DOCUMENT RESUME

ED 088 218 EA 005 952

AUTHOR Callahan, John J.; And Others
TITLE Urban Schools & School Finance Reform: Promise & Reality.
INSTITUTION National Urban Coalition, Washington, D.C.
SPONS AGENCY Carnegie Corp. of New York, N.Y.; Ford Foundation, New York, N.Y.
PUB DATE Nov 73
NOTE 44p.; Related documents are ED 079 865 and ED 083 733
AVAILABLE FROM National Urban Coalition, 2100 M Street, N.W., Washington, D.C. 20037 ($1.75, Quantity Discounts)

EDRS PRICE MF-$0.75 HC-$1.85
DESCRIPTORS *Educational Finance; *Educational Legislation; *Equalization Aid; Evaluation; Financial Policy; Financial Problems; Fiscal Capacity; *Full State Funding; Metropolitan Areas; Policy Formation; Property Taxes; School Support; School Taxes; State Aid; Tables (Data); Tax Support; Urban Education; *Urban Schools
IDENTIFIERS Policy Implications; *Tax Reform

ABSTRACT

This study focuses on how central city school districts can benefit from educational finance reform. The publication is designed for use by both those charged with the responsibility for education matters and by the general public. The document begins with a discussion of the fiscal impact of several popular alternative school finance reforms, including traditional percentage equalization, district power equalization, and full State funding of education. Next, it details the factors that affect city school finances, those to be considered in any significant school finance reform intending to aid urban school districts. The study examines what States have done in response to urban fiscal needs and presents an analysis of a suggested school finance reform measure, which can provide more broadgauged fiscal equity -- particularly for urban schools. The document concludes with suggested general policies that could be followed by large city and other fiscally disadvantaged school districts to make the most of future reform opportunities. (Page 45 may reproduce poorly.) (Author/DN)

urban schools & school finance reform: promise & reality

by
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"Big cities have special problems. Current school finance reform proposals, if implemented, might not help the cities very much. This paper should receive wide circulation."

Charles S. Benson, Author of *The Economics of Public Education* (Houghton Mifflin Co., 1968) and *The Cheerful Prospect: A Statement on the Future of Public Education* (Houghton Mifflin Co., 1965)

"This paper is a very valuable contribution to the development of a school finance formula for helping urban schools."

Jean M. Flanigan, National Education Association, Assistant Director of Research

"This paper sets out quite well the problems presented for urban school districts by currently proposed popular school finance reforms. It also provides a useful alternative formula which considers the factors that uniquely affect urban school districts and convincingly shows that ignoring these factors in any finance formula is detrimental to such school districts."

Betsy Levin, Co-author of *The High Cost of Education in Cities* (The Urban Institute, 1973) and *Public School Finance: Present Disparities and Fiscal Alternatives* (The Urban Institute, 1972)

"This paper is an informative document and contributes in a meaningful way to the growing literature on school finance reform. It documents and articulates particular aspects of the urban education scene that must be taken into account in overhauling present patterns of state-local finance in providing for public education."

William G. Colman, former Executive Director of the Advisory Commission on Intergovernmental Relations (1960-70) and Member of The President's Commission on School Finance (1970-72)

"I think this is an excellent paper. The authors have collated data from a wide variety of sources that have never been pulled together in one place in just the way they do it."

James A. Kelly, Co-author of "The Financial Aspects of Equality of Educational Opportunity" (Report to the U.S. Senate Select Committee on Equal Educational Opportunity, GPO, 1972) and *Determinants of Educational Expenditures in Large Cities of The United States* (Stanford University, 1966).

Prepared under contract for:
The National Urban Coalition
M. Carl Holman, *President*
Laplois Ashford, *Vice President, Urban Education*
Robert O. Bothwell, *Director, School Finance Reform Project*
Washington, D.C.
November 1973

Erratta Changes

for

"Urban Schools and School Finance Reform: Promise and Reality"

Table A-13, p. 38.

Plant Operation per pupil expenditures for Large Central Cities is $66 (not $660).

Explanatory Footnote to Table: Instructional, health, plant operation and fixed charges per pupil expenditures do not add up to "Total" because administration, attendance services, transportation, and maintenance of plant expenditures, none of which are listed, also are part of the total.

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10 Copies or more $1.50 each

foreword

This study focuses on a vital aspect of education in America: The financing of good education in urban schools. Its distribution is a part of the National Urban Coalition's continuing effort to advance public understanding of critical urban problems and to stimulate the development of workable solutions.

The study recognizes that states have the prime responsibility in our Federal system for determining how much education and what kind of education they should provide to their children, with each state having its own ideas about these matters. Starting from these reference points, the questions of how to raise the money and distribute it among schools faced with differing conditions become major concerns. This study examines the multiple factors involved in raising and distributing funds on an equity basis for cities. Although cities are the prime target of concern, many suburbs, small towns and rural areas would stand to benefit if the concluding recommendations of this paper were indeed implemented.

School finance reform, of course, is not the only requisite for providing good education for those who live in the cities. We know that socio-economic conditions, racial prejudice, ways of living, mobility patterns and many other factors influence the effectiveness of schools. Confusion in some peoples' minds about the relative influence of one factor or another, or about the influence of any of these factors in affecting educational outcomes, however, should not keep us from recognizing that adequate financial resources are at least a necessary if not sufficient condition for providing good education in urban schools.

As a result of the U.S. Supreme Court's decision in *San Antonio v. Rodriguez* (March 1973), the initiative is now with state legislatures to reform education finance systems. Though voting with the Court's majority, Justice Potter Stewart described those systems as often "chaotic and unjust". This paper should help to clarify the possible effects that currently proposed popular reforms could have on large cities, the reasons for these effects, and possible solutions for equitably dealing with the various fiscal factors impinging on urban education. We hope it will be useful both to those charged with responsibility for education matters and to the concerned public on whom most significant reforms ultimately depend.

M. Carl Holman
President
The National Urban Coalition

preface

This paper is important to educators and lay leaders concerned with education reform. The 34 United States' cities which are the focus of this study contain 13% of the total public elementary and secondary school pupils in the country, and more than 1/3 of all minority students in the country. However, the fiscal problems and educational needs of other central cities, and of many small town, rural and suburban school districts in this country share many of the same characteristics as the 34 sample cities.

The U.S. Supreme Court's decision in *San Antonio v. Rodriguez* in March 1973 marked an important turning point in the recent movement for school finance reform in the United States. By a slim 5 to 4 majority, the Court declared that inequities in state school finance systems, which have resulted from overdependence on local property taxes, are not to be remedied in Federal courts. The mantle of responsibility for change was placed again in the hands of the states.

Affirmation of the lower court decision in *Rodriguez*, however, would not have been an unmitigated good for urban education. The fiscal neutrality principle of *Rodriguez* and its California predecessor *Serrano v. Priest* meant that financial disparities between districts could no longer be based on the wealth of districts, but only on the wealth of the state as a whole. But the wealth and expenditures per pupil of many cities exceed state averages. These cities would not, necessarily, have benefited under the simple implementation of the fiscal neutrality principle.

Some of the aspects of urban finance which have forced cities and their school systems into fiscal crises went unrecognized in *Rodriguez* and *Serrano*. City dwellers pay property taxes out of personal income which is often more modest than cities property wealth per pupil would suggest. Teachers' salaries and other labor costs (secretarial, food service, custodial, etc.) are highest in urban centers. Repair and maintenance of school buildings built at the turn of the century are very costly; replacement costs, especially site acquisition, are often prohibitive. All these factors were ignored by *Rodriguez* and *Serrano* approaches to remedy inequities in state school finance systems. As were the greater concentrations of students from impoverished homes in city school districts. Neither equality of property wealth per pupil nor equality of expenditures would be an answer to most large cities' fiscal problems.

While the U.S. Supreme Court's affirmation of *Rodriguez* may eventually have led to the fair consideration of these factors in court approved school finance reform schemes, this occurrence now is possible only insofar as state courts remain active in deciding on school finance issues. Presently, New Jersey, California and Wyoming are the only jurisdictions where state supreme courts are on the record in declaring their systems of school finance unconstitutional based wholly or in part on state constitutional grounds.

Resolution of urban school finance issues must largely depend on initiatives of Governors and state legislatures. This paper is intended to illuminate how simple concepts of equity, based only on wealth equalization, tax effort equalization or expenditure equalization, are *not* of beneficial value to most large city school districts with the multiple fiscal problems noted above. It illustrates the magnitude of possible effects in implementing these simple equity concepts considering no additional state aid and 25% additional state aid. Information of this sort is not now available in the basic literature on school finance reform.

The authors conclude with a set of recommendations on how wealth, tax effort, educational costs and pupil needs can be included in measures to reform school finance structures in a way which would provide equity for urban districts. Accepting the recommendations would result in shifting more money into central cities. However, they should neither be accepted nor denied because of that. The recommendations suggest an equitable funding approach for all districts—urban, rural, small town and suburban—which have been plagued by lack of local tax base or other equally difficult fiscal situations.

This paper does not attempt to deal with many additional issues related to urban school finance. Detailed methods of raising revenue are not discussed, yet clearly, the authors and the National Urban Coalition have no interest in seeing increases in state education budgets which would be derived from increases in sales and other regressive taxes which would fall most heavily on the concentrations of poorer people in cities. State tax reform, property assessment reform, federal aid, parochial school aid, special categorical grants for students

from impoverished homes or for other special education needs, rehabilitation of run-down facilities, collective bargaining, integration, etc., are basically not addressed in this paper.

While the authors and the National Urban Coalition regard all of these as important subjects which must be dealt with in comprehensive reform of state school finance systems, detailed discussion of these issues has already been offered in the many journals and publications which are generally available to the reader.

Nor does this paper offer a thorough review of 1973 reform legislation regarding its quantitative impact upon urban education. That will be a subject of a forthcoming study.

One important concluding remark is necessary. The National Urban Coalition in no way thinks that resolution of urban schools' financial difficulties is the only means of developing quality education for the diverse student populations who attend urban schools. Adequate finance is a necessary, but certainly not a sufficient condition for urban education's revival. Urban schools have been failing to educate many students because of the incompatibility of school boards, superintendents, administrators and teachers with their student populations. Racial prejudice and lack of understanding of the nature of the impoverished communities and homes from which many urban students come have contributed mightily to the failures of urban education. The National Urban Coalition believes these matters must be dealt with forthrightly, more directly and more strongly than they have in the past, if quality education for all urban students is to be achieved. The Coalition recently published a paper which discusses these issues and which attempts to answer the critics who ignore these facets of the urban education scene while claiming that schools do not make a difference. This publication, "Stupidity, Sloth and Public Policy: Social Darwinism Rides Again," by Dr. Bernard C. Watson, Chairman of the Coalition's Urban Education Task Force, is available upon request.

The National Urban Coalition has been involved in school finance reform for the last four years. In 1969, the Coalition published *Schools and Inequality* by Guthrie, Kleindorfer, Levin and Stout. This study of the positive relationship of input resources to educational achievement in Michigan has become a major counterfoil to those suggesting that schools do not make a difference. The Coalition was also responsible for assisting the Syracuse University Research Corporation undertake its landmark study *Federal Aid to Public Education: Who Benefits?* by Berke, Bailey, Campbell and Sacks, published in 1971. Starting in 1971, the Coalition began a new phase of its school finance reform activities which has entailed organizing and providing seed monies for state reform projects which focus on urban and minority interests. Projects have been undertaken in Michigan, California, Texas and New Jersey.

This study was prepared and published with assistance from The Ford Foundation and The Carnegie Corporation. Many people provided assistance in helping shape the paper: including John E. Coons, Charles S. Benson, Betsy Levin, William G. Colman, James A. Kelly, Jean M. Flanigan, Norman Drachler, Will Riggan, Ann Rosewater, R. Stephen Browning, Arthur J. Levin, W. Norton Grubb, Stephan Michelson, and members of the National Urban Coalition School Finance Committee whose names appear elsewhere in this document. Rubye Ellis, Anne Marie Pratt, and Ellen Emmert have been extremely patient and responsive in typing and retyping draft after draft.

Robert O. Bothwell
Director
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contents

overview of the study

Powerful political and judicial forces are now producing the most sweeping revision of state school finance systems in American history. Since mid-1971, state supreme courts have invalidated the educational finance programs of California, New Jersey and Wyoming.[1] State legislatures have approved major revisions in the educational funding systems of Minnesota, Montana, Kansas, Florida, Maine, Michigan and Illinois. Equally important, significant revisions are now being discussed in many other states, ranging from New Jersey to Oregon.

While differing in detail, most recently proposed revisions in state school finance systems aim to promote some measure of either equal educational opportunity or property tax relief or both. Accordingly, such reforms should be of greatest benefit in school districts with the greatest educational and fiscal problems.[2] However, increasing evidence suggests that this expectation may prove unfounded, especially for major city school districts.[3]

Clearly, urban* school districts have exceptional educational and fiscal burdens. Much more than most other school districts, city districts must teach concentrations of hard to educate pupils, must compete with noneducational programs for available tax dollars, must meet extraordinary operating costs, and are deeply in debt. Close analysis of many popular or conventional reform plans, however, indicates that they are unlikely to deal with central city finance problems any more effectively than existing state finance systems.

Wilken and Levin, for example, show that Minnesota's widely-heralded 1971 school finance reform plan has produced significant reductions in property tax rates and some increases in expenditures. Both, however, point out that the plan involves relatively little redistribution of resources.[4] Consequently, the State's city school districts today are not much better off relative to all other districts than they were prior to reform. In the same vein, Berke and Callahan indicate that one widely discussed reform, full state funding, if implemented on an equal dollars per pupil basis, is likely both to reduce large city school expenditures while raising city school taxes.[5] Similarly, an analysis of seven school finance reforms proposed in Kansas, Michigan, Minnesota and New York in 1971 and 1972 indicates that only two would have provided cities with more than $200 per pupil in additional aid, while four of the seven reforms would have caused cities to lose aid either to suburban or to rural districts.[6]

How can central city school districts, therefore, benefit from educational finance reform? This report will examine several possibilities. Chapter II will discuss the fiscal impact of several popular alternative school finance reforms, including traditional percentage equalization,[7] district power equalization,[8] and full state funding of education.[9] Chapter III will detail the factors which affect city school finances and which should be considered in any significant school finance reform that intends to aid urban school districts. Chapter IV identifies what states have done in response to urban fiscal needs. Chapter V is an analysis of a suggested school finance reform measure which can provide more broadgauged fiscal equity, particularly for urban schools. Finally, Chapter VI will suggest general policies that large city and other fiscally disadvantaged school districts might follow to make the most of future reform opportunities.

