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ABSTRACT

This paper attempts to examine for the State of New York the merits of a district power equalizing formula when it is compared to full State funding of a uniform expenditure level. The author argues against full State funding because he believes that the net effect of many independent decisions that affect small groups of children is preferable to a single decision made at the State level, and that cost variations among districts preclude setting a single expenditure figure for the entire State. As an alternative, the author proposes a school finance program that includes a minimum support program below which no district may spend, a discretionary range of expenditures supported by State and local funds according to the power equalizing concept (including a negative aid provisions), maximum support level beyond which no district may spend, and special aids for extroardinary educational needs. (Author/DN)

FULL STATE FUNDING V. POWER EQUALIZING

Alternative Approaches for Financing Elementary and Secondary Education in New York State

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On August 30, 1971, the Supreme Court of California rendered a decision in the case of Serrano v. Priest which has the potential of revolutionizing the financial basis of public education in the United States. The court found that:

> The California public school financing system, . . . since it deals intimately with education, obviously touches upon a fundamental interest. For the reason we have explained in detail, this system conditions the full entitlement to such interest on wealth, classifies its recipients on the basis of their collective affluence and makes the quality of a child's education depend upon the resources of his school district and ultimately on the pocketbook of his parents. We find that such financing system as presently constituted is not necessary to the attainment of any compelling state interest. Since it does not withstand the requisite "strict scrutiny," it denies to the plaintiffs and others similarly situated the equal protection of the laws. If the allegations of the complaint are sustained, the financial system must fall and the statutes comprising it must be found unconstitutional.

Except for Hawaii which functions as a single school district, every state including New York could be subjected to similar charges and to similar rulings. Close on the heels of the California decision came others of the same nature in Minnesota, Texas, Arizona, and New Jersey. In the first suit brought in New York State, the court held that the plaintive lacked a sufficient complaint and that this was a matter of legislative prerogative. A second suit is now before the court. The Texas case, Rodriguez v. San Antonio Independent School District, has been appealed to U.S. Supreme Court. A ruling is expected in the fall. New York joined with several other states to plead for the reversal of the lower court decision. Regardless of the outcome, the challenges of existing financial systems will continue, not only in the courts but also in legislative bodies.

Even without judicial pressure, it would be imperative to reexamine the merits of the present and proposed school finance procedures in the light of broadened definitions of equality of educational opportunities brought about by the heightened social awareness of existing inequalities and the harm they bear for future generations. The Fleischmann Commission did precisely this in recommending full state funding of a uniform expenditure level.[1] In so doing, it analyzed and rejected an alternative approach to equality--district power equalizing. The purpose of this paper is to take another look at the merits of a district power equalizing formula with the thought in mind that the Commission may have under-estimated its potential. The paper will review the missions of school financial structures and the well documented inequities of the present system. It will discuss some of the shortcomings of the Fleischmann Commission recommendations and will present an alternative approach - power equalization with absolute expenditure limits. Data are for the 1970-71 school year unless otherwise indicated.

Missions of state aid to schools. The state constitution clearly specifies education as a function of state government. Historically, New York found it useful to subdivide into school districts to carry on this function, partly out of administrative necessity and partly out of a deliberate strategy to encourage the spread of public schooling in a period when school attendance was voluntary and formal schooling was not closely linked to personal success. In dividing the state into school districts, inequities among the subdivisions were inevitable in wealth of local units, educational aspirations of the citizens, leadership, etc. State aid and general state supervision were looked upon as means for reducing the resulting inequities, i.e., to "equalize".

The meaning of equalization will vary according to the user. It may refer to inputs to the educational process (the amount of resources allocated to each child's education); it may refer to outputs (a standard of performance to be met by graduates of the educational process); or it may refer to effort (the proportion of available resources which are required by public school institutions). Equalized performance standards (outputs) imply that more resources (inputs) will have to be allocated to the education of some children than to others. By the same token, equal inputs to the educational process may yield unequal levels of performance. Equalized effort may result in both unequal inputs and unequal outputs.

New York State has long expressed allegience to the concept of equal educational opportunities. Its manifestations have changed with changing social conditions. This was a basic objective of the common school movement of the 19th century. Early in the 20th century the state recognized that the common school equalized opportunities (inputs) only within a district and not among districts. Many school districts, especially those in rural areas, were unable to support what was termed an adequate minimum educational program because of district poverty. A Foundation Aid Program was implemented in 1925 expressly for the purpose of assuring all children in the state access to at least such a minimum standard. As long as equality was defined in terms of minimum standards, variations in additional expenditures were not viewed as being inequitable.

The foundation program approach was designed to equalize inputs and effort. Through the sparcity correction, however, the state recognized that equal inputs (i.e., properly qualified teachers and specialists) cost more in small districts than in large ones because of the economies of scale realized by the latter. In recent years the state has become increasingly cognizant of equalizing outputs. Special aid to children with educational disabilities including distance from school (transportation aid) represents a shift in this direction. The federal compensatory education programs, especially ESEA Title I, are other attempts at equalizing outputs with unequal inputs.

Functionally, equality of educational opportunity in this state has been defined for a rural setting. This was perfectly appropriate when the foundation program approach was adopted because at that time the most serious deprivation was in the country. In the half century since then, the state has gone through nothing short of a demographic revolution. It has moved from a politically dominant small town/rural population with a few large wealthy urban centers to a large wealthy suburban population centered around poor urban cores. Accommodations in school financing have been made to this massive population shift within the structure of the existing formula while a whole reorientation and restructuring of the system is called for. The principal accommodation has been the large proportion of "tax broadening" aid which has been built into the foundation formula. Tax broadening aid is designed to shift school support from local property taxes to state-levied non-property taxes. A special study conducted for the Fleischmann Commission estimates that between 2/3 and 4/5 of the present general aid is for such purpose.[2] Its principle manifestation is in the $310 per pupil flat grant extended to all districts regardless of local taxing ability. The effectiveness of distributing such a large proportion of tax broadening aid through a formula designed for equalization purposes will be questioned below. (Throughout the paper, the existing percentage equalizing formula will be considered a foundation formula. When adopted in 1962 it held great promise for being something more, but the ceiling on aidable expenditures has been kept so low that it has functioned as the foundation program which it supplanted.)

