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ABSTRACT

This paper examines past school finance reforms of the 1970's, current reforms in the 1980's, and future reforms in the 1990's. Fiscal inequities targeted in the reforms of the seventies resulted in major structural changes in the school finance systems of over 30 states. The reforms not only improved fiscal equity but helped increase substantially the level of dollars allocated overall to public schools. While fiscal equity remains the primary issue today, school finance reform debates also address three additional needs: program and service equity, balanced budgets, and improved school quality despite current scarce resources. Three major social trends suggest that new issues will be added to the school finance policy agenda soon. First, the shift from an industrial to an information society is substantially changing the composition of the nation's economy and the types of education needed to support its growth. Second, the leveling of public education funds, which traps school districts between rising demands and falling resources, is likely to give rise to new revenue raising schemes such as education foundations and fee-for-service activities. Third, computers, video disks, and related technologies will heavily influence the organization and structure of education practices and finance.

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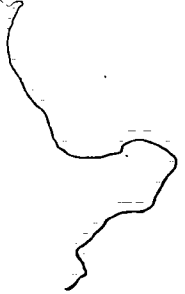
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## 26. School Finance Reform: Past, Present and Future



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## **26. School Finance Reform: Past, Present and Future**

### The Issue

For over 80 years, the school finance problem has been widely varying expenditures per pupil that are linked to local property wealth per pupil. As a result, students living in wealthy areas receive higher quality education than students living in poor areas. Not only has this situation been unfair to students, it has been unfair to taxpayers: a one-unit tax rate raised widely different amounts of dollars per child and state equalization aid did not eliminate the differences.

These fiscal inequities were the targets of the seventies' school finance reforms. Over this decade and the next, however, new issues for education finance reform will demand attention -- educational program and service equity, balancing budgets, increasing quality with stable or declining resources, relating education to economic growth, developing local education foundations, imposing "fees for service" in school districts, and funding computers and related technologies.

## School Finance Reform: The Past

Court decisions, activists and reform-oriented governors and state legislators, along with a relatively healthy economy, sparked a series of reforms in the seventies that resulted in major structural changes in the school finance systems of over 30 states.

States deciding that the major state role was to provide an adequate education program for all students enacted higher-level foundation programs, guaranteeing a basic level of expenditures per pupil from a combination of local and state revenues. Arizona, Florida, Iowa, Massachusetts, Minnesota, New Mexico, South Carolina, Tennessee and Washington took this approach. In Washington, the state fully funds a high foundation level; districts are allowed to increase spending up to 10%.

States deciding that the major state role was to provide equal opportunities to all school districts to raise funds enacted programs that rewarded equal tax effort with equal dollars per student from local and state sources. These programs, variously called district power equalizing, guaranteed tax base, resource equalizing or percentage equalizing, were adopted in Colorado, Connecticut, Michigan, New Jersey and Wisconsin.

Several states combined approaches, adding power-equalization components to higher-level foundation programs. So, above the foundation expenditure, districts were guaranteed equal additional revenues from equal additional tax rates. Maine, Missouri, Montana, Texas and Utah took this approach.

The objectives of all three approaches were to reduce overall differences in expenditures per pupil and to shorten the link between spending levels and local district property wealth per pupil. Studies of these reform programs show that, in the main, these objectives were realized, at least in the initial years after the reform.

In several states, broader school finance reform objectives emerged. Changed school finance structures included new or enhanced state programs for educationally disadvantaged, bilingual and handicapped students. Smaller programs recognized the higher costs of delivering education services caused by sparsity, large size, rural isolation, population concentrations or education price differences.

The seventies' school finance reforms not only improved fiscal equity but helped increase substantially the level of dollars allocated overall to public schools.

### School Finance Reform: The Present

While fiscal equity remains the primary school finance issue on most state legislative agendas, three additional issues have entered school finance reform debates in the eighties:

- Moving beyond fiscal equity to program and service equity
- Balancing budgets with declining state and local revenues
- Improving quality regardless of resource constraints

Program and service equity. Beginning in the late seventies, state policy makers asked whether fiscal equity and broad financial measurements such as expenditures per pupil were sensitive to the vast differences in school district size, school building enrollments, curriculum organization, program configuration and other factors that cause large and legitimate variations in expenditures per pupil. Several states, Illinois, Minnesota and Washington, for example, have been exploring formulas that specify the programs and services the state would finance and identify the varying dollar amounts needed in each district to offer them. While praising such an approach for being more specific about the educational content of the funding structure, some experts suggest that it could turn into state mandates for how all school districts and schools should be organized, structured and administered. Nevertheless, more clearly identifying the educational programs and services that a particular school finance system is designed to fund is an issue for the eighties.