* Throughout this paper the word "urban" shall generally mean "large central cities".

popular school finance reforms and their fiscal consequences for large cities

The three most widely discussed school finance reform concepts today are district power equalization, full state funding of education and percentage equalization. District power equalization programs have been adopted in Colorado, Kansas and Michigan. Full state funding is practiced in Hawaii. Percentage equalization, the older of the reform concepts, occurs in Iowa, Massachusetts, New York, Pennsylvania, Rhode Island and Vermont.[10]

All three finance reforms aim at some form of fiscal equalization. District power equalization is primarily concerned with school tax effort equity, seeing to it that districts having the same tax rate will raise equal levels of expenditure. Full state funding promotes expenditure equalization by removing the influence of differential local tax bases on education funding. Percentage equalization takes into account relative fiscal capacity and disburses state aid to districts inversely to their per pupil property wealth.

Questions naturally arise as to how the *basic character* of these finance concepts will actually affect large city school finances. In order to assess the fiscal consequences of these reforms, data on pupil enrollments, property values, and school tax rates were compiled for 34 large cities and their respective states. These data were then used in a series of finance formulae that measured the expenditure and local property tax effects of each of these basic reforms.[11] These data as they appear in Tables 1 to 3 are:

1 the 1971-72 state-local revenue per pupil in the district; *

2 the state-local revenue per pupil in the district that would result if existing 1971-72 levels of state aid are maintained, if all state aid received under the reform had been devoted to education rather than to property tax relief and if local school tax rates remained at prereform levels; **

3 the same as (2) above except that a 25 percent increase in state aid is postulated;[12]

4 the present full value school tax rate of the district;

5 the full value school property tax rate of the district needed to maintain the pre-reform level of expenditure noted in (1), assuming that 1971-72 levels of state aid are in force as in (2) above; and

6 the full-value school property tax rate of the district needed to maintain the pre-reform level of expenditure noted in (1), assuming a 25 percent increase in state aid as noted in (3) above and also assuming that this 25 percent additional aid will be financed from a statewide property tax.

In simple terms, then, such data will estimate (a) the expenditure gain or loss for the district assuming pre-reform local school tax effort remains constant and (b) the school tax effort gain or loss assuming that pre-reform local school expenditures remain constant. Assuming existing 1971-72 levels of state aid, on the one hand, and a 25 percent increase, on the other, will show the realistic range of possibilities under the basic reform concepts, since only one state increased state aid beyond 25 percent annually in recent reform measures.

The Fiscal Effects of the Three Reforms. ALL THREE POPULAR REFORMS IN THEIR PUREST FORM PROVIDE LITTLE OR NO EXPENDITURE GAIN OR TAX RELIEF FOR THE 34 SURVEYED CITIES. District power equalization lowers expenditures or raises tax rates. Full state funding raises tax rates and leaves expenditures virtually unchanged. Percentage equalization barely changes expenditures or tax rates.[13]

District Power Equalization. This reform basically promises equal school expenditures for equal school tax effort. In simple form it postulates a schedule of local tax rates and guaranteed expenditures. Districts making equivalent tax effort can be assured of having equal school expenditures. At any given tax rate, of course, districts with more wealth will receive less state aid since they can raise more money with their local tax effort. And at any given level of wealth, the district having the higher school tax effort will be assured of higher expenditures.

How would this fiscal reform affect our large cities? Table 1 indicates that this supposed reform

* Includes categorical as well as general state aid.

** The aggregate amount of state aid to be distributed is just that estimated as actual 1971-72 state aid by National Education Association Research Division in its *Estimates of School Finance Statistics, 1971-72*. This includes general and categorical aid. It is assumed that categorical funds would be thrown into the general aid pot for distribution under the reform plans.

table 1

Tax and Expenditure Effects of District Power Equalizing State Aid Formula 34 Large Cities, 1971-72

	1971-72 State & Local Revenues Per Pupil	Simulated State and Local Revenues Per Pupil	1971-72 Local School Tax Rates*	Simulated Local School Tax Rates
NORTHEAST				
	$ 896		$11.66	
	918		29.24	
	1088		37.67	
	1067		14.39	
	1444		16.41	
	1277		17.07	
	981		14.60	
MIDWEST				
	1024		13.00	
	778		16.06	
	803		10.38	
	1085		17.84	
	549		6.04	
	698		11.07	
	908		10.38	
	744		10.86	
	691		14.30	
	965		10.83	
	962		17.66	
SOUTH				
	814		10.82	
	637		11.45	
	856		12.30	
	582		8.10	
	621		3.25	
	679		9.23	
	685		9.01	
	592		8.50	
WEST				
	1078		12.66	
	955		10.15	
	838		10.91	
	813		10.86	
	1388		10.23	
	1014		12.80	
	1143		16.89	
	852		13.80	
Average	$ 845		$12.51	

* Per $1000 of equalized property values

Table Sources: Derived from National Education Association (NEA) Research Division, *Estimates of School Finances Statistics, 1970-71, 1971-72;* NEA Research Division, *Local School System Budget Reports, 1970-71, 1971-72;* published State Department of Education financial reports; *Moody's Municipal and Government Manual;* U.S. Bureau of the Census, *Property Values and Assessment Price Ratios,* 1972 Census of Governments, Vol. 2, Pt. 1.

would either reduce city expenditures or raise city school taxes.

If the cities under study wished to maintain their pre-reform school tax rates, they could only have been assured an average expenditure of $739 per pupil, a nearly 13 percent reduction in expenditures. If, on the other hand, they wished to maintain pre-reform levels of expenditures, their school tax rates would have had to increase by $2.43 per $1000 full property value or over 19 percent.

Additional state aid in this reform also is of no comfort to cities. Even with 25 percent additional aid, cities would still have had to reduce expenditures by $22 per pupil if they did not wish to raise school tax rates. At the same time, they would have had to raise their school tax rates by 29.8 percent to maintain existing levels of expenditures, again a considerable rise in taxes occurring as a result of the statewide property tax necessary to raise the 25 percent additional state aid. In short, district power equalization offers no fiscal advantage whatsoever to most large cities.*

Full State Funding. This popular reform aims at eliminating the influence of local wealth on education spending. It promotes uniform statewide expenditures through uniform state taxes for education. In effect, then, it completely equalizes local wealth and school tax effort by making all expenditures a direct function of state wealth and state tax effort.

This reform, as with the other two, appears of dubious value to most large cities, at least if it is implemented by a statewide property tax.

Without any additional state aid, cities' expenditures would drop by an average of $4 per pupil, while effective school taxes would increase by $2.27 per $1000 full value of property due to a statewide property tax to raise the amount of hitherto locally financed local school expenditures. (See Table 2)** This tax effect, of course, indicates the adverse consequences of a statewide property tax on city finances since cities' per pupil property values are frequently well above state average. (See Appendix, Table A-1)

With 25 percent additional state aid, financed from an additional statewide property tax, city expenditures would increase by an average of $84 per pupil while effective school tax rates would increase by $5.13 per $1000 full value of property. In short, cities' per pupil expenditures would increase by 9.9 percent while their effective tax rates would increase by 41.1 percent. Again, this hardly constitutes fiscal equalization for large cities.

Percentage Equalization. This more conventional reform in its pure state basically distributes aid inversely to school district per pupil property values. As used in the six states having this general finance program, the aid guaranteed to the district is a product of (1) its present expenditures up to a certain limit, (2) the guaranteed state share of local school expenditures in the average wealth district, and (3) the ratio of local district to statewide per pupil property values. In practice this reform generally commits the state to assume a large proportion of school expenditures in low-wealth districts.

Table 3 notes that if this reform were in practice for the 34 cities under survey, their local school tax efforts and school expenditures would remain virtually unchanged, assuming no new state aid to be distributed. If aggregate state aid were increased by 25 percent, average district expenditures would increase by $95 per pupil or 11.8 percent. On the other hand, if all school districts were to take this additional aid and use it for local property tax relief and still maintain pre-reform expenditures, their effective school tax rates would increase by $1.57 per $1000 of full (market) value property or 12.5%. The increase in tax rates, of course, occurs due to the effect of the statewide property tax rate required to raise the additional 25 percent of aggregate state aid.

In sum, percentage equalization would leave most cities not much better off than they now are under present aid systems.*

Summary. The previous data suggest that none of the more widely discussed reform concepts, in their simplest terms, would have a favorable fiscal effect on large cities. Both percentage equalization

* Notable exceptions to this trend are Newark, Columbus (O.), St. Petersburg (Fla.) and Louisville which would gain significantly, while New York City, Philadelphia, Chicago and most cities in the South and West would be major losers.

** Notable exceptions to this trend are Newark, Columbus (O.), and St. Petersburg (Fla.) which would gain significantly, while the largest Western cities would be losers, by and large.

* Notable exceptions to this trend are Baltimore, Newark, Columbus (O.), Milwaukee and Long Beach (Calif.) which would gain significantly, while the larger Southern cities would lose significantly, partly due to the fact that they encompass more of their suburbs than Northern central city districts.

table 2

Tax and Expenditure Effects of Full State Funding of School Finances 34 Large Cities, 1971-72

	1971-72 State & Local Revenues Per Pupil	Simulated State and Local Revenues Per Pupil	1971-72 Local School Tax Rates*	Simulated Local School Tax Rates*
NORTHEAST				
	$ 896		$11.66	
	918		29.24	
	1088		37.67	
	1067		14.39	
	1444		16.41	
	1277		17.07	
	981		14.60	
MIDWEST				
	1024		13.00	
	778		16.06	
	803		10.38	
	1085		17.84	
	549		6.04	
	698		11.07	
	908		10.38	
	744		10.86	
	691		14.30	
	965		10.83	
	962		17.66	
SOUTH				
	814		10.82	
	637		11.45	
	856		12.30	
	582		6.10	
	621		3.25	
	679		9.23	
	685		9.01	
	592		8.50	
WEST				
	1078		12.66	
	955		10.15	
	838		10.91	
	813		10.86	
	1388		10.23	
	1014		12.80	
	1143		18.89	
	852		13.80	
Average	$ 845		$12.51	

* Per $1000 of equalized property values

Table Sources: Same as Table 1.

table 3

Tax and Expenditure Effects of Traditional Percentage Equalization State Aid Formula 34 Large Cities, 1971-72

	Simulated State and Local Revenues Per Pupil		Simulated Local School Tax Rates	
	1971-72 State & Local Revenues Per Pupil		1971-72 Local School Tax Rates*	
NORTHEAST				
	$ 898		$11.66	
	918		29.24	
	1088		37.67	
	1067		14.39	
	1444		16.41	
	1277		17.07	
	981		14.60	
MIDWEST				
	1024		13.00	
	778		16.06	
	803		10.38	
	1085		17.84	
	549		6.04	
	698		11.07	
	908		10.38	
	744		10.86	
	691		14.30	
	965		10.83	
	962		17.66	
SOUTH				
	814		10.82	
	637		11.45	
	856		12.30	
	582		8.10	
	621		3.25	
	679		9.23	
	685		9.01	
	592		8.50	
WEST				
	1078		12.66	
	955		10.15	
	838		10.91	
	813		10.86	
	1388		10.23	
	1014		12.80	
	1143		16.89	
	852		13.80	
Average	$ 845		$12.51	

*Per $1000 of equalized property values

Source: Same as Table 1.

and full state funding would not raise expenditures, yet they would substantially increase city tax rates. District power equalization would force cities to raise taxes to maintain present levels of expenditures or to drastically cut back expenditures in order to maintain present school tax rates. In short, none of these popular reform concepts has any element of fiscal redistribution generally favoring most large cities.

Why should this be so? None of these reforms in and of themselves will help cities unless they are substantially modified to cope with the multifaceted problems affecting urban school finance. All these reforms in their simplest terms take little note of the expenditure requirements for urban schools, their true wealth, or the total (school and non-school) tax effort of these same areas. Since cities are wealthier in terms of per pupil property values, they are regarded as "rich" districts. Since their school tax effort is lower than state average, they appear to be low effort units. Since their expenditures often, but not always, are similar to statewide average, they appear to have normal patterns of educational needs and costs. These assumptions, as Chapter III will attempt to show, are erroneous, and any reform based on them will surely not help urban schools. Only a reform which is based on other more comprehensive assumptions will actually aid large city school finances.

cities and school finance equity: the pertinent factors

Most states distribute aid to local school districts on the basis of several criteria: fiscal capacity, tax effort, educational cost and need, to name perhaps the most important. Each of these criteria, however, tends to be used in ways that hinder urban school districts from resolving their educational and fiscal problems.

Fiscal Capacity. Among states which distribute educational aid on the basis of school district wealth, it is conventional practice to define such fiscal capacity in terms of per pupil property values and to provide more aid to "poor" rather than to "rich" districts. However, most large city school districts have per pupil property values well above respective state averages. (See Appendix, Table A-1) Hence, they would receive less aid than their suburban or rural counterparts.*

Defining fiscal capacity in terms of equalized per pupil property values, however, significantly overstates the wealth of most major city school districts. Per pupil property values in 34 of the largest American cities are 26 percent greater than state average; however, cities' per capita incomes are only 5 percent greater! (See Appendix, Table A-2) Indeed, even a per capita income measure may not realistically reflect the wealth of urban school districts since cities have a greater concentration of poor families and a lower concentration of affluent ones than most other school districts. Thus, the proportion of poverty families in 36 of the nation's largest central city areas was 10 percent greater than respective state averages; the proportion of affluent families was 7 percent less.** (See Appendix, Table A-3)

The traditional method of defining educational fiscal capacity, then, is doubly damning for large city school districts. First, they receive less aid than they

* The Northeast is somewhat the exception to this general rule, as 4 of the 7 major cities cited in Table A-1 have significantly lesser per pupil property values than their respective state averages.

**The South is the exception to these general observations.

would if fiscal capacity were defined in terms of per capita income, the conventional procedure in almost all other wealth-based state and federal aid programs.[14] Then, they are forced to raise revenues from citizens whose ability to pay is significantly lower than those of most other school districts, especially suburbs.

Tax Effort. Most large city school districts appear to be "low-tax" jurisdictions in terms of their local school tax effort. Again, this picture is an incomplete one which does not reflect the overall fiscal burdens facing big-city schools.

Put quite simply, cities have extraordinary demands and needs for noneducational services. The nation's 44 largest cities have per capita police expenditures 53 percent higher than respective state averages, fire protection expenditures 91 percent higher, and refuse disposal expenditures that are 87 percent greater. Similarly, where they have responsibility for the function, health and hospital costs are 70 percent higher and sewage disposal costs are 66 percent greater.[15] (See Appendix, Table A-4)

The higher cost of these services reflects itself in the much lower proportion of local budgets that cities can allocate to education. Thus, central cities in the nation's 36 largest metropolitan areas allocate 33 percent of their budget for education while all local governments in their respective states devote 46 percent of their direct general expenditures for education. (See Appendix, Table A-5) Many other studies document that it is not uncommon for most suburban areas to devote 55-60 percent of their local budgets to educational programs.[16] If cities maintained their total local tax effort, yet devoted the same share of their total expenditures to education as other areas, they would considerably outspend suburban and rural districts.

