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ABSTRACT

This monograph is the third in a series of reports, that provide a state-by-state review of current school-finance policy issues. It analyzes the link between the policy issues and education finance at the national level, in 31 states, and in the province of Ontario, Canada. The report is subdivided by geographic region. Part 1 contains reports from midwestern states; part 2 deals with northeastern states; part 3 reviews states in the South; part 4 is devoted to states in the West; and part 5 addresses the province of Ontario. Each chapter identifies major school-finance policy issues and provides detailed information and analysis as to how the issues are "playing out" in a state or province. The introductory article presents a national overview of school-finance policy issues in the United States. Information is based on a National Center for Education Statistics (NCES) database of school-district finance data for fiscal year 1992. The data show considerable variation in all types of state aid, both within the nation and within states, which is due to geographic differences in costs, state actions, or school district actions. (LMI)

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The State of School Finance

Policy Issues, 1994

Edited by

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Third Annual Monograph of the American Educational Research Association's Fiscal Issues, Policy, and Education Finance Special Interest Group

THE STATE OF SCHOOL FINANCE

POLICY ISSUES, 1994

CONTENTS

PREFACE

This monograph is the third in a series of "State of the States" reports published by the Fiscal Issues, Policy, and Education Funding Special Interest Group of the American Educational Research Association. The purpose of this series is to provide researchers, policy analysts, and policy makers with a state-by-state review of current school finance policy issues. The 1994 edition contains chapters analyzing the link between policy issues and education finance at the national level, in 31 states, and in the province of Ontario.

The report is subdivided by geographic region to ease peer state comparisons. Part I contains reports from Midwest states; Part II deals with Northeast states; Part III reviews states in the South; Part IV is devoted to states in the West; and, Part V addresses the province of Ontario. The articles in this volume are drawn from papers presented at the Annual Meeting of the American Educational Research Association in April 1994. The organization and conception of the present work is, however, very different. To provide a clearer overview of the field and to make the volume handier to the reader, each chapter follows a common format. The initial section identifies major school finance policy issues. Readers can use this information to ascertain easily and quickly the key school finance policy issues in a particular state or province, or to trace specific school funding issues across states (e.g., charter schools). Each chapter then provides detailed information and analysis as to how this issue is "playing out" within a state or province.

I am grateful to the authors who kindly agreed to write entries for this volume. I would also like to acknowledge Anthony Rolle for his skilled research assistance on this project.

June 1994

Neil D. Theobald
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UNITED STATES

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SCHOOL FINANCE POLICY ISSUES IN THE UNITED STATES

This study used a NCES national database of school district financial data for FY 1992, which contained revenue detail for state aid to school districts, for such categories as general formula aid, compensatory, special education, and bilingual aid, staff improvement, gifted and talented, transportation and capital outlay aid. Pupil-weighted state-level means, and sums are presented for states reporting such revenue, as well as the number of school districts receiving such revenue.

The tables show considerable variation in all types of state aid, both within the nation and within states. Some of this variation is associated with geographic differences in the costs of providing similar educational services. Part of the these differences are due to purposeful state action, such as the state share of revenue, or the desire to assist low-wealth school districts more than wealthy school districts. Other differences may be the result of school district actions. For example, most state aid for pupil transportation reimburses, either wholly or in part, the expenses the school district has incurred transporting pupils (usually in a prior year).

Further study of the reasons behind the variation is required.

Major School Finance Policy Issues in the United States

- Comparisons of general formula state aid to school districts, by state.
- Comparisons of general formula state aid to school districts within each state.

Although previous nationwide equity studies have examined revenue per pupil (Schwartz and Moskowitz, 1988, Riddle, 1990, Wykoff, 1992), none have scrutinized the composition of that revenue, primarily because nationwide data sets did not contain such detail. The National Center for Education Statistics (NCES), as part of its efforts to redesign its education finance database, has collected, using the U.S. Bureau of the Census, Governments Division, as its collection agent, state aid detail for all school districts in the nation for the school year 1991-92. The detail collected includes state aid for general formula aid, transportation aid, capital outlay aid, compensatory aid, special education aid, bilingual education aid, gifted and talented program aid, and staff improvement aid. Although not reported in this paper, NCES also collects information on vocational education and school lunch program aid. For further information, contact (preferably by writing or email):

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Comparisons of General Formula State Aid to School Districts, by State

Types of state aid. State aid to local school districts normally consists of general formula aid, which is designed to assist school districts in their day-to-day operations, and normally is not restricted, that is, such aid may be spent for any legal purpose by the school district, and is completely fungible, that is, it may be transferred from one account to another. As shown in table 1, virtually all states (excepting the District of Columbia), report general formula aid, which, in fiscal year 1992, totaled 73.3 billion dollars nationwide, a pupil-weighted average of $1,809.[1] [Pupil weighting assures that small enrollment districts do not move the average inappropriately].

The next largest (in dollars) state aid program is state special education aid. Thirty-nine states reported state aid for special education programs, which totaled 6.1 billion dollars nationwide, a pupil-weighted average of $206 per pupil. More states provided pupil transportation aid than did states with special education programs, but transportation programs constituted less than half of the amount of state aid than handicapped programs did. Thirty-two states reported state aid for pupil transportation, which totaled 2.6 billion dollars, a pupil-weighted average of $88 per pupil.

Staff improvement aid was larger (in dollars) than pupil transportation aid. Twenty-seven states reported state aid for staff improvement, totaling $3 billion dollars, a pupil-weighted average of $135 per pupil. Almost equal in dollars, and in number of states offering such aid, were capital outlay aid and compensatory education aid. Capital outlay aid is used for school construction and site improvements, rather than the day-to-day operation of the school. Compensatory education is designed to aid pupils whose skills are below some performance standard, often defined by state testing programs. Twenty-nine states reported state aid for capital outlay (school construction and site improvements), totaling $2 billion dollars, a pupil-weighted average of $156 per pupil. Twenty-seven states reported state aid for state compensatory education programs, a total of 1.8 billion dollars, a pupil-weighted average of $84 per pupil.

Bilingual education state aid is designed to assist school districts in offering programs for children who are limited in their English-language proficiency. Only ten states reported state aid for bilingual education, for a total of 292 million dollars, a pupil-weighted average of $32 per pupil.

Gifted and talented state aid is devised to assist school districts in offering programs to students who are identified by teachers and guidance counselors as exceptional. Twenty-two states reported state aid for gifted and talented programs, for a total of 196 million dollars, a pupil-weighted average of $11 per pupil.

General formula aid, by state. On an average per-pupil basis, Alaska and Hawaii led the nation at over $4,000 per pupil, (see Table 2). Delaware and Washington also distributed means of over $3,000 per pupil. At the other end of the spectrum, South Carolina distributed general aid, on average, of $852 per pupil, while New Hampshire distributed a mean of $317 per child. Such general formula aid is principally for equalization, that is, for property-poor school districts to have the resources of property-wealthy school districts. The amount of aid per pupil is often dependent upon the state share, that is, the amount of the average school district's revenue that the state assumes. On average, the state share is approximately 47 percent. However, states vary remarkably in the degree of state share they exhibit, for example, New Mexico provides 72.9 percent of the average school district's total revenue, while New Hampshire provides 8.4 percent

[1] All numbers in this paper should be considered preliminary and subject to revision.

of the average school district's total revenue (Fowler, et.al., 1993).

Comparisons of State Aid to School Districts within Each State

General formula aid. Throughout the nation, 14,328 regular school districts (excluding special education, vocational-technical, and regional service units) receive state aid for general formula aid, with a pupil-weighted mean of $1,809, and a coefficient of variation (c.v.) of 50.54 (see Table 2) [the pupil-weighted c.v. of 50.54 can be interpreted (Berne and Stiefel, 1984) in such a way that 2/3 of all school districts are within 50% of the $1,809 mean, that is, between $909 and $2,723.]. New Hampshire has the largest c.v. of 111.63 for 116 school districts, with a pupil-weighted mean of $317. New Hampshire also distributes the smallest total general state aid, only 46 million dollars. Michigan, Connecticut, and Illinois also have a c.v. of over 50. Michigan has a pupil-weighted mean of $1,638 for 442 school districts, and a c.v. of 69.61. Connecticut has a pupil-weighted average of $2,056 for 158 school districts, and a c.v. of 60.03. Illinois has a pupil-weighted mean of $1,126 for 944 school districts, with a c.v. of 55.24.

At the other extreme, Delaware, Tennessee, and Alabama all have a c.v. under 7. Delaware has a pupil-weighted mean of $3,172 for 16 school districts, a c.v. of 6.62. Tennessee has a pupil-weighted mean of $940 for 137 school districts, and a c.v. of 5.70. Alabama has a pupil-weighted mean of $1,024 for 129 school districts, and a c.v. of 4.95.

Discussion

The tables show considerable variation in all types of state aid, both within the nation and within states. Some of this variation is associated with geographic differences in the costs of providing similar educational services. Previous studies have shown that purchasing power across the nation varies by some 40 percent (McMahon and Chang, 1991).

Part of the these differences are due to purposeful state action. For example, New Mexico provides a large share of revenues for its 84 school districts, a total of 899 million dollars, or a pupil-weighted average of $2,920. New Hampshire has a long history of local funding, and so the state provides a pupil-weighted average of $317, and a total of 46 million dollars. Larger state share may reduce expenditure variation, as districts may rely less on local wealth to finance education.

The state may also distribute aid on the basis of school district characteristics not shown in these simple descriptive statistics. For example, general formula aid may be designed to flow primarily to property-poor school districts, to provide both tax relief and sufficient state and local support. In this regard, state aid may simply reflect large variations in school district wealth within a state. Aid may also be the result of high concentrations of students with certain characteristics, such as students in poverty, or bilingual students.

The presence of high coefficients of variation, alone, may also not be of concern. With expenditures per pupil, high coefficients of variation may be a sign of inequality, but this is not necessarily true with state revenue. A state with low c.v.'s may not be aiding school districts proportionate to their needs. For example, Alabama has a c.v. of 4.95 for general formula aid for its 129 school districts. However, if these school districts differ dramatically in wealth or needy pupils, distributing almost equal per pupil amounts to all school districts is not desirable.

Other differences may be the result of school district actions. For example, most state aid for pupil transportation reimburses, either wholly or in part, the expenses the school district has incurred transporting pupils (usually in a prior year). Capital outlay (school construction) state aid also depends upon the school district initiating purchases of land, building repairs and additions, or school construction (which can be a function of changes in enrollment). State aid for gifted and talented programs and staff improvement normally depends upon the school district having a state-approved program, and more often than not are reimbursements for existing school district programs.

Conclusions

State aid to school districts, both within the nation, and within states, varies widely. Whether or not this variation is desirable requires more detailed analysis. Certainly one of the first steps is to combine school districts characteristics, such as wealth, and student body composition, and then repeat the analysis. If, for example, general formula aid was greater for wealthy school districts than for poor school districts, that pattern of aid would appear to be undesirable, whether or not the pattern was present within the nation, or within a state. Equal amounts of general formula aid under conditions of vastly different school district wealth would also not be desirable. In short, while this paper has been a useful first step to knowing how much state aid, of what type, is distributed to the nation's school districts, it cannot interpret the observed patterns, particularly regarding equity for students.

Table 1

State Aid for States Reporting Such Revenue By Type

Type of State Aid	Number of Districts	Average Revenue Per Pupil	Total Revenue
General Formula	14,328	$1,809	$73,736,000,000
Special Education	9,015	$206	$6,098,000,000
Staff Improvement	6,002	$135	$2,989,000,000
Pupil Transportation	9,638	$88	$2,571,000,000
Capital Outlay	3,164	$156	$2,047,000,000
Compensatory	5,724	$84	$1,759,000,000
Bilingual	1,639	$32	$292,000,000
Gifted and Talented	3,589	$11	$196,000,000

Note: Preliminary data, all numbers subject to revision.

Source: U.S. Department of Education, National Center for Education Statistics, using the U.S. Bureau of the Census as collection agent, Survey of Local Governments, School Systems.

Table 2

State General Formula Aid for States Reporting Such Revenue, By State

State Name	Number of Districts	Average Revenue Per Pupil	C.V.	Total Revenue
Alabama	129	$1,024	4.95	$742,808,000
Alaska	52	4,704	37.20	549,924,000
Arizona	207	2,047	32.09	1,334,726,000
Arkansas	320	1,918	20.57	837,754,000
California	1,004	2,172	41.95	10,880,108,000
Colorado	175	1,995	33.18	1,182,307,000
Connecticut	158	2,056	60.03	941,580,000
Delaware	16	3,172	6.62	310,768,000
Florida	67	1,411	32.28	2,722,076,000
Georgia	182	1,999	17.15	2,349,068,000
Hawaii	state system	4,060		707,386,000
Idaho	113	1,623	18.26	366,325,000
Illinois	944	1,126	55.24	2,061,902,000
Indiana	294	2,280	17.26	2,171,852,000
Iowa	425	$2,090	13.22	$1,026,724,000
Kansas	304	1,691	43.24	738,836,000
Kentucky	176	2,290	12.70	1,451,940,000
Louisiana	66	2,195	11.08	1,666,937,000

Table 2 (continued)

State General Formula Aid for States Reporting Such Revenue, By State

State Name	Number of Districts	Average Revenue Per Pupil	C.V.	Total Revenue
Maine	222	2,147	45.90	445,245,000
Maryland	24	1,193	36.09	878,268,000
Massachusetts	307	1,034	71.52	834,092,000
Michigan	442	1,638	69.61	2,072,450,000
Minnesota	422	2,284	27.48	1,738,572,000
Mississippi	153	1,654	8.06	828,851,000
Missouri	541	985	37.20	813,014,000
Montana	509	1,972	25.37	301,380,000
Nebraska	758	1,345	34.90	374,757,000
Nevada	17	1,894	30.08	401,226,000
New Hampshire	116	317	111.63	46,331,000
New Jersey	353	2,551	56.24	2,046,830,000
New Mexico	87	2,920	15.96	899,099,000
New York	701	2,656	35.07	6,954,527,000
North Carolina	133	$2,232	20.57	$2,423,291,000
North Dakota	265	1,637	9.14	194,037,000
Ohio	603	1,600	29.99	2,679,149,000
Oklahoma	569	2,330	17.74	1,365,629,000
Oregon	292	1,283	33.91	638,279,000

Table 2 (continued)

State General Formula Aid for States Reporting Such Revenue, By State

State Name	Number of Districts	Average Revenue Per Pupil	C.V.	Total Revenue
Pennsylvania	500	1,781	37.92	2,962,721,000
Rhode Island	35	2,170	27.32	302,628,000
South Carolina	90	852	17.74	530,383,000
South Dakota	173	916	42.65	117,887,000
Tennessee	137	940	5.70	782,485,000
Texas	1046	1,125	45.54	3,896,909,000
Utah	34	1,005	26.90	441,253,000
Vermont	206	1,982	78.26	144,164,000
Virginia	133	1,208	33.38	1,229,999,000
Washington	296	3,140	10.70	2,729,835,000
West Virginia	55	2,402	9.01	769,291,000
Wisconsin	427	1,908	45.23	1,553,416,000
Wyoming	49	2,951	47.03	297,711,000
Total	14,328	1,809	50.54	73,736,730,000

Note: Preliminary data, all numbers subject to revision.

Source: U.S. Department of Education, National Center for Education Statistics, using the U.S. Bureau of the Census as collection agent, Survey of Local Governments, School Systems.

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ILLINOIS

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SCHOOL FINANCE POLICY ISSUES IN ILLINOIS

In both 1992 and 1993 the "State-of-the-State" report for Illinois painted a bleak and unpleasant picture. A picture of a state in fiscal and educational turmoil, a pending lawsuit, and an unsure educational future. 1993 did not bring the much hoped for relief. Almost 100 school districts were placed on the State's "Financial Watch List" this past fall. The collar counties surrounding the City of Chicago continue to struggle with the effects of a property taxation cap that limits access to the natural growth of their tax base. The Chicago Public Schools continue to struggle with decentralization, budgetary constraints, and the Chicago Teachers Union experienced the loss of long-time leader Mrs. Jackie Vaughn. The political arena is heating up as the state moves toward a gubernatorial election in the Fall of 1994. The Democratic Party, in a highly visible primary election, nominated Dawn Clark Netsch their gubernatorial candidate with experience in both State government and the legislature. She has been involved with the Illinois Education Reform Act (1985) and most recently with the Task Force on Education Finance Reform's work and proposal. Her nomination victory, was built upon a platform of educational funding reform-which is a welcome change from the current Republican leadership's "reform your own spending habits" and "no new money" positions for many of the states financially strapped school districts. However, critics have attacked the proposal as an historic "tax and spend" approach, that is short on detail and long on rhetoric to school problems, and not one geared toward long-lasting systemic educational reform.

This is also the first implementation year of the new review process for the revised Accountability Standards passed by the Illinois Legislature. The development of School Improvement Plans, and state recognition tied to continuous improvement, not maintenance of prior achievement, has some districts worried. However, information from selected districts among the first to experience the new on-site evaluations, indicates a need for the State to develop a better rubric for evaluation conditions. Several administrators reported members of the same on-site team were unsure exactly what to look for in the newly required student profiles and authentic assessment procedures. There appears great variance in what constitutes acceptable planning by districts in this first round of the approval process. Given the history of Illinois school and legislative politics, it would not be unreasonable to anticipate heavy lobbying by the State Superintendent's Association and other educational groups, such as the School Boards Association, Principals, and Teacher's Unions placing increased pressure on the legislature and the Illinois State Board of Education to suspend visitations until the rubrics are more finely tuned, and the evaluators more highly trained. The legislation states re-visitation will be conducted at approved sites within a 5-7 year cycle. Several administrators stated evaluation teams were "guessing" this would be maintained, but no one knows definitively at this time. It appears our cart-precedes-our-horse in readiness to engage in this newly approved recognition process for Illinois' public schools.

On June 2, 1994 The Illinois State Board of Education appointed its latest State

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Superintendent. Joseph A. Spagnolo, 51 will succeed Robert Leninger who leaves to join a St. Louis Banking firm. Spagnolo is an acknowledged advocate of Outcomes-Based Education, and is the former state superintendent from Virginia. Spagnolo acknowledged at his opening press conference:

> he knows little about Illinois school funding, politics, or other education issues, but he pledged to determine state policies only after meeting with school groups, educators, and unions from across the state.
>
> "My thrust is not so much for them to hear me but for me to hear them," he said. (Chicago Sun-Times, 6/2/94, p.50).

Unfortunately, as the legislature sits deadlocked on the state budget to begin on July 1, 1994 the new state superintendent is not even in the state to lobby for the education budget with leaders in the House or Senate. The leadership in both houses is hopelessly mired in battles over how to fund the next fiscal year's budgetary items. Primary among these is the reform of the State's Medicaid Program. As recently as this week (6/20-24/94) House Democratic leader Mike Madigan (Chicago) announced democratic rejection of the governor's budget proposal on Medicaid reform, which had passed in the Senate. This leaves an approximate $300 Million "hole" in the FY95 budget. No movement yet appears on any front for educational funding. Leader Madigan is proposing to start from square one with FY94s Budget and begin adding to it, rather than taking the governor's proposed FY95 budget and cutting back to an affordable level. This could result in either an approximate $240 Million gain, or a $100 Million loss, for Illinois K-12 school districts. In typical form decisions will probably not occur until midnight June 30 after they "pull the plug" on the House & Senate clocks to hammer out a last-minute deal on the final budget. If not, the State begins its new fiscal year without a budget on which to operate - something Illinoisans have experienced before, but may seriously harm sitting Republican Governor Jim Edgar in his bid for re-election this fall.

Revising the Illinois Funding Formula

In late September 1993 members of the Center for the Study of Education Finance (Hickrod, et al, 1993) testified before the Revenue Committee of the Illinois State Legislature on the relationship of the Illinois tax structure and its effect on funding of education within the state.

All these models move the State of Illinois away from dependence on the property tax base to support education and onto either the individual income tax and/or the sales tax. All could be funded by special excise taxes on gambling in all its forms with or without earmarking for education. There is little questions all could be more easily financed with the adoption of a progressive state income tax in place of the present flat rate income tax. All models assume that money does make a difference, or, at least that large differences in money spent between school districts does represent real differences in educational services provided to the children of citizens.(p.16).

In all the report put forward twelve variations on formulas to alleviate the current fiscal stress and disparities of the current Illinois formulary system. They included. Three "sets" labeled I. First Order-Tidal Waves (involving major structural revision in the current K12 funding system); II Second Order-Rough Seas (while still related to structural change, these were viewed as less "radical" in their configurations); and III Third Order-Sea Changes (assumes the current system is fundamentally unchanged and only modifications of the current system are proposed). The most radical, the First Order-Tidal Waves included three proposals. The first, Full State Assumption Plus Local Tax Overrides replaces the local property tax with a state-wide tax earmarked for education at approximately $3.50/$100 EAV. It recommended funds be distributed on a flat-grant basis at a level of approximately $4,000/weighted pupil. The values were determined for Unit (K12) district configurations. Illinois currently has a three type district configurations. Districts may be elementary, high school, or unit (K12) in their configuration. The principle of an additional weighting for poverty impaction, similar to the current formula is retained, and adds a geographic "cost of living" index to the weighted pupil count. No measurement of wealth is needed. Districts would be allowed to pass local-option referenda to fund spending levels above $4,000/weighted pupil, but if the referenda failed communities would be forced to lower their spending limits to the $4,000 level. No proposals for dollars to follow children were included to show that no public choice plan was being included.

The second plan in this first tier proposed Full State Assumption for Elementary Schools and continued joint state-local funding for high schools. Under this plan the state "picks up" the entire cost of all elementary education and formula funding continues to be utilized for high school education. The referenda adjustment is retained for local option to exceed the state-wide rate. This plan eliminates the Unit(K12) district from Illinois in entirety and was stated to be a possible effort to promote regionalization of Illinois' schools, yet retain the community identification so paramount in rural areas of the state with existing schools while allowing for increased efficiency by regionalizing the high school attendance centers.

The final plan in this first tier was a Foundation Approach with Recapture plan. This would return Illinois to the formulary it utilized from 1927 until 1973 and provides for a grant equal to the foundation level times the weighted pupil minus the required tax rate times the local valuation per pupil - traditionally known as the Strayer-Haig funding formula. The only change from the original is that in this proposal when the state-required tax rate times the local valuation exceeds the foundation level times the number of weighted pupils the "excess" dollars are placed in a pool used to fund the higher foundation level of the grant. It was also suggested that this excess could fund a pool for property tax relief.

The Second Order options included an additional three models - High Foundation with Tax Overrides; High Foundation with an "Equal Expenditure for Equal Effort" Add-On; and A Political Compromise Model. The first is similar to the third option in the First Order series. In this one, however, there is no re-capture element and taxation beyond the state-mandated rate would require override referenda. Once again the foundation level is in the $4,000/weighted pupil range. This option also includes recommendations for cost moderations to the state through special excise taxes on off-track betting, riverboat gambling, and land-based casinos plus a broadening of the sales tax base to somewhere in the vicinity of 4-6%

The second option in this tier is a "two-tiered" formula that allows for a high foundation formula and local option override. However, the yield on this override would be equalized by additional state aid. This would guarantee any district the same amount of state dollars plus local dollars and is similar to the system Illinois utilized between 1973 and 1980. It does differ, however, from that earlier formula in that the major funding is carried by the foundation and not the distribution section of the formula.

The final option in this tier give the current governor the extension of the Tax Limitation Cap in the collar counties to the entire state, but increases the foundation level by $900 ($300/year for each of 3 years). A recommendation for a "cap-for-cap" trade is also made relative to the second cap currently existing on the poverty weighting in the existing formula.

The third tier of formulae assume the current system of funding is not changed and recommends a series of modifications for consideration by the legislature. In all, six variations-on-a-theme are proposed. They include providing a longer moving average for computing weighted pupils (currently use is a 3-year moving average); the second recommends adding ADA and ADM together and dividing by 2 to aid urban schools in providing staffing and programs even with high truancy rates; the third escalates the foundation level yearly through a cost-of-living index; the fourth variation is the same as the prior (cost-of-living indexing) but says select-a-point-in- time in the last 15 years and "catch up" the current formula, recognizing that 5-6 years is a reasonable back-up given the states economic situation. The fifth variation establishes full-funded state charter school districts" as experimental schools not subject to the restrictions of other districts, and would not affect other districts funding as they would be "off budget" from the existing formulary and fully funded by the state. The last variation proposed a system of "merit schools" (not districts) with direct funding from the state based on gains in test scores and output measures over a five-year period.

While each of the recommendations have merit, without additional revenues for education, none will be adequate as Illinois' current level of education funding. The need for a revision of the taxing structure will be necessary if any substantial changes in Illinois are to be evidenced. Without new revenues, any formula will be prorated, as in the current formulary, and the children of Illinois - especially in poor urban and rural communities - will be no better off than at present. This shortfall is even affecting the wealthier districts in the state where increases in student/user fees are taking substantive climbs for the next school year. Already several districts within DuPage and Kane Counties have announced increases for registration fees, textbook rentals, sports and club fees, student parking, music instrument rental and instructional fees. One set of parents has filed a lawsuit stipulating that "instructional fees" violate the Illinois Constitution's guarantee of a free public education through the secondary level

Chicago Reform-Where Does It Stand?

A recent report from the Consortium on Chicago School Research reports that 40% of the city's elementary schools are making "systematic educational improvements" that result in student achievement and another 20% show some evidence of initiating such changes. In the schools were these change have begun new principals were hired to focus on instructional improvements and the use of "best practices" by teachers. These schools are spread throughout the city and cross racial, social, economic, and ethnic boundaries. In addition the study reports these schools are "strong democracy" units in which principals, teachers, parents, and community leaders collaborate on the process of school improvement. The report's conclusion states:

> between 36 and 45% of elementary schools show characteristics of systemic improvement efforts. Case-study schools in this category are developing well-integrated educational programs, designed specifically for their own students and circumstances, which are more likely to deal with core instructional issues.
>
> Teache[illegible] are more involved; they share [illegible]ponsibility; and they are more likely to be changing their regular classroom instruction...In sum, although improvement in student learning is the ultimate standpoint for evaluating the long-term success of PA 85-1418, there is little reason to expect substantial change at this point in time.

The Chicago School Reform Act (PA 85-1418) created at least "three sites of power" - the Local School Council, the faculty of the school, and the principal. The study was able to describe these patterns and estimate the percentage of schools falling into each category:

- Consolidated Principal Power-the principal dominates decision making.
- Neither faculty, parents nor community initiate sustained effective involvement about 43% of schools.
- Adversarial Politics- school stakeholders are caught up in a long-term fight focused on

control for its own sake, rather than on substantive issues of educational improvement - about 7% of schools.

- Maintenance Politics- principal negotiates among active parents, community, and teachers, granting their individual requests for programs, equipment, etc.

- The participants are complacent, believing that no systematic improvement are needed and the resulting changes are unfocused - about 20% of schools.

- Strong Democracy- sustained debate occurs among all three groups on standards, goals, changes and collaboration for school improvement - about 28% of schools. (p.5)

The consortium study drew on results from 28 in-depth case studies of neighborhood elementary schools, and detailed citywide surveys carried out by the consortium from principals and teachers in 400 schools. The major focus covered the analysis of 86% of Chicago elementary schools with low levels of achievement prior to reform. In the four years since the reform act took effect the system was forced to eliminate waste, and reallocate funds from centralized functions and central office administration to spending and allocating more of their dollars to individual school sites. However, the fiscal crisis for Chicago is far from over. The consortium report closes with the following statement:

> The fiscal solution must assure some stability to the system over the years ahead. Budget crises have dominated school reform throughout much of its first four years. There is only a limited number of important issues that top leadership in any organization can entertain at any one point in time. Unless fiscal issues are moved off the back burner, the school system may never devote sufficient attention to how it might best support the work of schools.
>
> Substantial efforts have been made to restructure schools in Chicago. Inadequate financial support at this time would have only disastrous effects on these budding initiatives.(p.42)

Finally, one cannot discuss the Chicago Public Schools without mention of its long time Union Leader, Jacqueline Vaughn. This year Jacqueline B. Vaughn, 58, died of cancer in late January, 1994. Ms. Vaughn was the first African-American, and first woman in this century, to head the Chicago union. She became leader of the 31,000 member organization in 1984 after serving as its vice president from 1972-1984. She also served as a vice president of the American Federation of Teachers. Her trademark was a tough-style unionism in bargaining and negotiating achieving gains for teachers even in years of fiscal budget cutbacks. She attended and graduated from the Chicago Public Schools and earned her teaching credentials at Chicago Teachers College. She served on numerous state and national education committees and Task Forces, including the Task Force on Illinois School Funding Reform, the Task Force that developed the newly adopted State Accountability and Recognition Process, and both the 1985 Illinois Education Reform Act, and the Chicago School Reform Act. While she had both friend and foe amongst the educational community, all respected her for her diligence, commitment, and dedication to the welfare of Chicago's Public School children and their teachers.

School District Reorganization

The issue of efficiency in the operation of a state's public education system has been given a substantially higher profile in the last decade. Reductions in state education budgets, with increasing stress to support other state functions such as reduction in crime, drugs, and providing more mental health and police/prison services has increased the desire to encourage (or force) school district consolidation in many states.

A recent study on school district reorganization by Drs. Robert Hall of the Institute for Rural Affairs at Western Illinois University and Robert Arnold, at the Center for the Study of Education Finance, at Illinois State University looked at both the curricular and fiscal costs and benefits of consolidation in a selected number of Illinois rural school districts.

Rather than the typical mile-wide inch-deep approach that statistical research in education normally takes, individual school districts were examined in depth. In the report that follows the reader will find a review of the literature, policy data from surrounding states, and profiles of four rural consolidated school districts. The research includes a comparison of curricular offerings and financial information, interviews with board members, administrators, teachers and parents and is rich in anecdotal information.(p.1)

Illinois currently contains 942 separate school districts configured as either elementary (kindergarten through grade 8); unit districts (kindergarten through grade 12); or high school (grades 9-12). Elementary and high school constitute the "dual district" configuration often referred to in other reports related to Illinois. In financial reporting Illinois is "very much like the rest of the nation because a version of Handbook II Revised account code classifications is used"(p.3). Illinois districts by enrollment type are illustrated in Table 1 below:

Table 1

School Districts in Illinois-Enrollment by District Type

Enrollment	≤500	500-999	1000-2999	3000-5999	6000-11999	12000+
Dist.Type						
Elem.(K-8)	182	78	118	25	5	1
H.S.(9-12)	29	24	36	16	5	0
Unit (K-12)	104	133	132	28	16	10
Total:	315	235	286	69	26	11

Source: Illinois Teacher Salary Schedule Survey, 1991-92, Illinois State Board of Education, Springfield, Illinois.

The summary of the report documented a somewhat contradictory Illinois finance policy relative to school consolidation. At the same time the state is pushing for more decentralization of both financial and curricular decisions at the building level within the City of Chicago (District #299-a unit, K-12, district) it also is providing an insufficient level of funding for rural schools to provide adequate educational programs, encouraging them to reorganize into larger and more economically efficient operating units. The study did, however, highlight that the advantages of reorganization appeared to outweigh the disadvantages and revealed that students were afforded better educational programs, teacher salary and benefit packages increased, teachers were able to concentrate on their field of specialization in greater numbers, and local taxpayers were offered less burdensome tax liabilities. An added advantage appeared to be the increased equity growth evidenced in the communities studied. That is, small rural communities found it difficult to attract or retain population if without a viable educational program. The efforts to consolidate and regionalize appeared to show an increase in local property equity values which communities could use to "market" themselves. This became important, especially in light of recent demographic events in the rural communities of Illinois. The Institute of Rural Affairs reports:

> The 1980s did not favor rural areas. Of the 74 nonmetro counties in Illinois, 70 lost population during the decade. Statewide, rural counties lost 5.59 percent of their population in the 1980s compared with an average gain of 1.20 percent in metropolitan counties. The extend of population decline varied widely among counties, with Mason county in the West central region losing 16.53 percent and Pulaski in the southern region losing 14.90 percent.
>
> By region in Illinois, northern counties fared best with an average increase of 1.14 percent. But this average reflects increases in the Chicago suburban counties; most rural counties experienced at least a small decrease. Southern counties lost an average of 1.70 percent, followed by eastern counties with a 2.64 percent decline and western counties with a decline of 6.11 percent.
>
> Population declines can create several problems for rural areas. First, smaller populations mean that threshold sizes in rural areas are no longer met and home businesses will close. Second, small populations make it more difficult to provide high quality public services at a reasonable cost. The number of residents who must pay for services is small, and the tax base will shrink. This may mean, ultimately, that service delivery must be consolidated or reorganized. For instance, some rural counties may be required to reduce the number of school districts in the future. (p.2)

The study also documented students appeared to benefit and adjust to the new configurations without substantial stress and achievement fallout. One disadvantage, however, appeared to come from a small, but non significant, increase in student travel time associated with the consolidations.

In looking on the curricular aspects of the investigation the authors reported:

> "...four years after consolidation some of the districts are back in financial difficulty because boards of education and administrators do not reduce expenses by changing the instructional program. The rural school districts in Illinois do not gain long term from consolidation because the boards and administration continue "education as usual."

Several fiscal incentives exist in Illinois for the consolidation of school districts. Among these are eligibility for capital development money when districts with over 1000 students (or 500 in a high school) consolidate the state picks up 70% of the cost of a new high school building. The state will also eradicate existing district deficits so newly formed districts start out fiscally "fresh". However legislators are sensing these deficits are being contrived by local districts, die to the current shortage of state funds. Newly consolidated districts are "held harmless" that is, they do not receive reductions in general state aid that might be evidenced by the combination of their tax bases, and finally the state offers a bonus of $4,000/teacher to make up the differences between the highest and lowest salaries.

None of the consolidation incentives encourages local district efficiencies and there is nothing requiring the reorganization of teaching staffs, curriculums, or incorporation of technology to meet state mandated goals. As a result consolidation brings an influx of needed funds to local districts with no accompanying requirement for changed behaviors or attitudes regarding curriculum, innovation and change, management, or attitudes on what constitutes an "adequate" educational opportunity. Hall and Arnold calculate the Illinois cost/classroom at approximately $94,000 (State avg. exp/pupil of $4,950 x avg. class size of 19), including the average teacher's salary with benefits of $35,000. That leaves approximately $59,000 for instruction and other costs - however, as the authors point out most administrators do not understand what instructional processes should cost and control their budgets with "parsimonious approval of purchase orders, and they replace higher paid teachers with lower paid beginning teachers. Administrators do not as a rule look at a program and determine how to deliver it at less cost. Their inclination is to try to increase revenue."(p.4)

In summary the authors conclude that consolidation is not the answer. Cost control over effective use of teachers, more technology in the curriculum, and a higher level of attention to the effects of curriculum on expenditures are the necessary components of essential educational improvement in Illinois.

The authors summarize it this way:

> Meaningful reform of school finance in Illinois cannot be realized until the state addresses the key issue of school district reorganization. While Illinois simply can no longer afford the luxury of over 940 separate independent school districts, reorganization by itself, even with financial incentives, is not the solution to the current school finance problems. After incentive money is spent, reorganized districts can find themselves in financial difficulties like all other districts in Illinois because of the lack of adequate financial support. The state must decide what educational opportunities must be afforded each child in Illinois and then ensure that the organization and fiscal capacity is there to support it. A child's education must not continue to be a function of where they live.(p.39)

Summary

In summary, then, readers now have a deeper understanding of this paper's title. Illinois over the last three years has endeavored to improve its educational system, but continues to fall short of its goal. Attempts to produce economic efficiencies come at the expense of educational programs in rural communities at the same time decentralization efforts in Chicago endeavor to do what rural schools have always had - parent, teachers, and communities working together. State incentives send mixed messages: consolidate and decentralize. State fiscal incentives are built in piecemeal fashion, with little foresight in their cumulative effects on the long term development and improvement of Illinois' schools. The new accountability standards for high expectations and state-level goals is rhetoric without a funding formula behind it. Political realities continue to encumber movement toward a fairer system within the state- and for FY95 even for agreement on how to fund the state's budget at all. Administrators continue to seek additional revenues, or cut costs without a deep understanding of how curricular expenditures relate to overall fiscal health or efficiency.

For the last two years this author has advocated that the current growth-spend-improvement curve was antiquated and a new representation of educational realities must be developed if Illinois is to increase its literacy and graduation rates. Unfortunately, nothing that has occurred during the past year would lead to be belief this revelation has been realized by the political and educational leadership of this state. Its "business as usual" in the legislature, the statehouse, and in local district administration. Somehow no one believes that the modern era is over, and that the dynamics of globalization, technology, and multi-ethnic, and multicultural boundedness has forever changed what schooling must do - in this state, this country, and around the world. More money alone will not do it. It will take an entirely new vision - a vision on collaboration. A vision that stops "ranking" students and teachers and districts by placing them in competition for limited numbers of "A" grades, merit increases, or tax-base wealth. Only until we focus on the process of education, not its inputs or outputs will it change. Everyone must understand their role and the benefit gained from their efforts at improving the process of education - that "black box" of magic events we call schooling in America. Only until we stop blaming people, and start developing good process will things change. But such is the fantasy of poets and philosophers - not of legislators and school administrators - more's the pity.

INDIANA

Anthony Rolle, Indiana University

SCHOOL FINANCE POLICY ISSUES IN INDIANA

- New "Reward for Effort" Funding Formula
- Influence of School District Wealth and Tax Rates on District Revenue

Indiana's New School Funding Formula

The primary objective of a "reward for effort" school funding formula is to reduce the influence of variations in district wealth by providing property-poor school districts with access to a larger per pupil tax base. State policy makers also hope this approach will permit some local determination of education funding levels. The two major objectives of school finance systems -- greater equality of fiscal resources and local control -- involve trade-offs. Indiana's new "reward for effort" or guaranteed tax base school funding formula reflects an attempt by policy makers to reach a workable, and constitutional, compromise between political factions supporting these two often incompatible goals.

The goal of Indiana's new formula is to replace the current link between school district property wealth and school district revenue with a formula that rewards higher tax rates with greater school district revenue. As shown in Table 1, assessed valuation per pupil is strongly correlated with local revenue per pupil. On average, school districts in Indiana generate $28.66 per pupil in local revenue for each additional $1,000 in assessed valuation per pupil. The relationship between assessed valuation per pupil and total revenue per pupil is mitigated by the strong inverse relationship between state revenue and local property wealth. However, on the average, school districts in Indiana generate $7.58 per pupil in total revenue for each additional $1,000 in assessed valuation per pupil.

Table 1

1993 Relationships Between Assessed Valuation Per Pupil and Revenue Per Pupil

	Local Revenue Per Pupil	State Revenue Per Pupil	Total Revenue Per Pupil
Correlation Coefficient with AV/Pupil	0.89	-0.81	0.38
Elasticity per $1,000 change in AV/Pupil	$28.66	-$21.08	$7.58

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Influence of School District Wealth and Tax Rates on Revenue

The objective of the state's "reward for effort" formula is to reduce the importance of assessed valuation per pupil in revenue generation while increasing the influence of tax effort. To evaluate the effectiveness of the new funding formula in meeting this policy objective, this paper will estimate a series of multiple regression analyses to measure the effect of tax rate and assessed valuation per pupil of school corporations on projected revenue per pupil in 1993-94, 1994-95, and 1995-96.

As shown in Table 2, the variation in local revenue per pupil explained by assessed valuation per pupil increases from 79.8% in 1993-94 to 86.6% in 1995-96, while the variation in local revenue per pupil explained by local property tax rates decreases from 13.2% in the 1993-94 to 9.5% in 1995-96. The positive statistically significant relationship between both explanatory variables and local revenue per pupil shows when either assessed valuation per pupil or local tax rate increases, local revenue per pupil increases. However, assessed valuation per pupil has a much larger influence in determining local revenue per pupil than does the local tax rate.

As shown in Table 3, the variation in state revenue per pupil explained by assessed valuation per pupil increases from 65.6% in 1993-94 to 77.1% in 1995-96. The relationship between assessed valuation per pupil and state revenue per pupil is negative. In other words, as assessed valuation per pupil increases, state revenue per pupil decreases. The variation in local revenue per pupil explained by tax rate remains basically unchanged between 1993-94 and 1995-96. The negative statistically significant relationship between assessed valuation per pupil and state revenue per pupil indicates that the state is funneling state aid to low property wealth school districts.

Table 2

Variation in Local Revenue Per Pupil Due to Assessed Valuation Per Pupil and Tax Rate

Year	Variation Due to AV	Direction of Local Revenue/AV Relationship	Variation Due to Tax Rate	Direction of Local Revenue/Tax Rate Relationship
1993-94	79.75 ***	positive	13.24 ***	positive
1994-95	83.50 ***	positive	11.56 ***	positive
1995-96	86.59 ***	positive	9.49 ***	positive

* p < 0.05 ** p< 0.01 *** p < 0.001

Table 3

Variation in State Revenue Per Pupil Due to Assessed Valuation Per Pupil and Tax Rate

Year	Variation Due to AV	Direction of State Revenue/AV Relationship	Variation Due to Tax Rate	Direction of State Revenue/Tax Rate Relationship
1993-94	65.62 ***	negative	1.34 ***	negative
1994-95	72.29 ***	negative	0.00	neutral
1995-96	77.12 ***	negative	0.54 **	positive

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

As Table 4 shows, the new "Reward for Effort" formula appears to be succeeding in its goal of linking total revenue per pupil to local property tax rates. Variations in total revenue per pupil explained by assessed valuation per pupil decrease from 14.0% in 1993-94 to 5.9% in academic year 1995-96. In contrast, the variation in total revenue per pupil explained by property tax rates increases from 21.9% in the 1993-94 to 40.0% in 1995-96. These findings show property tax rates becoming significantly more influential than assessed valuation per pupil in determining total revenue.

Table 4

Variation in Total Revenue Per Pupil Due to Assessed Valuation Per Pupil and Tax Rate

Year	Variation Due to AV	Direction of Total Revenue/AV Relationship	Variation Due to Tax Rate	Direction of Total Revenue/Tax Rate Relationship
1993-94	13.94 **	positive	21.91 ***	positive
1994-95	9.56 *	positive	30.45 ***	positive
1995-96	5.87	positive	40.00 ***	positive

* $p < 0.05$ ** $p < 0.01$ *** $p < 0.001$

School Finance History in Indiana

In 1987, the Lake Central School District filed suit against the State of Indiana charging that the education funding formula failed to "provide for a general, and uniform system of Common Schools" (Indiana State Constitution, Article 8 § 1), violated the Equal Protection clause by granting property-rich school corporations the privilege of generating more revenue than property-poor districts (Indiana State Constitution, Article 1 § 23), and that state property tax limitations take fiscal control away from local school districts while aggravating funding disparities across districts (Lehnen & Johnson, 1989).

In 1991, the House Select Committee on Primary and Secondary Education began meeting to "create legislation addressing both improvements in finance equity and general education reform" (House Select Committee, 1992). The key component of the proposed legislation, which is being enacted in 1994, was the creation of a new funding formula that hopes to balance the joint goals of reducing disparities in revenue generating capacity and local tax effort among school corporations (Bauer, 1992). In 1993, the Lake Central plaintiffs agreed to have their lawsuit "dismissed without prejudice" with promises from Governor Evan Bayh and the General Assembly that the year's legislative session would seek a more equitable education funding formula. Indiana's new "reward for effort" or guaranteed tax base funding system is the result of this effort.

Conclusion

It appears that Indiana's "Reward for Effort" formula has the potential to fulfill its policy goals by removing the influence of wealth within the old funding formula and placing the influence on local tax effort. A question related to this policy objective is whether Indiana can achieve greater equity in the taxing capacities of school corporations given the discretion allowed in the current property tax assessment procedures. The overwhelming concern is how to control the incentives that exist to underassess property to create an illusion of lower value. This potential problem is the next school finance policy issue to be addressed by the Indiana General Assembly and the State Property Tax Board.

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IOWA

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SCHOOL FINANCE POLICY ISSUES IN IOWA

Numerous major policy issues relating to Iowa's state school finance plan are evident. The issues discussed here were considered and rated in November 1993 by 76 superintendents and school business officials attending a school finance seminar sponsored by The University of Iowa's Institute for School Executives.

The rank order of the seven major policy issues identified and their weighted values are presented below and the weighting of all 26 items rated are presented in Table 1. (See Table 1 at the end of this paper.) The weightings were achieved by assigning 2, 1, and 0 to major, minor, and no issue ratings assigned to each of 26 items. Seven of the 26 items rated received a weighting beyond 1.50, and were designated as major policy issues.

The major policy issues, with weights, were:

- providing 100% property tax equalization among districts for regular program costs--1.82 weight
- requiring state legislation and mandates to have accompanying funding provisions--1.78 weight
- modifying procedures for determining annual allowable growth in school budgets--1.69 weight
- modifying special education funding--1.67 weight
- developing a totally new state school finance plan--1.61 weight
- modifying 60% requirements for passage of bond referenda--1.59 weight
- establishing by statute equitable procedures for reducing state aid when cutbacks are made--1.57 weight

From Table 1 it can be observed that 16 of 26 items were considered to be minor issues in Iowa school finance, i.e., a weight of 1.0 to 1.49. Only three of 26 items were considered not to be issues. Issues considered to be significant based on weights, though not major by definition (1.41 to 1.49), related to allowable budget growth, transportation, corporate taxing for leeway, local-state partnership percentage, and funding for open enrollment (see items 24, 12, 17, 22, and 13 in Table 1).

Current School Finance Issues

Major policy issues were defined for raters as those with strong beliefs "for" or "against" existing policy, practice, or procedure; minor issues with moderate beliefs...; no issue with weak beliefs. Weights assigned were 2 for a major issue, 1 for a minor issue, and 0 for no issue. The seven issues receiving a weight of 1.50 or greater were designated major and are discussed below.

<u>Providing taxpayer equalization--1.82 weight</u>. In Iowa for 1993-94 school tax levies had a three-fold range from $8 to $24 per $1,000 property valuation; property valuations had an approximate seven-fold

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range from $70,000 to $500,000. The current foundation plan equalizes property taxes for 83% of "regular program costs." These "regular costs," however, exclude debt service and major equipment acquisition as well as funding for talented and gifted, student at-risk, and other local leeway provisions. Approximately one-third of Iowa's school expenditures are unequalized for property taxing purposes.

Property poor and wealthy district inhabitants tend to disagree regarding the need to amend the current equalization aspects of the foundation plan. Redistributing equivalent state aid dollars by increasing the equalization level from 83% to 100% would benefit property poor districts at the expense of property wealthy districts.

Beliefs regarding the need to recognize currently excluded programs and costs in the foundation program for equalization purposes appear to be divided along property wealth lines. There appears, however, to be majority agreement or support for state equalization provisions for debt service and major physical plant and equipment modifications and acquisitions.

The recognition, to some degree, of personal income as an indicator of a district's ability to pay remains an unresolved issue with regard to the distribution of state equalization aid monies. Whenever state finance revisions are discussed or considered for improving property taxpayer equalization, the related issue of using personal income as a criterion measure is argued.

Requiring state legislation and mandates to have accompanying funding--1.78 weight. It has been common practice for the legislature and the state's education department to require new and expanded programs and procedures without accompanying funding for implementation and operation. Given an annual imposed state budget growth percentage and ceiling on school budgets, the funding for new and expanded programs typically has come from budget reallocation, i.e., program and personnel reductions.

The lines of opposition appear clear here. At the local educational agency level, strong objections are heard. At the state level, the local objections are either ignored or lose to state fiscal constraints.

Modifying procedures for determining annual budget growth in school budgets--1.69 weight. Currently the annual allowable percentage growth in school budgets is established by legislative action in response to the Governor's recommendation. For 1994-95 the growth percentage per pupil in regular program costs will be .0285. From 1972-73 through 1992-93 annual allowable growth was determined by formulae which recognized economic factors and negated "politics" as the determinant for increasing school budgets.

The current method of determining annual allowable budget growth is viewed with scorn by a majority of school administrators. Depoliticalization of the current process and recognition of educational needs are principles expressed by proponents for change and a return to a formula procedure.

Iowa's finance plan is pupil driven. Previous enrollment decline provisions frequently resulted in a district's budget enrollment statistic exceeding actual enrollment. Starting in 1994-95 actual, not budgeted, enrollment was to be utilized to drive the state funding plan and local district budget. To prevent over 100 of 397 districts from having a budget decrease in 1994-95, a 100% budget guarantee was authorized in February 1994. Funds required to achieve the budget guarantee are to be raised entirely by local property taxes.

Modify special education funding--1.67 weight. Few seem to be satisfied with the funding of special education in Iowa which utilizes three levels of weighting. Some contend too little funding (weighting), some too much funding, some too many special education pupils, hence excessive costs and so on.

Limiting a district's allowable percentage of special education students for funding purposes has been advanced with surprising legislative and district support. Attempted major revision in the funding of special education for 1993-94 failed in the 1993 legislative session, which was preceded by a comprehensive study with funding revision proposals coordinated by the Iowa Department of Education. The issue remains "how best to fund special education" with strong divergent views held and offered in response to proposals made to date. New rules relating to reclassification of special education disabilities are being developed and reviewed at this time by the Iowa Department of Education. The impact is unknown.

Developing a totally new state school finance plan--1.61 weight. Those who support the development of a totally new state school finance plan do so for numerous and diverse reasons. Those who oppose a new plan are comfortable with the current plan, fear the next could be worse and/or would cost more money, or they are currently fiscally advantaged. School leaders appear to have much stronger and unified beliefs regarding the need for change than leaders of the executive and legislative branches. The public, in general, appears unaware or apathetic to the problems and issues involved.

The high weighting assigned by school leaders signals strong opposition to both the current total plan and to numerous parts of the plan. Opposition appears to be growing in numbers and intensity.

Modifying 60% requirement for passage of bond referenda--1.59 weight. Previous attempts to change to a majority vote have failed. An attempt in 1993 to pass a majority vote provision attached an optional district personal income surtax provision to the bill. Proponents of change to a majority vote tend to support state equalization aid for school facilities. Combining these two issues, majority vote and state equalization aid, appears to unify and increase the opposition.

Establish by statute equitable procedures for reducing state aid when cutbacks are made--1.57 weight. State aid entitlements are inverse to property wealth. When state aid entitlements have been reduced in recent years for fiscal reasons by the state, a flat percentage reduction has been applied to each district's state aid. Thus, property poor districts with large state aid payments due had the largest dollar reductions while property wealthy districts with small state aid payments due had small dollar reductions. The problem was exacerbated by authorizing districts to fund the state aid shortfall by local property taxes. A poor district would be required to have a tax levy several fold greater than a wealthy district to restore lost funding. The end result tends to be for poor districts to reduce their budget; rich districts to use a small levy to maintain the planned budget.

School Finance History

The basic current school finance plan became operational in 1972. The plan is a modified Strayer-Haig foundation plan. The plan has undergone frequent and numerous but minor revisions over the past 22 years. The intent of the original plan was to relieve property taxes and to more nearly equalize school property taxes and dollars per pupil available among districts. The plan has tended to more nearly equalize expenditures and relieve property taxes. To a lesser degree it has equalized local property taxes.

An average state cost statistic was determined in 1971 and formed the basis for the 1972 foundation formula. The average cost statistic has been adjusted annually by an allowable growth percentage. This percentage was determined by formulae until 1993; executive and legislative objections were that an allowable growth formula was not sensitive to current state political and economic concerns.

A required tax levy of $5.40 per $1,000 of property value was required of all districts in the foundation plan. A foundation level of 70% of the state average cost statistic (83% in 1994-95) set the basis for state aid. The foundation level less the \$5.40 tax levy yield equalled state aid (\$ Foundation Level - \$5.40 Tax Levy Yield = State Aid). Local property taxes are used to fund costs beyond the foundation level.

The fact that the initial 1972 \$5.40 tax levy has remained unchanged through 1994-95 has had considerable impact. While the uniform tax levy has restricted property taxes, it also has increased the demands on state appropriations with little or no gain to school districts. Increasing the foundation level from 70% to 83% increased state aid, relieved property taxes, but provided no net financial gain to education or local school districts. In years when property values and enrollments have been constant, the state has been forced to absorb 83% of the annual allowable budget growth percentage increase. A decrease in net state property values and/or an increase in state enrollment requires increased state aid contributions without changing the state costs.

There has been little legislative support over the 22 years to increase the foundation level to 100% or to increase the required tax levy beyond \$5.40 to provide increased inter-district equalization or to annually increase the required \$5.40 tax levy by the annual allowable budget growth percentage.

Programs not covered by the foundation program are funded entirely by local property tax revenues except for a local leeway program entitled "Institutional Support" which can range from \$35 to \$350 and can be funded by local personal income surtax and/or property taxes. The average property wealth district receives 25% of state aid from a quasi percentage equalizing formula for Instructional Support.

Non-equalized per pupil costs in Iowa districts include 17% within the foundation plan (approximately \$600 per pupil for 1994-95), up to approximately \$600 for other special general operating fund programs plus \$300 to \$600 for debt service and a special physical plant and equipment levy programs. To summarize, nearly one-third of expenditures are unequalized in the average Iowa school district.

Future Directions for School Finance in Iowa

If Iowa's state school finance plan were graded, an "F" would be warranted. While Iowa's school finance plan is clearly better than those operating in many states, that relative "good" is being challenged as indefensible for continuation of the current plan, however. There is increasing displeasure with Iowa's plan among school administration, teachers, and board of education members and their respective state associations. These displeasures are now being heard more clearly by legislators who will be more likely to act in off-election years, 1995 and 1997, than in 1994 and 1996. The Iowa Department of Education's Director is appointed by the Governor, which appears to have negated the former "out-front" leadership role in state school finance legislation.

To amend the current finance plan or to adopt a totally new plan is certain to be a legislative issue. Many school leaders believe that after 20 years of amending, it's time to start anew. That is, the patch-up, clean-up amendments have not resulted in the desired product; hence, a new plan is preferred.

Any new or modified plan considered will surely face issues in the following areas:

> taxpayer and student equalization, special education, pupil-weighting, economy of scale, incremental costs, open enrollment, transportation, enrollment changes, debt service/facilities, use of personal income surtax, determination of annual budget growth procedures, local leeway provisions, the desired local-state percentage partnership for funding public education, and regional service agency funding.

Unless major modifications are made or a new finance plan is adopted by or before the turn of the century, a constitutional challenge(s) to the current school finance plan can be anticipated. The increase in financial disparities among districts and discontent with the current plan will be the motivation for the challenge.

Table 1

Rating of Iowa Finance Plan Items as Major, Minor, or No Issue by 76 Iowa School Administrators November 1993

Weightings: Major Issue=2 points, Minor Issue=1 point, No Issue=0 points

		Average Weight	Rank Order of Weights
1.	Recognize economy of scale, incremental costs, and variable unit costs.	1.37	13
2.	Establish an independent agency to analyze, monitor, and recommend changes.	.88	25
3.	Modify existing special education funding provisions.	1.67	4
4.	Establish by statute equitable procedures for reducing state aid when state cutbacks are made.	1.57	7
5.	Require legislative and DOE mandates to have accompanying funding provisions.	1.78	2
6.	Utilize personal income (to some degree) as a measure of a district's fiscal capacity.	1.18	18
7.	Provide 100% property tax equalization among districts for regular program costs.	1.82	1
8.	Modify existing procedure for determining allowable growth percentage(s).	1.69	3
9.	Recognize the cost of enrollment decline.	1.33	15 *
10.	Recognize the cost of enrollment increase.	1.33	15 *
11.	Modify Phase III of the teacher salary supplement.	.92	24
12.	Recognize cost differences among districts for transportation.	1.47	9
13.	Recognize direct and indirect costs of open enrollment for sending and receiving districts.	1.41	12

Table 1 - Continued

		Average Weight	Rank Order of Weights
14.	Change the state's timing of the announcement of allowable growth.	1.24	17
15.	Modify provisions for equalization among districts for instructional support levy.	1.14	20
16.	Provide property tax equalization for locally determined programs, e.g., talented and gifted; at risk; management levy, etc.	1.16	19
17.	Require corporations to pay a full share (100%) property taxes when income surtax provisions are used.	1.43	10 *
18.	Provide some state equalization aid for school facilities.	1.37	13 *
19.	Modify 60% requirement for passage of bond referenda.	1.59	6
20.	Modify AEA funding provisions with regard to costs for special education, media, and educational service.	1.00	23
21.	Permit districts to "opt out" of AEA's and retain a percentage of flow-thru money.	.84	26
22.	Establish a 50-50 state-local partnership for state equalization aid and annual allowable growth increase.	1.43	10 *
23.	Include costs of all programs for state equalization aid when 50% or more of the state's eligible pupils participate.	1.08	21
24.	Authorize local board of education to approve and levy taxes to fund instructional support and PPEL; referenda would be required to fund bonded indebtedness only.	1.49	8
25.	Develop a totally new state school finance plan.	1.61	5
26.	Correct existing weaknesses in the current school finance plan with legislative amendment.	1.00	22
27.	Please specify (omitted from analysis here)		

*Items with equal weights.

