen. & Supp. State Aid	Other Dist. Gen. Fund Revenue	Total
Satanta	518	$ 52,752	7.45	$ 393	$ 138	$ 499	$1,030
Lakin	607	53,094	7.04	374	145	522	1,041
Lorraine	663	53,882	15.13	815	170	396	1,381
Hugoton	925	55,394	5.66	314	72	575	961
Macksville	387	56,294	12.80	721	157	512	1,390
Edson	77	56,626	17.46	989	23	560	1,572
Kendall	93	79,672	13.38	1,066	19	737	1,822
Rolla	201	93,701	7.83	734	41	697	1,472
Mullinville	151	95,982	14.36	1,378	55	796	2,229
Moscow	140	115,615	6.59	762	50	1,146	1,958

* Assessed Valuation Per Pupil.

Note that despite high millage levies, poor districts (Table 9) do not get much of the total revenue pie. Whereas, wealthier districts, although they receive less from the state, are able, at low tax rates, to spend substantially higher sums per pupil (Table 10). This is the typical *Serrano* picture. If a child's parents and neighbors are poor, the chances are good in Kansas that less was spent for his education than for children in wealthier neighborhoods.

Even if the Kansas case fails and *Rodriguez* is not upheld by the Supreme Court, Kansas will change its system of educational finance. The pressures for change are simply too great.

TABLE 11

KANSAS

District (type)*	Need	Capacity		Effort	
	Title I per pupil (1968-69)	Property Value per pupil (1970)	Adjusted Gross Income per pupil (1966-67)	School Tax Burden (%) (1968-69)	School Tax Rate (mills) (1970)
Kansas City (1)	18.56	8.319	9,787	3 20	39.7
Wichita (1)	14.90	8,128	10,747	3.57	51.3
Bonner Springs (2)	34.01	7,885	8,830	4.93	54.6
Seaman (2)	8.83	11,566	7,551	4.32	27.8
Stanley (3)	6.56	23,676	6,123	8.36	19.5
Shawnee (3)	.29	9,522	15,861	3.26	53.1
Coffeyville (4)	21.20	6,701	11,706	2.29	41.9
Kingman (5)	21.65	23,031	6,967	7.21	23.8
Mean	**15.75**	**12,478**	**9,696**	**4.64**	**38.9**
Maximum/Minimum Ratio	**117.2/1**	**3.5/1**	**2.6/1**	**3.6/1**	**2.8/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 12

KANSAS

District (type)*	Revenue/Pupil			Expenditures/Pupil	
	Local (1968-69)	State (1968-69)	Federal (1968-69)	Total (1968-69)	Instructional (1968-69)
Kansas City (1)	313	182	38	733	368
Wichita (1)	384	243	56	872	461
Bonner Springs (2)	436	248	53	1,175	478
Seaman (2)	326	243	26	1,806	451
Stanley (3)	512	231	25	4,656	445
Shawnee (3)	517	198	23	1,167	488
Coffeyville (4)	268	268	25	776	378
Kingman (5)	502	338	39	1,094	443
Mean	**407**	**244**	**36**	**1,534**	**439**
Maximum/Minimum	**1.9/1**	**1.9/1**	**2.4/1**	**6.4/1**	**1.3/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 13

KANSAS

District (type)*	Latest Aid/Pupil (1968-69)	Alternative A ** Aid/Pupil (1971-72)
Kansas City (1)	$182	$428
Wichita (1)	243	195
Bonner Springs (2)	248	576
Seaman (2)	243	474
Stanley (3)	231	N.A.
Shawnee (3)	198	421
Coffeyville (4)	268	418
Kingman (5)	338	259
Mean	**246**	**396**
Maximum/Minimum	**1.9/1**	**2.9/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

A "Central City" district is defined as having a total population greater than 250,000. "Fast Growth Suburbs" are located close to Central Cities and have population growth rates higher than the suburban median. "Slow Growth Suburbs" are also located near Central Cities and indicate a population growth between 1960 and 1970 below the median of all suburban districts in the sample. Slow Growth Suburbs include wealthy residential communities and suburbs with substantial concentrations of commerce or industry. "Independent City" districts are those which have populations between 10,000 and 250,000 and are located beyond built-up Central City areas. Finally, "Rural" districts are those which contain no communities with populations as large as 10,000.