The burdensome effect of this municipal overburden is especially noticeable when one considers the level of effective major city total tax rates.[17] For example, 29 of 36 central city areas surveyed had effective total local tax rates that were above state average. (Seventeen of the 29 had rates that were 20 percent or more above state average, while several had rates that were 70 percent or more above. See Appendix, Table A-6) These excessively high tax rates often make it virtually impossible for cities to further raise taxes for education or any other pressing service need. Indeed, by further raising taxes, central cities are promoting the continued flight of middle and upper income families and taxable property values from city areas.[18] That loss of tax base, in turn, creates further fiscal pressure on the remaining city tax base.

Can cities effectively alleviate these fiscal burdens? The answer has to be no. While cities now follow several types of policy aimed at relieving these pressures, most eventually prove counterproductive. Many cities attempt to cope with the overburden problem by overassessing higher-priced property. (See Appendix, Table A-7) This practice, of course, increases the tax burdens on these properties and creates pressure for their location elsewhere.

Similarly, many cities have adopted taxes that tap the incomes of non-city residents. Thus, 12 of the 47 largest cities have adopted municipal income taxes and 21 of these same cities utilize local sales taxes. Yet, as the economic dominance of most large cities wanes, the usefulness of these taxes will subside.[19] Indeed, the phenomenal growth of suburban, compared to city, sales and employment already heralds the futility of adopting these local revenue instruments to ease city fiscal burdens.

Cities also have to contend with other forces that hinder their attempts to lighten local tax burdens. Frequently, for example, overlapping counties and areawide special districts have control over taxing and spending policies that affect central city areas. (See Appendix, Table A-8) Finally, the presence of large amounts of tax-exempt property in large cities also exacerbates their tax burden problems.[20]

Given these problems in reducing city tax burdens, urban areas have increasingly turned to higher levels of government for assistance. Indeed, cities are receiving considerably higher levels of per capita state and Federal assistance since 1957.[21] At the same time, however, cities' expenditures have increased so rapidly that state and Federal aid still comprise only about 30 percent of their outlays. Since state and Federal aid is still a minor part of many noneducational functions, cities will continue to be responsible for services that have to be largely, if not entirely, financed from a local tax base.[22]

In sum, cities spend a lower proportion of their budgets on education than do other areas. At the same time, cities have extremely high total tax rates. The policies that they undertake to offset these burdens are frequently counterproductive, while external aid from higher levels of government has not been

sufficient to free up more local money for education.

Educational Need. Cities are the homes of those pupils who are very expensive to educate. Indeed, the disproportionate numbers of high cost pupils in large urban school districts has been regarded by many as the chief problem affecting central city school finance.[23]

The concentration of high cost pupils in cities is staggering. Available data indicate that over 4 percent of all school children in 16 major cities are either mentally or physically handicapped or have special learning disorders. Additionally, students in vocational-technical categories make up about 7 percent of basic enrollment. Further, compensatory education or Title I eligible students comprise over 30 percent. In total, all categories of these high-need pupils comprised about 42 percent of total enrollment in these cities in 1971-72. (See Appendix, Table A-9)

Not only do these costly students make up a considerable proportion of central city enrollments, but also they are more heavily concentrated in city areas than in other parts of the state. City concentrations of Title I eligible pupils frequently exceed state averages by more than two to one. (See Appendix, Table A-10) While data on concentrations of other types of pupils are not immediately available, other research points also to their overconcentration in cities.[24]

Effective education of these high-need students would require considerable fiscal resources. The magnitude of the fiscal burden imposed by these pupils is enormous. School expenditures in 15 surveyed cities, for example, would have to increase by an average of 46 percent or teacher employment by 44 percent if pupils were to have the fiscal or teaching resources recommended according to standards developed by the recent National Education Finance Project.[25] (See Appendix, Table A-11)

This education overburden might be recognized by school finance formulae which adjust a district's fiscal capacity to reflect its concentration of high need pupils. Urban districts would stand to gain considerably by such formulae, since their adjusted fiscal capacities would be much lower than now is the case. Thus, the use of NEFP pupil weightings in calculating fiscal capacity would reduce the relative property wealth per pupil unit of major city school districts. (See Appendix, Table A-12)

In short, high-cost pupils are overly concentrated in large city school districts. They pose an educational and fiscal burden on urban schools. Without recognition of this fact, central city fiscal requirements will be understated and city fiscal capacity to meet these requirements overstated. Clearly adjustments for these differences in educational need are in order.

Educational Costs. Finally, city school districts also are areas where even ordinary education costs more. In brief, the extra cost of daily urban education stems from the higher levels of non-instructional services required in many city school operations, the higher price of capital facilities, and the higher pay scales and greater concentrations of better educated and more experienced teaching personnel.

Data provided by the U.S. Office of Education indicate that large central city school districts, those with enrollments of 75,000 and above, exceed all others in all but two cost categories: administration and transportation. This cost gap is even notable when large central city school districts are compared to suburban ones. It runs to over 25 percent higher in the fixed charges category.[26] (See Appendix, Table A-13)

Cities also pay higher prices for many of their educational services. Capital costs in particular are more expensive in cities due to higher site acquisition and building construction costs. Indeed, the high prices of these services in very large cities may be one factor in retarding overall central city capital facility programs.[27] In the same vein, comparative data on teacher salary schedules indicate that cities have higher pay schedules than suburban or rural districts. The largest urban school districts have minimum salary schedules that are from 3-6 percent higher and maximum salary schedules that are from 4-13 percent higher than the average of over 1,100 other surveyed districts. (See Appendix, Table A-14) Cities, then, pay a higher price for personnel with the same educational qualifications.[28]

Additionally, cities employ more high-priced teaching personnel than other areas. For 31 urban school districts for which there are data, average classroom teacher salaries are about 7 percent greater than state average.* The proportion of highly paid teachers, those earning more than $13,000 a

* The Northeast is the exception, as 5 of 8 cities noted in Table A-15 have lower average classroom teacher salaries than their respective state averages.

year, however, is 168 percent above state average. (See Appendix, Table A-15) Thus, cities must pay more for teachers of similar skills and for their greater concentrations of more experienced personnel.

Some contend that higher priced urban teaching staffs represent premium educational resources and that more money would be available for other educational purposes if less expensive teachers were employed. They also contend that teachers unions have driven salaries up to unreasonable levels. These are important points, since salaries account for 80 percent or so of total operating budgets. However, according to Dr. Norman Drachler, former Superintendent of Detroit Public Schools, "this argument ignores the facts of urban life over which large-city school systems have little control . . . many cities expanded after each . . . War, and school enrollments soared. The many young teachers brought into the system then are today at their maximum salary level. With experience their salaries rose, and these teachers had fewer options to transfer elsewhere . . . transfer (could mean) loss of accumulated pensions." [29]

These extra educational costs, then, are another dimension of the fiscal burdens of urban schools. Put simply, the city purchasing dollar cannot go as far as in other places. Consequently, cities face a cost squeeze exactly at the time when more resources are needed to meet their educational needs. These cost differentials can be most onerous in a metropolitan context where there is considerable fiscal competition between city and suburban districts.

IV state response to urban problems: present actions and proposed reforms

As the previous data suggest, cities have not and cannot be expected to compete on an equal basis in conventionally designed systems of school finance. Accordingly, cities must closely scrutinize present educational finance systems for their fiscal impact on urban school finances.

Present state education aid systems now display a considerable anti-urban bias. They measure fiscal capacity in a manner that disadvantages large city schools. They do not account for the extraordinary tax burdens placed on total city finances. They take only minimal account of the higher educational needs and costs of large urban school districts.

Very few state educational finance systems have provisions designed to meet the special fiscal problems of urban districts. In defining fiscal capacity, only one state has moved away from the conventional practice of utilizing property wealth per pupil as a measure. Rhode Island has adopted a measure of district fiscal capacity which incorporates family income as well as property wealth.[30]

State finance programs also generally do not recognize the extraordinary tax effort of central city districts. Only five states—Maryland, New York, Pennsylvania, Michigan and Ohio—make allowance for extraordinary noneducational fiscal burden in cities. And while 12 states have density corrections which supply additional aid to urban districts, the aid provided under such programs has generally not been sufficient to alleviate big-city finance burdens.[31]

There is also little recognition of large city educational need problems in most aid formulae. Only 19 states have general or categorical aid programs for the purpose of compensatory education.[32]* Earmarked state aid for compensatory education programs in 11 primarily urban states comprised only

* Most urban states are included in this list. Delaware, Indiana, Maryland, Massachusetts, Texas and Virginia are not.

.7 percent of total state education aid in those states in 1971-72. This minimal aid, in turn, has meant that few urban centers have received even 5 percent of their state aid entitlement for purposes of educating the disadvantaged. (See Appendix, Table A-16) Other states use a pupil weighting approach for compensatory students; this weighting channels more basic aid into high need districts. However, many states have weightings for other types of students which are considerably higher than the weightings for disadvantaged (AFDC) pupils. (See Appendix, Table A-17) In short, urban educational needs have not been especially prominent in state fiscal equalization programs.

Finally, only one state—Florida—now authorizes cost-of-living differentials in its aid system that would channel additional assistance into urban areas. However, several state finance programs provide for greater state reimbursement of better educated and more experienced teachers, which indirectly benefits city schools because of their higher proportions of these teachers. These formulae have been most popular in the South, however, rather than in the Northeast and Midwest, where cities face the severest financial crises.[33]

Since most states have a lackluster record in meeting the educational finance problems of urban school districts, some have looked expectantly to new school finance programs as the vehicle for meeting urban needs. But analysis of these plans has indicated that cities would not generally be well treated in these reform proposals. (See Appendix, Table A-18)[34]

No simple solutions are in order since cities have a multiplicity of problems affecting their school finances. Rather a concentrated attack on all urban fiscal ills—cities' decreasing fiscal capacity, their increasing tax burden and their extraordinary educational needs and costs—will be necessary if they are to be treated fairly in any future programs for educational finance reform.

a suggested reform

How, then, might urban school districts be aided by school finance reform? As in Chapter II of this report, a tax and expenditure simulation will analyze the effect of a school finance plan designed specifically to meet the multiple fiscal problems encountered by urban school districts.

In this suggested reform, a district's relative need, cost, tax effort, and fiscal capacity are considered. Relative need is measured by the proportion of district families in poverty as compared to the proportion of state families in poverty. Cost ratios are computed as the index of the district's average classroom teacher salary to that of the state. Tax effort ratios are based on the relationship of district total taxes as a percent of income and then compared with the same state data. Finally, fiscal capacity ratios are derived from the comparison of district per capita income with state per capita income.* The composite of these ratios expressed as a single index,[35] describes the relative overall fiscal position of the district with regard to selected need, cost, wealth, and tax effort factors.**

State aid is then directly apportioned on this illustrative index. The higher the index, the greater the state aid. The index, then, represents the "deservedness" of the district and is not tied to district per pupil property values, school tax rates, or even current levels of expenditures, all factors in the currently popular reforms. The fiscal consequences of this urban aid reform can be compared with those of other reforms noted in Tables 1 to 3.

Table 4 shows the expenditure and tax effort effects of this reform plan. Quite unlike other reforms, this one would definitely provide more broad gauged fiscal equity, particularly for urban schools.

* All these aforementioned measures are suggestive only; other measures dealing with the same basic fiscal characteristics merit consideration if available.

** These factors are equally weighted in the composite index; again this weighting is used for illustrative purposes only.

table 4

Tax and Expenditure Effects of Illustrative State Aid Formula Which Specifically Meets the Fiscal Problems Encountered by Urban Districts

	1971-72 State & Local Revenues Per Pupil	Simulated State and Local Revenues Per Pupil	1971-72 Local School Tax Rates*	Simulated Local School Tax Rates*
NORTHEAST				
	$ 896		$11.66	
	918		29.24	
	1088		37.67	
	1067		14.39	
	1444		16.41	
	1277		17.07	
	981		14.60	
MIDWEST				
	1024		13.00	
	778		16.06	
	803		10.38	
	1085		17.84	
	549		6.04	
	698		11.07	
	908		10.38	
	744		10.86	
	691		14.30	
	965		10.83	
	962		17.66	
SOUTH				
	814		10.82	
	637		11.45	
	856		12.30	
	582		8.10	
	621		3.25	
	679		9.23	
	685		9.01	
	592		8.50	
WEST				
	1078		12.66	
	955		10.15	
	838		10.91	
	813		10.86	
	1388		10.23	
	1014		12.80	
	1143		16.89	
	852		13.80	
Average	$ 845		$12.51	

*Per $1000 of equalized property values

Table Sources: Same as Table 1.

Put into effect with no additional aggregate state aid, this reform would enable cities either to raise their expenditures by $100 per pupil or to reduce their tax rates by $2.27 per $1000 full value of property. With a 25 percent additional aggregate state aid, expenditures would be increased by an average of nearly $200 per pupil and school tax effort could still be reduced, even with the requirement for a statewide property tax to raise the additional state aid. In short, this reform, which begins to recognize the full fiscal disadvantage of urban districts, significantly increases aid to cities but does not markedly raise urban tax liabilities.

Summary. Previous data indicate that cities are, indeed, in a severe fiscal crisis. Their educational needs and costs are extraordinary. They are increasingly jurisdictions of declining or only average wealth. Their total tax effort is far more burdensome than most other jurisdictions. All these factors should be considered in any school finance reform so that urban districts can increase their educational expenditures, ease the strain on their tax base, or do both. Data presented here also indicate that if an aid reform is structured along these lines it will actually help alleviate urban fiscal problems. This is in sharp contrast to other more current reform schemes which offer the promise of fiscal equity but which would, in their pure forms, adversely affect city school finances. In short, the reality of school finance reform for cities lies in the fashioning of equalization programs which consider the full-scale need, cost, tax effort, and wealth of urban areas, not in reforms which are more narrowly based.

conclusion: general policies for school finance reform which would benefit urban education

The conceptual and empirical dilemmas of school finance reform indicate that the concept of fiscal equalization must be redefined to give large city school districts the resources that they need in the post-*Serrano* era. Yet, how is this to be done?

A good place to begin appears to be in the realm of classification. We need to know which school districts are really poor, which ones are carrying too large a fiscal burden, which ones have extraordinary concentrations of educational need, and which ones are paying high prices for their educational services. With such information, educational resources could be directed to the most deserving districts. A set of rules might be developed as follows:

1 wealth, need, and effort being equal, high cost districts should receive more aid than low cost districts;

2 wealth, need, and cost being equal, high effort districts should receive more aid than low effort districts;

3 wealth, cost, and effort being equal, high need districts should receive more aid than low need districts;

4 cost, need, and effort being equal, low wealth districts should receive more aid than high wealth districts.

By using appropriate wealth, need, cost, and effort measures in a basic aid formula, money could be redistributed from districts with few fiscal needs to those with many. Accordingly, these policies recommend themselves to those concerned with large city school finance in the course of general school finance reform.

