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ABSTRACT

Because Louisiana is facing financial difficulties, the impact of reductions in federal aid since 1980 has been severe. With a state economy dependent on gas, oil, and agriculture, Louisiana suffers when oil prices are low and farming costs are high. Reduced tax income for the state lowers state spending, forcing additional enterprises out of business. Louisiana is left with a shrinking tax base at a time when state and local support for education must be increased. The major source of income for local schools is the property tax. Homestead exemption regulations shift the burden of taxation onto businesses and commercial property. Shrinkage of the local tax base results in disproportionate school funding. Small financial disparities between districts can result in large educational disparities for students. Efforts at educational reform require additional money and can lead to further regressivity of the taxing system. Just as school financial situations are best understood in terms of the local context, proposals for alternative, equitable financing must be based on local variables. A table of revenue sources for selected Louisiana districts is provided and three pages of references are included. (PGD)

Local School Finances in Louisiana: Disparities, Discrepancies, and Disgrace

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Local School Finances in Louisiana

Disparities, Discrepancies, and Disgrace

School finance is typically viewed as a combination of three sources: federal, state, and local (including ward and district) (Thompson, 1976). These three are also seen as constantly in a process of balancing and unbalancing the delicate question of power and control (c.f., Phares, 1983; Guthrie, 1983; Kirst, 1984; Killian, 1984; Augenblick, 1984; Odden, 1985; Hartman and Rivenburg, 1985).

Financial balance requires sufficient funds at all levels to ensure political demands are addressed. When unemployment is low, taxes are fair, public services are plentiful, and the economy is performing at capacity, balance is maintained. With inflation, high unemployment, increases in real costs, and economy performing well below capacity,

> ... the competition for public funds continually intensifies with public education being the most probable loser. Especially during periods of slow growth or recession, education becomes vulnerable to budgetory cuts because its benefits are less immediate and visible than those of several other public functions.
>
> The first response in fiscal distress is to seek new sources of revenue.
>
> ...Shifting expenditure priorities and ...limited growth

in funds cause investment in education to lag dramatically (Quindry and Fox, p. 173).

School funds, as a function of federal, state, and local financing, are presently out of balance. Adams notes federal contributions to schools have been curtailed, leaving states with "a minimum balance needed to protect a state against unanticipated flunctuations in revenues" (1983, pp. 56-57). This, she maintains, leads to a

> ...weakened fiscal status (which) will have an impact on most state-level services, and particularly on local public education. Since the states must coordinate between the federal and local governments, their fiscal condition will also affect plans of the administration to alter the respective roles of government...
>
> The part each government has played historically will inevitably change in response to current and expected economic conditions (p. 57).

The reduction in the federal financing for education has been experienced by states for some time.

> Educators - especially those charged with the responsibility of protecting the financial interests of education in Washington - remember the first six months of the Reagan Administration as a period of fiscal disaster. Before they could mount effective opposition, substantial rescissions had been made in the 1982 budget (Clark, et al., 1983; p. 188).

Askins (1984) calls this reduction the 5D-Shift-"Diminution, Deregulation, Decentralization, Disestablishment, and Deemphasis" (p. 207). During this time, the need for federal resources has varied according to state factors.

> The haves, such as Texas or Oklahoma (rich with severance taxes), can be contrasted sharply with the more indigent states such as Ohio (due to the economy), or Mississippi (due to chronic low income). (parentheses are authors) (Phares, p. 48)

When present state economic conditions are combined with recent state efforts to improve education, the contrast is sharper. Adams (1983) notes that those with a strong economy may "... be capable of maintaining the stronger role they accepted in the seventies while those with severely curtailed budgets will face difficult choices" (p. 57).

Louisiana is one of those states making difficult choices. This is not to say those who make the choices find them difficult; rather, it is those who must live with the choices find their lives made more difficult. This difficulty is best understood through an examination of the economic conditions and contextural variables, at the state and local levels, in which these difficult choices are made. We will look first at the economic situation in Louisiana, the tax structure of the state, and local school taxes. Finally, we offer proposals to equalize school funding, which are based on the characteristics and contexts of individual systems.

Louisiana is near or at the top in numerous national statistical categories: unemployment, illiteracy, school dropout rate, teenagers having children, children born to single women, families receiving governmental financial assistance, and so on. The state tax structure is dependent on gas and oil, and low oil prices affect the state in numerous, intertwined ways. (c.f. State of Louisiana General Purpose Financial Report). Low oil prices, for example, result in closed oil fields which reduces state severance taxes and increases unemployment. The reduced taxes means the state cannot afford the additional services required by an unemployed and, as a result, governmentally dependent population. As there are fewer dollars to turn over, marginal businesses which were struggling to stay afloat in the first place close; this starts the process all over again.

These marginal businesses were the first to go in the depressed oil and gas fields, followed by other businesses unable to weather the bad times. To survive, the unemployed, oil field roughnecks, and dependent business employees, must leave the area. Only those individuals with a strong, deep economic basis can survive. This situation perpetuates a boom or bust atmosphere.