Note: A word about the sources of data is in order. In the short period of time in which this data was collected, it was necessary to compile pertinent school finance data from a variety of sources. All the data on Table 12 as well as the Title I revenue per pupil data on Table 11 was derived from the U.S. Office of Education Report, *Statistics of Local Public Systems: Finances, 1968-1969.* Adjusted Gross Income Per Pupil was derived from the National Educational Finance Project work, *Personal Income by School District, 1966-1967.* Property Value Per Pupil data on Table 11 was collected from the various published and unpublished reports of the state departments of education in the various states, and data on school tax rates and school tax burdens was derived by dividing local tax revenues obtained from USOE data into Adjusted Gross Income and Property Value in the respective school districts. Data in Table 13 was supplied by Robert Norris, the principal investigator in the Kansas case study.

In all, data on more than 25 school finance variables was collected in a total sample of 18 districts in Kansas. A more comprehensive analysis of this data is currently being prepared and will be included in an appendix which will subsequently be published as a separate volume.

** Alternative A: District Power Equalizing Scheme proposed in S.B. 716.

NEW YORK

by Mary Lestz

The current New York state school finance system is inadequate and unpopular. Costs continue to rise and residents are questioning whether they are getting the kind of education they want for their money. Increasing numbers of people are demanding tax relief. In 1969-70 alone, 137 school budgets were rejected by the voters. City dwellers feel that their special educational needs are neglected. Suburbanites suffer from high school taxes. Some children have a great deal more money spent on them than others.

The New York state legislature, traditionally one of the most responsive to educational needs in the country, has chosen to study carefully the problems before acting on them.

THE NEW YORK SCHOOL FINANCE STUDY COMMISSION

While education was once politically in the executive domain in New York, the state legislature has taken an increasing responsibility for state educational policy in the past five years. It has been faced with a need for complex and massive reform in all aspects of education—financing, school desegregation, aid to parochial schools. Further, it is faced with a need for accountability. It must convince taxpayers that their increasing contribution to education is buying increased educational quality. Confronted with these problems, the legislature has accepted the need for a larger and broader state role in school financing.

Because the issues facing it are both complex and controversial, the state legislature asked that a commission be appointed to study all aspects of elementary and secondary education in New York. It called for a commission report because a thorough study required greater time and resources than the legislators had. Further, it was not considered politically wise for far-reaching and radical proposals to come from a legislative committee.

In answer to their request, the Governor and the Board of Regents of New York in 1969 created a *New York Commission on the Quality, Cost and Financing of Elementary and Second-*

ary Education. Manly Fleischmann, a lawyer with a record of extensive public service, was named chairman. Although the approaching "fiscal crisis" in New York state undoubtedly provided the essential political motivation for creating the Fleischmann Commission, the Commission's mandate included the "quality of education". It was hoped that school finance reforms proposed by a prestigious and impartial commission would fare better in the legislative process than those fashioned by special interests.

The Commission, which has cost $1.5 million so far, has published the first part of its report dealing with school finance, federal aid to education, racial and ethnic integration, and aid to non-public schools. To write this report, it engaged in a far-reaching program to gather information and held many meetings with individuals and groups, including executive sessions with education experts, on a wide variety of education-related topics. Between October, 1970, and April, 1971, more than 600 speakers appeared at thirteen public hearings of the Commission. The Commission contracted with some fifty independent research organizations and individuals for reports in all major areas of the study. It is generally considered that, although the Commission writers had to keep within a framework of what was politically feasible, they wrote their report free of political pressures.

The final report details virtually all aspects of education in New York and makes specific recommendations. While the Commission split on some issues, issuing a majority and a minority report, it was united in its recommendations for school finance reform. The chapter on school finance will be reviewed extensively here.[1]

Some of the questions the Commission addressed in the school finance area were:

1. How can we relieve the property tax burden? How can we administer fair taxes?
2. How can we improve the *quality* of NY education?
3. How can we improve the *equality* of NY education?

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[1] All facts, figures and graphs hereafter in the body of the report are from "Report of the New York State Commission on the Quality, Cost and Financing of Elementary & Secondary Education." Vol. 1, 1972.

THE NEW YORK SYSTEM FOR FUNDING SCHOOLS: IN THEORY IT EQUALIZES

The present system of school funding in New York is a mixture of local revenue (48%) and state revenue (48%) with some few federal funds (4%). The local tax is the base revenue for any given school district, with state aid determined for the most part in response to the amount raised locally.

The local tax is raised almost exclusively from property taxes within the local school district. The rates of taxation are determined locally—with a state established minimum of $11 per $1000 of property. Thus the amount raised and spent in a school district clearly varies according to:

(1) the wealth of the school district; and

(2) the fiscal commitment of the district to education.