1. The basic character of state aid systems should be reformed in the post-*Serrano* period. The inequitable character

of present aid systems with regard to urban school districts should be eliminated.

2. School finance reformers should be aware of the cumulative and interrelated need, cost, wealth, and tax effort differentials that cities face when financing their school systems. These differentials make them deserving of additional *basic* state aid.

3. Basic school finance reform should encompass an appropriate pupil weighting system to reflect the educational needs of large cities.

4. School finance reforms should incorporate factors which reflect the real costs of urban education. Such cost corrections should reflect (a) the higher price a district must pay for a common educational service and (b) requirements for supportive educational inputs that are present in the district but not necessarily in other school districts throughout the state.

5. Prime consideration should be given to fashioning a fiscal capacity index in any basic school finance revision which includes consideration of personal income per capita. Property based capacity measures developed on a per pupil basis inevitably and incorrectly overstate the wealth of central cities.

6. Where data are not readily available to accurately determine pupil weightings, different costs of education, or personal income per capita, then states or the Federal Government should institute information collection mechanisms so that the data can be published on a regular basis.

7. Aid systems should account for urban total tax burdens. Cities, in particular, have higher total tax burdens than other types of school districts. They are not "free" to choose a level of tax effort that is adequate for their educational fiscal requirements. Basic aid formulas should be designed with this fact in mind.

8. Any school finance reform such as district power equalization, full state funding, or conventional percentage equalization should be adjusted in light of appropriate need, wealth, cost, or total tax effort factors.

9. Any school finance reform program should be financed from state and local revenue sources that do not exacerbate the fiscal burdens of low-income populations, particularly those residing in large cities. Additional money from broad gauged state sources will probably be needed.

10. In the opinion of the authors, a basic aid formula is probably best cast in a percentage equalization format with the development of a composite index which reflects the overall fiscal situation of the school district with respect to its wealth, need, cost and tax effort. With expanded state aid, development of an open-ended percentage equalization policy, and the use of this composite fiscal "deservedness" index, a state will be in a position to channel its external aid to those districts that are most in need of such resources, especially large cities.

footnotes

[1] *Serrano v. Priest*, 5 Cal. 3d 584, 487 P. 2d 1241, 96 Cal. Rptr. 601 (1971); *Robinson v. Cahill*, Supreme Court of New Jersey, A-58 September Term, 1972 (decided April 3, 1973); *Sweetwater County Planning Comm. v. Hinkle*, 491 P. 2d 1234 (Wyo. 1971).

[2] Urban school districts themselves share this hope. See their amicus brief in the *Rodriguez* case—Amicus Brief No. 71-1332 at pp. 31-32.

[3] Phyllis Meyers, "Second Thoughts on the *Serrano* case", *City* (Winter, 1971); Joel S. Berke and John J. Callahan, *"Serrano v. Priest:* Milestone or Millstone for School Finance", *Journal of Public Law* (Summer, 1972), 23-71.

[4] Betsy Levin and Thomas Muller, *The Financing of Schools in Minnesota* (Washington: The Urban Institute, 1973) p. 11; William Wilken, *Minnesota School Finance: The Need for Continued Reform* (unpublished manuscript for NEA Research Division, 1973) p. 36.

[5] Berke and Callahan, *op. cit.*, pp. 55-59.

[6] John J. Callahan and William T. Harris, "The Impact of School Finance Reform in Four States" (unpublished manuscript for the Lawyers' Committee for Civil Rights Under Law, 1972). This analysis of data was derived partially from that presented in National Legislators' Conference, *A Legislator's Guide to School Finance* (Denver: Education Commission of the States, 1972).

[7] Charles Benson, *The Economics of Public Education* (Boston: Houghton-Mifflin, 1968), Chapter 6.

[8] John E. Coons, William H. Clune, and Stephen D. Sugarman, *Private Wealth and Public Education* (Cambridge: Harvard University Press, 1970), Chapter VI.

[9] Advisory Commission on Intergovernmental Relations (ACIR), *Who Should Pay for Public Schools?* (Washington: Government Printing Office (GPO), 1971).

[10] U.S. Office of Education. *Public School Finance Programs, 1971-72* (Washington: GPO, 1973), p. 5.

[11] See Appendix for the derivation of these formulae.

[12] Analysis of school finance data put out by the National Education Association Research Division for the years 1970-72 indicates that a 25 percent annual increase in aggregate state aid was the greatest that occurred in any one state during that time.

[13] It should be noted that some observers have already noted the limitations of the pure forms of these formulae and suggested modifications along the lines suggested in this study. (See Footnote 34)

[14] ACIR, *Measuring the Fiscal Capacity and Effort of State and Local Areas* (Washington: GPO, 1971), pp. 32-37.

[15] Seymour Sacks, *City Schools/Suburban Schools: A History of Fiscal Conflict* (Syracuse: Syracuse University Press, 1972), pp. 42-44.

[16] Seymour Sacks and David C. Ranney, "Suburban Education: A Fiscal Analysis" *Urban Affairs Quarterly*, I (September 1966); John J. Callahan and William H. Wilken, *Education Finance Reform in Massachusetts: Meeting the Constitutional Demands of Serrano v. Priest* (Boston: Massachusetts Teachers' Association, 1973), p. 46.

[17] This has been a continuing problem for cities. ACIR, "Metropolitan Disparities—A Second Reading" (Washington: ACIR, 1970) Bulletin 70-1, Table XII; ACIR, *Fiscal Balance in the American Federal System—Volume II* (Washington: GPO, 1967), p. 80.

[18] Sacks, *op. cit.*, p. 74. See also The Commission on Population Growth and the American Future, *Governance and Population: The Governmental Implications of Population Change* (Washington: GPO, 1972), Volume V.

[19] Michael N. Danielson, "Differentiation, Segregation and Political Fragmentation in the American Metropolis" in The Commission on Population Growth and the American Future, *op. cit.*, pp. 152-53.

[20] See National Tax Association, "The Erosion of the Ad Valorem Real Estate Tax Base", Tax Policy XL, No. 1 (1973), p. 6.

[21] Seymour Sacks and John J. Callahan, "Central City—Suburban Fiscal Disparity" in ACIR, *City Financial Emergencies: The Intergovernmental Dimension* (Washington: GPO, 1973), Appendix B.

[22] The following are the proportions of local expenditures that are directly or indirectly supported by Federal and state aid: housing and urban renewal (80.4%), welfare (73.8%), *education* (46.1%), highways (44.5%), other and combined functions (20.9%), air transportation (11.6%), natural resources (9.2%), and health and hospitals (8.9%). See U.S. Bureau of the Census, *Governmental Finances in 1969-70* (Washington: GPO, 1971), Table #6.

[23] Wilson C. Riles, *The Urban Education Task Force Report* (New York: Praeger Publishing Company, 1971), Chapters 3 and 4; Senate Select Committee on Equal Educational Opportunity, *Inequality in School Finance* Part 16D-3 (Washington: GPO, 1971), pp. 8354-8412; Roe L. Johns et al. *Dimensions of Educational Need* (Gainesville: National Educational Finance Project, 1969).

[24] U.S. Senate Select Committee on Equal Educational Opportunity, *The Financial Aspects of Equality in Educational Opportunity and Inequities in School Finance* (Washington: GPO, 1972), p. 12; U.S. Senate Select Committee on Equal Educational Opportunity, *Goals and Alternatives for the Education of Minority Group Students in Elementary and Secondary Schools* (Washington: GPO, 1972), p. 18.

[25] Pupil Weightings suggested by the National Educational Finance Project, *Future Directions for School Financing* (Gainesville, 1971), pp. 28-29 were applied to enrollment data on appropriate categories of pupils in selected large cities. These additional weights indicated the increased expenditure or increased teacher requirements to adequately educate the pupils in question. Thus, a compensatory education student residing in a district spending an average of $600 per pupil for its "normal" pupil would receive $1200 ($600 x 2.0 pupil weighting) per pupil. Similarly, he would require a class size of 12.5 (25.0 ÷ 2.00) or one teacher per 12.5 pupils to be adequately educated in the district where normal class size was 25.00 pupils. These weights, then, translate into higher expenditures and teacher requirements for high-need pupils. These additional expenditure and teacher requirements, then, were aggregated for the cities noted in Table A-11.

[26] U.S. Office of Education, *Finances of Large City School Systems: A Comparative Analysis* (Washington: GPO, 1971).

[27] Betsy Levin et al. *The High Cost of Education in Cities* (Washington: The Urban Institute, 1973), pp. 33-52.

[28] Norman Drachler, "The Large City School System: It Costs More To Do the Same" in The Potomac Institute, *Equity for Cities in School Finance Reform* (Washington: The Potomac Institute, 1973), pp. 15-44.

[29] Ibid. pp. 26-27.

[30] U.S. Office of Education, *Public School Finance Programs, 1971-72* (Washington: GPO, 1973), p. 292 (re Rhode Island) and Education Commission of the States, *Major School Finance*

Changes in 1973 (Preliminary Paper), Denver, June 1973, p. 2 (re Kansas).

[31] See, for example, Arvid J. Burke "The Density Correction in the New York State School Aid Formula" in National Education Association, *Long Range Planning in School Finance* (Washington: NEA Committee on Educational Finance, 1963), pp. 135-37.

[32] Arizona, California, Colorado, Connecticut, Illinois, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Washington. U.S. Office of Education, *Public School Finance Programs, 1971-72, op. cit.* p. 4; plus Florida, Utah and Wisconsin, which enacted legislation in 1973.

[33] Sacks and Callahan, *op. cit.*

[34] Betsy Levin et al. *Paying for Public Schools: Issues of School Finance in California* (Washington: The Urban Institute, 1972), p. 42. Charles S. Benson et al. *Final Report to the Senate Select Committee on School District Finance* (Sacramento, 1972), p. 78. New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, *Final Report—Volume I* (Albany, 1972), pp. 2.21-2.22. Berke and Callahan, *op. cit.* Callahan and Harris, *op. cit.*

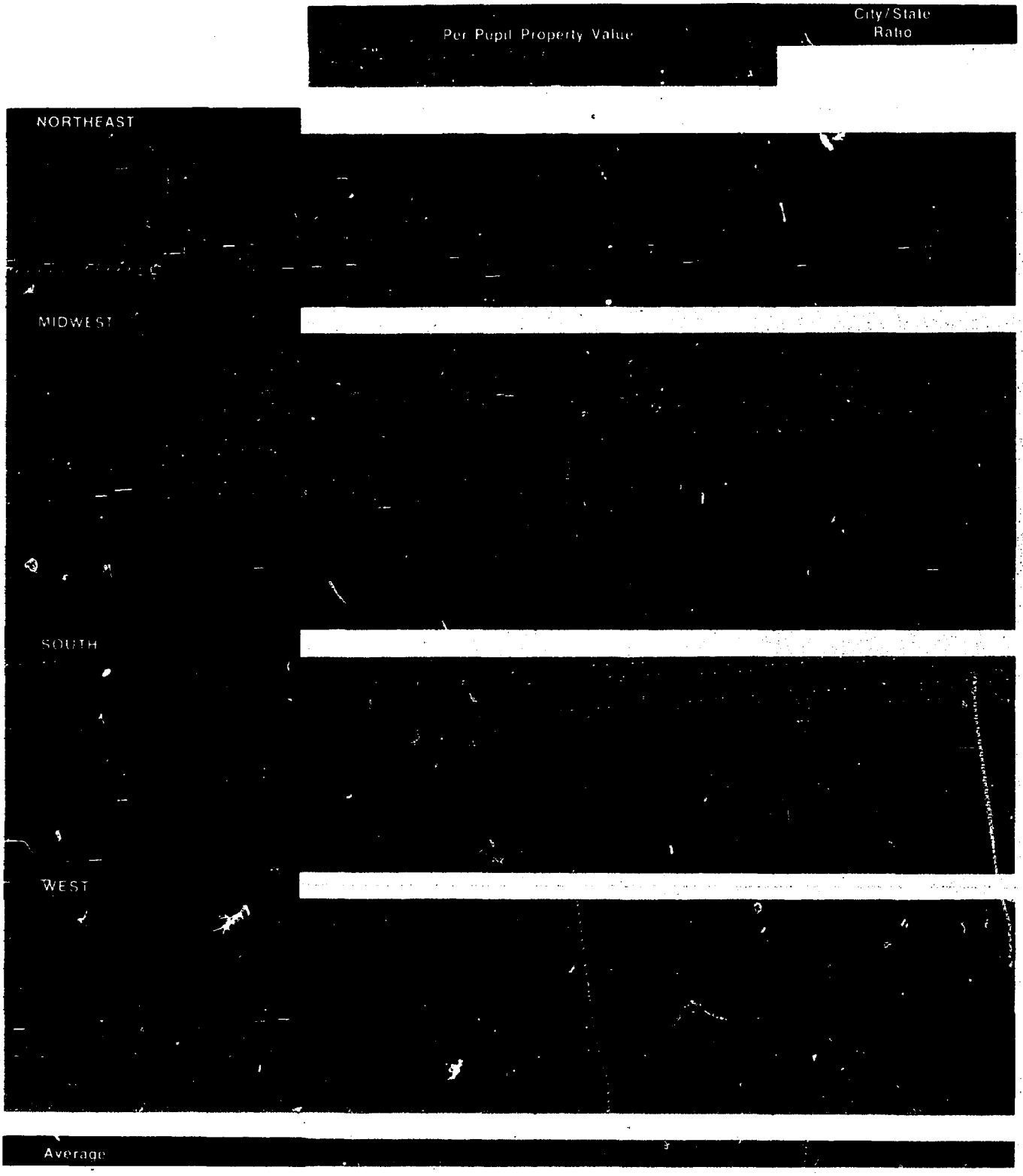
[35] The composite index is one which sums and averages the ratios of: (a) proportion of poor families in city/proportion of poor families in state, (b) city-local taxes as a percent of income/state-local taxes as a percent of income, (c) state per capita income/city per capita income, and (d) city average classroom teacher salary/state average classroom teacher salary. The composite index therefore has the effect of channeling aid directly in proportion to need (poverty), tax effort, and educational cost and inversely to wealth.

appendix

list of tables

table a-1

City-State Per Pupil Property Value Comparisons, 1971-72



[a] Areas where school districts have less than city wide boundaries.
[b] Area where school district has greater than city wide boundary.

