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EDITOR'S FOREWORD

This issue, as well as the previous issue, of *Educational Considerations* is devoted to the concept of financing public elementary and secondary education in the United States. Twice each decade, the editors attempt to offer a broad, yet state specific, overview regarding the financing of schools for state and local policy makers. In this manner, policy makers and researchers may discover what other states are accomplishing regarding the financing of public education. This issue, as well as the previous issue, presents data and analysis of selected states. As such, we are well aware that generalities are difficult to accurately structure regarding what is essentially a state and local function. Nonetheless, we believe that the current issue once again presents some of the leading commentators regarding the activities of various state legislatures.

The overall trends reflect, without a doubt, the reality that the reform movement in public education has finally discovered that fiscal resources must follow in order to make for meaningful and significant change. Another trend is a growing awareness and hostility toward the property tax. This, as discussed earlier, will continue to have a significant impact concerning the financing of public education in every state. Finally, one is struck by the differences, and yet the similarities, of the issues that are unique to each state. As the editors have written for many years, the financing of public elementary and secondary education continues to be one of the most important public policy topics that every state legislature faces virtually every year.

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educational considerations

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From 1985 to 1996, current expenditure per ADA increased . . . 83 percent.

Arkansas School Finance

Mary F. Hughes

Introduction

In 1836, Arkansas was the 25th state to be admitted to the Union. Article XIV of the Arkansas Constitution of 1836 required the state to provide a general, suitable, and efficient system of free public schools. In 1843, the first school law was enacted creating a system of common schools. The law stipulated that financial support was to be obtained from tuition, contributions, and the interest on funds derived from the sale of the sixteenth section lands. The law also created a school commissioner in every township having five families and fifteen children.¹ The Constitution of 1868 provided for support of common schools by taxes (not to exceed two mills per year on property) and by annual per capita tax of one dollar on males over the age of 21. In 1996–97, the state provides over 60 percent of total public school funding through a two level guaranteed minimum funding program per student.

An integral part of the current method of funding public schools is the Arkansas Constitution. Arkansas has had five constitutions: 1836, 1861, 1864, 1868, and 1874. From 1874 to 1991 (118 years), 169 amendments were proposed to the 1874 Constitution with 81 adopted. Eight related to education.² Two recent amendments have a considerable effect on public school funding: Amendment 59 (1980), that provided for a statewide property reappraisal and millage rollback; and Amendment 74 (November 1996) that provided for a uniform 25-mill levy on assessed property in each school district for the funding of maintenance and operations.

Local School District Tax Revenue

Property Tax

Amendment 59 (adopted in 1980) requires taxing units to roll back millage rates when the aggregate value of taxable real and personal property results in an increase of 10 percent or more over the previous year following a reappraisal report. In a study by the Winthrop Rockefeller Foundation (1990), *Arkansas 10 Years After Amendment 59: School Funding Under Stress*, the problem of Amendment 59 for local school district funding was explained:

Following approval of Amendment 59, the legislature passed Act 848, which implemented the provisions of the amendment. Beginning in the year in which the property in a county was reappraised (the base year), no increases in that county's total personal property taxes are permitted. According to Act 848, as the value of assessed personal property increases annually, the millage rate is adjusted downward in the same proportion that the assessment base increases. When the personal property millage rate equals the rate applied to real prop-

erty, no further adjustment will be necessary, and both real and personal property (not including utility property) will subsequently be taxed at the same rate.

Assessed Valuation

The total assessed valuation of the school district equals the assessed valuation of Real Property, Personal Property, and Utilities and Carriers Property. Property is to be assessed between 18 and 22 percent of market value. In 1993, the average assessment rate was 18.18 percent; 20.25 percent in 1995; and 18.6 percent in 1997. In 1997, the assessment rate among the counties ranged from 14.56 percent to 20.22 percent of market value.

Amendment 74 provided for a uniform 25 mill rate on assessed property at a 98 percent collection rate, effective July 1, 1996, for maintenance and operation costs. If voters in a district fail to pass proposals that would meet the minimum requirement, taxpayers in the district will be required to pay a 10 percent state income tax surcharge. The surcharge would begin with the 1996 taxes, due in May 1997. Also, those districts would be prohibited from starting any new school construction projects.

Litigation

In 1983, the Arkansas State Supreme Court ruled the school finance system under Act 1100 of 1979, the Minimum Foundation Program, unconstitutional in *Dupree v. Alma School District No. 30*.³

During 1994, Arkansas's system of school finance suffered two court challenges. The first case, *Lakeside School District v. Arkansas State Board of Education*, quickly determined that the state was not correctly following its own formula and adjustments to state contributions to many districts were mandated.⁴

Arkansas's revised school-finance system was struck down again in *Lake View School District v. Tucker*. Judge Annabelle Clinton Imber ruled that "although money is not the only measure of equity, there is a correlation between the money spent and the quality of education received." Judge Imber ruled Arkansas's school funding system unconstitutional because the system based distribution of funds on maintaining local control—not a legitimate governmental reason to uphold the system. The decision passed down on November 9, 1994, allowed the state two years to provide appropriate legislation to repair the problem. The legislature passed Act 917, The Equitable School Finance System Act of 1995, during the next session to correct the funding problem.⁵

Current Funding Formula

Equitable School Finance Act of 1995 (Act 917 of 1995)

Amended by Act 1307 of 1997

School Funding

In general terms, there are two levels of state equalization of student funding. The first level equalizes local school district revenue per student in average daily membership to a minimum level (about \$3,759 per student in 1996–97). In the second level of equalization, specific funding categories are added to the first level of equalized student funds and if the total is less than the Federal Range Ratio (\$3,904 per student in 1996–97) the state adds additional funds. Following is an informal and formal overview of the first level of equalization of student funds.

Level I—Informal View: State Equalization of Local Revenue to a Minimum Level per Student

1. From aggregate available revenue determine the state minimum funding per student.
2. Determine the local school district revenue per student.

Mary Hughes is Assistant Professor, University of Arkansas

3. With state funds, increase the local school district revenue per student to the level of the state minimum funding per student.

The following is the formal explanation of Level I Equalization:

Base (or minimum) Local Revenue Per Student

- (1) The total available state aid for State Equalization Funding per student;
- (2) Ninety-eight percent (98%) of the uniform rate of tax* times the total state assessed valuation; and
- (3) Seventy-five percent (75%) of the average Miscellaneous Funds** collected in the previous five years or previous year, whichever is less; and
- (4) By dividing the sum by the total state average daily membership (ADM) for the previous year.

[(Assessed Valuation X 25 Mills X 98%) + (75% of the average previous five years Miscellaneous Revenue or the previous year, whichever is less)] divided by previous year ADM.

*Uniform rate of tax means a uniform rate of ad valorem property tax of twenty-five (25) mills to be levied on the assessed value of all taxable real, personal, and utility property in the state to be used solely for maintenance and operation of the schools. In calculating the uniform rate of tax the following categories of millage may be utilized to meet the minimum base millage requirement:

- (A) The local school district's maintenance and operation millage;
- (B) The dedicated maintenance and operation millage;
- (C) Excess debt service millage; and
- (D) The millage derived from the ratio of the debt service funding supplements divided by the total assessment.

**Miscellaneous Funds: Those funds received by a local school district from federal forest reserves, federal grazing rights, federal mineral rights, federal impact aid, federal flood control, wildlife refuge funds, severance taxes, funds received by the district in lieu of taxes, and local sales and use tax dedicated to education.

State Equalization Funding per Student: The amount of state financial aid per average daily membership (ADM for the previous year) provided to each Local School District, calculated by subtracting the Local Revenue Per Student from the Base Local Revenue Per Student.

Base Local Revenue/ADM - Local Revenue per ADM = Equalization Funding per ADM

Level II Equalization

The following is the formal explanation of Level II Equalization.

Total State and Local Revenue per average daily membership means in each local school district, the amount calculated by taking the sum of:

- (A) The local school district's uniform rate of tax times ninety-eight percent (98%) of the district's assessed valuation; and
- (B) The local school district's additional mills for maintenance and operation times ninety-eight percent (98%) of the district's assessed valuation; and

- (C) The local school district's miscellaneous funds; and

- (D) State equalization funding
 - Student classroom teacher funding
 - Student unit funding
 - Vocational funding
 - General facilities funding and
 - Student growth funding

- (E) The sum of A through D divided by the average daily membership of the local school district.

Minimum State and Local Revenue Per Average Daily Membership

An amount no less than eighty percent (80%) of the total state and local revenue per average daily membership of the local school district at the ninety-fifth (95th) percentile*. [Federal Range Ratio]

Minimum State and Local Revenue/ADM (95th %tile School District) Less Local School District State and Local Revenue/ADM = Additional State Funding/ADM for Local School District

After determining the amount of Total State and Local Revenue per ADM the Department of Education shall provide any additional base funding necessary to ensure that the Total State and Local Revenue per ADM of each Local School District is no less than the Minimum State and Local Revenue per ADM.

* Local school district at the ninety-fifth percentile means when ranking districts in descending order by the total state and local revenue per average daily membership, the district which falls at the ninety-fifth percentile of the total number of pupils in attendance in the schools of this state.

Beginning with the 1996-97 school year, the Department of Education shall provide from available funds, the following school funding categories, in the priority listed, to local school districts:

- (A) Category 1. State Equalization Funding Per Student;
- (B) Category 2. Student Classroom Teacher Funding;
- (C) Category 3. Student Unit Funding; and
- (D) Category 4. Student Needs Funding.

No subsequent category of funding shall receive any funding until each prior category is fully funded. If any category of funding, excluding category 1, is only partially funded, each local school district shall receive a pro rata share. However, if the General Assembly determines that any element of categories 3 or 4 needs to be funded before full funding of any preceding category is achieved, then that subset of either category 3 or category 4 shall be funded exclusive of the previously-listed categories.

Category 2. Student Classroom Teacher Funding

The state financial aid provided to each local school district, calculated as an amount equal to one hundred twelve percent (112%), times one thousand six hundred and thirty-three dollars (\$1,633) per average daily membership. [Some items have received line item funding.]

Category 3. Student Unit Funding

The state financial aid provided to each local school district calculated as follows: by dividing the total funds available for textbook aid, alternative education, including gifted and talented education programs, restructuring, and staff development by the total state average daily membership for the previous year and multiplying

by such local school district's average daily membership for the previous year. [Some of the items have received line item funding.]

Category 4. Student Needs Funding

The amount of state financial aid provided to each local school district from available special education funding, vocational education funding, at-risk funding, isolated funding, and transportation aid and any other categories of student needs funding which may be subsequently identified pursuant to rules and regulations promulgated by the State Board of Education. [Some line item funding, otherwise, must come from Category I funding.]

Line Item Appropriations

Beginning with the 1996-97 school year, the following areas shall be provided to local school districts from available funds in a line item appropriation within the Public School Fund:

- General facilities funding
- Growth facilities funding
- Isolated funding
- Student growth
- Debt service funding supplement
- Students with Limited English Proficiency
- Catastrophic loss funding
- High cost special education students and
- At-risk students

Comparison of the Previous School Aid Formula and the Current

The previous school aid formula, the Minimum Foundation Program Aid was based upon weighted average daily membership. Special education, vocational aid, gifted and talented, alternative programs, summer school, limited English proficient students, and compensatory education had student weightings. Transportation aid was based on the number of students transported, routes, and density.