State aid is raised from various state-wide taxes, such as the income tax and sales taxes. The theory of the state aid is that it will close the gap between the rich and the poor districts. In New York 93% of the state aid is "general aid" which breaks down into:

- —what is in effect a flat grant of $310 per student, regardless of the district's wealth
- —funds distributed according to an equalization formula
- —funds distributed according to certain particular factors in a school district, such as district size, transportation problems, etc.

Seven per cent of the state aid is "categorical aid"—aid for textbooks, vocational aid. orphan, school lunch, educational TV, pre-kindergarten, and urban aid.

The basic equalization grant (called the percentage equalizing grant or PEG) is the key to the state's attempt to equalize poor and rich districts. The ingredients of the formula are district valuation per student and state average valuation per student.[2] The PEG in its complete implementation would

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[2] The formula now in use in New York state is:

$$A_i = [1 - (0.51 \cdot \frac{\text{district valuation per student}}{\text{state average valuation per student}})] \cdot E$$

where E = approved operating expenses, subject to an upper limit of $860 per student and subject further to a minimum grant of $310 per student.

assure that any two districts which levy the same local tax rate for schools have precisely the same dollars per student to spend, regardless of their wealth.

IN PRACTICE IT DOESN'T

In fact, the PEG is never fully implemented. The flaw in the formula is basically that differences in assessed valuation per student run as high as 10 to 1, so that a ceiling must be placed on educational expenditure per student that the state will finance. This ceiling is the real catch to the PEG's, for most school districts can raise well over the ceiling ($860 per pupil in 1971-72) with their local taxes. In fact, this is the case in New York State. The Commission concludes:

> The result of this . . . is to make the percentage equalization grant into a foundation program for all practical purposes, especially when most districts actually do spend beyond the point at which the state stops its contribution, which is the case in New York. In effect, the $860 upper limit of sharing in New York State is the cost of the foundation program per student."

Since most districts spend over $1000 per student, there is little equalizing value in an $860 guaranteed foundation. (See Table 14)

TABLE 14

HIGH AND LOW INCOME COUNTIES AND THEIR EDUCATIONAL EXPENDITURES

	Highest and Lowest Counties by 1969 Personal Income Per Capita		Expenditures in Public Elementary and Secondary Schools for Regular Day Instructional Services Per Student in Weighted Average Daily Attendance 1968-69	
	Dollars	As % of State Aver. Income, By Counties	Dollars	As % of State Aver. Exp., By Counties
High Counties				
Westchester	6759	197	857	131
Nassau	5893	171	813	125
New York City	4738	138	748	115
Monroe	4597	134	702	108
Albany	4380	127	649	99
Dutchess	4015	117	674	103
Schenectady	3881	113	740	113
Erie	3800	111	621	95
State Average	3438	100	653	100
Low Counties				
Allegany	2897	84	631	97
Lewis	2779	81	632	97
Schuyler	2754	80	553	85
Clinton	2752	80	604	92
Oswego	2675	78	563	86
Saratoga	2653	77	610	93
Franklin	2543	74	600	92
Schoharie	2447	72	586	90

Source: State Education Department, *Annual Education Summary 1969*, Albany, The Department, 1971, pp. 142-145; Office of Statistical Coordination, New York State Division of The Budget, *New York State Statistical Yearbook*, Albany, State Capitol, 1971, p. 96.

The primary problem in the present system of local and state funding is that the PEG's are insufficient. With graphical and statistical evidence (see Table 14), the Fleischmann Commission concludes that "the relation between district expenditures and wealth is clear; hence, the equalizing grants employed so far by the state fail to remove that invidious relationship". The goal of equality in the amount of money a school district receives per student is not achieved.[3]

Second, the property tax basis for local school revenue is regressive: Poor areas pay a higher tax rate to raise the same amount as their rich neighbors. The combined effect of an inadequate equalization plan and a regressive tax is that residents of poorer districts pay higher rates and raise fewer school dollars than residents of richer districts. (See Tables 16 and 17)

Third, the present system is a handicap to successful planning since a school cannot predict its revenue. Voters can always decline a budget, and, since the state provides only half the budget, it does not feel any compunction to provide stable, consistent funding. The Commission concludes: "The present mechanism for acquiring resources to support school services renders planning of education nearly impossible."

Fourth, the present system fails in practice to deal effectively with the needs of New York's urban areas, where costs and services are more expensive than elsewhere.

Fifth, the system creates an unnecessary barrier to social class integration. The wealthy want to stay together and not let poor people with children into the neighborhood, since poor families reduce the community's tax base while increasing the revenue needed.