MICHIGAN

C. Philip Kearney, The University of Michigan

SCHOOL FINANCE POLICY ISSUES IN MICHIGAN

- Elimination of local property taxes as the major source of school revenues
- Rejection of power equalizing in favor of a new foundation program
- Establishment of charter public schools as the centerpiece of quality reform

Elimination (and Partial Restoration) of the Property Tax

In late July of 1993, in lightning-like fashion, the Michigan Legislature eliminated entirely the local property tax as a source of operating revenue for the public schools. What's more, the Legislature did so without making any immediate provision for replacing the $6.5 billion lost as a consequence of its action. The Michigan Legislature, by any measure, took a giant step into the unknown. For some, it was seen as a bold and courageous move that held hope not only of breaking the twenty year legislative impasse on school finance reform but also of providing a "once-in-a-lifetime" opportunity to reform public education. For others, it was a totally irresponsible act, the "most stupid thing the Legislature had done in twenty years."[1]

Republican Governor John Engler held to the former view and moved rapidly to capitalize on the opportunity presented by this action. He delivered a Special Message to a Joint Session of the Legislature in early October 1993, and followed this almost immediately by the release of a detailed three-part plan for (1) replacing the revenue lost by the elimination of the local property tax, (2) creating a new mechanism for allocating funds to the schools, and (3) setting in place the policies and actions seen as necessary to achieving meaningful education reform.[2] The plan, entitled Our Kids Deserve Better: New Schools for a New Century: Governor John Engler's Plan to Reform Michigan Schools[3], ran some 50 pages and laid out a fairly extensive and seemingly comprehensive set of proposals. The release of the plan was followed quickly by introduction in the Senate and the House of an equally extensive package of legislative bills.[4]

The linch-pin of the Governor's funding proposal was a two percent increase in the states sales tax--from 4 percent to 6 percent. Under the Michigan Constitution, an increase in the general sales tax cannot be enacted statutorily, but rather must be approved by a vote of the people. Consequently, the Governor moved immediately to request the Legislature to place the issue on the ballot for a vote in early 1994. A counter proposal, fashioned by a bipartisan team of legislators in the House, put forth a funding plan that, in effect, supported the Governor's plan but provided a statutory fall-back that would automatically take effect if voters failed to approve the sales tax increase. The statutory fall-back called for a 1.6 percent increase in the personal income tax as the major source of replacement revenues. Both plans called for a partial restoration of the property tax--a portion to be levied locally and a portion to be levied by the State. Following a marathon session of the Legislature, agreement on the two-option package was reached on Christmas Eve, with a statewide vote slated

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Figure 1

The 12-24-93 Agreement on Revenue Replacement

	1993-94 Current	Ballot Proposal	Statutory Fallback
Sales tax	4%	6%	4%
Income tax	4.6%	4.4%	6%
Property tax (Mills):			
Homestead	34 (average)	6	12
Second homes	34 (average)	24	24
Comm & Indus	34 (average)	24	24
Enhancement	N.A.	3	3
ISD's	3 (average)	3 (average)	3 (average)
Assessment cap	N.A.	5% or CPI	No
Property transfer tax	.0011%	0.75%	0.75%
Single business tax	2.35%	2.35%	2.75%
Cigarette	25 cents	75 cents	40 cents
Out-of-state calls	4%	6%	4%
Personal income tax exemption	$2,100	$2,100	$3,000 ($3,900 > 65)

for March 15, 1994. A comparison of the revenue sources under the two plans is presented below in Figure 1.

On March 15, 1994, the people of Michigan spoke resoundingly and--by a 69-31 margin--rejected the income tax increase and cast their lot with the 2 percent increase in the sales tax. It is important to emphasize again that, as a part of the package, a portion of the property tax has been restored-- a state levy of 6 mills on all property and a local levy (if authorized by the voters) of 18 mills on non-homestead property. In addition, up to 3 "enhancement" mills are available locally with voter approval. The net result for the public schools is a total funding package for 1994-95 of some $10.5 billion, a 4 percent increase over 1993-94. The net result for Michigan education as a whole is a substantial shift in funding responsibility from the local level to the state level, as well as a shift away from the property tax as the major revenue source. The sizes of these shifts are depicted in Table 1.

Table 1

Revenue Shifts
Total Revenues

Source	1993-94	1994-95
Local	66%	21%
State	33%	79%

Table 1 (continued)

Property Tax vs. Other Revenues

Source	1993-94	1994-95
Property Tax	66%	32%*
Other	33%	68%

*Includes both state and local property tax revenues--state share of the total is 10%; the local share is 21%.

The New Foundation Program

The Michigan Legislature, as part of the reform legislation adopted on Christmas Eve 1993, changed not only the revenue arrangements but also initiated a new and different approach for distributing state dollars to the public schools. The Legislature jettisoned the power equalization program that it had used for the prior twenty years and, in its place, established a foundation program as the basic mechanism for distributing State school aid. Under the new foundation approach, each school district is guaranteed--in a combination of state and local funds--a basic per pupil allowance. In addition, each school district receives a certain amount of state categorical aid depending upon the district's circumstances.

The basic concept undergirding Michigan's new foundation program, as initially incorporated into the 1994-95 School Aid Act adopted by the Legislature, is that the State will guarantee each district a basic level of funding per pupil provided the district levies a local property tax at a millage rate set by the Legislature. In theory, for 1994-95 the basic level of funding per pupil, known as the basic foundation allowance, is set at $5,000. The millage rate required of the local district is 18 mills on non-homestead property (as we noted in the prior section, the State will levy an additional 6 mills on all property--homestead and non-homestead). We say in theory, because all districts will not receive the basic foundation allowance of $5,000 per pupil in 1994-95 but rather an amount, called the district's foundation allowance, varying between $4,200 and $6,660. Furthermore, some district's will receive more than $6,660 per pupil if their 1993-94 per pupil revenue was above $6,500 and their voters approve local millage in addition to the 18 required mills.

These variations in 1994-95 district foundation allowances are due to three decisions made by the Legislature. First, rather than move all districts in which the 1993-94 per pupil revenues were under $5,000 up to $5,000 immediately, the Legislature chose to move these districts up gradually. Districts below $4,200 per pupil in 1993-94 are raised to $4,200 per pupil in 1994-95, or by $250 per pupil, whichever is greater. Second, the Legislature chose not to bring all remaining districts up, or down, to a $5,000 per pupil starting point in 1994-95. Rather, it chose to use each individual district's 1993-94 revenue per pupil level as the starting point and increase that level on a sliding scale for 1994-95. The district in which the 1993-94 revenue per pupil level was closer to $4,200 receives a larger increase for 1994-95 than the district in which the 1993-94 per pupil level was closer to $6,500. Third, the Legislature chose not to "level down" but rather to "hold harmless" those districts in which 1993-94 per pupil revenue levels exceeded $6,500, as long as voters in those districts are willing to

Table 2

A Comparison of Four Districts

	1993-94		1994-95							
					Local		State		Total	
	Revenue Per Pupil	Local Mills	Revenue Per Pupil	Pct Inc	NHom Mills	Home Mills	NHom Mills	Home Mills	NHom Mills	Home Mills
Onaway	$3,277	22.66	$4,200	28.0	18.00	0.0	6.00	6.00	24.0	6.0
G. Rpds	5,096	38.39	5,311	4.2	18.00	0.0	6.00	6.00	24.0	6.0
Ypsilnti	5,919	43.68	6,101	3.0	18.00	0.0	6.00	6.00	24.0	6.0
B. Hills	10,358	24.41	10,518	1.5	18.00	12.92	6.00	6.00	24.0	18.92

tax themselves at a rate in addition to the required 18 mill rate.

In Table 2, we summarize the estimated changes that will occur in four local K-12 school districts--ranging from the lowest revenue per pupil district (Onaway) to the highest revenue per pupil district (Bloomfield Hills). Overall, per pupil revenue disparities are reduced under the new plan, principally due to the lowest revenue per pupil districts being brought to the minimum $4,200 level. However, considerable inequity remains. In 1993-94, the range in per pupil revenues was $7,081--from a low of $3,277 to a high of $10,358--and a ratio of 1:3.2. In 1994-95, the range will be reduced to $6,318--a low of $4,200 and a high of $10,518--and a ratio of 1:2.5.

For 1995-96 and Subsequent Years

The $5,000 per pupil basic foundation allowance for 1994-95 is expected to increase annually as a consequence of growth in the School Aid Fund. Thus, in 1995-96 the basic foundation allowance should increase to a level somewhat above $5,000 per pupil, and further annual increases are to be expected in subsequent years, assuming no revenue shortfalls. The increases for 1995-96 and subsequent years are indexed to the annual percentage increases in the School Aid Fund, adjusted for changes in enrollment.

For the districts brought up to $4,200 per pupil in 1994-95 (Onaway), a sliding scale is used to increase the annual foundation allowances at a faster rate than foundation allowances for districts above that level. For districts between $4,200 and $6,500 (Grand Rapids and Ypsilanti), the annual increases are a uniform dollar per pupil amount based on annual increases in the School Aid Fund. The result is a "range preserving" phenomenon. That is, even though the percentage increases will differ, the dollar per pupil differences among these districts will remain the same and not be reduced over time. For a third set of districts, namely the high per pupil revenue districts in which the 1994-95 combined local and state per pupil revenues exceeded $6,500 (Bloomfield Hills), their district foundation allowances are increased by the same dollar per pupil amount as the second set of districts. They are able to maintain their per pupil revenue levels by levying additional locally voted millage beyond the required 18 mills

Enhancement Mills

In addition to receiving a district foundation allowance, a local district can levy with voter approval up to 3 additional enhancement mills in 1994-95 and 1995-96. Beginning in 1997, this becomes regional enhancement millage rather than individual district enhancement millage. An intermediate school district (ISD), with the approval of a majority of voters in the ISD, may levy up to 3 mills to enhance local school district operations. The total dollars raised across the ISD are allocated to all of its constituent local districts on an equal per pupil basis.

Constraints on High Per Pupil Revenue Districts

We noted above that a high revenue per pupil district is held harmless provided its voters approve additional millage. To maintain its 1993-94 per pupil revenue plus a modest increase of $160 per pupil, a high per pupil revenue district must levy additional millage beyond the required 18 mills. The district may raise its per pupil revenue level even higher under the provisions of the enhancement millage described above. Both the hold harmless and the enhancement millage provisions, of course, require voter approval. Thus, quite properly, one can characterize these as constraints on the district. In addition, the Legislature has placed a third constraint on high per pupil revenue districts. Beginning in 1995-96, if a district's combined revenue from local and state sources is greater than twice the basic foundation allowance in any given year, the district forfeits a portion of its state allocation.

The "At-Risk" Categorical

The Legislature, in its finance reform package, also increased substantially its commitment to funding programs for "at-risk" youngsters. A new categorical program provides some $230 million in additional funds to school districts that have a high incidence of children coming from poverty circumstances. This is accomplished by adding 11.5% (a 1.115 per pupil weighting) to the foundation allowance of those school districts that are eligible. Eligibility is determined on the basis of numbers of pupils receiving free and reduced price lunches.

Charter Public Schools as the Centerpiece of Quality Reform

Governor John Engler, the Republican Senate, and a good many legislators of both parties viewed the introduction of a market-driven mechanism into public education as the *sine qua non* of any meaningful reform--a view supported by many in the business community. Thus, it was not surprising to see the authorization of charter public schools become the centerpiece of Michigan's 1993 reform legislation, at least as far as the quality issue was concerned. In taking this action, Michigan became the eighth state to adopt legislation authorizing the establishment of charter schools within the public sector. Funding for the charter public schools is provided through a state foundation allowance of $5,500 per pupil or the foundation allowance of the district in which the school is located--whichever is less. The schools also are eligible for certain state and federal categorical monies.

Michigan's charter school legislation is somewhat unique in two respects. First, the governing boards of the State's thirteen public colleges and universities can issue charters--in addition to the governing boards of local school districts, intermediate school districts, and community colleges. In the case of the schools chartered by the public colleges and universities, the faculty and staff need not come under existing collective negotiations arrangements. Nor are teachers in these schools required to meet certification requirements if they are tenured or tenure-stream faculty in the college or university. Second, there is no limit on the number of charters that can be issued. Indeed, Governor Engler talks of the creation of literally hundreds of charter schools. As he has publicly stated, "With Charter Schools, I predict nothing less than a renaissance of public education in Michigan."

Conclusion

Will Michigan citizens actually see stunning improvements in public education? Will the centerpiece of the Governor's reform program, the establishment of charter public schools, lead to meaningful change? Or will the State's powerful teachers' union, the Michigan Education Association (MEA), be successful in thwarting that effort? Will citizens see, in the long run, little substantive restructuring and change in public education in Michigan? Or will they witness a new, different, more equitable, more effective, and more efficient system of public schooling--as the Governor predicts, a virtual renaissance in public education? The proof of the pudding, of course, is in the eating. And the eating, and the subsequent evaluation of the pudding, must necessarily await the passage of more time.

Endnotes

1. A statement ascribed to the long-time (Democrat) chair of the House subcommittee on K-12 appropriations.

2. Shortly after the passage of Senate Bill 1 in mid-July, an in-house task force created by the Governor set work to lay out a detailed plan of action. The point person on the task force was the State Treasurer, Douglas Roberts. Roberts had been appointed State Treasurer by Engler and had behind him a long record of state service, having filled several offices including Director of the Senate Fiscal Agency, Deputy Superintendent of Public Instruction, and Deputy State Budget Director. Three other key persons on the in-house task force were Nick Khouri, Deputy State Treasurer; Michael Addonizio, Assistant Superintendent for Research and Planning in the Department of Education; and Mark Hilpert, Michigan Tax Tribunal Member. Addonizio had served as Engler's Education Policy Adviser prior to his appointment as Assistant Superintendent.

3. John Engler, *Our Kids Deserve Better: New Schools for a New Century: Governor John Engler's Plan to Reform Michigan Schools* (Lansing: Office of the Governor, October 5, 1993.

4. For a more complete account, see three papers presented at the 1994 Annual Meeting of the American Education Finance Association: *The Dark (or the Light) Side of the Moon: A Symposium on Michigan's Current School Finance Crisis.*

- Kearney, *The Factors Leading Up to the Crisis*;
- Addonizio, *The Governor's Recommendation*;
- Prince, *The Legislative Response to P.A. 135 of 1993: Restoration of School-Operating Property Tax as Part of a Comprehensive School Finance Reform Plan.*

MISSOURI

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SCHOOL FINANCE POLICY ISSUES IN MISSOURI

Six major school finance issues facing Missouri's state and local policymakers in 1994 are presented below in the form of "Headline News" flashes:

- *Great Flood of 1993 Erodes Tax Base of Local School Districts, Uproots Students*
- *Federal Courts Draining State Coffers To Fund Mandated Desegregation Programs*
- *Missouri Gambles on Human Greed To Increase School Revenue*
- *State Court Declares Missouri's School Funding Inadequate, Unequal, Unconstitutional*
- *General Assembly Passes Outstanding Schools Act of 1993, New Funding Formula*
- *"Show Me" State Voters Considering Initiative Petition To "Just Say No" to Tax Increases*

The Great Flood of 1993

Even Noah would have been surprised at the amount of water that washed over Missouri's farmlands, homes, industrial sites, and public buildings and grounds during the late summer and early fall in 1993. Even King Solomon, in all his wisdom, would have been challenged to find ways to deal with the resulting human misery, social upheaval, and economic uncertainty.

Missouri's State Emergency Management Agency estimated flood damage to Missouri property and infrastructure at $2.3 billion and farmers' crop losses at $1.3 billion. Many school districts saw their 1994 property tax base (assessed valuation) decline from the 1993 level. The State Tax Commission estimates that the flood damages to 32,624 parcels of property in 28 counties reduced assessed valuations by $117.3 million. Without voter-approved tax levy increases, the property tax revenue also declines as the taxable property base declines.

Reminiscent of the Great Depression of the 1930s, property owners were billed in full for their 1993 tax liabilities; however, jobs had been washed away and many taxpayers lacked the money to pay their property tax bills. State and local policymakers acted humanely to help flood victims by reducing or eliminating the penalties and interest usually imposed for late payment of property tax and state income tax liabilities. However, some school districts which typically could develop budgets with a projected 3-6% annual delinquent tax revenue rate find themselves trying to meet cash flow demands with tax delinquencies projected to be 7-10%.

As flood waters receded, a majority of Missouri homeowners, businesses, and public agencies discovered that their property damage insurance policies did not cover losses caused by [floods; many had purchased earthquake insurance, but not flood insurance riders. Forty-two `school districts filed applications for Federal

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Disaster Assistance for School Districts, under PL81-874 provisions, to help offset property damages and losses estimated to be $4.5 million.

When schools opened for the 1993-94 school year, several districts faced dramatic changes in their student population. Some experienced a 10% enrollment increase, others a 10% decline, as families moved from flood-ravaged districts in search of housing and employment. This had, and continues to have, profound effects on districts, in part because state aid to public school districts is driven by pupil enrollment and attendance statistics. Approved school district budgets, set in place in July for FY94, suddenly were in disarray. Fiscal and social consequences of the floods of 1993 continue, with some expected to persist until the turn of the century, having marked implications for both local and state policymakers.

Federal Courts Order State Funding of School Desegregation

Still in effect are federal court rulings that the State of Missouri is responsible for financing desegregation efforts in St. Louis (1980 case) and Kansas City (1985 case). The St. Louis plan is essentially one of cross-district transfers of students to achieve racial balances, whereas the Kansas City plan focuses on creating magnet schools to attract white students from the suburban school districts. Data for the two past fiscal years indicate that 5.5% of the total revenue, from all sources, for Missouri's 538 school districts were state funds ordered by the federal courts as "supplemental desegregation aid" payments by the state for facilities, equipment, personnel, and programs designed to achieve racial integration in St. Louis and Kansas City. In march 1994, a federal appeals court ruled that it is appropriate to tie the state's mandated level `and duration of funding of the Kansas City desegregation program to a goal that "the district's students achieve, at least, at the state average on Missouri's minimum competency tests."

In the 14-year history of court-ordered desegregation in St. Louis and nine years in Kansas City, the state has spent over $2.1 billion supporting these programs. Fighting the `court orders has been costly also; the state has spent $8.5 million in legal fees in the Kansas city case alone. Obviously these funds have come from the state's general revenue, lessening the fiscal capacity to fund increased state aid to the other 536 public school districts of Missouri. Some observers predict that the growing hostility of "out-state" citizens toward the judicial system and the school districts of Kansas City and St. Louis will result in political and social costs which, in the long run, could have greater implications than the monetary costs.

The Missouri General Assembly is exploring "novel and creative" ways to satisfy federal judges and bring an end to their program monitoring and periodic funding orders. One of these ways would ask the courts to approve a phase-down and long-term financing plan. Voters would Be asked to approve an earmarked increase in personal income taxes on "wages, salaries, commissions, and other compensation" to finance a 25-year $1 billion bond issue to create "an escrow" account to fund future desegregation program costs. However, if approved, the tax [revenues and the interest on the "escrow" account are projected to raise only $100 million annually, in contrast to the current level of over $350 million in annual state funding for `desegregation programs. A negotiated court settlement appears possible in the St. Louis case, but much less likely in the Kansas City case; the courts continue to dictate school finance policy.

The Lottery and Riverboat Gambling as Sources of School Revenue

Missouri has a history of levying "sin taxes" to fund programs considered as beneficial the citizens of the state. The cigarette tax has been a significant revenue source for the public school districts since 1955; however, that revenue has been declining as more smokers break the habit. Passed by constitutional amendment in 1985, Missouri has a state lottery system, with the bulk of the net receipts earmarked since 1992 for the public schools.

Voters approved yet another constitutional amendment in 1992 allowing local-option elections for riverboat gambling. Although not included in the amendment language, the General Assembly saw the additional revenue from state taxes on riverboat gambling receipts as a way (1) to provide funds to assist school districts in capital improvement projects and (2) to "at long last do something financially substantial" for state institutions of higher education. In fact, the General Assembly's and the Governor's preliminary budget figures for increased appropriations to higher education in FY95 clearly reflected the projected riverboat gambling revenue. However, the Missouri Supreme Court ruled in February that the voter-approved riverboat Gambling amendment allowed only "games of skill" like poker and blackjack, not "games of chance" like keno, slot machines, craps, and roulette. By emergency legislative action, a new constitutional amendment to allow both riverboat gambling and games of chance, but only on the Missouri and Mississippi Rivers, was placed on the ballot for the April 5, 1994, elections. The campaign rhetoric was hot and heavy; a new "syntax for sintax" emerged, pitting money against morality, revenue against religion, and social costs against economic benefits.

State Circuit Court Rules Missouri's Finance Plan Unconstitutional; General Assembly Responds with Outstanding Schools Act

In January 1993, Cole County Circuit Judge Byron Kinder, ruling on two joined suits brought against the state by 125 public school districts, held Missouri's method of funding public schools to be inequitable, inadequate, and unconstitutional. Judge Kinder agreed with the plaintiffs' contention that the state's school aid formula, enacted in 1977 to replace the 1955 plan, did not respond quickly enough to changes in enrollment and that the resulting shortfalls bin state funding caused students in the plaintiff districts to get an unequal, lesser, education.

In his ruling, Judge Kinder wrote, "The present Missouri school system does not provide an equal opportunity for each Missouri child as guaranteed by the Missouri Constitution. Vast disparities exist in the funding and resources available for education in the approximately 540 school districts in the Missouri school system -- with available annual revenues on a per pupil basis ranging from $9,750.53 down to $2,653.04, one of the most disparate situations of any state in the United States, and with facilities ranging from the 'golden' to the 'god-awful.' These disparities are not because of differing student needs, but instead are associated with local property wealth or are simply irrational." The court did not prescribe a remedy but did make a number of specific suggestions for any new finance plan, including the goal of fiscal neutrality. Judge Kinder ordered the General Assembly to remediate the unconstitutionality of the state's school finance formula and retained jurisdiction in the case to assure prompt legislative action.

The General Assembly was not caught unprepared for the court's ruling, as revisions in the public school aid formula had been explored and debated during the two previous legislative sessions. Following Judge Kinder's ruling, the General Assembly approved and Governor Mel Carnahan signed into law the Outstanding Schools Act of 1993 (Senate Bill 380, SB380). Not since the Excellence in Education Act of 1985 had such sweeping education legislation cleared both the General Assembly and the Governor's desk, and the 1985 legislation had done little to revise the system adopted in 1977 for distributing state funds to the public school districts.

The Outstanding Schools Act, in addition to a complete rewriting of the state aid formula, (1) promotes excellence and accountability, for example by mandating the establishment of academic performance standards, performance-based curriculum frameworks, a new statewide system to assess student achievement, and an information data base that paves the way for school district performance report cards; (2) requires establishment of school district standards and criteria for determining if a school district or building is "academically deficient" and/or a district should be state accredited, further specifying penalties for districts or school buildings that do not meet the criteria; (3) pursues equity among school districts in teacher recruitment by setting minimum teacher salaries for all districts at $18,000 and an upper-level minimum salary of $24,000 for teachers with a master's degree and at least 10 years experience, but repeals previous provisions for supplemental state aid for minimum salaries; (4) establishes and funds special programs, for example, services for at-risk students, full-day kindergartens, and primary class size reduction; (5) requires each district to dedicate one percent of its foundation formula funds to support professional development and program improvement; and (6) touches on the school choice issue by allowing parents to meet the state's compulsory attendance laws by enrolling their children in "public, private, parochial, parish, or home schools, or in any combination of such schools," but no provisions are made for state aid to these schools or for any form of voucher payment to parents. The Act also changes teacher education program standards and requires 16 hours of training for new school board members.

Formula-based school district revenue entitlements. Using Missouri's new equalization foundation formula, enacted as part of the Outstanding Schools Act, a school district's guaranteed entitlement is calculated by: (1) multiplying the number of eligible pupils, based on average daily attendance, by the district's equalized operating property tax levy; (2) multiplying the result by the state's guaranteed property tax base per eligible pupil; and (3) multiplying that result by the formula's proration factor, in case the plan does not receive sufficient appropriations for full funding of the plan by the General Assembly for a given fiscal year.

From the calculated foundation entitlement amount is deducted the sum of (1) an amount determined by multiplying a district's equalized assessed property valuation by its income factor, then multiplying the result by its equalized operating levy, and (2) 100% of the district's revenue for the following "special revenue" sources: (a) intangible taxes, fines, forfeitures, escheats, and payments in lieu of taxes; (b) receipts from state-assessed railroads and utilities; (c) receipts from federal properties; (d) allowable federal impact aid; (e) operations fund receipts from the education sales tax, as approved by voters in the initiative-petition Proposition C election in 1982; (f) receipts from tobacco taxes, the Fair Share Fund; and (g) receipts from the Free Textbook Fund. A "hold-harmless clause" in SB380 guarantees that no school district will receive less money per pupil from the state than it received from the minimum guarantee portion of the school foundation formula in the 1992-93 school year.

Equalizing local wealth and effort. The guaranteed property tax base figure in the formula is set at the 95th percentile of property wealth per public school pupil (approximately $113,000 assessed valuation for the 1993 tax year), the minimum adjusted tax levy at $2.75 per $100 assessed valuation, and the maximum state equalized tax levy at $4.60. The higher levy and percentile for the guaranteed tax base were set to assure a minimum of $3,100 per-pupil spending in Missouri school districts, regardless of districts' local property wealth. To participate in the formula distribution of state aid, school districts were required to have a minimum property tax operational levy of $2.00 per $100 assessed valuation for the 1993-94 school year and a minimum levy of $2.75 for 1994-95 and beyond. Of the 538 school districts, 295 had to raise their 1993-94 operational levies to receive state foundation funds.

State aid distributions outside the foundation formula. Districts receive additional funds from the following categorical add-ons, regardless of an individual district's local property wealth and its citizens' tax effort: (1) 75% of allowable transportation costs; (2) special education entitlements; (3) gifted education entitlements; (4) entitlements for programs for children at risk of failing in school, with funding based on the number of students eligible for free and reduced-fee lunches; (5) career ladder funds; (6) vocational education entitlements; and (7) Parents as Teachers funds. Actual distribution of these funds is made using the same proration factor multiplier used to compute the foundation aid entitlements.

Funding the foundation formula. Senate Bill 380 established the Outstanding Schools Trust Fund to finance the new funding formula and other programs. A total of $310 million in increased revenue, over four fiscal years, from individual and corporate taxes was authorized by the General Assembly. The increase in state aid to the public schools for FY94 was $80 million, with total state aid topping the $1 billion mark.

The bill reduces the federal income tax deduction for corporations to 50% and increases the flat tax rate on corporations from 5% to 6.25% of their Missouri taxable income. Federal income tax deductions for individual returns are limited to $5,000 and $10,000 for joint returns. Senate research staff predicted tax increases for couples earning more than $70,000 and for single taxpayers with incomes more than $30,000. The remaining new money needed to fully fund the new school finance formula and SB380 programs, estimated to be $390 million through FY97, was projected to come from "riverboat gambling proceeds, decreases in the level of court-ordered desegregation program costs, and budget cuts in other state programs."

Legislators and the governor risk their political capital. No small amount of political finesse, arm twisting, and compromise was required to pass Senate Bill 380 and enact the Outstanding Schools Act into law. The stakes were high (1) in light of the continued interest of Judge Kinder in what the General Assembly might enact that could pass constitutional muster, (2) in view of the potential negative impact on "fat cat, property wealthy" school districts as the state's funding capacity was shifted to assist the less financially able districts, and (3) due to the reform price tag, including the $310 million in new revenue over four years that the typical "Show Me" Missourian clearly viewed as coming from increases in her/his taxes.

Even some who could support the goals, programs, and funding formula of SB380 argued against the General Assembly taking any action to raise taxes. Many legislators pushed for submitting the changes in the individual and corporate income taxes to "a vote of the people," in keeping with what they saw as a requirement imposed by the 1980 passage of a constitutional amendment which imposed taxation and spending limits on both state and local governmental entities without voter approval. Most visible in putting their political stock at risk and battling in capitol hallways and chambers to get the votes for SB380 were Governor Mel Carnahan, Senate Pro Tem Jim Mathewson, House Speaker Bob Griffin, Senate Education Committee Chair Harold Caskey, and House Education Committee Chair Annette Morgan. Senate Bill 380 for weeks appeared to be the focal point for a personal and political crusade by these state leaders and by numerous education lobbyists, a successful crusade it seems.

Back to court with appeal of the Circuit Court's decision. Hearings on the state's appeal of Circuit Court Judge Kinder's decision to the Missouri Supreme Court concluded in early March 1994, but no decision has been rendered as of this writing. Attorney General Jay Nixon argued that Judge Kinder went too far in ruling the 1977 school finance plan unconstitutional, noting that Kinder's ruling incorrectly "strikes at the heart of local control of school districts by indicating that all local money is in fact state money and also by saying, in essence, that a specific amount of money has to be spent for each and every child in the state."

How the Supreme Court rules can have profound impact on the new funding formula, education reforms, and the $310 million tax increase contained in the Outstanding Schools Act of 1993. To get the votes to pass SB380, an amendment was added to the bill, stipulating that, if the Supreme Court does not uphold the lower court's ruling, the tax increase and reform portions of the law must be submitted to a statewide vote. If the high court overturns Judge Kinder's ruling and if the state's voters then defeat the ballot issues dealing with SB380 taxes and educational reforms, Missouri schools could find themselves once again funded under the 1977 foundation formula, with no new moneys beyond normal growth in general fund revenues. The judiciary and the ballot box are powerful determinants of Missouri's school finance policy.

Voters May Decide To Restrict State's Taxing and Spending Powers

In 1980, Missourians passed an initiative-petition constitutional amendment, restricting the increase of state revenues to a set percentage of Missourians' personal income and requiring the state to fund programs it mandates for lower governmental units. The author of the amendment was Mel Hancock, state senator at the time and now U.S. Representative, R-MO. Hancock, in announcing a new initiative-petition drive to modify the 1980 amendment, charged that, in passing the Outstanding Schools Act, the Missouri General Assembly "acted in a devious manner in increasing taxes for education without a state-wide vote." If the required 130,000 petition signatures are obtained, Hancock II will be on the Novemb r 8, 1994, ballot.

If passed, the amendment would (1) require that virtually any future local and state tax increases be approved by public vote, (2) prohibit the state from setting any minimum tax levy for local governments, including school districts, as a condition for receiving state funding, and (3) further specify and limit future revenue increases for the state's annual budget. Critics of Hancock II describe its possibility for passing as "perhaps the issue with the most far- reaching potential for damaging public education in Missouri."

Summary

A myriad of complex challenges face Missouri's educators and policymakers as they grapple with issues and circumstances related to adequate, equitable, and effective funding of education in the state. The impact of the Great Flood of 1993 will lessen over time. More pervasive and permanent problems relate to the competing roles of the executive, legislative, and judicial branches of government in setting educational policy. Also, Missourians have a long history of asserting their "sacred right" to local control of the public schools. Finally, the power of the initiative petition in the Show Me State has produced policymaking tensions and uncertainty by pitting "representative democracy" against "participatory democracy."

NEBRASKA

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SCHOOL FINANCE POLICY ISSUES IN NEBRASKA

- Evaluation of the Tax Equity and Equal Opportunity Support Act of 1990
- Reconfiguration of the County Property Valuation Assessment to School District Assessment
- Repeal/Reduction of Nebraska Property Taxes

Evaluation of the Funding Formula

State Statute Section 79-3823 R.S. Supp., 1992 established the School Finance Review Committee to monitor the operation of the school finance provisions of the school funding formula, the Tax Equity and Equal Opportunity Support Act of 1990. The Committee continues to focus on the progress of the Act in effectuating property tax relief, broadening the tax base and equalizing the tax burden for the support of schools, equalization of educational opportunities for students, and the effects of budget limitations on school district spending patterns. The data in Table 1 support the following findings of the Committee:

- continued property tax relief,
- incorporation of the income taxes of Nebraska residents in support of school district expenditures,
- a larger proportion of state support over the previous funding formula,
- a positive correlation between spending and district levies that represents a reversal of conditions inherent under the previous funding formula.

The School Finance Review Committee (1993), after an analysis of the effects of the funding formula and a forecast of possible effects, proposed to policy makers at least three areas of concern related to the funding formula. Of major concern is the committee's forecast of a continued inability of the formula to meet the targeted 45% state aid support. At the present rate and under the current mandates, state support is predicted to dwindle to 35% by fiscal year 2006-07. The Committee attributed the decline to a combination of an initial underestimation in school spending growth, an overestimation in state revenue growth, and an unexpected growth rate of other forms of support provided districts regardless of other resources available to fund district needs. The Committee affirmed its commitment to the identification and measurement of "the magnitude of any factors that detract from the Act's ability to equalize" (Nebraska School Finance Review Committee, 1993).

A second concern is the interaction of state aid with the state's valuation assessment practices and with individual county assessment practices. Consistent statewide valuation assessments that are in full compliance with assessment standards are necessary for the funding formula's fair distribution of state aid. A more complete description of the legislature's role in this policy development is addressed in a subsequent section of this report.

A third concern to policymakers is the funding formula's use of data two years in arrears for determining needs and local

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resources for any current funding year. The use of more current data will reduce the time lag between changes in various components used for calculating the formula and the actual timeframe in which districts receive equalization aid. Such use also might be expected to minimize conflict and opposition from districts experiencing a negative impact from shifts in their annual state aid distributions.

In November, 1993, the Nebraska Department of Education contracted with an outside agency for an evaluation of the success in meeting the stated goals of the Tax Equity and Equal Opportunities Support Act of 1990. The evaluators compared 1988-89 data, representing the final year of the previous funding formula, and 1991-92 data, representing the most recently audited fiscal year under the new formula. The report was released to the School Finance Review Committee on March 30, 1994. Although the funding formula did not reach its 45% state support level, it did increase sales tax by 20% and income taxes by 17.5% and decrease the average property tax rate by more than 22%. The evaluation team concluded that

> . . . the system has become more equitable -- the variation in spending is down and the relationship between tax effort and spending is up -- and this was accomplished by improving the sensitivity of state aid to wealth while not increasing the variation in tax rates. (Augenblick, Van de Water & Myers, March 1994, p. III-66)

Table 1

Selected characteristics of the Tax Equity and Equal Opportunities Support Act of 1990, 1990-91, 1991-92 and 1992-93.

	Pre-Act Year	Tax Equity and Equal Opportunities Act Year		
Characteristic	1989-90	1990-91	1991-92	1992-93
Avg. General Fund Levy	$1.5138	$1.25394	$1.2368	$1.2558
Correlations of district fund levies to spending	(.1898)	.5177	.6630	.7090
Allocated Income Tax Funds Returned to School Districts and as a portion of state aid	--	$83.3M	$85.9M[1]	$102.3M*
State aid percent of Total Spending (includes income tax rebate above)	--	40.06%	42.34%[1]	41.43%*

[1] Estimated *Projected

Source: Annual Report of the Nebraska School Finance Review Committee, March, 1993.

The team recommended making changes to make the formula more sensitive to needs of school districts, especially small school districts and districts with growing numbers of special education and low-income students, both of which can result in higher costs. The School Review Committee's report, with its incorporation of data from the evaluation team and its specific recommendations for modifications to the current funding formula, will be available after May, 1994 from the Nebraska Department of Education, Lincoln, Nebraska.

Reconfiguring Property Valuation for State Aid Distribution Purposes

State aid to public schools in Nebraska is allocated according to the total property taxes available in each district. Historically, county-wide property tax assessments were the basis of calculating local support. The Tax Equity and Equal Opportunities Act of 1990 directed that the determination of state aid be based on the amount of property taxes in each school district, thus avoiding the difficulties faced in calculating aid in districts receiving support from multiple counties. The law charged the state's Department of Revenue with the responsibility of reconfiguring the county property valuations to valuations applicable to each district. The law originally was to have been implemented in 1993 but had been pushed forward, by 1991 legislative action, to an effective date of March 1, 1994. In early 1994, the Department of Revenue reported that it had not the funds nor the technology to complete the conversions by the date required. The legislature, after debating the merits of delaying the reconfiguration process for one more year against the merits of implementing the regulations as required in current law, produced LB 1290, which was passed by the legislature April 13, 1994. The new requirements

- clarify that the process of determining property value for school state aid would differ from the regular property assessment practices;
- stipulate the state aid value to be 100% of market value for real property, 80% for agricultural land and net book value for personal property;
- require more current state and school expenditure data;
- establish an appeal process for school districts disputing the school state aid values.

Repeal/Reduction of Nebraska Property Taxes

Two petition committees are currently garnering signatures to place two amendments before the voters in the general election in the fall of 1994. Both petitions focus on the property tax. One proposal is to prohibit the use of property tax as a source of state and local revenue; the proponents offer no replacement revenue suggestions. The second proposal is to reduce the average statewide property tax levies to a cap of 1% and replace with sales and income tax revenue. Current estimates, based on the average tax levy of 2.44%, indicate that property tax revenue might be reduced by over 50%. Both committees expect to collect the needed signatures by the required date (Malousek, 1994).

The legislature, in its final session, proposed a series of interim studies. Three of them address the issue of property taxation in Nebraska. In addition to looking at property taxation in general, study groups will examine the effect of repealing the property tax as a source of school funding, and will discuss circuit-breaker legislation for property tax relief. An interim study group will also be created to discuss and recommend modifications to the school finance law; recommendations from the School Finance Review Commissions are certain to be considered.

School Finance History in Nebraska

Historically, Nebraska has maintained the concept of local control and school finance has been closely linked to local property tax authority granted to schools in the 1860s. In 1967, the state adopted the Foundation and Equalization Act that was intended to provide property tax relief, equalize costs between school districts and provide equal education opportunity for all children of the state. The plan, consistently underfunded, provided state aid in three categories:

- foundation aid -- a flat grant that allotted aid to districts based upon resident enrollment in the district;,
- incentive aid -- a flat grant offered to districts employing teachers with certain college degrees, and
- equalization aid -- always the remainder of the annual legislated apportionment and allotted to districts through a formula intended to be sensitive to both school district size and wealth.

In the final year of use, the formula provided approximately 27% of state aid to schools; the equalization aid represented only a fourth of the total appropriation.

In 1988, a School Finance Review Commission was formed to analyze the state's school finance system and to make recommendations for improvement. The Commission's suggestions are embodied in the Tax Equity and Equal Opportunities Support Act of 1990 which has as a major provision the ". . . inclusion of income as a revenue source for schools and as a determinant of school district wealth . . . (Legislative Research Division, 1990, p. 9). Major objectives of the current funding plan are:

- provide state support from all sources for 45 percent of the general fund operating expenditures;
- broaden support through a dedication of state income tax;
- reduce the reliance on the property tax;
- assure greater levels of equity in property tax rates;
- assure greater levels of equity of educational opportunity to students;
- limit the growth of school budgets.

The following formula represents the basis for the calculation of state aid although the actual calculations are somewhat complex:

Needs - Resources = Equalization Aid

Needs are based on enrollment tiers of comparable sized school districts. Based on the idea that size of school districts is a major determinant of costs, the tiering concept is used to address the great size diversity which exists between very small and very large districts in Nebraska.

Resources include local property tax resources, state income tax rebate and a collection of 22 or more other actual receipts of the district.

Equalization aid is the state apportionment that offsets local needs not met by the other available resources.

All data used in the calculations are based on the most recent complete year of audited data available. When put into operation, needs and resources are based on data that is two years in arrears. For the 1993-94 school year, need and resource calculations were based on enrollment, property values and actual receipts of the 1991-92 fiscal year; income was calculated from 1991 and 1992 data, due to a difference in the fiscal year used by the Department of Revenue.

Conclusion

Most issues facing policymakers in Nebraska are related to the school funding formula and provisions that were included in the mandate to ensure its passage in 1990. The major issue this year is the shift in property valuation from county assessment to school district assessment. Other areas, however, lurk in the background and are likely to cause continued distortion. A "hold" harmless provision and a "rapid growth" provision, for instance, distort the distribution of scarce resources. Issues related to consolidation continue to emerge; legislators are suggesting changes in the Needs calculation of districts with average daily memberships of less than 50 in grades 9-12 and within 15 miles of another public school. A major cost differential is transportation; districts having minimal transportation costs that are included in the same enrollment tier with districts having extensive transportation expenses may be receiving disproportionate shares of state aid. These issues, when combined with the recommendations made by the evaluation team to the 1994 School Finance Review Committee and with the findings of the Legislature's interim study groups, are likely to focus the 1995 Legislature on school fiscal issues.

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OHIO

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SCHOOL FINANCE POLICY ISSUES IN OHIO

There are several major school finance policy issues facing the state of Ohio during the current legislative session and each has real impact on the future of schooling in Ohio. These issues revolve around:

- the outcome of the school finance suit and the responses to that suit;
- the "changes" being considered by the legislature to Ohio finance; and
- the nature and status of outcomes based education.

Ohio's School Finance Suit and Responses

The details of the equity and adequacy lawsuit in the State of Ohio have been reviewed elsewhere (Baldwin, 1993). However, the exact nature of the lawsuits prosecution, and the response by legislators and the governor, bear some review. The lawsuit was brought by the Ohio Coalition for Equity and Adequacy and filed in Perry County Superior Court in 1993. The "leader" of the Coalition was William Phillis who had served for many years as Assistant State Superintendent of Instruction with the Ohio Department of Education. The original court date was moved from April, 1993 to October, 1993. The trial lasted some five weeks of intensive examination of the why's, wherefore's, and how's of school finance. The Superior Court Judge took the case under advisement, and in early March indicated that a decision would be announced sometime after July 1, 1994.

Evidence in the case strongly supported the contentions of the plaintiffs, some 500 school districts of the 612 in the state of Ohio. The reaction to the evidence presented, and the tenor of the testimony, currently gives the plaintiffs a better than even chance of winning the lawsuit. This has prompted several comments and much legislative action. The comments include the recent pronouncement by Governor Voinovich that he expected the state to lose the case in Perry County given the fact that the judge was locally elected. However, the Governor further speculated that the state would win on appeal.

The interesting point of the judges late decision, not until the next fiscal year, points to another dilemma that would face the legislature, that of preparing and implementing a plan to provide equity and adequacy for the school districts, and children, of Ohio. By putting the decision off until the next fiscal year, the judge seems to be signalling (1) a defeat for the state and (2) a chance for the state legislature to enact a proper funding formula during the next biennium session in 1995. This would be a "nice gesture" in that the fall elections would allow for the legislature to be seated for a two year period and in the "off-election" year would enable the legislators to grapple with, and produce, a funding formula that would provide for equity and adequacy, but not be politically damaging.

Responses by the Legislature to the Potential Lawsuit Loss.

The potential loss of the lawsuit has spurred several legislators to take action to

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both address the issues in the lawsuit, as well as insulate themselves and the state from further action. These have come in the form of several bills being considered by the legislature. Some of these initiatives are minor, but some are major. All have impact on the Ohio funding schema.

We need to address the major pieces of legislation being offered up in the legislature. First, there is the Cooper-Snyder bill (S.B. 237). The bill seeks to add school funds without increasing revenues for such funding. The concept that is espoused here is the redistribution of revenues via a pooling concept. Funds for education would be drawn from new growth in the commercial and public utility section of Ohio. The pooling would occur at a county or statewide basis. The bill would raise the minimum level of per pupil expenditure by the state to $4000 from the current level of $2870. However, this increase would take place over an eight year period, thus negating the effect of equity and adequacy monies. The bill would also target a percent of the general revenue for elementary and secondary education.

Cooper-Snyder also proposes in the bill that there might be a way to "get-around" S.B. 920 of the last biennium that limits the amount of "inside" millage a district can seek without voter approval. The new initiative would seek to increase the historic inside millage of 10 mills to 28.5 mills over a three year period. This would permit a transfer of funding of education from the state to the local districts and the state would lessen its burden for funding education.

A third section of the bill would repeal the guarantee portion of the Ohio funding program by removing the equity payments made by the state once the $4000 per pupil expenditure had been met. While this appears to be meeting a legitimate state goal, the level of adequacy that is reached by the $4000 expenditure is far from what is necessary and fails to account for local school district differences.

A second major bill that addresses the issues of equity and adequacy of funding is found in H.J.R. 14. In essence it does what the Cooper-Snyder bill proposes, that being elimination of the inequities in school funding. However, while the Cooper-Snyder bill does not add any new monies, the Mottley bill would admit to the inequities and inadequacies of funding and, effective July 1, 1994, would impose an additional one percent in sales tax that would go to the Stabilization Fund for elementary and secondary schools. This fund would provide for changes in the level of support or methods of funding elementary, secondary, vocational, or special education and would eliminate the court in the process of building a school financing plan for the state of Ohio.

The third, and perhaps most unique, piece of legislation introduced to deal with the school finance lawsuit, is that of Representative Jacobson. The bill, H.B. 606, as introduced would call for the legislature to plead guilty to the inequities and inadequacies of the school funding lawsuit and require settlement of the suit. In essence, the bill calls for the legislature and the state to plea bargain for a lesser sentence, or more time and latitude in fashioning a remedy for the charges brought against them. While it is an intriguing idea, and a legitimate thought, it is one that probably will not go far in the legislative process.

Now we turn to the "minor" changes that will affect school funding. The tangible personal property tax is being scrutinized for possible change. Two proposals would reduce tangible personal property tax by (depending on the bill) 5% over five years. A second bill would reduce the assessment rate on inventory items over a 10 year period. This would adversely affect local property owners as history has shown that such moves made before in Ohio have shifted the burden of taxation to the local property taxpayer and away from business, industry and the utilities.

A second bill, that addresses the adequacy of school facilities in Ohio that was part of the school finance suit, would require the Director of Budget and Management to make an annual transfer of $10 million from lottery profits to the education fund for the purpose of providing moneys to the public school building fund and $6 million from lottery profits to the Education Technology Bond Service fund for loans to school districts to finance permanent improvements, to provide educational technology equipment to districts, and to provide for purchase of classroom facilities and equipment. A similar facilities bill still pending calls for profits in excess of $500 million lottery profits in any fiscal year to be expended for school facilities, asbestos abatement, accessibility for handicapped, and on a per pupil basis for textbooks and education equipment. The above bills have been introduced and have been passed by either one or both houses of the legislature and seem to have a strong possibility of becoming law.

There are some minor bills that have been introduced to the legislature, but have not been acted upon. While they are not law yet, they do point to the challenge of finding solutions to the lawsuit problem. One bill calls for all lottery profits to be distributed to school districts under an equitable formula to be established by the State Board of Education. Two flaws appear in this bill. First, lottery profits are unstable and cannot be counted upon to adequately, or equitably, fund education. Second, the formula likely to be devised would follow the current funding formula, the very one the will most likely be declared unconstitutional.

One thing to note when wrapping up the legislative portion of the state of the state is to note that there will shortly be a vacuum in the state legislature in Ohio. In a series of unprecedented moves at the state level, many of the venerable leaders of the Ohio legislature have announced their retirement from politics and that they will not seek reelection. Specifically what has caused this is not really known, but the ramifications of such actions will be felt for a long time.

Outcomes Based Education and Proficiency Examinations

While not directly a school funding issue, the nature and status of outcomes based education and proficiency examinations speaks to the willingness of the public to fund elementary and secondary education. Ohio has had proficiency examinations, passage of which is mandatory for graduation, for the past four years. This academic year is when the first class of seniors must pass the exams in order to graduate. This has created a number of problems for school districts. First, the fear of not passing the exams has increased the dropout rate for some districts. This in turn affects their ADM and their state subsidy. As might be expected, the lower scores, and the failure of students to graduate has led the public to question the value of the schools and the financial support they are providing. This was seen both in the spring of 1993, the fall of 1993, and February 1994 with a preponderance of school levy elections going down to defeat. In some cases, the districts were on the ballots for their third and fourth times and we still being defeated.

Coupled with the proficiency test requirements have been the move by the state to adopt Outcomes Based Education goals. Over the past two years this initiative has gained momentum. However, beginning in the spring of 1993, there has been a concerted statewide effort to do away with OBE. This movement first came to light with the Venture Capital Grants competition in September 1993. As mentioned in the State of the State: Ohio report for 1993, these monies were earmarked for improvement and restructuring of education at the local building level. The aim was to move OBE to the local level. While the emphasis of state curriculum and proficiency goals were on standard academic subjects, the publicity of other states (Oregon and Pennsylvania) created a hostile atmosphere that led to school districts being challenged to not being permitted to apply for these funds, or any other funds, without the approval of the patrons directly and not just the school board. These efforts yielded H.B. 380 on Learner Outcomes. The bill, which has passed the House and looks strong in the Senate (and will be signed by the Governor) prohibits the State Board of Education from requiring any school district to comply with certain standards or rules establishing student performance goals or learner outcomes unless the standards or rules are approved by the Ohio General Assembly. Specific amendments call for the prohibition of any recommendation, policy, or program pertaining to the area of performance based education or outcome-based education adopted by the State Board of Education from becoming effective without the approval of the General Assembly. Further, the bill calls for the prohibition of the State Board of Education from adopting any standard or rule that requires any testing of student values, attitudes, beliefs, opinions, or orientations as a basis for promotion, grading, graduation, or participation in any activity. The response by the legislature on this bill has been enormous with support for prohibiting OBE linked strongly to local and state funding efforts and election/re-election of individuals for public office. The linchpin in this endeavor is the connection between the OBE ideas, proficiency examinations, and funding. Again, while not directly a funding issue, the effect of such concerns will be profound for school finance.

Conclusions

The above summary of school finance and the connection to the politics and pressures of elected officials and the public point to many things. It was noted earlier that the 1994 legislative session in Ohio is an "off-year" part of the biennium and not much is expected to occur. However, given the nature of the school finance issues facing Ohio, the tenuousness of the lawsuit, the political changes in the state, and the potential for chaos in school funding, the only conclusion is that it isn't over yet. While not much of substance is likely to occur by July 1, the next fiscal year (especially following the election and the lawsuit decision) will be even more interesting than this year.

CONNECTICUT

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SCHOOL FINANCE AND POLICY ISSUES IN CONNECTICUT

- Financing School Desegregation
- Financing the Costs of Setting Higher Educational Expectations for Pupil Achievement With an Emphasis On
  - ~ Assessing student progress
  - ~ Implementing accountability models for schools and LEAs
  - ~ Developing and Implementing comprehensive pre-school programs
  - ~ Reducing central bureaucratic controls
  - ~ Shifting the state school funding formula approach from categorical to block grant

Current School Finance Policy Issues

A recent court case Sheff v. O'Neill has centered Connecticut's attention on the fact that its public schools are largely segregated by race/ethnicity. Eighty percent of the state's minority student population are clusters in eighteen of 166 school districts while 140 others are more than 90% white.

The problem is inherently bound up with problems of segregation of economic classes. For example, within the greater Hartford area, Hartford city schools are 93% "minority." Median family income is about 60% of the state average. The adjoining towns of Glastonbury and Wethersfield are less than 10% minority and have median income levels well above the state average.

Plaintiffs in Sheff claim that segregation is inherently unequal, using standards of the Connecticut state constitution. Because of de facto racial and economic isolation the state has failed to provide an equal educational opportunity. City schools are not even minimally adequate.

The State, as defendant, claims that there is no intent to segregate the schools. They claim that housing patterns and demographic changes, not schools, are the root cause of segregation. The state cites considerable successes in raising its share of school expenditures, moving from 29% to 44% during the 1980's.

Governor Lowell Weicker in his state of the state address in January 1993 issued a significant and courageous challenge to the Connecticut General Assembly. The challenge addressed the need to correct the problems of racial and social isolation in the public schools. In response the legislature passed PA. 93-263 that requires local governments to participate in regional planning. Eleven regional districts were established to 1) improve the quality of school performance and student outcomes, 2) reduce barriers to opportunity, 3) enhance student diversity and awareness of diversity, and address the programmatic needs of limited English proficient students.

With the "cloud" of the Sheff vs. O'Neill Case on the horizon and the mandate of P.A. 93-263, Connecticut citizens are actively involved in developing regional, cooperative, voluntary plans to address the claims inherent in the court case and the expectations of the legislation. Among the

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programs being considered are magnet schools, building new schools on district boundaries, charter schools, allowing participation of schools in publicly funded "choice" programs, adjusting the school finance formula to reward districts which increase their minority enrollments, and penalize those which do not.

All of these programs and initiatives--and others that will likely surface--have major fiscal implications for the state in redirecting existing funding, and providing added funding.

Assessing student progress

Interpretation of criterion referenced test scores has posed problems for policy-makers and the public. If the criteria are set high, many children fail and the state appears to be doing poorly. If the criteria are set low, most students pass the test. But there are claims that the test is unrealistically easy. Though Connecticut ranks fairly well in some national tests, the recent report of The Commission on Educational Excellence for Connecticut admonishes that the state should not be complacent. The report refers to the term "world-class standards" to signify deeper knowledge of subject matter content. Both public and foundation sponsored efforts are underway to develop these higher standards. A major benchmark for these efforts is the content that students in other advanced countries are expected to master.

Fiscally, this reform would seem to have implications for educational R&D. Standards will be developed cooperatively by broad-based groups involving educators, parents, business leaders, and other citizens.

Implementing accountability models for schools and LEAs

Once higher standards are set, the next step is implementation.

In that connection the most "disturbing gap" is the disparity in performance between majority and minority group students. For example, in urban areas only 21% of eighth grade math teachers said they emphasize algebra. Urban and rural students score well below the state's affluent districts and the state average.

The main tool for implementation of higher standards is pupil evaluation. The state's current battery of mastery tests will be "supplemented" to reflect higher levels of content knowledge and skill. New testing will also reflect multi-cultural perspectives. To assure all pupils leave school with employment possibilities, they will be encouraged to pursue a new "Connecticut Career Certificate" oriented to both academic and work place skills

The assessment data discussed above will be designed to be useful at several levels, pupils and their parents, individual teachers, schools, school systems, and the state. These data are available annually through the "Strategic School Profiles," a new and expanded set of school indicators.

Estimated costs of developing and implementing new curriculum frameworks and new student assessment strategies are to be about $10 million per year. Additionally, a new $15 million grant is proposed for districts successful in maintaining and improving school achievement. This amount is expected to grow in future years "...as student achievement improves."

The authors note that testing and curriculum development, by themselves, are quite inexpensive methods of trying to implement higher standards. Also, a second note: It is hard to write a formula for pupil achievement that does not benefit wealthier districts. Simulated "bonuses" for the mastery achievement test indicate that Hartford city schools would receive an additional $258 thousand; the much smaller West Hartford suburban school system would receive an added $339 thousand in FY 1995-96. While these amounts are not very significant currently, recommendations are that this categorical aid program grow in future years.

In fairness to this proposal, it is the case that Hartford and other city schools have a greater possibility of reaping the benefit of grant increases if their scores improve. Funds for remediation are already included in the school finance formula: however, some funding for this purpose is reflected in the new consolidated block grant discussed below.

Developing and Implementing comprehensive pre-school programs

A significant number of children from disadvantaged backgrounds come to school not ready to learn. Comprehensive programs should be available for all children aged three to five, including pre-school for three and four year olds and extended day kindergarten for those who would benefit. Family literacy and parent education programs would be incorporated, as would child-care, health and social services operated in coordination with local schools.

Districts may create and operate their own programs or purchase places for children in local programs that are non-sectarian. In either event they will be required to cooperate with the Department of Social Services to create "wrap-around" care in both schools and elsewhere. State approved program standards would have to be followed. This will necessitate a commitment to collaboration among state level agencies to commingle funding.

This is potentially by far the most costly of the state proposals. An initial appropriation of $20 to $25 million dollars is recommended for a first year pilot program. Serious funding will await a pick-up in the State's economy or a shift in the public mood to favor more government spending. Initiatives in this area will move the school debates over finance and equal educational opportunity to a new arena, the pre-school years.

Reducing central bureaucratic controls

A list of possibilities is endorsed by the recently issued Excellence Commission Report in an effort to produce greater efficiency in schooling:

- providing greater "public school enrollment options" (magnet schools or open enrollment)
- establishing school level councils representing professionals and the public
- greater budgetary, curricular, and personnel discretion at the school site
- possibly implementing the concept of "receivership": the state would assume direct control of those districts and/or schools that consistently do poorly on achievement tests.

Though not specifically proposed in the Excellence Commission Report, two other movements should be noted under the rubric of efficiency. There are small but active groups in Connecticut proposing school choice, including choice of religious and private schools. Legislative hearings on the matter were held in late 1993. One of the leading Democrats in the General Assembly, a candidate for governor, has expressed sympathetic views to implement this initiative.

In addition, legislation for charter schools is likely to be proposed in the General Assembly again this year. Charter schools would be established by a group of educators who would be free of most state regulations and union rules.

The schools would be accountable for student achievement. They would operate like public schools, except that they would not be tied to any school district. They would take some level of direction directly from the State Education Department. Like private schools, they could enroll children from any school district and receive the same per pupil expenditure as the sending district. Unlike private schools charter schools would be free of charge. They would have to compete for students with other schooling providers. Unsuccessful ones would go out of business.