Balancing budgets. In the fiscal expansion of the sixties and seventies, funding issues revolved around how to fairly divide an expanding educational pie. Now, governments have cut taxes and limited expenditures. The federal government is allocating less aid to states and local governments, and state allocations to local governments are no longer growing, in real terms. Further, the national recession is reducing revenues and straining budgets in all sectors of the economy, including public school districts.

As a result, most states are trying to maintain the status quo in their school finance programs. They must find enough revenue to balance budgets, without increasing expenditures but, often, need to decrease them. Fiscal equity has taken a

back seat. But the halt in the growth of the governmental sector, even in an improved economy, will recast the politics of fiscal equity. Buying reform by leveling up all poor districts without hurting the wealthy ones, the strategy of the past, will be more and more difficult.

Increasing quality with current resources. Even with retrenchment, the public is demanding improved quality from the nation's schools. Today, the strategies of the seventies cannot be used; money for new programs is simply not available. Low- or no-cost school improvement initiatives are the new policy constraints. Finance policies must be linked specifically to quality improvement. The issues are how to allocate scarce additional resources to programs to improve quality and how to find small pots of new dollars to launch quality improvement initiatives even in retrenchment.

States can respond to these issues. With the school identified as the unit for education improvement, states and districts can use school-site budget and resource allocation programs to link financing policy more closely to school improvement policy. Further, drawing upon the effective schools research, states and districts are already investing dollars in school-based education improvement programs, local technical assistance programs, principal-training academies, new teacher-development programs and dissemination and diffusion activities (see ECS Issuegrams no. 5 and no. 11).

#### School Finance Reform: The Future

Three major social trends suggest that new issues will be added to the school finance policy agenda in the near future.

- First, the shift from an industrial to an information society is substantially changing the composition of the nation's economy and the types of education needed to support its growth.
- Second, the leveling of public education funds is likely to spin-off new revenue raising schemes by school districts caught between rising demands and falling resources.
- Third, computers, video disks and related technologies will heavily influence the organization and structure of education practices and finance.

Education and economic development. One of the major challenges facing the country is identifying policies the new information economy needs for economic growth. For the past

four decades, the growth of the economy has hinged largely on housing, automobiles and related industries. Today and into the future, the tools of the information-society -- computers, microchips, information processing, telecommunications, robotics, video disks -- will direct our growth. The finance issue for the country is how to alter strategies for economic growth in a new economic environment. The education issue is what role education needs to play in the switchover.

To move education finance into our new era, we must choose investments that restructure and reposition education to nurture changed economic directions. The education-economic development link is seen by many as the paramount education finance issue of the next decade (see ECS Issuegram no. 13). The education investment choices are far beyond the traditional issues of fiscal equity, quality improvement, computer literacy, mathematics and science teachers, and budget balancing. They require new concepts of the economy and supporting educational functions.

Education foundations and fee-for-service activities. Revenue constraints have, in part, spawned two new activities in school districts. School district foundations, tax-exempt and nonprofit, appeared in the late seventies as property tax rollbacks and expenditure limits hit local schools. These foundations solicit gifts and funds from parents, the community, business and industry for the school district, outside the purview of any state agency or state regulation. Potentially, they could affect substantially the fiscal equity sought through state equalization formulas. To date, they have not done so, but they should be watched.

Some school districts, like a number of municipal governments, are developing "fee-for-service" activities, again outside the boundaries of free public school services. Summer computer camps; athletic, music and fine art camps; preschool and day care services; adult training in word processing and computer technologies exemplify the types of "businesses" school districts can create to raise additional funds. Entrepreneurial activities like these are occurring in many, mostly wealthy, school districts across the country. These ventures are exciting, but fraught with thorny finance, governance, legal and equity issues.

Computers, education finance and technology advancement. Computers and related technologies raise issues on the organization, delivery and finance of education services. Potentially, computers can provide instructional and administrative services more cost-effectively. Interactive video disks could either vastly expand the education provided

with current resources or significantly reduce the need for resources, while holding services level.

But there are major funding problems; important questions need thoughtful answers. What state, local and federal policies can encourage the development of good educational software? How can operational and capital budget regulations make it easier and cheaper to buy computer hardware? How should textbook policy and computer hardware and software policy be merged? How can investments in training programs ensure that computers are fully used? Currently, states have treated this issue in radically different ways, from operating initiatives in Alaska, California, Florida, Minnesota, North Carolina and Texas, to neglect of the issue altogether.

#### What to Read

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