The current school aid formula combines all the current aid provisions detailed above into one item of aid-per-student in average daily membership (ADM). The concept of varying needs based upon the composition of the student population, the program of instruction provided, the geographic terrain, or other factors is not considered under the new formula.⁶

Cost Shifting—Employee Retirement and Insurance

Beginning in 1996-97, local school districts will be responsible for paying 12 percent of covered salaries to the public school retirement program and the entire responsibility for funding the portion of employee insurance formerly paid by the state, about \$1,260 per employee. For many years, the state retirement contribution was deposited through direct payments to the Arkansas Teacher Retirement System as a result of a line item appropriation for this purpose.⁷

The author of the study, *Arkansas School Funding Plan*, noted that when a listing of state aid for each district is published for 1996-97 and a comparison is made to total state aid distributed to local districts during 1995-96, a large increase will be evident. However, he stated, in order to determine the real difference, it is necessary to compute the payments which become the responsibility of local school districts during 1996-97 in areas which were paid directly during 1995-96. For example, total state aid distributed to the Fort Smith School District during 1995-96 was \$22,270,039. Anticipated state aid during 1996-97 should approximate \$29,207,326. At a cursory glance, the difference in this revenue is almost \$7 million. However, he pointed out, it is important to note that more than \$6.7 million in teacher retirement state matching and employee health insurance payments which were previously paid direct by the state become the responsibility of the School District during 1996-97. The real change in net state revenue to the Fort Smith School District may be no more than \$200,000.⁸

Other Expenditure Requirements

In addition to specific expenditure requirements that are earmarked in Act 917 of 1995, school districts must provide funding for other programs such as: textbooks and instructional materials, summer school (grades 1-5), compensatory education, educational programs for students with limited English proficiency, professional development programs for teachers and administrators, salaries and social security matching for all non-teaching staff members.⁹

Overview of School Funding in Arkansas

From 1985 to 1996, current expenditure per average daily attendance (ADA) increased from \$1,980 to \$3,620, an increase of \$1,640 per student or 83 percent. Average daily attendance increased 12 percent (44,531) in the ten year period and the number of K-12 teachers increased 19 percent (4,683). Average K-12 teacher salaries increased 57 percent

Table 1
Arkansas School Finance—Fifty Years
1945-46 to 1995-96

Year (School Districts)	Current Exp/ ADA	ADA	Teachers K-12 Avg. Salary	Teachers K-12 Number
1995-96 (312)	\$3,620	420,901	\$29,964	29,344
1994-95 (312)	\$3,488	418,087	\$29,354	28,877
Range 94-95	\$7,008-\$2,797	21,324-82	\$33,904-\$20,232	1,729-12.8
1993-94 (315)	\$3,315	414,065	\$28,508	28,550
1985-86 (361)	\$1,980	376,370	\$19,097	24,661
1975-76 (385)	\$700	423,648	\$8,489	20,974
1965-66 (412)	\$275	404,874	\$4,143	17,364
1955-56 (423)	\$130	363,580	\$2,332	14,016
1945-46 (2,345)	\$54	315,742	\$937	12,770

Source: Arkansas Department of Education, *Statistical Summary for the Public Schools of Arkansas, 1988-90; Rankings of Arkansas School Districts 1984-85 & 1983-84; Annual Statistical Report, 1993-94 Actual, 1994-95 Actual, & 1995-96 Actual*

(\$10,867) during the same period. In summary, current expenditure per ADA increased 83 percent; ADA, 12 percent; the number of K-12 teachers, 19 percent; and K-12 average teacher salaries, 57 percent (see Table 1).

Over a 50 year period (1945-46 to 1995-96), current expenditure per ADA increased 6,604 percent; the number of students in ADA increased 34 percent; the number of K-12 teachers, 130 percent; and K-12 teacher salaries increased 3,098 percent. During this 50 year period, the percentage increase in expenditure per pupil was twice the percentage increase in teacher salaries and the percentage increase in the number of teachers was almost four times greater than the percentage increase in the number of students.

In 1945-46, Arkansas had 2,345 school districts. In 1995-96, the number had decreased to 312. There are 75 counties in the state with several school districts located within each county. School district boundaries can cross county lines.

Even though the state school funding formula incorporates average daily membership (ADM), the reports by the State Department of Education incorporate average daily attendance (ADA). Dividing current expenditure by ADM vs. ADA would result in a lower amount per student than displayed in Table 1.

Table 2
Arkansas
Percentage of Expenditure Source
Federal, State, and Local

	Federal	State	Local
1965-66	20%	43%	37%
1975-76	16%	51%	32%
1985-86	10%	61%	29%
1991-92	9%	62%	29%

Source: Arkansas State Department of Education, *Statistical Summary For the Public Schools of Arkansas, 1990-92*.

State, Local, and Federal Funding

In 1965-66, 20 percent of total public school revenue was from the Federal government. The state provided 43 percent of total funds and the local school district, 37 percent. In the

Table 3
Selected and Total Appropriations—Arkansas Public School Fund
1995-96—1998-99

	1995-96	1996-97	1997-98	1998-99
State Equalization Funding	\$1,029,047,124 Min. Foundation	\$1,228,000,000	\$1,349,390,985	\$1,396,195,199
Student Growth Funding	0	\$29,000,000	\$23,500,000	\$25,000,000
General Facilities Funding	\$9,500,000	\$10,000,000	\$10,000,000	\$10,000,000
Growth Facilities Funding	\$4,100,000	\$5,000,000	\$5,000,000	\$5,000,000
Debt Service Funding Supplement	0	\$20,000,000	\$23,000,000	\$24,500,000
Additional Base Funding	0	\$20,000,000	\$20,000,000	\$20,000,000
Student Classroom Teacher Funding	0	\$530,000,000	0	0
Student Unit Funding	0	\$30,000,000	0	0
Student Needs Funding	0	\$250,000,000	0	0
Isolated Funding	0	\$2,500,000	\$4,652,568	\$4,931,722
Incentive Funding I	0	0	\$18,000,000	\$18,000,000
Teacher Retirement Matching	\$130,000,000	\$1,600,000	\$2,843,833	\$2,995,928
Public School Employee Insur.	\$42,815,000	\$480,500	\$736,530	\$774,722
Transportation Aid	\$50,000,000	0	\$8,200,000	\$8,200,000
Special Educ.	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Early Childhood Special Educ.	\$4,197,400	\$4,591,140	\$4,997,400	\$4,997,400
Gifted & Talented	\$1,942,896	\$1,942,896	\$1,942,896	\$1,942,896
Aid to Isolated Dists.	\$175,000	0	0	0
At-Risk Grants & Training	\$30,005,000	0	\$3,500,000	\$3,500,000
Total State Appropriation *	\$1,331,011,563	\$1,456,697,089	\$1,517,199,521	\$1,569,444,351
80% of 95th %tile School Dist.		\$3,904		

Source: *School Laws of Arkansas: Acts of 1997*, Appropriations, General Education Division, 1995-97 & 1997-99 Biennium, Little Rock: Arkansas Association of Educational Administrators.

* Total State Appropriation: Column totals will not equal total state appropriations due to selected categories.

1990s, over 60 percent of total funding is provided by the state and the federal share has reduced to under 9 percent (see Table 2).

Arrayed in Table 3 are selected appropriations to the Arkansas Public School Fund for 1995-96 through 1998-99.

Endnotes

1. T.M. Stinnett & Clara B. Kennan, *All This and Tomorrow Too: A History of the Arkansas Education Association* (Little Rock: Arkansas Education Association, Pioneer Press, 1969), p. 18.
2. Kay Collett Goss, *The Arkansas State Constitution: A Reference Guide* (Westport, CO: Greenwood Press, 1993), p. 14.
3. *Dupree v. Alma School District No. 30 of Crawford County*, 279 Ark. 340, 651 S.W.2d 90.
4. Lawrence Santi & James Metzger, *Educating Arkansas: Public School Funding in the 1990s* (Little Rock: The Winthrop Rockefeller Foundation, January 1997), p. 6.
5. *Ibid*
6. Benny L. Gooden, *Arkansas School Funding Plan: An Analysis and Opinion* (Fort Smith, Arkansas: Fort Smith Public Schools, June 1996), p. 9.
7. *Ibid*, p. 15.
8. *Ibid*, p. 35.
9. Kellar Noggle, "Public School Finance Formula: Act 917 of 1995; Public School Appropriations, Act 1194 of 1995" (Little Rock: Arkansas Association of Educational Administrators, June 25, 1996).

Privatization has failed in Connecticut and public educational reform . . . is alive and well.

STATE OF THE STATE: CONNECTICUT

Harvey B. Polansky

To truly understand the complex financial dilemma that faces the state of Connecticut, an understanding of the terms disparity and equity must be defined. Connecticut faces great financial challenges as the state races towards the new millennium. Issues that undergird the financial picture in Connecticut include state mandated integration, unfulfilled state mandates and unfulfilled legislative promises. That, combined with dramatic enrollment growth, places Connecticut in a unique and unenviable position in its fiscal management of the state's 169 school districts.

To understand Connecticut's dilemma is to understand the state's geographical make-up. From the wealthy gold coast of Fairfield County to the rural qualities of the northern part of the state, Connecticut represents a state in turmoil.

Two Connecticuts

Broderick (1997)¹ noted that "forty-two years ago, the landmark US Supreme Court decision, *Brown v. Board of Education* (1954) found that the doctrine of separate but equal had no place in this country. Yet, even today, the state of Connecticut is struggling to find remedies to the de facto segregation that finds 80 percent of the state's minority school children enrolled in only 18 of the state's 169 school districts."

In July of 1996, the state supreme court reversed a lower court ruling in a case called *Sheff v. O'Neil* (1996) and found in favor of the plaintiffs, 17 Hartford area school children. Back in 1989, Milo Sheff, a sixth grade student at Fox Middle School in the city of Hartford, filed suit along with 16 other African American and Latino students against then governor William O'Neil. The suit charged that the state of Connecticut violated its own state constitution, limiting the educational opportunities of inner city youths. In the suit, the plaintiffs alleged that inner city students do not receive the same educational opportunities as do the other students in suburban and rural communities. The suit contended, as Broderick noted, that inner city youths must receive "an equal and unsegregated education."

The court initially ruled in *Sheff* (1995) that there was no basis for the suit and that there was no state action which had created the educational disparity. A year later on appeal, in a 4-3 decision (known as *Sheff II*)², the state supreme court ruled that Connecticut as a state had indeed violated the rights of inner city students, and found that district boundaries (which in most cases reflected town boundaries) have caused unconstitutional segregation, and that racial isolation has deprived

students of a substantially equal educational opportunity. The court however, did not prescribe any remedy to the situation and order the state's legislative bodies to remedy the crisis. After the court ruling, much debate has focused on remedies to the state's racial isolationism.