These sorts of recommendations have questionable economic cost implications. This fact accounts for part of their appeal. On the other side the political costs are very heavy, implying inaction at present. It is important to note that the present governor is not seeking re-election and the Commissioner of Education will be leaving this summer.

It is most unlikely that much of this agenda will be enacted in 1994, a gubernatorial election year. These sorts of reforms will depend greatly upon the November results.

Shifting the state school funding formula approach from categorical to block grant

General aid, Special Education, Transportation, and several smaller programs--each of which is now a separate categorical--would be consolidated into a single block called ECS II. (Connecticut's present general aid package is called "Educational Cost Sharing".) The local "ability to pay" and "student need" factors would be revised to target slightly more money to urban and needy poor rural districts and away from the wealthiest suburban districts. Costs of implementing ECSII are estimated to be about $75 million.

The "Minimum Expenditure Requirement," an amount that rises annually to adjust for inflation--would be retained and expanded to reflect change in the ECS structure. Provisions to relieve overburdened property taxpayers in high tax communities are proposed. School districts performing at the excellent level on the achievement tests would be exempted from any minimum requirement.

Total recommended aid increases deriving from the Excellence Commission Report would amount to roughly $90 million in 1995-96, a 7% increase over the state's school aid budget of $1.273 billion as initially projected. Seven percent is a very modest recommendation considered in the context of recent school finance study commissions. But it exceeds substantially the 5% increases in the state's budget in recent years. Given the state's flagging economy and the new spending cap in Connecticut's constitution, a 7% increase will not be easy to achieve.

School Finance History

Connecticut's school districts are fiscally dependent. Their boundaries are coterminous with the State's general units of local government called "towns." Colonial in their origins, Connecticut towns are small by national standards, both geographically and in terms of enrollment. In the contemporary time period travel among the state's 169 towns has become fast and easy. No town in Connecticut is more than a two hour drive from any other town. These facts condition the environment in which Connecticut educational and social policy is made.

As a small and highly urbanized state, Connecticut is, in many ways, a single large metropolis with many local governments. Governmental fragmentation may have contributed to the substantial concentrations of wealth (and poverty) within towns, and substantial economic differences among them.

This situation is by no means unfamiliar to school finance specialists. A subtle difference in Connecticut is the small size of its jurisdictions, Connecticut had no annexation movements; its cities simply never grew in size beyond their Eighteenth Century boundaries. As a result a state known for its wealth nevertheless has some of the poorest and most troubled cities in the Nation. National attention recently given to the City of Bridgeport's "bankruptcy" is only one case in point. Hartford ranks fourth and New Haven ranks seventh on one national poverty index. This does not imply, however, that all Connecticut cities are necessarily property poor. (Some still have substantial amounts of commercial property.) Nor does it imply that all social problems are in the state's five largest cities. There is a distinctly urban character to some of its smaller cities and inner suburbs. Such areas would be part of their core cities in other parts of the United States.

Until the mid 1970's Connecticut relied exclusively on a Flat Grant funding formula. During the last two decades the State has gradually moved to equalizing formulas, all but eliminating the Flat Grant. Economically, the state relies heavily on the national defense and financial service industries. This fact, plus the quality of leadership, meant that the decade of the 1980s was very kind to primary-secondary education finance. Substantial increases in school funding occurred under the names Guaranteed Tax Base, Educational Enhancement Act, and Cost Sharing. Teachers' salaries moved from sixteenth to first in the nation. Connecticut also has one of the nation's highest per pupil expenditure levels and lowest pupil-teacher ratios. Far from being financial reforms only, these Acts (especially Enhancement and Cost Sharing) led to a restructured teaching profession with competency based testing and new requirements for in-service education. In the 80's the state's share of total public school spending rose from 32 to 45%, with most of the new money concentrated in the state's poorest districts.

The present decade has not been so kind. The recession, the end of the Cold War, and lay-offs in the financial services industry have meant slow growth at best. (Some of the state's economic indicators show declines.) A broad-based personal income tax--the first ever for Connecticut--was implemented in 1992. But it paid for past growth. Since the income tax, the state's share of total school spending has receded to about 40%.

Future Directions for School Finance

"Help," if it can be so termed, may be on the way! The Connecticut Public Expenditure Council reports that total state spending will increase, "...7.7% this year compared to allowable growth of 5.8% for 'capped expenditures.'" If the budget cap is really the "paper tiger" that the Council says, perhaps the Excellence Commission's recommendations will seem unduly restrained.

A decision in Sheff is expected this spring. The decision will almost undoubtedly prompt further study. As of this writing the alternatives discussed have not been sufficiently specific, (or taken seriously enough) to generate formal cost estimates. But there is a general agreement that effective implementation of school desegregation will be very costly. Since this issue was not addressed directly by the Excellence Commission, it is very much a fiscal wild-card. Of particular note is the reality that no attempt has been made by policy-makers to view the issues of quality and diversity, and the report of the Commission in the same context.

The financial growth of the 1980's, and the new income tax required to pay for that growth, have had their impact on the policy mix. Some of the traditional school finance issues, such as fiscal equalization and innovation have been recast. The former is now a desegregation issue; the latter has become early childhood and social service issue. These are somewhat outside the scope of school finance narrowly conceived, but offer wide possibilities for future policy research and reform of school finance formulas.

Lastly, a report of this nature could not be complete without at least passing reference to the impact of the federal government on state school finance. In this connection the "ready to learn" issue from the Goals 2000 report, discussed above in the Connecticut context, comes to mind. If the federal government ever decides a national education policy, the fiscal implications for each state could be very substantial indeed.

MARYLAND

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SCHOOL FINANCE POLICY ISSUES IN MARYLAND

- Governor's Commission on School Funding
- School Performance Programs
- Poverty Count in 1990 Census
- Shifting Social Security to Local School Boards in Fiscal 1994
- Statewide Economy and Local Pay Increases

Overview

For the past three years, both the state and local governments have had their programs and plans curtailed because of the condition of the Maryland economy. Neither the Governor nor the State Legislature appreciated pay increases granted by local governments to their employees when the state was awarding none and reducing the number of employees. The disparity of treatment of state and local employees lead to the transfer of the employer share of Social Security to the localities in fiscal 1994 and the proposal by the Governor's Commission on School Funding to transfer the responsibility for the employer's share of teacher retirement payments to the localities. A contributing factor for this change in state payments is that the percentage of funds going for equalization increases at the same time that the state would not reward through its payment of the employer's share of Social Security and retirement funds the local payment of higher salaries and local employment of additional teachers. Not only were state. lawmakers interested in tying school funds to incentives but also the Maryland State Board of Education through its attention to performance standards and the Governor's Commission on School Funding through its attempts to relate funding to performance on an individual school basis.

Governor's Commission on School Funding in Maryland

The Governor's Commission on School Funding in Maryland in its final report in January of 1994 placed the funding of schools in the state in the context of the events of the past decade. The Commission saw "the most pressing problems of school funding in Maryland involve:

> the frequent inadequacy and wide disparity of the results
>
> achieved by school systems and schools throughout the state; and
>
> a lack of incentives for school systems and schools to use funds effectively to steadily improve results for all students."

This attitude placed funding in the context of the Maryland School Performance Program (MSPP) and the Maryland School Performance Assessment Program (MSPAP). MSSP was established by the Maryland State Board of Education in December 1989 to implement the recommendations of the Governor's Commission of School Performance. MSPP is a system for assessing student achievement, setting standards for achievement, reporting school progress, reporting on factors that may influence school success, and holding schools and school systems accountable for the results. MSPAP is the program of performance tests

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administered each spring to students in third, fifth, and eighth grade. The Governor's Commission on School Funding used the MSPAP data in conjunction with the number of students on reduced or free school lunch to establish that many schools were not serving poverty children. This prevailed even when the county, within which the school was located was spending on a per pupil basis above average for the state. Therefore, the Commission recommended funding on a school by school basis for high concentrations of poverty children and extra funds to schools where performance was above average for the state. Having funds flow to schools directly was only one of the dramatic changes in state funding included in the report.

There are four recommendations of the Governor's Commission on School Funding in Maryland which, while not enacted in the 1994 session of the state legislature, will influence the direction of state funding for public elementary and secondary education of the state in the near future. These recommendations deal with (1) Definition of an adequate program, (2) Equal educational opportunity for children living in poverty, (3) Each and every school must be accountable for the results achieved by it; state funds and policies for each school must have incentives for improvements and sanctions for failure, and (4) Schools should integrate all public services for children and their families.

The Commission chaired by Donald P. Hutchinson, former County Executive in Baltimore County and presently President, Greater Baltimore Committee, was charged to examine state funding and to recommend changes in the distribution without requesting additional funds. The final Commission report asked to a limited extent for additional funds . In the two previous years, school systems had been asked to make adjustments to their budgets after the school year began. For instance, funding for the employer's share of Social Security was shifted to the localities instead of being paid by the state in 1993-94 school year. This change created some confusion among local citizens.

For the first time in forty years, local revenues per pupil reflected the employer share of the Social Security tax. Not everyone understood that much of the increased local funds provided by the counties to schools represented no change in funds available to students. Often the increased county funds for schools merely replaced state direct payment of the employer's share of Social Security tax. Increased local revenues for schools often. just offset the decrease in state revenues. Higher per pupil revenues from local sources did not mean increased funding and could even mean decreased funding when the local funds provided were less than the decrease in state funds.

The local school systems have not only seen the elimination of state payments for social security benefits but also the reduction of pupil transportation grants, the altering of the cost sharing formula for nonpublic placement of special education students, and the holding local school systems responsible for increases in the retirement payments associated with general salary increases. For fiscal year 1994, the previously mandated increases in state funds for current expense aid and for compensatory funding were reduced. These and other changes can be seen in table 1. There is no state aid for social security payments of the employer in fiscal 1994 and the state payment for retirement is effectively capped in fiscal 1994. Total state aid declines slightly even though two new programs for average daily attendance and limited English proficiency students are enacted. Looking at current expenses aid and compensatory aid combined, the share of total state funds that are for equalization increased from 52.6 percent in fiscal 1991 to 65.5 percent in fiscal 1994.

Current School Finance Policy Issues

The Civiletti Commission in 1983, in the climate of Hornbeck v. Somerset, a legal challenge to the equity of the state's system of financing schools, identified eight principles to guide state education funding: (1) Equality of education opportunity, (2) adequacy, (3) funding fairness, (4) special needs, (5) effectiveness and efficiency, (6) local control, (7) accountability, and (8) simplification. Maryland has long attempted to provide equal educational opportunity with a foundation program level guaranteed by joint state and local funding. The amount the localities receive for current operation -- the largest single fund-- has been inversely related to wealth since 1922 and to both wealth and income since 1958.

The state provides funds for compensatory aid, special education, transportation, retirement, and capital outlay. The state provides funds for the debt service on school construction bonds issued prior to 1971 when the state assumed one hundred percent of the construction cost. The locality had only to provide the site. The state has paid fully the employer's share of Social Security and of funds required by state retirement plans. These payments for retirement and Social Security as a total for the state funds for education equaled sixty percent of the state's total contribution to current operating expenses in the foundation program. The state's contribution to the foundation program is distributed inversely to wealth and income. In as much as wealthier subdivisions have either. higher salary scales for teachers or more experienced teachers, then state funds for retirement funding and for Social Security, as these payments are a percentage of salary, will tend to be directly related to local wealth and income. The increase in current expense aid to the localities from fiscal 1993 to 1994 was $88.9 million and they lost $136.0 million from the state no longer paying the employer's share of Social Security, a decease of $47.1 million .

The state payment of the employer's share of Social Security and retirement funds has given risen to a feeling in the state government that schools increase salaries with no regard to the consequences to the state treasury. The Governor's Commission proposed capping retirement payments at the level of 1994-95. These moves mean that local county governments as they grant pay increases to teachers now will need to consider both the funds needed for the pay increase and the funds needed for Social Security and the retirement plans. The desire for greater equalization of the state funds by capping state payment of employer's share of retirement funds drew opposition from the teachers who felt it would affect their ability to negotiate pay increases and from the wealthier counties who would have the greatest need to raise local funds as although the foundation level rose, it was not sufficient to provide for the decrease in funds which the state had provided for retirement.

The Maryland School Performance Program (MSPP) sets standards for student performance; reports each school's and school system's progress in meeting these standards; reports and analyzes data on factors that may influence school results. Policy makers , using the MSPP information, may identify obstacles to school success that can be affected by changes in funding from those obstacles which must be addressed by other means.

Using the MSPP information, the Governor's Commission opted for a program that addressed: (1) Adequacy, (2) Educational Opportunity, (3) Results, and (4) Integrated Services. The Commission had thirteen recommendations to implement their framework

<u>Definition of Adequacy</u>

The Hutchinson Commission determined that an adequate foundation level would equal the per pupil spending in the school systems that have met MSPP standards and have a relatively low proportion of children living in poverty. The average spending in these three school systems in 1991-92 was $5,512 per pupil.

Excerpts from the Hutchinson report indicates the reason for excluding school systems with high proportions of children in poverty. "The single best predictor of school results is the percentage of students approved for free or reduced price lunch."[1] "Schools with high proportions of students living in or near poverty have poor performance regardless of the school system in which they are located." "...from at least half to as much as three-fourths of the differences among schools [in test results] can be accounted for by family socio-economic status."

Educational Opportunity

"To break the generational cycle of poverty, particular attention must be paid to ensuring that children living in poverty succeed in school." The Commission proposed that $1,500 for each child living in poverty go directly to schools that submit comprehensive plans for redesigning educational programs for poor children. The Commission also proposed that per-kindergarten services to disadvantaged four-year-old children be expanded and that full-day kindergarten be provided to children attending high concentration of poverty students in a school. Furthermore, the Commission recommended that Compensatory Education Program funds be directed to extend learning opportunities for poor children and school systems be directed to send funds to these schools. While recognizing poverty as an obstacle to participation and success in school, the Commission was clear that "This does not mean that poor children can not learn as well as their more advantaged peers. However, to assure that each child living in poverty has a real opportunity to learn rigorous content, a continuum of services needs to exist in the school and the community from birth through secondary school to reduce or eliminate the barriers to their learning."

The Commission directed grants to schools so that poor children be served and made the schools responsible. The MSPP requires school systems and schools to analyze their results on the performance tests given in the 3rd, 5th, and 8th grades and carry out long-range plans to improve them. The "Challenge Schools" program, funded by the General Assembly for the last two years, provides support to schools needing to make substantial improvements. Furthermore, the State Board of Education can intervene in failing schools to oversee improvement. Schools whose performance on the 1993 report card is below satisfactory and declining, or their performance on 1994 report card is below satisfactory and not substantially improving are eligible for "reconstitution". "A regulation approved by the State Board [of Education] in November 1993 defines 'reconstitution' as 'changing one or more of the following: a school's administration, organization, staff, or instructional program" The local school system has first chance to institute the change by a plan submitted to the State Board. If the state rejects the local plan, the state determines the form of reconstitution.

The proposed funding plan by assuring that the funds flow to the school give the school administrator and the teaching staff the opportunity to make the desired changes within the allotted funds. The local school personnel also can help assure that the extended pre-kindergarten and kindergarten program assists the school in its scores on the performance tests. Differences among schools in performance and instructional programs will yield information on which proposals seem to assure performance. by students, and especially children from poverty homes.

Results

"Each school system and school must continuously improve the education it provides to students, and must ultimately be responsible to the state for the results it achieves. Flexibility to meet the needs of unique populations in each school and school system must be coupled with a clear, strong accountability system that provides incentives for improvement and imposes sanctions on failing schools."

This paragraph from the Commission's report and from the chairman's letter to the

[1] All quotations in this article unless otherwise noted are from The Report of the Governor's Commission on School Funding, The Commission, Baltimore, Maryland. January, 1994, p. 43.

Governor is quoted in full because it sets the tone of the report: funding is within a system of accountability and other actions; in some instances funding can achieve the results, in other instances different practices are required. This report attempts to discern where dollars can make a difference and where other methods are required.

The adequate level of funding was that for school systems meeting MSPP standards and which were not hampered by a large proportion of children from poor families. Educational opportunity provides more funds for schools with large proportion of poor children. Programs that work like pre-kindergarten for four-year-olds and all day kindergarten are provided. Funds are given to local school staff to devised programs that will assist poor children in learning. Schools that do not improve live with the threat of "reconstitution". "Challenge Grants" are available for low performing schools to undertake significant restructuring of their programs. The emphasis on results calls for expanding this program. Successful teachers and principals in these programs are to be identified and they are to be trained if they agree to serve as "consultant educators" to failing schools. There is to be recognition and financial rewards "for schools demonstrating significant progress toward MSPP standards and schools that achieve excellence for all subgroups in their population (i.e., all racial and ethnic groups, males and females, and middle class and poor children)."

With this emphasis on results of the program, attention must be placed on "the quality and usefulness of data collected to continually examine the relationship between resources and results." The General Assemble in 1993 initiated a grant for school systems with attendance in excess of the state average attendance rate. The Commission recommended that subdivisions received $900 per pupil for this purpose.

Integrated Services

The Commission recommended that schools must integrate educational and other services for children and families. State grants of $75.000 to be matched with local funds would provide a model school for consolidation of services in each county. Furthermore, where Local Planning Entities are not consolidating services to youths and families, state funds for these services would be withheld. A single location in a community should provide the services from birth through secondary schools.

School Finance History in Maryland

The performance of the economy in Maryland and the automatic growth in tax revenues is important to progress in funding of elementary and secondary schools. In 1987, Governor William Donald Schaefer recommended and the General Assembly passed the Action Plan for Educational Excellence (APEX). This program called for automatic increases in the level of the foundation program supported However it limited educational funds to 30 percent of General Fund revenue. The state of Maryland has provided approximately 40 percent of total funds over the years. In the initial year of enactment, the percentage is above 40 percent and then declines to a low of 35 percent until the next look at the state aid plan. During the 1990's, aid to elementary and secondary schools increased in both absolute dollar amount and as a percentage of total state aid to local governments. Non-educational aid by the state to local counties decreased in absolute dollar amount and as a percentage of total state aid for general government, community colleges, libraries and local health.

The increased in educational aid has intensified looking at the results obtained and directs attention toward school performance programs. Differences among state and local employees in pay and working conditions become examined. Differences between local employees of the county and school board are scrutinized. Traditional state payments of the employer share of Social Security and Retirement are closely examined for their incentive effect on salaries or additional employees. Social Security which had been capped previously with the locality having to pay the increases is now shifted entirely to the localities.

Special education and transportation funds from the state had been capped at their 1980 amounts. Limited amounts were added for equalization purposes in special education and for the transportation costs of special education children.

School Performance Programs

In 1993, one school system Howard County met all 13 performance standards of the MSPP. Seven school systems met 12 out of the 13 performance standards. Seven school systems met 11 out of the 13 standards and the remaining nine school systems met 10 or less of the 13 standards. The 1993 report on MSSP includes scores from the 1992 MSPAP. In 1992, no school system met the standards. By 1996, seventy percent of the students in grades 3, 5, and 8 must score at proficiency level three or above to meet the satisfactory standard. There are tests and standards for reading, mathematics, social studies, and science. Three is the middle level of the five proficiency levels for the test.

Poverty Count in 1990 Census

The number of children in poverty in Maryland in 1990 declined by 21,466 from the 1980 Census and more than half this decline or 11,964 was in Baltimore City. These data are used for the first time in fiscal 1995 distribution for Maryland Compensatory Aid. The increase in the per pupil amount from $791 to $830 partially offsets the decline in the number of pupils. Statewide there was a decrease in Compensatory aid of $13.5 million. The increase in the per pupil amount in the Current Expense program offset the decrease in the Compensatory program so that no school system received less money per pupil when the two programs are combined.

Shifting Social Security to Local School Boards

The 1992 special session of the state legislature reduced funds for 1992-93 equivalent to estimated employer share of social security costs for local governments for local teachers, librarians, and community college faculty. Beginning in school year 1993-94, the state legislature discontinued the state reimbursement for the employer share of social security costs.

The shifting of the employer's share of Social Security to local governments means an additional approximately $140 million from local funds. Local appropriations rose $230 million. State funds for other purposes increased by $113 million. These increases in state funds were generally expected except for the new programs. The per pupil increase in funds by county ranged from 0.1 in Montgomery , one of the wealthiest counties, to 11.1 in Somerset, one of the poorest counties.

Statewide Economy and Local Pay Increases

Fiscal 1992 saw both the state and local governments restrict pay increases as revenues were less than expected. In 1993-94, seventeen county governments and 19 Boards of Education provided cost of living adjustments to pay. Only five of both did so in 1992-93. In 1991-92, seven counties provided cost of living adjustments and only five Boards of Education did. There are 24 jurisdictions in Maryland; the twenty-three counties and the City of Baltimore.

During this same period more Boards of Education than county governments gave merit increases. In 1992-93, five Boards of Education gave both a merit and cost of living adjustments in salary and only two counties did.

Conclusions

School funding in Maryland is deeply imbedded in the MSSP and MSPAP programs. Incentives and sanctions are likely in funding plans adopted into the future. More attention will be paid to achievement by school and by groups of pupils within schools. Not only poverty but also race, gender and other special conditions will be addressed in the performance statistics. Funding will flow to principals and their schools that show results on performance testing. Schools and principals that fail will face the threat of "reconstitution" and as school are so designated, new practices that succeed will be uncovered.

State funding will strive to be more equalizing and rewards for effort will be removed from state funding schemes. Equity among students in funding available and equity among property taxpayers will receive increased attention. These differences may lead to another legal challenge of state aid. Opinion about the need for cost of living differentials among districts and adjustment for municipal overburden differs. Both aspects will have increased scrutiny in the near future.

The growth in the state economy and tax revenue increases from that growth will continue to be closely watched. Many school people feel that schools are entitled to have previously frozen funds like transportation and special education increased from their 1980 level to present spending. Other educators see the shifting of Social Security to the local government as constraining collective bargaining as the local government has to pay both the salary increase and the fringe benefit increase. The same percentage salary increase. means a greater increase in the local tax rate now than previously. School employees are at a disadvantage compared to county employees for whom the state continues to pay the employer's share of Social Security and retirement. Yet when state payments to local governments are considered, public schools have done better than all other services. The state may have to considered a major increase in tax rates of the sales or income tax. Most local governments increased income taxes during the recent fiscal crisis. Declining residential property values may mean additional tax increases will be needed. Competition among governmental services will intensify to keep or increase their share of the tax dollar. Many economic projections see Maryland's economy growing at a rate slower than that of the national economy. These unsettled conditions will be studied by a state legislature elected in the fall of 1994 in districts redrawn by date from the 1990 Census of Population. A new day is dawning as new eyes look at past and seek their vision for taxes, expenditures, education, and other governmental services as well as determine which responsibilities the state and localities will share, which the state will do, and which the localities. Are there different responsibilities for state taxpayers and local taxpayers?

Table 1

	Fiscal Year 1991	Percent of Total	Fiscal Year 1992	Percent of Total	Fiscal Year 1993	Percent of Total	Fiscal Year 1994	Percent of Total
Current Expense Aid	$795.8	48.8	$879.5	51.3	$1,052.7	55.8	$1,141.6	61.0
Compensatory Aid	$62.7	3.8	$68.0	4.0	$79.8	4.2	$85.1	4.5
Special Education								
Public	$81.2	5.0	$81.2	4.7	$81.2	4.3	$81.2	4.3
Non-Public	$37.5	2.3	$43.3	2.5	$38.0	2.0	$46.1	2.5
Returnees	$1.0	0.1	$1.2	0.1	$1.3	0.1	$1.8	0.1
MRA	$0.4	0.0	$0.0	0.0	$0.0	0.0	$0.0	0.0
Social Security	$135.2	8.3	$129.1	7.5	$136.0	7.2	$0.0	0.0
Retirement	$336.0	20.6	$330.8	9.3	$360.5	19.1	$358.0	19.1
Transportation								
Formula (Block Grant)	$129.9	8.0	$137.1	8.0	$86.2	4.6	$87.8	4.7
Special Education	$2.0	0.1	$2.2	0.1	$2.0	0.1	$2.5	0.1
Driver's Education	$1.4	0.1	$1.1	0.1	$0.0	0.0	$0.0	0.0
Children at Risk	$7.6	0.5	$7.3	0.4	$8.5	0.5	$10.4	0.6
Gifted and Talented	$0.8	0.0	$0.8	0.0	$0.6	0.0	$2.1	0.1
Enviornmental Education	$0.1	0.0	$0.1	0.0	$0.1	0.0	$0.1	0.0
Disruptive Youth	$0.3	0.0	$0.2	0.0	$0.4	0.0	$0.4	0.0
Magnet Schools	$11.0	0.7	$8.3	0.5	$12.2	0.6	$13.0	0.7
Challenge Grants	$0.0	0.0	$0.0	0.0	$9.0	0.5	$8.0	0.4
Other	$2.1	0.1	$1.2	0.1	$1.0	0.1	$0.4	0.0
Adult Education	$1.7	0 1	$1.2	0.1	$0.9	0.0	$0.9	0.1
Food Services	$6.6	0.4	$4.9	0.3	$4.3	0.2	$4.3	0.2
Community Centers	$1.5	0.1	$1.1	0.1	$0.7	0.0	$0.7	0.0
Extended Elementary	$9.0	0.6	$8.5	0.5	$8.6	0.5	$11.6	0.6
Science/Math Education	$1.0	0.1	$0.8	0.0	$0.9	0.0	$0.9	0.1
Average Attendance Grant	---	---	---	---	---	---	$5.9	0.3
Limited English Grant	---	---	---	---	---	---	$5.9	0.3
Debt Service--pre 1971	$6.5	0.4	$5.6	0.3	$3.2	0.2	$2.1	0.1
Subtotal	$1,631.3	100.0	$1,713.5	100.0	$1,888.1	100.0	$1,870.9	100.0
School Construction	$127.8	---	$109.8	---	$93.0	---	$84.1	---
Total	$1,759.1	97.6	$1,823.3	98.0	$1,981.1	---	$1,955.0	---
General Fund Revenues	$6,141.8	100.0	$6,172.7	99.9	$6,449.1	---	$6,578.1	---
Education - Percent of General Fund		28.8	---	29.5	---	30.7	---	29.7

MASSACHUSETTS

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SCHOOL FINANCE POLICY ISSUES IN MASSACHUSETTS

- Fiscal Problems Ensuing from the Implementation of the State's New Education Reform Law, "The Education Reform Act of 1993"
- Continued Escalation of Special Education Programs and the Resulting Impact upon School District Budgets
- Fiscal Ramifications of A Mandated State-Wide School Choice Program and the Establishment of Charter Schools on Local School Funding

The Massachusetts Education Reform Act of 1993

On June 18, 1993, the Massachusetts Education Reform Act of 1993 took effect, mandating sweeping changes for public education in the Commonwealth of Massachusetts. Integral to education reform has been the development and implementation of a new funding formula for K-12 education. A minimum foundation program, the new formula, while promoting greater equity among Massachusetts school districts, is nevertheless, problematic in several aspects.

First, the formula postulates that a basic student allocation of $5,500 is necessary for funding an adequate education; and that local districts must levy a school tax of at least $9.40 per thousand. Districts that currently tax themselves above the RLE of $9.40, but are unable to fund education at the foundation level ($5,500), receive additional monies from the state in the form of foundation aid. The current year's foundation aid covers 38% of the gap existing between a district's present level of spending and what is required to fund $5,500 per student. These districts also receive "equity aid", additional funding provided to reward communities for taxing themselves above the required level. Districts that neither fund at the foundation level or meet the mandated tax rate, must increase the local levy to a stipulated amount in order to receive foundation aid. Districts that already fund above the foundation level do not receive foundation aid, but are allocated "minimum aid" of $25 per student. If these districts tax themselves above the RLE of $9.40, then they, too, are eligible for "equity aid."

The problem ensuing from this particular feature of the formula concerns the response of local municipalities when a district is already funding above the foundation level. Since school districts in Massachusetts are fiscally dependent upon municipalities, final approval of the school budget is reserved to a community's finance committee or city council. Municipal governments in many of these districts which already are funding a BSA of $5,500 per student and taxing at a level higher than the RLE of $9.40, are reducing levies to coincide with these minimum mandates of the new funding formula, rather than retaining the previously higher tax rate. This leveling back of the tax rate results in the reduction of school budgets to a more minimum level of spending; consequentially, programs are being cut to meet the demands of reduced spending. This behavior on the part of municipalities directly contravenes the spirit and intention of the Education Reform Act.

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A second phenomenon occurring under the Education Reform Act concerns the method in which state appropriations are allocated among school districts. Currently, there is a provision in the law that provides additional funding to school districts which regionalize. During the first year of funding under the Reform Act, independent school districts (the majority of school districts in the State) were provided with allocation figures in early Spring; school budgets based upon these figures were then negotiated and approved by municipalities. However, in early summer, school district allocations were reduced, because the state needed to reallocate additional appropriation monies promised to newly regionalized school districts. Independent school districts were then placed in the untenable position of having to renegotiate with municipal finance committees for additional local monies to make up the deficit.

A third problem, related to the language of the new education funding formula, concerns what constitutes "net school spending." In the formula, net school spending is described as, "the total amount spent for the support of public education, including teacher salary deferrals and tuition payments for children residing in the district who attend a school in another district or other approved facility,..." Due to the looseness of the language, i.e., "the total amount spent **in support** of public education," some municipalities are assessing school districts for charges normally paid solely by the municipality, i.e., police and fire protection, children librarians in public libraries, snow plowing and road maintenance. These charges additionally burden school budgets.

The Impact of Special Education Costs

The cost of special education programs in Massachusetts continues to be problematic for local school districts. Approximately $740 million was spent on special education during the 1988-89 school year. This figure represents a 177% increase from just 10 years previously. With 17.1% of all Massachusetts students identified for special education services, and historically very little state funding available for special education programs, local school districts have had to bear the brunt of the fiscal burden.

Under the Education Reform Act, foundation enrollments are premised upon the assumption that 14% of a school district's total student population is receiving special education services. Additionally, districts are allowed to claim the following two types of percentages of special education students: (1) "Assumed tuitioned-out special education enrollment", equalling 1% of the total foundation enrollment, not counting vocational or pre-school; and, (2) "Assumed in-school special education enrollment", equalling 3.5% of the total foundation enrollment, not counting either vocational or pre-school populations, plus 4.5% of the vocational population.

This new method the State is using -- a population-based funding formula -- to fund special education has the potential to recognize and compensate districts for the costs incurred in delivering special education services to students, while at the same time act as a vehicle for holding overall costs down. Districts that have special education populations that are lower than the prescribed percentages are rewarded; they still receive the foundation money provided as if they were serving those percentages of special education students, but the money can be used elsewhere in the district budget. For districts which have percentages of students receiving special education services greater than the 14% figure, the larger financial burden for delivering services still rests with the district. Therefore, there is a built-in incentive in the formula for districts to attempt to hold special education service costs down.

However, there are two problems currently facing districts in attempting to be cost-effective about special education. First, many districts have populations of special education students that exceed the Act's assumed 14%. For these districts, that already have special education populations of 15%, 18%, or even 25%, there is little they can do about cutting costs associated with those students. Second, as presently written, the Massachusetts special education state law, Ch. 766, holds school districts to a stricter standard than the federal law: "to successfully develop the child's individual educational potential." A district court's interpretation of an earlier version of this language was upheld by the appellate court in 1985 as meaning that the State law mandated a higher level of benefits than that required of the federal law, and that consequently, Massachusetts school districts had to provide that higher level of service. This has resulted in an increased use of private and residential placements.

Two recent publications on Massachusetts special education costs and services highlight the increasing costs associated with special education and the impact these costs have upon regular education programs. The reports also questioned the necessity for placing 17.1% of all Massachusetts students into special education programs. Both reports advocate the use of mainstreaming or inclusionary practices as methods for providing more effective services at a lower cost. However, research studies on inclusion thus far suggest that to implement effectively, costs are often higher, not lower, at least initially. Furthermore, given the language found in the Massachusetts law regarding individual potential, parents still retain the ultimate right to refuse an inclusionary program.

Impact of School Choice Programs

In 1991-92, the State enacted a state-wide school choice program. Under the Education Reform Act, this program has been continued and expanded, and a charter schools program also has been initiated. The state-wide school choice program allows any student in any district to attend school in another district as long as the receiving district has room. If a district does not wish to participate in the school choice program, then that district's school committee by June 1st of each year, must vote to not accept choice students after a public hearing has been held on the issue. If a district chooses to operate an intra-district choice program, out-of-district students must be allowed to attend. Tuition accompanying the school choice students which is paid to the receiving district must equal 75% of the receiving district's actual per pupil expenditure, not to exceed $5,000. Districts which demonstrate that they are needy districts, i.e., they are currently receiving foundation aid, will be reimbursed for a portion of the school choice tuition they lose. Approximately 71 school districts have chosen to accept choice students; 222 districts are affected by school choice (most by the transfer of students out of their district).

Charter schools are public schools in which innovative ideas and practices are encouraged. Charter schools are exempted from teacher certification regulations and the Act's mandate that schools adopt professional development plans. Charter schools are operated by Boards of Trustees, which are independent of school committees. Although parochial and private schools are not eligible for charter school status, virtually all other entities are. Only 25 charter schools are allowed to operate within the Commonwealth at a given time, and the Act stipulates how many can co-exist in the different urban and rural areas of the state. A charter school can establish academic entry standards for eligibility for applicants. Preference in enrollment is given to residents of the town or city in which the school exists. No tuition is charged; funding for charter schools is realized from tuition expended by the sending district which pays the average per pupil expenditure of the district in which the charter school is located. If the student is sent from a district that has a lower per pupil expenditure, then the sending district will pay the lesser amount.

Considerable controversy surrounds both of these programs. Much of the controversy stems from the financial impact choice is having upon districts. Currently, poorer districts are being reimbursed for the loss of choice students, however, reimbursements will terminate as districts reach foundation level. Also, the money the state is using to reimburse districts is money that is part of the foundation monies under the Act. The diversion of these funds compromises the State's goal of assisting districts to reach foundation level. Districts are also looking at future revenue loss due to attendees of charter schools.

Another serious concern about both programs is the loss of student diversity in urban districts. One superintendent termed the school choice program as "state-sponsored white flight." This is because the majority of students taking advantage of the choice program are caucasian students. Districts find this particularly ironic since, in urban districts, state subsidies for desegregation programs equal millions of dollars. Parent information centers, and other methods of communicating to parents about the choice programs have failed to generate increases in minority families availing themselves of choice.

School Finance History in Massachusetts

Prior to the passage of the Education Reform Act of 1993, the methods utilized by the state of Massachusetts for funding public education moved along a continuum from poor to disastrous. During the 1970s and early 80s, the state used a percentage-equalizing formula, which was subsequently replaced by a loosely-configured foundation program known as the Needs-Based Formula. In recent years, with the recession hitting hard in Massachusetts, state funding for public schools fell to an historic low (25% in 1992), and in June 1993, a ruling in a state finance lawsuit was handed down in favor of plaintiff school districts, adding impetus to legislative efforts in formulating a more equitable method for funding schools. The result of the legislative efforts came to be known as the "Foundation Budget Formula" which is the fiscal component of the current Education Reform Act.

Future Directions

It is still too early to predict the ultimate impact of the funding formula under the Education Reform Act of 1993. There are two potential problems. First, the status of future appropriations is unclear. The Governor has strongly advocated against new taxes, and, with the coming election year, the Democratic legislature is also unwilling to call for additional taxes, or an overhaul of the present system. Therefore, the amount of funding actually appropriated for education in the future is in doubt.

Complicating the situation for towns is the continued effect of Proposition 2 1/2, the mandated tax cap on property taxes. As with the issue of raising additional revenue through new or modified taxes, the Governor is adamant that Proposition 2 1/2 remain untouched. Therefore, for towns that prior to the Education Reform Act did not expend the required standard of effort to fund their districts' schools and are below the foundation budget, in order to come up with the necessary funding now must pass an over-ride. Failing that (which is more often the case than not) these towns must take from other town accounts, e.g., public safety, fire department, to come up with the required amount for education. Clearly, these are both issues that must be resolved if the Education Reform Act is destined to make a difference in the education of children in Massachusetts.

NEW JERSEY

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SCHOOL FINANCE POLICY ISSUES IN NEW JERSEY

- Addressing the Court mandate in *Abbott v. Burke*
- Increasing the equity of education funding throughout New Jersey

Abbott v. Burke and the Quality Education Act[1]

In June 1990, the New Jersey State Supreme Court ruled that New Jersey's school funding law was unconstitutional as applied to poor urban districts because the education delivered to their students was neither thorough nor efficient (*Abbott v. Burke*, 119 N.J. 287). The Court ordered the legislature to design a new or revised funding system that would meet the following criteria: (1) equalize spending for the regular education program between poorer urban districts and property-rich districts; (2) provide additional funds to meet the special education needs of the urban districts in order to redress their disadvantages; (3) assure that funding for poor urban districts is certain every year and does not depend on the budgeting or taxing decisions of local school boards; (4) eliminate minimum aid; and (5) begin in the 1991-92 school year.

Abbott v. Burke applies only to poorer urban districts in New Jersey. The justices ruled that sufficient evidence was not submitted in this case to show that the constitutional mandate was violated in other school districts in the state.

The Quality Education Act (QEA) was implemented in 1991-92 in response to this decision. The QEA (1) changed the formula for distributing state education aid to local school districts from a guaranteed tax base to a foundation formula, (2) redefined the wealth measure used to allocate aid to include an income factor, (3) replaced the compensatory education categorical aid program with a program of aid for "at risk" students, (4) eliminated the payment of minimum aid to wealthy school districts, and (5) changed transportation aid from a reimbursement to an expected cost basis. Other categorical aid programs continued to be funded through a weighted pupil flat grant, and the payment of teacher pension and social security costs remained the responsibility of the state.

The QEA established a base foundation for 1992-93 of about $6,100 per pupil enrolled in a regular program in grades 1 through 5. All pupils are assigned grade level or program weights. Students in grades 6 through 8 are weighted at 1.1 and students in high school are weighted 1.33. Pupils enrolled in kindergarten or preschool are weighted as 0.5 if in a half-day program, or 1.0 if in a full-day program. Under orders from the Court to equalize spending in

[1] For a more detailed discussion of the *Abbott v. Burke* decision, see Margaret E. Goertz, *A Quest for Equal Educational Opportunity in New Jersey: Abbott v. Burke and the Quality Education Act of 1990*, Working Paper #19, Council on New Jersey Affairs, Woodrow Wilson School of Public and International Affairs, Princeton University, January 1991. For a more detailed description of the provisions of the QEA, see Margaret E. Goertz, "School Finance Reform in New Jersey: The Saga Continues," *Journal of Education Finance*, 18(Spring 1993), 346-365.

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poorer urban districts, the QEA defines a category of "special needs" districts, which includes 30 school districts serving about one-fourth of the State's public school students. Under the QEA, the base foundation for special needs districts is increased five percent.

The state calculates a district's required local effort, or in the QEA language, "local fair share," based on its property wealth and aggregate personal income. Each district's local fair share is calculated by applying a statewide property tax rate, or multiplier, to its equalized property value and a statewide income tax rate, or multiplier, to its personal income, and dividing the sum of these two products by two. The 1992-93 property value multiplier was 0.0121 and the income multiplier was 0.0492. These figures are used only to calculate a district's required local effort. They are not required tax rates. Special needs districts will have their local fair share calculated using only an adjusted property tax multiplier if this results in a lower amount.

New Jersey continues to use categorical aid programs that are not wealth-equalized to serve students needing services in special education, bilingual education, and vocational education, and for "at-risk" students. (The Supreme Court upheld this approach in *Abbott II* because of educational policy considerations.) The state has programmatic mandates in special education, bilingual education and compensatory education. The QEA replaced the old compensatory education program with aid for pupils *at risk of educational failure*. Aid payments are based upon the number of public school pupils eligible for the federal free lunch or free milk program.

Parity Between the Special Needs and High SES Districts

State education aid increased $1.02 billion in the three years between 1989-90, the year prior to the implementation of the QEA, and 1992-93, the second year of the QEA. Aid for the "regular education" program--foundation aid--increased $631.5 million and aid for categorical programs--special education, bilingual education, at-risk aid, and transportation aid--grew another $470 million. These increases were offset by a reduction in state support for teacher retirement costs of $110 million due to the refinancing of pensions.

Aid to the 30 special needs districts increased $582 million in this three year period. These districts received an increase of $413 million in foundation aid and another $197 million in categorical aid, including $104 million in at-risk aid. As a result, their share of state aid increased from 37 percent in 1989-90 to 41 percent in 1992-93.

The New Jersey Supreme Court requires the state to achieve "substantial" spending equity between the state's special needs and wealthy districts; the state legislature established 1995-96 as the target year for parity. How far has the state come in meeting this goal? Expenditure parity is evaluated by comparing per pupil expenditures for the regular education program (net current expense budget[2]) in each of the 30 special needs districts with the average expenditure of the state's 108 wealthiest school districts. In 1989-90, disparities ranged from $582 (Long Branch) to $3,647 (Pemberton). Disparities exceeded $2,000 per pupil in 13 districts. By 1992-93, the second year of the QEA, disparities ranged from $28 (Hoboken) to $2,495 (Irvington). Spending differences had *widened*, however, in 15 of the 30 special needs districts, and still exceeded $2,000 in 10 of the districts. (See Table 1.)

Changes in Equity Statewide

To what extent did the infusion of $1 billion of new state aid, supposedly targeted at poor urban districts, increase the equity of New Jersey's school finance system overall? To answer this question, we applied six equity measures (restricted range, federal range ratio, coefficient of variation,

[2] Net current expenditures are current expenditures minus transportation and categorical aid for special needs students.

McLoone index, Gini coefficient and simple correlation) to the districts' net current expenditures per pupil. Table 2 presents these statistics for 1989-90 and 1992-93, and shows the direction and level of change in the three year period.

The average spending for the regular education program in New Jersey grew from \$5638 to \$6801 between 1989-90 and 1992-93, a 20.6 percent increase. The restricted range (the difference between expenditures at the 5th and 95th percentiles of the distribution) decreased only \$13, however, from \$3872 to \$3859. Although the dollar disparity between high and low spending districts remained relatively constant, the federal range ratio (the difference between expenditures at the 5th and 95th percentile divided by the 5th percentile expenditure) dropped from 1.003 to 0.754, a 24.5 percent improvement. This change reflects the fact that the 5th percentile expenditure increased by \$1260 per pupil, while the absolute dollar disparity between the 5th and 95th percentiles remained relatively constant. The federal range ratio for 1992-93, however, remains far above the federal equity standard of 0.25.

The restricted range and federal range ratio measure dispersion at ends of the distribution, using data from two school districts. The coefficient of variation (COV), which is the standard deviation divided by the mean, includes data from all school districts in the state and focuses on the extent of variation around average spending. In 1989-90, the COV was 0.214 for net current expenditures. It dropped to 0.193, a 9.8 percent improvement. But this latter COV reveals relatively large expenditure disparities; two-thirds of the students in the state have between \$5488 and \$8144 spent on their regular education program, a difference of over \$2600 per pupil. The Gini coefficient measures the degree to which expenditures are distributed equally to students at various percentiles (i.e., do 10 percent of the students in the lowest spending districts receive 10 percent of expenditures, etc.?). The QEA had a positive impact on the Gini coefficient, with it dropping from 0.117 to 0.100 in 1992-93, a 14.5 percent decline in the measure.

Changes in the COV and Gini coefficients do not show where in the distribution equity is improving. The McLoone index is designed to focus on equity in the bottom half of the distribution. The McLoone index for net current expenditures was 0.854 in 1989-90 and 0.886 in 1992-93. This modest increase in the McLoone index means that spending differentials among the lowest spending districts narrowed slightly during this time period.

The simple correlation shows the degree to which there is a linear relationship between net current expenditures and per pupil property wealth in New Jersey, a measure of equal opportunity. This correlation was 0.429 in 1989-90, but increased slightly to 0.437 in 1992-93.

Why did the infusion of one billion dollars in state aid not have a greater impact on school finance equity in New Jersey? Several factors appear to have limited the impact of aid increases on equity. These include: (1) how aid was targeted to different types of districts in the state; (2) the impact of expenditure caps on the distribution of state aid; and (3) the willingness and ability of high wealth districts to sustain funding increases.

The public perception of the QEA is of a law that directed most of the new state aid dollars into the state's urban school districts. The special needs districts did receive 57 percent of the new aid. But, as shown in Table 3, foundation aid increases were spread across the first six wealth deciles of districts. While the lowest wealth districts received an average aid increase of \$750 dollars per pupil, mid-wealth districts also received, on average, between \$536 and \$778 more per pupil in foundation aid. The middle wealth districts received substantial increases in foundation aid because the foundation level for 1992-93 was well above the average spending of these districts (it was equivalent to the 80th percentile net current expense budget in 1989-90), and districts through the seventh decile of wealth were eligible for foundation aid.

While most districts in the state were eligible for substantial new revenues under the QEA foundation formula, the amount of aid they actually received and then were allowed to spend was limited by the imposition of tight budget caps. The QEA limits each district's aidable expenditures to its maximum foundation budget, which is the district's prior-year budget adjusted by its spending cap. Because the low-wealth districts were spending well below the foundation amount in 1989-90, the caps have not enabled them to come up to the foundation level yet. Two years into the new law, half of the students still live in districts spending below the foundation amount. In addition, the caps forced much needed tax relief for the lowest wealth districts. In the first year of the QEA, \$229 million of the \$800 million increase in aid went for property tax reductions.

Finally, although the highest wealth districts in the state, on average, saw their total state aid reduced (increases in categorical aid were offset by Court-mandated reductions in minimum aid), these districts increased their net current expense budgets an average of five to six percent a year between 1989-90 and 1992-93. When applied to their high spending base, these percentage increases translated into \$1000 to \$1200 per pupil. Although expenditures grew at a faster rate among the low wealth districts, these communities saw increases of only \$1200 to \$1400 per pupil, on average, because of their lower base. As a result, little progress was made in narrowing the spending gap among districts or in reducing the relationship between wealth and spending.

School Finance History in New Jersey

In 1973, the New Jersey Supreme Court ruled that the state's school funding law violated the "thorough and efficient" clause of New Jersey's state constitution (*Robinson v. Cahill)*. The Public School Education Act of 1975 was passed in response to this decision. This law, which increased the state share of education funding from 28 to 40 percent, was then declared unconstitutional in the *Abbott v. Burke* decision.

The Quality Education Act, passed in response to *Abbott v. Burke*, was in effect for only two years: 1991-92 and 1992-93. In response to the threat of a constitutional amendment that would have limited the State's financial obligation to all school districts and eliminated the requirement of substantial parity between poor urban and wealthy suburban districts, the major education groups, groups representing urban districts, foundation aid districts and wealthier suburban districts, and the attorneys for the plaintiffs in *Abbott v. Burke* proposed a compromise plan for the 1993-94 school year. This law, the Public School Reform Act of 1992, increased foundation aid to the special needs districts by nine percent, provided non-special needs districts a four percent increase in foundation aid, and froze categorical aid (special education, at-risk, and bilingual education aid) at 1992-93 levels for each district. It also ensured that transition aid districts received no less aid than they received in 1992-93. The Act also created an Education Funding Review Commission to develop long-term revisions to the QEA. The Commission was supposed to report on November 15, 1993. Its tentative reporting date is now spring 1994. Governor Whitman, in her FY95 budget message, has proposed freezing all state aid for 1994-95 at current levels, except for a small shift (\$28 million) of aid from high wealth to special needs districts.

The Commission's deliberations are taking place within the context of another court decision in the ongoing *Abbott v. Burke* litigation. On August 31, 1993, a trial court judge, Judge Levy, ruled that the QEA did not and would not meet the New Jersey Supreme Court mandate in *Abbott II* to equalize spending between the state's poor urban and wealthy suburban school districts. He also found that the current legislation fails to sufficiently address the needs of at-risk students in the special needs districts. These problems led Judge Levy to render the QEA unconstitutional. Judge Levy's decision was appealed directly to the state Supreme Court, which will hear oral arguments on May 25, 1994. It has been estimated that it will take an additional $400 to $450 million to bring spending in the 30 special needs districts up to the level of the wealthy suburban communities. Additional spending for at-risk students could raise the bill another $200 million.

Calls for increased state aid come at a time when New Jersey is under extreme fiscal pressure. There was no growth in the state budget between 1992-93 and 1993-94. Governor Whitman must address an estimated $1.5 billion structural deficit (caused by several years of one-shot budget-balancing gimmicks), the school finance crisis, and growing expenses in the state's Medicaid and corrections programs. In addition, she pledged during her campaign to cut the state's income tax by 30 percent over the next three years, at a cost of approximately $1.5 billion. At her urging, the legislature enacted a five percent cut in the income tax, retroactive to January 1, 1994, at a cost of $300 million. While New Jersey is showing signs of emerging from the recent recession, growth in employment has been minuscule and the state treasurer has projected no growth in state revenues for 1994-95. Therefore, New Jersey is attempting to bring about school finance and general education reform in a climate of "no growth" and of pressure for tax cuts.

Conclusion

The New Jersey Supreme Court has issued a landmark school finance decision that spells out the State's obligation to educate students in poorer urban districts. It requires the state to equalize spending on the regular education program between poor and wealthy districts and to provide additional aid to address the economic and educational disadvantages that face poor urban children. The Quality Education Act, as amended, is the Legislature's response to the *Abbott* decision. While it replaced a guaranteed tax base system with a new foundation aid program, and increased categorical aid for students with special needs, it did little to increase the equity of regular education spending and the results fall well short of meeting the Court's mandate of parity. Spending disparities between half of the special needs districts and wealthy districts widened in the first two years of the law. Statewide, the gap in regular education spending did not narrow, and the correlation between education spending and wealth did not change. There is evidence of some leveling-up in spending among the bottom half of the districts, and variation in spending around the mean narrowed slightly. In spite of an infusion of one billion dollars in state aid, however, New Jersey ranks low on most equity measures.

Table 1

**Comparison of Per Pupil Expenditures
Average of 108 Wealthiest School Districts with each of 30
Special Needs Districts
1989-1990 and 1992-1993**

	1989-1990 Per Pupil Expenditure*	1989-1990 Disparity	1992-1993 Per Pupil Expenditure*	1992-1993 Disparity
Average of 108 Wealthiest Dists.	$6,733		$8,050	
Asbury Park	5,853	-880	6,415	-1,635
Bridgeton	3,829	-2,094	5,659	-2,391
Burlington City	5,581	-1,152	7,690	-360
Camden	4,184	-2,549	6,142	-1,908
East Orange	4,865	-1,868	6,089	-1,961
Elizabeth	4,427	-2,306	6,000	-2,050
Garfield	5,860	-873	6,295	-1,755
Gloucester City	4,192	-2,541	5,861	-2,189
Harrison (H)	3,765	-2,968	6,421	-1,629
Hoboken	6,114	-619	8,022	-28
Irvington	5,712	-1,021	5,591	-2,495
Jersey City	5,389	-1,344	5,898	-2,152
Keansburg	4,679	-2,054	7,232	-817
Long Branch	6,151	-582	6,948	-1,011
Millville	3,513	-3,220	5,292	-2,758
Neptune Twp.	5,530	-1,203	7,261	-789
New Brunswick	6,007	-726	6,446	-1,604
Newark	5,910	-823	7,107	-943
Orange	5,438	-1,295	6,489	-1,561
Passaic City	4,870	-1,863	5,698	-2,352
Paterson	4,787	-1,946	6,636	-1,414
Pemberton Twp.	3,086	-3,647	6,727	-1,323
Perth Amboy	4,637	-2,096	6,149	-1,901
Phillipsburg	4,635	-2,098	5,826	-2,224
Plainfield	4,914	-1,819	6,397	-1,653
Pleasantville	5,194	-1,539	6,353	-1,697
Trenton	5,385	-1,348	6,819	-1,231
Union City	4,077	-2,656	5,884	-2,166
Vineland	4,041	-2,692	5,871	-2,179
West New York	4,663	-2,070	6,212	-1,838

*Net Current Expense Budget

Table 2

Equity Measures, 1989-90 and 1992-93

	Net Current Expense/Pupil			
Equity Measure	1989-90	1992-93	Difference	% Change
Mean	$5,638	$6,801	$1,163	20.60%
Restricted Range	$3,872	$3,859	($13)	-0.30%
Federal Range Ratio	1.003	0.754	-0.249	-24.80%
COV	0.214	0.193	-0.021	-9.80%
Gini Coefficient	0.117	0.1	-0.017	-14.50%
McLoone Index	0.854	0.886	0.032	3.70%
Simple Correlation	0.429	0.437	0.008	1.90%

Table 3

Changes in State Aid to Education, 1989-90 to 1992-93
Districts grouped by Property Wealth per Pupil

	1989-90			1992-93			Dollar Change		
Wealth Decile	Equal Aid	Categ Aid	Total Aid	Equal Aid	Categ Aid	Total Aid	Equal Aid	Categ Aid	Total Aid
1	$3741	$821	$4562	$4491	$1919	$6410	$750	$1098	$1848
2	3207	771	3978	4102	1813	5915	895	1042	1937
3	2691	686	3377	3709	1155	4864	1018	469	1487
4	2207	707	2914	2985	1106	4091	778	399	1177
5	1682	634	2316	2354	970	3324	672	336	1008
6	1272	609	1881	1808	864	2672	536	255	791
7	597	580	1177	915	845	1760	318	265	583
8	470	545	1015	449	739	1188	-21	194	173
9	452	590	1042	219	816	1035	-233	226	-7
10	409	590	999	116	835	951	-293	245	-48

NEW YORK

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SCHOOL FINANCE POLICY ISSUES IN NEW YORK

In the 1993-94 school year, New York set into place what was hailed as a major reform in school finance. The goal, loosely defined, was to increase the "progressivity" of the funding system (New York State Division of the Budget, 1994). The proposed 1994-95 school funding system continues largely unchanged the reforms of the previous year. This paper describes the proposed 1994-95 finance system with particular attention given to the role of basic aid, noting changes from the previous year where applicable. The final sections analyze the funding system's potential to achieve greater efficiency and equity for New York's students and taxpayers and make policy recommendations.

State Aid to Education in New York

State aid to elementary and secondary education in New York is distributed through a seven part basic aid program and forty categorical programs. This section of the paper first describes the components and accompanying formulas for the basic aid program and then summarizes and highlights the major categorical programs.

Basic Aid

Basic aid is comprised of seven components: 1) operating aid; 2) flat grant; 3) growth aid; 4) extraordinary needs aid; 5) tax equalization aid; 6) tax effort aid; and 7) transition adjustment aid. (See Table 1 for a comparison of basic aid for school years 1992-93, 1993-94, and 1994-95.)

Operating Aid and Flat Grants. Operating aid, the largest single component of basic aid, is calculated by utilizing a modified percentage equalizing formula with the remaining aid programs acting as add-ons or enhancements. Excluded from operating aid are the following: capital outlay; debt service; food services; tuition payments to other school districts; and aid to Boards of Cooperative Educational Services (BOCES). In addition, transportation is excluded because it is funded by a categorical program. Operating aid is based on the full value of taxable real property in a school district and the adjusted gross income of school district residents, referred to in the formula calculation as the "combined wealth ratio."

Unlike a true percentage equalizing aid program, operating aid in New York has both a floor and a ceiling. Every school district, regardless of wealth, will receive a minimum of $400 per pupil; this floor is referred to as the flat grant. In addition a ceiling of $3,790 per pupil is proposed with a provision for additional aid based on the district's approved operating expenditure up to a maximum of $8,000. Per pupil operating aid is the product of the operating aid ceiling of $3,790 and the "operating aid ratio," where the operating aid ratio reflects the state's share of local school district operating expenditures. For 1994-95, school districts may select among four operating aid ratios as follows:

$$OAR_1 = 1.33 - (CWR_i \times 1.50) \quad (1)$$

$$OAR_2 = 1.00 - (CWR_i \times 0.64) \quad (2)$$

$$OAR_3 = 0.78 - (CWR_i \times 0.39) \quad (3)$$

$$OAR_4 = 0.51 - (CWR_i \times 0.22) \quad (4)$$

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The combined wealth ratio is calculated as follows:

$$CWR_i = .5\ \frac{(FV_i/TWPU_i)}{\$299{,}500} + .5\ \frac{(AGI_i/TWPU_i)}{\$76{,}600} \qquad (5)$$

where

FV_i = Full value of real property in school district i[1]

$TWPU_i$ = Total wealth pupil units in school district i

AGI = Adjusted gross income of residents in school district i

\$299,500 = State average $FV_i/TWPU_i$

\$76,600 = State average $AGI_i/TWPU_i$

Full value of real property in a school district, for the purposes of calculating operating aid, is capped at 117% of the state average, or \$299,500. Special needs pupils are weighted at 1.25 in calculating operating aid.

Growth Aid. Growth aid represents an adjustment to operating aid for school districts experiencing increases in enrollment exceeding 50 pupils and greater than one percent of the previous year's enrollment. It is the product of the percentage of growth in average daily attendance from the previous year and per pupil operating aid. Together operating and growth aid represent approximately 86% of the total dollars distributed through basic aid, or \$1.87 billion.

