DOCUMENT RESUME

ED 070 194 EA 004 745

AUTHOR	Jordan, K. Forbis
TITLE	The School Finance Reform Movement: Implications for School Business Administration.
PUB DATE	25 Oct 72
NOTE	19p.; Paper presented at Association of School Business Officials Annual Meeting (58th, Chicago, Illinois, October 21-26, 1972)
EDRS PRICE	MF-$0.65 HC-$3.29
DESCRIPTORS	Administrative Personnel; *Costs; Educational Economics; *Educational Finance; *Equal Education; Equalization Aid; Expenditure Per Student; Full State Funding; Management; *Rural Urban Differences; School Taxes; *Special Programs; Speeches; State Aid; Student Transportation

ABSTRACT

In this speech, the author summarizes the economic and political issues relating to the current interest in school finance reform and discusses the research efforts of the National Educational Finance Project. He focuses on those efforts of direct relevance to school business administration -- cost differentials among educational programs, alternative approaches for supporting auxiliary programs, and alternative State school support programs. (Author)

THE SCHOOL FINANCE REFORM MOVEMENT

IMPLICATIONS FOR SCHOOL BUSINESS ADMINISTRATION *

By

K. Forbis Jordan, Professor of Educational Administration

University of Florida

And

Research Director, National Educational Finance Project

The recent series of federal and state court decisions has resulted in a renewed interest and a high level of public furor about state school support programs and the adequacy of funding for public elementary and secondary education. Many reasons can be found for this high level of public interest:

1. There is a real "property tax rebellion" in most of the nation. Regardless of the rate which one finds in a given school district, local citizens feel that the property tax is reaching the confiscatory level and becoming an unbearable burden. Perhaps, this is because citizens can protest against this tax and in various ways through referendums or appeal to tax review agencies can make their protest felt.
2. The spiraling cost of education over the past several years has caused many taxpayers and citizens to wonder where the increases will stop, and whether or not our economy can continue to support public education at the level to which it has become accustomed.
3. Various other governmental services are making increasing demands for public funds. Public health, transportation, police and fire

* Presented at the ASBO 1972 Conference, Chicago, Illinois, October 25, 1972.

protection and mental health agencies are all seeking increased funds so that they may provide better services for citizens. The day of education being in a very favored position is no longer with us, now it must compete with its companion services.

4. The civil rights movement and multiple recent research studies in the area of school finance have focused on the inequities in existing state aid programs. The result has been a hue and cry for greater fiscal equity in the allocation of funds to local school districts.
5. Accompanying the previously mentioned developments has been the rapid spread of a teacher militancy movement. As teachers have sought to gain greater voice in educational decision making, we are witnessing a public shift from one of being an advocate for increased educational expenditures to adversary positions which may have a depressing effect upon the allocation of increased dollars for education.
6. The student unrest situation in colleges and universities has recently spread to the public schools. Many citizens view this as evidence of the schools failure to cope with the problems which confront it. Again, we have evidence of another issue which has resulted in a declining level of public support for education.
7. The last in this series, but not the least in terms of importance, is the current level of interest in accountability and productivity in the educational enterprise. Public pressure [redacted] intensified as no evidence was presented that increased expenditures were accompanied by commensurate gains and performance. In particular, the reading and writing ability of students from minority families and urban

ghettoes has remained far below the skill level of white students at comparable grade levels. Moreover, special programs to assist these disadvantaged students have been unpredictable in improving their performance on reading, writing and verbal examinations. This persisting inequality and uncertainty has further opened the school house doors to criticism of current teaching methods and management policies. Hence, state legislatures throughout the nation have enacted various resolutions and statutes focusing on the need for educational accountability.

Concurrent with these developments have been a series of court decisions concerned with equity in state school support programs The important thing to remember is that this is not a new series of court decisions but a part of the evolutionary process of providing equal protection for all citizens.

The interest in the state school finance programs is at an all time high with litigation pending in nearly 30 states and study commissions underway in nearly 40 states. The combination of a concern for equity and greater social justice with the high level of interest in local property tax relief has resulted in the bringing together of interests and pressure groups which normally are not of common persuasion, but have united on this issue.