Tax broadening has become a second mission of state aid as real property has constituted a smaller and smaller portion of the state's total wealth. Since the principal source of local revenue for both municipal and educational purposes is the property tax, property tax rates would be unbearable in all but a few communities if it were not for state aid which is derived from other classifications of wealth. The property tax is regressive in incidence (taxes the poor relatively more than the rich). Revenue collected at the state level, primarily from sales and income taxes, tends to be proportional to slightly progressive in incidence. Contemporary thinking favors tax structures which are overall progressive. Because of its regressive nature, and because at its present level it amounts to an almost confiscatory 30% excise tax on housing, there is general agreement among economists and public finance authorities that there is an over-reliance upon the property tax.[3] It is, therefore, considered desirable to reduce the portion of school revenue derived from the property tax and to increase the proportion derived from non-property taxes.

It is conceivable that such a shift could be accomplished by authorizing local school districts to levy non-property taxes. Considering the domination of non-property taxes by the state and federal governments and the difficulty of collecting such taxes at the local level, such an approach is being discounted. This leaves increased participation in school financing by the state and federal governments as the only viable means for reducing the role of the property tax on school financing. The trend over the last five years has been precisely the opposite of that desired. Since the close of World War II, state aid had increased in New York from 32% of total expenditures to 48.3% in 1968-69. Since that time the percentage has receded to 42.8%, the lowest point since 1961-62. Less than 5% of total expenditures are derived from federal aid leaving over half of the cost to be raised locally, primarily through property. One cannot contemplate increasing the state's participation in school costs, however, without also considering the financial crisis of the state. In this respect the prospects of federal aid are encouraging, even through a general revenue sharing procedure.

In any event, it is highly unlikely that the property tax will be replaced in the near future. It presently produces over $2 billion per year for schools alone in New York State. The economic displacement which would result from suddenly raising this amount with non-property taxes is too great to contemplate. For this reason it is imperative that the property tax resource be used as efficiently as possible. The quality of administration of the property tax varies markedly throughout the state. The state passed important legislation in 1971 to improve such administration, but substantially more needs to be done. But no matter how well the assessing of property is carried out, as long as taxing units are highly fragmented, there will be a great deal of variation in the amount of the property resource available for the support of educational services, district by district. This results in under taxation of property resources in some districts and over taxation in others.

In summary it can be said that state aid is necessary only because of the state's early decision to decentralize the administration and finance of its educational function. Given decentralization, state aid is then required to restore equity within the grid of local school districts in terms of educational inputs, outputs and effort. The diminishing importance of real property as a component of taxable wealth leads to a second important mission of state aid, that of tax broadening.

Inequities of the present formula. The inequities of the present arrangement for financing school services have been documented *ad nauseum*. The purpose of this section is merely to summarize what has been well established through thorough investigation elsewhere.

The major flaw in the present financing arrangement is the extent to which the state relies on the school district for making fiscal decisions and raising school revenue. There is no rationale for the size and character of districts other than historical accident. As a result, some are very rich while others are very poor. Many are all white; a few are largely black. Some are dominantly upper middle class; others are rural farm. Few school districts, if any, represent the rich diversity of the state. The range in full property valuation per pupil is from $4,000 to $210,000. This has a profound impact at the district level upon the amount of resources made available for schooling purposes as is shown by Table 1 reporting data for 1970-71. Average expenditure per pupil (column 4) increases for each category from $894 to $1,608 as taxable property wealth increases (columns 1 and 2). For the lowest wealth category to finance a program equal to that found in the highest category would require a tax rate of $89.73 per $1,000 of full property value (column 6). The highest category districts finance that level program with a tax rate of $19.59. All districts below the state average valuation per pupil ($33,700) would require a confiscatory tax rate to finance a $1,608 program. Obviously inputs and effort are not equalized.

State aid is supposed to compensate for variation in local taxing power but it doesn't. As already noted, as much as 4/5 of state aid goes for tax broadening purposes. Because the basic formula is designed for equalization purposes, neither equalization nor tax broadening objectives are adequately served by this practice. The most serious anti-equalization features of the present formula are the $860 per pupil ceiling on expenditures approved for state aid, the $310 per pupil flat grant, indefinite save-harmless provisions, and the 90% sharing limitation.

Because of the low level of the "ceiling" and because of the wide

Table 1. Expenditure and Tax Rate by Taxable Wealth Categories for New York State School Districts - 1970-71

(1) Taxable Wealth Per Pupil 1969-70 for Computing State Aid in 1970-71	(2) Estimated Median Wealth for Category	(3) Number of Pupils (000)	(4) Average Operating Expenses Per WADA 1970-71	(5) Average Tax Rate On Full Value 1970-71	(6) Property Tax Rate Needed to Finance a $1608 Program Under Status Quo	(7) Power Equalized Program Which Could Be Financed With Actual Tax Rate & 47.5% State Sharing*	(8) Actual Sum of State Aid & Local Aid 1970-71	(9) Actual Revenue In Excess of Power Equalized Revenue
Under $12,000	$10,000	116	$ 894	$18.33	$89.73	$1270	$1171	- $ 99
$12,000 - $19,999	16,500	674	970	20.71	59.36	1435	1230	- 205
$20,000 - $27,999	23,500	746	1063	22.58	45.78	1560	1304	- 256
$28,000 - $35,999	32,000	423	1127	22.80	37.80	1580	1405	- 175
$36,000 - $43,999	40,000	175	1205	22.30	32.37	1543	1394	- 149
$44,000 - $51,999	46,000	152	1289	22.15	29.09	1532	1615	+ 83
New York City	49,453	998	1259	18.87	25.93	1307	1565	+ 258
$52,000 - $59,999	54,500	58	1497	23.86	26.36	1653	1770	+ 117
$60,000 & over	68,000	74	1608	19.59	19.59	1354	1878	+ 524
State	36,350	3416	1160	20.66	33.95	1430	1430	0

*Actual percentage that state aid represented of state and local funds.

variation in the ability of school districts to raise property taxes, the ceiling has kept expenditures down in poor districts at the expense of program and has done little to check the luxurious tastes of wealthy districts. In 1969-70, with an aid ceiling of $860 per pupil, operating expenditures ranged from $633 per pupil to $3,335 with a state median figure of $1,097. Even in removing the extreme deviates, the range was substantial. The 10th percentile district expenditure was $790 compared with $1,305 for the 90th percentile district. The expenditure gap between these deciles has grown in three years from $515 in 1969-70 to $660.