Extraordinary Needs Aid. Extraordinary Needs aid was added to basic aid calculations in 1993-1994, replacing Supplemental Support aid in part, to provide additional resources to school districts with at-risk students where "at-risk" is defined in terms of three factors: 1) poverty or low academic achievement; 2) limited English proficiency; and 3) sparsity. The percentage of elementary students receiving free or reduced price lunches serves as a proxy for poverty. Where such a count is not available, low academic achievement is substituted. Low academic achievement is established by calculation of the percentage of students scoring below the statewide reference point on reading and mathematics tests administered at grades three and six. Sparsity is established by calculating the ratio of student enrollment to square miles in a school district.

Extraordinary Needs aid is calculated as follows:

$$ENA_i = (\$3{,}790_i + CA_i) * ENAR * ENC_i * .1cf_i \quad (6)$$

where

ENA_i = Extraordinary needs aid for district i

CA_i = Ceiling adjustment based on approved operating expenditure for district i

$ENAR_i$ = Extraordinary needs aid ratio for district i

ENC_i = Extraordinary needs count for district i

CF_i = Concentration factor for district i

The extraordinary needs ratio is established by subtracting 40% of the school district's income wealth ratio from 1.00, with the maximum aid ratio set at 1.00. The extraordinary needs count is the sum of at-risk factors described above. The concentration factor is calculated as follows:

$$CF_i = 1 + \frac{(ENC_i/PYE_i) - .786}{.786} \qquad (7)$$

where

CF_i = Concentration factor for district i

[1] Note that full value may be computed one of two ways: 1) 1992 full value; or 2) 117% of the sum of one half 1990 and 1991 full values.

ENC_i = Extraordinary needs count for district *i*

PYE_i = Previous year's enrollment for district *i*

For 1994-95, the state projects to spend $378 million on Extraordinary Needs aid, an increase of approximately 2.5% over the 1993-94 school year.

Tax Equalization Aid. Tax Equalization aid compensates districts spending beyond the state's operating aid ceiling, and with Tax Effort aid (see description below) replaced High Tax aid. The difference between per pupil approved operating expenditure and operating aid is compared to the product of a school district's wealth and .02250. Tax Equalization aid is the positive remainder, up to an operating aid ceiling of $8,000 per pupil.

Tax Effort Aid. Tax Effort aid, added to the basic aid formula in 1993-94, represents an attempt to reward districts that tax themselves at a high level in relationship to the income wealth of the district, utilizing adjusted gross income as the measure. School districts whose full value wealth ratio is less than two and whose tax levy is greater than three percent of their adjusted gross income are eligible to receive up to $680 per pupil.

Transition Adjustment Aid. Transition Adjustment aid, added to the basic aid formula in 1993-94, serves as a guarantee to all school districts for a package of basic and categorical aid and, along with Extraordinary Needs aid, replaced Supplemental Support aid. For 1994-95, school districts are guaranteed the sum of 1993-94 grants-in-aid: operating; extraordinary needs; tax equalization; tax effort; gifted and talented; hardware and technology; and educationally related supported services.[2]

Categorical Aid

The categorical aid programs available to public elementary and secondary school districts in New York number twenty for operating expenditures; three for capital outlay, bonds, and debt service; six limited to the five large city school districts; two for small city school districts; five for regional education districts (BOCES); and four for nonpublic elementary and secondary schools, for a total of 40 categorical aid programs. (Tables 2 through 7 summarize and compare categorical aid programs for the 1993-94 and 1994-95 school years.) This section will highlight the funding mechanisms under which categorical aid in the state of New York operates.

Categorical aid programs in New York target a wide variety of educational services, from transportation and construction to education of the homeless and incarcerated youth. In examining categorical aid, two important questions need to be asked: first is such aid equalized, and secondly is aid held harmless? While much attention has been given in education finance research to the equity of basic aid, categorical aid has for the most part escaped scrutiny. Yet categorical aid represents a significant part of school funding, and if each categorical program is not equalized, serious inequities may develop among school districts. Secondly if categorical aid is held harmless, i.e., school districts receive the same amount of categorical aid as the previous year even if they are providing services to fewer students, interdistrict inequities are created that are exacerbated over time.

In New York while only 11 of the 40 categorical programs are equalized, the two largest, transportation and public excess cost(special education) are. Public Excess Cost aid represents over one billion dollars annually whereas the allocation for transportation is projected at $612 million for 1994-95. However, Public Excess Cost aid is held harmless while transportation is

2 The last three aid programs: gifted and talented; hardware [computer] and technology; and educationally related support services are categorical aid programs.

not. The next two largest categorical aid programs, building aid at $467 million and regional education service district(BOCES) aid at $264, are non-equalized and held harmless. All in all, nine of the 40 categorical aid programs are held harmless.

Categorical moneys are distributed either through a formula allocation or a reimbursement process with the majority of aid programs using some type of formulas. These range from quite simple ones, e.g., aid to gifted and talented programs is the product of $196 and three percent of attendance, to quite complex, such as aid to students with disabilities where formula factors include school district wealth; prescribed state share; per pupil aid ceiling; and save harmless provisions. Nonpublic schools receive categorical assistance through direct state aid for students with disabilities whereas they receive assistance from the "loan" of textbooks, library materials, and computer software purchased from categorical aid given for that purpose to local school districts.

Equity and Efficiency of the 'Reformed' Funding System. Changes made in the 1993-94 finance formulas and carried over to 1994-95 represent attempts by the state to increase the "progressivity" of the funding system. Progressivity generally refers to the notion of tax systems and vertical equity where those who are more able fiscally pay a larger portion of their wealth in taxes(Musgrave & Musgrave, 1989, 228). Within New York's funding system, one would assume that a similar definition of progressivity applies on the revenue side and is extrapolated to the expenditure side; that is, those school districts with the lowest levels of wealth, defined by the state as personal income and real property, upon which to draw receive the most state aid. Efficiency, not an articulated goal of the state funding system, is here defined in terms of administrative efficiency, i.e., the ease of administration of the funding system.

At first glance New York's education funding system appears equitable, given the inclusion of both property and income wealth in the calculation of basic aid and, to a lesser extent, categorical aid. In addition basic aid is founded upon a percentage equalizing formula. In 1993-94, Extraordinary Needs aid was added to the basic formula to assist school districts with at-risk students. In the same year Tax Effort and Tax Equalization aid were instituted to reward districts proportionally for greater tax effort. Growth aid has continued to assist school districts experiencing significant increases in enrollment.

Numerous categorical programs address the special needs of students: developmental disabilities; limited English proficiency; gifted and talented; homeless; incarcerated students; and attendance improvement-dropout prevention for at-risk students. Several categorical aid programs are targeted to urban school districts with the notion of assisting students in poverty to succeed. These exist in addition to more traditional categorical aid programs, such as, transportation, textbooks, and construction. Finally some categorical aid programs encourage school districts to keep teachers current on teaching strategies and curriculum as well as to assist in the purchase of technology, computer hardware and software.

However closer scrutiny reveals serious defects in the infrastructure of the school finance system. For instance the calculation of property wealth, for purposes of equalization in all relevant formulas for basic and categorical aid, is capped at 117% of the state average, allowing those school districts with above average property wealth to receive a disproportionate amount of state aid. Secondly basic aid is premised upon a flat grant of $400 per pupil which all districts receive regardless of wealth. Although this amount may appear small in comparison to the $3,761 base, it represents a significant pool of dollars that might be allocated to less affluent districts. Third, basic aid and several of the categorical aid programs, including the single largest--special education at over one billion dollars, contain hold harmless provisions that guarantee a school district it will continue to receive the same amount of aid from year to year even though it may qualify for less under the formula.

With regard to administrative efficiency, the reformed school finance system remains extremely complex, with basic aid containing seven components, and categorical aid divided into forty programs. Rather than streamlining the funding program, reform made a complex system even more complex. While certainly there are trade-offs between ease and simplicity of administration and the desire for greater progressivity in the funding system, the fact remains that it is nearly impossible to assess the equity and efficiency of such a complex system. Also, in the desire to address every special need the number of categorical aid programs continues to multiply necessitating division of existing funds over a larger number of programs. This splintering of categorical aid into minuscule programs that can fund at most, for example, three dollars per student for computer software, raises a significant policy question; that is, in trying to meet every special need is there a danger of meeting no one's?

Conclusions and Policy Recommendations

The citizens of New York have demonstrated over time their commitment to public education through their willingness to tax and spend at relatively high levels on elementary and secondary schools (Crampton, 1992;1993). New York has maintained for several years one of the highest per pupil expenditure rates in the nation (National Education Association, 1993). At the same time overall tax effort is high relative to other states(Advisory Commission on Intergovernmental Relations, 1993). Yet the state of New York encompasses a diverse population of students whose needs must be factored into any funding formula.

However, the reformed finance system has created more problems with regard to equity and efficiency for students and taxpayers than it has solved. First, an undeniably complex funding system has been made more complex to administer and assess. Secondly, the reformed system keeps intact some of the most serious defects of the former funding system. Specifically, property wealth remains capped for equalization purposes at 117% of the state average while many save harmless provisions have been maintained. Basic aid still contains a flat grant for all school districts. Thirdly there remains an overabundance of categorical aid programs, forty in all, many of which are funded so meagerly as to be ineffective.

If the funding system is to achieve its goal of progressivity, property wealth must be uncapped, and save harmless provisions and the flat grant eliminated. The entirety of categorical aid needs to be streamlined, reducing the overall number of categorical programs while equalizing the remaining ones. In conclusion, the concept of reform denotes sweeping change in order to effect significant improvement; New York's school funding system still awaits reform.

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Table 1

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1992/93-1994/95 School Years:[1]

Basic Aid

	1992-1993 School Year (Actual)			1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ Per Pupil[2]	Equalized	Save Harmless	$ Per Pupil	Equalized	Save Harmless	$ Per Pupil
Operating Aid	Yes	Yes	3,761	Yes	Yes	3,761	Yes	Yes	3,790
Flat grant[3]	No	--	360	No	--	400	No	--	400
Growth Aid	Yes	Yes		Yes	Yes		Yes	Yes	
Extraordinary Needs	--	--	---	Yes	No	3,761	Yes	Yes	3,790
Transition Adjustment	--	--	---	Yes	Yes		Yes	Yes	
Tax Equalization	--	--	---	Yes	No		Yes	No	
Tax Effort	--	--	---	Yes	No	680	Yes	No	680

[1] Compiled from the following sources: The University of the State of New York. (1992). *State formula aids and entitlements for elementary and secondary education in New York State, 1992-1993.* Albany, NY: State Education Department; The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

[2] Where aid is calculated on a formula other than per pupil, this line is left blank.

[3] Note that in the context of New York state school finance, aid is usually distinguished from a grant in that aid is an entitlement whereas grants are generally awarded through some sort of application process. However, the flat grant is an entitlement.

Table 2

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:[4]

Categorical Aid

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Computer Software	No	No	9.40	No	No	9.52
Education of Homeless Children	No	No	4.00	No	No	4.00
Education of Office of Mental Health and Office of Mental Retardation and Developmental Disabilities Students	No	No	40.25	No	No	40.25
Educationally Related Support Services Aid	Yes	No	19.25	Yes	No	18.73
Employment Preparation	Yes	No	86.00	Yes	No	86.00
Excellence in Teaching	Yes	Yes	52.36	Yes	Yes	52.80
Fort Drum Area School Districts[5]	No	No	2.63	No	No	2.63
Gifted and Talented	No	No	13.37	No	No	14.08
Incarcerated Youth	No	No	4.00	No	No	4.00

4 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

5 This aid is given to school districts in the Fort Drum area in response in to increasing student enrollments related to the Fort Drum military reservation.

Table 2 (continued)

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:

Categorical Aid

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Instructional Computer Hardware and Technology Equipment	No	Yes	11.57	No	Yes	10.16
Library Materials	No	No	6.27	No	No	6.34
Limited English Proficiency	Yes	No	49.50	Yes	No	50.87
Magnet and Demonstration Schools	No	No	85.65	No	No	101.65
New Compact for Learning Grants[6]	No	No	12.00	No	No	12.00
Public Excess Cost Aid[7]	Yes	Yes	1,129.81	Yes	Yes	1,159.99
Reorganization Aid (Operating)	No	No	20.44	No	No	19.20
Reorganization Study Grants	No	No	1.25	No	No	1.25
Textbook Aid	No	No	95.12	No	No	96.83
Transportation Aid	Yes	No	649.19	Yes	No	611.73
Urban-Suburban Transfer	No	No	1.13	No	No	1.13

6 This program is divided into four categories of grants, as follows with funding levels in millions for both years in parentheses: Staff Development($4.00); Curriculum and Assessment($1.00); Workforce Preparation($3.75); Learning Technology($3.00); and Comptroller Audits($0.25).

7 Public Excess Cost Aid provides assistance to students with disabilities.

Table 3

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:[8]

Capital Outlay, Bonds, and Debt Services Aid

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Building Aid	No	Yes	461.42	No	Yes	464.68
Building Bond Anticipation Notes/ New Debt Service	No	No	70.00	No	No	70.00
Reorganization Aid (building)[9]	No	No		No	No	

8 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

9 Reorganization aid for capital outlay is not separated budgetarily from Reorganization Aid for operating expenses. (See Table 2.) Together, $20.44 million was budgeted in 1993-1994 and $19.20 million for 1994-1995.

Table 4

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:[10]

Aid to the Five Large City School Districts

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Comprehensive Instructional Management Systems	No	No	2.75	No	No	2.75
Excellence in Teaching[11]				Yes	Yes	16.63
Improving Pupil Performance Incentive Grants	No	No	52.10	No	No	62.10
Reading Aid	No	No	49.95	No	No	59.95
Special Services Aid: Occupational;	Yes	No	92.62	Yes	No	82.28
Computer Administration	Yes	No	32.89	Yes	No	30.92
Student Information Systems Aid	No	No	9.00	No	No	9.00

10 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

11 This represents $16.63 in addition to the amount received under the regular categorical aid program for Excellence in Teaching. (See Table 2.)

Table 5

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:[12]

Aid to Small City School Districts

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Attention Improvement/ Dropout Prevention Grants	No	No	.92	No	No	.92
Small City School District Aid	No	Yes	90.53	No	Yes	86.41

12 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

Table 6

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993/94-1994/95 School Years:[13]

Aid to Boards of Cooperative Educational Services (BOCES)

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Attendance Improvement/ Dropout Prevention Grants[14]	No	No		No	No	
Bilingual Aid	No	No	10.95	No	No	10.95
BOCES Aid	No	Yes	262.44	No	Yes	263.52
Comprehensive Instructional Management Systems Grants	No	No	2.75	No	No	2.75
Excellence in Teaching	Yes	Yes	2.76	Yes	Yes	2.81

13 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the Budget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

14 Funding for Attendance Improvement/Dropout Preventions Grants is not separated budgetarily from aid to small city school districts. Combined funding for 1993-1994 was $.92 million with same amount projected for 1994-1995.

Table 7

A Comparison of State Aid Programs for Public Elementary and Secondary School Districts in New York State for the 1993-1995 School Years:[15]

Aid to Nonpublic Elementary and Secondary Schools

	1993-1994 School Year (Actual)			1994-1995 School Year (Proposed)		
	Equalized	Save Harmless	$ in Millions	Equalized	Save Harmless	$ in Millions
Computer Software Aid	No	No	Loan[16]	No	No	Loan
Library Materials	No	Yes	Loan	No	Yes	Loan
Private Excess Cost[17]	Yes	No	75.60	Yes	No	93.55
Textbook Aid	No	No	Loan	No	No	Loan

15 Compiled from the following sources: The University of the State of New York. (1993). *Description of 1993-94 New York State school aid programs.* Albany, NY: Education Unit, New York State Division of the B''dget; New York State Division of The Budget. (1994). *Description of 1994-95 New York state executive budget recommendations for elementary and secondary education.* Albany, New York: Education Unit.

16 Loaning of materials from public schools to nonpublic ones at no charge constitutes indirect aid.

Private excess cost aid provides support for students with disabilities in nonpublic schools.

PENNSYLVANIA

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SCHOOL FINANCE POLICY ISSUES IN PENNSYLVANIA

The Governor's Budget: Bland

For the third year in a row, the governor's budget has recommended level funding for most school districts in the state. Some new money will be channeled into some poorer districts. The 1994-95 budget includes $5.4 billion in basic education funding, a 3.2% increase ($165 million) over this year. According to the Pennsylvania Department of Education (PDE), the 147 out of 501 school districts that

> currently do not have at least $4,700 per pupil available from state and local revenue sources will receive $81 million in foundation funding to bring them to that level. The formula assumes a certain level of local tax effort. Districts already at the $4,700-per-pupil level would not receive a foundation allocation.
>
> A $27 million poverty (AFDC students) supplement will be distributed to all school districts. A separate $5 million is proposed for 1994-95 to assist seven school districts that have experienced a severe reduction in the local real estate tax base in recent years... Special education subsidies would increase by $33.9 million to $590 million...Along with the $17.5 million in additional Education Department funding for early intervention comes a change in the financing mechanism for the $62.2 million program... (Pennsylvania Education, 1994).

It appears likely that the legislature will be unwilling to make major changes, as it is in no mood to raise taxes. Many are hoping that the level funding approach will help reduce disparities because it forces wealthier districts to pay for rising costs out of their fund balances and local taxes. There has also been some discussion about moving the state's contributions for social security and pensions under the state aid formula. Currently the state pays one half of all districts' expenditures for these items, regardless of district wealth. These off-budget allocations are considered disequalizing.

Proposition Tax Reform: The Referendum

In late May, 1994, the Senate Finance Committee approved a tax reform bill that would cap tax rates and submit any further tax increases to a referendum (including debt service for new construction that exceeds a cap of 50% of the state's debt limits). Both houses have bills that "..would authorize county governments, municipal governments and school districts to enact a combined 3.5 percent income tax or a combined 3 percent income and a 1 percent county sales tax. In return, local governments.. would be required to reduce property taxes or eliminate so-called nuisance taxes, such as the personal property tax" (Pittsburgh Post Gazette, 1994). A shift from property to income tax could shift the tax burden away from businesses to individuals, from the old to the young, and from the rich to the poor. Income taxes would make revenues more volatile and affect multi-year bargaining. It would have little impact on wealth disparities as many districts are both property and income poor.

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Finally, a growing share of personal income is not taxable because it is unearned (pensions, transfer and tax sheltered income).

Playing to the senior citizens may buy votes in short term, but it may destabilize future revenue generation. A terrible logic is building in one of the nation's oldest states. As senior citizens grow in political strength, they will rationally pursue their self-interest, seeking to shift their property tax burden to others. This burden results from the capital gains created by rising housing prices after World War II. Seniors will want to protect those gains. Young people, already facing much higher housing costs and interest rates than the previous generation, may be increasingly burdened by income taxes because they lack the political influence needed to fend off senior citizens' lobbies. Worse, many young families already earn less, and have jobs with less stability and career mobility than their parents. As seniors rationally pursue health care relief instead of education, communities' property values may decline if there is no future wage income to sustain mortgages on them. Businesses are also likely to follow the same logic, hoping to shift burdens from nonresidential property to personal income. Likewise, many wealthy people would like to escape personal property taxes by shifting the burden to the middle class through sales and income taxes (See Regionalization).

It is a short step from "MY children are through school.. Why should I pay?" to "THEY want kids? Let THEM pay." We need to carefully consider the economic and social consequences of sending that message to a world divided into rich, old and white and poor, young, white and minorities. The rational pursuit of self-interest without careful regard to the economic interdependence of communities may lead to the future revenue destabilization.

Political Support for Education Funding: Chilly

The popular political climate towards teachers' unions is turning chillier, but their clout still dominates the legislature, according to informal interviews with legislative challengers who opposed incumbents in the recent primary.[1] In the May, 1994 primary, the successful Republican candidate for governor, Tom Ridge, openly denounced his opponent, Ernie Preate for having earned the endorsement of the Pennsylvania State Education Association (PSEA), the largest state teachers's union. Two other gubernatorial candidates who ran on education platforms were left in the dust by those who talked about crime and lowering corporate taxes to promote job growth.

In the last couple of years state education issues have translated into culture wars (OBE) or class wars (teachers' salaries and property assessment practices). Education is an increasingly divisive issue, thus many politicians are now avoiding it as a primary issue. Crime is growing in popularity because every one is against it and many voters still think politicians can or should "do something" about it. Education remains important to the states because so much of the budget is dedicated to it. The issues of school choice and tax reform are close to the surface. Right now, however, crime and jobs are gaining ground at education's expense.

The poor schools' funding suit against the state has languished in Commonwealth Court for almost four years.[2] The suit brought by PARSS (Pennsylvania Association of Rural and Small Schools) has drifted in the lower courts for years while the Supreme Court made regular headlines for infighting, regularly hurling charges of corruption from one seat on the bench to another. Even if the case is heard, and even if it is won by the rural schools, funding changes should be quite modest. There isn't a lot of new money. Even if the recovery is better than expected, there are other, more popular demands for new money. The biggest changes could come not from new revenues but from court-mandated restructuring of old ones: a) state-mandated property assessment and tax collection reform; b) regional or state pooling of nonresidential assets; c) full budget visibility and inclusion in the state aid formula for special education, pension and social security payments; and d) generous incentives for districts to share program services, hiring, fringe benefits and capital construction.

Regionalization and Global Competition

The state took its first step toward regionalization with the creation of a regional assessments management board in Allegheny County. In one of the most well-coordinated raids on the public treasury in recent history, a group of men representing Pittsburgh's corporate and university "leaders," whose vested interests in the ownership of the Pirate's baseball team is merely coincidental, convinced the state legislature to eliminate the county's personal property tax and establish a new one percent add-on county sales tax. One half of the revenues from this new sales tax are to be handed over to a non-elected group of people to oversee spending on "regional assets." These assets will include the Pittsburgh Pirates, of course, as well as the zoo, the aviary and other nonprofit organizations. The board helps relieve some of the growing tax tensions between the city and the county.

A report calling for the regional assets board originated at Carnegie Mellon University, an institution concerned about the future of the Pirates. There followed a flutter in the media which included a full-page ad in the Post-Gazette portraying the need for a regional assets board with no identifiable sponsor for the ad. With little public debate the bill passed quickly and overwhelmingly in the state legislature. The burden of the regional sports cooperative was lightened by a guaranteed steady future cash flow from county taxpayers. Now local little old ladies on fixed incomes can help sponsor multi-million dollar contracts for people who live all over the country. How sweet. Oh yes, the oddest thing. Shortly after the assets board was approved, designs for a new baseball stadium appeared. It is being touted as essential for economic development, with much hoopla about falling behind Cleveland and Baltimore. What an interesting coincidence.

More. There was also no public discussion about the distributional tax shifting that occurred with the elimination of personal property tax, paid mostly by the very rich, in favor of the sales tax, paid mostly by the middle class. For example, guess who personally saved hundreds of thousands of dollars in personal property taxes for the year?[3] Isn't it altruistic for the community's corporate leaders (some of the highest paid in the country) to invest so much of their valuable time to the region's future?

Actually, the regional assets idea may be very helpful to education. Many of the state's highly fragmented municipal and school tax bases work against, not with regional economic development, creating internal competition that can serve as a drag on regional taxbase quality. Pooling nonresidential assets into a regional assets tax base could avoid the tax export problems created by companies and districts that create profits for some at the expense of others in the regions. Many of the highly fragmented local governments in Pennsylvania originated with corporate-controlled "company towns" whose executives sought economic, political and social monopolies[4]. Small districts created both economic and political benefits for these companies. Today, the practice has spread to include commercial property. For example, a shopping mall developer may be attracted to a small district with few taxpayers to demand public services. The district is happy to have the mall because it helps keep teacher salaries up and residential property taxes down. Everyone inside the district with the mall is happy, they can exported their burden to their neighbors by taxing the mall. The neighbors are not happy to be forced to pay for others' salary increases, while their ability to pay their own teachers is reduced. The greater the capacity for tax exporting, the harder it is to maintain taxpayer equity or comparable worth for teachers' salaries. Tax exporting may damage regional development if major nonresidential assets are not regionalized (See Rusted Tiers).

Global competition may affect other regional assets: our secondary schools. From the perspective of some recent international observers, many high schools in this country are obsolete, better suited for "company towns" than international markets. Many of today's teachers do not have academic or professional experience beyond their home region, let alone internationally. Few secondary schools have teachers with masters degrees in technical or cultural fields. Few could compete in the International Baccalaureate program. Few have training in counseling or social work, and many have difficulty teaching students whose life experience is quite different from their own. Regional resource sharing has become a necessity as even the wealthiest schools can no longer afford the major investments in people and technology required to compete.

Global competition also means confronting different ideas about what education means to communities. For example, many teachers in the United States believe that intelligence is fixed at birth and immutable. They assume that it is their job to "manage" and "judge" classroom behavior and "bank" skills which can be extracted by future employers. Many of their Asian competitors, however, believe that some ability is fixed, but much is mutable. Many Asian teachers believe that personal respect, self-discipline and heroic effort can help students learn to continuously and creatively improve both their ability and their work. Some Asian teachers also see it as their job to teach the next generation how to learn from each other, so that together, they can take responsibility for an ancient but fragile culture, caring for it, contributing to it and passing it on for the next thousand generations. As one said, rational thinking is necessary, but not sufficient for education. Individuals also needed to learn to think both independently and interdependently, because companies needed to fly and turn as quickly as a flock of birds.

Strikes in Suburbia

Taxpayer resistance continues to mount. District strike activity was visible this year in the teacher strike capital of America. This year's twist came from high profile media visibility in several wealthier districts. Two of the most visible were AFT districts, a rarity in Pennsylvania's suburbs. The same district that had 12,000 applications for 45 positions (See Brickhouse) walked after the teachers were offered less than 6 percent. The community was outraged and forced the board to rescind its agreement. These teachers took the district to court and just settled.

One of the wealthiest suburbs in the state also went out, and things got ugly. Everyone was used to a five day walkout and a 7 percent settlement. This time the community revolted. They published individual teachers's salaries in a suburban newspaper, pointing out that some teachers, with all the extra payments were already making $75,000. The district stayed out until they had limited salary growth closer to inflation. Another superintendent lost most of her board in an intense write-in campaign shortly after the district's contract settlement was announced to the public. The new members of the board wanted to rescind it.

As public displeasure over teacher salaries mounts, perhaps it is time to start examining other models of education governance before taxpayers abandon public education as too costly. Some want to eliminate school boards, so the people like the altruistic community leaders mentioned earlier can manage with a benevolently paternal hand in the same manner in which they managed the company towns. Humbug. The time has come for teachers to decide to what extent they want to be invested in a community's future. There are two paths. One is co-determination, based on the German corporate model. This might mean that a school board with nine members might have three members of the teachers' union. There is a good reason for this. Teachers who have committed their professional, economic and personal lives to a community should have a real voice in the construction of their future. Co-determination, however, is not for carpetbaggers.

The other path is professional firms. Teachers, like other professions, might come together to offer specialized services. A firm of English teachers, for example, could contract with several local school districts. This could be quite helpful for teachers who want to specialize in certain types of curriculum. Whole language teachers, for example, could contract with whole language districts. The current feudalism that ties teachers to the land without a representative voice, may have been appropriate for a company town factory culture, but perhaps not today. We can not long sustain the adversarialism created by Pennsylvania's sad industrial history.

Brickhouse: Skip Harvard:
Grab a cheap college and a tour of duty

Are you a Harvard grad in mathematics? Straight A student in your major? Looking to teach in Pennsylvania? Sorry. Unless you are a vet, we can't hire you. In this state, vets now have preference over all other credentials. There is no shortage of vets applying for teaching jobs...or anybody else for that matter. One suburban district had 45 openings and had over 12,000 applications. "In the case of Brickhouse v. Spring Ford Area School District__PA. Cmnwlth.___, 625 A.2d 711 (1993), the Commonwealth Court held that the Veteran's Preference Act applied to public school positions." That decision was published in *School Law Information Exchange*, Vol.30, No. 41 (1993) (PSBA 1994). The courts ruled that the veteran's preference clause was mandatory in non-civil service positions where no examinations are required.

NOW HEAR THIS!!! NOW HEAR THIS!!! The court ALSO held that a teaching certificate was the SOLE legal means needed to establish hiring qualifications. NO other conditions took priority. This means that the courts asserted that the state's right to define hiring practices can be substituted for the authority of local school boards. The case has been appealed to the Supreme Court, but so far it has not decided if it will hear it. [The justices are busy these days, see above].

Think of the implications. Parents can save huge amounts of money on their children's education. They can now enlist, do a tour of duty, take the GI bill to Cheapskate U and be guaranteed a teaching job if there is an opening. Think of how it will level hiring practices across rich and poor districts! Every wealthy suburban district in the state will be compelled to hire all vets, because so many of them will apply for jobs. The vast majority of all new hires will have to be men. Unable to exert their preferences, the rich suburban schools will be poor investments because their vets will be overpaid compared to others. Could property values start shifting as parents move to less expensive districts to save a bundle on taxes?

How many college graduates, looking for their first job are vets? How many women are vets? If a teaching certificate is the only means for determining hiring, why should teachers be paid differential salaries? Will a vet in poor district be able to sue to be paid the same as a vet in a rich district?

Just think of it. Could be interesting. But then, life is never dull in this state. By the way, I wanted to report this last year as it was first breaking, but was asked by colleagues to lay low until after hiring season was over. The boys were very embarrassed about this one.

Rusted Tiers

Does Pennsylvania's current "tiering" strategy for collective bargaining across school districts support or impede the development of regional workforce quality? The almost exclusive focus on comparable worth in collective bargaining may mask serious potential problems for future regional revenue generation. Comparable worth is the perfectly reasonable request of people to be paid like salaries for like work. In a perfectly competitive market, wages woul. . ttle where supply and demand meet. Alas, the ideal and the natural world rarely converge, for all involved prefer tiers to comparisons of job quality across districts.

Does Pennsylvania have an obsolete system of tax boundaries that turns labor markets into opportunities for "coercive comparison"? Coercive comparison results when free labor markets are replaced by tiered price fixing. Labor markets become segmented by buyers, separated by their capacity to generate revenue. In the ideal world of perfect competition, tiering would not be a problem because it would result from the market forces of competition. Less successful competitors would not be able to pay their employees as much, would hire more marginal workers, and might be absorbed by a more successful competitor. Do school districts' capacities to raise revenue result from competitive market forces or from the rational self-interest of those with resources?

Neo-classical economics argues that individuals act in their self-interest in order to create profits. It predicts people will act from rational self-interest, but not necessarily consciously. Let us observe how the rational assumptions of a mythical Andrew Gotrich might have played out in the United States forty years ago. This story is based on readings and on informal interviews with those involved in collective bargaining in the state. It is not intended to be THE EXPLANATION, but rather to suggest that strategic thinking for yesterday's industries may not carry over to today's schools.

Andrew was the president of a large manufacturing company and president of the local school board. He owned his homes and cared about his children. He was a shrewd businessman, known for his competitive edge. He operated under the rational axiom that more was preferred to less, thus he should maximize benefits to himself and his stockholders and minimize benefits for his competition. If he could avoid wasteful competition through market control, so much the better. He preferred company towns, for example, because they reduced wasteful competition for labor, and helped ensure community commitment. He did not mind labor unions when they helped him control his competitors. With the community behind him, he preferred to settle labor contracts early and high. This allowed him to use coercive comparisons to his advantage, because his contracts helped create an industry-wide "trickle down" effect, as workers for the competition demand higher salaries for what they perceived to be "comparable worth." His high settlements pressured his competitors to invest more in labor, and thus less in competitive technology, making it easier for him to drive out his "enemies." With the use of "coercive comparisons," what profits he lost in higher wages, he made up for in reduced risk created by labor market control. Market control worked for both sides of the bargaining table. Labor leaders liked the agreements because they clearly proved that "leadership," not unseen market forces "delivered the goods." Driving out competition didn't bother union leaders too much, as long as most of the jobs were still there, who cared who ran the company? Indeed, it was easier to deal with the same few people over a long time. As competitors were absorbed or eliminated, Andrew acquired ever greater market control, making it easier to fix prices, raise wages and play golf with the union leadership on the next round. Andrew and the communities prospered with the growth of company towns and domestic markets.

Andrew applied the same thinking to his leadership in the public schools in his suburban district. He wanted a nice, small, manageable district. He used zoning restrictions to protect his interests by keeping out undesirable development and people. Unlike his business, he knew that he didn't want the district to grow bigger by absorbing the competition. Quite the opposite. He knew the value of his property was built, in part, on a demand for exclusivity. The more exclusive the property, the more it was worth. Expensive property values could generate high revenues with lower tax rates. It was rational for Andrew to apply his business axiom to public school management. Once again, he became the price leader because early settlements and high wages promoted his interests. They helped create exclusive value and created a competitive edge through coercive comparison. As school board president, Andrew had to be responsible for his and his neighbor's children. It was his axiom to maximize the benefits that accrued to his interests, and minimize the benefits of competitors. The children of people with whom he was neither related nor allied, were potential future competitors for his children. He didn't have to think so consciously, he just acted rationally from his personal and institutional self-interest. If competitors were forced to spend more money on wages, and less on competitive technology and materials, Andrew had maximized his children's interests and minimized his competition's access to educational capital. He won.

Thus did some wealthy school boards and teachers unions quite rationally, but perhaps not consciously, become caught up in successive rounds of "trickle down" contracts and "level up" state equity suits which sustained and legitimized wage tiers? Comparable worth has been assumed, not measured. The Brickhouse decision (see above) may be the legacy of such generic thinking. No one has assessed tiering's impact on the development of a high quality regional workforce. Also, no one has measured to see if wealthy districts capture regional resources for exclusionary gain. For example, the personal income generated by executives and professionals requires a regional economy to sustain them. Their income could not be generated solely by the capital and clients available in their home school district. The districts in which the professionals live must import regional resources to create their exclusivity. This system is efficient for some interests, but are "trickle down" wage tiers the most efficient structures to support regional development? We don't know. It is time to shift some of our focus in educational finance from custody battles over state subsidies to thoughtful deliberations over the consequences of current tax and bargaining structures on sustainable economies.

The pressure for coercive comparison has had a strong effect on school budgets in Pennsylvania. Despite vast differences in local wealth, most school districts pay their teachers, on average, between thirty-five and forty-five thousand dollars. Elementary school children in poor schools may not have computers or toilets that work, but the district will be placed under tremendous pressure to pay teachers as close to the local norm as possible. Coercive comparison forces districts to spend more on salaries than either markets or good practice would allow. It forces districts to cheat on their textbook buying cycles and building maintenance. Books and buildings don't strike. On one hand we cannot continue to allow some children to learn from obsolete textbooks and technology because of coercive comparisons. On the other hand, property issues, more than any other, strike at the core of social ideas about democracies. Is tiering inequitable but fair? Or is it rational but shameful?

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Endnotes

1. Challengers almost always lose. In Allegheny County, there has not been a single successful challenge to an incumbent in a Democratic primary in forty-five years and about one thousand races for state house seats.

2. There are only nine judges to hear cases against the state. The state's Supreme Court might be able to get its administrative act together, now that one of its most notorious members, Rolf Larsen, has been impeached.

3. Read hundreds of thousands of dollars in taxes per person, friend.

4. Read William Serrin's *Homestead.* (1993). New York: Vintage Books. In one example, U.S. Steel created a new borough of Munhall, carved out of the small town of Homestead for the sole purpose of pursuing tax advantages, not community development.

VERMONT

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SCHOOL FINANCE POLICY ISSUES IN VERMONT

- Property tax reform.
- Statewide teacher contract.
- Performance.
- Local control.
- Equity.
- Spending levels.

Current Status of School Finance Policy Issues in Vermont

Property tax reform. The Vermont legislature, responding to a well publicized, but undocumented, outcry for reform is proposing radical changes in education funding this year. In House bill H.541, the State would take over all licensed teacher pay and fringes at an estimated cost of $361 million, to be paid for 70% from the General Fund, 23% in extra taxes on 7 items like sales, corporate income, liquor, and 7% from a new state-wide property tax. Of the remaining education spending estimated at $270 million , about 67% would also come from the new state-wide property tax on all real property in the state except prime residences and up to 2 acres of associated land. Then, to replace the school property tax on a primary residence with up to two acres of land, the owners and renters of those prime residences would be subject to a new local income tax to cover the remaining 33%, collected by the state, to cover all local education costs except those teacher costs assumed by the state. The details of distribution back to the districts of the $270 million is not clear, but tax effort measured by the local income tax rate would guarantee a sum like $250 per pupil per unit of effort to the district. Recapture is involved.

This plan has passed the House, but is not expected to pass the Senate. Vermont already has a 3-tier state income tax, a piggy-back at 28%-31%-34% of the Federal tax. The Senate leadership vows to oppose this local income tax as ruinous to the business climate, and the towns have always opposed a statewide property tax as usurping the only tax exclusively local.

Some in the Senate talk of regional property tax sharing to get access to the high property values in a few ski area towns, but support for that idea is unclear because regional sharing sounds like a step toward statewide sharing.

Statewide teacher contract. This proposal is also embodied in H.541, originally proposed by the Speaker of the House, a teacher, then developed by the House Eductation Committee, of which the Chair is also a teacher. The plan is opposed by VtNEA & many local school boards. The bill proposes to pay for the high-schedule teachers at the rate of 14.4 pupils per certified teacher. The state contract would control salary, days and hours per day that the salary covers, insurance and retirement benefits, leave, grievance definition and procedures. The local district would control employment conditions not covered by the state contract, hiring, dismissal, evaluation and supervision.

In February our Senate rejected the idea of a statewide teacher contract, but the

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matter may be revisited by a House/Senate conference committee later.

Performance. The Vermont Commissioner of Education, supported by almost all in the State, has implemented a Student Portfolio means of evaluating the performance of all students passing through our school system. Reactions are mixed. The process seems to work reasonably well except when attempts are made to extract specific numerical rankings.

Local control. The principle of local control has always been a jealously guarded principle in "independent" Vermont. Except for State Aid for Education, 30% construction cost aid, and teacher retirement funding, up to the present time all school funds have come from locally voted and collected taxes. The proposed new legislation in H.541 would send all school tax moneys from income and property taxes to the state for the legislature to allocate to the districts. The towns would hire teachers and aides beyond those paid for by the legislature, buy books & materials, perform maintenance, etc., but could only use funds raised via its local income tax for those items. The legislature would determine how many teachers it would pay for, would set the statewide property tax rate for schools, and would determine how much of the local income tax the district could retain.

It appears that real local control would be lost, and, because of a history of broken promises, the legislature is not really trusted to provide the financial nirvana alleged to exist in bill H.541.

Equity. Since FY88 Vermont has employed a foundation program for state aid which combines property wealth per weighted pupil, poverty, income, transportation, and sparcity factors. The Vermont Department of Education *Scorecard for School Finance*, November 1993, reports that:

"a) equity of spending per pupil has declined since FY91.

"b) there is a significant relationship between district wealth and spending per pupil." (Regression analysis by the author on the 73% of the districts which receive foundation aid shows that property wealth per weighted ADM explains 95% of the awards)

"c) tax rates and burdens are inequitable and increasing."

Neither the legislature nor the citizens are aware of the technical measures of equity which scholars use to evaluate equity. Many Vermonters believe that if most education funds came from income of the residents, each would be paying his or her fair share and that would be a fair scheme. This concept seems to find most adherents in the cities where residents own little or no land, and where there is little objection to having a statewide property tax on all non-residential property, i.e. everybody else. In the small communities, there is less belief that the legislature has the wisdom and ability to follow reasonable equity principles.

The Vermont Senate may propose that the state no longer fund the teacher retirement program, a $20 million per year expense, now supported from General Fund revenues, and instead place that responsibility on the districts. The impact on equity of such a shift is uncertain. On one hand, the General Fund is largely derived from progressive taxes on Vermont residents, a means-tested source of revenue. On the other hand, in some districts a very large percentage of the school tax is paid through property taxes on non-residents and corporations, and in those cases the residents would benefit by the change. How the existing obligation would be passed back to the districts is not revealed as yet.

Spending levels. One Vermont economist has suggested that Vermont ranks too high among the 50 states in spending for education and that the state bring its pupil/teacher ratio up, and force consolidation of small schools to achieve economies of scale.

The contrary view sees it critically important that Vermont retain its rural flavor in spite of national trends toward urban concentrations. Thus many are prepared to pay for the privilege of remaining scattered in small villages, with small schools and low pupil/teacher ratios.

School Finance History in Vermont.

Lack of litigation. There is no history of school finance litigation ever getting past the local discussion stage in Vermont. Our Constitution states only "...a competent number of schools ought to be maintained in each town unless the General Assembly permits other provisions for the convenient instruction of youth..." About 20 years ago, with the help of the Lawyers Committee for Civil Rights Under the Law, in Washington, the matter was thoroughly researched with the conclusion that the only possible basis for a successful action challenging a legislative plan would be to prove "education harm" under that plan.

Local control. There may be more of the "school-based management" control sought by Allan Odden, in Vermont than in most states. There are 251 separate districts serving our 1990 census population of 562,758 with 100,388 K-12 ADM in FY94. District size varies from 5 to 3,514 ADM at the extremes, and the average size is 400. Except for Federal aid, some categorical aid, and the state foundation aid program, all funding is from a local property tax assessed and collected in the school district. The historic image of the independent Vermonter has been, and still is, a major factor in retaining a strong desire for local control among the districts in the state. Without local control, community identity, so important to our small towns and rural character, will be lost.

Sparsity. Vermont is the least urbanized, at 33.8%, among the 50 states in the 1980 census. The population density in people per square mile is near average, with the result that our people are spread more uniformly than is typical. Because of sparcity we have a low teacher/pupil ratio in our elementary schools and our costs reflect this fact.

History of Spending and State Aid. Vermont began using a property value percentage equalizing formula for general state aid in FY1969. The formula used current expense, unweighted ADM, and no recapture. This was the only equalizing aid through FY1982 and gradually declined from about 30% to 21% of K-12 current expense.

For the fiscal years FY83 through FY87 a revised formula which brought income into the picture was used. The formula remained a percentage equalizing one without recapture, but wealth became a combination of district property value per ADM and of a district median capped AGI per tax return. It contributed about 29% to 27% of current expense.

In FY88 the present foundation plan was implemented. It considers weighted ADM, property wealth, income, poverty, sparcity, and includes some minimum loss provisions, but does this in a way which leaves property wealth as the overwhelming element controlling equalizing aid awards. Its aid has declined from about 33% to 25% of current expense.

Conclusion and Future Directions for School Finance in Vermont.

Writing in the Journal of Education Finance, V18:4, Spring 1993, p 299, Allan Odden discussed the reform measures in Kentucky, New Jersey, and Texas and deplored them as "traditional approaches...fairly standard...offer little guidance...for policymakers and analysts looking for innovative ways to design general aid programs..."

The reform proposed this year in Vermont is certainly innovative, but its logical basis is largely speculative since the district-by-district fiscal impact on resident taxpayers cannot be modelled with reasonable accuracy until major revisions are made in the local real property assessment records needed by the proposal.

This leads some to fear precipitate legislative action of the "Don't-just-stand-there, do-something!" sort which could put poorly thought out mandates on the law books.

For over 20 years I have urged that Vermont adopt an aid program designed to measure and control the resident school tax burden, i.e. within each district the dollar aggregate of school taxes paid by district residents as a percentage of the income of those same residents. In Vermont we are able to measure resident tax burden. That and several other variables which identify fundamental characteristics of different school districts are seldom, if ever, examined in the states. With small school districts in which the district, the political, and the statistical data collection boundaries are common, we can identify and respond to community differences which will never even appear in county-aggregate data sets.

For real innovation, the following items cry out for more data and investigation:

Resident Ownership Ratio (ROR): For about 15 years our state has published the ROR which is the fraction of property value in a district owned by the persons who make the district their primary residence. These data can be more accurate than the fair market value determinations. With the district ROR known, the taxes raised can be allocated between the residents and all others, the latter category including second home non-residents, corporations, etc. The Vermont weighted average ROR is 54.6%, ranging from 88.6% to 1.2%. This means that among our districts there is a 74-to-1 range in the fraction of school tax paid by residents who vote school budgets.

Resident Tax Burden (RTB): The RTB today in Vermont is about 3% on the average, but ranges from about 8.39% to 0.015%, about a 550-to-1 range. Some districts with RTB below the state average receive significant equalizing aid while others with high RTB receive little or none. That is the way the foundation programs work, and it is very inequitable.

The RTB measurement provides a logical way to combine the taxes on real property with income of the residents of a district. Taxes paid as a percent of income can be understood by people who will never understand an effective tax rate.

In Vermont today, the elements which combine to establish the RTB are the Fair Market Value per pupil which shows a 95-to-1 range, ROR with its 74-to-1 range, and Income per pupil which has a 10-to-1 range. Controlling the RTB would eliminate the inequities coming from the wide range of all three of these variables.

Fair Market Value (FMV): A study by this author has shown that estimates of district FMV in Vermont can be expected to be in error by +/-15% on the average, ranging from +/-5% to +/-25% from any value calculated on the basis of sampling, which is the only means possible. This uncertainty raises serious questions regarding the historic validity of using FMV in aid formulae.

ALABAMA

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SCHOOL FINANCE POLICY ISSUES IN ALABAMA

- (dis)equity in the distribution of funds for public schools
- state role in the equalizing of the funding of public schools
- (in)adequacy of the various public schools/systems over the following dimensions for all children: facilities; staffing; number of pupils per teacher (balance and maximum);curricula; (in)adequacy of instructional materials and supplies (textbooks, etc.); school system provided student transportation
- (in)adequacy and (in)appropriateness over the above dimensions for the special education populations, as a special subclass.
- In short, all aspects of the funding of public education and its (implied) relationships to results are presently under consideration
- possible latent issues include vouchers, choice, governor or charter schools, and tuition tax credits

Current School Finance Policy Issues

The current status of the school funding program in Alabama is that it is in limbo, with the legislature presently developing a legislative response to a pervasive court order. Based on the content of the Court's order in Alabama Coalition for Equity v Governor Hunt (referred hereafter as ACE v Hunt) key school finance policy issues in Alabama include rectifying the situation wherein "... the present system of public schools in Alabama violates the constitutional mandate of art. XIV, § 256, and the provisions of art. I §§1, 6, 13 and 22 of the Alabama constitution, because the system of public schools fails to provide equitable and adequate educational opportunities to all schoolchildren and, with respect to children with disabilities ages three through 21, fails to provide appropriate instruction and special services in violation of Ala. Code (1975) §§ 16-39-3 and 16-39A-2".[1] Specific issues addressed include: equity in the distribution of funds for public schools; the adequacy of the various public schools and school systems on a number of aspects from curricula through staff, facilities and transportation both for the general populations and the in the schools well as the special education populations.

The Present System - Soon To Be Replaced

Local school boards receive a mix of federal, state, and local funds to operate their respective public schools. Federal funds are allocated by federal authorities and are distributed according the various applicable federal regulations and mandates.

State Funds

State funds are appropriated at the state level to the several local school boards in a number of ways. Each county and city school board submits an annual budget to the state superintendent. Ala. Code § 16-13-140(b). The state superintendent prepares a state-wide education budget request to the State Board of Education, using his/her independent judgment. Id. § 16-4-19. The State Board of Education then forwards its

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recommended education budget to the Governor, who prepares his/her general budget for all the aspects of the state operations, including education.

Local Funds

Local control and local funding have a rich heritage in American public education.[2] The required LOCAL EFFORT, that is the amount of local revenue to be raised, is based on the prior year's ad valorem 'potential' at a millage rate common throughout the state. Thus, variations in local funds should reflect variations in the ad valorem tax base and allocation of MFP state funds should 'level up' overall funding. However, a number of changes, including a funding ratios frozen at the 1938 valuation amounts by the 1939 legislature, changes in property worth, changes in educational needs and so forth have altered the equalizing effect.

The local jurisdiction may use any combination to meet this local effort. Local funds can be a mix of locally levied taxes. These may include ad valorem (property) taxes, sales taxes, and area-specific taxes such as taxes on dog tracks, perhaps special tourism taxes or taxes on specific local attractions such as NASCAR race tracks, and so forth. Thus, local jurisdictions can take advantage of the variety among tax bases to generate the local effort, and in doing so a local jurisdiction may be able to displace the incidence of taxation outside their respective jurisdiction.

Equity Among School Funding

In the ACE v Hunt suit the Court defined the term "educational opportunities" as the educational facilities, programs and services provided for students in Alabama's public schools, grades K-12, and the opportunity to benefit from those facilities, programs and services.[3] The Court further stated that "equal" educational opportunities need not necessarily be strictly equal or precisely uniform, whether considering school funding, educational programs, or actual educational benefits offered. The Court concluded that Alabama's school system falls dramatically short on the issue of substantial equity and fairness in the way the state's system of public schools allocates educational opportunity to its students.[4] While the Court found that federal aid does not close the gap between wealthier and poorer school systems by financing basic, system-wide school programs or facilities, the Court pointed out that such federal funds were meant only to supplement, not supplant, the public schools regular program.[5] The Court turned a deaf ear to attempts to excuse the wide variation in per ADA expenditures among the public schools of Alabama as not being as great as those within some other states.[6] Similarly the Court did not find the argument that funding disparities are primarily attributable to local choice or preference persuasive.[7]

Table 1

1991-92 Average Daily Attendance and Expenditures Per Pupil in the Smallest and Largest School Systems in Alabama

School System	Average Daily Attendance (ADA)	Expenditures Per Pupil in ADA	Average Class Size Core Courses
Florala City	177.14	$4,094.82	17
Mobile County	61,934.13	$3,281.53	30

The state of Alabama has 67 county school systems and 62 independent city schools giving a total of 129 school systems. In the 1991-1992 school year the size of the school systems in ADA ranged from under 200 students to nearly 62,000 students.[8] Table 1 presents selected data on these two systems. This table is presented to show some of the range among the Alabama school systems in terms of ADA and presents related per pupil expenditure data and class size data.

Table 2 is a presentation of similar data for the 25 school systems which were a part of ACE.

Table 2

1991-92 Average Daily Attendance and Expenditures Per Pupil in the 25 School Systems Involved in ACE v. Hunt

School System	Average Daily Attendance (ADA)	Expenditures Per Pupil in ADA	Average Class Size Core Courses
Barbour County	2127.29	$3,808.91	22
Bullock County	1877.69	$3,530.34	24
Butler County	4251.99	$3,195.54	23
Chambers County	4220.08	$3,765.75	24
Clarke County	4270.64	$3,146.99	29
Conecuh	2418.03	$3,676.52	22
Cossa County	1779.97	$3,673.25	24
Crenshaw County	2364.68	$3,360.19	22
Dallas County	4763.45	$3,382.99	22
Geneva County	2686.88	$3,415.14	26
Greene County	2221.85	$4,185.48	23
Hale County	3488.62	$3,310.38	25
Henry County	2770.19	$3,722.54	24
Lawrence County	5861.49	$3,274.44	27
Limestone County	6647.1	$3,144.19	26
Lowndes County	2758.54	$3,955.36	27
Macon County	3825.37	$3,800.81	25

Table 2 (cont'd)

1991-92 Average Daily Attendance and Expenditures Per Pupil in the 25 School Systems Involved in ACE v. Hunt

School System	Average Daily Attendance (ADA)	Expenditures Per Pupil in ADA	Average Class Size Core Courses
Perry County	2394.86	$3,860.14	23
Pickens County	3903.37	$3,361.37	23
Pike County	2496.28	$3,968.40	24
Talladega County	7641.82	$3,421.19	24
Walker County	7836.85	$3,288.75	26
Wilcox County	2697.49	$3,702.63	28
Winston County	2521.07	$3,713.53	24
Troy County	2179.83	$3,627.94	22

Appropriateness of Schools, Programs, Facility, Etc.

The Court considered from a funding perspective, variations among school facilities, staff levels and staff development, advanced course offerings (such as advanced foreign languages), and inequities in the funding formula to students in rural areas in that it detrimentally fails to reflect the costs associated with low population density. The Court found the significant disparities in school funding in Alabama are reflected in meaningful disparities in educational opportunities available to Alabama schoolchildren.[9]

In the area of special education, the Court concluded that there are funding disparities which are reflected in the opportunities provided to disabled children that are directly attributable to the wealth of the school system these students attend. However, the Court was not prepared to find the inequities in the total enrollment method of distributing funds have been remedied by the change to the weighted pupil allocation method.[10]

Adequacy of Educational Opportunity

Adequacy of the schools was considered from several perspectives including the (lack of) accreditation by the regional accreditation agency, the Southern Association of Colleges and Schools (SACS). "Governor Hunt testified in this lawsuit that, to be adequate, each school should measure up to the standards of the Southern Association of Colleges and Schools."[11] Testimony was given at trial that many Alabama schools do not meet SACS accreditation standards. Additionally, the state of Alabama has its own standards for state accreditation. A number of schools do not meet these state established and administered standards.

Across both of these levels of accreditation, is consideration of many dimensions of the school and its operations. These included course offerings, appropriate and enough textbooks and related materials, and adequate and appropriate professional and support staff (including non-certified staff). Also considered are condition and general adequacy of facilities, availability of appropriate classrooms, essential facilities such as auditoriums, gymnasiums, playgrounds, and even potable water. The Court stated "Alabama schools today fall far short of the very educational standards the state of Alabama has determined are basic to providing its schoolchildren with minimally adequate educational opportunities."[12] "In summary, the Court finds the evidence is compelling that many Alabama schools fall below standards of minimal educational adequacy for facilities, curriculum, staffing, textbooks, supplies and equipment, and transportation that have been adopted by the state itself."[13]

In preparing the school children for the future work force, several corporate executives testified that industry investors are no longer interested in a 'low-skill,' 'low-wage' work force. One of these corporate executives, John W. Rouse, president and chief executive officer of Southern Research Institute, testified in the ACE v. Hunt case (by affidavit) that his business's growth and development has been "impeded by the lack of skilled labor in Alabama, and by the widely-held belief by many outside the state that Alabama has sub-standard primary and secondary education...".[14] The Court found, in terms of school funding relative to other states, Alabama's system of public schools has lagged far behind.[15] The Court further stated that "...if inadequate educational opportunities exist in some systems, then the system as a whole must be deemed inadequate.".[16]

An additional aspect of the present issues of school funding and adequacy of programs is the education of children with disabilities. Alabama statutes require that all children with disabilities receive an appropriate education and the state adopt regulations ensuring such. Ala. Code §§ 16-39-3 and 16-39-5.

The Court's findings were: "This Court finds that children with disabilities are not receiving the appropriate education and related services to which they are entitled by state law, regulations, and the state's plan for administration and operation of its special education program. Further, the Court finds that Alabama cannot at present offer an appropriate education to such children because of deficiencies in program support.

In summary, the Court finds that the ACE, Harper and John Doe plaintiffs have proved the inequity and inadequacy of the Alabama public school systems."[17]

Additional Considerations

The Alabama constitution, article XIV § 256 provides "The legislature shall establish, organize, and maintain a liberal system of public schools throughout the state for the benefit of the children thereof between the ages of seven and twenty-one years." The Court in ACE v. Hunt concluded that this section of the Alabama constitution has met the court tests and has as its intent: 1.) providing equal educational opportunity to all Alabama schoolchildren; and 2.) providing an adequate educational opportunity (i.e. "a liberal system of public schools"). Further support to these two intents was shown from other articles and sections of the Alabama constitution (equal protection and due process).

On the issues raised regarding students with disabilities, the court ruled "(1) that children with disabilities are deprived of their statutory right under Ala.Code §§ 16-39-3 and 16-39A-2 to an appropriate education and special services, and 2.) that the Alabama system of funding for special education is irrational and violates the due process clause of the Alabama constitution."[18] The Court ruled that Alabama statutes require the state to provide an appropriate education and special services to children with disabilities.[19] The Court ruled the total enrollment method of funding special education does not directly tie these special education funds to the cost of educating special education students, and thus penalizes school systems that try to serve all children with disabilities, violating the due process clause of the Alabama constitution.[20]

The Court set out some specific directions when it concluded that:

"(a) It is the responsibility of the state to establish, organize, and maintain the system of public schools;

(b) the system of public schools shall extend throughout the state;

(c) the public schools must be free and open to all schoolchildren on equal terms;

(d) equitable and adequate educational opportunities shall be provided to all schoolchildren regardless of the wealth of the communities in which the schoolchildren reside;

(e) adequate educational opportunities shall consist of, at a minimum, an education that provides students with opportunity to attain the following:

(i) sufficient oral and written communication skills to function in Alabama, and at the national and international levels, in the coming years;

(ii) sufficient mathematic and scientific skills to function in Alabama, and at the national and international levels, in the coming years;

(iii) sufficient knowledge of economic, social, and political systems generally, and of the history, politics, and social structure of Alabama and the United States, specifically, to enable the student to make informed choices;

(iv) sufficient understanding of governmental processes and of basic civic institutions to enable the student to understand and contribute to the issues that affect his or her community, state, and nation;

(v) sufficient self-knowledge and knowledge of principles of health and mental hygiene to enable the student to monitor and contribute to his or her own physical and mental well-being;

(vi) sufficient understanding of the arts to enable each student to appreciate his or her cultural heritage and the cultural heritages of others;

(vii) sufficient training, or preparations for advanced training, in academic or vocational skills, and sufficient guidance, to enable each child to choose and pursue life work intelligently;

(viii) sufficient levels of academic and vocational skills to enable public school students to compete favorably with their counterparts in Alabama, in surrounding states, across the nation, and throughout the world, in academics or in the job market; and

(ix) sufficient support and guidance so that every student feels a sense of self-worth and ability to achieve, and so that every student is encouraged to live up to his or her full human potential."[21]

The court further ordered that all Alabama schoolchildren with disabilities aged 3-21 have the right to appropriate instruction; that the present system of public schools in Alabama violates the constitutional and statutory rights of plaintiffs (schoolchildren); and that the state officers were enjoined to establish, organize and maintain a system of public schools that provide equitable and adequate educational opportunities to all schoolchildren, including appropriate instruction and special services to children with disabilities aged 3 through 21 years.[22]

School Finance History in Alabama: An Overview

The State Board of Education is composed of eight members elected statewide and it exercises "general control and supervision over the public schools of this state". Ala. Code § 16-3-11. The governor of Alabama is president and an ex officio member of the State Board of Education. The State Board is to investigate the needs of the state, adopt regulations relating to grading and standardizing schools, courses of study, teacher training and certification, and other aspects of the administration of public schools. Id. §§ 16-3-12, 16-3-14, 16-13-15, 16-3-16, 16-3-17.