One of the principal data sources and research efforts in this time of school finance crisis has been the National Educational Finance Project, a research study funded by the United States Office of Education from Title V of the Elementary and Secondary Education Act. The NEFP is a cooperative project which has involved the state education agencies from each of the states; the purpose of Title V is to improve state education agencies. The role of the NEFP in this effort has been to increase the level of expertise in the area of state fiscal planning.

Administered through the Florida state education agency and headquartered at the University of Florida, the NEFP has truly been a national study involving professors and the state education agency personnel from throughout the nation. Among those who have worked in the project include professors from UCLA, University of Nebraska, University of Minnesota, University of Wisconsin, University of Chicago, University of Illinois, Indiana University, State University of New York at Albany, Columbia University, University of Tennessee, and University of Florida.

Results of the project have been published in five numbered volumes, two popular monographs, and 12 technical studies. Distribution for the first four volumes was 4,000 copies, and for the fifth was 9,000 volumes. For one of the popular monographs, Future Directions for School Financing, 40,000 copies were published.

In terms of direct impact which the NEFP findings and recommendations might have for the field of school business administration, there are several areas in which our research suggests implications. The first is related to our studies of various educational programs and the identification of the costs related to each area. From these we have developed cost differentials which we contend should be recognized in state school support programs. As states proceed to develop their own cost differentials, local school districts will find increasing pressure from the state level for the development of fiscal accounting procedures on a program rather than a functional format. We have recommended that each state develop its own cost differentials, and better data ~~is~~ are needed from local school districts to accomplish this effort. In our research we found it necessary to develop special forms and gather data by "paper and pencil method" before we could ascertain program expenditures.

Among the problems which we encountered in developing the cost differentials were the following:

1. Lack of standardized program accounting formats
2. Lack of standardized terminology
3. Lack of agreement upon goals
4. Lack of output measures

In our original studies we found cost differentials among programs as follows:

FOR CATEGORIES OF SPECIAL EDUCATION

a.	Mentally handicapped	1.90
b.	Physically handicapped	3.25
c.	Emotionally handicapped	2.80
d.	Special learning disorders	2.40
e.	Speech handicapped	1.20

FOR THE TOTAL EDUCATIONAL PROGRAM

a.	Three and Four year olds	1.40
b.	Kindergarten (five year olds)	1.30
c.	Grades 1-6	1.00
d.	Grades 7-9	1.16
e.	Grades 10-12	1.40
f.	Handicapped (Weighted average)	1.81
g.	Vocational Education	1.81
h.	Compensatory	2.06

In considering the operational implications of using the cost differential approach in the allocation of state funds, three questions usually emerge. First, are there real differences in what districts are spending for various educational programs? Second, why allocate funds according to groups of pupils, why not allocate the funds directly to the district and then let local officials operate schools as they see fit? Third, is there a difference in the manner in which pupils are distributed among school districts within a state. If pupils with a need for high cost programs are uniformly distributed among school districts within a state, little purpose can be found for a complex method of allocating funds.

In response to the second question, the state has a responsibility to assure that local school districts have sufficient funds ~~to enable local~~ [redacted] to provide programs for children with physiological and psychological problems or occupational goals. Many local districts either have not recognized the needs of these different groups of pupils or have not had sufficient funds to support the programs.

The response to the first question is evident in the previously reported data on cost differentials.

In searching for a response to the third question, the NEFP gathered data from local districts which had a combined enrollment of approximately 1,000,000 pupils. In examining the distribution of pupils with special educational needs, we found that a middle sized rural and agricultural district had an impact of 55% when weights were assigned to pupils according to their educational needs. A large urban district had an incidence of 61.7%. A suburban district had the lowest incidence, 25.3%, with a statewide incidence of slightly less than 40%.

From this information it is obvious that pupils with special needs are not uniformly distributed, adding additional impetus to the interest in a weighted pupil or cost differential approach to educational funding.

The second area of special interest to this audience is related to state support for and recognition of special services and facilities in the distribution of state funds to local school districts. As the National Educational Finance Project studied existing support patterns for transportation, food service and capital outlay, detailed recommendations were presented for each of the areas. The contention is that adequate funds should be provided for these supportive services, and that leaving support for these completely on the local property tax results in further disequalization of educational opportunity--the property-poor district has less and the property-rich district has more.