Those areas of Louisiana not oil-dependent find themselves in dire economic straights as well. Agriculture is in a depressed state of its own. Increasing costs of equipment, loans, and chemicals, low prices for grain and other farm crops, and extremes in weather leave never sure farming in a more precarious state than ever before.

Additionally, the United States Department of Agriculture has identified 420 counties in 31 states as export-dependent. In these counties, the crops of corn, wheat, soybeans, cotton, and rice account for more than half of local agricultural sales. Export of agriculture products has reduced by two-thirds over the past five years, and these counties bear the brunt of that decline. Louisiana is seventh on the list and has 21 parishes of the 420 identified counties (News-Star World, 1986).

Like gas and oil, agriculture determines local economies. Banks join other local businesses in bankruptcy and entire communities are closed over night.

The economic impact for Louisiana is obvious - a shrinking tax base with increased demand for fewer dollars. As Phares (1983) notes:

> The amount of funding available to a state or local government is primarily a function of its tax base. Its vitality and coverage determine, in large part, relative poverty or affluence. If the base expands, either through natural growth or through legislative action, a government is better off; if it contracts, for whatever reason, it is worse off. (p. 32)

It is obvious Louisiana must move to an expanded tax base or find other sources of income. One suggested source is the offshore windfall settlement or 8g (oil royalties) monies. Louisiana's portion was some $600 million, of which $500 million is dedicated to education. By passing a constitutional amendment in September

1986, the people of Louisiana decided that only 85% of the interest of the dedicated funds (and future oil royalty funds) can be spent. The funds are to be divided between public elementary and secondary schools, and public colleges and universities. Such available funds, however, will not solve the state's financial problems with higher education or public schools. For fiscal 1987, the Louisiana school budget was reduced by some 7.5% (National Conference of State Legislatures). In early October 1986, one-fourth of the way into the fiscal year, Governor Edwards announced a 10% across the board budget cut, with education cuts limited to 5%. He believes this move is necessary to meet the $225 million expected budget deficit.

This deficit is 40% of the total dedicated funds. That is, if the dedicated funds were applied to the deficit expected, slightly more than half of the 8g funds would remain to meet deficits for the remaining three-fourths of the year. As is now constitutionally required, however, half the interest from 8g will be available to local schools. But the problem of a shrinking and depressed state tax base remains.

The major source of income for local governments and schools is the property tax. Personal real estate is valued at fair market value, then assessed at 10%. Homestead exemption is $7500 assessed value. That is, the owner of a home valued at $75,000 pays <u>NO</u> property tax; additionally, homes valued over $75,000 pay tax only on the value over $75,000.

Seemingly, such an arrangement erodes only the local tax base;

in fact, the state tax base is affected as well. The state returns to local governments that money 'lost' to homestead exemption. But because of declining revenues, the state now only returns a portion of local exempt funds. Recently, the proportion has been about 80%. This piggy-backing (Phares, 1983) yields a loss in local income due to a state-granted exemption. Because of the exemption and the declining state proportion of repayment, businesses and commercial property bear an ever increasing burden of taxation.

Nationally, property taxes as a base for school support has long been challenged. Serrano v. Priest (1972) marked the beginning of numerous challenge and change, which has served to "... heighten interests in alternatives to the property tax" (Aaron, 1975, p. 4). Many states have taken steps to lessen dependence on property tax, but these steps have served to reduce the ability to raise the funds necessary to support local schools and governments.

Phares (1983) refers to this as "intentional <u>state</u> imposed shrinkage of the <u>local</u> tax base" (author emphasis). He further notes the "phasing out of taxes on personal or intangible property" despite the fact these "categories of property represent a substantial proportion of wealth in the United States". (p. 33)

Aaron (1975) further argues

> ... the property tax is a poor index of both the public services received by households and businesses and the economic states, or ability to pay, of the taxpayer. In some communities, particularly small, homogeneous, residential suburbs, property

> taxes <u>are</u> good measures of benefits received from public expenditures and the rich do tend to pay lower property tax bills than do the poor. Yet most property taxes are used to pay for public schools and in general property taxes and numbers of school-age children are poorly correlated; and ownership of taxable real property and other indicators of income or wealth are not closely correlated. (author emphasis) (p. 2)

A shrinkage or limitation of the local tax base, whether state imposed or not, results in disproportionate school funding. These variances in total funds available to local school systems are functions of complicated variables in issues of education equity. Fonville (1984) identifies five such variables, but notes the overriding importance of the state financial system.