Background

The genesis of the *Sheff* case was forged in a report of then state Commissioner of Education Gerald Tirozzi. In this 1987 report entitled *Racial Ethnic Equity and Desegregation in Connecticut Schools*, Tirozzi outlined the challenges that the state faced. In the report Tirozzi noted that there were "Two Connecticuts" and contained data that reflected the economic and racial isolation in the state. The report noted that in 1987, minorities enrolled in Connecticut schools represented almost double of the racial population of the general population of the state; 25 percent of Connecticut's school children were minorities while only 13 percent of the general population were people of color. The report noted that 98 percent of the state's school districts had minority populations of less than five percent. The report went on to note the statistical crisis that urban living created. The state responded with a two tiered process for developing regional plans to improve and benefit all Connecticut public schools. In the six regions of the state, grass root forums were organized to seek out solutions to deal with this racial isolationism. However, while many regions sought creative remedies (charter schools, resource sharing and magnet schools), only one of six regions voted in favor of the plan. Funding and clear state direction continue to plague an already volatile crisis. It is clear that while racial isolationism plays a prominent role in the financial picture in Connecticut, special education and funding formulas continue to be of concern.

Funding—State Aid or Not?

Connecticut has had a long history of financial reform and a debate on the issue of local and state control. To understand the present Connecticut Equalized Cost Sharing Formula, one must first revisit the court mandated Guaranteed Tax Base that was in effect until 1988³. Advocates of the GTB, according to Jones⁴, claim that this plan maximizes local control, taxpayer equity and local school efficiency. At the time of the implementation of the GTB in 1978, Connecticut was one six states at the time still giving aid in the form of a flat grant.⁵

However, the state's failure to fund the GTB formula, created greater disparities among the state's 169 districts. This, coupled with the failure of the military dependent economy in Connecticut, forced the legislature to disband the GTB and seek other remedies in funding the Connecticut funding formula. The legislature in 1988 developed the Equalized Cost Sharing Formula.

Equalized Cost Sharing

According to the Connecticut Conference of Municipalities special report entitled *Connecticut's Equalized Cost Sharing (ECS) Formula: Changes since 1988* (1997)⁶, the basic mechanism of state aid for public elementary and secondary education in Connecticut has been severely cut since the program started in 1988. The report noted that as originally formatted in 1988, the ECS formula was a "dynamic" mechanism for equalization of educational funding. The original formula noted that at a certain uniform level of property wealth, every one of the 169 municipalities could afford the minimum per pupil expenditure foundation level to educate each child in its public schools. The original formula dictated that if a town fell short of that wealth level, a state grant would be made by the state to make up the difference.

The original formula relied heavily on a variety of demographic and financial indices of the town in setting up the

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wealth level. These included property wealth of the town (Grand List), per capita income, enrollment, student performance based on statewide mastery testing programs, and student poverty levels based on AFDC and free and reduced lunch populations. Yet all data indicated that the revised formula has failed to decrease racial isolationism and has increased speeding disparities among towns. The same Connecticut Conference of Municipalities reports notes that because of the ECS, school districts in the state have received \$868 million dollars less in 1996-97 than they would have received when the formula was first adopted in 1988. The state had not lived up to the expectations or the financial commitment of the ECS formula developed in 1988.

Headlines across the state noted that schools were being "cheated" by the state. *The Connecticut Post* on September 3, 1997 noted; *Schools Are Due \$868m*. The state has short-changed public education by 868 million dollars in 1996-97 and may end up back in court as a result. The paper noted that the "possibility of challenging the constitutionality of the funding level is certainly there".⁷

Similar to debate that eliminated the GTB, the state has failed to keep pace with leading economic indicators. The ECS is the largest of all state aid grants, expending 1.8 billion dollars in 1996-97, covering 39 percent of the towns 4.8 billion dollar educational expenditure. There was a massive retreat from the original goal in 1988 of funding 50 percent of the local expense. In fact the state has never funded the formula as prescribed (sound familiar?). The best the state has done is 45.5 percent in 1990, a gubernatorial election year. Why has the ECS failed? According to the same report, the principal reasons for this failure are:

1. Failure to increase the foundation level. The foundation level is defined in the statute as the minimum amount needed to educate a pupil. It has not been raised since 1988, remaining at \$5,711 per pupil. It was to be set in the original formula at the spending level of the 80th percentile town. The 80th percentile town's per pupil cost for 1996-97 was \$6,284, a shortfall of \$573 per pupil.

Where the money did not go?
Ranking Based on Top 25 Towns Who Have Lost Most Grant Aid and Representative Sampling After Top 25.

MUNICIPALITY	ENROLLMENT October, 1996	1988 FORMULA AID IN 1997 DOLLARS	1996-7 ACTUAL	+/-
BRIDGEPORT	22,442	167,363,891	109,635,778	-57,728,112
HARTFORD	24,148	203,434,736	151,366,789	-52,067,947
NEW HAVEN	19,459	152,621,654	102,276,061	-50,345,593
WATERBURY	14,618	105,548,988	66,749,986	-38,799,001
NEW BRITAIN	9,563	69,217,358	41,652,633	-27,564,725
EAST HARTFORD	7,289	36,348,386	14,616,713	-21,731,673
MERIDEN	8,597	53,700,191	32,333,387	-21,366,804
MANCHESTER	7,843	37,823,062	20,495,918	-17,327,145
WEST HAVEN	7,511	45,248,563	28,797,415	-16,451,150
BRISTOL	8,485	42,866,041	26,798,620	-16,067,420
STRATFORD	7,014	25,071,905	9,204,902	-15,867,003
HAMDEN	6,497	26,336,140	11,559,896	-14,776,244
DANBURY	8,742	27,189,692	13,017,694	-14,171,998
MILFORD	7,250	23,039,099	8,916,877	-14,122,222
WALLINGFORD	6,925	28,882,660	16,306,676	-12,575,984
NAUGATUCK	5,708	33,315,441	21,722,532	-11,592,909
ENFIELD	6,847	33,205,635	21,697,925	-11,507,711
WEST HARTFORD	8,615	14,963,456	3,863,434	-11,100,022
EAST HAVEN	4,094	22,028,565	11,870,496	-10,158,066
SOUTHINGTON	6,523	24,592,382	14,725,596	-9,866,806
TORRINGTON	4,966	25,444,415	15,588,316	-9,856,099
NORWICH	5,633	34,398,950	24,755,878	-9,643,072
GROTON	6,221	32,344,526	22,707,442	-9,637,084
GLASTONBURY	5,397	11,584,013	2,787,000	-8,797,013
NEW LONDON	3,320	24,706,587	16,207,155	-8,499,431
WINDSOR	4,381	14,931,771	7,102,247	-7,829,524
NORWALK	10,649	14,843,726	8,334,290	-6,509,437
STAMFORD	14,387	10,724,029	4,238,778	-6,485,251
EAST LYME	2,806	10,909,236	5,074,113	-5,835,123
BETHEL	3,243	11,846,578	7,704,716	-4,141,862
TRUMBULL	5,470	5,963,784	2,071,216	-3,861,569
GREENWICH	7,686	4,247,738	519,146	-3,728,592
WESTPORT	3,993	2,653,594	474,156	-2,179,438
WATERFORD	2,830	1,774,157	416,180	-1,357,977
DARIEN	3,275	1,393,324	499,162	-894,162
WARREN	1,243	214,684	52,558	-162,126

Data Provided by the Connecticut Council of Municipalities, 1997

2. In the original formula a Guaranteed Wealth Level was established. This by definition is the property wealth at which a municipality has enough property tax base to support the per pupil foundation level. The states Adjusted Equalized Grand List is based on the ratio of this adjusted grand list. The state has reduced the Guaranteed Wealth Level on three different occasions, resulting in lower grant amounts.
3. While local municipal expenditures have increased due to enrollment increase or negotiated increases, the state has capped the growth on the grant, freezing the grant in 1992 and 1995. This has had a particularly detrimental effect on those towns whose property values have not recovered from the recession during the late 80's and early nineties. While Connecticut's economy has shown growth and recovery over the last two years, the residual effect is still being felt.

The failure of this grant formula may force the state to revisit *Horton v. Meskill* which caused the original GTB to be implemented in 1977 and *Horton v. Meskill II* which promoted the ECS formula.

It is clear that some municipalities have suffered far greater financial hardship than others. Some might say: Connecticut's per pupil expense is exorbitant—look at California. One must first examine cost of living factors and salary issues. Many towns in Connecticut which border affluent Westchester County compete with per pupil expenses two and three times the Connecticut example.

Special Education—Too Much or Not Enough?

In a special study conducted by the Connecticut State Department of Education, painted an alarming picture of booming special education programs. According to this report the *Hartford Courant* noted on September 4, 1997⁹, nearly 14 percent of Connecticut public school children are identified needing special education services. Special education population according to the study, has increase 2.5 times faster than the growth of the total population in Connecticut schools. What is causing this exorbitant growth in the special education population? The study finds:

1. Poor early intervention programs
2. Legal advocacy resulting in decisions made by lawyers instead of educators
3. Ignorance of placement by uncertified administrators making special education placements
4. Not enough programs to deal with children with minor learning disabilities.

The financial fall-out on all of this is local educational agencies footing the bill for most of these special education placements since the state moved to a block grant in 1995. Prior to 1995, categorical grants in special education, adult education and transportation were provided. Districts could predict receivable and acknowledge funds earmarked for special education. Block grants have greatly diminished the return on special education expenditures and have placed far greater burden on the municipality. All reimbursements are provided in the following year, except for catastrophic aid. Cases that exceed five times the districts per pupil cost are reimbursed to the town during the same fiscal year as the expense. Unfunded special education mandates and interpretations of Section 504 and P.L. 94-142 have placed great strain on district budgets. Practitioners believe that most new discretionary funds are being eaten up by special education staff, assessments and programs of inclusion. This, coupled with a decrease in state funding for these programs, places added stress to local budgets.

Data developed by the Connecticut Council of Municipalities in 1997¹⁰ indicate that not only has special education population increased, but special education aid has resulted in a 336 million dollar loss in aid to towns. In the original ECS, special education aid, 19% of all ECS costs were for special education. Because the special education reimbursement was incorporated into the ECS block grant in 1995, it is hard to measure actual loss of aid other than the catastrophic/excess cost reimbursement.

State Response to Alternative Delivery of Programs

The state of Connecticut has aggressively encouraged cooperating districts to develop magnet school programs, charter schools and resourceful inter-district programs. The state has provided seed moneys and increased aid to districts in the form of construction grants and planning funds. Those districts which involve themselves in inter-district programs through the regional service centers are provided with 100 percent construction funding if the program "encourages inter-district programs that diminish racial isolation". Broderick (1997) noted that a Racial and Ethnic Equity Task Force was developed by the state to explore approaches that can be used to improve quality programs and to "provide experiences to children of different racial, ethnic and economic backgrounds. The task force ultimately defined 52 approaches that could be used to improve access to these quality programs. The state in turn has funded a variety of inter-district initiatives that decrease racial isolation. Magnet schools, charter schools and a host of regional initiatives have developed across the state and will continue to play a significant role in the state's focus on racial integration.

Connecticut's Future?

It is apparent that much reform will be required to satisfy the needs of the non-urban towns. Much credit must be given to the state for its sensitivity and financial commitment to the racial integration issue. Yet, many of the local rural and suburban communities resent to some degree the amount of time, energy and resources being funneled into the urban centers. Connecticut's recovery from the recession of the eighties has been slow and this property tax dependent state is still feeling the residue of decreased property tax revenues. This, coupled with an antiquated binding arbitration law and a variety of aforementioned special education mandates, plays havoc on local budgets. This in concert with a dramatic increase in enrollment will place Connecticut at the forefront of service provided or mandate "robber." The legislature is currently revisiting the ECS formula issue, and with an upcoming gubernatorial election, municipalities will place pressure of the state to provide adequate funding for all initiatives.