In sum, the present financial system in New York State is

[3] The Fleischmann Commission compares two school districts in New York to illustrate the problems. They are Levittown and Great Neck. Both tax their property at $2.72 per $100. Since the assessed property value in Levittown is $16,200 per pupil and that in Great Neck is $30,500 per pupil, obviously Great Neck raises considerably more money at this rate. Great Neck gets the minimum in state aid—$310 per pupil; Levittown gets the maximum—at that time $764.48 per pupil. After payment of state aid designed to equalize expenditures per pupil, the Great Neck student has about 80% more money spent on his education than does the Levittown student.

inefficient, unequal, and quite possibly unconstitutional.[4] Thus one of the tasks of the Fleischmann Commission has been to propose an alternative system.

THE FLEISCHMANN COMMISSION'S RESPONSE: FULL STATE FUNDING

The Commission recommends full state funding. It calls for all school revenues to be raised by any form of statewide taxation—real property tax, income tax, sales tax, or any combination thereof, provided that it is fairly administered throughout the state. The Commission adds that taxes must be raised largely from those who have the wealth. The money should be distributed as needed; that is. children who will cost more to educate—underprivileged, handicapped, or otherwise disadvantaged children—should have more money spent on them. Poor schools should be "leveled up" to the standards of rich ones. The levelling-up cost should be spread over several years. Finally, in one of the most controversial proposals of its report, the Commission recommends that all local option for supplementary school levies be terminated—a step necessary to preserve equality.

Full State Funding: How It Will Work

The proposed distribution formula is based on two central considerations: *first, that full state funding must remove the disparities in educational spending that are unrelated to the requirements of students or to geographic differences in costs of educational services—basically, wealth-related disparities; second, that funds must be allocated according to the educational needs of students.*

Eliminating wealth-related disparities: To implement the first consideration, the Commission proposes that expenditures

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[4] The current New York system was challenged unsuccessfully in a post-*Serrano* law suit. The judge dismissed the complaint (*Spano* v. *Board of Education*, 328 N.Y.S. 2d 229, Jan. 16, 1972) saying that the U.S. Supreme Court had already foreclosed the issue with its 1969 decision in *McInnis* v. *Ogilvie* (the Illinois school finance case). However, the U.S. Supreme Court has decided to hear a *Serrano*-type claim (*San Antonio Independent School District* v. *Rodriguez*, probable jurisdiction noted June 7, 1972), so apparently the *McInnis* decision may not have justified the New York Court's dismissal. To test this, at least one suit is now being prepared to challenge in Federal Court the constitutionality of the present system in New York.

of all districts be raised to the level of the district spending at the 65th percentile in a ranking of districts according to their base expenditures. (In 1969-70 the base expenditure of the district at the 65th percentile was $1,037 per student; in 1970-71 it was $1,144 per student.)

Some of the mechanics of state aid distribution are outlined by the Commission. First, in order to allocate money per student, it is necessary to define how students will be counted. In the past, a weighted average has been used, assuming that older children should count for more. The Commission concludes, however, that a straight count of enrollment should be used, using no weighting factor except 0.5 for kindergarten, on the assumption that kindergarten will continue to be a half-day program. This is a count of total enrollment, not just daily attendance. There is no reason to discriminate, as in the past, against schools which have more truants.

Second, a save-harmless clause would protect those school districts with funding over the 65th percentile. The state would provide funds to maintain the level at which they were spending in the base year until the rest of the state catches up with them. Under this system, the rich schools would not lose any money; they simply would be held back from funding increases while the rest of the state caught up, at which point they would grow at the same rate as the other schools.

On the other hand, those districts funding below the 65th percentile would have their expenditures increase over a period of time in increments of 15% of the base expenditure per year ($156 with a base of $1,073). This would limit strain on the state budget and facilitate planning. By the fourth year of the plan, all districts should be leveled up to the 65th percentile.

Funding according to need: The second major consideration in distribution, which would modify the first, is that funds should flow according to need. To this end, the Commission recommends that students, who score poorly in reading and mathematics tests, should be weighted at 1.5—in other words, they should be funded as though they were one-and-a-half students.[5] It is further proposed that the amount made avail-

[5] The tests used for this determination would be those currently being administered in the state Pupil Evaluation Program (PEP) in the third grade. It is recommended, however, that earlier testing is preferable, and if acceptable tests for 5 and 6 years olds can be found, they should be used.

able for such students be stabilized at 15% of the state's base expenditure level, multiplied by the number of students enrolled. This would lend stability to the state budget even if there were erratic changes in test scores, and would enable the schools to plan ahead. The effect of these proposals would be that school districts with underachieving students would receive extra money to cover the additional costs of educating those students.

In the belief that money is more effectively spent at the elementary level, the Commission also recommends that money go to the elementary schools in greater percentage than to the secondary schools (70% elementary, 30% secondary).