The inability of present procedures to effectively provide either equalization or tax broadening assistance are illustrated by columns 7, 8 and 9 of Table 1. Column 7 reports what the average expenditure level for each category would be given their actual tax rate (column 5) and assuming full equalization with 47.5% state aid (tax broadening) in the district of average state wealth. In comparing columns 7 and 8 it is readily seen that the actual revenue (column 8) is considerably less for districts under $44,000 full value per pupil. Districts in the above $44,000 categories are mostly large cities, middle class suburbs, and industrial enclaves. Except for large cities, "favored" treatment for these districts cannot be justified on educational grounds. It is to meet the unique needs of New York City in particular that a major source of inequity has been perpetrated, the flat grant. On the basis of full property value per pupil, New York City appears to be wealthy by state standards, yet its financial needs are well documented. The City is a very important part of the state and its uniqueness deserves special attention but not necessarily through the general school aid formula. It provides schooling for nearly one-third of the state's public school children; it spends nearly one-third of all elementary and secondary school funds; it is the home of over 40% of the state's total population; and it possesses over 40% of the state's wealth. In meeting New York City's special requirements through a formula designed to equalize full property valuation per pupil, however, millions of dollars are thrown into districts which have no unusual need but which, on the contrary, have unusual ability to generate tax monies locally.

The time has come to recognize the limitations of general aid and to use more freely categorical aids to meet special circumstances. There is much precedent for such including the present transportation aid and former special aids to children with various handicaps. In a study for the Fleischmann Commission, Arvid Burke goes so far as to suggest that the Legislature should handle New York City's financial needs totally apart from any formulas which apply to the rest of the state. He concludes, "The data presented here do indicate that if the [Diefendorf] law had been allowed to operate without special provisions, the error in the distribution between large cities and suburbs generally would have been much greater than it has been."[4]

In summary, the present state aid formula does not adequately accomplish either of its major missions, equalization and tax broadening, nor is it flexible enough to meet the extraordinary needs of some districts. The greatest inequities in the formula itself have been created by the attempts to meet extraordinary needs of a few districts, especially New York City, through general formula modifications. It is suggested that categorical type aids are a more appropriate route for recognizing such needs.

The Fleischmann Commission Recommendations. In recommending full state support of a uniform expenditure level, the Fleischmann Commission set forth several guiding principles. These include:

- The Commission believes that the responsibility for raising educational revenues belongs to the state.
- Centralization and decentralization are not mutually contradictory concepts; it is clearly possible to have centralized financing and decentralized policy making.
- While an equitable distribution plan requires that educational expenditures for any child be a product of the state's total wealth rather than the wealth of a single school district, neither legal nor moral principles require identical educational expenditures for each child in the state.
- While equality of expenditure in accordance with some reasonable educational standard may not inevitably result in higher quality education, we feel that such equality is the essential first step toward achieving that goal.[5]

The Commission recommended establishing the uniform expenditure level initially at an amount equivalent to the expenditure of the 65th percentile district ($1,036 for 1969-70). Revenue to finance the program would be drawn from the state's general fund and a state levied tax on property at the rate of $20.40 per $1,000 full valuation. To meet extraordinary educational needs, the Commission proposed an additional allocation from the state's general fund equal to 50% of the uniform support level for each child in a district classified as being below minimum competency in reading and arithmetic skills as determined by the state's Pupil Evaluation Program (PEP).

The greatest difficulty with the Commission's recommendations arises over the definition of "some reasonable educational standard." Equal inadequacy is of little value to anyone. On the other hand, the state cannot afford equal opulence. The Fleischmann Commission assumes that the state Legislature is competent to define an "adequate" standard of education and that having set the standard (in dollars and cents, not in terms of program) comparable services can be purchased throughout the state. Fifty years of experience with foundation aid formulas make the first assumption unacceptable. A cursory review of economic statistics reveals the fallacy of the second. A single expenditure level for all children of the state could well condemn all children of the state to an inadequate level of schooling.

In theory, under a system of foundation aid, the characteristics of an adequate minimum educational program are defined by the state. The cost of such a program then becomes the foundation support level. The theory has proven to be inoperable. The differences between the foundation concept and the Commission plan are that the educational programs defined under the Commission plan would be somewhat in excess of an "adequate minimum measure" and that local districts could not use their own resources to enrich the program. The same difficulties encountered in defining a foundation program will be encountered in defining a uniform support level. It was never possible to describe the characteristics of an adequate minimum program suitable for all school districts and for all children under all circumstances in the state. If such had been defined, cost variations within the state precluded the establishment of a single foundation support level. In practice, the foundation support level turned out to be a political compromise forged by pressures generated by school people and advocates of other interests on the Legislature and the governor within the economic constraints inherent in the state's tax collecting capacity.

Since the foundation level tended to lag far behind actual expenditures, the definition of an adequate educational program was actually left to each school district within the constraints of its own resources. In this political process, advocates of quality educational services have consisted primarily of school related groups. Their arguments and their effectiveness in securing economic resources for public education was greatly enhanced by their ability to draw on the data generated by the decisions made by 741 independent school districts. To remove all local discretion in establishing expenditure levels would remove from advocates of quality services their most potent lobbying weapon thereby leaving resource allocation decisions to be made largely on other grounds. The Commission itself recognized that there is no absolute standard of educational services. In setting $1,036 as "the" expenditure level for the state, it drew on the collective wisdom of the 741 independent school boards and selected the 65th percentile of actual practice. But if the Commission's recommendation is accepted, there will never again be an experience test of the adequacy of the single prescribed support level.