Privatization has failed in Connecticut (see EAI in Hartford) and public educational reform in Connecticut is alive and well. It must be inclusive and equal across the state.

Endnotes

1. Broderick's article in the April, 1997 issue of *School Business Affairs* deals with the issues surrounding Connecticut's racial integration initiative.
2. The *Sheff* cases provided the judicial framework to eliminate racial isolation in Connecticut.
3. The guaranteed tax base was implemented based on the judicial decision in *Horton v. Meskill* and eliminated the flat grant program.
4. In Jones' text, *Introduction to School Finance*, an eloquent discussion of the GTB is provided.
5. Flat grants were provided regardless of need.
6. The Equalized Cost sharing formula was implemented in response to the failure of the GTB.

7. Current funding of the ECS is inadequate and is ripe for judicial reform.
8. *Horton v. Meskill* was contested in 1977, and is one of many judicial decisions that has impacted Connecticut financial reform.
9. The special report was critical of what the state perceives as larger than necessary special education placements.
10. The Connecticut Conference of Municipalities is an organization supported by municipalities and is a lobbying arm of all the Connecticut municipal governments.
11. Broderick notes that grass root support across the state has failed to bring about a clear and decisive agenda to the racial issue in Connecticut.

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Historically (Hawaii) has had less freedom to manage its finances than most other (school) districts in the U.S.

Public School Finance and Governance Issues in Hawaii

John A. Thompson

Public education in Hawaii is unique in at least two major ways. It is the only state in the union that has a single statewide school district that is governed in part by an elected board of education, and partly by the legislature of the state. It is also the only state in which none of the funding for education is raised through the use of the property tax.

Educational Governance and Finance Past and Present

Centralized government is and has been a concept that has a long history in this state. For example, for other than a period of approximately twenty years circa 1820 to 1840, during which American Congregational missionaries were in charge (and control) of the education of the indigenous Hawaiian population, the governance of public education has always been at the central governmental level. A Minister of Public Instruction, appointed by the king, and later also an appointed board of education governed public education during the period of the Hawaiian Monarchy. A Superintendent of Public Education and an elected board were in charge during the short period of the Hawaiian Republic. An appointed superintendent and an elected board (however, there were some short periods when the boards were appointed) governed during the time when Hawaii was U.S. Territory (1900–1958)(Wist, 1940). Since statehood (1958) a superintendent (appointed by the board) who serves as both a state superintendent and, at the same time, as the chief executive officer of a large local school district; and an elected Board of Education (B.O.E.) are responsible for the governance of the public schools. [Article X, Sections 2–3, Hawaii State Constitution]

However, there were at least four major areas of governance and organization over which the B.O.E. did not have control. Since statehood, and through the preceding periods, the area of educational finance, particularly the levying of taxes and the allocation of funds to the district and often to individual schools, has been under the control of the state, or territorial, or royal legislatures. The board has had neither taxing nor even allocation authority over the funds which were assigned to particular programs and/or personnel. In fact during the last twenty years, and as nearly as can be determined for many years previously, the allocations were not made to the B.O.E.

but instead to the department head, i.e., The Superintendent of Schools in the same manner as allotments to the other executive departments (such as Health, Agriculture, Highways, etc.) of the state. Obviously a potential for conflict between the parties, existed not withstanding the fact the superintendent is and was selected by the B.O.E.

A second area which since 1960 has been centralized at the state level is the provision of school facilities. The royal constitution of 1886 assigned the provision of suitable housing and transportation of students to the county governments of the state. That provision continued in force through the succeeding modes of government until shortly after the admission of Hawaii to statehood. In 1958 the state legislature enacted Chap. 27 H.R.S. which designated "State Functions and Responsibilities." During the 1967 session part II (which dealt with schools) was added:

The following functions and services heretofore performed by the several counties under contractual arrangement with the state, shall be directly administered and performed by the department or departments or divisions of government designated by the governor.

- (1) Planning, construction and improvements of public school facilities and grounds.
- (2) Repair, maintenance, custodial and janitorial services for public school facilities, and
- (3) Transportation of children.

In line with Chap. 26–6 H.R.S. the Department of Accounting and General Services (DAGS) had the responsibility for planning and construction of public buildings so the governor assigned those services along with school repair to DAGS.

Janitorial maintenance and custodial services were assigned to D.O.E. DAGS was also assigned responsibility for student transportation.

A subsequent legislature conveyed title to all school lands and the repayment of the outstanding balances of bonds that had been issued for the construction of schools by the various counties to the state.

Thus, the state through assignment to various executive departments took complete responsibility for school facilities, public libraries, and student transportation.

A third area in which other executive departments of the state and the D.O.E. share responsibility and authority is in the administration of personnel. Three generalizations can be made: (1) all of the teachers, administrators, and classified personnel in the D.O.E. are employees of the state of Hawaii; along with all of the other employees of the state. (2) All of the state (as well as the county) employees, with the exception of certain excluded management, were assigned into one of thirteen collective bargaining units as a result of the passage of Chap. 89 H.R.S. The law requires the governor, through the Office of Collective Bargaining to negotiate the salaries for each group of employees. For example, the teachers are in Unit 5. Therefore, for all practical purposes the governor sets the salary for each Unit 5 employee along with most other state employees since with rare exceptions the percentage increase in salaries has been the same among all the units that bargain under the statute. (3) All teachers in the state are on the same salary schedule so that urban, suburban, and rural teachers with the same amount of experience and education receive equal remuneration. Administrators are treated similarly except that their salary schedule recognizes differences in school size.

All persons hired for positions as classified staff are hired by the D.O.E. but they are placed for salary, longevity, and working conditions into the State Civil Service system. This system is not administered by the D.O.E. but by another executive department, the Dept. of Personnel Services (DPS).

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The department shall administer the state personnel program, including personnel development and training and such central personnel services as recruitment, examination, position classification and pay administration for all departments—to determine that the personnel laws are applied and administered by departments in a manner consistent with the purpose and provisions of the civil service law. (H.R.S. 26-5)

To maintain an accounting of all permanent positions (these are positions which are tenurable and have been established and approved by the legislature for each department of the government) a system of positions numbers was created. These numbers identified the number of positions to which a department was entitled and were assigned by either DPS or DAGS to each individual position in each sub unit of each department. They were permanent to each sub unit and neither the position nor the duties attached to it could be changed without the approval of the department(s) cited above. Thus, for instance, each school would be required to have a position number for a principal, custodian(s), secretary, a specific number of teachers, etc.

Each department of the state has a position ceiling which corresponds to the number of permanent positions that have been allocated to that department, whether or not a position is filled at any particular time. Exceeding the position ceiling is considered a serious matter and may result in the loss of positions or the failure to be granted new positions.

Prior to recent legislation (see following section) the legislature created new positions for the D.O.E. in at least three different ways. (1) By increasing the number (ceiling) of positions, (2) By approving new programs which could include a number of new positions (which might be legislated to be either temporary or permanent), (3) Or by creating permanent positions for specific schools. For example, the present (1994) staffing ratio for intermediate schools mandates one vice-principal when the enrollment reaches 550 students. However, an individual legislator might be successful in having placed into the legislative appropriation bill a permanent V.P. position for an intermediate school in his/her district which has an enrollment that is lower than the state staffing ratio. The result is that in some cases schools with enrollments as small as 187 students have a vice-principal. Thus, a school that is on the staffing ratio whose enrollment declines below 550 will lose its vice-principal, but a school with a "pork" position will retain their V.P. regardless of the size of their enrollment.

Consequently, in the area of personnel which in the D.O.E. is the largest expenditure object, as it is in nearly every school district, the board of education has had almost no control over decisions involving classified staff and very little over creation of positions to be filled by certificated personnel. Other than for emergency hires the legislature has had control of the number and establishment of positions and through the mechanism of collective bargaining the governor and legislature has control of the salaries the employees will be paid.

A fourth area in which the board of education has little authority although they are charged with the responsibility of operating the schools is in the raising of revenue and the allocation of funds. School districts throughout the U.S., with very few exceptions do not have the right to determine the mode of taxation they wish to use to levy taxes for their districts. Legislatures and in some cases the state constitution determines the source(s) of wealth upon which revenue can be raised, but in other states the school districts have the authority to tax in what ever mode the state has prescribed. In Hawaii the D.O.E. has not been granted the right to tax any source of wealth to raise revenue. The result is that the Board has no independent taxing power and is entirely dependent on the legislature of the state to raise sufficient revenue to support the operation and capital requirements of the school district.

At the present time the state has chosen several modes of taxes and user fees to fill the coffers of the state general fund. The major sources are the individual and corporate income taxes which produce twenty four (24.7) per cent of the total general fund revenues, the general excise tax (34.1%), user fees (6.0%), federal funds (13.1%), and the balance from a variety of minor tax sources and transfer payments.

In addition the state has constitutional authority to borrow funds through the issuance of general obligation bonds. During the fifteen years prior to FY 94 the state had not used bonds for the specific purpose of building or repair of school buildings. They had chosen to pay for these expenditures by allocations from general fund revenues.

Have the previously described revenue sources, at the rates that taxes have been levied, been sufficient to adequately fund the public schools? That is a difficult question to answer, since the allocation of funds (which will be discussed next) is a major consideration in the response to that query. General fund tax revenues support all programs of the state government while allocations which are made by the legislature are directed to specific programs such as education.

The percent that is scheduled for allocation to K-12 education in the FY 95-97 budget totals fifteen + percent (15.4) of the total budget. This corresponds to budgets in the 1970's in which highs of twenty seven percent (27.1%) of the general fund expenditures were allocated to public education. Thus, while absolute dollar amounts have risen by about 200% during the past twenty years the proportion of the state budget dedicated to education has declined by approximately 43%. A decline of this magnitude has fueled a controversy over the question of sufficiency (which will be addressed later in this paper). Perhaps it is particularly appropriate since the D.O.E. has no independent source of revenue.

Since there is complete control of the finances of the D.O.E. by the state government a description of the process which results in allocations for public education may be instructive.

The "players" in the budget process are:

The Board of Education. The B.O.E. has the constitutional responsibility to formulate policy and exercise control over the public school system, but it has no power to tax or allocate monies. Its major function in the allocation process is to present to the governor an advisory budget which they perceive is necessary to operate the schools. The board, or its members, occasionally lobby for aspects of the allocation budget later in the process.

Governor. The governor has the constitutional responsibility to present a balanced biannual budget to the legislature. To carry out this function he receives the advisory budget from the B.O.E. as well as from each of the other departments of government. The Department of Budget and Finance (B&F) as part of the executive branch assists in the budget endeavor by forecasting the tax revenues for the upcoming biennium and creating an asking budget that is balanced.

The State of Hawaii uses a program budget format which means that all of the activities of each department are budgeted under of several level III programs. (There are 5 programs in the D.O.E.). The budget is arrayed by department, which is level II, and program within the department which is level III. Within each program the operating budget is predicated in one of three categories of funds:

1. Current services. These are funds which have been allocated in prior budgets to a particular level III program. Once an item (unless specified as non-recurring) has received an appropriation in a biannual budget it becomes a permanent item in subsequent budgets. Each of the current services workload items which is expressed in dollars is increased in each succeeding budget by an amount projected by B&F as suffi-

cient to adjust for economic growth in the state. As indicated earlier this includes the permanent employee count attached to the program.