While disparity in costs is taken into account in the Fleischmann proposals, it is only disparity in the costs of educating disadvantaged children. Students' performance and needs are weighted and included in distribution formulas, but no consideration is made for municipal overburden, or regional differences in instructional and other costs.[6]

PAYING FOR FULL STATE FUNDING

While acknowledging the shortcomings of the property tax (especially its regressive nature), the Commission does not recommend its abolition. Rather, it proposes alleviating somewhat its regressive impact. It recommends that a uniform-rate, statewide tax on the full value of property be levied and earmarked for education. This rate would be set initially at a level sufficient to produce an amount approximately equivalent to current total local educational revenues. A tax rate of $2.04 per $100 full value of property would raise the same amount of revenue as the current system does. The report further recommends that the tax rate be frozen at a point equal to or slightly below the rate prevailing at the time the plan goes into effect. If the state rate is frozen at the level of the base year, every district, whether above or below the state average tax rate, should experience a decrease in property taxes relative to what would have been the case had the freeze not been imposed.

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[6] Another chapter of the Commission report, not yet released, proposes that the state take over all transportation and construction costs.

Another proposal suggests that the tax rate should be reduced on the residential share of the property levy, since residential taxes are the most regressive, and that the money to replace this loss be obtained from federal funds or from the state income tax, a progressive tax.

It is recommended that, in order to tax more fairly, increased attention be focused on *assessment practices* and on *tax credits* for low-income households that are excessively burdened with school taxes. For those properties too complex to be assessed locally, such as utilities and certain industrial properties, the Commission recommends assessment by the state.

For families paying more than 10% of state taxable income in school property taxes, the Commission recommends that they be allowed to credit the excess against their state income tax bill. If they pay less income tax or none, they would be re-imbursed.

In a similar vein, if more than 20% of apartment dwellers' rents are paid as property tax, they would be credited the excess against their state income tax bill. If they pay less income tax or none, they would be re-imbursed.

The Pros & Cons of Full State Funding

The Commission recognizes that there will be a great debate about full-state funding, and they have anticipated this discussion with a brief analysis of some arguments opposing such a plan. Two of the chief arguments and answers are:

1. *State funding would mean loss of local control.* The Commission insists that it is quite possible to have financing on one level and policymaking and other kinds of control at another. An example of this assertion is the school finance situation in Britain where funds come from the Central Ministry of Education, yet the schools are "fiercely independent" and operate individual programs. The Commission maintains that state finance and local control are compatible and that the burden of proof lies with those who say that local control cannot exist alongside state financing.

2. *State funding would block innovation.* Some people are afraid that state funding would eliminate so-called "lighthouse districts," areas whose great wealth enables them to operate experimental and innovative programs which even-

tually benefit all schools. The response is that the state can set up such programs, too, and in districts where experiment may be more needed—in schools of underprivileged or "problem" children.

The Commission also recognizes the special problems of the cities and sets forth some reasons why they would benefit from the Commission's proposals:

1. The tax freeze would benefit cities whose tax rates are bound to increase rapidly.

2. New York's state constitution limits the taxing powers of the state's six largest cities. The cities must fulfill their needs from the limited (and often inadequate) revenue that they are legally allowed to raise. If education in the cities were taken care of by a *state* tax, larger sums of city money would be freed for local non-school needs.

3. Cities, with disproportionate numbers of poor and "educationally disadvantaged," would benefit from the tax credits and the weighting for underachieving students.

4. The shift from counting pupils by attendance to counting straight enrollment would benefit cities which have a traditionally high truancy rate. For example, in 1969-70 New York City, with 32.87% of the state's total enrollment, had only 30.97% of WADA (weighted average daily attendance).

FULL STATE FUNDING: WHO WINS, WHO LOSES— AND HOW MUCH WILL IT COST?

The additional cost for funding the Fleischmann Commission proposals would be about $715 million in 1972-73, broken down as follows:

levelling up to the 65th percentile	$125 million
1.5 weighting for educationally disadvantaged	$465 million
tax credits for overburdened homeowners and renters	$125 million

Table 15 illustrates how the new proposals would change the financial picture in New York state. Since the ceiling on

TABLE 15

EFFECT OF LEVELING UP TO THE 65TH PERCENTILE OF EXPENDITURES WITH SAVE-HARMLESS PROVISION AND PEP SCORES WEIGHTED AT .5, ON SELECTED SCHOOL DISTRICTS IN NEW YORK STATE

(Base Year: 1969-1970)