Table Sources: Same as Table 1.

table a-2

City-State Ratios of Per Pupil Property Values and Per Capita Income, 1970, 1971

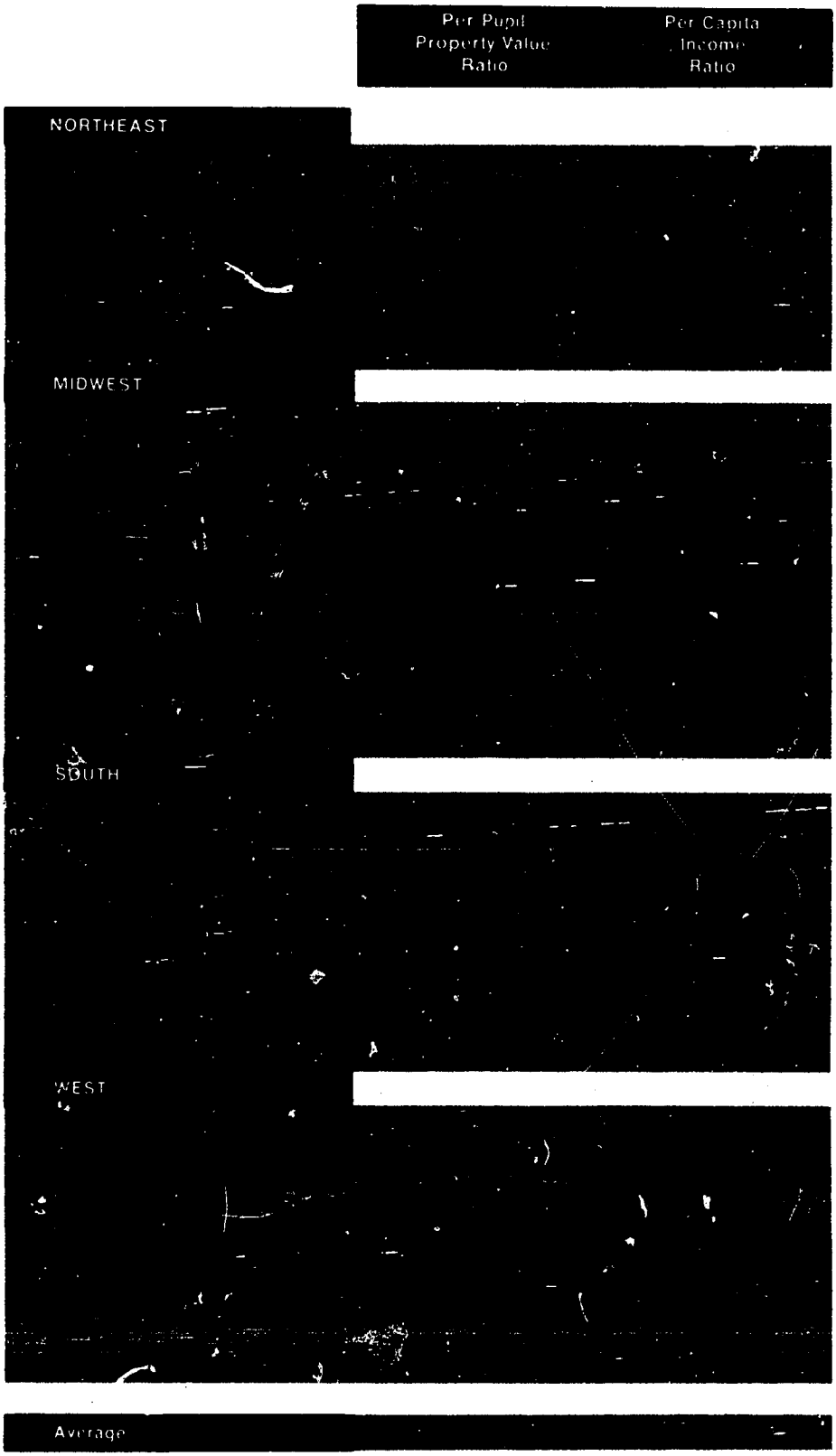


Table Source: Same as Table 1; U.S. Bureau of the Census, *General Social and Economic Characteristics*, PC(3)-C reports for United States and individual States.

table a-3

Family Income Distribution by City and State, 1969

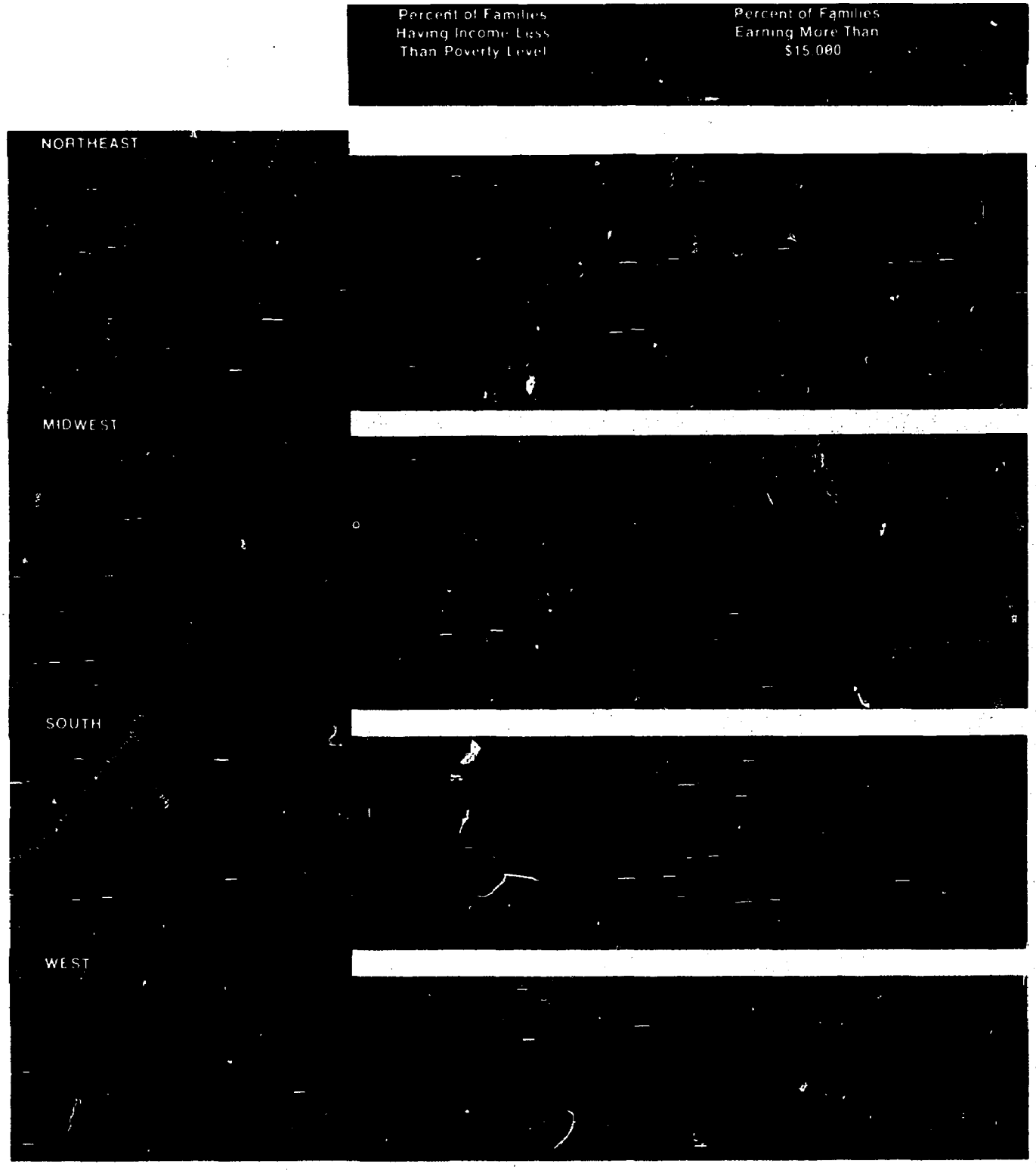


Table Source: U.S. Bureau of the Census, General Social and Economic Characteristics PC(1)-C, Tables # 141, 188.

table a-4

City-State Per Capita Non-Educational Expenditure Comparisons, 1969-70

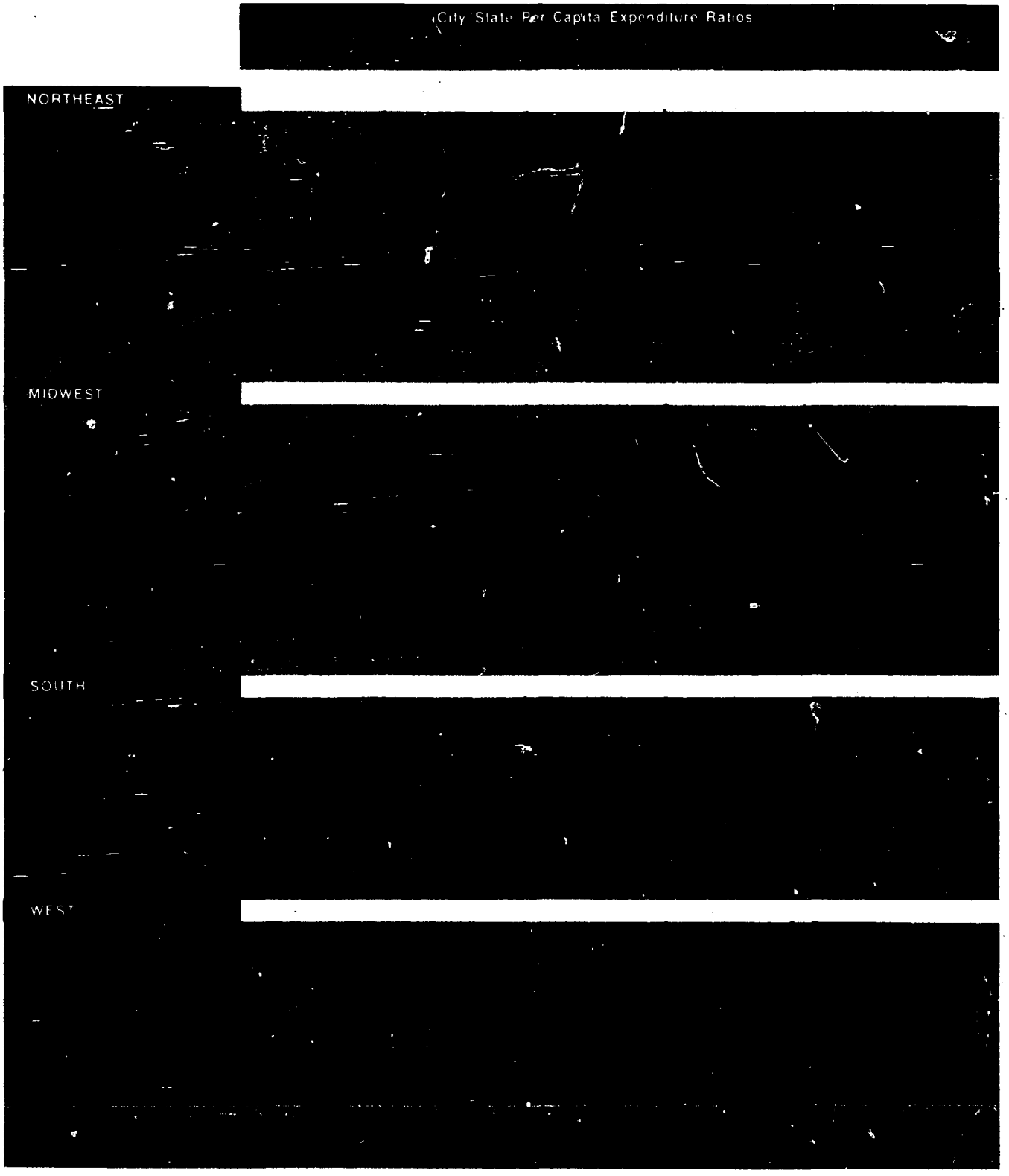


Table Source: U.S. Bureau of the Census, *City Finances 1969-70*, Table # 7; U.S. Bureau of the Census, *Government Finances, 1969-70*, Tables # 18, 26.