The chief state school officer in Alabama is the state superintendent of education, who is appointed by the State Board of Education, and serves at the Board's pleasure. Ala. Const. amend. 284. The state superintendent of education is in charge of the on-going operation of Alabama's department of education, with the advice and counsel of the State Board of Education. Among the duties and responsibilities of the state superintendent of education are preparation and submission to the State Board of Education rules and regulations for: grading and standardizing public schools; minimum requirements for diplomas and courses of study; and legislation needed for the further development and improvement of the public schools. Id. §§ 16-3-15, 16-4-14, 16-4-20.

Harvey and Dagley[23] trace the present system of funding public schools in Alabama back to 1854. They state:

> "This program, the Alabama Minimum Foundations Program, completed the "contract" first established in 1854. This contract stipulated that Alabama's public schools should be funded through a combination of state and local funds, that the state would require under force of penalty that all local taxes authorized by the constitution and required by the legislature be levied, and that the state would adjust for local revenues per student in average daily attendance (ADA) based on one teacher unit for each 28 students with a varying state allocation. Local school systems responded and levied the 7.0 mils of property tax so authorized and required. The state by this action created a tax policy that the ad valorem tax was to be used to locally fund schools and that assessed valuation was the best single measure of local wealth available and should be utilized in calculating required local effort."[24]

Thus, the allocation of one portion of state funds start with a Minimum Foundations Plan, which was originally developed by Johns and Morphet in 1935 for the state of Alabama. This MFP was the technique used to distribute State funds. Upon its adoption by the Alabama legislature, Alabama's MFP was considered one of the most modern and successful funding programs in the country.

Over the years that have followed, this program has been altered due to a variety of changing conditions. Overall school funding has added additional considerations such as transporting students (busing), vocational education, effect of federal funds, special consideration classes of students (eg. students with disabilities), allocations for specific purposes (eg. guidance counselors, instructional supplies, etc.) by number of pupils or employees, fringe benefit programs and so forth. Such additional funding programs have led to subsequent state funding allocation formulae, not necessarily based on the assumptions and design of the Minimum Foundations Plan, nor tied into it.

Public schools are governed at the local level through county and city boards of education. These boards may be either elected or appointed, depending on their respective location. Local superintendents may be either elected or appointed, again depending on the respective location. The local boards of education are responsible for the general administration and supervision of their respective public schools. The state has a mix of fiscally independent and fiscally depdendent school systems, thus creating additional areas to be considered.

Future Directions for School Finance in Alabama

As one can see from the order of the Court, the Legislature in Alabama, the State Department of Education, State Superintendent, and Governor have a rather large task before them. At this time (April 1994), the legislature has considered several education bills which are far-reaching in their implications. If resolution cannot be obtained in the regular session of the legislature, then a special session will be needed to meet the demands of the Court order.

Clearly, the funding model for Alabama will be changed. What will be the mix of local and state funds is still being considered. Also, how will local ability be considered in allocation of state collected monies, and what additional sources of monies will the state utilize are pertinent questions. While new industry might generate additional revenues for schools, the testimony during ACE v. Hunt was that industry was not particularly interested in locating in Alabama. However, the recent location of a Mercedes-Benz plant in Alabama may herald a turning on this point.

Another issue, that of how to determine local effort needs to be resolved. It is clear that all the aspects of the funding of schools are presently up for revision in Alabama.

Both the equitable aspects and the adequate aspects of the system of public schools have direct funding implications. There is the possibility of a direct tie-in to the performance of the various school systems.

Additional possible considerations include the development of programs and specific schools to meet the needs of the gifted. This might include governor and/or charter schools, as well as the use of technology to meet these students needs. There is always the area of choice, which may cause a disequalization of funds as the needs of each student are met, which is the mandate found by the Court to exist in both the Alabama constitution and in the statutes.

With the reworking of the funding model, there needs to be a consideration of all school-aged children in Alabama, including those in private schoo' , and the direct effects of private school enrollment diminishing of the public school ADA in those areas where private schools are prevalent. As the new funding model is developed and implemented, there is a strong possibility of other issues being raised, such as vouchers (although Alabama has a strong bar to religiously run organizations, not all private schools are religiously affiliated).

Other issues regarding the amount of local effort may arise where there is a predominance of small farms. The burdens of local property taxes will need to be such that the small farmer will not be driven out through repressive taxation.

Endnotes

1. Alabama Coalition for Equity, Inc., an Alabama nonprofit corporation, et al. (ACE) v Guy Hunt in his official capacity as Governor of the State of Alabama as President of the State Board of Education, et al. [Civil Action No. CV-90-883-R] and Mary Harper, suing as next friend of Deion Harper and Kerry Phillips, minors; et al. v Guy Hunt in his official capacity as Governor of the State of Alabama as President of the State Board of Education, et al. [Civil Action No. CV-91-0117-R] at page 2. This is subsequently referred to as ACE v. Hunt.

The Alabama Coalition for Equity, Inc., hereafter known as "ACE" is an Alabama non-profit corporation which was comprised of a number of individual parents and schoolchildren and the following 25 school systems: Barbour, Butler, Clarke, Cossa, Crenshaw, Geneva, Hale, Lawrence, Lowndes, Macon, Pickens, Pike, Winston, Greene, Bullock, Conecuh, Henry, Limestone, Perry, Walker, Wilcox, Chambers, Talladega, and Dallas County Boards of Education and the Troy City Board of Education.

"... on April 21, 1992, the Court certified a statewide class in the Harper action of all children presently enrolled or will be enrolled in the public schools in Alabama that provide less than a minimally adequate education.

John Doe, a disabled student, moved to intervene as plaintiff in the ACE lawsuit... ... July 24, 1992, the Court certified a plaintiff sub-class of all schoolchildren in Alabama aged three through 21 years with identified disabilities." (ACE v. HUNT at page 3).

2. In his proposal for elementary schools of 1817, Thomas Jefferson wrote to Joseph C. Cabell "if 12. or 1500 schools are to be placed under one general administration, an attention so divided will amount to a dereliction of them to themselves. it is surely better then to place each school at once under the care of those most interested in its conduct." Thomas Jefferson, On the Advantages of Local Control of Elementary Schools; Charlottesville, Va: The Thomas Jefferson Memorial Foundation; 1956.

3. ACE v. Hunt, page 10

4. ibid, page 11

5. ibid, page 15

6. ibid, page 17

7. ibid, page 18.

8. Department of Education (1993). *Windows of opportunity: Superintendent's report*. Montgomery: Author.

9. ibid, page 33.

10. ibid, page 36.

11. Hunt Deposition at 35 as referenced on pages 38 and 39 in ACE v. Hunt.

12. ACE v. Hunt, page 41.

13. ibid, page 59.

14. ibid, page 61.

15. ibid, page 63.

16. ibid, page 65.

17. ibid, page 75.

18. ibid, page 115.

19. ibid, page 116.

20.ibid, page 119.

21. ibid, pages 122-124.

22. ibid, page 124.

23. Harvey, I. W., & Dagley; D. L. (1990). School finance litigation in Alabama: Opportunities for equality. Paper presented ath the annual meeting of the National Council of Professors of Educational Administration; Los Angeles.

24. Ibid. page 4

ARKANSAS

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SCHOOL FINANCE POLICY ISSUES IN ARKANSAS

From a cursory glance, it would seem that everything is well in Arkansas. Its former governor is now President. It is selling some of its rice in Japan and as far as school finance is concerned, it had a successful equity suit and is operating under a new finance law. Unfortunately, cursory glances are not very revealing.

The president is more concerned by taxes, earthquakes, floods, health care, and foreign policy initiatives than in his old state. His only interest there seems to be Whitewater which he would doubtless prefer to forget. The Japanese have set up all sorts of barriers to the importation of Arkansas farm products and its school finance law dating from 1983 has been shown by two separate studies to be less equalizing than the situation which existed prior to its passage. Rumors of new legal action are rampant. The reaction of the legislature has been to tinker with the law rather than to develop a better plan.

At present, the major problems facing Arkansas schools are:

- Equity.
- The paucity of local contributions.
- Different interpretations of the Finance Act.

Current School Finance Problems

Equity

The current picture is bleak. The difference in per pupil expenditures between the highest and lowest spending district is $3,964. This amount is higher than the state average expenditure. The difference between the highest and lowest average teacher salary is $14,994. This is almost the amount which poor districts pay a beginning teacher. The difference between the highest and lowest school tax millage is 40, while the state average is 29.04. It is difficult to believe that Arkansas received a court order to equalize.

There are a number of factors which create this inequity. Leading among them are:

1. The use of outdated archaic numbers in the formula.
2. Weights which do not work.
3. The Commission System.

1. Fictional and Archaic Numbers

The court, in the school finance equity case, told the state to stop using fictional numbers in its distribution of school funds. As a result, at present, both fictional and archaic numbers have been in use. The latter were not old when the law was written, but have become so over the years.

Originally, real property was charged at 19 mills. That is regardless of the actual millage rate, the state determined that for purposes of calculating district wealth a standard charge of 19 mills would be made

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against such property. In 1989, the charge was allowed to float as high as 25 mills. It would increase one-tenth of a mill for every two and one-half million dollars appropriated by the legislature for minimum foundation aid. By 1993, this had reached 24.2 mills. Hence, in 1993, the legislature again raised the cap to that of the average millage in the state. This study at 28.66 in 1993, and 29.04 in 1994. However, it grows at almost one-half mill per year. Consequently, it is a moving target.

At present, more than one-half of the school districts in the state receive local funds on a higher millage rate than the state chooses to fictitiously charge. Further, should state appropriations ever increase to where the average millage is attained, one-half of the districts will still have more money but one-half will have less. This will generate further and continual inequity in per pupil expenditures.

Just to further confuse the issue, archaic numbers have been used to calculate the amount of district wealth in personal property and carrier and utility property. They were calculated at the rate of 45 mills on the assessment which existed prior to real property reassessment. As tax income from these sources increases, the percentage increase or decrease is calculated. The pre-reassessment assessment is then raised or lowered by that percentage and 45 mills is charged on the new figure.

This process has been ridiculous since its inception. When the millage of 45 was adopted, the average millage rate in the state was 54.75. Therefore, most districts were receiving extra money over and above that which was being equalized. Having kept it is even worse. By the fall of 1993, 225 of the states 315 school districts had equalized their personal and real property millage. The vast majority have equalized their real and carrier and utility property millage.

2. Weights Which Do Not Work

Act 34 is full of weights for Special Education, Vocational Education, and Gifted and Talented Education. The only drawback to them is that they do not work. The reason for this situation is another subsection of the law which requires that 56% of all new money coming to a district and 70% of the total net operating budget must be spent on professional salaries. This element entered the law as a result of pressure from the state teachers organization.

Now teachers salaries in Arkansas are below average. No one denies that they should be paid more but "robbing Peter to pay Paul" is not the answer. The current average amount paid to salaries is 78% of districts budgets. Twelve districts spend more than 90%. They way it affects weights is rather easy to see. If a district receives $20,000 for vocational education equipment, it must spend $11,200 on teacher salaries and make up the difference in the cost of equipment from other funds. Therefore, only wealthy districts can afford Vocational Education even though the legislature has mandated it. Special Education suffers in the same fashion. Although teachers time takes up a larger portion of the special education weights, hence, justifying the expenditures for salary, a good deal of the work is done by aides. This added cost must be made by the district from other funds.

3. Commissions

The Arkansas Constitution was adopted in 1871. At that point in time it would seem that the belief was that county employees paid by commission would be less derelict in their duties. It may also be due to the fact that Civil Service was as yet unknown. In any case, the commission system was implemented.

At present, the assessor, collector, and county treasurer are all due commissions from district school funds. In the most recent study made of this practice., commissions of the others ran from 7.5 percent to 14 percent with the average at 12.4. Yet, the state finance law makes no adjustment for this and charges a local school district for the full millage yield on its property knowing full well that it will never receive it. Inequity is caused by the different amounts subtracted.

The Paucity of Local Contributions

Arkansas local taxes for schools are actually quite low. They are based upon a figure of twenty percent of the actual cash assessment. Hence, a millage of 20 mills is really 4 mills on the real worth of the property. The current state average millage of 29.04 is 5.808 mills on true value. This is a very small amount and will not effectively support schools. Hence, Arkansas derives the bulk of its funds to run schools from the state.

The new minimum millage, mentioned earlier as the maximum required before weights are withdrawn, is 22.5. This translates as 4.5 mills. It is too low. But, the sponsor of the legislation trying to raise the millage to the state average says that the bill would not have attracted sufficient votes unless the 22.5 floor was included. Too many legislators and too many school districts believe that the less they pay the better. The state should provide. This position ignores the fact that the bulk of the state general fund is derived from a regressive general sales tax. As long as local taxes are low, "all is right with the world."

Interpretation of the Law

A complicated law replete with vague sentences is bound to be open to differing interpretations. For both carrier and utility property as well as personal property, the law reads:

For school districts located in counties that have been reassessed, the charged assessment used shall be the actual assessment for the calendar year prior to the base year multiplied by the ratio of the taxes due to be collected in the current or latest year to the taxes due to be collected in the base year.

Exactly what this means has become a bone of contention. The State Department of Education, using as its rationale, legislative intent, decided to calculate increased taxes from carrier and utility and personal property as that which occurred only on the basis of the post-reassessment millage. Hence, the growth of collection would be only from increased assessment not millage increase. It was thought that the legislature had not intended to penalize a school district for having raised its local taxes. It meant that less growth in yield would be considered those actually took.

In February 1994, one member of the legislature brought this practice to the attention of the governor. He ordered that the total increase in tax yield was to be the figure used in constructing the ratio regardless of its source. The major question was "should this change be retroactive and districts billed for the difference?"

The State Board of Education, however, decided that there would be no historic adjustment but that starting immediately, the computation and, hence, state aid payments would be changed.

The media has claimed that such an adjustment will take more money from wealthy districts and give it to poorer ones. This is nonsense. What it will do is penalize high effort districts and reward low effort ones. as many poor districts have high millage rates. They will suffer while wealthy districts with low millage will benefit. Some equity!

All of this confusion and complaint led to demands for a special session of the legislature. A special session was called. it met February 28, 1994, for these days. Essentially, it accomplished three things as far as school finance was concerned.

1. It appropriated 3.7 million dollars to cover any losses which school districts might suffer from using the strict interpretation of the law.

2. It passed Act 1007 which gets rid of all the archaic numbers. There will be only one kind of property. it will be charged 25 mills.

3. it appropriated 2.83 million dollars to ease in the losses which 21 school districts will have in a change to the new system. They will receive 85% of their loss the first year, 50% the second year, and 25% the third year of the change.

The political leadership announced that it had attained equity. It may lead toward it in the future, but the change is only 86% of the average millage in the state. Thus, more than one-half of the school districts will surely have extra funds to defeat equity.

School Finance History in Arkansas

After many decades of confusion, Arkansas adopted a Minimum Foundation Program in 1951. That system, designed by Johns and Morphet, had one fatal flaw. There was not enough state tax money to pay the states' share of the program. Governor Orval Faubus refused to increase the sales tax and the system limped along until 1963 when the governor commissioned a report from Francis G. Cornell which killed the program. The state operated in more or less of a flat grant system until Governor Dale Bumpers had a Strayer-Haig system enacted in the early 1970's. Governor David Pryor had the system changed in the late 1970's because of the problems over property assessment and substituted a one-item index, property.

A major drawback of all of these latter ideas is that they contained a "grandfather clause" which guaranteed a district no loss in revenue from the preceding year whatever happened to its enrollment. This, among other causes, resulted in considerable inequity. Therefore, a number of school districts led by the Alma School District filed suit in 1977, in accordance with the Rodriquez Doctrine for fiscal equity. The suit was heard in 1980, aided by the Lawyers Committee for Civil Rights under Law and decided in favor of the plaintiffs in 1981. Although the state did not appeal the verdict, two wealthy school districts did so. The Supreme Court of the State upheld the lower court in 1983.

In the meanwhile, another threat loomed on the horizon. In 1979, the State Supreme Court had ruled in favor of the plaintiffs in Pulaski County v. Public Service Commission and ordered all real property in the state to be reassessed over a five year period. The panic which ensured over how high taxes could jump led to a series of political deals encapsulated in Amendment 59 to the Arkansas Constitution. It was passed in November 1980 by a sizable majority. It is responsible for much of the decrease in local tax base, discussed earlier.

More important, when the legislature met in special session in 1983 to enact a new finance law, its provisions had to be taken into consideration. Caring for them and the difference between reassessed and non-reassessed school districts led to the use of the dated and archaic numbers. This Amendment has probable been the greatest single obstacle in school finance equity.

Since 1983, inequity has increased over that which existed before. New law suits are discussed and others rumored for the situation becomes progressive worse.

Future Directions

Future directions can best be looked at as to the predictable outcomes of various sub-sections. First, equity. Not much change, save accidental, can be currently anticipated in this area. It will take another successful suit, another court order, and the State Supreme Court retaining jurisdiction for any real progress to be made along this line.

A Finance Study Commission was created to study Act 34 for the remainder of the year. The drawback to this group is that it is comprised entirely of legislators. Its prognosis would seem to be more political deals and less real equity.

The use of the archaic numbers should generally cease as the matter of the interpretation has become an issue. The special session will correct most. All forms of property will be charged on one millage rate. This will alleviate all but one of the old numbers and their interpretations.

Nothing will happen to the non-working weights or the commission system. The influence of the teacher organization will prevent the first, and the strength of the court house political organizations prevents the second.

Local contributions to schools will probably continue to shrink. Just last year the legislature changed the method of automobile dealers assessments, opening the door to their being lowered and the State Supreme Court removed the local property tax from goods brought into the state for manufacturing purposes and then shipped out again. The losses from these have yet to be realized.

Therefore, it would seem that there is little in sight save the need to increase educational investment from the state level. However, since next year is an election year, few, if any, candidates wish to espouse tax increases. Thus, little immediate salvation looms in sight.

FLORIDA

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SCHOOL FINANCE POLICY ISSUES IN FLORIDA

- Adequate Funding for Public Schools
- Equitable Funding of Public Schools
- Partial Funding of Categorical Programs

Adequate Funding for Public Schools

The major issue facing Florida's pubic school system today is securing resources adequate to meet the challenges of growing student enrollment, diversifying student characteristics and higher expectations for educational performance. Stimulated by these concerns, a coalition of school districts, parents and students have filed an adequacy lawsuit.

Enrollment Growth. The number of students the state is facing in its classrooms is increasing dramatically. Since the early 1980s, Florida's school system grew from the eighth largest to the fourth largest system in the country. During the 90s, pre-K-12 enrollments are predicted to increase 29.3%.

Growth in Diversity. The growth in the number of students is running parallel to a concurrent diversity in the types of students the educational system is being asked to serve. Increasingly, Florida's schools are receiving students who are members of racial and ethnic minority groups. Currently, 38 percent of the pre-K through twelfth grade population are members of racial and ethnic minority groups. It is projected that by the year 2010 a majority of Florida' students will be minority. Florida is also facing a rising influx of immigrant students. In Dade County (Miami), more than one-quarter of the public school students were born in foreign countries; one hundred and twenty countries of origin and more than 54 different languages are represented. Spanish now outranks English as the primary language of parents of Dade County students. The number of students who are classified as students in need of special education increased by nearly a third in Florida between 1986 and 1990. Finally, Florida has a highly mobile population. The state ranks second in most national mobility indices. For example, the Sarasota school district recently calculated that only 20 percent of its high school graduates had been enrolled in the district's middle or elementary schools.

Expectations for Higher Performance. Florida like many states has embarked on an educational reform movement that is calling for dramatically higher student achievement levels for all students. Florida's 1991 education reform act, Blueprint 2000, placed in statute seven goals for higher educational performance. Under the legislation schools are to develop three year school improvement plans and are expected to achieve certain levels of performance or face sanctions.

The increased student enrollments, increased student diversity and higher expectations are putting pressure on state government for increased funds at the same time that the state is experiencing a financial

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crunch stemming from the lasting effects of the national recession, an inadequate taxation structure insufficiently sensitive to demand, increased competition from other publicly-funded programs and a lack of political support for tax increases.

Adequacy Law Suit. In April 1994, a coalition of the Florida School Board Association, 43 of the 67 school districts in Florida and a group of parents and students filed suit charging the state with inadequately funding the public school system. The Florida Constitution requires the state to make "adequate provision...by the law for a uniform system of free public schools." The suit raises a number of issues including attempting to link the constitutional provision for adequate funding of schools to the constitutional provision establishing English as the state's official language.

> "While the Constitution established English as the official language of Florida, the public school financing provisions fail to offer the educational opportunity for all public school students including plaintiff children to adhere to this constitutional standard and to fulfill the established citizenship expectation as enunciated by the people of Florida through their Constitution. To require English as the language of daily intercourse, commerce, and democratic participation in the conduct of governmental affairs, while denying the means in the public schools to acquire that facility, effectively denies equal protection and due process of law for all public school students, especially non-English speaking students."
>
> *Coalition for Adequacy and Fairness in School Funding, Inc., 1994*

It also raises the issue of disadvantaged children.

> "Failure of the legislature to address the inordinately greater educational needs of deprived children effectively relegates them to a lower standard of living throughout their lifetime, stigmatizes their social position and prevents them from equal access to the substantive property rights in society generally."
>
> *Coalition for Adequacy and Fairness in School Funding, Inc., 1994*

Other issues include the substitution of lottery funds constitutionally dedicated to educational enhancements for general state revenues; under-funded mandates; inequities across districts resulting from the disparate yields of the unequalized local discretionary millage, from legislative caps on discretionary millage and from other components of the state aid formulas; and the explicit acknowledgment in *Chiles v. United States* (the state's suit against the federal government to cover the cost of immigrants to who enter the country without visas) that the educational needs of foreign-born students are not being met.

As evidence of the impact of the inadequate funding, the suit cites the state's high dropout rate, high rates of students who upon entering higher education are not qualified to take college-level courses, high number of unassimilated foreign-born students, and the exiting of qualified teachers from the school system because of inadequate resources and conditions.

Equitable Funding of Public Schools

When enacted in 1973, the Florida Education Finance Program was a national model for inter-district and inter-student equity. Over the course of the last twenty years, however, the number of specific categorical programs appended to the FEFP grew as particular needs were identified. Many have argued that this trend had eroded the original balance of equity. The zero-funding of most categorical programs as part of the 1991 education reform act, Blueprint 2000, has presumably restored part of the balance to some degree.

Other recent legislative action, however, may have widened inequities. For the last three fiscal years, the legislature alternated the method by which the adjustment for differences in cost of living across districts were handled. It opted to ensure that every district received an overall increase in funding by resorting to varying measures every year. For one year the legislature decided to suspend the use of the traditional district cost differential factor that is based on a cost of living index compiled annually by the Executive Office of the Governor. Instead, the legislature opted to substitute this index by another price adjustment method that awarded each school district the price index that is highest within one judicial circuit court region. The state was divided into 23 judicial circuit court regions. Moreover, the actual increases in funding were distributed to each district based on dividing the total state net funding gain generated by the new adjustment method. Although this method mitigated cuts across all districts, there have been some losers and some beneficiaries from it, and many claim that it widened inequities in funding. In the last two years, the legislature did go back to relying on the cost of living index compiled by the governor's office with slight modifications. In doing so, districts who had originally benefited from the change were no longer satisfied with the occasional shift in cost of living adjustments. In fact many districts that are mostly located on the fringes of other high cost of living districts are complaining about the inadequacy of the governor's office index that underestimates their cost of living. They are calling on the commissioner and the legislature to re-evaluate the accuracy of this index and its use to equitably distribute funds.

Additionally, there has been concern raised by various groups in the state regarding the locally-raised "current operation" millage. Because it is discretionary and because there still exist wide discrepancies in property assessment, many believe that it has widened the gap between the property-rich counties in the south and the relatively poorer counties in the north. Many interest groups in the state have recently called for abolishing it and this issue is raised in the adequacy lawsuit mentioned above. Although it was lowered to 0.51 mills from 1.02 mills as of fiscal 91-92, it is still the focus of at least two potential legal challenges in the state. A recent study by an independent research group, Florida TaxWatch, found that the discretionary local effort is primarily responsible for the wide disparity among districts. Applying statistical analysis, TaxWatch group found that this variation occurs in both the "just" value of property per pupil and the "taxable" value per pupil. Homestead exemptions (for all types of property) as a percent of "just" property value varies dramatically across districts due mainly to different classification of property. Moreover, "taxable" value as a percent of "just" value varies even more.

Partial Funding of Categorical Programs

During the last three years, the state legislature has dramatically reduced categorical and special funding from over 77 distinct programs in 1989 to only thirteen for the current year as part of streamlining and instituting necessary funding under the basic formula. However, the state has not fully funded the remaining categorical and special programs. Most districts have received only about half of their generated categorical and special allocation program funds including transportation, food services, and textbook purchases. These funds are also often provided with rules governing their use, especially transportation that falls under federal desegregation mandates. Districts are left to rely on their own capacities to makeup most of this shortage. The state funding program prohibits districts from raising discretionary funds except through the "current operation" millage. Almost all districts raise this maximum of 0.51 mills (1993-94) for current operation use. For relatively property-poor districts transporting the majority of their pupils, this becomes a costly problem. Duval school district is a large and relatively property-poor district transporting about 76% of its pupils and receiving only about half (55%) of its generated transportation revenue that pays for about one-third (37%) of its full cost.

The problem is further complicated by the fact that its low valued millage system is not capable of easily generating the unfunded cost gap. The difference has to be extracted from other fungible funds including instruction. Although other large districts might be getting roughly the same percentage of their generated revenue; these districts transport a relatively smaller percentage of their pupils, and are inherently capable of making-up any resulting cost gap through a minimal increase in their high yielding millage rate. As an example, Dade school district transports only about 16% of its pupils while receiving from the state 60% of its generated funds including the supplemental sparsity funds. Dade is a comparatively richer district and more able to raise the amount of its transportation cost gap through its high valued millage rate. Many property-poor districts are having to cover the gap in their categorical programs' cost through funds that would have been otherwise used for instruction.

The state in the last two years has stopped funding a seventh-period in the high schools, after it had promoted and through a special allocation funded one for a long period of time. But given the organizational problems and the consequences of abolishing it, some districts have maintained its implementation, paying for it from the regular instructional cost exerting an additional burden on their capacity.

School Finance History

Florida's formal educational governance structure reflects the political, judicial and historical development of the state. Florida's sixty-seven school districts are established by the constitution and are contiguous with county lines. School boards of five or seven members are elected locally and may levy taxes for the school system. The policy-making body of state government, the Legislature, enacts laws to be administered and implemented by other entities of the state's public school system. The Legislature annually appropriates funds for the operation of the Department of Education and appropriates funds to the school districts through the Florida Educational Finance Program. The Governor may invoke a line-item veto over legislative appropriations. The Legislature establishes minimum and maximum millage rates to be assessed by the counties within the range specified in the Constitution.

Compared to other states, Florida's per pupil expenditures are close to or above average, though effort is low. In 1991-92, Florida ranked 18th in revenue per pupil and 14th in current expenditures per elementary and secondary pupil among the fifty states. Florida teacher salaries comparative rankings place Florida in the middle of other states. Florida ranks 26th in estimated average salaries as reported by AFT and by NEA (1991-92). Another indication of inputs is the pupil-teacher ratio. In Florida, the 17.6 ratio places Florida 16th in the country. However, it ranks considerably lower in effort. In current per pupil expenditures for public elementary and secondary as a percent of per capita income (1991-92), in per capita state and local spending for education (1989-90) and in state and local spending for education per $1,000 personal income (1989-90), Florida ranks respectively 28th, 36th and 40th. Some of the discrepancy between expenditures and effort is explained by the demographic structure of Florida. Florida has the highest median age of any state, meaning that a much larger proportion of its citizens are not of school age (*State Profiles*, 1993).

During the latter part of the 80s, the state's attention was drawn to other pressing public policies. Mid-decade marked the onset of an ongoing decline in the percentage of general revenue funds going to public schools. Competition for funds in the areas of criminal justice, health care for indigent populations and services for foster children, adjudicated youths and other children in need of services intensified. Furthermore, because state discretion in these other programs was often constrained because of federal mandates, court orders, and federal matching requirements, education did not compete well for the funds.

The effectiveness of Florida's educational system is open to criticism. The 1990 census data reveal that nearly three-quarter (74.4%) of Floridians aged 25 and older have completed high school. This represents a significant increase since 1980 (66.7%) and only slightly under the national average of 75.2%. The number and percent who have completed a bachelor's degree also increased between 1980 and 1990 rising from 14.9% to 18.3%. However, the national average is two full percentage points higher at 20.3%. Furthermore, Florida has a high illiteracy rate, ranking sixth in the country in the estimated percent of adults considered "illiterate," 15%. The national average is 13%. Florida students, like students everywhere, take a variety of standardized tests during the course of their education which offer data comparable across states and across schools. Analyzing Florida student performance on four different standardized tests, three generalizations can be drawn: (1) Florida students perform consistently below national averages, (2) improvements were made in the seventies and early eighties but performance has declined since then and (3), though the gap is narrowing, minority student performance lags considerably behind that of majority students (Herrington, forthcoming).

The short-term future for improving these rankings is not promising. The recession of the 1990s clearly showed the vulnerability of the states tax base to recessionary cycles. By constitutional prohibition, Florida cannot impose a state personal income tax nor can it impose a state property tax. The state has traditionally relied mostly on sales and, to a lesser degree, corporate income taxes. The volatility of the sales tax under the pressures of a recession has undermined the stability of educational funding at the state level.

In the face of taxpayer resistance to increased taxes, and intense competition for tax dollars for other state programs, elected officials are becoming more critical of requests for more dollars. Florida, like most other states, has been increasing the funding for education steadily and significantly for the past thirty years and yet there is little evidence to indicate that the increased resources have purchased increased achievement. In this sense, the education sector faces a serious productivity problem. In 1959-60, Florida expended $318 per student. This increased to $732 in 1969-70, $1889 in 1979-80 and $4997 in 1989-90 (*Digest of Educational Statistics*, 1993). This represents an increase of approximately 1500%. When the same figures are calculated holding constant for inflation, the increase is reduced to 264%, which nevertheless represents very significant increases. The Florida data are similar to national data which indicate that, holding constant for inflation, U.S. expenditures per pupil increased 206% in the same thirty-year period (Odden, 1993). One of the greatest challenges facing the educational system will be to convince elected officials that infusions of new funds will make a difference. This is a burden of proof that educators have never had to face before.

Conclusion

The 1994 Legislature which adjourned in April increased every school district's appropriation by 2.55% and also voted to allow school boards to levy up to an additional one-quarter mill of local property tax. This would amount to an additional 2.5% increase in school taxes statewide or $100 million. It also put $35 million into after-school programming for middle schools. The Legislature also voted to place a referendum on a constitutional amendment to limit state government spending to growth in personal income on the ballot in November 1994.

Over the next few years Florida's education system must creatively confront a number of challenges if it is to fulfill its obligation to the state's children in the years ahead. Financing growth, in other words, simply making available sufficient classroom space for the burgeoning student population swelling the schools attendance rolls, presents a complex challenge. Financing an increasingly diverse education system presents a companion challenge. However, the current taxation base in Florida is failing to keep pace with growth and needs to be restructured. Finally, just keeping the public eye fixed on education in a state in which school age children comprises just 16% of the population is yet another challenge.

GEORGIA

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SCHOOL FINANCE POLICY ISSUES IN GEORGIA

- Vouchers
- Adequacy
- Equity

Georgia has faired relatively well through the recent economic difficulties that have afflicted much of the nation. While not immune to the 1990-1992 recession and the increasing economic drains of health care and criminal justice costs, Georgia continues to experience growth in both its economy and population. But with growth comes change, and Georgia continues to grapple with significant and sometimes divisive policy issues related to public education. This paper will identify and describe some of the significant school finance policy issues facing the state of Georgia, and speculate regarding some possible consequences of policy alternatives in Georgia.

Significant School Finance Policy Issues Facing Georgia

Among the more significant and potentially divisive school finance issues facing Georgia are proposals for the provision of publicly funded vouchers for private choices in education. Also important are the continuing concerns about the adequacy of public education in Georgia, and the equitable support of educational opportunity throughout the state.

Current School Finance Policy Issues

School choice and the provision of publicly funded vouchers for private choices in education have become perennial issues in discussions of educational reform. But the debate over school vouchers recaptured public attention in Georgia recently when an Atlanta attorney, Glenn A. Delk, attempted to revive a 1961 Georgia statute allowing publicly funded grants for private choices in education. The 1961 statute provided for grants of state and local funds for children between the ages of six and 19 to attend private nonsectarian schools in any state in the U.S., or other U.S. public schools outside the state of Georgia (Ga. Code § 32-813 et seq., 1969). The amount allotted could not exceed the actual costs of tuition or the average state cost per pupil under the Minimum Foundation Program of Education (MFPE), whichever of the two sums was the lesser (Ga. Code § 32-816). The event that rekindled the discussion of the 1961 law was Delk's representation of a mother that was attempting to remove her child from Atlanta public schools and receive a state funded voucher for a private school.

Georgia's Attorney General Michael J. Bowers has declared the 1961 law inoperative for two reasons: 1) the MFPE had been superseded by other funding laws in 1974 and 1985; and 2) the 1961 voucher law could be challenged as racially discriminatory because of its association with attempts to avoid public school desegregation mandates. Georgia's Lieutenant Governor Pierre Howard has requested that the Georgia Senate hold hearings on the current status of the law. Georgia State Senator Sallie P. Newbill intends to introduce legislation to fund the bill. She argues that the Georgia legislature has not repealed the law, and claims that she has support for the voucher law among her fellow Republicans and some Democrats. But there is also formidable opposition to such a plan. The Georgia Association of Educators agrees with the Attorney General regarding the current legal status of the law, and views attempts to revive the law as an abandonment of the state's public schools (Schmidt, 1993)

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Regarding the adequacy of public school funding, Georgia has made some progress toward providing an adequate public education for its children. In unadjusted dollars, Georgia increased its per pupil expenditures from $555 to $4,319 representing a 677.6% increase between 1970 and 1990 (Hickrod, Hines, Anthony, Dively,& Pruyne, 1992, p. 186). A comparison of Georgia's increase in expenditures per pupil and increase in per capita income shows an elasticity measure of 1.6403 between 1970 and 1990, reflecting Georgia's enhanced commitment to the support of public education (Hickrod, et al., 1992, p. 190). But despite increased fiscal effort, Georgia still remained 38th in the U.S. in per pupil elementary and secondary public school expenditures during the 1990-91 school year (U.S. Bureau of the Census, 1993, p. 83).

Providing equity in educational funding also remains a problem in Georgia. Despite some progress, significant spending disparities continue, with Georgia's wealthier school districts spending twice as much per student as less wealthy districts (Williams, 1990, p. 196). While the disparities in Georgia are significant, they are not spectacular in comparison to the disparities in many other states. In Texas for example the Supreme Court of Texas recognized per pupil spending disparities of 10 to 1 in *Edgewood v. Kirby*, and in *Helena v. State* the Supreme Court of Montana recognized an 8 to 1 disparity in per pupil expenditures (Dayton, 1992, p. 635). But for schools on the lower end of Georgia's expenditure range, the harms of funding inequities are compounded by Georgia's adequacy problems.

Obviously, if the median expenditure is inadequate to provide a quality educational opportunity, schools with expenditures significantly below the median would experience even greater difficulties in providing a quality educational opportunity. Legislative attempts to enhance equity in Georgia do not appear to have significantly reduced expenditure disparities, but they may have limited further growth in disparities.

School Finance History in Georgia

Since the passage of the 1961 law authorizing state and local funding for school vouchers funded under the MFPE, Georgia has undergone two major revisions of its funding system: 1) the Adequate Program for Education in Georgia act (APEG); and 2) the Quality Basic Education act (QBE). The MFPE was originally established in 1949, and revised in 1964 (Ga. Code § 32-601 et seq., 1969). As the title of the act suggests, it was a foundation plan similar to those adopted in many other states. The MFPE added additional state resources for education through the institution of the state's first sales tax. In 1974 the legislature adopted the APEG which included a grant for district power equalization (Ga. Code § 20-2-130, et seq., 1981). Then in 1985 the legislature passed the QBE to provide a more equitable school finance structure and to assure that every child in the state had access to a quality educational program (Ga. Code § 20-2-130 et seq., 1992).

Georgia's Attorney General has stated that the 1961 school voucher law is inoperative because of these funding changes, and because of the law's connection to attempts to avoid public school desegregation. It is this last issue that raises difficulties for Georgia's Governor Zell Miller. Following the U.S. Supreme Court's decision in *Brown v. Board of Education* (1954) Georgia enacted laws allowing local school boards to suspend the operation of their public schools by a resolution of the majority of the board members (Ga. Code § 32-801, 1969). The 1961 voucher law was then enacted to allow the state and local district to fund private or out of state public schools through the use of grants to students. As a freshman senator, Miller voted in support of the school voucher law. Governor Miller has explained that he supported the school voucher law not as a way to allow children to abandon desegregated public schools, but as a way to provide continued education for children where local districts had closed their schools. As Miller stated: "I supported that bill because it was a way to keep kids in school" (Schmidt, 1993).

Southern states have often ranked in the bottom half of states in expenditures for public education, with most southern states clustered around the bottom quartile (National Center for

Education Statistics, 1993, p. 73). With the QBE the Georgia legislature made a serious effort at improving the adequacy of education in Georgia. The QBE significantly increased state support for public education. For the 1986 fiscal year Georgia added more than $908.9 million in new state funds (Matthews, Melton, & Rogers, 1992, p. 171). The QBE also increased the amount of funds that local districts had to contribute to participate in the funding program from 1.25 mills to 5 mills. Nonetheless, Georgia still ranks 38th in per pupil expenditures in the U.S. (U.S. Bureau of the Census, 1993, p. 83).

In addition to problems of adequacy, inequities in expenditures have been a persistent factor in Georgia public school finance. Though unremarkable in comparison to other states, the disparities are significant. These public school funding inequities have been legally challenged. In 1974 parents, children, and school board members from Whitfield County, Georgia, filed a suit against the state alleging that the inequities produced by the state's system of public school funding were unconstitutional. Additional plaintiffs from other property poor districts later joined the suit. The Supreme Court of Georgia issued an opinion in *McDaniel v. Thomas* in 1981. The court recognized that in 1978 there were per pupil spending disparities of $1,682 to $777 in Georgia public schools. Although the court ruled in favor of the state, the court stated that: "It is clear that a great deal more can be done and needs to be done to equalize educational opportunities in this state. For the present, however, the solutions must come from our lawmakers" (McDaniel, 1981, p. 168). Per pupil expenditure disparities in Georgia were $2,347 to $1,049 in 1981, and $3,979 to $2,053 in 1989 (Williams, 1990, p. 196). The ratio of disparity has fluctuated slightly with changes in funding plans and local wealth, but spending disparities continue.

Future Directions for School Finance in Georgia

California's referendum on publicly funded vouchers was closely watched throughout the nation. The failure of California's Proposition 174 was a serious setback to voucher advocates. Nonetheless, it is certain that voucher advocates will continue to press their case in legislatures throughout the nation. The same election day that brought defeat to California's Proposition 174 also produced a victory for pro-voucher Governors in New Jersey and Virginia (Olson, 1993, p. 1). Georgia's State Senator Newbill recognized that many of Georgia's lawmakers had "their fingers in the wind" regarding the outcome of the voucher proposal in California (Schmidt, 1993). Few would disagree that the creation of a school voucher plan in Georgia would be financially damaging to Georgia's public schools and is likely to be racially divisive. But nonetheless, if a plan can be devised that satisfies the provisions of the U.S. and Georgia Constitutions, the determinative factor in whether voucher advocates will succeed in Georgia is merely whether voucher advocates can generate sufficient political and financial support in the legislature for their proposal. In the current political climate, it does not appear likely that State Senator Newbill or other voucher advocates will be able to generate sufficient support for publicly funded vouchers for private schools.

If Georgia is to maintain its recent progress and further encourage economic growth in the state, a well educated population will be required. Adequately funded schools are essential to achieving this goal. Although Georgia has made efforts to improve the adequacy of public education in the state, it still lags behind much of the nation in the level of financial support for public education.

Problems of inequities in the funding of public education in Georgia continue to receive the attention of educational policy makers. But in the absence of some significant future changes it is unlikely that disparities in per pupil expenditures will be significantly reduced. As Williams recognized: "Equalization of local financial ability was the goal of the QBE Act, rather than a mandated equalization of expenditures per student" (Williams,1990, p. 259). Local control of public schools continues to be a deeply held conviction in Georgia.

Since the revisions of the MFPE in 1964 Georgia public school finance has undergone a major revision about every 10 years, with APEG in 1974 and QBE in 1985. If this pattern remains consistent, Georgia is due for another significant change soon. The legislature's objectives of enhancing educational adequacy and equity under QBE were admirable, as was the QBE policy of assuring that "each Georgian has access to quality instruction" (Ga. Code § 20-2-131, 1992). Both present and future Georgians will be best served by their legislature if in constructing future school finance legislation, Georgia law makers keep firmly in mind the continued need for improvement in the adequacy and equity of public school funding in Georgia. A recent new program championed by Governor Zell Miller demonstrates that the state is serious about improving educational opportunities for Georgians. Georgia's new "Hope Grant" program is a significant step forward for the educational and economic future of Georgia. The plan provides two years of free tuition for Georgia residents in any Georgia public college, university, or technical institute, if the student maintains a "B" average and has under $100,000 family income. A proposed expansion of the plan extends the program to four years of free tuition (Georgia Student Finance Commission, 1993, p. 2). But if all Georgians are to have an equal opportunity to benefit from this progressive program in higher education, further enhancements in adequacy and equity in public elementary and secondary school funding are also needed.

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KENTUCKY

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SCHOOL FINANCE POLICY ISSUES IN KENTUCKY

- Equity and State Support
- The Hold Harmless Provision
- Property Valuations at 100%

Equity and State Support

Since the inception of the Support Education Excellence in Kentucky (SEEK) funding system the Commonwealth's educators and legislators have had to grapple with significant policy issues as SEEK and education reform in general is implemented. Issues confronting policy makers include the three issues discussed herein -- equity and state support, the SEEK hold harmless provision, and property valuations at 100%. Other issues are adjustments for categorical programs, funds for awards to school that attain success levels established by the State Board for Elementary and Secondary Education, funding school-based decision making councils, and adjustments to the SEEK funding formula.

The SEEK funding arrangement has three basic components. It must be kept in mind that the SEEK formula is actually linked to KERA in ways that are to enhance school quality, and improve school outcomes demonstrated by standard assessment scores (Goetz & Debertin, 1993). Even though these aspects of SEEK are germane to any discussion of funding equity in Kentucky, the fundamental purpose of finance reform was to appropriately decrease funding inequities that exist among school districts in the Commonwealth. The components of the SEEK arrangement are closely related yet distinct.

The adjusted base guarantee is a specified amount of revenue per pupil made available to school districts based on factors that affect the cost of educating students with varying identified needs. Tier I, the second component, is optional. It allows local districts to generate increased revenue up to 15% of the adjusted base guarantee and receive state equalization funds only if certain criteria are met. Tier II, the third component, is also optional. This component allows a district to generate up to 30% of the total amount generated by the adjusted base guarantee and Tier I when added together. These revenues are not equalized by any state participation. In Kentucky the base level funding established each biennium by the General Assembly is of vital importance to each and every school district.

The quintessential question regarding school finance in Kentucky pivots on whether or not equal funding was achieved and how much more work and energy will be expended in the future to achieve the Court's mandate. In Rose v. Council (1989) the Kentucky Supreme Court concluded that "the total local and state effort in education in Kentucky's primary and secondary education is inadequate and is lacking in uniformity" (pg. 26). Additionally, the Court decided that the existing financing plans were "not designed to correct problems of inequality or lack of uniformity between local school districts"

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Table 1

Basics of the SEEK Program: Kentucky's School Funding Arrangement*

SEEK Base

1. Every district is guaranteed basic amount.
   - for 1992-93 $2,420 per pupil
   - basic amount (times) ADA
2. Can be adjusted upward due to four factors
   - at-risk children
   - exceptional children
   - transportation costs
   - home/hospital bound children due to health

1 + 2 = SEEK base eligibility

SEEK base eligibility raised with local taxes at a required minimum rate of $.30 for every $100 of taxable property. Districts can use any combination of four taxes:

- Property Taxes
- Occupational License Taxes
- Utility Gross Receipts Taxes
- Excise Taxes on Income

State Government supplies remaining amounts to eligible districts.
Result: Equal effort will yield equal revenues.

TIER I
If a district needs or desires additional funds above the SEEK guaranteed base, districts can participate.

In Tier I - equal effort yields equal revenue:

(1) District sets tax rate higher than .30 per $100 assessed property value.
(2) State calculates statewide average amount of taxable property per pupil, then multiplies the result by 150%.
(3) State multiplies the amount calculated in step 2 by district ADA.
(4) State determines amount of revenue a district could raise with step 1 tax rate if property base was the amount from step 3.
(5) District raises the amount it can get from its actual tax base and the state supplies the remainder of the amount up to that computed in step 4.

Maximum amount to be raised through Tier I is 15% of the amount received in the SEEK guaranteed base funding.

TIER II
Districts that desire revenue above its SEEK base allotment and its Tier I eligibility, can move up to Tier II.

In Tier II the funds are all locally generated. There is no state contribution.
To participate in Tier II, districts must get voter approval in a referendum.

Amount to be raised is limited to no more than 30 percent of the amount received through the SEEK base allotment and Tier I combined.

* Modified from Rinehart and Donelan (1994, pg. 357).

(pg. 26). "Each child, every child in this Commonwealth must be provided with an equal opportunity to have an adequate education. Equality is the key word here. The children of the poor and children of the rich, the children who live in the poor districts and children who live in the rich districts must be given the same opportunity and access to an adequate education" (pg. 58). In retrospect, the key question may be whether or not the children of Kentucky have access to adequate education equally; and to what extent are the funding scheme and available revenues able to guarantee an adequate education equitably?

Equity and equality, although capable of bringing to mind similar images and frequently used synonymously, are terms with subtle yet distinct differences that do not appear readily observable when issues pertaining to public school finance are the focus. Ryan (1981) surmises that advocates who stress that each student should be equally free of interference with their right to pursue an education are in fact calling for "fair play." Equality that is fair play has been measured and assessed in school finance studies under the rubric of horizontal equity and equality of educational opportunity. He further surmises that advocates who stress that each student experience equitably the right to a quality education and access to the resources required to provide it are advocating for "fair shares." Equity that is fair shares has been measured and assessed more or less in general ways under the rubric of vertical equity (Berne & Stiefel, 1984).

In a manner of speaking, the SEEK program is an attempt to address the "fair shares" question with state support as the lever. State support to districts with lower property values was intended to realize an increase as compared to state support to districts with the capacity to raise more local funds due to higher property values. For the three year period beginning with the 1990-91 school year (the first year of the SEEK program) the lowest wealth quintile averaged $2,830 (1990-91), $2, 986 (1991-92), and $3,201 (1992-93) for the State Adjusted SEEK Base. During the same period the State Adjusted SEEK Base for the highest wealth quintile averaged $1,997 (1990-91), $2,174 (1991-92), and $3,096 (1992-93).

In both 1990-91 and 1991-92, 169 of Kentucky's 176 districts participated to some degree in Tier I, while 173 participated in 1992-93. Not all districts were eligible to participate in Tier I due to property wealth during these years. This restriction allowed movement toward closing the gap among property poor and rich districts. High participation by districts in Tier I was probably because of the fiscal incentives. These incentives were not present during 1991-92 and 1992-93 school years because state appropriations were limited and funds were distributed pro-rata to eligible districts resulting in state averages of $44 and $139 respectively. In 1991-92 and 1992-93 the appropriated amounts were $25 million and $81.1 million respectively. The 1992-93 pro-rata distribution amounted to 96.1% of the total need to fully fund Tier I that year.

The purpose of SEEK is to assure adequate and equitable revenue for the current operations of the school district. The base may or may not provide sufficient revenue to meet the needs of the district and it may or may not provide an adequate education. The SEEK structure intended the base to be sufficient enough to provide an adequate education as required by the Court. The base may in reality only provide for a minimum education. Tier I was designed to "float" above the based to give districts the option of generating up to 15% more revenue than is provided in the base of SEEK (Augenblick, 1991).

The SEEK formula builds in inequities which seem to slow down the progress toward equal funding. The flexibility or options designed as part of SEEK automatically says that a choice is available. Some local districts will choose and have chosen to do more, others will and have not. The choice contributes somewhat to the inequities. Prior to SEEK, local effort by property rich districts generated a significant gap in per pupil revenues and per pupil

Table 2

Pupil Weighted Averages for Selected SEEK Components*
1990-91, 1991-92, & 1992-93

Quintiles	Lowest			2nd			3rd			4th			Highest			Statewide		
	90-91	91-92	92-93	90-91	91-92	92-93	90-91	91-92	92-93	90-91	91-92	92-93	90-91	91-92	92-93	90-91	91-92	92-93
Number of Districts	52	52	52	47	47	50	40	38	36	32	34	34	5	5	4			
Average Daily Attendance**	111.15	111.94	115.98	116.95	113.19	116.56	116.78	113.84	112.53	104.08	112.57	120.71	118.44	122.23	120.71	569.40	573.77	582.10
Property Wealth per Pupil***	$79.5	$83.2	$87.40	$116.1	$120.5	$126.1	$150.9	$154.9	$161.3	$1197.5	$203.5	$215.7	$308.5	$312.1	$324.7	$171.1	$177.1	$184.3
Required Local Effort (.30)	$239	$250	$262	$348	$361	$378	$453	$465	$484	$592	$610	$647	$925	$936	$974	$513	$531	$553
State Adjusted SEEK Base	$2,830	$2,986	$3,201	$2,595	$2,731	$3,095	$2,433	$2,578	$3.042	$2,249	$2,397	$2,984	$1,997	$2,174	$3,096	$2,419	$2,566	$3,084
Local Tier I	$116	$140	$130	$153	$180	$151	$236	$239	$209	$337	$373	$323	$438	$466	$464	$256	$283	$257
State Tier I	$27	$97	$282	$60	$64	$182	$60	$42	$147	$28	$19	$92	0	0	0	$35	$44	$139
Local Tier II	$10	$17	$25	$17	$14	$38	$20	$30	$51	$48	$92	$94	$489	$758	$671	$120	$191	$180
State Total SEEK	$2,806	$3,069	$3,163	$2,649	$2,791	$2,852	$2,493	$2,618	$2,663	$2,299	$2,433	$2,428	$2,187	$2,281	$2,257	$2,487	$2,632	$2,669

* Adapted from Legislative Research Commission, Office of Education Accountability Annual Report (1991, 1992, & 1993)
** Multiply by 1,000 for rounded attendance counts
*** Multiply by 1,000 for rounded property wealth per pupil

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expenditures basically, because the citizens chose to do this. This situation led to the suit. However, the belief that the state should not discourage local effort is important in the state of Kentucky. The SEEK formula allows for local choice through Tier I and Tier II. There is some conversation at the state level to require all districts to participate fully in Tier I. There is also some concern, because of choice, that some school districts may chose not to participate in Tier I and may also not meet performance improvement objectives.

Tier II also provides the flexibility or choice for districts to generate additional revenue above the base with approval of the voters. The same scenario begins to emerge, the wealthier districts through local effort will chose to do this. Tier II does place an absolute limit on the revenue generating ability of districts to control inter-district equity. Tier II supporters are also wagering on the likelihood that wealthy districts will have an interest in the base level since the revenue limit is determined by the base level. Concerns have been raised that Tier II must be monitored carefully. Should its use increase primarily in wealthy districts, there will need to be some adjustment.

The Hold Harmless Provision

In Rose v. Council for Better Education, the Franklin County Circuit Court found several areas of concern. One such area was that there was marked variation in the property wealth of school districts and the allocation of state aid did not compensate for the variation in wealth. Pre-KERA (1989-90) disparities were seen in property wealth per pupil with a high of $341,707 to a low of $39,138 and an average of $157,814. Local revenue per pupil was a low of $80 to a high of $3,716 and state revenue per pupil ranged from a low of $1,750 to $2,753 (OEA, 1993). The disparities were glaring and impacted the quality of the education youth received in Kentucky. Therefore, SEEK includes an assurance that state aid will vary across districts by allocating aid which compensates for the variation in wealth. In other words, differences in state aid between districts will reflect differences in both need and tax effort. Consequently, the new system would assure that there be more sensitivity in the distribution of state aid to the wealth of school districts. To begin this new system, nearly $500 million new dollars went into the state's school districts. The state adjusted base guarantee in 1990-91 was $2,305 and increased to an average of $3,084 in 1992-93 which reflects a positive digression from the relationship between wealth and resources.

The first year of SEEK required some minimum (8% in 1990-91 and 5% in 1991-92) and maximum (25%) limits on state aid (Augenblick, 1991). To achieve fiscal equity and manage the transition of assuring that no district incur a dramatic loss in state aid, a hold harmless provision was enacted. The hold harmless provision which impacts property rich districts, guarantees state funding at the level set in 1989-90 and no district will receive less per pupil through the SEEK formula than was received in the prior year. No district would receive less than 8% in new funds through the SEEK program nor more than 25% above the 1989-90 level. These restrictions apply to the funds generated by the SEEK formula.

Kentucky has implemented a combination foundation and guaranteed tax base program. Expenditures above the foundation base are limited to an additional 30 percent, half of which is equalized by a guaranteed tax base. Kentucky has attempted to set the base expenditure at a level sufficiently high for districts, on average, to meet state student performance goals. The politics of shifting from a low minimum foundation program to a combination foundation-guaranteed tax base program requires that all districts even the wealthiest ones receive some level of state aid.

Table 3

Example of SEEK Calculation for Two School Districts*

District Characteristics	District A	District B
Per Pupil Assessment	$ 46,570	$374,790
Equivalent Tax Rate	54.1	54.1
SEEK		
Base	$2,420	$2,420
At-Risk	$309	$98
Exceptional Children	$372	$368
Transportation	$241	$176
Subtotal	$3,342	$3,062
Required Local Effort - $. 30	$140	$1,124
State Adjusted Base		
Per Pupil	$3,202	$1,938
Tier I State	$134	0
Tier I Local	$90	$684
Total State Aid		
Per Pupil	$3,476	$1,938
Total State & Local		
Aid Per Pupil	$3,566	$3,746

* From Legislative Research Commission, Office of Education Accountability Annual Report (1993, pg. 31)

For this combination finance system to work, it is important to have full funding of the foundation and the guarantee tax base. Kentucky has experienced growth in inflation, growth in student enrollment and lack of revenue to raise the base at the rate it had anticipated. Also, it was predicted that the SEEK program requires at least four years implementation to insure that disparities between poor and wealthy districts are reduced. Meanwhile, wealthy districts have had to remain in hold harmless to allow the formula to bring poorer districts closer to where wealthy districts are per pupil. However, the local contribution to the formula from wealthy districts is growing faster than the formula is growing. As their property wealth grows and they are able to add more to the formula they receive less state aid. Some wealthy districts feel that hold harmless is pulling them down or holding them up. The goal of hold harmless is to at least keep them in place while the other districts catch up. Actually the hold harmless keeps them from being pulled down. For very obvious political reasons the state will not allow the wealthy district to go down in per pupil state aid. However, because of inflation and student enrollments these districts are being squeezed by being held at the 89-90 level.