Name of District	Enrollment (K = ½)	Base Expend.	Base Expend. & Urban Aid	True Val/Stud ENR	Effect in First Year of Leveling Up to 65th Percentile	Effect with PEP Wght'd at .5 – at 65th Percentile	Gain at 65th Percentile w/PEP Weighted
CITY							
New York City	1,068,502	1,016	1,045	45,859	1,037	1,273	228
Albany	10,702	998	1,019	57,498	1,037	1,182	163
Buffalo	68,090	869	903	28,368	1,024	1,219	316
Rochester	44,290	1,070	1,097	40,799	1,070	1,260	163
Syracuse	28,668	946	967	34,737	1,037	1,159	192
Yonkers	29,005	947	976	46,781	1,037	1,169	193
ENLARGED CITY							
Dunkirk (Chatauqua)	3,258	982	982	53,038	1,037	1,133	151
Lockport (Niagara)	6,720	899	899	25,081	1,037	1,125	226
Geneva (Ontario)	3,282	1,036	1,036	29,044	1,037	1,128	92
Hornell (Steuben)	3,439	956	956	14,010	1,037	1,125	169
Elmira (Chemung)	13,358	957	964	20,359	1,037	1,105	141
Rome (Oneida)	11,646	895	902	16,877	1,037	1,097	195
Schenectady (Schenectady)	12,239	1,164	1,187	25,535	1,164	1,299	112
Ithaca (Tompkins)	7,871	1,095	1,095	31,902	1,095	1,180	85
Oswego (Oswego)	5,166	1,024	1,024	47,788	1,037	1,138	114

Beacon (Dutchess)	3,532	972	972	27,883	1,037	1,136	164
Hudson (Columbia)	3,461	934	934	23,416	1,037	1,162	228
Newburg (Orange)	12,230	1,047	1,061	23,118	1,047	1,138	77
Ogdensburg (St. Lawrence)	3,235	815	815	13,641	971	1,020	205
SUBURBAN							
Bronxville (Westchester)	1,350	1,911	1,911	68,718	1,911	1.911 *	0
Great Neck (Nassau)	9,427	2,079	2,079	71,413	2,079	2,131	52
Hempstead (Nassau)	5,371	1,430	1,453	64,752	1,430	1,599	146
Mamaroneck (Westchester)	6,106	1,527	1,527	49,410	1,527	1,610	83
Levittown (Nassau)	16,312	1,163	1,163	17,995	1,163	1,231	68
Peekskill (Westchester)	3,412	1,041	1,041	23,732	1,041	1,140	99
West Islip (Suffolk)	8,961	1,037	1,037	17,397	1,037	1,113	76
Mt. Vernon (Westchester)	11,377	1,123	1,149	35,977	1,123	1,266	117
RURAL							
Indian Lake (Hamilton)	363	961	961	48,152	1,037	1,073	112
Red Jacket (Ontario)	1,337	833	833	14,854	989	1,074	241
Edwards (St. Lawrence)	407	999	999	11,851	1,037	1,130	131
Penn Yan (Yates)	3,141	888	888	30,211	1,037	1,086	198
Town of Webb (Herkimer)	483	1,505	1,505	78,633	1,505	1,570	65
Carthage (Jefferson)	3,437	926	926	14,109	1,037	1,107	181
Malone (Franklin)	3,562	867	867	14,617	1,023	1,116	249
Minerva (Essex)	238	1,266	1,266	33,951	1,266	1,302	36
Keene (Essex)	171	1,459	1,459	42,709	1,459	1,615	156

Source: Computations based on data provided by the New York State Education Department, September 1971.

* AFDC, PEP Not Available.

increase in funds is 15% of the base expenditure, the most a school district could gain in expenditure per student is $156 per year; thus a few schools in the table are still below the $1,037 level. It is anticipated, however, that within three years levelling up to the 65th percentile could be completed. After the levelling up to the 65th percentile is achieved, it would be a matter of time and inflation until levelling up to the 100th percentile (which remains constant) would be reached.

How many school districts would benefit from the proposals? There are 709 school districts in New York state. If the Fleischmann Commission proposals had been enacted in 1969-70 there would have been:

442 districts (including 64% of students in NY) with more money and higher taxes

265 districts (35.9%) with more money and lower taxes

1 district would have less money and lower taxes

1 district (the only real loser in the whole plan) would have less money and higher taxes.

Had the Fleischmann Commission proposals been adopted in 1969, 67% of New York's students would have received more money. Were they enacted today, 36% would gain.

In urging that its plan be accepted, the Commission notes:

(1) After extensive research, this is the best possible plan for New York.

(2) Some form of federal revenue sharing seems inevitable, thus a relief from the education costs.