> Important variables in education equity include: the number of pupils in a district (i.e., the size of a district), the wealth of a school district (measured in per capita income, tax base, and other ways), level of per pupil spending, local leadership and values, and parental involvement. All of these factors are important and must ultimately be viewed together. But many of them hinge on the financial system employed by the state. Financial disparity is not the only factor leading to educational disparity, but financial equity does represent the cornerstone of any effort to build a "uniform system of free public schools." (p. 31)

Fonyille further notes how the small "financial disparity" between two county school systems in North Carolina can result in a large "educational disparity" for students. In 1982-83, for example, suburban Durham County per-pupil expenditures totaled $2160 (excluding food services), while rural Jackson County spent $1,896 (p. 31). This small "financial disparity" is accompanied by a large "educational disparity".

> When Chuck Clark graduates from Northern High School in Durham County this spring, he will have computer math under his belt. Two hundred miles to the west, in Jackson County, Maxwell Fowler will receive his diploma from Blue Ridge School, nestled in the mountains of Glenville. Maxwell never had the chance to take any Latin courses or computer math. In fact, Maxwell had 56 fewer courses (28 academic and 28 vocational) available to him in Glenville, a Jackson County community, than did Chuck in Durham County.
>
> Perhaps it's not surprising that the K-12 Blue Ridge School can offer fewer courses to its high school students than can a system in one of the state's major metropolitan areas. Larger school districts generally offer more courses than smaller districts. Indeed, the difference in educational opportunities between those of Chuck Clark and Maxwell Fowler is not an isolated example. The variety and level of course offerings throughout the 100 counties represents one of the simplest measures of educational disparity within North Carolina. (p. 30)

In Louisiana, the financial disparity is also great. Figure 1 displays revenue sources of selected school systems for 1983-84.

Insert Table 1 about here

The resulting educational disparity is reflected in the comments of superintendents of area rural parishes. They claim their top graduates will <u>not</u> qualify for admission to Louisiana State University, the major state university, because their small rural schools <u>cannot</u> offer all the courses (advanced math, foreign language) proposed for admission to LSU.

Note these financial concerns are for basic educational programs and do not address recent attempts to finance educational reform. Odden (1986) notes that while the equity (financial) reforms of the 1970s were accompanied by increasing revenues and followed a growth in governmental activities in the 1950s and 1960s, the quality reforms of the 1980s often require increased financial support. (p. 56) He also warns that

> ...(today's) education reforms tend to be funded by increases in the state sales taxes (at best a proportional tax) and increases in local property taxes (regressive for low income families). Education reform, thus, probably increases the regressivity of the state/local tax burden. Further education reforms are being financed by tax structures less elastic to chances in personal income, thus providing a less stable base

for education funding. (p. 65)

Quindry and Fox (1983) note this demand on increased local expenditures is not only expressed in educational settings. Other state and local agencies also require increased funding, but the existing tax system (a prior constraint) limits such efforts.

> Fiscal effects of the early constraints are now beginning to be evident.... Shifting expenditure priorities and, more significantly, limited growth in funds cause investment in education to lag dramamatically. (p. 173)

It is the area of local school finance (and its state imposed constraints), then, that is to fund not only the education excellence reforms of the 1980s, but is still struggling with the equity reforms of the 1960s and 1970s. Those school systems which could never afford equity funding are now expected to fund excellence.

Summary and Proposals

Smaller, more rural school systems with a low tax base and a sparse population have never achieved equity in educational funding: disparaties and discrepancies exist. Neither can they fund reforms of excellence which depend more and more on local finances.

Calls for overhauling the property-tax system have long been heard from traditional economists (Peterson, et al, 1973). Newer calls are now being made by those who question the assumptions of traditional financial arrangements (Meier, 1982) and propose that relevant questions are really those of a political economy -

questions of values, alternative arrangements and the connections between what the traditional disciplines perceive to be segmented spheres of human activity. (Harpham and Stone, 1982).

The need of new approaches is evident in our existing system. Programs do presently exist to address problems by focusing on local variables. Maine, a rural state, for example, offers differential financing for 'geographic isolation' (Skehan, 1986). Such need is evidenced by the existing differences in urban and rural teacher pay (Barker, 1985).

But a variety of such programs and new approaches are needed to equalize the 20% pay difference between urban and rural teachers (Baker, 1985); to equalize the difference in course offerings (Fonville, 1984); to correct for the inequities of the property tax (Guthrie, 1983); to reconsider the assumptions of traditional finance (Meier, 1982); and to reconceptualize the values underlying education policy (Harpham and Stone, 1982).

Just as problems of finance (state and local, education and other services) are complex, so will be solutions. Just as financial situations are best understood in terms of local context, proposals for alternate financing must be based on local variables. Traditional financial arrangements yield disparities and discrepancies: failure to address the assumptions of these traditional systems and to explore the values of new arrangements is a disgrace our children do not deserve and our future will not allow.

Figure 1

Revenue Sources of Selected School Systems for 1983-84

Source	Cameron	Morehouse	Livington	State Average
Local %	74	23	31	37
State %	22	64	61	53
Federal %	4	14	8	9
Per pupil	$6100	$2530	$1890	$2600
Rank	1	32	66	

(Source: Louisiana Department of Education, Bulletin 1472)

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