Property rich districts have had to look at their highest priorities. In some cases teacher raises have been pitted against facilities needs. Choices have had to be made while they are in a holding pattern. Even wealthy districts can not endure for to long without increases in state aid. However, to close the gap between the rich and poor districts this holding pattern must be maintained. Preferably, as the SEEK base is raised the need for the hold harmless provision will decrease.

Kentucky's Assessment of Properties at 100%

The state of Kentucky relies heavily on property wealth as a primary method to fund education. Even though this reliance has created the extreme disparities of per pupil revenues and expenditures between property rich and poor districts and also led to the Rose v. Council for Better Education law suit, the state maintains this reliance. However, reforming Kentucky property tax valuation and assessment is a first step in generating the required revenue to decrease the disparities of per pupil revenues between districts.

A mandate by the General Assembly requires all properties to be assessed at 100% fair market value by July 1994, implementation of rigid performance standards for local Property Valuation Administrators (PVA) and quadrennial review of all properties in the Commonwealth. Given the disparities in property wealth per pupil and the reliance on these resources, fair assessment is a critical link in gaining ground toward equity or fair shares.

Since the availability of funding revenues is of vital importance to the health of Kentucky's approach to school finance, the assessment of property at 100% fair market value could be a tremendous boost to efforts to achieve equity among districts regarding per pupil revenues. The Franklin County Circuit Court also noted along with educators and finance analysts that disparities were compounded by the level of effort of the property rich districts. These districts had higher property wealth per pupil, but also taxed at higher rates. The legislators would have to force local districts, who had not assessed property fairly and who had made minimum or inadequate tax effort to increase their tax efforts.

To address tax effort, each local school district must contribute a local tax effort of 30 cents per $100 of property value. Fair assessment and required tax effort go hand and hand. With such a partnership increase revenues are sure to follow. The events that are to follow the implementation of the mandate to assess all property at 100% are an increase in assessment valuation and an increase in local effort which will lead to a narrowing of the disparity in local tax efforts among districts given the equity measures reported (OEA, 1993). To describe what has happened one must look at how the above actions in reality impacted the disparities which lead to inequities. The range (difference between the highest and lowest per pupil objects) of property wealth per pupil went from $302,569 in 1989-90 to $416,153 in 1992-93. The coefficient of variation went from .480 to .432 during this same time as measured and reported by the

Office of Education Accountability (OEA). The OEA also reported that the required local effort or equivalent tax rate (ETR) averaged $513 per pupil in 1990-91 and increased to $553 per pupil in 1992-93. The highest wealthier districts showed an average of $925 per pupil for the same 30 cents effort in 1990-91 and increased to $974 in 1992-93. It is important to note that districts in the lowest wealth category raised an average $239 with the 30 cents tax effort in 1990-91 and this increased to $262 in 1992-93.

At first glance the disparities are still glaring and continue to demonstrate the inequities. However, a closer look at this area does indicate some inching toward closing a gap among school districts in per pupil revenue, however, small in the eyes of some. Essentially, the critical element here is fair assessment. The relationship between spending and wealth is just a first step in a very complex plan to accomplish equity. The concern for diminishing the relationship between where a student lives in the Commonwealth and the adequacy of his/her education depending on that geography, is the goal of the SEEK program.

School Finance History in Kentucky

Other conversations and efforts notwithstanding, the push for equity in funding among all Kentucky school districts became a functional reality when former Associate State Superintendent, Arnold Guess, recruited twenty school superintendents in February 1984 to discuss an equity suit in Kentucky. By April, 1985, 66 school districts had mobilized, with the assistance of former Governor Bert Combs, became The Council for Better Education and voted to file suit declaring that Kentucky's statutory system for school finance violates Section 1, 3, and 183 of the Kentucky Constitution and the 14th Amendment of the Constitution of the United States. Fundamentally, the Council demanded that funds, both state and federal, be appropriated and distributed in a constitutional manner. Plaintiffs claimed wide expenditure disparities existed between school districts to the point that a majority of young Kentucky citizens were not receiving an adequate education.

Judge Ray Corns of the Franklin County Circuit Court declared the Kentucky school finance arrangement unconstitutional on May 31, 1988. Several equity issues were at the center of the courts decision. One set of equity issues is related to the impact of property wealth variances and state inputs on the attempts to achieve equitable funding. Another set is the impact of total revenues received on the educational experiences of Kentucky youth. The Franklin County Circuit Court concluded that: (1) there was marked variation in the property wealth of school districts; (2) the allocation of state aid did not compensate for the variation in wealth: (3) there was a wide disparity in the per pupil revenue of school districts; and (4) the quality of education was contingent on available revenue (Augenblick, 1991). The Kentucky Supreme Court on June 8, 1989 upheld the Franklin County Circuit Court decision and took an unprecedented move by declaring the public schools unconstitutional. The final judgment ruled that the General Assembly must devise a new funding system that would require additional new funds that could only come through new taxes. Furthermore, the General Assembly had the absolute duty to re-create and re-establish a new system of common schools in the Commonwealth (Legislative Research Committee, 1991).

A plan for funding the system was developed jointly by the General Assembly leadership and the governor and became law on July 13, 1990. The Kentucky Education Reform Act (KERA) was born along with a new funding system designed expressly to address the expenditure disparities that existed, in the Commonwealth. The funding system is called the Support Education Excellence in Kentucky (SEEK) and was established to achieve equity, adequacy and efficiency. The work of the Council for Better Education had created a new era of school finance and education reform in Kentucky.

Table 4

Pupil Weighted Averages for Equivalent Tax Rates by Wealth Quintile 1989-90 & 1992-93

Quintiles	Lowest		2nd		3rd		4th		Highest		Statewide	
	89-90	92-93	89-90	92-93	89-90	92-93	89-90	92-93	89-90	92-93	89-90	92-93
Number of Districts	54	52	43	50	40	36	33	34	6	4		
Average Daily Attendance**	113.8	115.98	116.11	116.56	112.66	112.53	105.03	120.71	120.85	120.71	569.50	582.05
Property Wealth per Pupil***	$73.1	$87.4	$107.8	$126.1	$140.8	$161.3	$180.7	$215.7	$281.4	$324.7	$157.8	$184.3
Equivalent Tax Rates	32.92	55.00	35.81	51.83	34.99	53.22	44.04	55.48	68.79	71.72	43.60	57.58

* Adapted from Legislative Research Commission, Office of Education Accountability Annual Report (1993, pg. 40)
** Multiply by 1,000 for rounded attendance counts
*** Multiply by 1,000 for rounded property wealth per pupil

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All existing school funding mechanisms were abolished by KERA and SEEK. A tiered school finance system comprised of three components: the state adjusted based guarantee and two local-options (Tier I and Tier II) were created. Tier I provides for state equalization funds however, Tier II includes only local funds. This system, SEEK, also allows for adjustments to the base guarantee for at-risk students, exceptional children, home and hospital and transportation. The system requires a minimum local tax effort of 30 cents per $100 of property value, alters the previous distribution patterns of school dollars among school districts and increases state support to local schools.

Conclusions and Possible Directions for Kentucky School Finance

The changes being implemented in Kentucky School Finance design have worked to accomplished a great deal in overcoming the issues identified by the Franklin County Circuit Court. While there is still considerable distance to travel to achieve equity and equality, the Commonwealth has moved in the right direction. The disparities or large gaps between property rich districts and poor districts across the Commonwealth have begun to disappear in the area of per pupil revenues from state contributions and local taxing efforts. The importance of being more sensitive to the wealth of districts is being implemented through the foundation and guarantee tax base program. Local districts have the opportunity to take care of themselves by increased local tax effort and commitment. Increasing equality and equity in one district without taking away from another is slowly being achieved by maintaining the hold harmless until the 1994-96 biennium. There is better assessment of property values and taxing efforts are more uniform across the Commonwealth.

Kentucky will be able to remove districts from hold harmless as the SEEK base is raised. This must be done by fully funding and providing at least a 3% increase in the SEEK based each year. The legislature will have to insure that the PVAs are following the mandate to have 100% assessment by July 1996 which impacts not only school funding but city and county revenues.

Future issues for Kentucky are complex and are linked to fully funding all the components of SEEK. However, monitoring Tier II participation will be crucial in maintaining equity in the per pupil revenue between rich and poor districts. Perhaps there may come a time to require that all districts participate in Tier I. Other considerations include funding the Facility Support Program Kentucky (FSPK), the impact of continuing to have categorical programs and pilot programs funded outside of the SEEK formula and inequities of the distribution of teacher's retirement. (Office of Education Accountability, 1993). The identification and definition of "at-risk" youth needs to be updated and made more accurate. Costing out or determining what has come to be known as education production functions in schools is also an important consideration. That is, what amount of money does it take to educate a child in a particular school? The OEA is working hard to bring these considerations to the table and find ways to address them. Additional considerations which are equally critical, include the need to evaluate the adequacy of the SEEK guaranteed base as change in state requirements are placed on school districts and development of clearly understood definitions of equality and equity that considers the needs of students and the wealth of school districts (Augenblick, 1991). The future in Kentucky is promising because that which has been accomplished has been done during difficult fiscal times. Difficult times will not always be the reality and the course toward school finance equity must be maintained in order to accomplish the goals of the legislation that resulted from Rose v Council (1989).

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LOUISIANA

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SCHOOL FINANCE POLICY ISSUES IN LOUISIANA

- New "Pupil Weighted" Funding Formula
- Influence of State Aid Formula on Equalizing Local Wealth
- Adequacy of School Finance System

New "Pupil Weighted" Funding Formula

Louisiana began implementing a new "pupil weighted" funding formula with the 1992-93 school year. This new formula is designed to provide greater equity in the distribution of state aid to local school districts. In addition, the new formula is also designed to provide greater flexibility to local school districts in spending to meet their student and programmatic needs. Since the mid 1950s, Louisiana had used a very centralized approach to funding elementary and secondary education, providing state aid primarily on an "instructional unit" basis. Essentially, Louisiana funded the various expenditure categories at legislatively specified levels with very little consideration given to local wealth.

The formula currently being implemented uses a bi-level approach, with Level 1 funding based on a specified per-pupil amount. The total cost of Level 1 is shared between the state and local school districts based on each school district's relative wealth. On the average, the state provides 67 percent of Level 1 funding, whereas local school districts provide the remaining 33 percent. This basic funding level also provides per-pupil weightings for the following four categories of students: 1) at-risk students (15%), 2) students in grades K-3 (15%), 3) students requiring remediation (10%), and 4) students enrolled in secondary vocational education classes (5%). Special education and transportation costs are currently included as "unweighted" items based on prior year actual expenditures until specific formulas for these areas are developed.

Level 2 is structured to provide an incentive to reward local tax effort which generates funding above the required Level 1 amount. For revenue raised by a local district beyond the Level 1 requirement, the state will match up to fifty percent of this additional local revenue depending upon the relative wealth of the particular school district. The formula is being implemented with a "phase-in" feature (a five-year period) which provides limitations for districts receiving new state aid and a "hold-harmless" feature (an indefinite period) which continues current state funding levels for districts which might otherwise receive less state aid under the new formula.

The mean per-pupil revenues and corresponding coefficients of variation by governmental level for 1991-92, the last year under the old formula, and 1992-93, the first year under the new formula, are provided in Table 1. At the local level, for example, the coefficient of variation for total local revenue decreased slightly, whereas for local revenues generated by sales and property

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Table 1

Mean Per-pupil Revenues and Coefficients of Variation for Selected School Revenues in Louisiana for 1991-92 and 1992-93

School Revenues	1991-92 Mean Per-pupil Revenue	1991-92 Coefficient of Variation	1992-93 Mean Per-pupil Revenue	1992-93 Coefficient of Variation
Total Local Revenue	$1,425	0.365	$1,477	0.356
Sales & Property (Non-debt)	991	0.407	1,049	0.410
Total State Revenue	2,349	0.082	2,386	0.078
MFP Formula	2,182	0.070	2,231	0.071
Total Federal Revenue	463	0.336	531	0.309
Total Revenue	4,236	0.122	4,385	0.113

Source: Louisiana Department of Education (March, 1994).

taxes the coefficient increased slightly. This pattern was essentially the same at the state level in that the coefficient decreased slightly for total state revenue, but increased slightly for MFP formula revenue. The actual equity effects of the new formula in its first year as measured by the coefficient of variation appear to be negligible. Moreover, the potential effects of the new formula have been offset by the liberal phase-in and hold harmless features of the implementation process.

Influence of State Aid Formula on Equalizing Local Wealth

A basic goal of the new formula is to distribute state aid in accordance with local school district wealth, that is, to allocate greater amounts of state aid to the less wealthy districts. An adaptation of the Representative Tax System (RTS) is used in Louisiana as the measure of local wealth or fiscal capacity since local school districts have authority to utilize both the sales tax and the property tax to raise revenues at the local level. This RTS approach combines

Table 2

Correlations Between Wealth (School District Fiscal Capacity) and Selected School Revenues in Louisiana for 1991-92 and 1992-93.

School Revenues	1991-92	1992-93
Total Local Revenue	0.751	0.807
Sales & Property (Non-debt)	0.794	0.828
Total State Revenue	-0.048	-0.293
MFP Formula	-0.181	-0.347
Total Federal Revenue	-0.297	-0.148
Total Revenue	0.649	0.699

Source. Louisiana Department of Education (March, 1994).

sales and property tax capacity per pupil for each district, and then calculates the individual district's index on a relative basis to the statewide average.

The correlation coefficients for the relationships between wealth or local school district fiscal capacity and selected school revenues are presented in Table 2. At the local level, the data suggest that the relationship between wealth and revenue, including sales and property revenue, actually increased from 1991-92 to 1992-93.

At the state level, however, the data suggest that the new MFP formula is beginning to address its basic goal by distributing more state aid to less wealthy school districts, in that the negative association between wealth and state aid increased from -0.181 to -0.347.

Similarly, the data in Table 3 also suggest that state aid was distributed in a more equitable manner in 1992-93. The data in Table 3 indicate the change on a per-pupil basis in local school district fiscal capacity, total local sales and property tax revenues, and MFP funding across quintiles between 1991-92 and 1992-93. As expected, district fiscal capacity and total sales and property taxes increased substantially more in the highest quintile. At the same time, however, the difference in the average MFP funding across quintiles from the lowest to the highest was $88, $65, $71, $28, and $1, respectively. This change in the distribution of state aid across quintiles demonstrates sensitivity to local wealth and the fact that more state aid dollars are now being allocated to less wealthy school districts.

Adequacy of School Finance System

A few basic reasons appear to account for the apparent lack of any progress in achieving greater equity effects as measured by the coefficient of variation during the first year of the new formula's use. The positive equity effects of the new formula are constrained by the lack of a local support requirement at Level 1, and the effects are also obscured by a lengthy and liberal

Table 3

Comparison of Quintile Averages for Selected School Finance Variables Per-pupil in Louisiana between 1991-92 and 1992-93.

Finance Variable (per pupil)	Statewide Average	Lowest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Highest Quintile
Local SD Fiscal Capacity						
1991-92	$ 990	$519	$741	$927	$1,148	$1,629
1992-93	1,047	559	790	991	1,186	1,727
Change	58	40	49	64	38	98
Local Sales & Prop Taxes						
1991-92	991	487	865	919	1,228	1,443
1992-93	1,049	521	893	1,000	1,266	1,563
Change	60	34	28	81	38	120
MFP Funding						
1991-92	2,182	2,257	2,222	2,136	2,076	2,224
1992-93	2,231	2,345	2,287	2,207	2,104	2,225
Change	51	88	65	71	28	1

Source: Louisiana Department of Education (March, 1994).

implementation process. The new formula provides a standard of local effort, but there is no requirement for the local revenue target to be generated. As shown in Table 4, total actual local sales and property tax revenues, $825.4 million or $1,049 per pupil, exceeded the MFP local target, $767.4 million or $976 per pupil, for the 1992-93 fiscal year. A surplus of $111.7 million was generated by 30 of the 66 school districts in the state. The remaining 36 school districts, however, contributed less than expected at the local level by approximately $53.6 million.

At the state level, the new formula contains features which provide a "hold-harmless" and a "phase-in" of state funds. Nearly all districts in the "hold-harmless" category are also in the highest quintile of school districts by local wealth. As indicated in Table 5, the "hold-harmless" districts received excess funding (above their entitlement under the new formula) of $83.8 million in 1992-93. The state further restricted the implementation of the new formula by withholding $150.2 million because of the "phase-in." These features, which impact both local and state revenues, combined to restrict the equity effects of the new formula.

Table 4

Target and Actual Local Contributions to MFP Level 1 Funding for 1992-93.

MFP Target Local Contribution		
Total Amount	$	767,393,948
Amount Per Student	$	976
MFP Actual Local Contribution		
Total Amount	$	825,428,500
Amount Per Student	$	1,049
Districts Where Local Contribution Was Lower Than the Target		
Number of Districts		36
Number of Students		335,486
Total Amount	$	53,640,235
Amount Per Student	$	160
Districts Where Local Contribution Was Higher Than the Target		
Number of Districts		30
Number of Students		451,173
Total Amount	$	111,674,787
Amount Per Student	$	248

Source: Louisiana Department of Education (March, 1994).

School Finance History in Louisiana

Over the years, several school finance suits have been filed by local school districts against the state. Until recently, these cases had been filed in federal court. The latest federal court decision rendered in 1989 determined that the school finance formula in use in Louisiana at that time did not violate the Federal Constitution.

In 1992, two school finance suits were filed in state court on the issues of equity in the distribution of state aid and the adequacy of the school finance system to provide a minimum foundation program of elementary and secondary education, based on state constitutional language. These suits were filed by the Minimum Foundation Commission, representing 26 school districts, and the American Civil Liberties Union, representing the parents and children in six other school districts. One of the school districts in the ACLU case is the Orleans Parish School System, the largest school district in the state with a student population representing approximately 10 percent of the total state student population.

In addition, thirteen other local school districts, primarily the higher wealth districts, have filed an intervention supporting the petition charging that the school finance system in place is inadequate. These suits are expected to come to trial in late 1995 or early 1996.

Table 5

Distribution of State Hold-harmless Funds and Underfunding Across School Districts in Louisiana for 1992-93.

1992-93 MFP Target		
Total Amount	$	1,822,863,618
Amount Per Student	$	2,317
1992-93 MFP Actual		
Total Amount	$	1,755,412,327
Amount Per Student	$	2,231
Hold-Harmless		
Number of Districts		18
Number of Students		242,015
Total Amount	$	82,772.897
Amount Per Student	$	342
Underfunding*		
Number of Districts		48
Number of Students		544,644
Total Amount	$	150,224,188
Amount Per Student	$	276

Source: Louisiana Department of Education (March, 1994).

* Underfunding is the difference between full funding of the MFP and actual funding (at 20% phase-in per year over 5 years).

Future Directions

As the state continues to implement this new formula, there are a number of policy issues yet to be addressed. One of the critical policy issues currently being considered is the role of the state in providing increases for teacher salaries. Louisiana has a long tradition of a state level teacher salary schedule. In past formulas, the state level teacher salary schedule was the basic determinant of the amount of state funding distributed to local school districts. With a pupil weighted formula designed to provide local districts with increased flexibility, state level instruments, such as the teacher salary schedule, no longer control the amount or distribution of state aid. Can state policy-makers follow through with the concept of local flexibility and allow local districts alone to establish teacher pay or will state policy-makers continue to set criteria at the centralized state level for operating local school districts?

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MISSISSIPPI

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SCHOOL FINANCE POLICY ISSUES IN MISSISSIPPI

- Restructuring the Minimum Education Program
- Increasing Funding for At-Risk Students

New K-12 Funding Proposal

The state legislature of Mississippi is currently considering a proposal put forth by a Task Force to change the basic way in which the state finances its public elementary and secondary schools. The current funding system is driven by state allocations based on the number of teacher units within each school district. It can best be characterized structurally as a two-tiered Strayer-Haig foundation plan that also includes non-equalizing aid for administrative and support services. This method of financing has been in place since 1953 and is called the Minimum Education Program (MEP). Included as part of the MEP is a state mandated local school district contribution component based on local school district fiscal capacity. In addition to funds allocated through the MEP, the state provides additional funds for K-12 special needs students through several categorical aid programs.

The proposal currently under legislative consideration would restructure the state's present K-12 funding system, improving both the adequacy and equity of Mississippi's school finance system. The several components that make-up the proposed restructuring include:

- *Establishing a base cost figure per-pupil.*

This proposed change is aimed at achieving an adequate level of funding for all districts in the state. Two procedures were employed in establishing a per-pupil base cost. The first procedure involved creating a model school district and assigning an appropriate cost per-pupil to the operation of the model school district. The second procedure estimated a base per-pupil cost from examining current spending patterns of selected school districts throughout the state.

The first procedure yielded an estimated base cost of $2,006 per-student for a school district serving 2,500 students (1993-94 data). The second procedure, based on a stratified random sample of 24 (out of a total of 149) school districts, produced a base cost figure of $2,147 per student using 1992-93 data.

- *Adjusting the base cost for factors placing upward cost pressures on school districts.*

This part of the restructuring proposal is aimed at channeling additional state aid to districts where expenditure increases are the result of influences beyond the direct control of school districts. The Task Force has recommended a weight of .05 (five percent of the cost base) to assist local school districts in the education of at-risk students. The number of at-risk students would be calculated by counting the number of free lunch participants in each district (which in 1992-93 totaled 276,657 pupils, or 59.3 percent of all pupils in Mississippi). This adjustment is estimated to result in a figure between $100 and $120 per at-risk student

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that the state would allocate to local school districts with at-risk students. At $110 per at-risk student, this change would cost the state an estimated $30,432,270.

- *Counting pupils based on ADM versus ADA.*

Presently, Mississippi uses ADA in its calculations to determine state aid to local school districts. Part of the restructuring proposal calls for changing the method of counting pupils from using ADA to ADM. This change is viewed as a necessary step in more accurately assessing the educational needs of Mississippi's public schools.

- *Creating a "guaranteed yield formula".*

Part of the restructuring proposal calls for a mandated local contribution of 28 mills which would guarantee a statewide average of $2,754 per-pupil; with a foundation program amount ranging from $2,746 to $3,256 per-pupil depending on the different circumstances of school districts throughout the state. For school districts electing to go beyond the mandated 28 mills to provide additional services beyond the foundation guarantee, the restructuring proposal recommends creating a "guaranteed yield formula" (second funding tier) to assure that districts making the same tax effort will generate the same revenue per-pupil. This part of the restructuring is estimated to cost the state an additional $13.8 million.

Under the restructuring provisions outlined above, state and local revenues would increase, on the average, by approximately $276 per-pupil, with the least wealthy school districts benefitting most with an increase in new revenue of $306 per-pupil (as opposed to an increase of $150 for the wealthiest districts). In comparing the highest and lowest wealth quintiles the range of disparity in revenue would be $500 per-pupil, as compared to $700 under the present system of financing. In addition, the proposed changes would put 80 percent of the state's school districts (in the lowest four wealth quintiles) within a revenue disparity range of less than $200 per pupil. Further, under the new system the range in revenue disparity would decline from $634 per-pupil ($3,133 - $2,449) to $580 ($3,382 - $2,802), a 22 percent difference. In sum, the proposed restructuring of the state's K-12 funding system would lead to a substantial increase in expenditures, a modest reduction in the expenditure disparity between school districts, and more efficiently meet the two major policy goals of an adequate and equitable school finance system.

School Finance History in Mississippi

The basic structure of Mississippi's current school finance system dates back to 1953 when a Strayer-Haig foundation plan was implemented. Since that time and up to now there have been periodic reforms implemented by the state legislature. However, none of these reforms has changed the fundamental way in which the state finances its public schools. Historically, knowledge about the way Mississippi finances public education has remained one of the state's "best kept secrets", known only by a select few. In February of 1994 the first book of its kind was published, aimed at describing Mississippi's school finance system in terms that could be understood by other than school finance experts. The current proposal under consideration by the legislature to restructure the school finance system is viewed by many within the state as an attempt to avoid a court case challenging the present method of funding. Limited resources over the years has made it both easy and expedient at times to ignore major education policy issues concerning both the financing and provision of public education. However, from a historical perspective, it is evident to many that Mississippi is truly at a critical crossroads regarding the financing of its schools.

Concluding Remarks

The restructuring proposal currently being considered by the state legislature has a real potential to impact the two major policy goals of any state school finance system - adequacy and equity. If enacted, the proposal would improve the status of both policy goals. Cost estimates of the restructuring range between $111 million and $121 million. Given the recent actions of the governor, it is questionable that the proposed restructuring will be implemented as put forth. The extent of the political compromise that is likely to occur and its impact on the state's school finance system is difficult to predict. However, one thing is certain - the time and climate is right for the state to substantively reform its policies and methods of financing education. To postpone such legislative action much longer is very likely to result in a court action brought against the state at some future point in time.

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TENNESSEE

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SCHOOL FINANCE POLICY ISSUES IN TENNESSEE

Over the past six years the attention of Tennessee educators has been concentrated by our education funding equity suit, Tennessee Small School Systems (TSSS) v. McWherter, (1993). The suit at first addressed funding equity, and the small schools won in the trial court and then in the Tennessee supreme court. In anticipation that the lawsuit would go against the state, the legislature enacted the Education Improvement Act of 1992 replacing the old Tennessee Foundation Program (TFP), which was almost totally unequalized, with the Basic Education Program (BEP) which brought a substantial portion of state funding under one formula, and provided for the local match to be equalized. The BEP solved the equity issue sending it to number three in the ranking of importance of policy issues.

The next most important issue became, then, the issue of adequacy of funding. The real problem with the TFP had been underfunding, and the Tennessee legislature has had a long history of reacting to emergencies in education, but not of providing adequate funds on a consistent basis over an extended period of time. The lawsuit did not solve the adequacy problem, but provided a framework for its solution. Under court supervision the legislature seems committed to raising the level of school funding, over a five year period, to the level of funding that the State Department of Education has identified as sufficient under the BEP formula to meet the basic need for school funding. With the issue of adequacy on course to be solved, it slipped into second place in the ranking of importance of policy issues.

The issue that emerged in first place in the ranking of importance of policy issues in school funding in Tennessee is the sustainability of funding given the state's 19th century system of funding state government, and given the public's adamant refusal to support politicians who try to modernize it.

To summarize in priority order, the three most important issues in school funding in Tennessee are:

- The sustainability of state funding for K-12 education at the level of need identified by the State Department of Education given competing needs at the state level, and an antiquated tax system.
- The adequacy of state funding which requires that the legislature increase state school funding appropriations approximately 50% over the five years between 1992 and 1997.
- The equity of state funding. Both plaintiff and defendant in the funding lawsuit agreed that in the abstract the BEP solves the funding inequities that were so evident under the old TFP, but there has been only one full year of implementation, and analysis of that year's results have been

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impeded by an ancillary problem with the State Department of Education -- their inability to publish annual activity reports on a timely basis.

Current Tennessee School Finance Policy Issues Explored

To make this presentation understandable, it will be most convenient to treat the three policy issues in reverse order of their importance because they are interdependent, and because of the way their importance has changed over time. Another overall piece of information will be useful in treating all three issues -- a summary of financial information reported in Table 1.

Notice that Table 1 gives three years information ending in 1991-92. This is from the most recent data published by the Tennessee state department of education (1993). Figures for the two earlier years were published 14 months after the June 30 closing, and data for the most recent year took 16 months to be published.

Realizing funding equity. Initially the most important issue in the lawsuit was equity. In the trial court decision the Chancellor reported:

> The TFP equalization formula accounts for differentials in assessed property values, but the amount available for equalization is less than $60,000,000 out of an expenditure of $2.5 billion. Adjustments are also made for the training and experience of the teachers which results in more funds to school districts with better trained and more experienced teachers. This tends to benefit the wealthier school districts. As a result the state funds provide little real equalization. (*TSSS v. McWherter*, 1988, p. 7).

The low state proportion of the overall revenues for public schools as reported in Table 1 -- $1.1 billion for roughly 40% state funding in 1991-92 -- is part of the inequity puzzle because it leaves 48% to be funded locally in a state where local fiscal capacity varies widely. Take note of the local revenue figures in Table 2.

Table 1

Total Revenue for Public K-12 Education in Tennessee, 1989 - 1992

Source of Funds	1989-90		1990-91		1991-92	
Local	$ 1,175,667,534	45.9%	$ 1,243,766,205	45.7%	$ 1,346,506,488	48.2%
State	$ 1,137,762,835	44.5%	$ 1,199,998,528	44.0%	$ 1,136,524,530	40.7%
Federal	$ 246,457,166	9.6%	$ 280,793,638	10.3%	$ 308,624,838	11.1%
Total	$2,559,887,535	100.0%	$ 2,724,558,371	100.0%	$ 2,791,655,856	100.0%

Source: State of Tennessee, 1991, 1992, 1993, Table 23

Table 2

Analysis of Revenue from Local Sources for Public K-12 Education in Tennessee, 1989 - 1992

Source of Funds	1989-90		1990-91		1991-92	
Property Tax	$ 552,229,282	44.4%	$ 607,614,051	48.9%	$ 666,665,311	49.5%
Local Option Sales Tax	$ 436,919,231	37.2%	$ 356,926,568	28.7%	$ 454,604,224	33.8%
Other Local Revenues	$ 186,519,021	18.4%	$ 279,225,586	22.4%	$ 225,236,953	16.7%
Total	$ 1,175,667,534	100.0%	$ 1,243,766,205	100.0%	$ 1,346,506,488	100.0%

Source: State of Tennessee, 1991, 1992, 1993, Tables 20 and 21

Table 3

Measures of Horizontal Equity Applied to the Per Pupil TFP, Property Tax, and Local Option Sales Tax Revenues for the Year 1991 -92

Horizontal Equity Measures	TFP	Property Tax	Local Option Sales Tax
Range			
$ 1,436 - $ 0 =	$ 1,436		
$ 2,079 - $ 0 =		$ 2,079	
$ 1,351 - $ 0 =			$ 1,351
Restricted Range			
$ 1,089 - $ 932 =	$ 157		
$ 1,224 - $ 409 =		$ 815	
$ 1,261 - $ 113 =			$ 1,148
Federal Range Ratio			
$ 157 / $ 932 =	0.168		
$ 815 / $ 409 =		1.995	
$ 1,148 / $ 113 =			10.152

Source: State of Tennessee, 1993, Table 17

Putting aside the volatility of local option sales taxes displayed in Table 2, a serious problem in itself, horizontal equity figures for local sales and property taxes were computed and compared to those of distributions under the Tennessee Foundation Program (TFP) which we propose as the standard for funding equity because the only variability at play in its allocation is student mix -- differences in the proportions of students in elementary-secondary and academic/vocational/special education programs. Horizontal equity computations in Table 3 show local revenues to be vastly more variable than the TFP distribution:

The partially equalized local property taxes are about twelve times as variable as the TFP, and the local option sales taxes are roughly sixty times as variable. Local option sales taxes have been an increasing problem as large retailers have built on the periphery of urban areas, and rural customers have abandoned rural stores to shop there. In Tennessee local option sales taxes are the revenue of the county or city in which they are collected, and half of all local option sales taxes goes by law to the public schools. These horizontal equity figures confirm the Chancellor's conclusion.

The Chancellor found for the plaintiff small schools, a decision upheld by a unanimous Tennessee Supreme Court. (*TSSS v. McWherter*, 1992). When the case was returned from the supreme court to the chancellor for him to issue an order to carry out the decision, it was clear from petitions to the chancellor that both parties to the suit agreed that the newly enacted Basic Education Program (BEP) appeared to solve the equity problem (*TSSS v. McWherter*, 1993).

Realizing funding adequacy. With the parties to the lawsuit in agreement on equity, the issue became adequacy. The plaintiff small school systems asked the chancellor to order the BEP to be fully funded immediately. The defendant state asked for five years, beginning with July of 1992 and extending through June of 1997, to bring the BEP to full funding, indicating that the source of new money for schools was to be a half-cent state sales tax increase, approved in 1992 when the Education Improvement Act was passed and made permanent in 1993, plus the general growth in revenue resulting from the passing of the recession and from growth in the state economy generally. The half-cent sales tax increase was projected to generate approximately $230 million a year. In 1992 the State Department of Education projected that full-funding of the BEP would require $569 million in new money, so $339 from general growth is anticipated by the state in their answer to the small school suit. Here is how, if we count the appropriation of the present legislative session, new BEP money has been realized thus far:

Table 4

Sources of New Money to Fund Tennessee's Basic Education Program (BEP), 1992 - 1995

Year	New Sales Tax	Less, Old Obligations	Plus Growth	Equals, Net New Money
1992-93	$ 230 million	$ 113.5 million	$ - 0 -	$ 116.5 million
1993-94	$ 230 million	$ 63 million	$ 8 million	$ 175 million
1994-95	$ 230 million	$ - 0 -	$ 53 million	$ 283 million

Source: Tennessee State Department of Education

Notice that during the 1990-92 recession the state had withheld $113.5 million and $63 million respectively from distributions to LEA's, so these obligations were repaid from the new sales tax money first.

The chancellor ordered that the legislature would be allowed the five years necessary to raise the needed new money from growth in the economy. The small school systems objected, and have been exploring an appeal of the chancellor's order, but the likelihood of this succeeding is slim.

Sustainablility of Recent Funding Improvement. If the issues of equity and adequacy have been resolved in court, then the remaining important issue, and the one that is most important because it is unresolved, is the sustainability of funding into the future. Although there have been a number of significant changes in Tennessee school funding during the twentieth century, none seems to have caught up to need. Significant funding changes were made in 1909, 1925, and 1955, and in 1972 the legislature established the Tax Modernization and Reform Commission which recommended, among other things, that school funding be changed to a foundation program using a pupil unit-cost approach for allocating funds to local education agencies. The commission also recommended increasing the amount of state support and equalizing local contributions. The first of these three innovations was incorporated in the Tennessee Foundation Program enacted in 1977 (Peevely, 1992). The Tennessee School Finance Equity Study (1979), an in-depth two year analysis of the TFP, the state tax system, and equity issues, found that although the 1978 foundation program had, in fact, the potential to adequately fund basic educational costs, the TFP as implemented did not equalize funding very well. The Study also determined, in 1979, that the amount required to meet the educational needs of the average fourth grade classroom based on fiscal 1977-78 was $832 per pupil. The per pupil base provided by the legislature for the 1977-78 fiscal year, under the old formula, was $318, and in 1978-79, under the new TFP formula, was $342. In 1991-92, the last year in which the TFP was used, the base of $569.76 would still have to be increased by about 46% to rise to the $832 needed in 1977-78. The questions raised by the small school districts with the chancellor about immediate funding was grounded in this history. Citizen interests change, and with them the legislative focus. In a state where school funding has received periodic attention amidst general neglect, the small schools' concerns appear apposite.

In 1991-92 the state contribution to school funding was roughly $1.2 billion. With around $600 million in added dollars under the BEP, the state contribution will increase 50% by 1997-98. If the federal and local contributions remain at their present levels of $300 million and $1.3 billion respectively over those same five years, total revenue for schools will increase from $2.8 billion now to $3.4 billion after full funding of the BEP. Overall this would be a 21% increase in K-12 school funding without factoring in inflation.

Future Directions for School Finance in Tennessee

Assuming a fully funded BEP occurs, what other issues will emerge to impact school funding? Tennessee still funds state operations, including schools, primarily through sales taxes. Sales taxes are volatile so that declines in the economy are matched or even exaggerated by declines in sales tax receipts, and the growth of sales tax revenues lag growth in expenditures over time. In the end Tennessee must go to a more consistent and progressive source of state revenue. The taxpayer mood now, and for some time past, has not been sympathetic to modernizing the tax structure in Tennessee. The conventional wisdom here is that early retirement from public office is facilitated by advocating an income tax. It is almost certain, therefore, that sometime in the not too distant future, the legislature will be driven into a corner by its tax structure, and if a judge isn't watching, start withholding funds from education.

In the past the State Department of Education has cooperated with the legislature in underestimating school funding needs. Aided by the lawsuit, the judge, and a sympathetic governor, the State Department of Education now has a rational funding formula which is promised to be fully funded. Vigilance is required, however, to assure that commitment does not flag nor effective advocacy give way to expedience.

Stripped to its essence, the BEP formula is a standard cost approach to school funding (Tennessee State Board of Education, 1992). The State Department of Education has said explicitly that the BEP is a way of determining an estimate of the cost of providing education, but not a structure for actually providing it. Within broad limits, LEA's are free to distribute their BEP allocation in the way that best suits their local needs without reference to how the estimates of need were generated by the formula. Flexibility and innovation, therefore, are encouraged by the BEP. Still, in an industry characterized by centralization, bureaucracy, and aversion to controversy, a formula may exert a tremendous gravitational pull, and systems can seek safety in the mechanical stasis that a formula provides.

Although the legislature has offered incentives to try various innovative approaches to education, including school choice, there seem to be few takers in Tennessee. The basic model continues to be a teacher and a group of children in a classroom box. Computers are thrown, from time to time, at the boxes, but they never seem to serve much more than a decorative function. In this context, efforts to reduce class size -- an important element in the Education Improvement Act -- run contrary to the need to improve productivity in the schools. Something needs to be done to stimulate creativity, but Tennessee has not yet figured out what.

Finally, gridlock on the information highway must be abated. The state of Tennessee publishes a considerable volume of data, but very little information. Further, what is published is untimely. If the year-end data for fiscal 1992-93 -- a year closed for ten months as these words are being written -- were available, new horizontal equity figures could be computed in an effort to see if the BEP funding has had any measurable impact on funding equity in this state. It is inexcusable that these data are not available in this modern era.

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TEXAS

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SCHOOL FINANCE POLICY ISSUES IN TEXAS

- Constitutionality of new funding formula, Senate Bill 7, enacted in 1993
- Providing a system to equalize school districts' capital outlay expenditures
- Full funding of the equalization portion of the school finance system
- Legal challenge to the adequacy of the school finance system

Texas' New School Finance System

Just one day before a court-imposed deadline of June 1, 1993, Governor Ann Richards signed into law Senate Bill 7 (S.B. 7), the newest version of the Texas school finance system (Act of May 31, 1993, 73rd Leg., R.S. ch. 347, 1993). The new school finance law is the fourth since 1985. The three previous laws were found unconstitutional by the Texas Supreme Court and are discussed in the next section of this report.

Soon after S.B. 7 was enacted it too was challenged as unconstitutional by low-wealth districts as well as a group of property-rich districts. On December 9, 1993, the state district court upheld the constitutionality of S.B. 7 (*Edgewood I.S.D. v. Meno*, No. 362,516, 250th Dist. Ct., Travis Cty., Tex., December 9, 1993). The ruling has been appealed to the Texas Supreme Court, which has set oral arguments for May 25, 1994. Knowledgeable sources in Texas predict that the Texas Supreme Court will uphold the constitutionality of S.B. 7. The remainder of this report is based on the assumption that S.B. 7 will be found constitutional by the Texas Supreme Court.

The primary objective of S.B. 7 is to comply with the supreme court's requirement of "substantially equal access to similar revenue per pupil at similar levels of tax effort" (*Edgewood I.S.D. v. Kirby*, 777 S.W. 2d at 397). S.B. 7 provides a multi-tiered school finance system with four major components: the per-capita allotment, Tier 1 (basic program), Tier 2 (guaranteed yield), and Tier 3 (local enrichment). S.B. 7 retained the basic framework from previous legislation. The most significant change is found in the mandated equalized wealth level, which has been set at $280,000 per weighted average daily attendance (WADA). To meet this mandate requires some form of recapture of local property tax dollars or tax base from property-rich to the property-poor school districts.

The per-capita allotment is a per-pupil direct grant to each public school district under the provisions of the Texas Constitution (art. VII, § 5). The annual interest from the corpus of the Permanent School Fund and proceeds from constitutionally dedicated taxes constitutes the available school fund, which is distributed annually to each school district on the basis of the prior year's average daily attendance (ADA). These funds are distributed to school districts without regard to their local wealth; however, the funds are offset against other state dollars so there is some degree of equalization. Budget balanced districts (i.e. those wealthy districts

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that do not received any state equalization aid) do receive the per-capita allotment. For Fiscal Year (FY) 1994, the per-capita allotment was about $350 per ADA.

Tier 1 provides a basic allotment of $2,300 per ADA at a mandated tax rate of $.86 (per $100 valuation) in 1993-94. The state's share is the difference between the basic allotment and the revenue collected locally; i.e. the local fund assignment. Each district must collect its local fund assignment to participate in the foundation school program. The basic allotment for all districts is adjusted by the cost of education index; and for qualifying districts, a small district adjustment or a sparsity adjustment is applied.

Tier 2; i.e. the guaranteed yield program, is designed to allow property-poor districts to supplement the basic program at Tier 1 with a locally-determined tax rate that is equalized by the state. Wealthy districts may not receive funds under the guaranteed yield provisions. The state guarantees a yield of $20.55 per weighted pupil per penny of additional tax effort beyond the $.86 required for the local fund assignment in Tier 1. However, the state limits its share of additional guaranteed yield to the taxes the districts levied in 1992-93, thus local tax effort above the 1992-93 level for 1993-94 is not equalized by the state. The guaranteed yield allotment may be used for any legal purpose, including capital outlay and debt service.

Tier 3; i.e. local enrichment, allows districts to provide additional local revenues from the local tax base to supplement the costs of their educational programs. There is no state equalization for local enrichment. The state has set a nominal tax rate limit of $1.50 (per $100 valuation) on a local district's total tax rate (maintenance and operation plus debt service). The $1.50 limit may be exceeded if needed to pay for certain bonded indebtedness approved and issued prior to specified dates. New debt issued is limited to $.50, requires approval from the Attorney General, and is within the $1.50 overall limit. The $1.50 may be exceed for debt service with voter approval.

The most significant equalizing feature of S.B. 7 was the establishment of a local district equalized wealth level of $280,000 per pupil in weighted average daily attendance (WADA) and the requirement that no district's taxable wealth per WADA could exceed that level. The state provided five options in order for the wealthy districts to lower their wealth to $280,000 per WADA by September 1, 1993. These options included consolidating with another district, detaching and annexing property, purchasing WADA credit from the state, educating non-resident students, or consolidating tax bases with another district. Local voter approval was required for purchasing WADA credit, educating non-resident students, and consolidating tax bases. Without a doubt, the legislative decision to limit local property wealth to $280,000 per WADA should have the effect of partially reducing the equity disparity among the state's school districts. However, for political reasons, the legislature included a hold harmless provision that will reduce the full impact of the mandated equalized wealth level for the wealthy districts through FY 1994-95.

There were 99 districts in the state that had taxable value in excess of $280,000 per WADA and each district held an election during the fall of 1994 for the voters to determine an option or combination of options to reduce local wealth. Only one district elected to detach property to lower its wealth. Fifty-two districts approved the purchase of weighted attendance credits and 8 districts voted to educate non-resident students. Thirty-eight districts voted for a combination of the latter two options; i.e. purchasing WADA credits from the state and educating non-resident students. This form of local recapture should increase the equity of the school finance system. From the state's perspective, however, the recapture provides from $300 to $400 million from local taxpayers each year to be used for equalization.

To fund the equalization portion of S.B. 7, the legislature appropriated $1 billion in new school funds for the 1993-95 biennium. However, the state has delayed payment of

$250 million to the districts in a move to shift 25 percent of the increase to the next biennium. In order to compensate for this reduction, the legislature reduced the foundation program (Tier 1) guarantee from $2,400 per pupil in 1992-93 to $2,300 for the 1993-95 biennium. In addition, the required local tax rate for districts to participate in the foundation school program was increased from $.82 (per $100 valuation) to $.86. The guaranteed yield (Tier 2) was set at $20.55 per weighted pupil for each penny of tax effort, a reduction from the prior year's level of $22.50. To limit the state's financial commitment to Tier 2, the legislature provided that the guaranteed yield will be applied only up to the taxes collected in 1992-93. Therefore, no equalization funds are provided for the actual 1993-94 tax effort that is above that of the prior year. Given these changes, school districts, both property-rich and property-poor, will have to raise local taxes for different reasons to generate the same revenue for 1993-94 as they had in 1992-93. To compound the problem, the higher tax rates levied by these school districts for 1994-95 will set the standard for the tax effort to be used in the guaranteed yield (Tier 2) and tax roll-back calculations for the following biennium.

Current School Finance Policy Issues

There are several issues that could imperil the school finance system under S.B. 7. It remains to be seen whether the Texas Supreme Court will uphold the constitutionality of the law because of the continued variations in revenue per weighted pupil between the property-rich and the districts. The trial judge, Scott McCown, reasoned that the existing $600 gap was tolerable because of the small number of students involved, the progress that had been made in reducing wealth-related disparities, and the limited options (*Edgewood I.S.D. v. Meno*, No. 362,516, 250th Dist. Ct., Travis Cty., Tex., December 9, 1993, at 64-65).

Another salient issue is the future cost of equalization. It is estimated that the equalization features of S.B. 7 will require from $2.0 to $2.5 billion in new funds in the second biennium of the four-year implementation. In the political climate of an election year with pledges of "no new taxes", it is unlikely that substantial new state revenue will be available to support equalization efforts. Moreover, the local tax increases that occurred under S.B. 7 along with the limits placed on local tax rates could put districts in a precarious position with respect to providing adequate local funds to support their education programs.

In a constrained resource environment, the legislature could alter the provisions of S.B. 7 that would decrease state support. The result, however, would be an even greater burden on local taxpayers. There are, at least, six points in the school finance that are susceptible to change. For example, if legislature reduced the level of the basic allotment at Tier 1 from the current level of $2,300 per weighted pupil to $2,200, this would result in a savings of approximately $350 million to the state. The legislature could increase the Tier 1 minimum tax rate, which currently is $.86 per $100 valuation. This would shift the burden of school finance away from the state to the local districts. While there is the possibility of reducing the level of equalized wealth a district is allowed to maintain, this level is not likely to be reduced lower than $265,000 per pupil, as that is the level that approaches Dallas Independent School District's valuation of $264,758. It would not be politically acceptable to leave Dallas with no equalization funds. In the Tier 2, guaranteed yield program, the legislature could reduce the number of pennies of local tax rate that would be equalized, or lower the limit of tax effort which would apply.

The legislature could adjust or eliminate some of the formula elements; such as the cost of education index, the small district adjustment, student weights, and so forth. Finally, the tax caps could be eliminated. Any of these changes would result in no new state taxes, a situation that would satisfy state politicians, but the local tax burdens would become excessive.

School Finance History in Texas

School finance reform has preoccupied the legislative agenda in Texas since 1984, with four major school finance laws, three of which have been declared unconstitutional by the Texas Supreme Court and the fourth on appeal. The major impetus for reform occurred when a group of property-poor school districts challenged the existing school finance system in 1984, in a case filed originally as *Edgewood I.S.D. v. Bynum*. The plaintiffs challenged the school funding law as violating the state constitution's equal protection clause and the education article. The case never went to trial, but was refiled a year later challenging reform legislation that had been enacted by the Texas Legislature in special session in the summer of 1984. The new school finance system was embodied in House Bill 72 [1984 Tex. Sess. Law Serv. 28 (Vernon)], a general education reform bill. The law provided major changes in the school finance system with the intent of providing greater equity in the distribution of state and local funds.

Notwithstanding legislative attempts to improve the equity of the school finance system under H.B. 72, the property-poor school districts in 1985 renewed their legal challenge from the previous year in the case restyled as *Edgewood I.S.D. v. Kirby*. In 1987, the school finance system was declared unconstitutional on the basis of equal protection clause and the efficiency provision of the education article in state district court [*Edgewood I.S.D. v. Kirby. No. 362,516, 250th Dist. Ct., Travis Cty., Tex. June 1, 1987).* After a reversal by the appeals court (761 S. W. 2d 859 [Tex. Ct. App. 1988], the Texas Supreme Court declared the law unconstitutional in a unanimous decision solely on the basis of the efficiency clause [777 S.W. 2d 391 (Tex. 1989)].

While *Edgewood* was on appeal and before the supreme court's decision, the legislature enacted Senate Bill 1019 [1989 Tex. Sess. Law Serv. 816 Vernon)]. S.B. 1019 augmented the equalization provisions of H.B. 72 increasing the second-tier guaranteed yield program, which had been added on top of the foundation program in 1984.

After the Texas Supreme Court's decision in *Edgewood* in 1989, the legislature faced a May 1, 1990, court-ordered deadline to reform the school finance system. After protracted special legislative sessions, and after the expiration of the court's deadline, the legislature enacted Senate Bill 1 (Act of June 7, 1990, 71st Leg., 6th C.S. ch 1, 1990 Tex. Gen. Laws 1). S.B. 1 made numerous changes in the school finance system to improve equity, including an increase in state funding.

S.B. 1 failed to satisfy the *Edgewood* plaintiffs, who returned to court where the law was struck down [*Edgewood I.S.D. v. Kirby, (No. 362,516, 250th Dist. Ct., Travis Cty., Tex. September 24, 1990).* The Texas Supreme Court affirmed the district court's ruling that the law was unconstitutional [804 S.W. 2d 491 (Tex. 1991)].

In response to the supreme court's decision, the legislature enacted House Bill 351 (Act of April 11, 1991, 72nd Leg., R.S. ch. 20, 1991 Tex. Gen. Laws 381, *amended by* Act of May 27, 1991, 72nd Leg., R.S. ch. 391, 1991 Tex. Gen. Laws 1475). H.B. 351 retained the major framework of the school finance system under S.B. 1, but created County Education Districts (CEDs) to raise local taxes and redistribute the revenue among the member school districts as a method of local recapture. Not surprising, H.B. 351 also was challenged by both property-poor as well as property-rich districts. In *Edgewood I.S.D. v. Meno*, the state district court ruled that the new law was constitutional (No. 362,516-A, 250th Dist. Ct., Travis Cty., Tex., August 7, 1991). The Texas Supreme Court granted five direct appeals from judgments in three district courts. The court reversed the judgment on the grounds that the taxes levied and collected by the CEDs were state property taxes and violated the state constitution's provision barring state ad valorem taxes [Carrollton-Farmers Branch I.S.D. v. Edgewood I.S.D., 826 S.W. 2d 489 (Tex. 1992)].

After failing to enact a new school finance plan in a special session following the November 1992 general election, the next legislature in the regular session in 1993, called a state-wide referendum relating to the school issue. The major proposition called for making the CED tax system under H.B. 351 constitutional. On May 1, 1993, Texas voters rejected the referendum in a landslide negative vote. Within the month, and just a day before the court-imposed deadline, the legislature adopted S.B. 7. Judge McCown, who had jurisdiction of the case, opined that the law was constitutional until challenged and allowed it to go into effect. The appeal to the Texas Supreme Court is based on numerous claims, according Dr. Catherine Clark, Director, Texas Center for Educational Research, including (1) whether the state makes adequate provision for education through the finance system, (2) whether districts have a constitutionally protected right to the property within their boundaries and the tax revenue that property generates, (3) whether the state system of finance overly relies on the property tax, (4) whether the recapture options are constitutional, and (5) numerous other matters, such as voting rights and situs

Conclusion

It remains to be seen whether S.B. 7 will survive constitutional scrutiny by the Texas Supreme Court, but informed sources believe that it will. However, there are other issues to confront the legislature and the courts. The adequacy claim under the "suitable provision" portion of the education article (Tex. Const. art. VII, § 1) may become a salient issue. The legislature must implement a reasonable and equitable funding mechanism for capital outlay. Perhaps, the most important will be the availability of state revenues to fully fund the equity provisions of S.B. 7. The one thing that is assured is the continuation of litigation.

VIRGINIA

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The democratic promise of equal opportunity is diminished to the extent education fails to develop each children of his or her fullest potential.

--Thomas J. Michie, Jr.[1]

Major School Finance Policy Issues

Major school finance policy issues in Virginia relate to the school aid formula, the equity of the state system of distributing funding to localities and providing incentives for upgraded student achievement, and the sufficiency of education revenue to meet the changing context of education in an information age and global economy. This brief summarizes general statistical information related to school aid in Virginia, discusses issues related to the for funding schools and the school aid formula, briefly describes the action of the 1994 General Assembly as related to school aid, and highlights the status of active school finance litigation in Virginia.

School Finance Background and History

Background Statistics. Sources of school aid in Virginia have shifted dramatically over the past decade. In 1980, federal aid was 9.5 percent of total support, state aid, 41.8 percent and local revenues, 48.7 percent. In 1990, the federal government supplied 4.7 percent of all school funds, state aid was 34.7 percent of total, and local revenue accounted for 60.7 percent. This change contrasts to national trends towards more state support of schooling and likely contributes to revenue inequality among schools in Virginia, as state aid is often provided to equalize variations in local tax bases. Nationally, in 1990 school revenues were derived from a 6.3 percent federal share, a 49.4 percent state share, and a 44.3 percent local share. (Table 1)

Over the past ten years, state aid for elementary and secondary education in Virginia, has also remained well behind state revenue increases nationally. From 1980 to 1990, aggregate state aid to education increased nationally by 120 percent (31 percent when adjusted for inflation).[2] State school aid increases over the decade for Virginia were 98 percent (18 percent when adjusted for inflation. When state funding per pupil is compared nationally from 1980 to 1990, state revenues increased 107 percent per pupil (23 percent when adjusted for inflation). Virginia's state aid per pupil increased, 53 percent (13 percent when adjusted for inflation). (Table 2)

Over the past several years, however, Virginia's elementary and secondary education expenditures as a percent of total state expenditures have risen slightly from 19.7 percent in FY 1988 to 20.1 percent in FY 1990, but remain below the national average of 22.5 percent, and have fallen over time.[3] In FY 1990, higher education spending in Virginia in was 16.8 percent of total state expenditures, above the national average of 11.8 percent. But postsecondary aid has declined from 18.2 percent of total state expenditures in FY 1988, with actual reductions (rather than slower growth) of -3.5 percent in FY 1990.[4]

In 1990, Virginia ranked 12th nationally in per capita income, and in other measures of state wealth, such as effective buying income per household and total dollar value

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of retail sales per household, but it ranked low in per capita tax burden (state and local) compared to per capita income. In 1990, Virginia ranked 43rd in total state and local tax burden in relation to per capita income. However, in 1990, Virginia ranked 39th in public school expenditures for every $1,000 of personal income.[5]

School Aid Formula. Virginia distributes school finance for elementary and secondary education through a minimum foundation program.[6] The state determines the amount of funding per pupil that is guaranteed to localities, and sets the local contribution to this guarantee which is based on a uniform tax effort. Localities are required to raise their local contribution to the plan unless they receive a waiver from the State Department of Education; they can tax and spend above that amount at local discretion and as ability permits. This remains a major source of disparity in Virginia. When wealthy and poor districts levy similar taxes for the schools, wealthy districts raise more funds and poor localities, less, although tax effort is similar.

As school districts are fiscally dependent in Virginia, school funding is derived from local governments, i.e., the Board of Supervisors or City/Town Council. School districts, therefore, have access to a broader array of local revenue sources than do independent school districts usually that are dependent on locally raised property taxes. Because local school revenues are not all drawn from property taxes, however, and consist of a variety of fees and nontax sources and capital outlay costs attempts at quantifying tax effort and relating it to school spending differences in Virginia, have not been satisfactorily resolved, nor have factors related to a locality's ability to taxes been considered.

Changes in the School Aid Formula. In the 1988 General Assembly, a major restructuring of the elementary and secondary education aid formula was enacted, but since that time relatively few, if any changes, have been made.[7] In 1988, the state began to fund a larger percentage of costs and several categorical aid programs were equalized through the Local Composite Index (LCI), Virginia's measure of local ability to pay for education. Previously these programs were fully funded by the state. However, many categorical aid programs continue to be fully state funded. Capital outlay support is minimal--approximately $15 per student, a cost that is shared with localities based on the LCI (dropping to $5 per pupil in 1995-96). Thus, localities pay the major share of capital outlay costs for the schools, a feature that provides a strong contribution to inequality in Virginia and diminishes local taxes for programs and services in the schools.

The major flat grant, i.e., unequalized aid, from the state that is distributed to localities is derived from sales tax receipts. One cent of the 4.5 cent sales tax revenue isdedicated to schools and returned to localities based on the size of the school aged population, whether or not they attend public schools. The equalized portion of the state guarantee is reduced by this amount and all localities receive funds, regardless of local ability to pay for education. This contributes to inequity because these funds are provided without regard to local wealth.

Issues. Major concerns over funding in Virginia relate to the adequacy and equity of both the general state aid program and programs for special needs students and districts. When the state underfunds the cost of education, wealthy localities raise the additional dollars through a minimal tax effort, but poor localities are often unable to provide even the minimal amount necessary for the basic education program. This, in addition to malapportioned school aid, provides variations in the breadth, depth and quality of education programs and services that are available to students across the state. Additional concerns relate to the difference between the actual costs and the compensation provided by the state for special needs students and small rural districts, and the special supplement provided to Northern Virginia localities, that adjusts upwards state aid amounts, ostensibly to provide for differences in the "costs of competing" in that area.