2. **Workload increases.** This part of the budget is to allocate additional funds, if necessary, to carry out the activities which have been budgeted in the previous section to compensate for additional workload. In the case of the D.O.E. for example more dollars to pay for additional teachers would be allocated if the number of students in the system had increased.

3. **New Programs.** This part of the budget is to fund new initiatives within various departments of the government. If, for instance the D.O.E. wishes to develop a new instructional method, guidance program, or a new alternative education program for a sub-population of students, the funding and new positions would be budgeted in this part of the asking budget.

Another asking budget is developed for capital improvements. In Hawaii this might include anything from remodeling a room in a school to constructing an entire new school.

The governor's budget which invariably differs significantly from the advisory budgets from the various departments, is forwarded to each house of the legislature prior to the session which begins on January 20th of each year.

Legislature. When the governor's budget is transmitted to the legislature, it is distributed to the appropriate matter committees (there is an Education Committee in each house). The chair of the committee reviews the governor's budget, receives a copy of the B.O.E. advisory budget, and spending initiatives from interested legislators (these are entered as spending bills). The chair then holds hearings on the various aspects of the budget. The majority of the committee debate occurs around the third aspect of the governor's budget—New Programs—(the other two Current Services and Workload increases are considered *pro forma*) as well as items from the advisory B.O.E. budget which did not survive into the governor's asking budget, and spending bills from various legislators. At the conclusion of these hearings, the chair of the committee in each house submits to the Speaker of the House or the President of the Senate, their recommended appropriation for education of the biennium. Within the appropriations are amounts earmarked for specific projects often including "pet" projects of legislators which may not have appeared on either the advisory B.O.E. or the governor's budgets.

These recommendations are then forwarded to the "money committees" where each drafts its own appropriations bill. Since the bills from the two houses never agree, a joint appropriations committee is convened and hearings (mostly in closed sessions) are held. Amounts which had been in all of the preceding phases sometimes are changed, some items are deleted, and occasionally completely new items appear. When this Appropriations Bill is passed by the legislature the Department of Education finally knows how much has been allocated by the legislature to expend in each year of the biennium. [Art.VII Sec. 8 Hawaii State Cont.]

Governor. The governor may line item veto appropriations but has not done so during the past 20 years. However, even after he has signed the Appropriations Bill the governor can still regulate the expenditure of education funds. The statutes require the governor to maintain a balance between the quarterly tax revenues and the expenditures. To assist B&F makes a forecast of the revenues of each upcoming quarter. When these estimates are less than projected expenditures the governor can withhold money previously appropriated by the legislature (Chap. 37 HRS).

The Department of Budget and Finance has the authority to determine where the cuts will be made. They often decide on reduction or elimination of a particular project or a freeze on hiring certain personnel. Thus a new money item in education may make it through the appropriation process and still not be

funded due to action by the executive branch. There is no formal appeal route; to protest the cuts made by B&F. During FY 1993-94 the reduction amounted to 3% of the total available appropriation of the D.O.E.

There is no provision in the statutes to allow the D.O.E. to borrow money through issuance of bonds or warrants. Thus, the amount appropriated by the legislature and released by the executive branch is the maximum that can be expended. [Art. III Sect. 9 Hawaiian State Constitution]

Consequently, the D.O.E. does not know precisely the funds they have to expend until they receive notice of any actions taken by the executive branch on the funds previously appropriated by the legislature.

To summarize there are at least four general areas of educational finance which have been the focus of disputes on the operation of education in Hawaii. The centralization of the state government which has been a function of both the history of the state, and an effort to legislate educational equity for the students by control of the expenditures among schools are perhaps the root causes of the current concerns.

Placing the governance of education in the hands of a single board, but denying it the authority to make decisions over significant aspects of the enterprise has caused problems that ultimately impact finance.

Likewise, the interplay between the governance authority and the finance of capital improvements has sparked demands for a reform of this vital component of quality education.

Placing the revenue raising and allocating functions in as large and diffuse group as the state legislature has made it very difficult to both place, and if necessary, remedy the responsibility for finance problems. For example, since state legislators have responsibility for many statewide functions it is very hard to get constituents to vote a legislator out of office because of his/her voting record on a single item such as education. Blaming the board, when it does not have revenue raising or allocation authority is futile. Thus there has been much "finger pointing" throughout the last two decades, but until very recently not much real change in matters dealing with education finance.

The Nascent Reform Effort

During the past ten years the school district in Hawaii has undergone the same vituperation by the press and public as have educational institutions throughout the U.S. However, a peculiar set of circumstances, i.e., a school system operated at the state level, a single political party majority in the legislature and executive branch which has held uninterrupted power for thirty-four years (there are currently eight Republicans in a fifty-four member legislature), a status quo local press, and a historically well entrenched non-public school alternative, has until recently been successful in defusing and fractionalizing the negative criticism.

In the last three years the criticism has become more widespread and vocal, due in large part to complaints from island businesses about the poor quality of the public school graduates who enter the work force. This in turn has reached the legislature and a reform effort has begun.

The reform effort, as has been true in many mainland districts, has come in a series of "fits and starts" over the last three years. While the Board of Education has made some changes in the curriculum and operations in schools (increasing the requirements for high school graduation is perhaps the best example), most of the reforms which affect educational finance have come from the legislature as either new statutes or amendments to existing ones. While the statutory enactments have tended to deal with problems at the margin rather than at the core, when taken in total they give evidence of a substantial effort to reform the system.

The era may be considered to have begun during the legislative session of 1992 when two statutes on education were enacted. The first "School Community Based Education" (HRS 296 [c]) mandated the Board of Education to formulate policies, including criteria and procedures to determine which schools shall participate in a system to initiate a school/community-based management system in the public schools (§ 296c-2). It allowed SCBM schools to request departments of the state government to waive certain policies, rules, and procedures when requested, and approved by the board of education.

It should be noted that the statute referred to policies on governance but did not give the board the right to waive any statutory requirements including the amounts of monetary allocations to either schools or to the D.O.E.

The second statute provided for the establishment of a School Facilities Improvement Fund and was made a part of Section 237-31 HRS. The section created a special fund into which \$90,000,000 per year, until 1996, of the state excise tax receipts would be deposited, or in lieu of the receipts general obligation bonds would be issued for the improvement of school facilities. The funds could only be used for capital improvement projects which were approved by the legislature through inclusion in the Capital Improvements budget. A subsequent amendment to the act required school principals to prioritize the improvements by school and the board of education to send the legislature a statewide priority list for all of the schools. The legislature could choose to reprioritize the list as it saw fit. However, any money in the special fund could only be used for improvements to school facilities.

As described earlier in this paper, the state of Hawaii through the Dept. of Budget and Finance had assumed, over time, a high degree of control over the assignment of personnel allocated to every department of the state, including the D.O.E. The Dept. of Personnel Services had control of the working conditions, e.g. assignment of duties hours of work, etc. of employees, including D.O.E., who are classified under state civil service laws. Thus, the Department and the Board of Education had relatively little control over the assignment and working conditions of the employees allocated to them.

In 1993 the legislature, by adding Section 296-15.6 HRS titled "Reallocation of Vacant Positions" said that "the board of education without regard to the position variance requirements of the Dept. of Budget and Finance could reallocate existing positions throughout the department; reassign employee duties; and authorize position classifications." This addition to Chapter 296 HRS gave the D.O.E. sweeping new powers to administer its own personnel, and to better utilize them to achieve its educational goals. The statute promote a major reform in public education in Hawaii, and had an indirect, although very important, impact on funding.

Another sub section of 296-15.7 HRS allowed the department to create temporary positions without having to request them from either the governor, legislature, B&F, or DPS. However, any position created had to be within the amount of funds allocated to education by the legislature. Still another sub section, 296-36.6 HRS created a trust fund in the state treasury upon which the D.O.E. could draw, within the amount of allocated, funds for incentive and innovative grants to qualified (read SCBM) schools. The department could award money to individual schools which had not been allocated to them under any program funded by the legislature. This act along with the School Priority Fund and Sect. 296-15.6-7 gave the department significantly greater authority to allocate monies to schools without specific legislative program approval.

Perhaps the most far reaching reform effort was enacted during the 1994 legislative session. The bill, which has become known locally as the "Omnibus Bill" was drafted as a series of potential amendments to the state constitution, as well as, to several existing statutes. The constitutional amendments

would have changed the way school board members were selected, from elective to appointive, and reduced the scope of governance by the board. These amendments were defeated by the voters in the 1994 general elections, and did not become part of the reform package.

Included in the bill were several sections of the statutes that have finance implications, particularly in areas of budget making and resource allocation. The intent of the bill was to decentralize the curriculum and to a certain extent the allocation of resources directly to the school level. The introduction to the legislation has several statements which appear to signal the direction that the legislature wishes to pursue.

"Systemic reform cannot and will not be achieved overnight. Hawaii's top-down tri-level school management system has been in place for decades. It is a statewide system that encompasses school districts (actually these are sub-districts of the single statewide district which administers all the public schools—Ed. note) and school complexes within districts that are distinctly different and are progressing at varied speeds toward school based management. Restructuring must be viewed as a gradual process with changes occurring on a continuum culminating with schools functioning as independent learning units . . ."

The current budget format of the public education system has obscured funding decisions concerning individual schools. Under this structure the division of funds among schools has been an administrative process, outside of public view and beyond public control. Funds are dissipated in a burgeoning administrative bureaucracy and there is no clear accounting of how much money reaches the schools for instruction and activities that directly affect students and learning.

" . . . The schools must assume control of personal and fiscal resources to determine the curriculum and instructional needs for their students."

The statute goes on to delineate a number of changes to facilitate this major restructuring effort. From a resource allocation perspective three major changes would occur:

(1) The Board of Education "shall have the power in accordance with law to formulate statewide educational policy, adopt student performance standards, monitor school success, and appoint the superintendent.

The superintendent shall be the chief executive officer of the public schools having jurisdiction over internal organization, operation, and management of the school system . . . The superintendent shall sign all drafts for payment of monies." Thus several management functions of the board were turned over to the superintendent.

(2) The state budget structure was changed into two major categories: (a) administrative expenses will include matters such as state, district (or other regional administrative costs), business services, personnel services, planning and evaluation, communication, and public relations. (b) Instructional expenses which include operation and maintenance of school facilities, instructional personnel, school level administration, food and health services, curriculum development and training, and other instructional expenses. In future state budgets these two must be presented separately, and the administrative expenditures shall not exceed 6.5 percent of the total department operating budget; nor can the D.O.E. transfer from instructional expenditures into administrative expenses.

(3) The legislature amended Chap 296 HRS to achieve more budget and allocation flexibility at the school level by mandating "an operating budget preparation and allocation process which shall provide maximum flexibility to individual schools, complexes, and learning centers in the preparation and execution of their operating budgets."

The D.O.E. had at least partly anticipated this legislation by creating a document titled, *Department of Education Budget Execution: Procedures and Guidelines for Allocation and*

Expenditure Plans, Fiscal Year 1993–94. The concepts outlined in this publication became called Lump Sum Budgeting.

Prior to the adoption of this set of guidelines the D.O.E. through its district offices, had allocated monies to each school based upon a set of school-level programs. Schools had little or no ability to shift funds from one program to another. The Lump Sum Budget concept (and the statute cited above) changed the allocation to schools to one lump sum allocation for both "B" (supplies) and "C" (equipment) funds so schools have the flexibility to move funds around among some of the department mandated programs to help them best meet their needs.