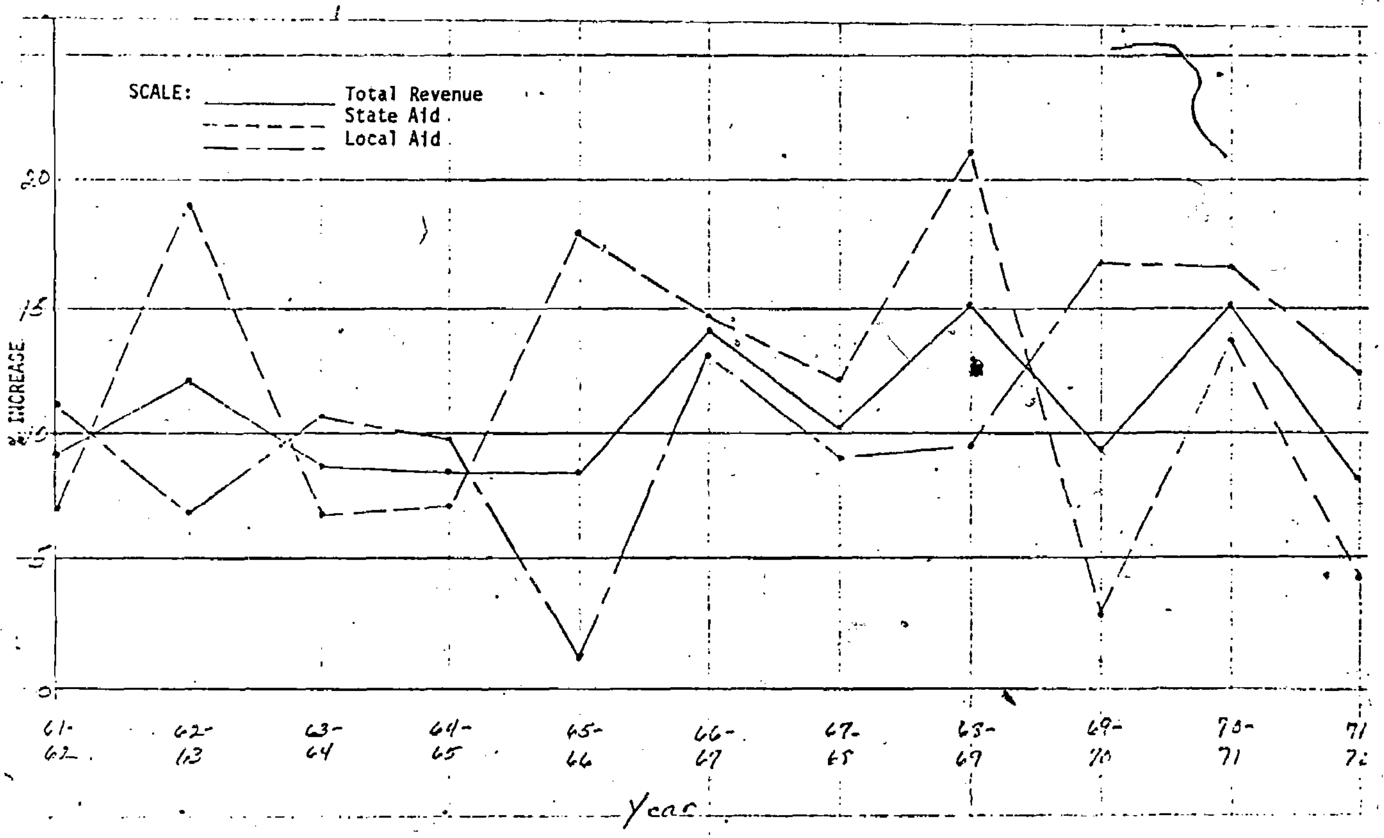
In essence a uniform support level would continue the state in its present situation but without the safety check on state inaction provided by local initiative to supplement state aid. For a variety of reasons, the Legislature does not always respond every year to normal financial pressures on schools. This is dramatically illustrated by Figure 1 which shows the annual rate of change in revenue from state and local sources. Changes in local revenues run counter to changes in state aid. When the state does not act, the school districts do. Annual changes in state and local revenue range rather widely between 1 and 22%. Because of the counter effect, total revenue fluctuates much less, ranging between 8 and 16%. It is assumed here that a regular expenditure pattern is preferable to an irregular one.

One could argue that the state behaves in an irregular fashion because it realistically depends on local school districts and that if this option were removed, it would respond regularly. In any event, one decision replaces 741. On the surface this is the height of efficiency - if the state Legislature were infallable. Unfortunately, it is not. Like the girl with the curl, when a legislative decision is good, it is very very good, but when it is bad, it is horrid. Local school districts are not infallable either, but when there are 741 decisions, the law of averages is working to dilute the bad decisions. They effect relatively few children. (Nothing in these statements should be construed as suggesting that 741 is the optimum number of school districts for the state. The thrust of the argument is that decentralized fiscal decision-making holds certain attractive advantages over centralized decision-making.)

Further, a single state expenditure level fails to recognize cost differentials in the state. In 1972 the median expenditure for New York City suburbs was $1,435; for New York City, $1,283; for upstate cities, $1,085; for upstate suburban districts, $991; and for upstate non-suburban districts, $992. The difference between upstate and the New York City metropolitan area is substantial, probably reflecting differences in costs rather than differences in program quality. (The State's PEP program reveals little difference in pupil achievement among regions. Qualitative differences are more likely to be reflected by variations of expenditures within regions.) New York State has at least two cost areas, the New York City Metropolitan Area and the rest of the state. Probably several others could be identified upstate. Any state aid scheme must be sensitive to these differences or it will either under-

Figure 1. Percents of increase over previous year of Total Revenue*, State Aid, and Local Aid - New York State 1961 - 1972

*from state and local sources



finance one area or overfinance the other. An alternative proposed by the Syracuse University Research Corporation (SURC) would adjust a uniform aid level by a regional cost of education index.[6] This is preferable to a single aid level, but, at best, indexes can only provide gross corrections. In the case of the SURC study the index for each region was computed by dividing the state mean salary by the regional mean of salaries at the 25th, 50th, and 75th percentiles. At worst, indexes become political footballs. Once instituted, experience shows that it is very difficult to update or to eliminate indexes as conditions warrant.