Several other areas of funding, such as transportation aid, the basis upon which teacher salary costs are computed, and the state supported number of teacher positions versus the numbers actually needed in school districts to provide basic program, have been the subject of debate. Serious questions have also been raised over the way in which local wealth is measured, and if it accurately assesses local ability-to-pay for schooling. The measure of local wealth in Virginia, for example, uses fixed weights in assessing local ability to derive property, income (as a proxy for other locally raised revenue) and sales revenue, which do not match variations that exist across localities. Additionally, the index, which ranges from about 0 to .8, is artificially capped. When a locality has an index of .2, it pays twenty percent of the state guarantee and the state pays 80 percent. Conversely, when the LCI is .8 the state pays 20 percent of the cost of education, and the locality pays 80 percent. This is because at a similar tax effort wealthy localities raise relatively more revenue for education than do poor localities and the state makes up the difference. Although local effort is similar under the plan, the resulting revenue raised at a uniform rate, differs, depending on local wealth. This is the wealth equalizing feature of the state aid plan. The problem is that localities that could raise the entire cost of the state guarantee are given an additional 20 percent by the state regardless of wealth, because the ceiling imposed by the state requires localities to spend no more than 80 percent of the cost of basic aid. In this sense, wealthy localities receive an additional bonus beyond that provided for less affluent localities, in addition to e.g., sales tax revenue and additional nonequalized state aid.

Action of the 1994 General Assembly and the Status of School Finance Litigation

The major issues for school finance in the Commonwealth of Virginia in the 1994 General Assembly, ending March 15, 1994, related to (1) addressing the adequacy and equity of the state aid system in the provision of a substantially equal educational opportunity for all children and at all schools, regardless of local wealth, and (2) promoting enhanced student achievement. These areas received modest legislative attention in the 1994 General Assembly, through initiatives receiving support to lower class sizes in the primary grades, provide programs for at-risk four year olds, provide additional technology funding to support education programs, and funds for a parental involvement summit.

Funding for class size reductions was provided to reduce the pupil teacher ratio in grades K-3 to 20 to 1, in schools with 25 to 49 percent of its students participating in the free lunch program; and 18 to 1 in schools with 50 percent or more of its students participating in the free lunch program. Flexibility was permitted in the definition of "teacher," used in the calculation. Localities are required to match state aid based on local ability to pay as measured by the LCI.[8]

Grants were also provided for comprehensive pre_school programs for 30 percent of the unserved at-risk four-year-olds in every locality, with an estimated allocation of $ 250 thousand in 1994-95; for a basic library media center, with flexibility to purchase other technologies; and $50 thousand was provided in for a "Parental Involvement Summit" to provide recommendations to the next General Assembly, convening in 1995.

An estimated $2.5 million was enacted for 1994-95, an increase of 6.41 percent. An additional $40 million was enacted for reduced class sizes, and $8 million for technology (1994-95), for a total of $2.5 million or an 8.49 percent increase over 1993-94.[9] Current funding for the state's basic education program, the Standards of Quality, supporting 1.059 million children, is estimated to be $2.3 (1993-94).

<u>School Finance Litigation</u>. School finance litigation challenging the constitutionality of the school aid system remains active in Virginia. Virginia has one of the strongest state constitutions in the nation, in respect to education, and includes education in its Bill of Rights. The most recent developments are briefly described

here; the history, issues and data relating to the litigation have been reported elsewhere.[10]

Most recently, on February 24, 1994, the Virginia Supreme Court heard oral arguments in the case of Reid Scott et al., v. Commonwealth of Virginia, on the constitutional issues involved in the case. The lower court found education to be a fundamental right in Virginia, but held that, as such, it did not require strict scrutiny or substantially equal funding among school districts. The plaintiffs argued, in part, that the lower court erred, maintaining the existing funding disparities among school divisions are not constitutionally supportable and that disparities be reduced. Findings included: (1) The funding in some school division is 2 1/2 times greater per pupil than in other divisions.[11] (2) The ten wealthiest school divisions have average instructional personnel to pupil ratios which are 24 percent higher than the ratios in the ten poorest divisions; and (3) spending on instructional materials and on library books and supplies is 12 times and 22 times higher, respectively, in certain divisions than others. Moreover, wealthier school divisions have far greater breadth and depth in their curricular programs than do poorer divisions.[12]

If the court rules in favor of the plaintiffs, the case will go back to the Circuit Court of the City of Richmond, for a trial on the evidence. The prognosis for the future of Virginia education finance is, therefore, uncertain.

Endnotes

1. Thomas J. Michie, Jr., has served 10 years in Virginia's House of Delegates, and 11 years in the Senate.

2. Adjusted by the implicit price deflator for government goods and services. A school year index was computed based on the state fiscal year, which begins July 1, i.e., for 1990, the fiscal year began July 1, 1989 and ended June 30, 1990.

3. National Association of State Budget Officers (1990). *State expenditures report.* Washington, D. C.: Author, p. 21.

4. National Association of State Budget Officers, *State expenditure report*, pp. 30-33.

5. Michie, T. J. (1994). We Can Do Better. *Virginia Journal of Education*, 87 (4), 13.

6. For a description and comparison to other school aid systems across the United States see, Verstegen, D. A. (1990). *School finance at a glance.* Denver, CO: Education Commission of the States.

7. For an indepth treatment of topics in this section see, Verstegen, D. A. & Salmon, R. G. (1991). Assessing Equity in Virginia School Finance: Cross-Time Comparisons. *Journal of Education Finance*, *16*(4), 417-431; Verstegen, D. A., & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity of School Finance in Virginia. *Journal of Education Finance*, *15*(2), 205-228; Verstegen, D. A. & Salmon, R. G. (1989). Virginia Education Finance Reform: Have Excellence and Equity Been Achieved? *Journal of Education Finance*, *14*(2), 200-220; Verstegen, D. A. (1988). Building for the Future: Capital Outlay Financing in Virginia's Elementary and Secondary Education Sector. *Journal of Education Finance*, *13*(4), 429-435.

8. For a detailed description, see, *Superintendent's memorandum*, No. 31, February 21, 1994.

9. Virginia Education Association, Richmond, VA. Figures are estimates.

10. For a history, see, Verstegen, D. A. (1993). New Directions in Virginia Education Policy and Finance. (pp. 239_256). In, Herrington, C. D., *The political economy of educational finance: The state of the states*. Florida State University: Fiscal Issues, Policy and Education Finance Special Interest Group of the American Education Research Association.

11. These differences do not include capital outlay funding, local foundation amounts or funding for excess costs for special student needs, district costs, or transportation. In essence, the disparities are greater than the figures show.

12. Oral argument, *Reid Scott et al. v. Commonwealth of Virginia et al.* Record No. 930473. February 24, 1994.

Table 1

Percent of Revenue Receipts by Source,
1979-80 and 1989-90

	1979-80			1989-90		
	Federal	State	Local	Federal	State	Local
50 States and D.C.	9.3%	48.1%	42.5%	6.3%	49.4%	44.3%
NEW ENGLAND	6.6	34.8	58.7	4.3	41.4	54.3
Connecticut	6.0	31.8	62.2	3.7	44.7	51.6
Maine	9.3	49.2	41.5	6.7	53.2	40.1
Massachusetts	6.5	36.3	57.2	4.4	42.4	53.2
New Hampshire	6.3	9.4	84.4	2.7	7.8	89.6
Rhode Island	6.5	39.9	53.6	4.4	43.8	51.8
Vermont	6.3	27.5	66.2	5.3	36.5	58.2
MIDATLANTIC	6.0	41.5	52.5	4.9	42.9	52.2
Delaware	12.1	65.8	22.1	7.9	66.8	25.3
Dist. of Columbia	16.0	...	84.0	10.1	...	89.9
Maryland	7.0	39.7	53.3	4.9	38.7	56.3
New Jersey	4.1	40.4	55.5	3.8	41.5	54.7
New York	4.2	40.6	55.2	5.0	43.4	51.7
Pennsylvania	9.1	45.3	45.6	5.3	45.9	48.9
SOUTHEAST	13.2	55.5	31.3	7.8	55.5	36.7
Alabama	13.3	65.3	21.3	13.5	67.1	19.4
Arkansas	15.3	53.5	31.2	9.7	59.5	30.8
Florida	9.2	56.5	34.4	6.0	53.6	40.5
Georgia	13.8	49.7	36.5	6.5	60.9	32.6
Kentucky	11.3	71.0	17.6	9.2	69.7	21.1
Louisiana	16.1	55.8	28.1	11.3	54.4	34.3
Mississippi	24.4	52.1	23.5	15.5	56.7	27.8
North Carolina	14.2	64.8	21.0	6.3	65.7	27.9
South Carolina	14.2	55.5	30.3	7.7	53.3	39.0
Tennessee	16.6	44.6	38.8	9.4	48.3	42.4
Virginia	9.5	41.8	48.7	4.7	34.7	60.6
West Virginia	11.4	59.9	28.6	8.2	64.3	27.5
GREAT LAKES	8.4	41.9	49.7	5.6	42.4	52.0
Illinois	12.4	39.9	47.7	7.7	37.9	54.4
Indiana	5.5	55.9	38.6	4.5	59.2	36.2
Michigan	8.0	38.5	53.5	4.7	36.3	59.0
Ohio	6.4	43.9	49.6	5.4	47.1	47.5
Wisconsin	6.1	36.9	57.0	4.1	39.1	56.8

Continued on next page

Percent of Revenue Receipts by Source, 1979-80 and 1989-90 (cont.)

	1979-80			1989-90		
	Federal	State	Local	Federal	State	Local
PLAINS	7.3%	41.9%	50.8%	5.3%	44.0%	50.7%
Iowa	6.2	40.3	53.5	5.3	51.0	43.7
Kansas	6.7	46.2	47.1	5.2	43.3	51.5
Minnesota	5.8	54.8	39.4	4.4	53.2	42.4
Missouri	9.5	37.2	53.3	5.6	38.0	56.4
Nebraska	7.4	16.3	76.3	4.8	24.3	70.8
North Dakota	8.1	46.4	45.6	7.0	49.7	43.3
South Dakota	12.3	20.4	67.3	9.3	27.3	63.4
SOUTHWEST	10.6	51.7	37.8	7.8	47.0	45.2
Arizona	11.6	43.6	44.8	4.7	45.1	50.2
New Mexico	14.3	65.8	19.9	12.0	76.4	11.6
Oklahoma	10.9	56.3	32.8	8.7	59.1	32.2
Texas	9.9	50.8	39.3	7.9	43.1	48.9
ROCKY MOUNTAINS	6.6	45.6	47.8	5.7	47.3	47.0
Colorado	3.7	42.9	53.4	4.8	38.1	57.0
Idaho	12.5	46.9	40.6	7.2	59.9	32.9
Montana	8.4	49.3	42.2	8.0	47.7	44.3
Utah	7.9	55.1	37.0	6.3	56.7	37.0
Wyoming	6.5	28.4	65.1	4.5	56.8	38.8
FAR WEST	12.4	63.6	23.9	7.6	64.5	27.9
Alaska	13.0	70.2	16.9	9.9	60.5	29.6
California	13.8	67.0	19.1	8.0	66.8	25.1
Hawaii	15.8	80.4	3.7	7.9	92.0	.1
Nevada	4.9	34.3	60.8	4.1	36.7	59.3
Oregon	9.2	33.3	57.5	6.3	26.8	66.9
Washington	8.5	70.8	20.6	5.8	73.4	20.8

Data Source: National Education Association. Estimates of School Statistics. New Haven, Conn.: NEA Library Selected Years

Table 2

State Aid to Education:
Cross Time Comparisons,
1980-90 and 1983-90

	AGGREGATE:				PER PUPIL REVENUE:			
	1980-1990		1983-1990		1980-1990		1983-1990	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
50 States and D.C.	120%	31%	70%	26%	127%	35%	66%	23%
NEW ENGLAND	156	53	115	59	210	84	132	72
Connecticut	255	111	146	82	335	159	167	98
Maine	178	66	122	64	211	85	126	67
Massachusetts	104	21	93	43	163	57	120	63
New Hampshire	164	57	145	82	167	59	129	70
Rhode Island	153	50	126	67	189	72	133	73
Vermont	275	123	113	58	290	132	106	53
MIDEAST	121	32	77	31	162	51	81	39
Delaware	94	15	66	23	106	21	58	16
Dist. of Columbia	...	...	...	...	...	...	...	...
Maryland	102	20	69	25	125	34	69	25
New Jersey	144	45	87	38	193	74	104	51
New York	138	42	85	37	175	63	95	44
Pennsylvania	90	13	61	19	127	35	74	29
SOUTHEAST	300	138	75	30	300	138	69	25
Alabama	104	21	50	11	109	25	49	10
Arkansas	120	31	79	33	129	37	78	32
Florida	193	74	112	57	145	46	76	30
Georgia	263	116	121	63	245	106	106	53
Kentucky	88	12	51	12	106	23	56	16
Louisiana	83	9	18	-13	91	14	18	-12
Mississippi	117	29	79	33	107	23	65	22
North Carolina	114	28	99	48	131	37	104	51
South Carolina	127	35	51	12	132	38	49	10
Tennessee	125	34	67	24	135	40	67	24
Virginia	98	18	54	14	107	23	53	13
West Virginia	87	11	40	3	121	32	60	18

Continued on next page

	AGGREGATE:				PER PUPIL REVENUE:			
	1980-1990		1983-1990		1980-1990		1983-1990	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
GREAT LAKES	87	11	55	15	114	28	64	22
Illinois	67	-1	50	11	103	21	58	17
Indiana	105	22	74	29	121	32	82	35
Michigan	62	-4	36	0	111	26	52	13
Ohio	114	27	62	20	130	37	70	26
Wisconsin	107	23	64	22	114	27	65	22
PLAINS	92	14	63	20	95	16	61	19
Iowa	101	20	60	18	82	9	69	25
Kansas	95	16	52	12	105	22	43	6
Minnesota	71	1	83	36	85	10	78	32
Missouri	109	25	68	24	122	32	66	23
Nebraska	140	43	21	-11	73	3	20	-11
North Dakota	91	13	25	-7	78	6	24	-8
South Dakota	129	36	34	-1	80	7	30	-4
SOUTHWEST	106	23	40	4	97	17	27	-6
Arizona	157	53	64	21	87	11	33	-1
New Mexico	126	34	41	5	92	14	36	1
Oklahoma	81	8	-3	-28	75	4	0	-26
Texas	101	20	49	10	104	21	34	-1
ROCKY MOUNTAINS	119	30	52	12	94	15	42	5
Colorado	104	22	49	10	123	33	43	6
Idaho	161	55	57	17	91	13	49	11
Montana	66	-1	23	-9	88	12	24	-8
Utah	111	26	51	12	57	-7	28	-5
Wyoming	307	142	109	55	100	19	119	62
FAR WEST	156	52	83	35	115	28	60	18
Alaska	37	-19	-12	-35	33	-21	-24	-44
California	148	47	95	45	117	29	68	24
Hawaii	181	67	48	10	145	46	42	5
Nevada	191	73	54	14	114	27	25	-8
Oregon	55	-8	31	-3	91	14	25	-8
Washington	133	39	77	31	112	26	61	19

Source: Data, National Education Association, Estimates of School Statistics, selected years. Calculation: Verstegen, D. A., University of Virginia.

ALASKA

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THE PERSISTENT CHALLENGE OF EQUITABLE FUNDING FOR ALASKA SCHOOLS

Public education in Alaska has no counterpart among the other 49 states, as is evidenced by the state's unique location, geography, cultural demography, and history. The blend of these and other factors has created a daunting challenge in the quest to provide public education to Alaska's youth. Financially supporting the state's 54 school districts presents an equally complex task. For the past two decades, state leaders have attempted to construct a funding formula that equitably reflects the state's diverse environment and serves the needs of all of Alaska's communities and inhabitants. To date, such efforts have failed to produce a formula that has equitably supported the state's 21 Rural Attendance Areas and 33 organized borough school districts. Four key issues continue to challenge policy makers in their ongoing attempt to create an equitable formula. They include the disparate size of funding communities, the current state policy for funding small secondary schools, geographic dispersion factors of funding communities, and the enrollment disparities between the 54 districts.

Recently, a new issue has further complicated the process of creating an equitable formula. The reauthorization of PL 874 which governs impact aid to states and provides Alaska with over $103 million annually contains significant procedural revision, which if passed will result in a loss of up to 43 million federal dollars, resulting in further disequalization of public school funding.

Equity in Statewide Public School Funding

Alaska's diverse environment creates perhaps an insurmountable challenge to the development of an equitable funding formula for all communities, schools, and students. As mentioned above, four specific issues serve to complicate this arena.

Disparate Size

Alaska's school districts range in size from large metropolitan to tiny and isolated rural districts. Each district's schools are subdivided by size of community served. Thus Anchorage, with over 45,000 students, represents one funding community while Fairbanks, with just over 15,000 students, maintains three funding communities due to the inclusion of outlying small towns. The Bering Straits district enrolls 1,261 students yet maintains fifteen funding communities each a small isolated rural village. The logic behind current state policy maintains that all communities with schools must be funded to provide for the basic instructional, administrative, and operating needs. Funding units are then adjusted to attempt to compensate for area cost of living differentials and enrollment . However, in reality, far too many variables exist between districts and schools to ever expect fiscal equity. Perhaps the greatest variable is the isolation which characterizes the majority of the state's schools. No access to roads, frequent delays of services caused by inclement weather, and fundamental ideological differences related to the purpose and role of formal schooling in rural Alaska

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represent just the beginning of a number of issues which complicate the formula's attempt to serve all sizes and locations of communities and schools.

Small School Funding

Current state policy provides that any community which possesses an elementary school with eight or more students, one student of secondary school age, and the desire to have a secondary program will be provided, at state cost, the facility, staff, and operating budget to offer 7-12 education. As one might imagine, this policy, created through the 1976 Tobeluk consent agreement, not state regulation or law, creates an enormous responsibility. The state currently provides 100% fiscal support for the 21 rural districts, many of which operate single-site K-12 schools with less than ten students. The average per-student operating cost for rural districts exceeded $12,000 in 1990, approximately 40% higher than the same cost in cities and boroughs (Berman & Larson, 1991). As the economic future of the state worsens, the continuation of this policy, which has done much toward providing equal opportunity and access to schooling for rural Alaska, will face increasing scrutiny.

Geographic Dispersion of Funding Communities

Given the dramatic disparity which exists between school locations throughout the state, policy makers in 1987 attempted to adjust for all cost differences through the enactment of an equalization formula which provides each community with differential factor. Using Anchorage as the baseline of 1.0, all other communities received ratings of up to 1.46 which continues to be factored into all state distributions of resource and revenue (McDowell, 1988). It is expected that this differential will compensate all districts for the added costs incurred from the lack of access to roads and the vast distances from state population centers. Thus, a district such as the Iditarod district, which is the size of the state of Ohio, has nine villages with no roads linking them, and enrolls approximately 400 students, receives a differential of 1.33. Unfortunately, wildly fluctuating costs created by supply and demand abnormalities, the weather, and other factors continually imbalance the state's effort to equalize funding. To attempt to remedy this problem would require at a minimum the yearly or at least biyearly reassessment of statewide differentials.

Enrollment Disparities

As earlier, vast differences in student enrollment characterize Alaska's 54 districts. Home to approximately one half of the state's population, Anchorage enrolls over 45,000 students within a fairly compact (by Alaska standards) area. Seven hundred and fifty miles to the south, the Hoonah district serves 268 students in its two schools. Fourteen hundred miles to the north, the North Slope Borough School district enrolls 1,800 students in its eight communities. And 2,600 miles to the southwest, the Aleutian Region District enrolls 23 students in its one school. The state's 50 other districts, spread over a region five times the size of California, exhibit similar diversity. This substantial difference in school size continues to confound policy makers in their attempt to equalize funding for every student in the state.

PL 874 Impact Aid Reauthorization

Further complicating the quest for equality has been a recent proposed reduction in federal impact aid resources. For over 40 years, PL 874 has compensated states which are impacted by significant Indian or military land holdings. The existence of these entities obviously reduces a state's ability to generate revenue through property assessment, hence the need for supplemental funds to support schools and other services. Alaska currently receives over $100 million annually in impact aid for its 17,000 federally connected children, which represents about 10% of the total federal dollar allocation. The reauthorization of the act includes proposed changes in the method of calculating eligible students; the parameters which govern the states use of impact funds, particularly in the area of equalizing subsidies to impacted districts; and a reduction in the disparity formula used to qualify districts for aid.

Alaska is proposing modified language to the amended reauthorization which would maintain the level of category A students which are funded at a significantly higher level, restore the disparity standard which in effect means that the acceptable range of wealth disparity between districts would remain at 25% rather than being lowered to 10%, and continue to allow Alaska to use PL 874 funds to equalize state allocations. If the reauthorization passes as amended without modification, Alaska stands to lose from $36 to $43 million annually. This loss will require additional funding from the state legislature or prorating the loss to all districts, requiring additional local tax revenue from organized boroughs. Either scenario would result in further disequalization of the current formula, requiring an immediate rewrite.

Development of the 49th State

Geography and the environment dramatically influence the provision of education services to Alaska. Although Alaska represents about one fifth of the land mass of the U.S., it has fewer inhabitants than Portland, Oregon, and approximately half of those 500,000 reside in one city, Anchorage. Geographic characteristics include 39 mountain ranges, 47,300 miles of sea coast, four time zones, a climate varying from rain forest to desert, temperatures ranging (in the same location) from 100° to -80°, and seasons when the sun never appears or when it refuses to disappear. Added to these natural phenomena are the difficulties created by a state capital 750 miles away from the population center of the state and accessible only by air or water, an extremely limited network of roads, and a general scarcity of such conveniences as running water, electricity, and telephone service. In rural areas, modern communication services are often limited or totally absent. The term "village" as applied to rural Alaska generally connotes a remote community of fewer than 200 inhabitants, accessible only by air or water. Approximately 250 of these communities are scattered throughout the state.

Alaska's relative location to the continental U.S. also contributes to its uniqueness. Sharing no common boundary with the lower 48 states, Alaska belongs to the northern circumpolar community. The Native inhabitants of the state demonstrate cultural, linguistic, and ethnic traits that are consistent with those of the peoples of other northern nations and far removed from the majority of U.S. citizens. Aleuts, Indians, and Eskimos comprise approximately 20% of the state's total population. In rural Alaska they represent slightly over 80%. The Natives of Alaska share many economic and educational realities with the Native Americans of the lower 48, including a low mean income and a high rate of unemployment. Few are employed in skilled jobs, and they have a shorter life expectancy than non-Natives. Alaska Natives possess less formal education than Alaska's non-Natives, they are more likely to drop out of school before completion, and a relative few achieve success in higher education. (Goforth & Keith, 1993, Hecht, 1981)

The Alaska Native Claims Settlement Act of 1971 (ANCSA) initiated dramatic changes in the status of Alaska's Native cultures. Decades earlier, in 1884, the U.S. Congress promised the Native peoples of Alaska "undisturbed" use of the land they claimed or inhabited. Eighty-seven years later, the federal government awarded 40 million acres of land and nearly $1 billion to 13 regional Native corporations, created (and governed exclusively) by Natives to administer the settlement. This act provided an economic base for Native ownership and leadership in the development and maintenance of their lands. ANCSA also called attention to the need for a better-educated rural populace.

Alaska's First Schools

Prior to the purchase of Alaska by the U.S. in 1867, all formal education in the territory had taken one of three forms: Russian government schools for the children of Russian settlers, company schools for the training of personnel, and a scattered network of mission schools for approximately 74,000 of Alaska's Native and mixed-blood inhabitants. All three types of schools remained in operation after the sale of the territory to the U.S. The final Russian school closed its doors in 1916 (Cole,1984, Dafoe,1972). The Russian schools continued to operate because the U.S. Congress failed to provide any form of civil government, and hence schooling, for 17 years after the purchase. When Congress finally acted, passing the First Organic Act of 1884, the secretary of the interior was charged with "making needful and proper provision for the education of the children of school age in the territory of Alaska, without preference of race" (Getches, 1977). A few schools were established following this act, primarily through contractual agreements with church and mission groups. This early development of schools was severely hampered by inadequate fiscal appropriations stemming from an absence of federal interest. By 1900, only 10% of the school-age children in the state were attending school, primarily because of the limited number of schools (Cole, 1984; Dafoe, 1972).

Discovery of gold in the late 1880s prompted the first significant migration of non-Native Americans to the territory. The influx of white miners and their families caused the U.S. Congress to become attentive to the state's educational needs. By 1905, provisions had been made for locally controlled schools in incorporated towns and unincorporated rural areas for "white children and children of mixed blood who lead a civilized life" (Getches, 1977). All Native education was to be governed by the secretary of the interior.

Alaska received official territorial status in 1912. Five years later, the first state Department of Education was formed to administer all Alaskan schools except those for Native students. Economics seemingly provided the only reason for early "desegregative" efforts in rural schools; it was simply not possible for more than one school to operate in a village. Regardless of the territorial policy which insisted that "the highest good of both races seems to require separate schools for at least a few decades," by the mid-1930s more than one-third of the Native students attended territorial schools, as opposed to the federal schools, which were under the auspices of the Bureau of Indian Affairs (BIA) (Getches, 1977).

These territorial schools were allowed the right of local control only if they were located in an organized, locally governed community. All decisions for rural schools continued to be made by the territorial Department of Education. In 1950 the government began to transfer the BIA schools to territorial supervision. The last BIA schools were transferred to the state at the end of the 1982-1983 school year.

The Era of State Control

Amid the numerous transitions of administrative ownership, the schools in Alaska have experienced problems in meeting the needs of Alaska Natives. In the late 1960s the state, in an effort to better serve rural Alaska, created the Alaska state-operated school system (ASOS). Given agency status outside the Department of Education, the ASOS immediately established local advisory boards but retained all decision-making powers. Thus the dual system of education that had been maintained since preterritorial days became tripartite: BIA schools, ASOS schools and organized borough schools.

In 1975, growing demand for local control caused the state to replace the short-lived ASOS system with Rural Education Attendance Areas (REAAs). Alaska Senate Bill 35 established the REAA system and provided rural residents with their first opportunity to elect regional school boards to govern their own schools. These 21 REAAs, although differing in many respects from city and borough school districts, were provided equal status by the Department of Education. One "minor" obstacle remained: well over 100 rural villages had no schooling available beyond the elementary level. Students who wished to attend high school often had to travel 1,000 or more miles to do so.

Shortly after the establishment of REAAs, a group of rural parents from the village of Kivalina demanded that the state establish a secondary school so that their children could complete 12 years of public schooling without leaving home. The state reluctantly agreed and constructed a school. A class action suit, filed by the residents of Emmonak, quickly followed (the Hootch case). Later in the same year (1976), the state issued the Tobeluk consent decree—an agreement to provide secondary education in any community that (1) possessed an elementary school of eight or more students, (2) had one secondary-age student, and (3) requested that the state construct a school. As a result, over a six-year period from 1976 to 1982, 101 secondary schools were constructed in rural Alaska at a cost which ranged from \$100,000 to \$60 million each, paid for by oil production from Prudhoe Bay and high oil prices. The total cost to the state of this massive project reached \$876 million by 1984 (Cole, 1983). Once the physical infrastructure for secondary schooling was in place, the challenge of educating Alaska's youth became twofold: improving the quality of school instruction and student achievement and equitably funding all public schools throughout the state.

Paying the Freight

Alaska's economy has rarely experienced the stability of steady continual growth. Over the past 100 years, gold, military growth, and oil development have created incredible growth followed by deep recessions. This boom and bust scenario has intensified the difficulty of providing for stable educational service to Alaska's students. During the late 1970s, the completion of the trans-Alaska pipeline and subsequent production of oil created a huge surplus of funds to fuel state services, including the construction of Alaska's network of rural secondary schools. As the state, in the late 1970s, grew dependent on oil revenue to fund 85 to 90% of state government, it was no great surprise that the state again plunged into recession when the price of oil crashed during the mid 1980s. The state slowly recovered through a diminished yet steady rate of oil production coupled with moderate oil prices through 1993, yet as oil prices again plummeted at the end of that year, the dilemma of how to equitably fund all schools continues to plague state policy makers. The funding of Alaska's public schools first requires a more stable funding base and second requires that policy makers again revisit the complex and difficult issue of fiscal equality for the state's diverse students and schools. Unfortunately, the state legislature appears ready to conclude its 1994 session with no progress on either issue while the state awaits a federal decision on the PL 874 reauthorization. Unfair at any cost? Perhaps. The persistent challenge of equitable funding for Alaska schools will continue for yet another year.

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ARIZONA

Mary P. McKeown, Arizona Board of Regents

SCHOOL FINANCE POLICY ISSUES IN ARIZONA

- "Parental Choice," "Vouchers," Charter Schools, and Education Reform
- Legal Challenges to Funding Formulas

"Parental Choice," "Vouchers," Charter Schools, and Education Reform

The 1994 session of the Arizona Legislature, like the 1993 session, was to have marked a watershed in reform of elementary and secondary education in Arizona. And just as happened in 1993, it appears unlikely (as of the end of March, 1994) that 1994 will be the year of education reform, charter schools, vouchers, and choice in Arizona.

The current "reform" movement in Arizona began in earnest in 1990 when Governor Symington appointed a task force of educators, citizens, and business persons who proposed a sweeping package of over 60 educational reform items, including vouchers, charter schools, site-based management, and additional at-risk programs. The cost of the proposals exceeded $200 million the first year. Despite significant publicity, nothing passed through the 1991 Legislature.

During the 1992 and 1993 sessions, notable legislation to reform education was introduced by the chairs of the House and Senate Education Committees. Severe differences of opinion among legislators and the Governor appear to have prevented passage of any of these legislative packages. The Governor has insisted that public school reform should follow sound business principles of competition, through vouchers for private schools, before he will support additional funds for the public schools. The majority of legislators appear to believe that the public schools should be funded adequately before any private school funding is approved. To do this requires an increase in taxes, a proposal that the legislature seems unwilling to consider. In fact, the adoption of Proposition 108 in the fall of 1992 requires a two-thirds majority of both houses of the legislature for any tax increase. Given Arizona's political climate of fiscal conservatism, and Republican control of the Governor's office and both houses, it is unlikely that new taxes will pass in an election year (such as 1994).

For the 1994 session of the Legislature, a series of bills reforming the public schools were pre-filed, i.e., filed before the session began. Called the "Essentials of Education Reform," the legislation stated that it was the legislature's intent to ensure that the state would provide quality educational opportunities and to revise taxation so that the school funding formula could be revised. A critical component of the reform effort was parental involvement in the schools so that attendance, discipline, and school safety would be improved.

Included in the Governor's package were provisions for "parental choice grants" or vouchers for students attending any Arizona public or private school accredited by the North Central Association. During FYs 1995 and 1996, 2,000 students not enrolled in a private school during the previous year were to be included; the program would expand to 4,000 students in 1997 and 1998, and reach 8,000 pupils by 1999. Parental choice grants would be available to students

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who met the economic eligibility requirements for free lunch.

By the end of March, 1994, the voucher legislation had been modified significantly so that only 1,000 vouchers worth $1,500 each (total program cost of $1.5 million) would be available to "poor" or "disadvantaged" students to attend private or parochial institutions. The average annual cost of private or parochial schools in Arizona exceeds $3,000. No component of the proposed legislation requires a private or parochial school to accept enrollment of voucher students.

The charter schools components of the reform package permitted the development of charter schools for the purpose of providing a unique setting for learning that would improve student achievement. As a primary part of the "choice" component of the package, charter schools were envisioned as providing choices outside the public schools, but funded like a public school, that more closely met the unique needs of their child(ren).

Any applicant for a "charter" could petition a school district governing board or the State Board of Education to approve establishment of a charter school. The application would include a mission statement for the school, a financial plan, hiring policy, description of facilities, and an outline of the criteria to be used to measure effectiveness of the school. The school or state board must act on approval within 90 days, but local school boards assume no legal responsibility for schools chartered by the State Board of Education.

The charter would be effective for five years, and requires that the school be non-sectarian and non-discriminatory. Teachers previously employed by a school district do not lose any rights of certification, retirement, salary status, or any other benefits provided by law if the teacher returns to the school district from the charter school within three years. Funding for charter schools would be based on the same method as the public schools, with assessed values of property and student counts determined, and included in the state funding formulas. It is unclear how pupils would be "moved" from school districts to the charter schools, and exactly how this movement would impact funding for the local school district. Presumably, the loss of one student to a charter school would increase the district's assessed value per student, and have the same impact as a student's dropping out or moving out of a district.

Another "parental choice" component was open enrollment. The bill had language that permitted pupils to enroll in any school within or outside of the school district in which the student resided. School districts were required to provide transportation of up to 20 miles each way for any non-resident child with disabilities whose IEP specified transportation and for all students who met the economic eligibility requirements for free or reduced price lunch. The package included funding of $500,000 to cover only transportation costs.

This legislative package included provisions for reform of the schools through a "decentralization process" that empowered school councils and site based management teams. Parents, principals, teachers, noncertified employees, pupils, and community members could become members of school councils for each school and develop plans to improve the school and achieve goals reflected in an annual report card. Annual report cards would describe the current academic goals of the school, the previous year's goals and progress in achieving the goal, test results, attendance rates for teachers and pupils, number of career ladder teachers, number of violent incidents, and a description of services available.

As of the end of March, no funding has been provided in the appropriations process for any of the educational reform options. However, the Arizona legislature may meet in special session at any time (and even multiple special sessions concurrently with the regular session) to discuss the issue of educational reform. It is likely that at least one part of the reform legislation (most likely some version of choice) will be adopted.

Legal Challenges to Funding Formulas

In 1993, four school districts and several parents filed suit challenging the provisions of the Arizona school finance system related to expenditures for buildings, equipment, and other capital items. The plaintiffs alleged that the capital funding formulas resulted in massive inequities in the quality and types of capital facilities available to students in the various Arizona school districts and that these inequities were in violation of Arizona constitutional mandates for a general and uniform public school system and equal protection of the law. The suit also claimed that Arizona violated its constitutional duty to maintain, develop, and improve the common schools and high schools by failing to fund sufficiently property-poor districts that had substandard and unsafe facilities.

Oral arguments on the case were heard in the Arizona Supreme Court in November of 1993. As of April 1, 1994, the Court has not yet ruled in the case. A finding for the plaintiffs would require revision of the capital funding formulas and of the capital components of the general state aid formula.

Arizona School Funding in 1994

The majority of state funding for elementary and secondary schools in Arizona is distributed through the Basic State Aid formula. The formula is composed of components that limit funding for maintenance and operation of the schools, capital expenditures, and transportation. (See Figure 1.) For FY 1994 Basic State Aid for the schools was $1,274,339,200 when the prior year "rollover" is included. Beside Basic State Aid there are five other formula programs and 20 non-formula programs that comprise a total of $159,823,300 in state funding for the schools.

The statutory funding formula for K-12 was enacted in 1980, modified in 1985, and equalizes funding among the school districts while placing limits on the amounts that can be spent. Districts with similar characteristics have similar budget limits. The Basic State Aid formula limit is based on the district's prior year average daily membership, weighted by handicapping conditions, size of school, and other factors. The student count may be modified for districts whose enrollments decline more than 5 percent for the budget year or for those districts who experience growth in excess of three percent.

Weighted student count is multiplied by a dollar amount ($2,410.26 in FY 1994) to determine the Base Support Level. Districts with teacher experience greater than the state average or those with career ladder programs have higher base levels. The base level is adjusted each year by the growth in the Gross Domestic Product Implicit Price Deflator. For FY 1995, $48 million will be added to the appropriation for this inflation factor; however, districts may use the inflation money only for school improvement, not for salaries. The inflation factor has not been fully funded for a number of years.

Another $148 million was included in the budget package for FY 1995 to improve the base level of funding. However, the budget for 1995 continues to roll forward into the next fiscal year $142,500,000 of Basic State Aid, as it has since 1988 to "balance" the state budget. In addition to the Basic State Aid formula, "Additional State Aid" is given to school districts whose revenues are affected by the "homeowners' property tax rebate program." Under this program, the primary tax liability of homeowners in certain income classes is reduced by 35 percent. The 1990 Tax Reform Act included provisions to reduce the rebate by 5 percent per year until phase out in 2001. However, the FY 1995 budget freezes the rebate at 35 percent.

Conclusions

The Arizona Legislature is likely to continue to "reform" the elementary and secondary schools throughout this session.

If the Supreme Court finds for the plaintiffs in the capital funding case during the next two months, then the Legislature likely will meet in special session to rewrite the basic state aid formula as well as the capital funding formula.

Charter school legislation is likely to pass in some form during this session, and will have long-term impacts on the funding formulas. "Parental choice" and open enrollment also are likely to be enacted in some form. If Governor Symington is re-elected in November, 1995 could well really be the year of educational reform in Arizona.

Figure 1

K-12 Funding Formula

BASIC STATE AID = EQUALIZATION ASSISTANCE - COUNTY EQUALIZATION

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Equalization assistance = Equalization Base - Qualifying Levy

where:

Qualifying Levy = Primary Assessed Valuation X Qualifying Tax Rate (QTR)

and

Equalization Base = the lesser of the district support level (DSL) or

Revenue Control Limit (RCL) + Capital Outlay Revenue Limit (CORL) + Capital Level Revenue Limit (CLRL)

District Support Level (DSL) = Basic Support Level (BSL) + Transportation Support Level (TSL)

where:

BSL = Total Weighted Student Count X Base Level Amount ($2,410.26 in FY 1994) X Teacher Experience Index

and

TSL = Total Daily Route Miles (greatest of last 3 fiscal years) X

175 school days X state support level per mile + academic, vocational, technical education and

athletic trip support level + handicapped extended school year.

Revenue Control Limit (RCL) = BSL + Transportation Revenue Control Limit (TRCL)

where:

TRCL = Prior year TRCL + any change in TSL from previous year

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Capital Outlay Revenue Limit (CORL) = Capital Outlay Base X capital outlay growth factor + high school textbooks

where:

Capital Outlay Base = student count X support level that varies from $189.24 to $319.75

Capital Levy Revenue Limit (CLRL) = Student Count X support level that varies from $132.03 to $190.70

CALIFORNIA

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SCHOOL FINANCE POLICY ISSUES IN CALIFORNIA

As we approach the middle of the 1990s, school finance in California has reached a critical crossroads. Despite the expenditure of some $28 billion for pubic K-12 education this year, there is a growing feeling that our schools are sorely underfunded, and that if we are to have the world class schools necessary for the economic survival of our state, we must devote substantially more money toward the education of the state's children. The major stumbling block to our success in this venture is finding adequate sources of revenue to support our schools.

In this paper I first provide a brief historical context for the current fiscal crisis, and then propose some solutions that will lead to an adequate and equitable school finance system for California. These proposals ask both the taxpayers of California and the education community to share in finding ways to meet the fiscal needs of California's schools.

Historical Context

The current system for financing our schools is the result of three major events in the last 25 years. The first of these, the court ruling in the Serrano law suit requires that wealth related spending disparities among districts be virtually eliminated. The second, voter approval of Proposition 13 in 1978 led to the establishment of a state funded school finance system. The third, is the rapid growth in categorical funding programs during the last decade which has led to a number of complex, costly and potentially dis-equalizing effects on the amount of money available to school districts.

Despite the general belief that schools today have less money, in real terms, than in the past, nothing could be further from the truth. The attached table shows the growth in real (inflation adjusted) expenditures per pupil for each of the 50 states for the 30 year period between 1959-60 and 1989-90. As the Table shows, across the United States, our commitment to education increased by over 200 percent over those 30 years. Even in California, real per pupil expenditures increased by nearly 140 percent during that timeframe. Unfortunately, in recent years, due to the impact of the recession on state revenues, per pupil spending has remained flat, leading to a reduction in real per pupil expenditures.

In addition to showing the tremendous gain in expenditures that we have witnessed in the last three decades, the Table shows considerable variation across the states, with California's growth on the low side. This appears to be a consequence of the high degree of state control over school funding. In California, school district revenues are determined by the Legislature rather than the local school district voters. Legislators face a number of competing demands for scarce state funds, and must weigh the trade-offs between more money for schools and funding of other important public services. While California's schools have faired admirably compared to other state services in recent years, educational expenditures in other states, where local voters can approve property tax increases, have grown considerably faster. In effect, although the Serrano decision and Proposition 13 resulted in a much more equitable distribution of

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funds, what we may have wound up with is equal amounts of less.

The debilitating impact of the recession on California's general fund has only made matters worse in recent years. For 1994-95, Governor Wilson has proposed K-12 expenditures remain at $4,217 per pupil for the third consecutive year. If we are to have truly world class schools in this state, is this amount adequate? If not, how can additional funds be found?

If we are to compete with the educational systems of many other states across the country, California will have to increase its commitment to educational funding. However, before asking for new taxes, there are a number of actions that local school officials and state education policy makers can take to improve the productivity of the state's schools.

Finding More Resources For California Schools

Despite what appears to be substantial evidence that schools in California do not receive adequate funding, it is still imperative that educational organizations constantly seek the most cost effective ways to provide educational services to our children. A large part of the problem in my view is that most school district leaders behave like consumers of educational dollars, rather than as suppliers of educational services. The distinction is critical. A consumer seeks to maximize utility, which in this case means increases in available funds to provide educational services. On the other hand, a supplier's goal is to provide the highest quality product at the lowest possible price to maintain an edge over competitors and improve profits. Although schools are not "profit centers" as such, and can not necessarily be operated like private businesses, careful specification of long term outcome goals can help today's educators develop strategic plans to allocate resources toward programs that research shows lead to improved student outcomes. As long as local district officials behave as consumers rather than suppliers, additional resources will not have a significant impact on the improvement of student outcomes.

Below a number of ways in which local school districts can improve productivity are outlined. In addition there are a number of suggestions for ways the state can establish incentives that will lead to improved productivity among local school districts, and there is a proposal to modify some of the provisions of Proposition 13 to raise additional revenue for California schools.

School District Productivity

The heart of the productivity problem in education is determining the outcome measures to be used. It is difficult to reach consensus on what those measures would be, and in many cases to ascertain what high levels of output would be. Rather than enter this murky debate, this discussion will focus on actions districts can take to better focus their existing staff toward the improvement of student performance.

First and foremost, dramatic increases in spending for staff development are needed. A number of researchers have called for schools to devote two percent of revenues to staff development. The rationale for this level of investment in human capital stems from the private sector where many of today's successful companies invest at least this amount in employee education, training and development programs. In contrast, staff development receives less than one half of one percent of the funds in most school districts, and is often one of the first items cut in difficult fiscal times. Without a highly trained teaching force that understands how student learn, and what pedagogical methods lead to high student outcomes, we will continue to see increases in spending outpace increases in student performance.

School districts should also move to provide school sites with greater decision making autonomy. It is at the school site where teachers and administrators are aware of student needs and desires, and consequently where many decisions regarding educational programs should be made. However, rather than mandating that all schools move to site based management or decision making, using a model developed by the State or a district's central office, site based management models should come from the bottom up. Moreover, variations in the management systems at each school should be allowed so that principals and teaching staff can establish systems that meet their particular needs. Along with this, teachers should have more freedom to transfer between and among schools to allow them to find schools with educational and management philosophies that suit their needs.

Combined with this would be the allocation of more budget authority to school sites. While there are substantial problems with simply legislating that some percentage of a district's budget go directly to schools greater autonomy over fiscal resources, moving more budget authority to local schools will, in the long run lead to more efficient use of those resources.

Changing State Programs, Rules and Regulations

There are a number of things that the State can do to help relive local school districts of time consuming administrative tasks to improve local productivity. Specifically changes could be made in the calculation of revenue limit funding, and categorical programs should be largely revamped.

The first of these is the revenue limit. The revenue limit is a straightforward part of the school finance structure in California. It is the amount of per pupil general revenue to which a school district is entitled. This figure is multiplied by the number of students in the district to determine total general revenue. If property tax collections are not adequate to fund a district's revenue limit, the state pays the balance. Although a revenue limit is a very simple thing, there is a 23 page worksheet that each school district must fill out annually to determine its total revenue limit. If the legislature were to eliminate all of the minor laws and policies that lead to this long worksheet, local districts could save millions of dollars in personnel time because they no longer need to fill out these complex and cumbersome worksheets. The problem could be resolved if, at the end of this year, a district's per-pupil revenue limit became its permanent revenue limit, to be adjusted annually by the statutory cost of living adjustment, and any deficits necessary to balance the state budget. This would end the complex calculations called for on the worksheet, and simplify the budget development and review process at all school districts, county offices of education and at the California Department of Education. Moreover, since the revenue limit worksheet is some 23 pages long, there would be a reduction of 23,000 pages of paper sent each year to the county offices and then on to Sacramento.

A more serious problem exists with the current distribution of categorical program funds. Today there are over 70 different state categorical programs in California. These programs are important because they provide school districts with additional revenues to compensate them for the special needs students, or the additional costs of pupil transportation, when travel distances are substantial. Unfortunately, most categorical grants in California are distributed on the bases of an historical allocation, rather than on current need. As a result, many districts with high numbers of qualifying students do not receive categorical funds, while other districts receive substantial categorical revenues, often with a smaller proportion of qualifying students. Moreover, many of these programs come with complex and bureaucratic auditing and reporting requirements, necessitating large teams of administrators to manage the programs.

The growth in categorical grants in recent years has been nothing short of phenomenal. Between 1979-80 and 1991-92, categorical aid (including federal funds) increased from 13 percent of total expenditures to just over 29 percent. I believe that much of this growth has been the establishment of programs to benefit certain categories of districts and get around the Serrano equalization requirements. Perhaps the most blatant of these efforts are the Supplemental Grants, where districts qualified for these grants if they did not receive other categorical funds. These supplemental grants are the first instance in the United States where a school district could qualify for categorical funds because it did not qualify for any other categorical programs.

More money could be directed toward students if many of these programs were eliminated and the funds rolled into the revenue limits. Moreover, in areas where there is a need for categorical programs such as special education and transportation, the grants should be based on actual, current needs, not on historical situations that in many instances no longer exit. Finally, all categorical programs, particularly special education, need to be revamped to eliminate needless layers of administration and to focus the dollars directly to the children to be served.

Increased Revenues for Education

Proposals for raising taxes are never popular, but establishment of a world class school system will require that California find ways to raise and spend as much money on the education of our school children as do the other large industrial states of this nation. One place to look for additional revenues is to make a small modification to Proposition 13.

Although the current property taxation system established by Proposition 13 creates a number of inequities, and should be dramatically changed, it is very popular with California's voters, and is unlikely be modified in the future. However, as a result of the limitation on increases in assessed value to two percent a year until a property is sold, an increasing share of the total property tax burden has fallen on residential property with a commensurate reduction in the share of property taxes paid by business and commercial property which generally is not sold as frequently.

One possibility is to split the tax rolls between residential and business property. The tax system for residential property would remain intact, but all business and commercial property would be assessed at market value, rather than the current definition of assessed value. Tax rates would still be limited to one percent of assessed value, but for these business properties, assessed value would more closely represent market value.

While on the surface, this would hurt existing businesses, an argument can be made that by levying property taxes on the market value of all business property, the state would be creating a "level playing field" that would spur competition and lead to long term growth. Today's artificially low property taxes serve as an impediment to the development of new buildings and new business who can not compete because they are forced to pay higher property taxes. By forcing all businesses to play by the same rules, California can stimulate competition, and generate additional resources for education. This proposal would raise approximately $4 billion the first year, two-thirds of the amount necessary to bring spending per pupil in the Golden State up to the national average.

Conclusion

In conclusion, the solution to California's school finance problem is to improve school productivity, simplify state rules and regulations related to both the revenue limit and categorical programs, and increase revenues through minor modifications to Proposition 13.

Table 1
Change in Real Expenditure Per Pupil In Average Daily Attendance
In Public Elementaryand Secondary Schools
By State: 1959-60 to 1989-90 and Constant 1989-90 Dollars

State	Current Exp. Per ADA 1959-60 ($)	Current Exp. Per ADA 1969-70 ($)	% Change 1959-69 to 1969-70 (%)	Current Exp. Per ADA 1979-80 ($)	% Change 1969-70 to 1979-80 (%)	Current Exp. Per ADA 1989-90 ($)	% Change 1979-80 to 1989-90 (%)	% Change 1959-60 to 1989-90 (%)
United States	1,621	2,743	69.22	3,345	21.95	4,960	48.28	205.98
Alabama	1,042	1,828	75.43	2,281	24.78	3,327	45.86	219.29
Alaska	2,361	3,773	59.81	5,978	58.44	8,374	40.08	254.68
Arizona	1,744	2,421	38.82	2,980	23.09	4,057	36.14	132.63
Arkansas	973	1,908	96.09	2,190	14.78	3,485	59.13	258.17
California	1,832	2,915	59.12	3,351	14.96	4,391	31.04	139.68
Colorado	1,712	2,480	44.86	3,154	27.18	4,720	49.65	175.70
Connecticut	1,884	3,197	69.69	3,816	19.36	7,604	99.27	303.61
Delaware	1,969	3,025	53.63	3,711	22.68	5,696	53.49	189.28
D.C.	1,863	3,423	83.74	4,361	27.40	8,904	104.17	377.94
Florida	1,373	2,461	79.24	3,198	29.95	4,997	56.25	263.95
Georgia	1,095	1,976	80.46	2,586	30.87	4,187	61.91	282.37
Hawaii	1,403	2,825	101.35	3,378	19.58	4,448	31.68	217.03
Idaho	1,252	2,028	61.98	2,491	22.85	3,078	23.56	145.85
Illinois	1,895	3,057	61.32	3,717	21.59	5,118	37.69	170.08
Indiana	1,593	2,447	53.61	2,731	11.61	4,549	66.57	185.56
Iowa	1,589	2,837	78.54	3,086	8.78	4,453	44.30	180.24
Kansas	1,503	2,592	72.46	3,114	20.14	4,752	52.60	216.17
Kentucky	1,007	1,833	82.03	2,218	21.00	3,675	65.69	264.95
Louisiana	1,607	2,178	35.53	2,771	27.23	3,855	39.12	139.89
Maine	1,222	2,328	90.51	2,717	16.71	5,373	97.75	339.69
Maryland	1,697	3,087	81.91	3,838	24 33	6,196	61.44	265.11
Massachusetts	1,767	2,888	63.44	3,630	25.69	6,237	71.82	252.97
Michigan	1,794	3,038	69.34	3,737	23.01	5,546	48.41	209.14
Minnesota	1,837	3,037	65.32	3,785	24.63	4,971	31.33	170.60
Mississippi	890	1,684	89.21	2,149	27.61	3,096	44.07	247.87
Missouri	1,486	2,382	60.30	2,816	18.22	4,507	60 05	203.30
Montana	1,775	2,628	48.06	3,313	26.07	4,736	42.95	166.82
Nebraska	1,456	2,475	69.99	3,115	25.86	4,842	55.44	232.55
Nevada	1,860	2,586	39.03	2,913	12.65	4,117	41.33	121.34
New Hampshire	1,501	2,430	61.89	2,893	19.05	5,304	83.34	253.36
New Jersey	1,675	3,416	103.94	4,371	27.96	7,991	82.82	377.07
New Mexico	1,567	2,376	51.63	2,731	14.94	3,518	28.82	124.51
New York	2,427	4,460	83.77	5,659	26.88	8,062	42.46	232.18
North Carolina	1,025	2,058	100.78	2,677	30.08	4,268	59.43	316.39
North Dakota	1,585	2,318	46.25	2,724	17.52	4,189	53.78	164.29
Ohio	1,577	2,454	55.61	2,862	16.63	5,136	79.45	225.68
Oklahoma	1,346	2,032	50.97	2,517	23.87	3,512	39.53	160.92
Oregon	1,937	3,108	60.45	3,826	23.10	5,521	44.30	185.03
Pennsylvania	1,769	2,964	67.55	3,712	25.24	6,061	63.28	242.62
Rhode Island	1,786	2,996	67.75	3,933	31.28	6,249	58.89	249.89
South Carolina	951	2,059	116.51	2,531	22.92	4,088	61.52	329.86
South Dakota	1,499	2,319	54.70	2,626	13.24	3,732	42.12	148.97
Tennessee	1,029	1,903	84.94	2,429	27.64	3,664	50.84	256.07
Texas	1,436	2,098	46.10	2,607	24.26	4,150	59.19	189.00
Utah	1,393	2,105	51.11	2,510	19.24	2,730	8.76	95.98
Vermont	1,486	2,713	82.57	3,348	23.41	6,227	85.99	319.04
Virginia	1,185	2,379	100.76	2,941	23.62	4,612	56.82	289.20
Washington	1,817	3,077	69.35	3,419	11.11	4,681	36.91	157.62
West Virginia	1,117	2,252	101.61	2,567	13.99	4,359	69.81	290.24
Wisconsin	1,785	2,967	66.22	3,454	16.41	5,524	59.93	209.47
Wyoming	1,946	2,877	47.84	3,496	21.32	5,577	59.53	186.59

COLORADO

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SCHOOL FINANCE POLICY ISSUES IN COLORADO

Competing values and agendas of diverse groups continue to shape school finance policy in Colorado. Advocates of equality through state financial support and program standards vie for policy dominance with those who advance liberty ideals through local control of education. The conversations have shifted recently to accommodate interests of those who encourage efficiency through tax and spending limitations, parental control and choice among schools, and state standards and assessments. Legislation influencing the financing of public education in Colorado is the subject of this paper in which we outline several initiatives that have changed dramatically the school finance landscape and explore challenges facing policy makers.

Legislative Actions in the 1990s

Limiting Taxation and Expenditure Growth to Induce Efficiency

"Amendment 1" was passed by voters in 1992. Dubbed the Taxpayers' Bill of Rights (TABOR), this Constitutional Amendment (1) requires voter approvals for state and local governments to increase tax revenue and (2) limits the rate of increase in government spending.

The impact is very broad, requiring a positive vote for any new tax, any tax rate increase, any mill levy increase over the prior year, any increase in the assessment ratio for a class of property, any extension of an expiring tax, or any change in tax policy which causes a net tax revenue increase. Approval is also needed for the creation of financial obligations that extend beyond a fiscal year, unless sufficient funds are set aside to meet future payments. State and local governments can not issue new revenue bonds or other multi-year financial obligations without voter approval. The Amendment prohibits any local income tax, and the state's current flat rate (5%) tax cannot become a graduated income tax nor have any added surcharge.

Under the Amendment, school district spending growth is limited by the rate of inflation plus the percentage change in student enrollment. State and local government spending is similarly tied to the rate of inflation, plus either the percentage change in population for state government growth or the net change in the actual real property value from new construction for local government units.

School districts feared that they would be especially impacted by their inability to raise revenue for program expansion and capital improvements. As property taxes declined, there would be an increased burden on state resources given the equalization formula, but the state would be limited in its ability to generate sufficient revenue. The Legislative Council estimated a reduction in per pupil spending statewide from $4,248 in 1992-93 to $3,471 in 1996-97 under this initiative.[1]

The decline in available revenue for 1993-94 was not as dismal as was predicted. By the time the legislature convened, the state revenue projections had improved. Nevertheless, the Department of Education

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reported that there was a 3.4% reduction in per pupil spending across the state.[2] The decline, which was further exacerbated by inflation and rapid population growth in many districts, would cost personnel and programs in the name of seeking efficiencies in government. Revenue projections are positive for 1994 as well, and the General Assembly is currently considering a proposal to expand school funding by $130 million to finance changes necessitated under a revised formula structure.

This theme of greater efficiency and accountability persisted in the General Assembly's enactment of state-monitored standards and assessments.

State Standards and Assessments to Urge Accountability

The 1993 Colorado General Assembly enacted a three-pronged approach to assessment and accountability.[3] First, the state and eventually each school district will establish content guidelines in most curricular areas. Second, new assessments will measure whether students meet the standards. Third, there is "... a strong commitment to equity and excellence" with a stipulation that every student shall have the opportunity to achieve the content standards. The bill established a nine member council which is charged with recommending to the State Board of Education model content standards in reading, writing, mathematics, science, history, and geography by August 1994. Additionally, while not specifying when, the council will develop benchmarks for art, music, physical education, and civics.

The State Board must consider the council's recommendations and adopt state standards by January 1995. The council will also recommend new assessments which are to be aligned with the standards; the Board must adopt assessments by January, 1996, and identify acceptable performance levels for each assessment. Giving consideration to the state's model standards, the 176 school districts must develop individual standards by January, 1997, to be followed by plans for revising curriculum and instruction "... to ensure that each student will have the educational experiences needed to achieve the adopted content standards."[4] Districts' plans also must eliminate barriers to equity and address differing learning styles and needs of students of various backgrounds and abilities. By January 1998, districts will administer state standardized assessments at grades four, eight and ten. A clearly stated goal is to enable each district to improve instruction and learning by using the results of local and statewide assessments "... to diagnose the learning needs of individual students, to provide feedback to students related to their progress toward attaining higher performance levels on district content standards, and to revise its programs of instruction and assessments, as necessary ..."[5]

The implications of this bill are significant in terms of the balance between state and local control of education. It marks an attempt by the General Assembly to demonstrate state leadership in education reform by determining the structure of an assessment and accountability system for students while also embracing a strong role for local school districts. In Colorado, the power of local school boards and their citizenry cannot be understated. This standards and assessments bill seemed to be more of a statement about the perceived efficiency of local school districts rather than about the degree of control to be assumed by the state. Nevertheless, the concern over students' abilities to meet state-established performance standards, even mandating statewide assessment of their performance in addition to local assessment programs aligned with state standards, is a dramatic shift toward state responsibility for education in Colorado. Interestingly, this statute was enacted concurrent with a bill to create charter schools which would better meet parents' expectations for their children's education.