In the area of school transportation 44 states have assumed some responsibility for fiscal support of school transportation programs; by reversing the data one notices that six have not assumed any responsibility. Several states still have not recognized that rural sparsely populated school districts are required to provide funds to transport children--funds which might otherwise be used to support current costs in the instructional program. The problem is not restricted to rural districts, for suburban districts also are faced with transportation problems resulting from hazardous traffic conditions as well as children living sufficiently far from school to justify their being transported.

Summary data from the NEFP studies are shown in the following table.

STATUS OF TRANSPORTATION PROVISIONS

Assumption of some responsibility	44 states
Inclusion within state foundation program	18 states
Flat Grants	15 states
Full state support	12 states
Minimum distance for reimbursement	40 states

The principal alternatives in the area of school transportation support programs are:

A. State allotment on a flat grant or fixed percentage of expenditure

B. State ownership and operation

C. Variable allotment based on road conditions and pupil density

Among the alternatives considerable sentiment has been expressed for full state funding of transportation programs because of the unique conditions found in many districts and the fact that local districts do not have any control over the conditions which contribute to the need for transportation programs.

Public support for state recognition of food service programs in the allocation of state revenues is not broad-based, largely because many view this as a federally supported program. In fact, the program is principally "child-supported" as shown in the following table:

SUPPORT FOR FOOD SERVICES

Child payments	49.6%
Federal payments	28.6%
Local contributions	15.1%
State and local appropriations	8.5%

When consideration is given to the impact that a balanced diet has on a student's ability to succeed in school, the research seems to indicate that a hungry child cannot learn. State support programs for food service could take several forms--support for meals for all children, including food and labor; support for meals for compensatory children, food and labor; support for food only; or some sort of flat grant for each meal served. In any event, within our lifetimes, there is the [redacted] possibility that each of us may say, "Remember the days when kids had to pay for their lunches."

Another of the NEFP research studies dealt with capital outlay and debt service financing. The existing programs were studied in each of the 50 states. Following this analysis and review of the federal efforts related to capital outlay, a selected number of alternative programs were conceptualized and presented with discussion of pros and cons as well as operational procedures and implications.

Even though local districts have various capital outlay problems and needs which are related to population mobility, incidence of local wealth, statutory and constitutional provisions, and curricular modifications, the principal source of funds for these purposes is the local property tax--resulting in the property rich districts having the opportunity to provide exemplary facilities and the property-poor districts being essentially deprived. During a recent year over 80 percent of the funds expended for capital outlay and debt service among the various states came from the local property tax. The question of education being a state function emerges again, for if it is a state function in the real sense, the state has the responsibility to assure that all pupils have access to adequate facilities in which to house their educational programs.

The principal alternatives for capital outlay were grouped into the following categories with the sub-groupings as outlined:

A. Approved project costs (either a fixed percentage or the total project).

B. Equalized grants for debt services or on a project basis.

C. Depreciation allowance on a flat or equalized basis.

Funding programs which encompass the principles and operating procedures will require a revision in the role of state education agencies--with attention shifting from disbursement of funds to technical assistance to local districts and program audits in the same fashion as financial audits are conducted in some states presently. Unless the state has some assurance that programs are being provided for pupils, the question of fiscal responsibility can be legitimately raised when funds are distributed on a programmatic basis. Among the various responsibilities which must be assumed by state agencies are the following:

A. Development of the program criteria

B. Accountability measures

C. Program audits

D. Financial audits

E. Technical assistance

The last portion of the NEFP study which has some direct relevance to the work of school business administrators is related to alternative methods of providing funds for local school district operation. I need not review the series of court cases except to emphasize the concept of "fiscal neutrality" which indicates the amount of money available in the local district cannot be a function of any wealth other than the wealth of the state as a whole, and the additional statement of the courts that their decisions should not be interpreted as mandating that equal dollars per pupil be expended in all districts in the state.

Various alternatives were considered in the NEFP research. From the data for our prototype state we tested various alternatives in terms of their impact on the availability of funds within school districts of varying wealth.

Complete Local Support Model

This model illustrates the extreme inequity created among districts if schools are totally supported by local revenues. Because local revenue is based largely on property tax valuation the availability of revenue will vary widely according to the comparative wealth of the district. It becomes obvious that school revenue based solely on the tax valuation of the local district will provide unequal school financing and thus unequal educational opportunity.