Finally, permitting variation in local expenditures enhances the power of local school districts in accommodating local preferences. This can be done to only a limited extent within a uniform expenditure level. With no absolute pedagogical principles to guide educational decision makers, valuable empirical evidence may be gained through the encouragement of a variety of educational programs even when some are more costly than others. From a political standpoint, such a procedure certainly holds the potential for reducing social stress in that the interest groups which must be satisfied within any given school district are less than for the state as a whole.

In summary, this analyst sees as the major weakness of the Commission proposals its recommendation of a uniform expenditure level for the entire state. With no absolute pedagogical standards, it is suggested that the net effect of many independent decisions effecting small groups of children is preferable to a single decision made at the state level. It is also argued that, even if there were an absolute standard, cost variations would preclude setting a single expenditure figure for the entire state. While gross corrections may be made via the index route, it is preferable to allow some local discretion for making finite adjustments. A limited amount of local discretionary authority in setting expenditure levels permits the district to meet higher costs because of unique local conditions without unduly complicating a formula. Such discretion also permits accommodation of local priorities which are different from state priorities.

Power equalizing. "Power equalizing" is a term coined by Coons, Clune and Sugarman in their influential book, Private Wealth and Public Education.[7] The book analyzes the inequities of public school finance in the United States and proposes legal strategies for seeking judicial relief. The court decisions in California, Minnesota, Texas, Arizona and New Jersey stand in testimony of the effectiveness of their arguments. The authors identify two essential characteristics of a power equalizing system of state aid.

> First, any right of subunits of the state to be relatively wealthy for educational purposes is denied. The total financial resources of the state should be equally available to all public school children. Ultimate responsibility for public schools is placed squarely with the state. Second, on the other hand, the units should be free, through the taxing mechanism, to choose to share various amounts of the state's wealth (by deciding how hard they are willing to tax themselves).[8]

These two conditions would be realized by making the state responsible for a percentage of a school district's budget (locally determined) as calculated by some variation of the following formula:

$$\text{State Aid Ratio} = 1.000 - \frac{\text{school district ability}}{\text{state average ability}}$$

As written, the aid ratio derived from the above formula would be negative for all districts of above average wealth. Such districts would have to pay a portion of their local tax collections to the state which would help defray the state's cost of compensating districts of below average wealth. The above formula satisfies only the equalization mission of state aid. The tax broadening mission can be satisfied by adding another variable to the formula, the percentage of school costs to be raised locally by the district of average wealth. (In the above formula this percentage is assumed to be 100%.) The revised formula becomes:

$$\text{State Aid Ratio} = 1.000 - \left(\begin{array}{l} \%\text{ raised locally} \\ \text{by district of} \\ \text{average wealth} \end{array} \times \frac{\text{school district ability}}{\text{state average ability}} \right)$$

As the percentage to be raised locally drops, the amount of tax broadening aid increases and the number of districts having to pay negative aid decreases.

Expenditure levels of school districts are a function of effort alone under such a system. Returning to Table 1 for purposes of illustration, column 7 reports the expenditure level which would be realized through a power equalization formula (assuming 47.5% state sharing of costs in a district of average wealth for the state) given the tax rate reported in column 5. In this example, any district regardless of its wealth would realize a $1,270 expenditure level with a local tax rate of $18.33 per one thousand dollars of full valuation. Likewise, a tax rate of $23.86 would yield revenue in the amount of $1,653 per pupil. Power equalization cultivates the freedom of local school districts to vary in the quality and character of their educational offerings. Because the artificial stimulants to high expenditures, relatively high levels of wealth, are removed, the range of expenditures among school districts would be reduced. Variation in expenditure should become random with respect to wealth.

The present New York State formula is frequently thought of as being a power equalizing formula of the "percentage equalizing" variety. It is not because of the many restrictions placed on the free operation of the formula including: the $860 ceiling on aidable expenditures, the 90% limit on state sharing, the $310 minimum guarantee, and save-harmless provisions. To qualify as a power equalizing formula, these would need to be eliminated and negative aid instituted for districts with a computed negative aid ratio.

Coons, Clune and Sugarman recognize that under such a system, children in one school district may receive a better or worse schooling than those in another district. They view this as being one of its attractive characteristics in that it permits parents to select school districts in which to live which match the educational aspirations they have for their children. They see this as stimulating parental involvement in local school matters. The Fleischmann Commission, on the other hand, termed power equalizing as an inadequate alternative because of the expenditure variation it encouraged. They wrote:

> The quality of a child's education should, in our view, be no more a function of how highly his neighbors value education than how wealthy they are.[9]

In responding to the idea of uniformity in expenditure, Coons, Clune and Sugarman state: "We do not oppose uniformity as unfair, but merely as unwise, largely because we prefer to stimulate local incentive."[10]

This analyst is impressed with the arguments of the advocates of power equalizing although he cannot justify the range of expenditures which exist in New York State. In removing the artificial stimulants to high expenditure it is reasonable to believe that this range will be reduced, but to what extent is unknown. This analyst is also impressed with the Commission's argument that the quality of a child's education should be no more a function of his neighbors' educational aspirations than of their wealth. This, coupled with the increasing evidence of the tenuous link between expenditure level and pupil performance, would argue for at least control over the extremes of school district expenditures if not for the establishment of a uniform expenditure level for the state.

In summary, the present system of school finance makes the expenditure per pupil of school districts a function of their taxable wealth and of their tax effort. Power equalizing removes taxable wealth as a variable leaving only their tax effort. The Fleischmann Commission's recommendation of a uniform expenditure level removes this last variable thereby bringing about equality of expenditure and effort throughout the state.