(3) "If *Serrano* becomes the law of the land, New York may be forced to adopt such a plan under judicial mandate. We prefer to adopt the essentials of the plan now, when careful consideration can be given to all its details."

THE COMMISSION RECOMMENDATIONS:

WHAT HAPPENS NOW?

How has the Fleischmann Commission been received? The legislators seem to have adopted a "wait and see" attitude, but several themes can be discerned, outlining the debate to come.

Tax relief is welcome. Those whose concern is high taxes are encouraged by the prospect of property tax relief. Those who live in the cities would benefit from the weighting formula for the many educationally disadvantaged children in their schools, and from the freeze in property taxes. Those who live in fast-growth suburbs would benefit from reduced taxes, since most of them now tax themselves for schools at a level above the proposed state-wide rate. (See Table 16)

The opposition to the Fleischmann Commission forms around several issues:

—loss of local control

—expense of the proposal

—fear of giant bureaucracy

—failure of the report to deal with implementation of proposals.

The local control issue has several components: level of expenditures, salary of teachers, number of teachers, boundaries of a school district (who is included, who is left out), and level of capital expenditures.[7] Concern about losing local control centers around these matters.

Local control can become a dangerous issue. In other states the banner of "local control" has been raised by coalitions opposing reforms for varied and sometimes conflicting reasons. In this case the real isisue is obscured, and progress becomes difficult. Perhaps if proposals were enacted in separate steps, this confusion of the issues could be prevented.

[7] Subsequent chapters of the Commission report will propose full state funding of capital expenditures, and state determination of district boundaries.

The concern over the expense of the proposals is a very real one, stemming from the fact that many residents of New York feel they are already taxed as much as they can bear.

In the face of heavy tax burdens, taxpayers want to be reassured that their higher tax payments spent for schools will in fact produce better education. The Commission avoided this question with the attitude that, while high expenditures do not guarantee high quality, they certainly help. However, the relationship between dollars and quality education must be examined further.

Some will oppose the Commission out of self-interest. Rural districts, faced with higher taxes than before and afraid of losing local control, may oppose the Commission proposals. Industry and commerce may oppose the new tax structure which could increase their property assessments.

One obvious and crucial question is: Where will the necessary additional revenue come from? The consensus is that only with federal funds can New York afford the Fleischmann Commission reforms. One possibility, mentioned by Governor Rockefeller, is that, if the federal government were to take over the cost of welfare ($1.2 billion dollars in New York state), the state welfare money could be converted to education.

Another question is, will the rich districts accept a freeze on their expenditures? Certainly not without a fight in the legislature.

FROM PROPOSAL TO STATUTE

Because the Fleischmann Commission said so little about the implementation of its proposals, a great deal of further thought and research will be needed before a bill (or bills) can be written. The task of implementing the Fleischmann Commission proposals is almost overwhelming in its complexity and difficulty. A legislative staff expert estimated that it would be at least a year before legislation is drafted. Each proposal will have to be dissected and debated. Computer print-outs are needed to show the effects of the reforms on each district. Political compromises will have to be made. No doubt provisions will have to be added to please powerful legislators. The work load is enormous.

As the proposals are being studied by the experts, the legislators are waiting—waiting to see what the Supreme Court does, waiting to see if more federal aid to education is forthcoming.

It would be premature to make any judgments about what will happen to the school finance situation in the New York State legislature. Many questions remain to be answered before the effect of the Fleischmann study can be known.

Will the debate turn into an urban vs. rural contest? Or the advocates of property tax vs. the advocates of more income tax? Or local control vs. state control enthusiasts? What will be the issues? None of these questions can be answered until the legislation is written.

Once the problems have been solved and a bill is before the legislature, the legislators will have to consider the needs of their constituents, the dictates of the U.S. Constitution, and their own beliefs about the best educational system for all the children of New York. The decision will be theirs.

TABLE 16

NEW YORK

District (type)*	Need	Capacity		Effort	
	Title I per pupil (1968-69)	Property Value per pupil (1969-70)	Adjusted Gross Income per pupil (1966-67)	School Tax Burden (%) (1968-69)	School Tax Rate (mills) (1969-70)
New York City (1)	39.33	50,767	21,397	3.24	16.29
Buffalo (1)	69.79	27,305	15,422	2.24	10.58
Rochester (1)	54.18	39,062	18,788	3.40	14.86
Farmingdale (2)	7.35	26,612	9,695	6.91	31.16
Copiague (2)	18.11	20,865	4,884	8.53	24.01
Greece (2)	6.52	32,138	8,594	7.03	17.89
Hempstead (3)	54.27	61,510	17,082	6.10	20.60
Hicksville (3)	9.17	10,508	33,502	7.13	28.41
New Rochelle (3)	23.25	47,852	23,822	4.11	23.46
Watertown (4)	28.06	20,197	12,618	2.41	16.19
Mayfield (5)	11.48	15,653	3,512	4.32	11.88
Fredonia (5)	8.14	23,563	10,490	3.14	18.38
Mean	**27.47**	**31,336**	**14,984**	**4.88**	**19.48**
Maximum/Minimum Ratio	**10.7/1**	**4.8/1**	**6.8/1**	**3.8/1**	**2.9/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 17