Flat Grant Model

This model provides for a basic state grant to each district based on the number of students without taking into account variations among the districts in local taxpaying ability. The actual dollar amount of local revenue will, of course, vary according to the wealth of the property and other local tax sources. This is one of the most primitive methods of apportioning state school funds (especially if apportioned on an unweighted pupil basis), although still used in many states for allocating a portion of their school funds.

In this flat grant model, the wealthier districts with high taxpaying ability have substantially more resources for schools when the flat state grant is combined with the local revenue raised from the high property tax base. The poorer districts, with lower tax valuations have a very low tax valuation base and consequently revenue based on the same millage is not great. In these instances the total funds per child from both state grants and local revenue are nearly half those of the most wealthy district.

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

Equalization Model--With Substantial Local Leeway

Various forms of equalization models are designed after the most commonly used method for apportioning state school funds--the Strayer-Haig formula. Under this formula, the cost of the foundation program which the legislature desires to guarantee for each district is computed and from that cost is deducted the amount of funds which each district can raise locally through a minimum required local tax effort and the difference is allocated to the district from state funds. As the name implies, the model is intended to secure equalization of school funds among the districts in the state through the allocation of state funds.

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

Equalization Model--With Minimal Local Leeway

This model illustrates how greater equalization will occur as the amount of required local effort is increased and the amount of local leeway is decreased.

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

Equalization Model--With No Local Leeway

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

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

Full State Support Model

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

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

Incentive Grant Model

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

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

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

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

What Guidelines are Suggested by These Models?

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

1. State funds--distributed by any model examined--provide for some financial equalization, but some finance models provide more equalization than others.
2. The flat grant model provides the least financial equalization for a given amount of state aid of any of the state-local models because it does not take into account the variations in wealth of the district.

3. A flat grant model which takes into account some of the cost variations per pupil (i.e., weighting pupils, even though it ignores variations in wealth) provides more equalization than the flat grant model which fails to provide for any cost differentials and variations in wealth.
4. The equalization models which take into account cost differentials of various programs and variations in school district wealth are the most efficient methods for equalizing financial resources in states using state-local revenue allocations.
5. In equalization models, the greater the local tax leeway the less the equalization.
6. Complete equalization is attained only under a plan of full state funding or an equalization plan which includes all local school taxes in the required local effort for the state foundation program.
7. The higher the percentage of school revenue provided by the state, the greater the equalization of financial resources among districts.
8. The higher the percentage of school revenue provided from local revenue, the greater the possibility for unequal financial resources and unequal educational opportunity in the state. A complete local support model provides no equalization among districts whatsoever.

9. The higher the percent of state funds provided, in relation to local revenue, the greater the progressivity of the tax structure for school support. State tax sources are generally more progressive than local tax sources.

10. The higher the percent of federal funds provided in relation to state and local revenues, the greater the progressivity of the school tax structure because federal taxes are generally more progressive than state and local taxes.

Now, what are the operational implications for local school district school business administrators as they go about their daily work. First, our studies indicate for, one more time, the need for accounting procedures to shift from a functional format to a program format with attention being given to a further breakdown on a cost center basis. Second, as states move toward some form of programmatic funding, financial reports and related data will also be called for in a programmatic format. In this fashion the data from local school districts can be used in the development of allocation methods to be used in state distribution computations. At the moment adequate data from local schools are simply not available for state level fiscal planning. As states move toward higher levels of state support, the importance of fiscally sound allocation methods will become more critical, for the escape through leeway tax rates and local referenda will not be available to the same degree as presently.

Third, greater efficiency and accountability will be called for in the nature and quantity of various support services provided in local districts. School facility plans will be subjected to a new kind of scrutiny at the state level as states provide increased amounts of funds for this purpose, especially if states assume full responsibility for local district capital outlay programs. The same points can be made relative to local district transportation programs.

Finally, the fourth point is that the business office and the instructional side of the house will be required to work together in a fashion different from what is normally the case. The process of budgetary planning will require greater interaction as the business office is called on for different kinds of data and information to be used in the process of budgetary planning. The task of budgetary development will be a joint process, and the role of the business office in administration of the budget will be to assure that various programs and cost centers stay within their budgetary restrictions, rather than to determine if there is "a need" for this determination will have been made earlier.