An Alternate Proposal

Guides for designing a school finance program. Growing out of the above discussion, the following are recommended by this analyst as guides for designing a school finance program.

1. The state has overall responsibility for the provision of educational services.
2. The state may define acceptable performance standards for educational institutions.
3. The state may define expenditure constraints for school districts in the light of state resources.
   - 3a. Wide variation among districts in educational expenditures cannot be justified in terms of societal interests.
   - 3b. Economic, social and environmental variations in the state preclude the establishment of a single expenditure level for the entire state. Local authorities are in the best position to make finite expenditure adjustments.

3c. Since there is no absolute standard of an adequate educational program, limited local discretion provides state authorities with data critical to the establishment of realistic expenditure ranges.

4. Within established constraints, the taxing ability for each school district should be equal to the taxing ability of the whole state, i.e., a given tax rate in any school district should produce as much, but no more, revenue per pupil as a similar tax rate levied against all the property in the state.

5. The state and federal governments should gradually increase the proportion of educational costs they provide through non-property taxes.

6. The aid formula should automatically adjust to changes in educational costs, educational need, and local taxing ability.

7. The relationship between state aid and its objectives should be apparent. The implication is that more than one formula may be required to accomplish the objectives of the present operating aid. (i.e., Aid for meeting extraordinary educational needs should be separate from aid to correct for the uneven distribution of wealth among school districts and to relieve the burden on the property tax.)

8. The cost of meeting extraordinary educational needs should be financed solely from state and federal funds.

Of the eight guides, only number 4 is uniquely identified with power equalizing; number 6 is satisfied by such an approach; and number 5 may be easily incorporated into the formula. Numbers 2, 3, 7 and 8 are limitations on the free operation of the power equalizing concept.

The proposal presented below represents a translation of these guides into an operational school finance program. It includes:

- a minimum support program below which no district may spend financed from the state's general fund and mandated property taxes;
- a discretionary range of expenditure which is supported by state and local funds according to the power equalizing concept including a negative aid provision whereby districts of extreme wealth pay to the state a portion of their property tax collections;
- a maximum support level beyond which no district may spend;
- special aids for extraordinary educational needs.

The objectives of the minimum support program, the discretionary range of expenditures and the maximum support level are to make available to every child in the state educational services adequate for meeting the needs of a typical child, to equalize the property tax effort, and to distribute schooling costs between property and non-property taxes. The costs are financed through state, local and non-restricted federal (if any) funds. The objective of the special aids is to provide adequate educational services for children with extraordinary needs.

Minimum support program. A pure power equalization formula removes the economic impediments to inadequate expenditure levels, however it does not guarantee the actual provision of such levels in school districts with unusually low educational aspirations. For this reason it is perfectly appropriate for the state to mandate a minimum support program. In essence, the existing school aid formula provides for full state financing of a minimum support program of $860. Revenue for this is acquired from the state's general fund and a mandated local property tax of 13.58 mills. While it is true that a district may levy less than this amount, very few pupils live in districts which have so opted. Because of the $310 per pupil minimum guarantee of state aid, districts with wealth in excess of $40,500 per pupil enjoy a minimum support program above $860, e.g., $964 for Oswego, $980 for New York City, $1,185 for Great Neck and $2,858 for Menands. This arrangement violates the equity criteria of the Serrano v. Priest type court rulings cited earlier and of power equalizing. One million four hundred thousand children are in such districts; one million are in New York City alone. This inequity could easily be eliminated by having the state levy the 13.58 mill property tax and distribute $860 per pupil to each district. Such a procedure would require $258,000,000 less from the state's general fund than does the existing $860 program because the flat grant would be eliminated and tax enclaves would be fully taxed. (The same level of savings could be achieved by levying the tax at the county level and having the state pay the difference between the yield and $860 times the public school enrollment in the county. The county would then make available to each school district the minimum support program.)

The $860 support level is useful for the purpose of seeing the translation between the existing and proposed systems. It is not useful for meeting the guideline of a self-adjusting formula in terms of educational costs. To accomplish this, it is proposed that the minimum support program be defined as that amount at or above which 80% of the children of the state are educated. Using 1970-71 expenditure data, this would be approximately

$950. Maintaining the specified average state sharing at 49%, the mandated property tax rate would be 14.40 mills. To gradually decrease the reliance upon the property tax, it is recommended that this levy be frozen and that increasing costs of the minimum support program be financed solely through non-property state revenue and non-restricted federal aid.

Discretionary expenditure range and maximum support level. A pure power equalization formula removes the artificial stimulants to high expenditure, however, it does not remove the incentive of what some might view as extravagance. For this reason it may be prudent to protect the state coffers with a maximum support level even though the new economic constraints may render such a ceiling unnecessary. Initially it would be reasonable to establish the ceiling at the expenditure level at or above which 20% of the children are educated. In 1970-71 this amounted to $1,260. In subsequent years, as the minimum support program floats, it is proposed that the difference between the foundation and ceiling remain constant in absolute dollars, e.g., if the minimum support program were set at $950 and the ceiling set at $1,260, the absolute difference would be $310 until the Legislature saw fit to change it. This has the effect of maintaining a discretionary range while gradually depressing the relative difference between high and low expenditure districts.

Expenditures within the discretionary range would be financed with state (and federal funds if revenue sharing becomes a reality) and local funds as determined by a power equalizing formula with the state (/federal) funds initially financing 49% of the cost in the district of average wealth. The percentage of state aid for expenditures in this range would be determined by the following formula:

$$\text{Percentage State Aid} = 1.000 - .510 \times \frac{\text{District full property valuation per pupil}}{\text{State full property valuation per pupil}}$$

Using 1969-70 assessment figures, districts with full valuation per pupil in excess of $63,500 would be in a negative aid situation. That is, they would have to pay a portion of their tax collections to the state. The net effect of this procedure is to make every district as able (but no more so) to finance a given program as a district of average wealth for the state. The level of expenditure within the state established maximum and minimum limits would be determined by each school district.