In the past the Dept. of Budget and Finance had allocated funds to the D.O.E. on a quarterly basis, and the department had allocated funds to schools on the same basis. If schools did not spend their monies, which were allocated by program, in that quarter the funds reverted back to the department and if they were not spent by the end of the fiscal year they reverted to the state general fund. An amendment to Chap. 37 HRS provided that for the D.O.E. fund would not lapse but could be carried over to the following fiscal year.

Twenty-eight programs in EDN 101 (Regular Instruction) were made eligible for lump sum budgeting such as class size relief, science and music equipment, school priority funds, environmental education, etc. Approximately 100 other school (EDN 101) programs were not eligible to have money shifted to other programs. The new statute may make it possible for additional programs to be part of the lump sum through future amendments.

In addition the D.O.E. enacted regulations pursuant to Chap. 296–15.6 (see previous description) which allowed schools to purchase additional personnel or exchange vacant positions for additional "B" or "C" funds without having to apply to B&F for a variance.

A final reform enacted by the 1994 legislature created a new class of schools to be called Student Centered Schools. The legislation created a new Part of Chap. 296 HRS which would give flexibility to up to a total of 25 public schools to implement innovative programs and administrative frameworks to best serve the needs of their students without regard to laws or regulations which would make such matters illegal. When a school decides to become student centered it establishes its own school board which must have representation from the principal, instructional and support staff, parents, students, and the community. This board must create a plan that includes a description of its framework, specific student outcomes, assessment mechanisms, and an annual independent fiscal and program audit.

After it has been reviewed, but not changed, by the state Board of Education, the local board is exempt from state school regulations, can establish its own collective bargaining unit, and govern the school in accordance with its framework. No tuition can be levied on students who attend one of these schools.

To finance the operation each school shall receive an allocation of state general funds equal to the statewide per pupil expenditure based upon average daily attendance. The 1993–94 per pupil cost is listed at \$5400.

This part of the statutes is a major departure from the statewide single school system that has been the norm for over a century in Hawaii. As of this writing no schools have yet sent a student centered school plan to the Board of Education.

Author's Note: The Board of Education has requested the State Attorney General to review this section of the Act. There is concern that it may violate sections of the Hawaii State Constitution as well as federal statutes as they relate to handicapped children. The governor has already signed this Act into law, but he might rule this section to be inoperable because it

conflicts with other statutes etc. This would allow the legislature to amend the Student Centered Schools section to make it conform to other laws. At this writing the Attorney General has not rendered an opinion.

Summary and Discussion

Although Hawaii has had a school district, as specified in several constitutions throughout the years, historically it has had less freedom to manage its finances than most other districts in the U.S. There are varied reasons for this state of affairs. Four examples, lack of fiscal autonomy, legislative power over allocations to both operational and capital budgets, sharing the personnel function with two other executive departments of the state and repair and maintenance with another, and a philosophy of centralized government, all contributed to a school system which over time became highly bureaucratized and more responsive to elements of the state government than to its clients.

Throughout the previous decade the Hawaii public schools began to come under increasing criticism, as did most school districts in the U.S. The state through its school district reacted in the same manner as most bureaucracies do when there is major criticism. First, there was denial of any problems coupled with strong support for the status quo. Second, they raised the specter of insufficient funds to change the system. Third, they began to agree to make changes contingent upon certain conditions being met. Unfortunately, several of the conditions required changes in the statutes which were neither easy nor rapidly accomplished.

The second section of this paper describes the statutory and regulatory changes which have begun to occur with the purpose of creating a more viable legal environment for public education. Few of the changes that were described would be considered by the national educational community as revolutionary. Instead they might be seen as adaptations of reforms which have previously occurred in many school districts and/or state legislatures. However, they are considered major shifts in public policy in Hawaii.

The statutory changes herein described have created an interesting contretemps in educational finance for the state. The legislature is attempting to maintain its historic and ideological posture of a centralized tax gathering and allocation function in funding the statewide school district; while at the same time attempting to decentralize the authority to make expenditure decisions to individual schools. Giving schools the authority to create and fill temporary personnel positions and "sell" vacant positions and use the funds for school level educational purposes that differ from the purposes for which the funds were allocated "flies in the face" of the supposed economies of scale of a centralized government, that has been a mainstay of public policy in the state. Attempts to reconcile these conflicting concepts has not been either easy or comfortable.

Apparently forgotten in these procedural efforts has been the concept of sufficiency. How well does the public school system fare financially in its mission to educate? The traditional method of evaluation of this concept is by comparison with other districts. The question becomes to whom should Hawaii be compared? There is no other statewide district with whom to compare, therefore researchers has suggested that two logical surrogates may be possible.

Henry Levin (1972) determined that Hawaii is more like a large city school district in terms of comparison of expenditures, than it is like a state with many districts. Thompson (1986) compared the per pupil costs of the sixteen largest urban districts to that of Hawaii. Place in rank order fourteen districts had higher costs than Hawaii. A second possibility is to compare with other states with comparable per capita incomes.

He also compared per pupil costs with the ten states that were closest in population and per capita income. The evidence varied. Four states had higher per pupil costs and five were lower.

Those data were suspect because of the extreme difference in costs of living (estimated to be approximately 40% higher than the national average) in Hawaii. How much should the higher costs be discounted because of the supposed scale economies?

The National Center for Educational Statistics (1993) gathered a number of indicators comparing both the U.S. states and the OECD countries on a number of educational inputs and outcomes. The data indicate that Hawaii spends approximately 3% of the state domestic product for funding elementary and secondary education. That was the lowest percentage of any state, save Nevada, and most of the OECD countries. Although the two major countries which ranked below Hawaii were Germany and Japan, both of whom have centralized educational systems.

The NAEP mathematics test for 8th grade students may be the only reasonable methods to compare student achievement among states and countries. When rank ordered Hawaii students ranked near the bottom (only four states and Jordan were lower) in math achievement. All of the problems associated with comparisons from rank ordered data should be noted; however, it is clear that Hawaii is not among the leading states or countries.

Within the state there are differences in achievement as well. Among a sample of elementary schools there were discrepancies of scale of some magnitude (\$472 on average) between small schools (less than 400 students) and two other strata of schools based on enrollment. (Thompson, 1994). But there was also evidence of significantly different and higher math achievement in the schools with small enrollment. These differences persisted even when socio-economic differences were controlled.

What do these somewhat fragmented data indicate about sufficiency? There are innumerable possible conclusions ranging from: "You get what you pay for." To "the highly centralized system forces inefficient and perhaps illogical expenditures so that monies do not reach the students." That is enough money is being spent, but not the right way.

There appears to be a general perception among the populace, and apparently among an increasing number of legislators that the schools are not performing as they would desire. Reform has begun, albeit slowly, in the allocation process of the state education budget, which had a general fund K-12 allocation of approximately \$689 million dollars in operating funds and a capital budget of \$94 million. The question of whether that amount is sufficient to properly educate 183,000 public school students is still open.

Endnotes

Hawaii State Constitution

Art. III Sect. 9

Art. VII Sect. 8

Art. X Sections 2-3

Hawaii Revised Statutes

Chap. 26-5

Chap. 26-6

Chap. 27 State Function and Responsibilities

Chap. 37

Chap. 89

Chap. 237-31 School Facilities Improvement Fund

Chap. 296 [c] School Community Based Education

Chap. 296c-2

Chap. 296-15.6-7 Reallocation of Vacant Positions

Chap. 296-36.6

Department of Education, *Budget Execution: Procedures and Guidelines for Guidelines for Allocation and Expenditure Plans, Fiscal Year 1993-94*.

Lewin, Betsy, et al. *Public School Finance Disparities and Financial Alternatives*, Vol. 2, Chap. IV, Urban Institute, Washington, D.C. 1972.

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Thompson, John A. "Notes on the Centralization of Funding and Governance of Education in Hawaii," *Journal of Educational Finance*, Vol. 18, No. 1, 1986.

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Taxpayer dismay with rising property taxes was the reason for lowering the mill levy, but . . . the legislature has created another monster.

Kansas Public Education and Property Tax Relief in the 90's

Sharon Treaster and David C. Thompson

Equity is one of the main objectives of school finance. School finance formulas are supposed to emphasize two aspects of equity: fairness for the children who are being educated and fairness for the taxpayers who defray the cost of education. In 1905 Ellwood P. Cubberly alleged that all the children of the state are equally important and are entitled to the same advantage. Maintaining that it was the state's responsibility to establish and sustain public schools and that all children were entitled to a basic education regardless of the wealth of the district, Cubberly sought to establish the impetus for state aid to local districts to fund the operation of schools.

In 1991, 86 years later, Judge Terry Bullock of Kansas declared that he wanted the Legislature to enact legislation that would provide an equal education for all children of Kansas, and they were to have this accomplished in the legislative session of the spring of 1992. Judge Bullock was reiterating what Cubberly had said 86 years earlier: all children are entitled to an equal education.

Yet Kansas lawmakers continue to search for solutions to this problem of equity and the school finance structure is eventually affected. This paper reviews Kansas' current public school finance system, and discusses the recent efforts of the legislature to provide property tax relief.

Historic Background

Kansas did not enact its first educational state aid plan until 1937, a temporary act that became permanent in 1939 (Kester & Kester, 1988). From 1939 until the passing of the School Foundation Act in 1965, the financial support of school districts in Kansas was a melange from at least a dozen local and state sources.

In 1961 there were more than 2,000 school districts in Kansas. Historically, tangible property valuation, either assessed or adjusted, had been the sole basis for determining local 'need' under the Kansas school aid programs that were in effect. An elementary aid law, enacted in 1949, required the deduction from each school district's guarantee of an amount equal to two mills on the assessed valuation of the district. The

high school aid law, enacted in 1955, provided for a two-mill deduction on the adjusted valuation to be determined by use of the annual assessment ratio study made by the Property Valuation Department (KLC, 1960).

The State School Foundation Fund, SB 281, enacted in 1965, provided for state financial aid to elementary and high schools; created a state school foundation fund and a county school foundation fund; provided for the distribution of these funds under formulas stated in the act; and created a school budget review board and authorized tax levies (1965 Laws of Kansas, Ch 402).

Reform interest escalated to historic proportions during the 1960s and 1970s. The period of the 1970s in particular, saw many court decisions which ruled state systems for financing education unconstitutional because of extreme variations in wealth. In 1972, *Caldwell v State of Kansas* determined the Kansas school finance formula unconstitutional. The state was prohibited by the court from operating the foundation school finance system and was ordered to: (a) reallocate the funds available for support of the system, including funds derived from property taxes levied by school districts, and (b) restructure the financial system in such a manner that would not violate the required equal protection of law.

The decree of this Johnson County district court case in 1972 led to the demise of the foundation plan and the enactment of the School District Equalization Act. No specific system of financing or taxation was mandated by the court nor did it prohibit the use of property tax to finance schools.

The School District Equalization Act

The School District Equalization Act (SDEA) was enacted in 1973. The general state aid formula in the SDEA was based on the 'district power equalizing' concept. In general, the formula was one under which a district local effort rate (LER), a percentage, was set by the state board of education in accord with law for a specified or "norm" budget per pupil (BPP) as determined under a schedule which divided districts into five enrollment categories. Under the SDEA, lawmakers were trying to balance the cost and quality of education. Fairness was to come by giving more state aid to districts less able to pay for their schools. Most of the aid was intended to cut reliance on the property tax so all students received an equal education, regardless of how wealthy their districts.