A Charter Schools Statute to Advance Choice

Like a number of other states, Colorado policy makers and voters have entertained proposals for choice within public school systems or between public and private sectors. The prevailing value underlying these policies is liberty, such that education would be more responsive to parents' desires. Legislation in 1993 to enable the creation of charter schools within public school districts clearly responded to advocates of a defeated voucher initiative the prior November.

The proposed Constitutional Amendment placed before voters would have apportioned state (and possibly local) funds for education among all children of school age "... to afford a choice of educational resources available in Colorado, including government (public), nongovernment, and home schools ..."[6] Diverting public money to diverse educational alternatives, the new finance plan would purposely have permitted few governmental controls over these alternatives. State agencies and school districts could not exercise any authority beyond the limited regulations currently in place to oversee nonpublic schools. The only proscription on eligible "schools" was that vouchers could not be used by organizations formed for political purposes or which discriminated in contravention of federal or state law. The value of the voucher would have been 50% of the average per pupil expenditure in the district of the student's residence, and the district could have retained up to 2% of the voucher as an administrative fee. The General Assembly would be able to divide local property taxes and state funds currently appropriated for such categorical services as special education and transportation to increase the voucher amount.

In addition to fighting philosophical battles over the virtues of "common schools" versus parental choice, the opposition focused media attention on the cost of the plan. There would be an initial burden of over $84 million to educate the 36,580 students already attending private schools along with the estimated 3,330 home-schooled children.[7] Another estimate claimed that over 200,000 children who were not enrolled in public schools would be eligible to receive vouchers, costing the state $400 million annually.[8] If this measure had passed in conjunction with the tax and spending limitation, less state revenue would have been spread thinly among more students. In addition, the value of the voucher would not be the same in all districts, but would float according to 50% of expenditure levels. Thus, there would be a diversion of state funds to finance high-valued vouchers in wealthy districts which currently receive little state assistance under the equalization formula. The consequence might have been choice at the cost of adequacy in public school programs.

If the proposal had passed, Colorado voters would have created the nation's first statewide voucher program. The defeat of this initiative possibly indicated that provisions went too far in the attempt to establish public support for private schools, that the public was not willing to foster a system of private and home schools which would not be accountable to public entities, or that the cost of financing this far-reaching plan was beyond the willingness of voters to ensure such a wide degree of choice. To many observers, the plan insufficiently guarded the public interest in the nature of schooling permitted; a successful "choice" plan would depend upon a more restricted set of alternatives such as those chartered by school districts.

At the time of the defeat of this initiative, the charter schools movement was gaining momentum across the nation, with five states having passed legislation and with 14 others having bills submitted for legislative review.[9] Joining California, Georgia, Minnesota and New Mexico, the 1993 General Assembly's action enabled the creation of as many as 50 charter schools in the state by 1997.[10]

A charter school is "... an independent public school of choice designed and run by teachers under contract with a public sponsor."[11] The school trades independence from regulations for a contract which outlines accountability for students' performance. Although teachers are empowered to experiment with philosophies and curricular approaches, the school remains within the public sector. As such, it must be nonsectarian, nondiscriminatory, and tuition free -- conditions which clearly respond to the critics of unsuccessful voucher proposals.[12] The successful adoption of the Colorado statute suggests that charter schools offer a vehicle for "controlled choice" to counter political pressures to initiate larger-scale voucher policy.

An important goal is to improve learning by creating schools with rigorous standards. There is priority given to schools that will increase opportunities for low-achieving pupils, and at least 13 of the 50 schools must be "... designed to increase the educational opportunities of at-risk pupils..."[13] Other purposes encourage diverse approaches to learning, innovative teaching methods, different forms of measuring learning and achievement, new professional opportunities for teachers, expanded choices for parents and pupils, and parental involvement. Finally, schools are accountable for meeting district and state standards.

Despite the creation of school-based governing bodies to oversee operations, charter schools are not independent entities, and local school district boards of education exercise control through initial approval and retention of a portion of funds. The application is made to the district board, which then decides within 60 days whether to grant a charter. A previously established District Accountability Committee, which includes educators and community representatives, reviews the plan and holds an open hearing for affected persons and groups to voice support or concerns. Very few charters have been granted statewide in the first year of operation; in fact this approval process culminated in the March 1994 denial of charters to 11 of 13 groups in Denver itself. Once refused a charter by the local board, the proposed school may appeal to the State Board of Education. It may concur, or there may be an order for reconsideration if it finds the decision "... contrary to the best interests of the pupils, school district, or community ..." The State Board may issue an order to the local board to approve the charter following a second appeal; such review has not yet occurred for schools denied charters locally.

Provisions for financing charter schools also reveal local district control. The total district count for state funding includes pupils enrolled in charter schools, but a school's base budget is only 80% of the district's per pupil operating revenues. Charter schools may contract with outside vendors or the district for such services as food, custodial, curriculum, media, libraries, and warehousing. Costs of district-sponsored operations are subject to negotiation and then are allocated from the remaining 20% of funds. The act specifies that "funding and service agreements ... shall be neither a financial incentive nor a financial disincentive to the establishment of a charter school."[14] Schools must be "... economically sound for both the charter school and the school district ..." Plans include a proposed budget for the full charter term and annual audits of the financial and administrative operations. Renewal applications must disclose costs of administration and instruction to "... allow the comparison of such costs to other schools ..."

Not only was this legislation a response to liberty and voucher proponents, it also took into consideration arguments of those who believe that public schools can be more effective and efficient when parents, teachers and principals make decisions. This legislation, along with the other policy changes that affect the balance among value stances of interest groups, raise a number of challenges to policy makers and educators.

Challenges for Policy Makers

Colorado school finance policy has reflected equalization goals in a state that prides itself for respecting local community control. There has been a steady shift in responsibility for financing schools from localities to the state government; this is evidenced historically as the state assumed responsibility for equalizing revenues and for setting program standards. But this theme is tenored by strong advocates of liberty goals. There is frustration in the inability of state revenue to fully finance an adequate equalization plan, just as there is inherent unfairness in a plan that would fully equalize by limiting the freedom of communities to raise and spend tax monies to expand programs. The Colorado Supreme Court favored the state's policy with its tolerance of local control in spite of inequities.[15] The challenge for legislators is to seek a satisfactory compromise that balances these equalization and liberty goals with the important third dimension of finance policy, efficiency.

Recent recommendations of the interim legislative committee to recraft the formula are grounded in these value structures. They emphasize the importance of equity by taking into account more local revenue in the equalization fund, by initiating the process to have federal impact aid (P.L. 81-874) funds considered in the formula, and by replacing the setting categories with cost-related factors. This new approach will have economic indicators, personnel characteristics, pupil enrollments, and an at-risk measure drive districts' funding. At the same time, the committee recommendations also stress local determination of ultimate spending in raising the override limit, which initially permitted voters to approve a tax levy to raise spending up to 5% above the equalized level in the 1988 Act. This leeway has grown nearly each legislative session, and it is now recommended that district voters be authorized to increase spending from the current 15% to 25% of total program cost. Does this continual policy change to grant greater liberty unfairly tip the balance away from equalization, or is the larger override a fair trade off for state assumption of specific ownership tax revenue and possibly impact aid? Do methods which other states use to promote such local option within a second tier of equalized funding to help poorer districts meet spending goals offer Colorado policy makers a model for better balancing these goals?

Adequacy of funds is a growing concern in Colorado. Even as equality and liberty goals are balanced in the current or revised structure, many districts may not be able to provide essential educational programs because of insufficient revenue. Policy makers and educators nationally face the challenge of stretching resources to meet new standards and to educate a population with different demographic characteristics and learning styles from past student groups. In Colorado, these challenges occur just at the time that the effects of tax and spending limitations are realized. Amendment 1 limits the growth of property taxes; it also forestalls the decline in the local share of school finances as was outlined in the 1988 Act. The drive for equalization and balanced state-local shares is frustrated by this efficiency initiative. The effect of decreasing state money is a shift in burden to the local property tax (with an increase in the "uniform" levy from about 37 to 40 mills recently). This trend contrasts sharply with the movement occurring nationally to reduce property tax support of education (e.g., Michigan, New Hampshire, Rhode Island and Vermont). Is this interplay of policy preferences in Colorado a reflection of the resistance of politically powerful districts to share their wealth, or is it happening because advocates of local control continue to embrace the symbolism of the property tax as evidence of local support for their schools?

Lawmakers face the challenge of devising a formula that takes into account tax and spending limitations, particularly as this Constitutional Amendment frustrates efforts to redistribute funds under any revised finance formula. It may be that a poorer district which should receive more revenue under a new distribution scheme will be unable to spend additional funds due to the disallowed rapid increases under the Taxpayers' Bill of Rights (TABOR). The Constitutional requirements appear to conflict -- satisfying the uniformity clause is frustrated by the TABOR. Reaching the goal of "thorough and uniform" will take longer to achieve while working within tolerances allowed under Amendment 1 than would have been accomplished under the 1988 Act.

Has the drive for efficiency in government inadvertently (or intentionally) limited the legislature's power to fashion an equitable and adequate school finance plan?

The plot of the school finance story took a sharp turn away from equalization toward liberty and efficiency themes during the 1990s. A new policy direction that embraces charter schools raises concerns about the appropriate degree of state governmental control over public education. Some view control as essential to limit publicly funded schools to those that are clearly in the "public interest," whereas others express that continued oversight will not satisfy the real needs of a growing number of citizens who urge vouchers to acquire financial support for true educational diversity. Those concerned with bureaucratic limits on choice desire a direct flow of funds to autonomous charter schools, whereas others fear that channeling all money to charter schools will lead eventually to a drain of funds from district operations and closely monitored schools. The reluctance of local boards to charter alternative approaches, and the compromise to have districts retain 20% of funds for later negotiation of services, evidence the hesitation to release all control to parents and teachers. Do charter schools strike an appropriate balance between supporters of closely monitored public schools and advocates of autonomous schools financed through public resources? Initial years of implementation will tell whether it is a sensible pedagogical alternative to currently constrained public schools, or merely a political solution to satisfy desires for greater choice and to forestall the voucher movement.

The newly enacted standards and assessments policy also blends equalization goals with the drive to make schools more efficient and accountable. But, unlike the charter schools policy that strives for these ends through decentralized control over education, this policy expands state responsibility for setting standards and assessing learning. However, local control is not abandoned as the law leaves to school personnel the actual curriculum and instruction to meet locally developed standards and assessments. If this policy is designed to promote efficiency, will those state-monitored standards and assessments make a difference in the core technologies of education, teaching and learning? Can the policy successfully address the equity principle, enabling all children to achieve acceptable levels of achievement defined by the standards and promoting alternative performance assessments that will allow demonstrations of different forms of learning by students of all ability levels?

Finally, the policy direction that is soon to enrich Colorado policy debates is to fuse the new standards and assessments statute with the School Finance Act. Other states, including Kentucky and South Carolina, are experimenting with rewards and incentives within finance policy.[16] There is little doubt that policy makers will join these two policies in Colorado as emerging state standards and demonstrated student performance provide the data on which to base state allocations. A challenge is presented by this policy to be sure that it is the growth in performance that is rewarded, not just the highest achievement which will likely be attained by students in the most advantaged districts and communities. Once again, this policy direction will further the transfer of power from districts to the state to further goals of efficiency and equalization. It may not succeed, however, without recognizing concerns of those who favor local control over the use of those funds.

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2. D. Stewart, personal interview (March 1994).

3. CRS 22-53-401 to 410.

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7. Education Commission of the States, *The Colorado voucher -- An analysis* (Denver, CO: Author, 1992).
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9. L. S. Walters, "Charter schools offer another choice," *Christian Science Monitor* (June 8, 1993), p. 11.

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NEVADA

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SCHOOL FINANCE POLICY ISSUES IN NEVADA

- Absence of stability and responsiveness in revenue sources for the state's General Fund
- Insufficient funding for special populations and educational overburden
- Lack of state funds for capital construction or debt retirement.

Current School Finance Policy Issues

The absence of stability and responsiveness in revenue sources for the state's General Fund is the most critical school finance issue in Nevada. Nevada does not levy either a corporate or personal income tax. The state has a constitutional provision prohibiting the personal income tax. Policy makers obviously are seeking to export taxes as evidenced by the degree of reliance on sales and gaming taxes. Purposeful action was taken by the Nevada legislature in both 1979 and 1981 to decrease property taxes and in 1981 to place greater reliance on the sales tax as a source of revenues for funding education. Proceeds from a state sales tax and gaming taxes enable the state to transfer much of the tax burden to tourists. Nevada's taxes do not place a heavy burden on the state's citizens. The state's property tax burden on individual homeowners is not as high as found in some states in the midwest and northeast sectors of the nation. Data for the 1991 fiscal year from the United States Department of Commerce (How Florida Compares, 1992) indicate that Nevada ranked 16th among the states in state taxes per capita and 34th in local taxes per capita.

The policy position appears to be that the demand for many public services is higher because of the influx of tourists; thus, it is sound public policy that these persons pay for services received. However, population-driven demand for services such as elementary and secondary education do not necessarily expand and contract in the same manner as revenues from sales and gaming taxes. As the state's population increases, tourism may not be sufficient to continue serving as the major source of revenue for the support of essential public services. Tourism and gaming spawn many satellite support activities that provide employment and contribute to increases in the school population. The challenge is to seek the optimum revenue level from these sources so that the tax burden is not viewed as excessive with a resulting disruption of current economic activity. The state's overall economic potential is restricted because topography and scarce water limit agricultural and industrial development. In addition, historically, the state's most notable natural resource has been mineral wealth. However, the state has not imposed a severance tax per se, but instead taxes only the net proceeds of mines as part of the property taxation system.

Comparisons with other states and with national averages provide an interesting perspective about the level of tax effort being made by a state. Data for 1991 from the United States Department of Commerce indicate that when compared with Western states, per capita state taxes were lower in Nevada than in California, New Mexico,

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Washington, and Wyoming. Per capita local taxes were lower in Nevada than in such Western states as Arizona, California, Colorado, Montana, Oregon, Washington, and Wyoming. The combination of per capita state and local taxes was lower in Nevada than in Arizona, California, Colorado, Oregon, Washington, and Wyoming.

Rather than restricting the comparisons to the Western states, data for Hawaii provide a perspective from another state that relies heavily on tourism for revenues. This state ranked 2nd in per capita state taxes at $2,325.24 compared to Nevada's $1,310.44 per capita. Hawaii ranked 30th in per capita local taxes at $476.82 compared to Nevada's $569.49 per capita. In combined state and local taxes per capita, Hawaii ranked 3rd at $2,802.07 per capita compared with Nevada's $1,879.93 (How Florida Compares, 1992).

In addition to examining per capita taxes paid in a state, another measure of effort is the percent of personal income spent for various taxes; however, for states like Nevada and Hawaii, these data are somewhat suspect because they include the taxes paid by tourists. In FY 1991, the national average percent of personal income represented by state tax receipts was 6.68% of personal income; in Nevada the percentage of personal income represented by state taxes was 7.22%, a ranking of 21st. Among Western states, the percentage of personal income represented by state taxes was lower in Nevada than in Arizona, California, Idaho, New Mexico, Utah, Washington, and Wyoming. (In Hawaii, the percentage was 11.65%.) In 1991, the national average percentage of personal income reflected by state and local taxes was 10.96%; in Nevada the percentage was 10.36%, a ranking of 36th. (Hawaii's percentage was 14.70%.) Western states ranking higher than Nevada included Arizona, California, Colorado, Idaho, New Mexico, Montana, Oregon, Utah, Washington, and Wyoming. Greater detail is presented in the following chart:

The data in the table illustrate that Nevada is not making a level of tax effort consistent with its fiscal capacity especially when consideration is given to the contributions of tourism in the per capita tax effort data. Other states that seek to export their taxes are Hawaii and Wyoming.

Table 1
Comparison of Nevada Taxes Per Capita With National Averages

	Rank	Nevada $	National Average $
Per Capita State Taxes	16	$1,310.44	$1,234.43
Per Capita Local Taxes	34	$569.49	$790.28
P/C State & Local Taxes	26	$1,879.93	$2,024.70
Per Capita Sales Taxes	4	$643.53	$410.07
P/C Selective Sales Taxes	1	$475.44	$200.21
Per Capita License Taxes	3	$135.67	$77.19
P/C Corporate Income Taxes	---	-0-	$80.92
P/C Personal Income Taxes	---	-0-	$394.62
P/C Stamp and Transfer Tax	---	-0-	$7.65
P/C State Property Taxes	12	$32.41	$24.75
P/C Local Property Taxes	36	$377.32	$592.40

Note: Nevada has no personal or corporate income tax; only 4 states do not have a corporate income tax and only 7 states do not have a personal income tax (How Florida Compares, 1992).

Hawaii exports much of its tax burden by taxing tourists. Wyoming also exports a portion of its tax burden because of the state's severance tax on minerals. Both of these states had per capita tax receipts above the national average; thus, a state that exports its taxes does not have to be a low tax state.

Insufficient funding for special populations and for educational overburden is another critical school finance issue in Nevada. Special funding is provided only for students with disabilities, and these funds are not included in the general state aid calculation that is equalized for local wealth. No state funding is provided for economically or culturally disadvantaged students, at-risk youth, or language different youth. The Nevada Plan contains no provisions designed to address the unique educational overburden problems found in large cities. This issue is especially critical for the Clark County School District (Las Vegas). This district has urban educational problems similar to those found in the largest cities. The center city population has high levels of need for the full range of educational and social services; however, the Nevada Plan provides no funding for these programs.

Lack of state funds for capital construction or debt retirement is a third critical school finance issue in Nevada. School facilities are financed either through the sale of general obligation bonds or on a "pay-as-you-go" basis. This condition is serious because, on a percentage basis, Nevada's school population is growing more rapidly than that of any other state. This issue is critical not only for a high growth area such as the Clark County School District (Las Vegas) but also for the Washoe County School District (Reno) and some smaller districts that have had high rates of growth.. An additional complicating factor is that, under current statutes, the public referendum authorizing the sale of general obligation bonds may take place only at general elections that are conducted every two years. Given the rate of enrollment growth in some areas, this increases the importance of ensuring voter concurrence with the referendum (Budget Presentation, 1993).

School Finance History in Nevada

The following discussion provides a context in which to consider the current school finance system in Nevada. School finance in Nevada is a study of contrasting conditions. More than 61 % of the population is in the Las Vegas metropolitan area; this rapidly growing area has many of the educational problems found in the larger cities of the nation. Other parts of the state are rural and sparsely populated and do not necessarily share urban problems. The state does not have a broad economic base. Except for limited mining, the major economic activities are related to tourism and gaming.

School districts are organized on a county unit basis, and the state has only 17 counties. Clark County, the largest school district has about 145,000 students who represent over 61% of the total students in the state. The district contains Las Vegas which has urban educational challenges similar to those found in the nation's other large cities as well as several small isolated schools. The only other district with more than 10,000 students is Washoe County (Reno) which has approximately 43,000 students.

The state's current school finance system is referred to as the Nevada Plan (Nevada Department of Education). The initial legislation was enacted in 1967. The Nevada Plan is a foundation program that provides support for regular education; funds are allocated on the basis of the number of students and the experience of teachers. State funding for transportation for each district is based on 85% of the prior year's operating expenditures plus a two-year average of capital expenditures. This per pupil amount is included in the total entitlement under the Nevada Plan that is subject to a wealth equalization calculation and modifiers for geographic dispersion. Funding for special education is not included in the equalization calculation. Funds for special education are provided for professional units based on state standards that prescribe the number of students by type of disability needed to justify funding for a unit. However, the amount of state funding for each professional unit falls substantially short of the actual cost to the school district.

The Nevada Plan contains many features that have been developed to address the particular demographic differences among Nevada county unit districts. The combination of state and local revenues provided through the Nevada Plan represent about 85% of the General Fund resources available to school districts. Revenues in the Nevada Plan come from state and local sources. The state sources include the state's General Fund, an out-of-state sales tax, a slot machine tax, mineral land lease income, and interest from investments of the Permanent School Fund. The local sources include receipts from a 2.25% local sales tax and a $0.25 per $100 of assessed valuation ad valorem tax on property.

Student count procedures have been designed to accommodate the differing conditions among schools. The student count used in calculation of the Nevada Plan is based on the number of students enrolled on the last day of the first school month. To protect districts that are losing enrollment, the Nevada Plan contains a hold-harmless provision. Payments are based on the enrollment in the current year; however, if a districts is losing enrollment, state payments are based on the immediate prior year's enrollment. This procedure provides some relief for the enrollment increases in the state's urban areas and also delays the effect of lower enrollment in declining districts. For growing districts, additional funds are provided to the districts that experience growth of more than 3% within the school year. If a district's growth equals or exceeds 3%, the growth increment in funding is an additional 2% of the guaranteed level of funding. If a district's growth equals or exceeds 6%, the growth increment in funding is 4%.

The following features of the Nevada Plan illustrate some of the ways in which this plan compares with funding systems in other states:

Recognition of demographic differences: Even though the state's schools are organized on a county-unit basis, the Nevada Plan considers differences among schools, or attendance units, in the calculation of district's entitlement. Enrollments are calculated for each elementary and secondary attendance area; these data are used to determine the number of teachers generated for each attendance area. This methodology provides additional funds to those districts with small schools in the Nevada Plan However, the county unit school districts are not required to spend the funds in the schools that generated the additional funds.

Per student support for regular education: Rather than providing a uniform amount per student to all school districts, the basic support ratio per student is calculated from each district's elementary and secondary school enrollment data and estimated staff costs. This staff cost calculation may include the state's efforts to increase teachers' salaries. In 1989 and 1991, the Nevada Legislature provided funding for employee salary raises, but no funds were provided in 1993. Nonetheless, Nevada law mandates independent collective bargaining for each school district. Calculation of payments to local school districts are based on four tables prepared and administered by the Nevada Department of Education. The state average per pupil amount under the Nevada Plan was $3,320 in 1993-94; funding for special education personnel units is not included in this statewide average. The amounts per pupil vary among counties because of the recognition of demographic factors discussed above.

Professional unit support for special education programs: Funds for this program are provided on a "unit" basis that includes the full-time services of one licensed professional providing a program of instruction that meets minimum state standards. The funding support for a personnel unit for the 1993-94 school year was $26,208. Such funds are separate from and in addition to the basic per student support.

Mandated Grades 1-2 class size: The Nevada Legislature has mandated that class size in grades 1 and 2 be 15:1, but has provided funding based on a 16:1 estimate. In the absence of sufficient classrooms, some districts have met this mandate by having two teachers in a classroom with 30 students.

Single tier state program: The Nevada Plan does not provide any state funding incentives for districts to spend more than is provided through the Basic Support program nor does Nevada law permit districts to levy or seek public approval for local taxing authority. Current state school finance programs in Kentucky and Texas have an equalized second funding tier that results in the equalization of local option taxes to supplement the basic foundation program.

Local supplement to the Nevada Plan: Local sources of revenue to supplement the support level provided by the Nevada Plan include a $0.50 per $100 property tax, motor vehicle taxes, and franchise taxes; these are statutorily fixed by the state.

State support for transportation expenditures: Each district's per student transportation cost is based on the spending for operations in the previous year and for capital outlay on a two-year averaged basis; the base amount is 85% of the prior year's operating and average capital expenditures per student multiplied by the number of students for the current year. This amount is then included in the state guaranteed basic per student support from which the local share is subtracted to determine the amount to be provided from state revenue sources. The state transportation formula does not necessarily encourage efficient operation by reimbursing 85% of the cost.

Multiple measures for local wealth: The local share in the Nevada funding system includes the proceeds from a local sales tax , ad valorem property tax., and other miscellaneous revenue sources. Thus, the state uses a measure of local wealth that is broader than the assessed value of property. Of the 17 county school districts in Nevada, one district is "out of formula" because the local effort share in the Nevada funding system exceeds the amount of funds for which the county would be eligible.

Future Directions in Nevada

The interaction of political, economic, and demographic developments in Nevada suggests a rather bleak future for Nevada's public schools. With enrollment increases competing for funds with other social services whose expenditures also are increasing, the challenge is to maintain the current level of funding per pupil. Given the current political climate in Nevada and the economic threat related to the emergence of gaming on Indian reservations and in several other states, significant increases in state funds for Nevada's public schools do not seem likely. With no personal income tax, Nevada appears to be increasingly attractive for retirees. Many of these persons are on fixed incomes and contend that they have paid taxes for schools in the states in which they resided during their working years. These persons are especially active in bond elections. The alternative scenarios for Nevada include the following:

Increases in Revenues in the state general fund receipts likely will not be sufficient to provide the level of funds required to maintain current levels of funding per pupil and to make adjustments for inflation. In the current year, the base funding per pupil is approximately $100 less than the anticipated amount that would be necessary to continue 1991-92 funding levels adjusted for inflation. Funding per student either kept pace with or exceeded inflation between 1989-90 and 1991-92. However, a reduced rate of economic growth in the state resulted in no appreciable increase in funding per student for 1992-93 and 1993-94 when state and local funds are combined. The increase in state funding for 1994-95 is only $3 per pupil. Some observers emphasize that the increase from 1993-94 to 1994-95 is not an increase in state funds but merely is a "shuffling" of funds because of the shift of programs formerly funded separately to the distributive school account. (The state program's 1993-94 per pupil amount of $3,320 does not include funds for the federal Chapter 1 programs or other federal programs.)

Increased reliance on the local tax sources may be the only solution for needed funds in Nevada's growing school districts. Given the economic base of Clark County, increased reliance on local sources of revenues might be more beneficial than relying on the redistributive effect of state taxes. In other words, the county might benefit more from levying and collecting the tax locally than from supporting a statewide tax and finding that it pays more into the state's coffers than it receives in the distribution of revenues. Even though citizen opposition to the property tax likely would be high, the current level of taxation is low. If homeowners with children in school and other supporters for the schools indicate a willingness to tax themselves, they might comprise a sufficiently significant voting block to increase the reliance on the local property tax. Of course, this action also likely would reduce the level of equity in the Nevada Plan, but the public pressure and the need for additional revenues might be sufficient for policy makers to take this risk (Schumacher, 1993).

Program evaluation is not being undertaken for Nevada's major school reform effort: the state legislature's mandated class size reduction to 15:1 for grades 1-2. As with reform efforts in some other states, no impact analysis was conducted prior to enactment. Many schools did not have the additional classrooms required to house the smaller classes; therefore, some schools have met the requirement by assigning two teachers to one room with 30 students. This "team teaching" approach likely was not the intent of the advocates for the reform. The effect of the program remains an unanswered question. The Nevada Department of Education issued a request for proposals to evaluate the impact, but then subsequently did not fund any of the proposals. Thus, no formal evaluation of the program has been conducted. The exact amount of funds attributable to this class size reduction is not readily available because those costs that exceed the state subsidy must be absorbed by the districts from other sources such as regular state aid or local tax revenues.

Pressures for recognition of at-risk youth in the Nevada Plan likely will emerge as a vehicle through which additional state funds can be provided to districts with these special educational problems. Either through permissive local tax levies or as a result of the expansion of the Nevada Plan, some type of funding likely will develop for programs and services to benefit at-risk youth.

School reform efforts have been somewhat limited in Nevada; only limited support has been expressed for decentralization, school choice, vouchers, or charter schools. Of course, in sparsely populated rural areas, the "choices" likely would be limited. The feeling of a lack of involvement also is less evident in small communities with a limited number of schools. Many families are new residents in the urban areas, and the growth in these areas has been so rapid that the greatest challenge has been to keep pace with the demand for new schools. Thus, the discontent that contributes to the interest in school choice, vouchers, and charter schools may be a later development in such fast growing areas as Las Vegas. A school decentralization program was proposed during the 1993 legislative session, but it was not enacted because of opposition from education groups. Their concern was related to the impact of decentralization on the role of county-wide teachers' organizations. This was of special interest to the teachers organization in Clark County (Las Vegas) which reportedly is one of the most powerful education interest groups in Nevada.

The configuration of school districts in Nevada does not lend itself to some of the reforms that have been proposed in other states. One reason is the Clark County

School District's share of the total state enrollment. Another reason is the diversity in the state. Portions of the Clark County School District have the same type of urban educational problems found in many of the largest school districts in the nation; other districts and regions of the state may be somewhat insensitive to these problems. In addition, Clark County contains small isolated schools with educational problems very similar to conditions in those sparsely populated counties that comprise the majority of the rest of the state.

In Nevada, as in other predominantly rural states with a small number of urban centers, the challenge is to sensitize policy makers to the principle that the state's responsibility in education is to the youth who are to be educated, not the county school districts who receive the funds from the state or the county's taxpayers. Thus, the state's responsibility in education is to each child not the child's county of residence.

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UTAH

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SCHOOL FINANCE POLICY ISSUES IN UTAH

Utah's finance of public education has not been challenged constitutionally, although recent changes in legislative code may create an opportunity to pursue such a course of action in the future.

The economic environment in the Rocky Mountain area is one of the strongest in the nation; tax revenues in Utah were in record amounts for fiscal year 1993-94.

The implications of these economic circumstances for Utah's public schools are most evident at the programmatic level. Some of the more significant changes are highlighted in this section and then discussed more thoroughly in subsequent sections:

1. Legislative appropriations for public and higher education in Utah were the largest in the state's history; appropriations for Utah's Minimum School Program (K-12 public school funding) grew by more than 7.5 percent.

2. Appropriations for capital outlay equalization in 1994 increased from 1993 by 240 percent.

3. Funding for Utah's 1994 Centennial School Program increased by 87% over the 1993 funding for the program.

4. Class-size reduction continues to be an issue of concern within the state, funding for this issue increased by 39.8 percent.

5. Since the 1990-91 school year, Utah's legislature has invested more than 45 million dollars in educational technology (computers, networks and distance learning); matching funds from businesses, universities and public schools were estimated to be more than 85 million dollars.

Background: Basic Funding Formula

Utah's state supported school finance plan, the Minimum School Program, provides districts approximately two-thirds of the total revenues for public education. The Minimum School Program is essentially a foundation plan with a minimum statewide levy, a minimum foundation grant, and provision for recapturing funds from wealthy districts able to raise more than the minimum foundation grant using the foundation levy. A system of minimally equalized voted leeway taxes provides the opportunity for districts to raise additional revenues above those supplied by the basic foundation levy.

A system of weighted pupil units is used to address variations in need for special services related to the basic program. Formulas based on district need and cost factors related to service provision provide support for restricted programs (Special Education, Vocational programs, and at-risk students). In combination, the systems by which educational need and equalization are enacted, significantly reduces the relationship between district wealth and per pupil expenditures in Utah. But to acknowledge this does not suggest that the

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relationship between wealth and service provision is eliminated.

Revenues to support public education are raised from a number of sources including: property taxes, income taxes, sales taxes, fees, mineral lease taxes, as well as other taxes. This diversified tax structure minimizes reliance on property taxes for support of public education. In fact, revenues from property taxes account for about one-fifth of the total available to fund public education.

Total expenditures for instruction and support services in the state of Utah during the 1992-93 school year were, on average, $3,469 per pupil; the value of the foundation grant in that same year was $1,490 per pupil. Despite equalization of the state's foundation grant, per pupil spending for instructional services range from a minimum of $2,561 to a maximum of $8,879: a spending disparity ratio of 3.5 to 1. The relationship between total expenditures per pupil for instruction is positively correlated with district wealth ($r=0.40$). This means that, in general, wealthier districts spend more on instruction and support services for students than do poorer districts. However, taxpayer effort above the foundation levy is inversely related to per pupil expenditures for instruction and support services ($r= -0.26$).

Discussion of Policy Highlights

With the brief background of Utah's school finance arrangements introduced above, the next section provides details related to the legislative and policy highlights introduced at the beginning of the paper.

Constitutional Issues

Examination of Utah's constitutional language has, in the past, lead to the conclusion that there is not a strong basis for a constitutional challenge of the state's system of school finance. Moreover, there were numerous factors in Utah's school finance plan that substantively promoted equalization. But such factors do not mean that perfect equality exists, or that existing inequality is not systematically disadvantaging students and tax payers in poorer districts, as noted in the above discussion.

Evidence that state supreme courts upheld the constitutionality of public school finance systems in states with constitutional language similar to Utah's, such as New York and Arizona, does not mean that Utah is safe from such a challenge. In two states, Kansas and Connecticut, again with constitutional language similar to Utah's, the state supreme courts found the finance those state's public schools unconstitutional. Dayton (1993) and LaMorte (1985) both note that in many cases similar wording among state constitutions have resulted in opposing conclusions. The explanation for this seeming inconsistency has to do with differences in jurisdictions, legal history, and additional legislative languages that may modify judicial interpretation of constitutional language.

Recent passage of Utah's Strategic Plan For Public Education, 1992, provides an important reference with regard to this last point. In that legislation the mission of public education was defined as follows:

> The Legislature recognizes that public education's mission is to assure Utah the best educated citizenry in the world and each individual the training to succeed in a global society, by providing students with learning and occupational skills, character development, literacy, and basic knowledge through a responsive educational system that guarantees local school communities autonomy, flexibility, and client choice, while holding them accountable for results. (53A-1a-103, Utah Code)

This language presents significant and substantive changes in Utah's legislative code and, hence, interpretation of the state's constitutional responsibilities for public education. Not only does it require of the state a high level of responsibility for providing "each individual the training to succeed in a global society," but it also requires that the system be responsive to local control while being accountable for the results. In other words, the Utah Strategic Plan has provided new language that significantly alters the constitutional framework by which the obligates itself to equity and standards of achievement. Considering the evidence of expenditure and achievement disparities among Utah's public schools, this new language raises the possibility that Utah is more susceptible to a c' 'titutional challenge than has previously been thought.

Legislative Appropriations

Utah's legislators were confronted this year with the problem of having more money to spend during the legislative session than expected. Last year, Utah's economy grew by more than 5 percent. Personal income grew by about 7 per cent. This rosy economic condition prompted legislators to spend record revenue surpluses, at the same time providing tax payers with a small tax break. State support for public education, like virtually all of Utah's public services, benefited from these circumstances.

Funding for Utah's Minimum School Program increased by 7.5% during the 1994 legislative session: accounting for an additional 94 million dollars. This increase follows last year's 6.4 % increase for state funding of public education.

Capital Outlay Equalization

In 1992 the Utah Legislature passed House Bill 65, entitled Equalized Capital Outlay and Debt Service Foundation Plan. Provision for capital facilities, and more specifically equalization for such purposes, has emerged as a serious issue in many states. In Utah the problem is especially serious, as evidenced by the fact that expenditures for capital facilities had declined by 67% between 1980 and 1990. In this same decade, Utah's enrollments had increased by 29.8% and pupil-teacher ratios by 1.3 percent. (Utah enrollments per teacher, of 24 to each teacher, are among the highest in the country.) By contrast, nationally enrollments had declined by 8,6% during this same time period while capital outlay expenditures had increased by 116.9%.

House Bill 65 was the source of considerable debate within the state and after extensive modification was passed by both the House and Senate only to be vetoed by the Governor. The justification for the governor's action was that the legislation created an unfair tax burden within the state. Without the economic boom experienced in Utah, the Governor's action may have proved very problematic. As it is, there are more than enough funds available to deal with the capital facilities and equalization issues. Specifically, in 1993-94 the legislature allocation 8.95 million dollars for the School Building Programs. This appropriation increased to 15.66 million dollars for the 1994095 school year: a 75% increase in appropriations. While such an increase is significant, it is particularly worth noting that the allocation for Capital Outlay Equalization within this legislative grant increased 241 percent. These factors probably account for the fact that many districts have begun an extensive building program, including both new buildings and remodeling of existing schools.

Utah's Centennial School Program (Charter Schools)

Utah's charter schools program, known as the Centennial Schools Program (so named to commemorate Utah's upcoming centennial year of statehood) was enacted in the 1992 Legislature. In that year the legislature appropriated 2.6 million dollars to support the Centennial Program. The 1994 Legislature increased funding for the Centennial Schools Program by 1.75 million dollars; a 67.4% increase.

The purpose of the Centennial School is to enact the policies enumerated in Utah's Strategic Plan. In general Utah's Strategic Plan seeks to: 1) redesign the organization and governance of public education to be more responsive to public interests and achievement; 2) align the educational system with outcome-based and accountability measures; and, 3) decentralize authority of public education by establishing site-based managed schools.

Participation in the program is voluntary. Selection for funding is competitive. The State Board of Education in collaboration with the Governor's office is responsible for selecting among the applicants. Centennial program funding is provided with a base allocation of 5,000 dollars per school plus 20 dollars per student. Thus, a school of 500 students would receive the 5,000 base allocation plus 1000 for student enrollments, for a total of 6,000 dollars. Schools are encouraged to supplement these funds through experimental grants, use of discretionary funding allocated through the Minimum Schools Program, and business-school partnerships. State funding for Centennial schools can not exceed three years running but is not automatically renewed. Currently more than 100 of Utah's 735 schools are funded, many of them for the second year.

Class-size Reduction

Utah's teachers operate with some of the largest, on the average, classrooms in the country; classroom enrollments exceed 24 students per teacher. The 1990-91 school year was the first where Utah's Legislature targeted money for class-size reduction. Last year, the 1993-94 school year, 11 million dollars was allocated for this purpose. For the 1994-95 school year this figure was increased by 39.8%, to 15.45 million dollars. The goal of this program is to reduce class-size to a 20 to 1 ratio: well above the current national average of 17.2 students per teacher.

Educational Technology

In the Spring of 1990, Utah's Legislature passed a law known as the Educational Technology Initiative (H.B. 498). A primary goal of this legislation was to improve student learning and promote the economic welfare of the State. In the language of Utah's Strategic Plan, the purpose of the legislation was to provide Utahns a "world class" education that would enable Utah's businesses to compete in the global economy. Indeed, Governor Leavitt's vision of the economic future of Utah is predicated upon "the innovative use of technological advancements [in education], harnessing and merging the enormous capabilities of computers, telephones, television and satellites" (1993, pp. 1-2).

Since the inception of the Education Technology legislation (H. B. 498, 1990), the various partners associated with this initiative (businesses, universities, public schools, and the legislature) have raised over 120 million dollars for the purchase and support necessary to implement the initiative. According to state records (ETI Project Office, 1993) the legislative funds for this initiative account for about one-third of the total contributions (approximately 40 million dollars). Legislative funds have been distributed to the district using a 75/25 split: 25% of the legislative funds were distributed evenly to Utah's 40 school district; 75% of the money was distributed on a per pupil basis. The idea was to ensure small and rural schools a funding base sufficient to operate effectively.

Currently legislative funding for the ETI initiative has declined slightly, although an 8 million dollars one time supplemental allocation resulted in an overall increase in this year's funding. In the future, funding for educational technology, especially as it is related to linking up with the Nations "Electronic Highway," is expected to coming from Utah's business community, especially the states powerful computer industry.

General Trends and Concluding Comments

A new funding initiative for Utah's public schools was for safe schools. A $300,000 appropriation for a "Gang Prevention and Intervention Program" was just one of several bills highlighting the growing concern for maintaining safe schools. These funds were allocated in conjunction with increased appropriations

(19.6% increase) for Utah's Youth-In-Custody Program.

A number of legislative bills dealt with the assessment, levy, and distribution of revenues related to property taxes. Several of these bills provided tax breaks for major industries within the state. Other bills changed the assessment formula for mineral lease properties (especially for the oil industry) effectively reducing the tax intake from these sources. Still other legislation changed property tax laws in ways that led editors of the Salt Lake Tribune to suggest that in effect, "The rich got richer and some of the poor got poorer" (March 5, 1994, Editorial page).

Finally, for the last several years, the issue of school fees has been a source of contention and litigation within the State of Utah. Last year, the state legislature required school districts to provide low income students with fee waivers. This year, a school fees task force had proposed an equalization plan to reimburse schools on a sliding scale, those resource poor districts would be reimbursed by the state for the waivers granted their low income students. This bill was not passed by the senate, but every indication suggests that this issue will continue to be a contentious and significant fiscal issue in the future.

In general, Utah's finance of public schools is constantly changing and adapting to a changing legal, legislative, and political environment. To this date, no significant constitutional challenge to this system has been raised, however growing economic and fiscal disparities within the state along with changes in the legislative code may change this tranquil past.

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WASHINGTON

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SCHOOL FINANCE POLICY ISSUES IN WASHINGTON

- Fiscal Instability for School Districts Created by State Tax and Expenditure Limitation Initiative
- Fiscal Instability for School Districts Created by Declining Voter Support for School Property Tax Levies, School Levy Lid Changes, and High Threshold for Passage of School Levies
- Increased Flexibility in Special Education Funding Demonstrated by Pilot Programs to Allow Less Labelling While Maintaining Funding Support

State Tax and Expenditure Limitation Initiative

In November 1993, Washington voters approved an initiative aimed at curbing state taxes and spending. While Initiative 601 is currently undergoing judicial review, voters have given legislators a clear signal that they need to constrain the level of taxes and the costs of state government. Beginning July 1, 1995, the initiative caps the growth of state expenditures to the rate of state population growth plus inflation. Such a limitation could have a profound impact on education funding since K-12 enrollment growth is expected to far outstrip state population growth for some time to come.

K-12 education funding in Washington is set by the state legislature and is primarily enrollment-driven. In recent years, the percentage of the state's total budget allocated to K-12 education has increased from 46 percent in 1989 to 48 percent in 1994; expected increases in K-12 enrollments are likely to create pressure to further increase this percentage. Given Initiative 601's limits, the 1995 Legislature must choose among budget reductions in social services, general government, higher education, and, after redefining the state funding formula -- K-12 education. It has been estimated that even without any salary or benefit increases, growth in K-12 enrollment and inflation on K-12 supplies and materials will consume all the state's allowed expenditure increase for the 1995-1997 biennium.

In addition, many mandatory programs outside K-12 education (e.g., welfare) are likely to grow, creating additional pressure to cut existing programs. Since Washington provides over 70 percent of the revenue available to the state's school districts, the potential fiscal impact on public education is huge.

Another difficulty for state policy makers will be sustaining education reform investments during a period of tight state revenues. The legislature initiated Student Learning Improvement Grants in 1994 to provide schools an additional four days of planning time for education reform. Initiative 601 raises grave doubts about the ability of state policy makers to continue funding education reform while maintaining current K-12 funding levels. In addition, teacher salaries have remained unchanged for two years. Failure to address teacher salary levels could generate a repeat of the 1991 state-wide teacher strike.

School Levies

State law allows school districts in Washington to place school property tax levy requests on the ballot a maximum of

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two times per calendar year. These requests must receive 60 percent approval to pass. In February 1994, voters in 10 of the 15 school districts in Washington's second most populous county, Pierce County, defeated the first attempt to pass school property tax levies for local maintenance and operations. In April 1994, voters in two of these 10 districts defeated a second property tax levy attempt and thereby cut these districts' general operation budgets by $7 million in 1995.

The Pierce County experience dramatizes the diminishing support among voters in some regions of the state for local school property tax levies. Besides a ten-fold increase in the amount of double levy defeats (from $5 million to approximately $50 million), a large number of districts saw their approval percentages decline significantly from previous years. This sharp drop in voter support could have occurred for a variety of reasons.

One factor could be a four percent increase in the levy lid -- the amount of revenue school districts are allowed to generate through local school property tax levies. For most districts, the levy lid increased from 20 percent to 24 percent of the district's state and federal revenue amount. Other districts, who had historically been allowed to raise more than 20 percent in local school property tax levies, were also allowed to raise an additional four percent in local property tax revenue. A number of the school districts suffering both initial and double property tax levy defeats were attempting to raise the maximum amount allowed by the new levy lid increase.

Of additional concern to educational administrators is the current requirement that local school property tax efforts receive a minimum of 60 percent voter approval to succeed. This issue was brought to the forefront by several highly visible and successful elections -- in 1993 to build a jail in the state's most populous county and in 1994 to build a youth center in another of the state's largest counties -- which were required to meet only a 50 percent threshold of voter approval for passage. During the 1994 legislative session, educators asked the legislature to allow a constitutional amendment to be placed before the state's voters allowing schools to use the 50 percent approval standard that exists for other local government bodies rather than the 60 percent approval rate required for schools. Senate Republicans blocked the effort to place this constitutional amendment on the ballot.

Another issue undermining public support for school property tax levies may be the on-going criticism currently leveled at Washington's K-12 public schools. Continual assertions by leading citizens that public schools are wasteful and are not preparing students to compete in the world marketplace could be diminishing the willingness of voters to approve school tax measures.

Finally, the biennial school property tax elections are among the few opportunities citizens have to directly decide tax rates. Decisions to raise and lower income and sales taxes are generally made by elected representatives in Congress and in the state legislature. Locally elected public officials set the tax rates needed to support police and fire protection, as well as other services such as the port authority. Therefore, voters are able to express their growing discontent with tax levels only through indirect means (e.g., Congressional, legislative, and city council elections, Initiative 601). School property tax elections, though, provide a unique opportunity to directly vote on a government's level of taxation. The spillover from the public's resentment of tax rates set to support other public entities may play a role in defeating school property tax issues in Washington.

Less Labelling

In an attempt to limit the labelling of special education students, the 1994 legislature extended and expanded a pilot project known as "less labelling." The program guarantees funding for four percent of a school district's enrollment as Specific Learning Disabled (SLD), regardless the number of identified SLD students.

To be eligible for addition to this project, a district must currently identify four or more percentage of its enrollment as SLD. The current special education funding formula provides a disincentive to identifying SLD populations above four percent since per pupil support levels decrease when the percentage of students identified as SLD rises above this level. The expanded program seeks to allow these districts to avoid this penalty and divert the estimated $400 to $900 per pupil they currently spend to determine SLD eligibility into direct services.

These pilot districts have addressed concerns about possible denial of benefits to students who do not receive the handicapped label by performing eligibility testing on any student when requested by parents or staff. In return for "less labelling", pilot districts report that (1) students who would not have met state eligibility criteria receive needed services, while (2) eligible, or likely to be eligible, students receive more services due to lower identification costs. This pilot program reflects an increasing interest by Washington's policy makers in exploring the possibility of "no labelling" with school districts receiving all special education (and possibly all categorical) funding without expensive eligibility testing.

School Finance History

A series of three court decisions in the late 1970s and early 1980s are very influential in setting the constraints within which Washington's school funding system must operate. The first of these court decisions was issued in January 1977. In response to a suit filed against the state by the Seattle School District, Judge Robert Doran established four school funding requirements:

(1) The State's duty to provide ample education for all children is paramount; that is supreme, preeminent, or dominant. It takes precedence over all other obligations facing the State and the Legislature.

(2) The Legislature must define "basic education" and, as a first priority, must make ample provision for funding such a program of education. Funding must be accomplished by means of regular and dependable tax sources and cannot be dependent on special excess levies.

(3) The State's duty goes beyond basic academic subjects. It also embraces broad educational opportunities needed to equip our children for their role as citizens and as potential competitors in today's market as well as in the market place of ideas.

(4) The Legislature may authorize the use of special levies to fund programs, activities, and support services which the State is not required to fund.

Following this decision, the Washington Legislature put into place two pieces of legislation: (a) The Washington Basic Education Act of 1977, which defined basic education in terms of goals, educational programs, and the distribution of funds; and (b) The Levy Lid and Salary Control Act that sought to limit the amount of revenue school districts could raise through local taxation and the salaries school districts could pay to school employees. Except for some relatively marginal tinkering, most of which have focused on creating exceptions to the levy lid and to teacher salary controls, the funding system developed in 1977 remains in place today.

ONTARIO, CANADA

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SCHOOL FINANCE POLICY ISSUES IN ONTARIO

- "Social Contract" to control wages
- Changes in General Legislative Grants

Ontario's "Neo-Corporatist" Approach to Cost Containment

In early 1993, as it prepared the provincial budget for the 1993/94 fiscal year (April 1, 1993 to March 31, 1994), the government of Ontario realized that it confronted fiscal crisis: the unexpectedly slow recovery of the province's economy from the recession that started in late 1989 meant that the province's anticipated deficit for the fiscal year would increase to $16 billion From $10 billion the previous year. Concern about the provinces cumulative deficit, already about $70 billion, and possible downgrades of its debt by bond rating services, meant that some action had to be taken.

The conventional step, already adopted by a number of Canadian provinces and U.S. states, would have been to enact a freeze or cuts in provincial transfer payments to school boards and other groups, and to enact a pay freeze for government employees. The government of Ontario, under New Democratic Party (NDP) Premier Bob Rae, was not conventional. It chose a distinctive approach that involved three measures, each meant to save $2 billion in revenue or savings annually: a tax increase, an Expenditure Control Plan, and a "Social Contract" for employees in the "broader public sector."

To begin, the government identified what it termed the "broader public sector composed of eight groups of public employees: the Ontario public service, health, community services, elementary and secondary schools, community colleges, universities, municipalities, and other board, commissions and agencies. To save the $4 billion it deemed necessary to maintain the annual provincial deficit at $10 billion, $2 billion was to be saved by reducing services and $2 billion by negotiating a "social contract" with each of the sectors, with the amount to be saved based on that sector's share of public funds. In political philosophy, the phrase "social contract" resonates with ideals set forth in Jean Jacques Rousseau's *Contrat social* for a just society based on the mutual consent of all of its members. In the hands of the government of Ontario, it became something quite different, something which is perceived by many as the antithesis of genuine social contract. For elementary and secondary schools, which had $10.3 billion devoted to salaries and benefits, the "social contract savings" were to be $535 million - or approximately 5 percent of total wages and benefits.

To accomplish this end, the government assembled sectoral bargaining groups and attempted to enter into tri-partite (government, management, and labour) negotiations to create "sectoral frameworks" which would allocate the burden of fiscal reductions in a way that would avoid layoffs wherever possible. It early suggested that most of the burden should fall upon higher income categories, which included most teachers.

No affected individuals or groups were pleased with this proposal; objections were numerous. The government's proposal would require re-opening or over-riding of existing agreements, many of which had

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been agreed to through a process of collective negotiations under the province's labour relations legislation. Unions called the proposal an assault on "free collective bargaining" -- and by a socialist government yet!

Discussions, if not negotiations, began mid-April 1993, but it quickly became apparent that the government needed a fall-back position in case the social contract negotiations failed. Ultimately, Bill 48, The Social Contract Act, was drafted and received first reading in the provincial legislature. It would come into effect on June 14 if negotiations had not been successful by that time.

The *Social Contract Act, 1993* included nine significant provisions:

1. the Minister responsible for the administration of the Act was authorized to establish expenditure reduction targets for the various sectors and employers in the public sector;
2. the creation of a Public Sector Job Security Fund, set at $300 million;
3. a structure was provided for negotiated settlements to achieve the expenditure reduction targets at both the sectoral and local levels for bargaining unit employees;
4. a structure was provided for non-bargaining unit employees;
5. a set of failsafe provisions to take effect August 1, 1993 if no agreement or plan was reached so that employers would be able to implement expenditure reduction targets through freezes in compensation and, if freezes would not produced the necessary savings, through unpaid leaves;
6. those earning under $30,000 annually were given an exemption;
7. the Province was authorized to reduce payments to public sector employers and, if necessary, require payments from them.
8. regulations would be written and approved by cabinet to implement theAct; and
9. provision was made to apply the Act to members of the legislature and other office holders, whether elected or appointed.

Application of the Act

Initially, Ontario's teachers, many of whose leaders were traditionally supporters of the NDP, were outraged by the Act, seeing it as a direct assault on the rights to collective bargaining that the teachers' federations had been granted under provincial law. Days off without pay have come to be called "Rae Days" in Ontario; to which our witty premier comments: "Better a Rae Day than no pay day," arguing the savings translate into a savings of 40,000 jobs in the broader public sector were the cuts have been accomplished through layoffs McInnes, 1994). The public sector, of course, would have preferred neither, and argue that the money that has been taken out of the public sector has slowed the province's economic recovery.

In order to minimize the impact of Rae Days on the public, school boards and teachers have agreed to schedule the days on what would otherwise be professional development days. But the application of much of the sectoral agreement is unclear; the haste of its drafting is creating an opportunity for extended legal proceedings. "After the sectoral agreements were signed last August, the Ontario Public School Boards' Association (OPSBA), the provincial government, and the teachers' federations started to negotiate a non-binding interpretive agreement [referred to as a "template"] for local use. Those talks fell through and unsettled issues have been set to arbitration" (Ferguson, 1994, p. 16).

To facilitate downsizing and restructuring, the *Social Contract Act* included the creation of a $300 million Job Security Fund. Curiously, by mid-January 1994, only 82 persons had applied for funds (McInnes, 1994).

The Act and its implementation galvanized the 34 affected unions to form the Public Services Coalition in May 1993, dedicated to "see that 'The Social Contract Act' is repealed" and "To take the leading role in the defense of all public services in Ontario, delivered or funded by the provincial government". At its first meeting of 1994, the Coalition adopted motions to "press the Ontario government to introduce legislation to prohibit the privatization and contracting out of services and jobs by publicly-funded school boards and other agencies throughout the Ontario Public Services sector" (Public Services Coalition, n.d.).. The Canadian Union of Public Employees sees an opportunity being provided by the "social contract". "We have talked for many, many years about co-ordinating our bargaining efforts," write its officers. "Bill 48, the *Social Contract Act*, has provided us with the opportunity to do just that. The vast majority of CUPE locals have opted to extend their collective agreements until March 31, 1996 [the date on which the Act's three year wage freeze ends]. This in effect means practically all CUPE collective agreements come open on the same day. . . . Think about the bargaining power that will give us. For instance, every municipality in the province will be faced with the same bargaining agenda at the same time. For the first time in CUPE history, we will be able to marshal the full force and strength of our 170,000 members behind a common set of bargaining objectives. **We will be able to give new meaning to the word solidarity**" (Ryan & O'Connor, p. 2).

Political Philosophy and the Social Contract

Underlying the NDP's social contract and Rousseau's *contrat social* is the assumption that the polity (in this case the residents of Ontario) compose a corporate entity that acts as a collectivity. The NDP governments move toward tri-partite (government, labour, management) bargaining is in the corporatist tradition of a centralist state acting to form and direct the social order to benefit everyone. The definition of "benefit" is, of course, made by those with the power and authority to do so. It is an approach to governance that has been used in the extreme by various totalitarian governments in this century and in a weaker form by social democratic governments in Western Europe, including Germany and Sweden. Indeed, the co-management of the private sector in the latter two nations, with employees sitting on company boards and industry-wide bargaining, has been set forth as a model for Canada to follow. The irony in this is, of course, that Sweden and Germany are both involved in a process of lessening the role of government in order to restore a greater functioning of the market -- as opposed to regulation and subsidy -- to their national economies.

Changes in General Legislative Grants for 1994/95

The April 15, 1994 release of revisions to the school grant plan indicated the government confirmed the government's continuing commitment to equity and efficiency. It increased the "grant ceilings" -- the maximum amount per pupil on which the province pays grant -- to $4,134 for elementary students and $5,066 for secondary students, increases of $100 each. As well, the "standard mill rates" (which, if levied, earn a school system the maximum per pupil grant), were increased by six percent. The province's total contribution was reduced by $50.5 million, to $4,759.2 million, to reflect reduction of the Expenditure Control Plan.

The net effect of these changes in parameters of the GLG is to "free up" funds from school systems with above average per pupil assessments (by reducing their grants amount equivalent to that raised by the six percent mill rate increase) to be used to pay for increases to the school systems with below average assessment. Given that taxpayer groups are pressing for zero increases in mill rates, many school systems of above average assessment per pupil will have to reduce expenditures to ensure that actual mill rates do not increase. Underlying this reallocation of provincial resources is the assumption that per pupil assessment adequate reflects the "ability to pay" on the part of school system residents, an assumption questioned in reports of the government's Fair Tax Commission.

The "social contract" savings of $425 million is designated as "a permanent reduction in the GLG base, although during "the social contract period, the required savings will be recovered directly from school boards. . . . At the conclusion of the social contract period [on March 31, 1996], the $425 million reduction will be rolled into the GLG funding formula through an adjustment to the grant parameters, which could include such items as the grant ceilings and the standard mill rate" (MET, April 22, 1994, p. 1). The message is unequivocal that the government wishes to dampen expectations of a restoration of expenditure levels at the end of the "social contract".

Conclusion

The government of Ontario took a unique approach to controlling government expenditures on education, one that, in spite of centralizing tendencies, preserved the basic structure of the existing school finance plan. Indeed, by changing parameters -- the grant ceiling and standard mill rate -- it reallocated resources to benefit school systems with lower per pupil assessment.

In spite of the message that the reduction in funds for education are intended to be permanent, the stage is nevertheless set for a major confrontation between government and public sector employees when the legislation controlling wages and benefits ends.

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FISCAL ISSUES, POLICY, AND EDUCATION FINANCE

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