table a-5

City-State Comparison of Proportion of Expenditures Used for Education, 1969-70

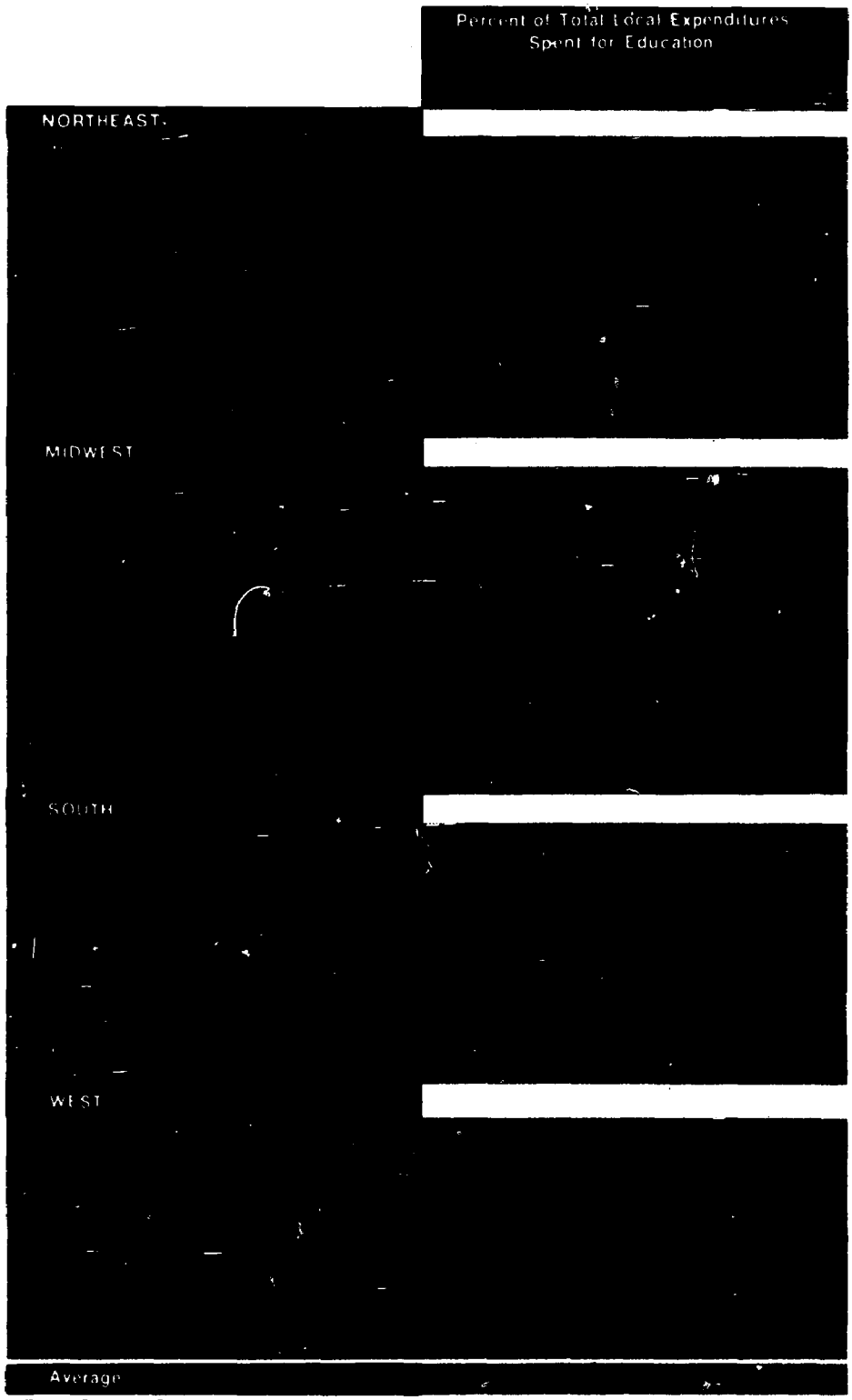
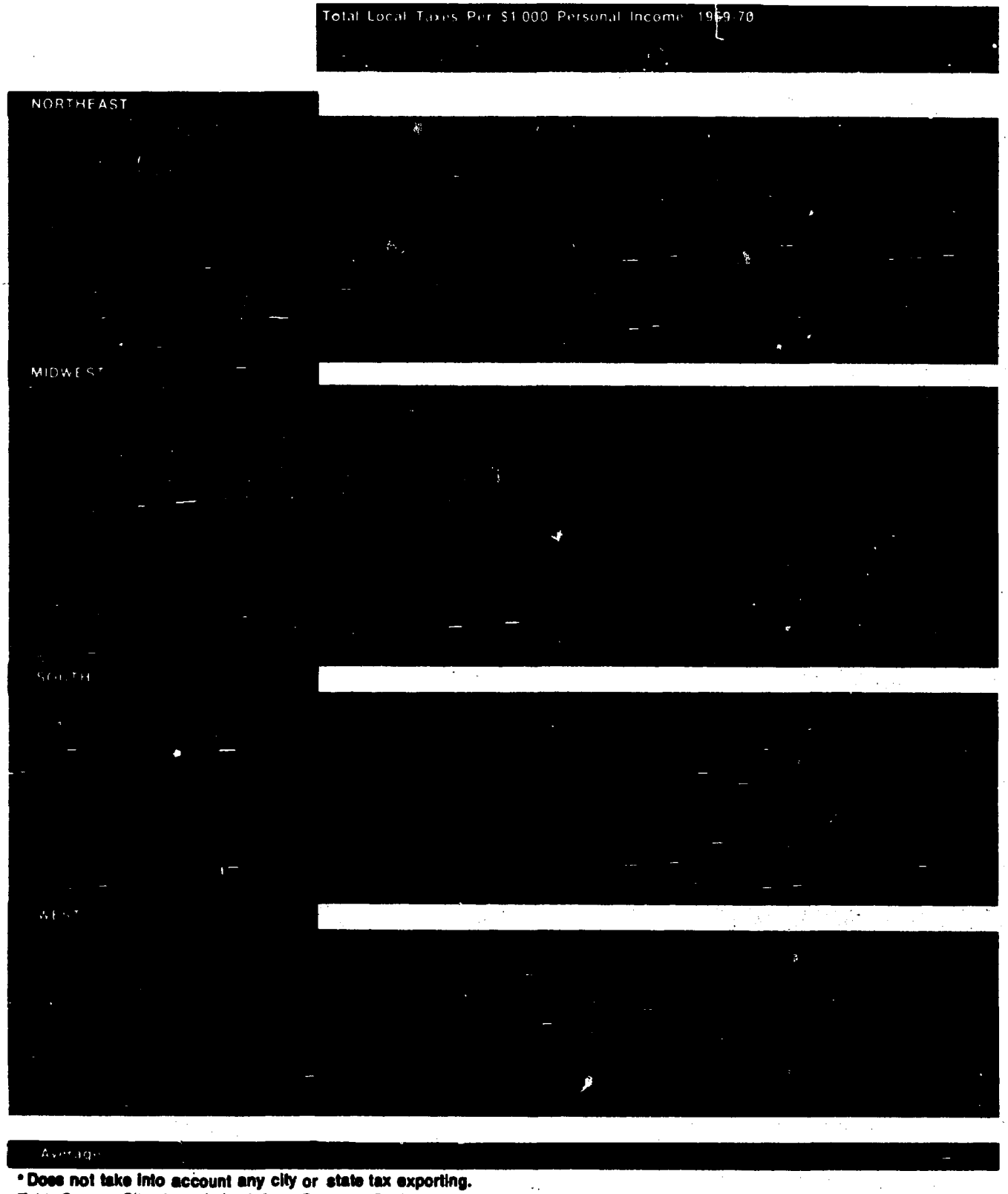


Table Source: City data derived from Seymour Sacks and John Callahan, "Central-City Suburban Fiscal Disparity" in Advisory Commission on Intergovernmental Relations, *City Financial Emergencies: The Intergovernmental Dimension* (Washington, 1973); U.S. Bureau of the Census, *Government Finances in 1969-70*, Table # 18.

table a-6

City-State Comparison of Total Local Tax Rates Per $1,000 Personal Income, 1969-70

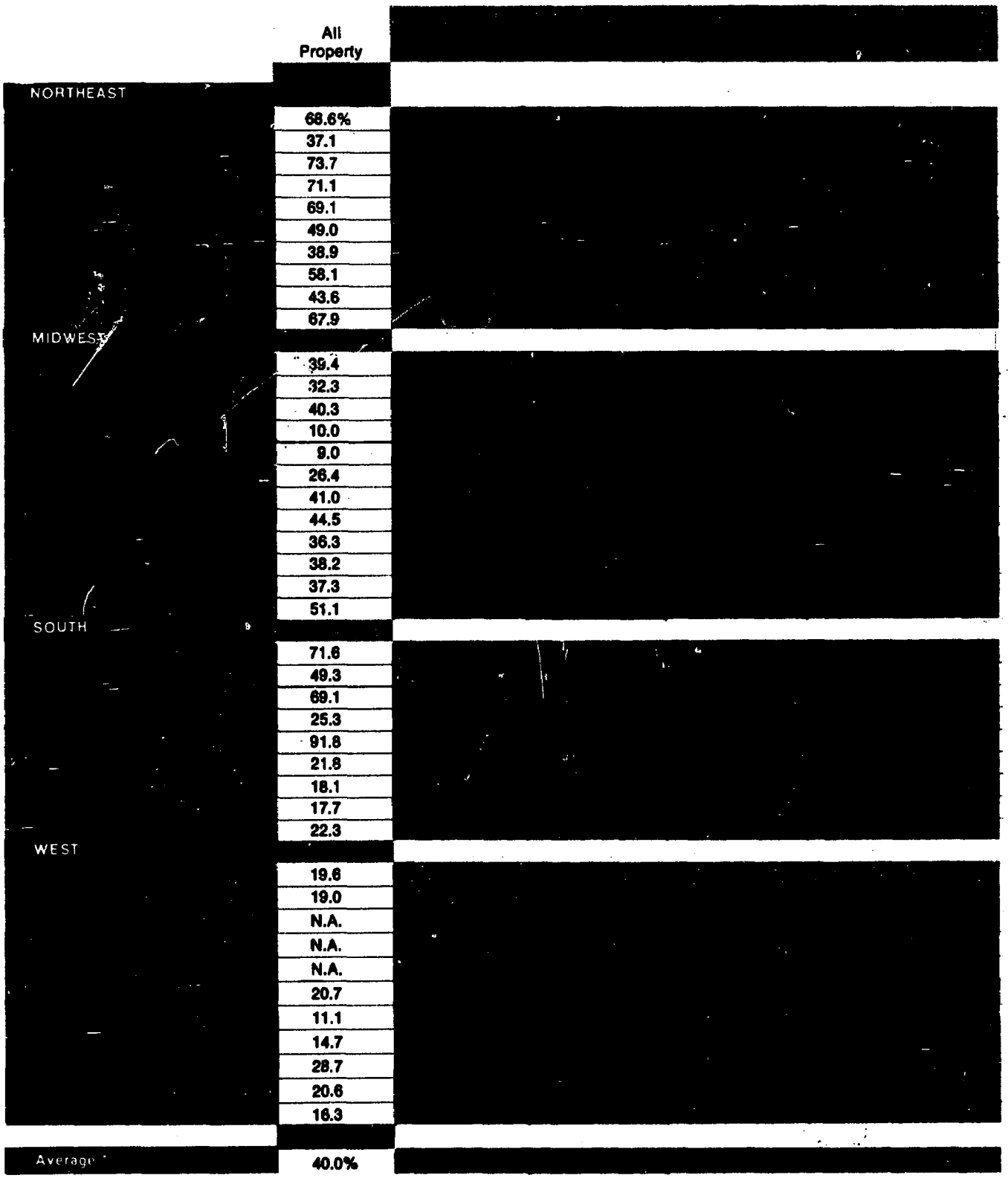


* Does not take into account any city or state tax exporting.

Table Source: City data derived from Seymour Sacks and John Callahan for the Advisory Commission on Intergovernmental Relations, *op. cit.*; Sales Management, *1970 Survey of Buying Power*, June 1971; U.S. Bureau of the Census, *Government Finances 1969-70*, Table # 17.

table a-7

Differential Assessment Ratios by Type of Property, 1966-67



	All Property
NORTHEAST	
	68.6%
	37.1
	73.7
	71.1
	69.1
	49.0
	38.9
	58.1
	43.6
	67.9
MIDWEST	
	39.4
	32.3
	40.3
	10.0
	9.0
	26.4
	41.0
	44.5
	36.3
	38.2
	37.3
	51.1
SOUTH	
	71.6
	49.3
	69.1
	25.3
	91.8
	21.8
	18.1
	17.7
	22.3
WEST	
	19.6
	19.0
	N.A.
	N.A.
	N.A.
	20.7
	11.1
	14.7
	28.7
	20.6
	16.3
Average*	40.0%

* For 36 cities for which all assessment data is available.

Table Source: U.S. Bureau of the Census, *Taxable Property Values*, 1967 Census of Governments, Volume 2, Tables # 19, 20; ACIR, *Financing Schools and Property Tax Relief—A State Responsibility* (Wash., D.C., Government Printing Office 1973) pages 154-157.

table a-8

City Area Expenditures Made by Overlapping Local Governments, 1969-70

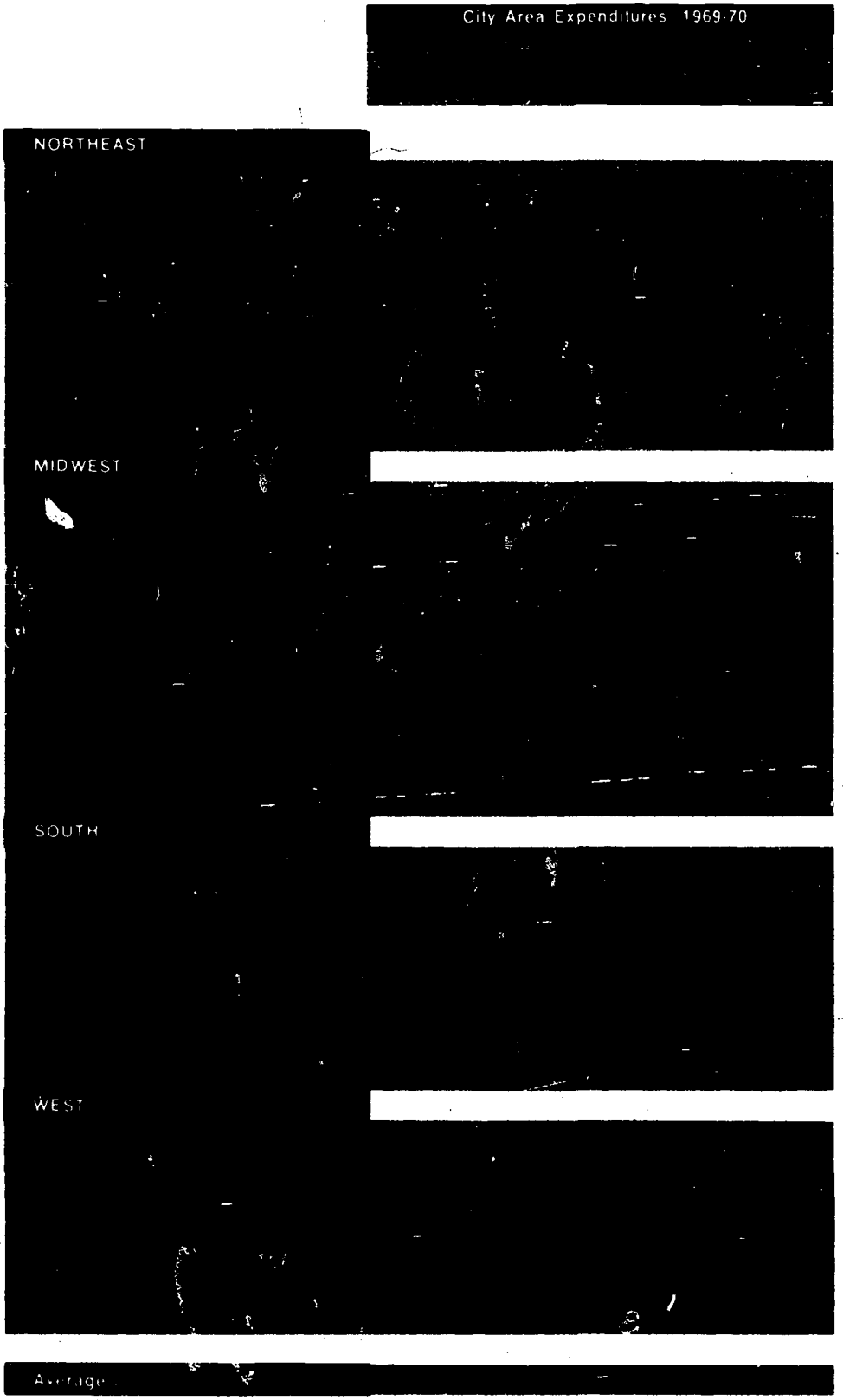


Table Source: See source on Table a-5; U.S. Bureau of the Census, *City Government Finances*, 1969-70, Table # 7.

table a-9

Share of Total Enrollment by Special Need Category Selected Urban School Districts, 1971-72