The School District Equalization Act was driven by the idea that districts of different sizes needed to spend at different levels and the districts of the same size should spend about the same (Wichita Eagle, January 26, 1992). What the SDEA accomplished was to increase the amount the poorest districts could spend and limited the amount richer districts could spend. What it did not accomplish was to eliminate the disparities in spending between rich and poor districts, nor evened out the property tax burden statewide. Some districts had five times the property tax rate of others.

Starting in the 1988-89 school year a provision for 'hold harmless' aid was added to the SDEA. If the general state aid and income tax rebate combined were less than the amount received in the preceding year, the district would receive hold harmless aid equal to 50% of the difference in 1987 and 87.5% in 1989.

Trouble surfaced in 1989. There was an alarming shift in the formula of school district wealth; a crucial factor in setting the amount of aid for districts. Federal tax cuts, effective in 1988, exposed more income to Kansas taxation. Kansas property reappraisal in 1989 skewed the traditional results further. Suddenly, taxable income comprised an average 56% of the wealth of state school districts and property values only 44%. Many districts by 1990 faced dramatic cuts in state aid without revision of the formula. Districts were guaranteed the same

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per-pupil aid that they had received in 1989, but more than 20% of the state's 304 school districts were losing enrollment and losing aid.

The original basis for implementing the SDEA was to provide an adequate level of funding for school districts, to determine local capacity to pay for educational services, and to recognize the impact of resources on educational opportunity through the principle of state aid in inverse proportion to local ability to pay. According to a study by Thompson, et al (1991) two factors profoundly affected the equitable operation of the SDEA: (a) the equalization of property wealth as a major element in determining local ability to pay for education, and (b) the establishment of median budgets per pupil based on the enrollment size of the school district.

Lawmakers promised to offer a new formula for the 1991 legislative session and many school districts promised to sue. Three lawsuits were filed against the state claiming that state aid to schools was no longer equitable in spite of the formula designed to guarantee it. The Wichita school district, citing a \$10 million loss in state aid, filed the fourth challenge to the state school finance law (Wichita Eagle, Oct. 16, 1991). Because state aid is determined on a per-pupil basis, the ceiling might force large districts to lose more in dollars than districts with small enrollments. Thus, the claim was the hold harmless ceiling discriminated against large districts and shattered the provision for "equalizing" in the aid formula.

The provision tried to protect districts from huge losses by guaranteeing that a district would lose no more than 12.5% of state aid. But the state set a \$700,000 ceiling on the protections. Because of that, when the Wichita district lost \$12.4 million, it could recover only \$700,000.

The 18-year-old school finance formula was designed to distribute aid in such a way that students would receive comparable educations whether they came from rich or poor districts. The main factors in the 'equalization' formula were district wealth (property values plus a percentage of taxable income), enrollment and the size of school budgets. Equity was supposed to come from giving more state aid to districts less able to pay for their schools. But the equalization formula wasn't used in calculating all state aid. In 1991, the formula applied to \$527 million in direct aid to school districts, but it didn't figure in the distribution of \$121 million in special education aid, \$45 million in transportation aid, or \$199 million in income tax rebates to local districts. Thus 41% of the \$892 million in major school aid escaped the equity formula.

Many districts complained that the income tax rebate was a special windfall for wealthy school districts. The rebate returned a fourth of the state income taxes to the districts from which they were collected. In wealthy Johnson County, six school districts received 40% of the total.

Shawnee County District Judge Terry Bullock had been assigned to hear four lawsuits challenging the way Kansas paid for taxes. But instead of bringing the cases to trial in October 14, Bullock called Governor Joan Finney and legislative leaders together and asked them to try to resolve the problems raised by the plaintiffs. Judge Bullock declared that he wanted the Kansas legislature to enact legislation that would provide an equal education for all children of Kansas, and they were to have this accomplished in the legislative session of the spring of 1992. Judge Bullock said the Kansas Constitution required the legislature to distribute money so that each child has an equal opportunity for a good education. He noted that providing each school child an equal opportunity for education is not the same as spending the same amount on every child. The legislature has to spend more on some children to give them the same opportunities enjoyed by others. He also said the legislature must have a rational educational explanation for any difference in how much is spent on one child compared to another. Bullock said the system was so unfair that it was

denying children equal opportunities to education. He especially criticized the way school districts levy property taxes, noting that the level of property taxation ranged from a low of 15.55 mills in the town of Burlington to 110.85 mills in Olathe.

If property taxes are set by local school districts, what right does the state have to intervene in mill levy rates? Judge Bullock argued that, essentially, school districts are merely political sub-divisions of the state. Any taxes they raised could be polled by the state and distributed throughout the state based on need. That varied radically from the system then used, where property taxes were levied by each district and used within that district to pay for education (Wichita Eagle, Nov. 24, 1991).

Politicians were frantic: how could they satisfy all constituents and Judge Bullock? Not an easy task!

1992 School Fiscal Policy in Kansas

As the 1992 legislative session began, a great deal of uncertainty surrounded the finance mechanisms for Kansas public schools. The task before the legislature was enormous. In other states, efforts to respond to judicial determinations of unconstitutionality had spanned as long as twenty years without a solution to the problems of inequitable funding. The fiscal issues were arguably the most complex to face the legislature since the last finance formula had been enacted in 1973. (Luckert, *Order and Summary Decision*, Dec. 16, 1993).

The 1992 Legislature finally came up with a revolutionary plan for school funding. By the end of the session, a complete statute had been enacted which radically changed the philosophy and mechanisms of school finance. It gave full control of funding to the state, established a 32 mill statewide property tax levy to pay part of the cost, and raised income and sales taxes by \$349 million to increase the state's share.

The law, adopted under court pressure, dictated that school districts spend no more than \$3,600 per pupil unless they raised local property taxes. The legislature approved a combination of taxing and education law. The \$2 billion measure combined a \$389 million revenue package with a uniform state property tax and a formula to share wealth among rich and poor school districts. It also was designed to ease the pressure on local funding by reducing school taxes more than \$200 million. In return, all education revenues, including local taxes and federal dollars, were pooled in a central school finance fund at the state level.

The districts that were hurt by the new school finance law were the wealthy districts, and the ones that gained the most were the smaller, poorer districts. In ten school districts, mandatory new taxes raised more money than their schools were allowed to spend. Before the law was changed, school taxes in these districts were among the lowest in the state because property values were so high. In the Burlington district of Coffey county, site of the Wolf Creek nuclear power plant, taxes quadrupled. Burlington raised \$10.6 million, but it could only keep \$4.9 million. The rest had to be sent to the state. Hardest hit in southwest Kansas were the Hugoton and Moscow school districts in Stevens County, which sit atop vast gas fields. The districts raised a combined \$8.8 million in taxes, but paid \$2.6 million to the state. The law ignited storms of protest in the rural southwest and several of the school districts threatened to succeed from the state of Kansas and start another state.

Judge Bullock had also urged lawmakers to look at capital improvements and the need of students across the state for adequate school buildings. Kent Glasscock, a Republican representative, introduced legislation that allowed for state participation in capital improvement projects in public school districts. Many districts were having trouble funding major improvements, especially in the rural areas and in the fast-growing areas. By fall, voters had approved 12 of 16 school bonds issues on local

ballots for a total of \$90 million in new construction and improvement.

Within a few short months of the legislation being passed, 97 plaintiffs sought determination that the new scheme was unconstitutional. A manifestation of this controversy was the filing of four consolidated law suits. In August, 1993 Judge Marla Luckert declared two parts of the new finance act unconstitutional: (1) the state could levy a property tax for a period of only two years, not four years and (2) the enrollment size of schools being reimbursed by the "weighting" program was much too large. Low enrollment weighting is one of the factors for which a district would receive a higher or weighted reimbursement per pupil. The justification for the low enrollment weight is to account for the higher cost of operating a district which cannot efficiently, because of smallness, meet the educational needs of students. Any school with less than 1,900 students was being reimbursed by weighting factors. Judge Luckert stated that statistics showed it should only apply to schools with 500 or less students. Judge Luckert stated that the legislature must reenact the provisions of the School District Finance and Quality Performance Act with modification of the provisions regarding the low enrollment weight. Steps must be taken to document a rational basis for the manner in which the formula is constructed (*Order and Summary Decision*, December 16, 1993). The legislature was given until July 1, 1994 to remedy these two flaws in the finance law.

Shortly after the legislative session began in 1994, the Kansas Court of Appeals agreed to shift the issue directly to the state supreme court. The court was to decide whether to postpone a July 1, 1994 deadline imposed by Judge Luckert. On September 14, 1994, the Kansas Supreme Court heard arguments challenging and defending the new system of funding schools. This was two years and eleven months after District Court Judge Terry Bullock issued his "rule of law" on school finance that led to the new system.

The Kansas Supreme Court upheld constitutionality of the entire 1992 School Finance Act on December 2, 1994, including a provision on low enrollment weighting that district court judge, Marla Luckert, had held to be unconstitutional. In an unanimous decision, the seven justices said the legislature had a rational basis for the way it crafted the system for distributing about \$1.9 billion in state aid to Kansas' 304 local school districts each year. It said a provision that gives \$216 million in extra state aid to some 260 school districts with enrollments under 1,900 students met the rational basis test.

Threats of lawsuits started surfacing again in 1996. On May 30, 1997 Kansas House Speaker Tim Shallenburger said the school finance formula, crafted by the legislature in 1992, is so flawed that he would support an effort by school districts to challenge the funding plan in court. The consideration of a lawsuit is the effort of a group called Schools for Fair Funding, made up of 24 school districts across Kansas that see unfairness in state-set school funding.

The dominant issue of the 1997 legislative session concerned school finance. A strong Kansas economy throughout 1996 boosted tax receipts far beyond expectations. That allowed the 1997 Legislature to cut school district property taxes by \$127 million, replacing those revenues with state aid, and increasing funding for school aid programs by an additional \$95 million (1997 Legislative Summary, KASB).

Kansas's Current School Finance System

The Organization of Public Education

Educational services for Kansas' K-12 students are provided by a combination of various entities. In the 1996-97 school year, Kansas had 304 K-12 districts.

In 1966 the Kansas State Board of Education was created by Article 6 of the Kansas Constitution. The ten member State

Board of Education has authority for the general supervision of public schools and has supervisory responsibilities for area vocational-technical schools, community colleges, and other educational institutions, excluding Regents institutions. Board members are elected for four-year terms and represent specific geographic areas of the state. The Board appoints a Commissioner of Education who serves at the pleasure of the Board and is responsible for administration of the Department of Education.

The primary duties of the Board include classification and accreditation of schools, approval of teacher preparation programs, establishment of graduation requirements in the public schools, certification of teachers and administrators, distribution of state and federal financial aid, administration of school lunch and nutrition programs, regulation of proprietary schools and regulation of programs and services for area vocational-technical schools and community colleges (Kansas FY 1998 Governor's Budget Report).