NEW YORK

District (type)*	Revenue/Pupil Local (1968-69)	Revenue/Pupil State (1968-69)	Revenue/Pupil Federal (1968-69)	Expenditures/Pupil Total (1968-69)	Expenditures/Pupil Instructional (1968-69)
New York City (1)	692	495	55	1,340	671
Buffalo (1)	346	609	103	1,172	579
Rochester (1)	639	403	145	1,301	661
Farmingdale (2)	670	647	22	1,732	780
Copiague (2)	417	731	26	1,272	666
Greece (2)	604	574	9	1,746	630
Hempstead (3)	1,041	369	80	1,731	854
Hicksville (3)	749	585	23	1,457	840
New Rochelle (3)	978	399	33	2,329	732
Watertown (4)	304	781	50	1,193	609
Mayfield (5)	152	781	20	1,004	526
Fredonia (5)	330	582	15	1,328	554
Mean	**577**	**580**	**48**	**1,467**	**675**
Maximum/Minimum	**3.4/1**	**2.1/1**	**16.1/1**	**2.3/1**	**1.6/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

TABLE 18

NEW YORK

District (type)*	Latest Expenditure/Pupil (1970-71)	Alternative A ** Expenditure/Pupil (1970-71)	Alternative B *** Expenditure/Pupil (1970-71)
New York City (1)	$1,167	$1,167	$1,415
Buffalo (1)	914	1,085	1,322
Rochester (1)	1,134	1,144	1,377
Farmingdale (2)	1,426	1,426	1,503
Copiague (2)	1,170	1,170	1,258
Greece (2)	1,140	1,144	1,220
Hempstead (3)	1,650	1,650	1,832
Hicksville (3)	1,646	1,646	1,726
New Rochelle (3)	1,630	1,630	1,761
Watertown (4)	1,183	1,183	1,283
Mayfield (5)	902	1,073	1,130
Fredonia (5)	1,170	1,170	1,238
Mean	**1,294**	**1,167**	**1,422**
Maximum/Minimum	**1.8/1**	**1.5/1**	**1.6/1**

* (1) Central City; (2) Fast Growth Suburb; (3) Slow Growth Suburb; (4) Independent City; (5) Rural.

A "Central City" district is defined as having a total population greater than 250,000. "Fast Growth Suburbs" are located close to Central Cities and have population growth rates higher than the suburban median. "Slow Growth Suburbs" are also located near Central Cities and indicate a population growth between 1960 and 1970 below the median of all suburban districts in the sample. Slow Growth Suburbs include wealthy residential communities and suburbs with substantial concentrations of commerce or industry. "Independent City" districts are those which have populations between 10,000 and 250,000 and are located beyond built-up Central City areas. Finally, "Rural" districts are those which contain no communities with populations as large as 10,000

Note: A word about the sources of data is in order. In the short period of time in which this data was collected, it was necessary to compile pertinent school finance data from a variety of sources. All the data on Table 17, as well as the Title I revenue per pupil data on Table 16 was derived from the U. S. Office of Education Report, *Statistics of Local Public Systems: Finances, 1968-1969.* Adjusted Gross Income Per Pupil was derived from the National Educational Finance Project work, *Personal Income by School District, 1966-1967.* Property Value Per Pupil data on Table 16 was collected from the various published and unpublished reports of the state departments of education in the various states, and data on school tax rates and school tax burdens was derived by dividing local tax revenues obtained from USOE data into Adjusted Gross Income and Property Value in the respective school districts. Data for Table 18 was supplied by the staff of the Fleischmann Commission.

In all, data on more than 25 school finance variables was collected in a total sample of 71 districts in New York. A more comprehensive analysis of this data is currently being prepared and will be included in an appendix which will subsequently be published as a separate volume.

** Alternative A: "Levelling up" to 65th percentile, minimum expenditure of $1,167 or latest expenditure whichever is higher.

*** Alternative B: Alternative A plus educational need funds wherein low-achieving students are given per-pupil weighting of 1.5.