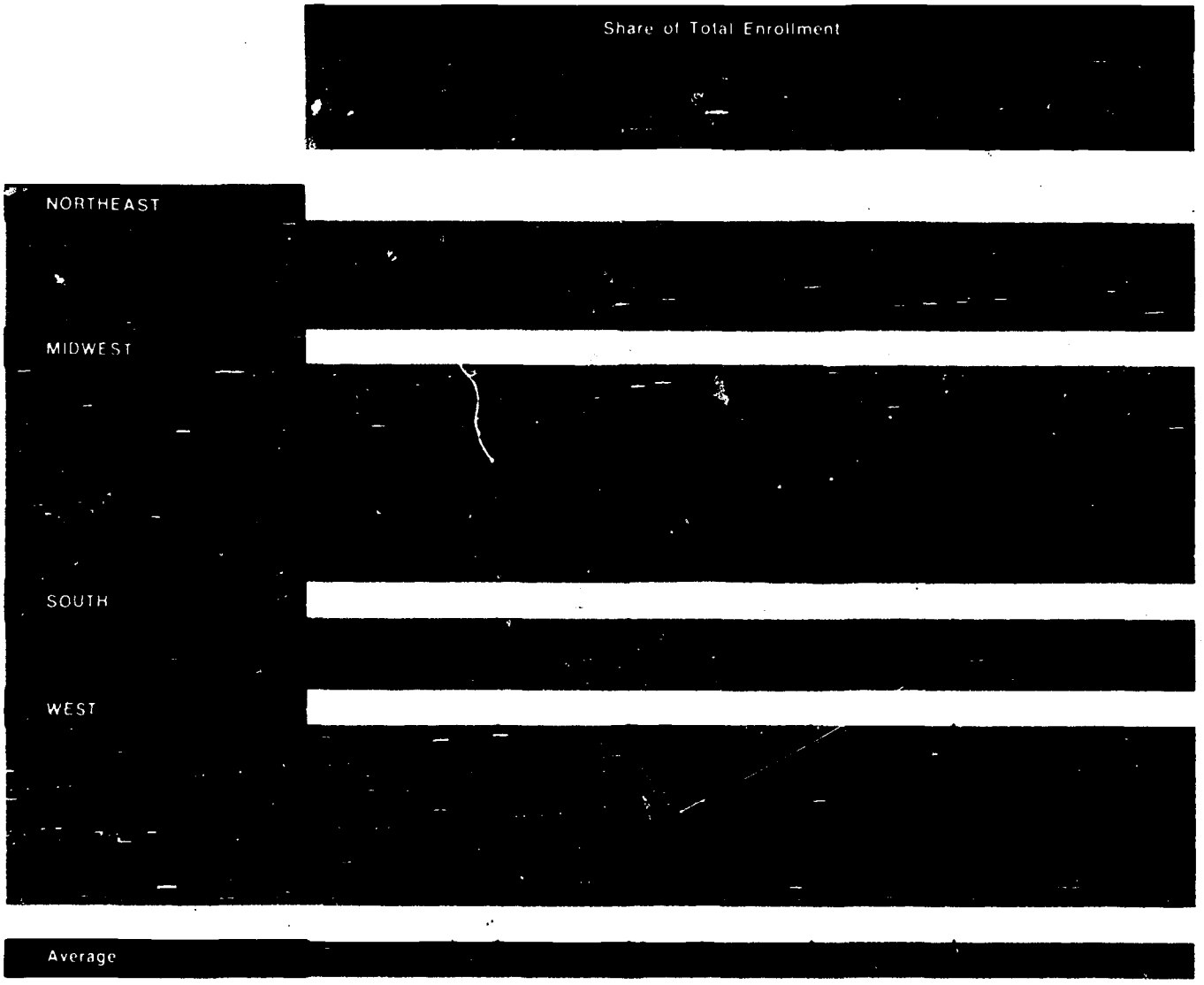


Table Source: Authors' survey of members of the Great Cities School Council.

table a-10

Concentrations of AFDC and Title I Pupils by School District Selected Urban Districts, 1972

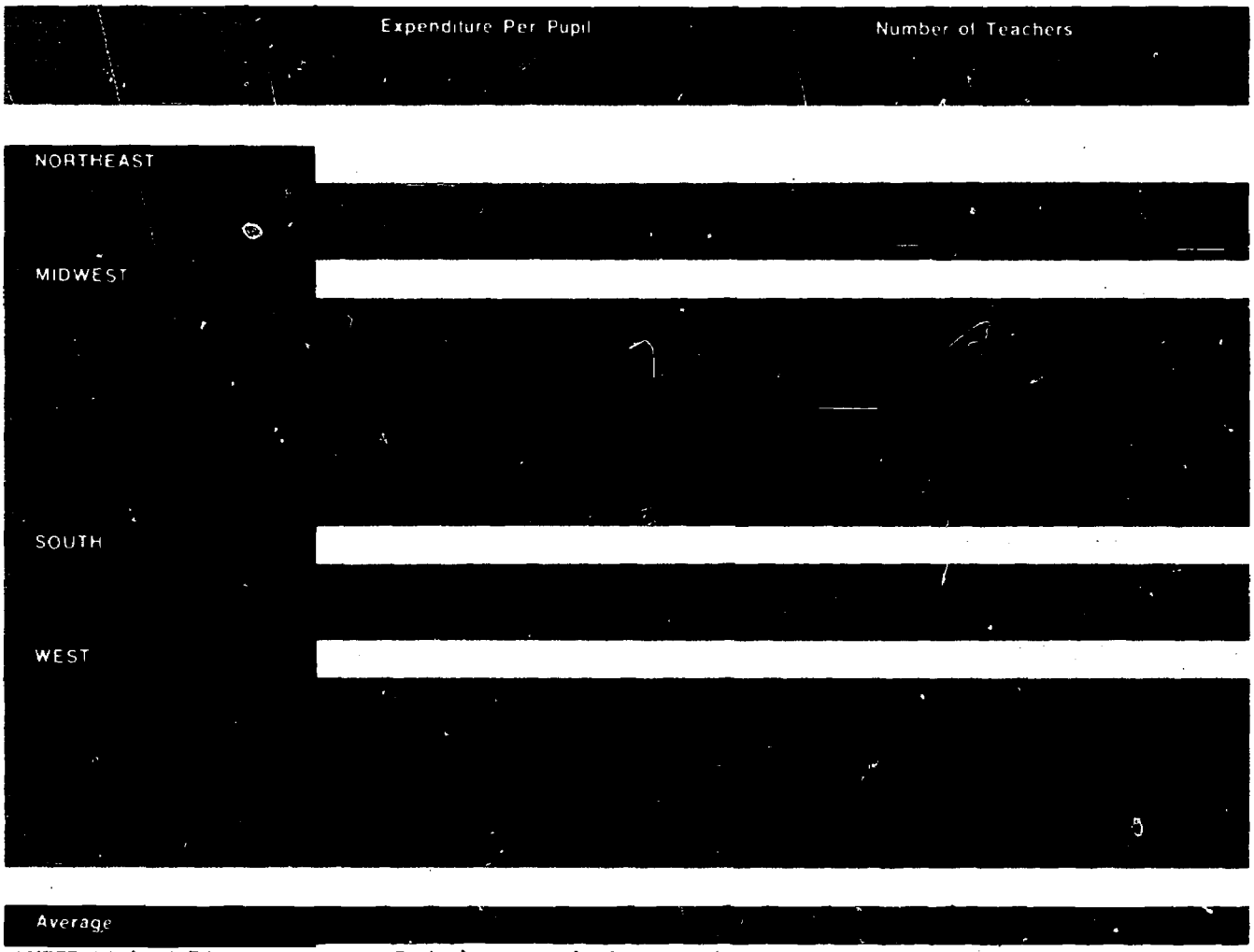
	City/State Ratio
NORTHEAST	
	3.34
	1.95
	4.04
MIDWEST	
	4.21
	2.97
	2.90
	3.55
	6.63
	7.27
SOUTH	
	.66
	4.94
WEST	
	2.66
	.73
	2.48
	2.94
	2.19
	6.76
Average	2.95

* **Because of the use of school-age AFDC rather than Title I eligibles to compute the state percentages of high need students, the state figures therefore, are understated in this table, but data were not readily available to make a better comparison.**

Table Source: Survey of members of the Great Cities School Council; U.S. Department of Health, Education, and Welfare, *Public Assistance Statistics, 1972* (SRS) 73-03100, Table # 7.

table a-11

City Expenditure and Teacher Requirements Arising from High-Cost Pupils, 1972

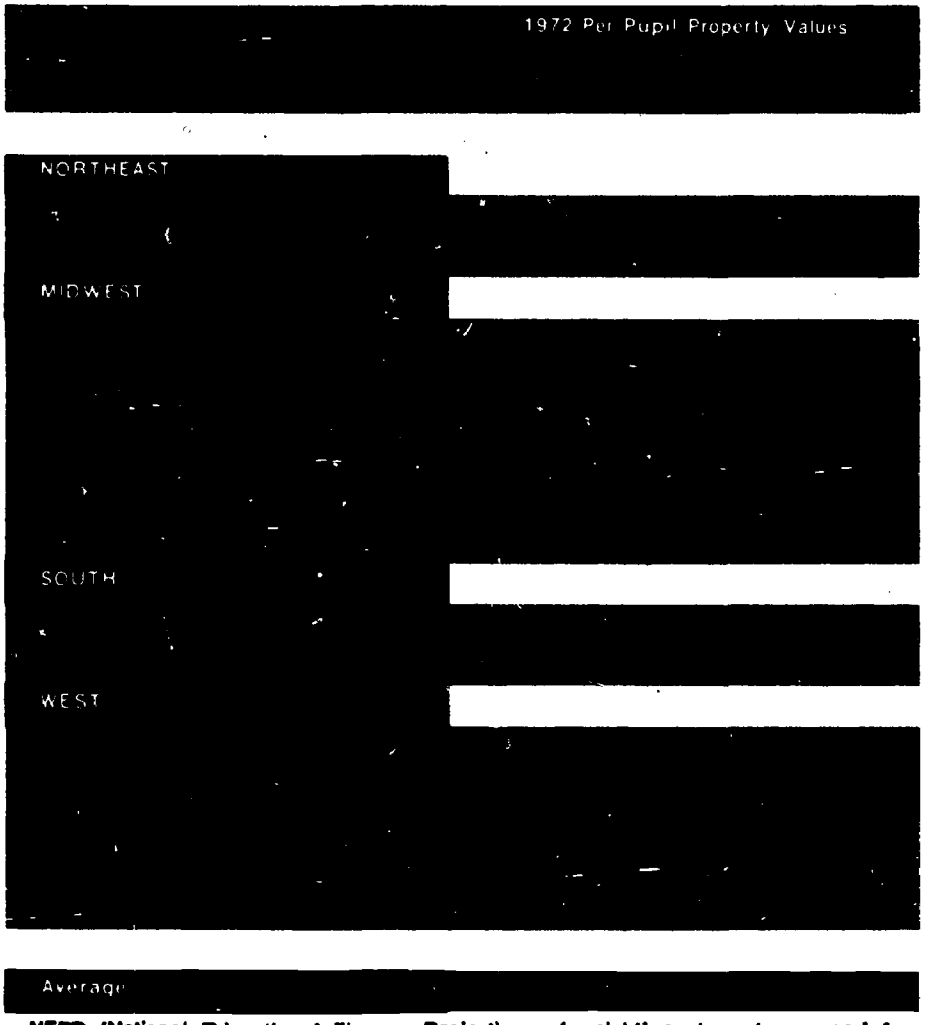


[1] NEFP (National Educational Finance Project) needs weightings have been used for illustrative purposes only. Indeed, some States have limited pupil weighting factors which are far more specific and quite different, even though reflecting the same basic concern with differentiated educational need.

Table Source: Survey of Great Cities School Council members; NEA Research Division, *25th Biennial Salary Survey of Public School Professional Personnel*, 1970-71, Table # 36; National Educational Finance Project, *Future Directions for School Financing* (Gainesville, 1971), pp. 28-29.

table a-12

City Per Pupil Property Values Weighted and Unweighted for Educational Need Selected Large Cities, 1972



NEFP (National Educational Finance Project) need weightings have been used for illustrative purposes only. Some States have enacted pupil weighting factors which are far more specific and quite different, even though reflecting the same basic concern with differentiated educational need.

Table Source: See Table # a-9; pupil enrollments and hence per pupil property values adjusted by weightings developed in National Education Finance Project, *Future Directions for School Financing* (Gainesville, 1971), pp. 28-29.

table a-13

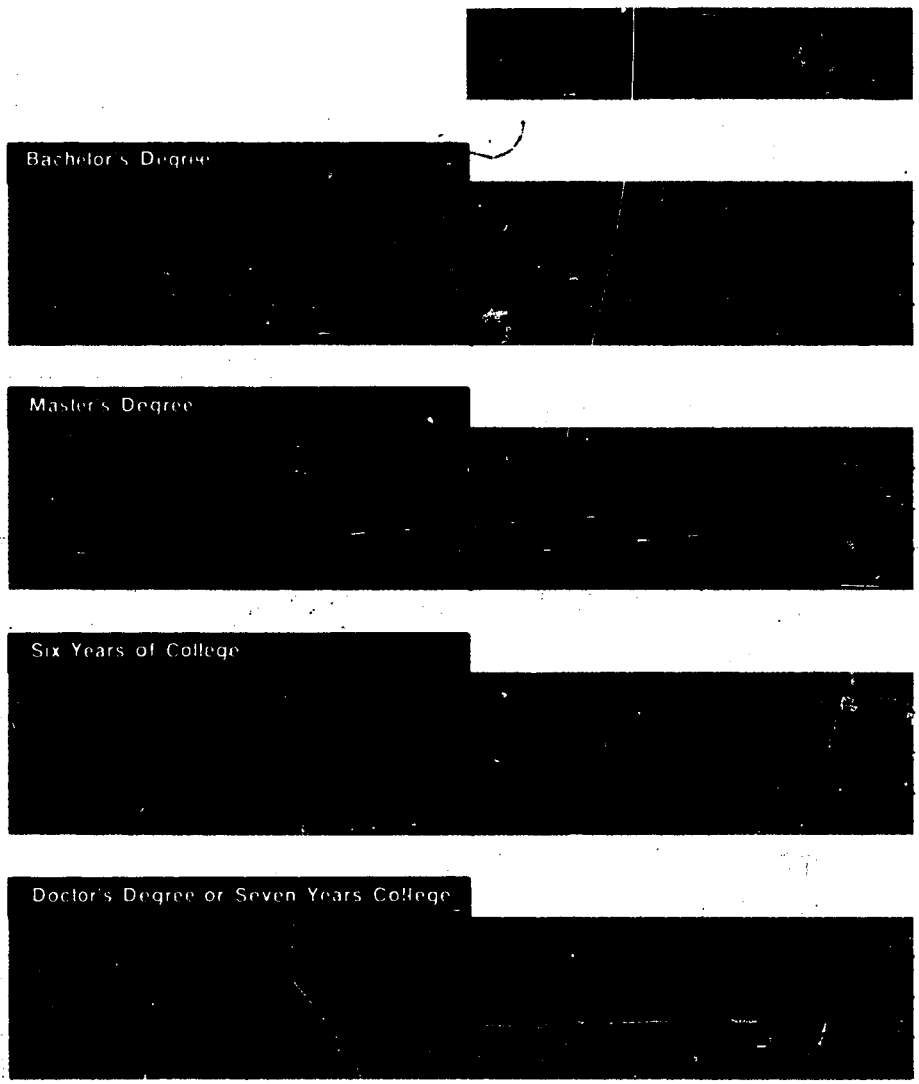
Per Pupil Educational Costs by Expenditure Categories Large Cities, Central Cities, Suburbs, and Rural Areas 1968-69

	Per Pupil Expenditure
	Total
	$719
	675
	670
	562
Total U S	$632

Table Source: U.S. Office of Education, *Statistics on Local Public School Systems: Finances, 1968-69*, Tables # 4, G.

table a-14

City-State Teacher Salary Schedule Differentials—Large City Districts Compared to Survey Totals, 1972



* All these districts have 6,000 or more pupil enrollment.