The power equalizing concept frankly admits the futility of defining a single financial support level for the entire state and leaves it to local determination. The minimum support program coupled with state supervision protects children in school districts with low educational aspirations from an unacceptable (from the state's standpoint) level of services. Removing artificial expenditure stimulants and the maximum support level protects the state's resources from the possibility of extravagant tastes of a few districts. The state's levying of the property tax and the negative aid feature of the discretionary expenditure aid distributes the property tax burden for school purposes evenly throughout the state. High wealth enclaves would be fully taxed. Poverty enclaves would no longer be over taxed. As state and federal resources expand, additional relief to the property tax (tax broadening aid) may be granted by increasing the state aid ratio in the district of average wealth above 49% and by freezing the property tax rate mandated for the minimum support program as the level of the program rises.

<u>Special aid for extraordinary educational need</u>. The minimum support program and discretionary aids equalize the local taxing powers of school districts and provide for tax broadening assistance. They do not take into

account extraordinary educational needs, however. Chief among these is the educationally disadvantaged child. According to state figures, nearly one million children are classified as performing below minimum competence levels. These are not distributed evenly among school districts, but are concentrated in large cities. This analyst concurs with the Fleischmann Commission that these children deserve special recognition in the state's school finance scheme. Essentially, following the Commission recommendation, it is proposed that the state (from state and new, non-restricted federal funds) pay to each district an amount equal to 50% of the maximum support level times the number of below competence achievers. This money should be used solely for low achievers to supplement their regular program but need not be distributed evenly among them. In making such allocations, it should be recognized that at this time there is no adequate pedagogy for dealing with educational deprivation. Under these circumstances, the state should encourage school districts to spend compensatory money in a variety of ways and to carefully evalute the results. The state should monitor the whole process in order to gain insights into appropriate schooling treatments for educationally disadvantaged children and to study the adequacy of this admittedly arbitrary adjustment.

The Fleischmann Commission recommended that the number of educationally disadvantaged be determined through the reading and mathematics scores achieved by third grade youngsters in the state's Pupil Evaluation Project (PEP). It further recommended the eventual use of a reading readiness test given earlier in the school experience. For the lack of better data, this analyst has used third grade PEP scores in estimating costs and distributions of such aid; however, he would prefer an index of social and educational disadvantage which is less subject to manipulation than standardized achievement tests. Even at the third grade level, there should be a substantial school effect upon achievement. This procedure, therefore, awards ineffective teaching in addition to compensating for the child's initial disadvantagement. Testing would not be wholly satisfactory even if a reliable reading readiness test could be produced since results can vary widely according to the care with which the tests are administered. To guarantee uniform standards would require extensive and expensive state supervision. The number of ADC (Aid for Dependent Children) children might serve as a relevant measure, but there is considerable doubt as to whether or not the ADC program is administered uniformly throughout the state. There is ample evidence that the best single predictor of educational disadvantagement is family income. The Commission correctly observed that such data are not available by school district. It would be relatively simple to begin to collect it, however.

Existing aids continued. Preferably, the state aid ratio for discretionary expenditures should be applied to budgeted expenditures in which case growth aid and current budget aid would no longer be needed. If the state prefers to base aid payments on last year's actual expenditures, these aids should be continued. Aid for existing buildings may have to be continued as is for legal reasons. Future buildings should be financed either wholly by the state or by the power equalizing concept. With the latter option, aid should be paid at the same percentage as it is for operating expenditures. Negative aid on building costs should be in effect for unusually wealthy districts. Transportation aid should continue as a categorical aid because it is in fact an extraordinary expenditure. The percentage should be increased from 90% to 100% of approved expenditures.

The transition. The economic dislocation would be too severe for some school districts and for the state if these proposals were instituted all at once. For this reason a gradual implementation is recommended. The minimum support program should be fully imposed the first year. For each district experiencing more than a 15% increase in expenditure level, the Commissioner of Education should appoint a state overseer to assist the district in using its available resources wisely. Discretionary aid should become effective immediately but the negative aid provision should be suspended the first year. In the second year, a negative aid district would be subject to 1/5 of its commitment. The proportion of its commitment which it must pay would increase until in the sixth year it would be subject to the full amount. The ceiling for districts spending above the maximum support level would be their expenditure the year prior to the year the new procedures go into effect. The ceiling would remain at that level until the maximum support level floats above it. As for the special aid, 33.0% of qualifying aid should be paid the first year, 46.4% the second and an additional 13.4% each year until the sixth year when all aid to which a district is qualified would be paid.

<u>The cost</u>. Based on 1970-71 data, the new cost to the state of <u>full</u> implementation would be approximately $610,000,000. The first year cost would be approximately $390,000,000. If in <u>full</u> operation in 1972-73, state aid under this plan would represent 48.4% of projected total expenditures including those made from federal funds. The first year costs (with partial implementation) would raise the per cent of state aid from its 1971-72 level of 42.8% to 45.0%. These percentages are not out of line with past practice. In 1968-69 state aid equaled 48.3% of total expenditures. Costs to the state's general fund for New York City, upstate and the total state when the plan is in full operation are reported in Table 2. Costs of implementing the program over a six year period are reported in Table 3.

Table 2. Cost to the State's General Fund for New York City, Upstate, and the Total State When the Proposed Alternative Plan is in Full Operation Based on 1970-71 Data.

	N.Y.C.	Upstate	Total State
Actual cost to the state's general fund of Operating Expense Aid with $860 ceiling, $310 flat grant and save-harmless provisions	$416.3	$1,304.2	$1,632.5
Estimated cost to the state's general fund of $860 minimum support program with no flat grant or save-harmless provisions and the mandated 13.58 mill property tax levied at the state or county level	188.1	1,186.5	1,374.6
Estimated additional cost to the state's general fund of raising the minimum support program to $950 with no flat grant or save-harmless provisions and the mandated 14.40 mill property tax levied at the state or county level	49.4	163.7	213.1
Estimated additional cost to the state's general fund of a power equalization formula for expenditures between $950 and $1260 with 49% state aid for a district of average wealth and with a negative aid provision	78.0	119.1	197.1
(Sub-Total)	(315.5)	(1,469.3)	(1,784.8)
Cost to the state's general fund of existing programs to aid children who are educationally disadvantaged	104.2	59.4	163.6
Estimated additional cost to the state's general fund of raising special aids to $600,000,000	222.9	213.5	436.4
(Sub-Total)	(327.1)	(272.9)	(600.0)
Total cost to the state's general fund of the recommended operating expense aid formulas and special aid	642.6	1,742.2	2,384.8
Cost of existing aids continued (i.e., Growth Aid, Current Budget Aid, Building Aid, Transportation Aid and Handicapped Pupils)	88.7	324.3	413.0
Total cost to the state's general fund of all aid programs to school districts	731.3	2,066.5	2,797.8
Present aid level (1970-71)	570.3	1,616.4	2,186.7
New money required	161.0	450.1	611.1
New money required under Fleischmann Commission Report (exclusive of property tax credit)	243.6	306.4	550.0

Table 3. Costs to the State's General Fund for New York City, Upstate, and the Total State over the Six Year Implementation Period of the Proposed Alternative Plan.

Year	Aid Modification	Aid		
		N.Y.C.	Upstate	Total
1970-71	Actual Costs	$570.3	$1616.4	$2186.7
First	no negative aid; 33.8% special aid	657.7	1920.4	2578.1
Second	20% negative aid; 46.4% special aid	672.4	1949.6	2622.0
Third	40% negative aid; 59.8% special aid	687.1	1978.8	2665.9
Fourth	60% negative aid; 73.2% special aid	701.8	2008.0	2709.8
Fifth	80% negative aid; 86.8% special aid	716.5	2037.2	2753.7
Sixth	Full operation	731.3	2066.5	2797.8

The primary difference between this proposal and the Fleischmann Commission recommendations is the aid for discretionary expenditures. This power equalizing proposal establishes a minimum below the support level proposed by the Commission and a maximum above that level. The property tax rate required to support the Commission plan is $20.40 compared to $14.40 for the minimum support program and $19.10 for the maximum support level. A strict adherence to the power equalizing concept as set forth satisfies the equity criterion of the Serrano v. Priest and similar cases as well as does the Commission's recommendation. The matter of equalizing the local property tax base would be taken care of once and for all. There are enough self adjusting elements in the formula so that it would not be necessary for the Legislature to closely review it every year; yet there are sufficient safeguards to protect state resources from unreasonable demands. Every four of five years the Legislature should submit the entire financial arrangement to careful review. The Legislature should be particularly sensitive to the shifting of the financial burden of public education from property (local) to non-property (state and federal) taxes. It should also regularly review the effectiveness with which special aid is being used and the adequacy of the appropriations.

In establishing maximum and minimum support levels, this analyst opens himself to criticisms similar to those he levied against the uniform support level of the Commission. There are important differences, however. First, a range of expenditures is permitted sufficient to include school districts educating 60% of the children in the state when expenditures were unfettered. Those who propose no limits have the unenviable responsibility of justifying a ratio of high to low expenditures of 5 to 1 with the high expenditures being typically found in upper socio-economic status suburbs and low expenditures being found in lower socio-economic status rural communities. When initially placed in operation, by definition, 20% of the children of the state will be in districts at the minimum support level and 20% will be at the maximum support level (or above in the first years of operation). As inflationary and other pressures cause minimum support districts to increase their expenditures, the minimum support level automatically increases to include 20% of the children. The maximum support level increases by the same amount. If the pressure for increasing expenditures at the bottom are greater than those at the top, the percentage of districts at the maximum support level will drop below 20%. On the other hand, if pressures at the top are greater, the percentage will rise above 20% and the Legislature will have valuable evidence that the maximum support level is too low and needs to be raised. By the same token, in the unlikely event that we enter a deflationary period, an excess of 20% of the children in minimum support districts would indicate that this level may be too high and should be lowered.

The differences in political implications between this and the Commission's proposal are enormous. Under a uniform expenditure plan, every year every school district and every educational lobbyist will be putting full pressure on the Legislature to raise the expenditure level because every district is at that level. Under the power equalizing plan, initially only those districts at the maximum support level (approximately 20%) would be pressuring the Legislature to increase it. If the bottom increases faster than the top, the pressure will actually decrease. If the top moves faster than the bottom, pressure will gradually mount as more and more districts arrive at the maximum support level. Eventually the pressure will become sufficient to convince the Legislature that the maximum needs to be raised. This certainly would not become an annual event.

In summary, the power equalizing proposal maximizes the strengths of central and decentral fiscal decision making while minimizing their weaknesses. The six year implementation schedule makes its costs reasonable considering the financial constraints of state and local resources and the educational needs of the state.

FOOTNOTES

1. New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, Report of the Commission (New York: The Commission, 1972), Chapter 2.

2. Arvid J. Burke, "Appendix 2D, Distribution of State Money to School Districts, 1962-70 and the Diefendorf Law," in ibid., p. 2D.20.

3. For example, Dick Netzer, in his comprehensive analysis of the property tax, concludes, "There is, therefore, an argument for continuing the property tax as a form of excise on housing expenditures, although perhaps only at rates analogous to those which generally apply to other taxed items of consumer expenditures - say, 5 percent instead of 15 percent or more." Dick Netzer, Economics of the Property Tax (Washington: The Brookings Institution, 1966), p. 218.

4. Burke, op cit., p. 2D.47.

5. New York State Commission, op cit., pp. 2.4-2.5.

6. Joel S. Berke, Alan K. Campbell and Robert J. Goettel, Revising School Finance in New York State (Mimeo, The Policy Institute of Syracuse University Research Corporation, 1971), p. III-41.

7. John E. Coons, William H. Clune, III and Stephen D. Sugarman, Private Wealth and Public Education (Cambridge, Mass.: The Belknap Press of Harvard University, 1970), pp. 201-202.

8. Ibid.

9. New York State Commission, op cit., p. 2.45.

10. Coons, op cit., p. 203.