Table Source: NEA Research Division, *Salary Schedules For Teachers, 1971-72*, Tables # 6A-6D.

table a-15

Average Teacher Salaries and Percent of Teachers With Salaries Over $13,000 Selected Large City Districts and State Averages, 1971

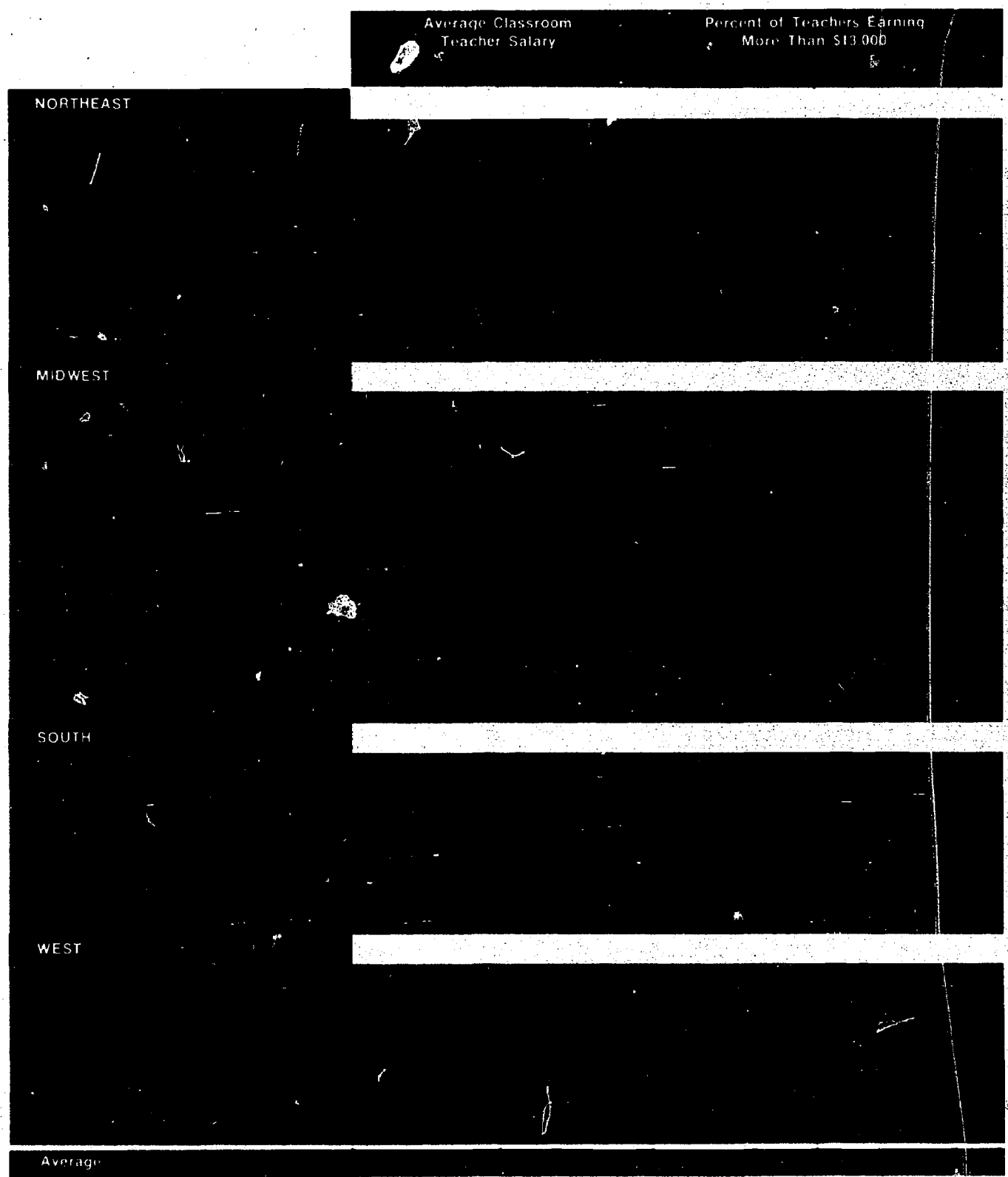


Table Source: NEA Research Division, *25th Biennial Salary Survey of Public School Personnel, 1970-71*, Table # 35; NEA Research Division, *Estimates of School Statistics, 1970-71*, Table # 7.

table a-16

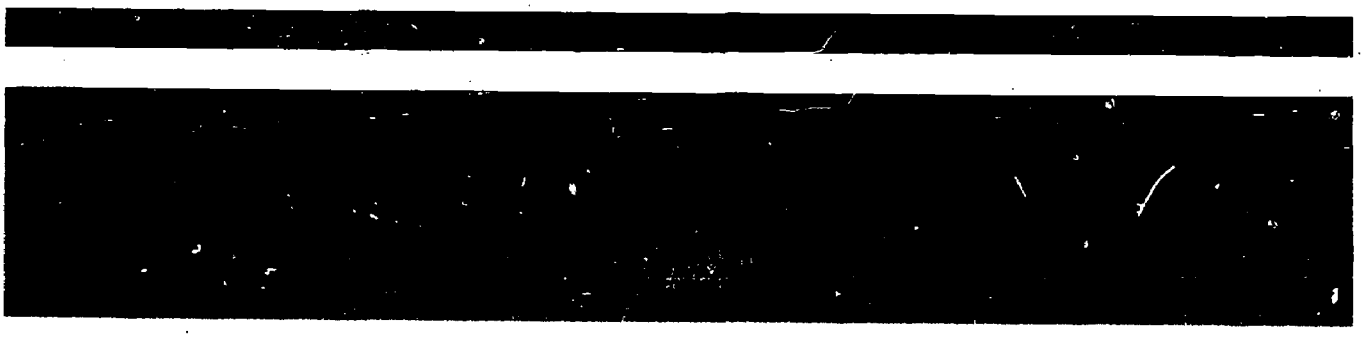
Earmarked Compensatory State Aid Programs, 1971

Total/Average

Table Source: U.S. Office of Education, *Public School Finance Programs in 1971-72*, Table # 2.

table a-17

Effective Pupil Weightings in State Aid Programs, Selected Pupil Types



* High weight due to combined sparsity/high school correction (California).

Table Source: U.S. Office of Education, *Public School Finance Programs in 1971-72.*

table a-18

School Finance Reform Studies, Fiscal Impact on Large Cities

Code: FSA = Full State Assumption
WPFSA = Weighted Pupil Full State Assumption
PUFSA = Personnel Unit Full State Assumption
DPE = District Power Equalization
WPA = Weighted Pupil Variable Equalization Aid

*** This refers to the Fleischman plan without its pupil need weighting component.**

Table Source: Betsy Levin, et al. *Paying for Public Schools: Issues of School Finance in California* (Washington: The Urban Institute, 1972), p. 42; Charles S. Benson, et al. *Final Report to the Senate Select Committee on School District Finance* (Sacramento, 1972), p. 78; New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education, *Final Report, Volume I* (Albany, 1972), pp. 2.21-2.22; Joel S. Berke and John J. Callahan, "Serrano v. Priest: Milestone or Millstone" *Journal of Public Law* (Summer, 1972) Tables # 14 and 15; Unpublished analysis done by John Callahan and William Harris for Lawyers' Committee for Civil Rights Under the Law, parts of which appear in National Legislator's Conference, *A Legislator's Guide to School Finance* (Denver: Education Commission of the States, 1972).

simulation methodology

The following are the basic data items that were required for simulating the tax and expenditure effects of the four various aid reforms noted in this study:

STXc	=	present city school tax rate
SLRVPc	=	present State-local revenues per pupil in city
PPVc	=	city per pupil full value of property
SAPc	=	present State aid per pupil in city
STXs	=	present Statewide local school tax rate
SLRVPs	=	present State-local revenues per pupil in State
PPVs	=	Statewide per pupil full value of property
SAPs	=	Statewide per pupil aid
FNY	=	Fiscal Neutrality Yield = SLRVPs/STXs
SS	=	State share of total State-local revenues for education in average wealth district

Percentage Equalization

(1) SLRVPc · SS · PPVS/PPVc =
State aid guaranteed under percentage equalization formula except that SLRVPc cannot exceed SLRVPs

(2) Guaranteed State aid—SAPc =
Aid gain or loss (Agl)

(3) SLRVPc + Agl =
Expenditures under percentage equalization holding STXc constant

Agl/PPVc =
Tax rate gain or loss (Txlg)

(5) STXc + Txlg =
Tax rate required to hold SLRVPc constant

District Power Equalization

(1) STXc · FNY =
Expenditures guaranteed by present city school tax rate

(2) SLRVPc/FNY =
Tax rate required to maintain present level of school expenditures

Full State Assumption

(1) STXc now equals STXs =
Effective tax rate for SLRVPs

(2) SLRVPc now equals SLRVPs =
Level of Expenditures produced by STXs

Urbanaid Reform

(1) Composite need/cost/tax effort/wealth ratio =
a/city proportion of poor families/State proportion of poor families
b/city average classroom teacher salary/State average classroom teacher salary
c/city local taxes as a percent of income/Statewide local taxes as a percent of income
d/State per capita income/city per capita income

= (a + b + c + d)/4 =
Composite ratio (Cr)

(2) Cr · SAPs =
Guaranteed State aid

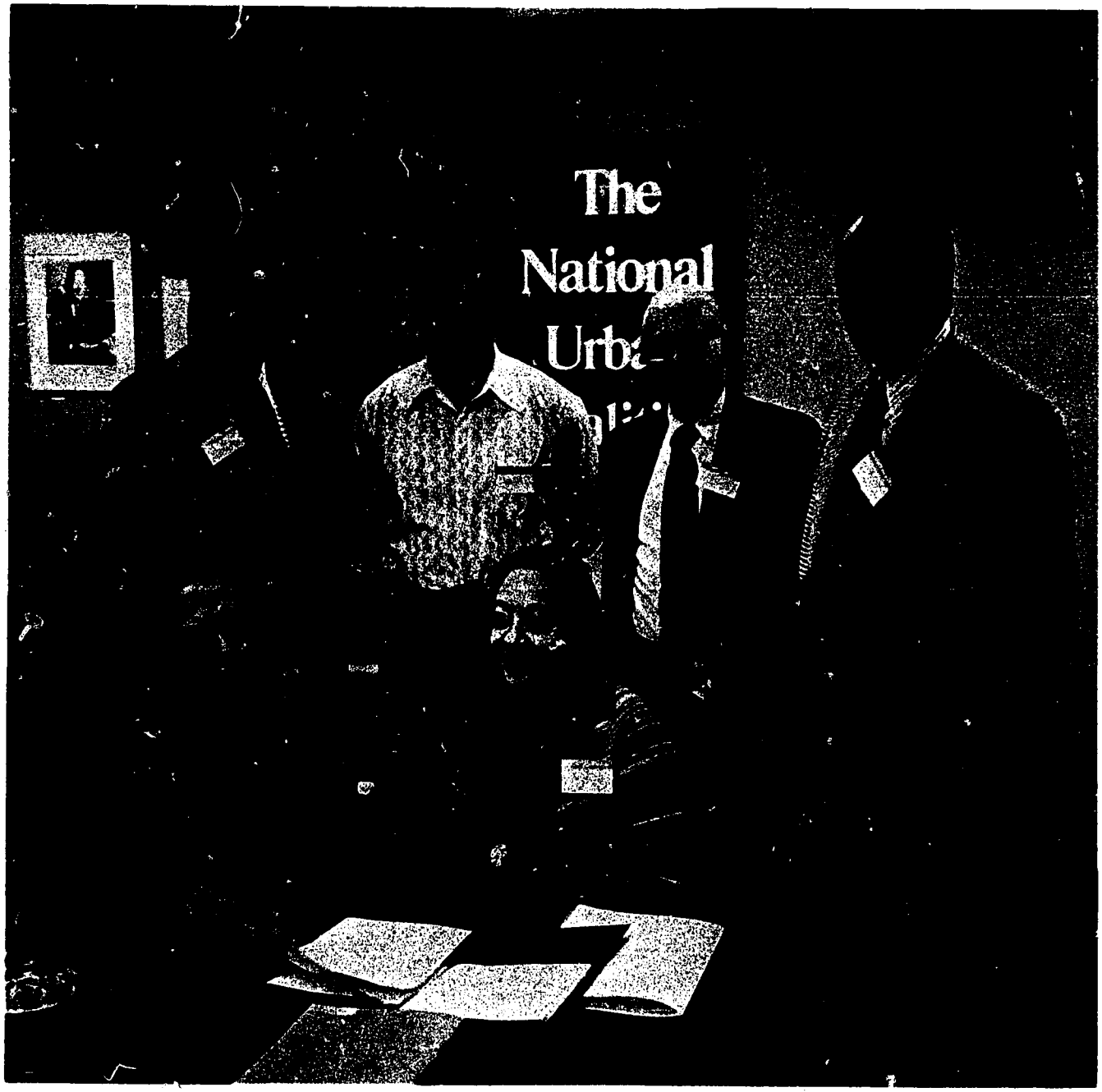
(3) Guaranteed State aid − SAPc =
aid gain or loss (AgI) per pupil

(4) SLRVPc + AgI =
Expenditures under urban aid formula holding STXc constant

(5) AgI/PPvc =
Tax rate gain or loss (TXgI)

(6) STCc + TXgI =
Tax rate required to hold SLRVPc constant

Note: These simulation formulae were applied with the assumption that estimated State revenues per pupil were constant or that they would increase by 25 percent. In the situation where State estimated revenues increased by 25 percent the following variables show a quantitative increase: SLRVPs, SAPs, FNY, and SS. Additionally, an effective local tax rate required to raise the additional State revenues by means of a statewide property tax was added to tax rate computations in all four types of simulations.



The National Urban Coalition's School Finance Committee:

(Seated) **Dr. Jose A. Cardenas, Director, Texans for Educational Excellence; Mrs. Jimmie Marie Thomas, School District of Kansas City, Missouri**

(Standing) **Aubrey McCutcheon, Executive Deputy Superintendent of Detroit Public Schools; Robert Singleton, Director, (California) Education Finance Reform Project; G. T. Bowden (Chairman), Director of Educational Relations, AT&T; and Dr. Earl M. Lewis, Director, Urban Studies Program, Trinity University**