School Improvement and Accountability

A key goal of the Kansas State Department of Education is for all schools to demonstrate continuous improvement in student learning, as indicated by state assessment tests and other measures. This goal is consistent with the 1992 School District Finance and Quality Performance Act, which mandates state accreditation of schools based on outcomes for school improvement and student performance established by the Kansas State Board of Education. Although many states have reformed their school finance formulas in recent years, Kansas is one of only a few states that requires systematic improvement of schools and accountability to the taxpaying public in conjunction with school finance reform (Kansas FY 1998 Governor's Budget Report).

1997 Legislative Summary

A strong Kansas economy throughout 1996 boosted tax receipts far beyond expectation. That allowed the 1997 Legislature to cut school district property taxes by \$127 million, replacing those revenues with state aid, and increasing funding for school aid programs by an additional \$95 million. The total increase in school aid spending for 1997, \$222.5 million, represented a 13% increase over funding approved for 1996 (Tallman, *Legislative Summary of the 1997 Session*, KASB).

The legislature passed two significant school finance bills. H.B. 2031 combined the property tax reductions with changes in the school finance formula. The tax package cut the statewide levy from 35 to 27 mills and created a \$20,000 residential property exemption from the statewide levy. It also reduced the income tax rate paid by single Kansans to the rate paid by married couples. The school finance portion raised the base budget for all school districts from \$3,648 to \$3,670: an increase of just 0.6% at a cost of 12.2 million. However, the state increased the correlation weighting factor for districts with enrollments of 1,800, directing nearly \$19 million to those districts. The at risk weighting factor, based on the number of a district's students eligible for free meals, was increased by 30% at a cost of \$6 million. The "declining enrollment" feature was also made more generous; districts were able to use either the current year's enrollment or the previous year's enrollment to determine budget entitlement.

As a result, school district general fund spending, the portion of school district budgets determined by the state through the base budget, increased nearly \$47 million, or about 2.3%. Total general fund budgets exceeded \$2 billion in 1998 for the first time. However, student enrollment was projected to increase 0.6%, which meant the increase per student was 1.7%: still well below the rate of inflation. The changes in the formula, however, did not treat all districts the same. Because

of the increase in correlation weighting and other factors, the budget per pupil for districts with enrollments of 1,800 or more increased by 2.5%, while the budget per pupil for districts with less than 1,800 students increased only 0.9%.

The second major school finance bill, S.B. 36, made significant changes in the Local Option Budget process. The Local Option Budget is a mix of local and state taxes a district can call upon to supplement base state aid. For the first time, school boards were able to adopt a portion of LOB authority without being subject to protest petition. In districts where the per pupil budget is below the average of similar sized districts, boards were allowed to adopt LOB's that would allow them to spend at the average without that increase subjected to protest petition. This provision provided an additional \$91.7 million in budget authority.

S.B. 36 also contained a provision for districts which spend above the average per pupil. The boards of these districts were allowed to adopt an LOB equal to 100% of their current authorization next year without being subject to protest. That percentage then falls 5% a year until FY 2002, when boards will be permanently able to keep 80% of the current LOB.

School Finance

Property tax provisions.

The 1997 Legislature reduced the statewide mill levy from 35 mills to 27 mills for FY 1998 and granted a \$20,000 residential exemption from the statewide mill levy.

The income tax rate for single taxpayers was reduced to the rate for married taxpayers over four years; an adoption tax credit was created and the homestead tax rebate was expanded.

School finance provisions.

The following changes were made in the school finance act:

- * Base state aid per pupil was increased \$22 to \$3,670.
- * Correlation weighting was increased to equal low enrollment weighting at 1,800 students, or about \$65 per student for districts with 1,800 students or more.
- * At-risk weighting was increased from 0.05 to 0.065 for each student eligible for free lunch.
- * Districts were allowed to use either the previous year's enrollment or current year's enrollment for determining their budget.

The total Governor's recommendation for FY 1998 for the base school finance formula was \$1,452.3 million and will fund the enhancements, as well as the agreed to estimated enrollment growth for the year. The state's share of the local option budget was recommended at \$52.1 million. The demand transfer from the State General Fund of \$29.0 million to aid school districts and bond and interest payments was also included.

Uniform Property Tax Mill Levy Reduction.

The Governor recommended, as part of his tax reduction package, a reduction in the uniform property tax levy of 4.0 mills, or 29.0, in 1997 and an additional reduction of 4.0 mills, or 25.0 mills, in 1998 and an additional reduction of 4.0 mills, or 20.0 mills, in 1999. The 29.0 mill uniform property tax levy would finance 28.8 percent of the school finance obligation in FY 1998, and the State General Fund would pay the remaining 71.2 percent. In addition, the Governor recommended creation of the Education Property Tax Relief Fund to be used in out-years to fund part of the increased school finance cost resulting from the lower uniform property tax mill levy.

Lawsuits May Lead to School Funding Reform

A study of the merits of a lawsuit challenging the state's school finance formula is the latest effort of a group called School for Fair Funding. The group, made up of 24 school districts across Kansas that sees unfairness in state-set school funding, lobbied legislators in 1997 for change. The Kansas House Speaker, Tim Shallenburger, Republican, said he thought the revision of the school-funding formula in 1992 was premature. That legislation, coincidentally, was written as a result of a court ruling that the previous school-funding formula was unfair. Shallenburger said the new funding formula was based not on what was fair, but on what would receive enough votes to be enacted. A lawsuit, he added, might be the catalyst to spur school-funding reform (*Salina Journal*, May 30, 1997).

Summary

Kansas school finance has been the center of considerable debate in the 1990s. Judge Terry Bullock's decision in 1991 to close Kansas schools if the legislature couldn't come up with an equitable finance measure was the impetus for a scramble to satisfy Judge Bullock and also their constituents. The school finance and accountability system enacted in 1992 was accompanied by a significant increase in overall school district budgets, but the level of budget support provided by the state since 1992 has fallen far below the growth in school district costs.

Governor Bill Graves cut property taxes in 1997 to quiet the cries of the taxpayers. The base budget per pupil was only raised \$22, bringing the total to \$3,670 for 1997.

Today, school district operating budgets are declining when adjusted for inflation even as demands on schools are increasing. One major reason is the failure of the base budget per pupil to keep pace with inflation. Failure to adjust the base has led to rapid growth in local option budgets as districts have struggled to keep pace with rising costs.

Litigation again looms on the horizon in Kansas as school districts struggle to fund the rising costs and demands of education. Taxpayers are going to become unhappy when they realize that even though the mill levy on property tax was cut, the mill levy for a local option budget may increase their total mill levy. In many cases, the legislature made it possible for districts with below-average "local option budgets" to raise their LOBs a certain amount for five years, until per-pupil spending matches the average of like-sized districts elsewhere in the state. Previously, increases in LOBs were subject to citizen protest petitions, but the lawmakers stripped voters of their rights to block LOB hikes.

Clearly, taxpayer dismay with rising property taxes was the reason for the lowering of the mill levy, but in providing property tax relief, the legislature has created another monster. Debates over Kansas school finance are inevitable as school districts struggle to meet the financial demands of maintaining their educational systems.

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In late July 1992, in a stunning development, the Michigan legislature eliminated the property tax as a source of operating revenue for the public schools.

Back to the Future: An Update on Michigan School Finance Reform

Michael F. Addonizio

State aid for school districts in Michigan dates back to statehood in 1837.¹ Prior to 1973–74, Michigan distributed unrestricted aid to local schools through a foundation aid system that guaranteed a minimum expenditure per pupil in every district. However, by 1973 Michigan's highest-spending district tripled the per pupil expenditures of the state's lowest spender. Facing disparities of this magnitude, along with a court challenge of the constitutionality of Michigan's aid system,² the legislature replaced the foundation formula with a district power equalizing (DPE) formula, effective for the 1973–74 fiscal year. In that first year, more than 90 percent of Michigan's school districts received equalization aid. By 1993–94, however, this percentage had fallen to approximately two-thirds and the ratio of per student spending between the highest and lowest spending districts had risen to the levels of the early 1970s.³ Further, school property tax rates had risen to unacceptably high levels for many, and 122 districts were within four mills of the state's constitutional 50-mill limit.⁴

Michigan's Recent School Finance Reforms

Voter ambivalence toward Michigan's property tax and school funding systems was reflected in a string of 12 consecutive failed ballot proposals spanning more than a decade in the 1980s and early 1990s. Then, in late July 1993, in a stunning development, the Michigan legislature eliminated the local property tax as a source of operating revenue for the public schools. In mid-August, Governor John Engler signed SB1 into law, becoming P.A. 145 of 1993. The Act reduced K–12 operating revenue by \$6.018 billion for local districts and \$508 for intermediate (generally county-wide) districts. On March 15, 1994, Michigan voters approved a constitutional amendment (Proposal A of 1994) increasing the state sales tax from 4 to 6 percent. In addition to the sales tax increase, the state's flat rate income tax was lowered from 4.6 to 4.4 percent, the cigarette tax was raised from 25 to 75 cents per pack, and a per-parcel cap on assessment growth was set at the lesser of inflation or 5 percent (reassessed at 50 percent of market value on sale). Property taxes were reduced in most districts to 6 mills on homestead property and 24 mills on non-homestead property.⁵

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On the allocation side, new legislation returned Michigan from a power-equalizing approach to a foundation plan as the core of state school funding. A district's 1993–94 combined state and local revenue for operations (primarily local ad valorem property taxes, DPE state aid and most state categorical aid) provided the basis for determining its 1994–95 foundation allowance. The legislature provided that every district have a foundation of at least \$4,200 per pupil.⁶ In addition to establishing a minimum (local) foundation allowance, the legislature set a statewide basic foundation allowance at \$5,000 per pupil for 1994–95. This spending level changes annually through application of revenue and pupil membership indices.⁷ Districts spending more than the state foundation will receive per-pupil revenue increases equal to the annual increase in the basic foundation allowance, while districts spending less than the basic allowance will receive increases up to double that amount. Thus, this basic allowance, which rose to \$5,153 in 1995–96, \$5,308 in 1996–97, and \$5,462 in 1997–98, will constrain per pupil spending growth in more districts each year and exert a "range preserving" effect on interdistrict spending disparities. This effect is illustrated in Figure 1, which compares the per pupil foundation grants for four local districts.

As districts with local foundation allowances in excess of the state basic allowance, Grand Rapids, Ypsilanti, and Bloomfield Hills receive annual revenue increases per pupil equal to the dollar increase in the state basic allowance. On the other hand, Onaway, with a local foundation allowance below the state basic level, has enjoyed annual dollar increases per pupil equal to twice the increase in the state basic allowance. Onaway's large relative annual increases will continue until the district's local allowance equals the state basic level. At that point, Onaway's subsequent annual dollar increases in per pupil revenue will be the same as their higher-revenue counterparts — hence, the "range-preserving" effect.

Equity Effects

One stated long-run objective of Michigan's new school finance system is to raise all districts to the level of the basic foundation allowance and reduce interdistrict disparities in per pupil spending. This leveling up approach achieved measurable first year equalization effects. The coefficient of variation (standard deviation divided by the mean) and the ratio of the median to the mean in per pupil expenditure respectively for Michigan's 557 school districts equaled 0.23 and 1.20 prior to reform. In the year following the reform, these statistics equaled 0.21 and 1.17 respectively, indicating relatively minor equalization.⁸

The effects of leveling up are reflected in Table 1, which presents mean foundation revenue for each quintile of pupils in 1993–94 (the last year of the power-equalizing formula) and 1996–97. The quintiles were formed after rank-ordering pupils by the foundation allowance levels of their respective districts.

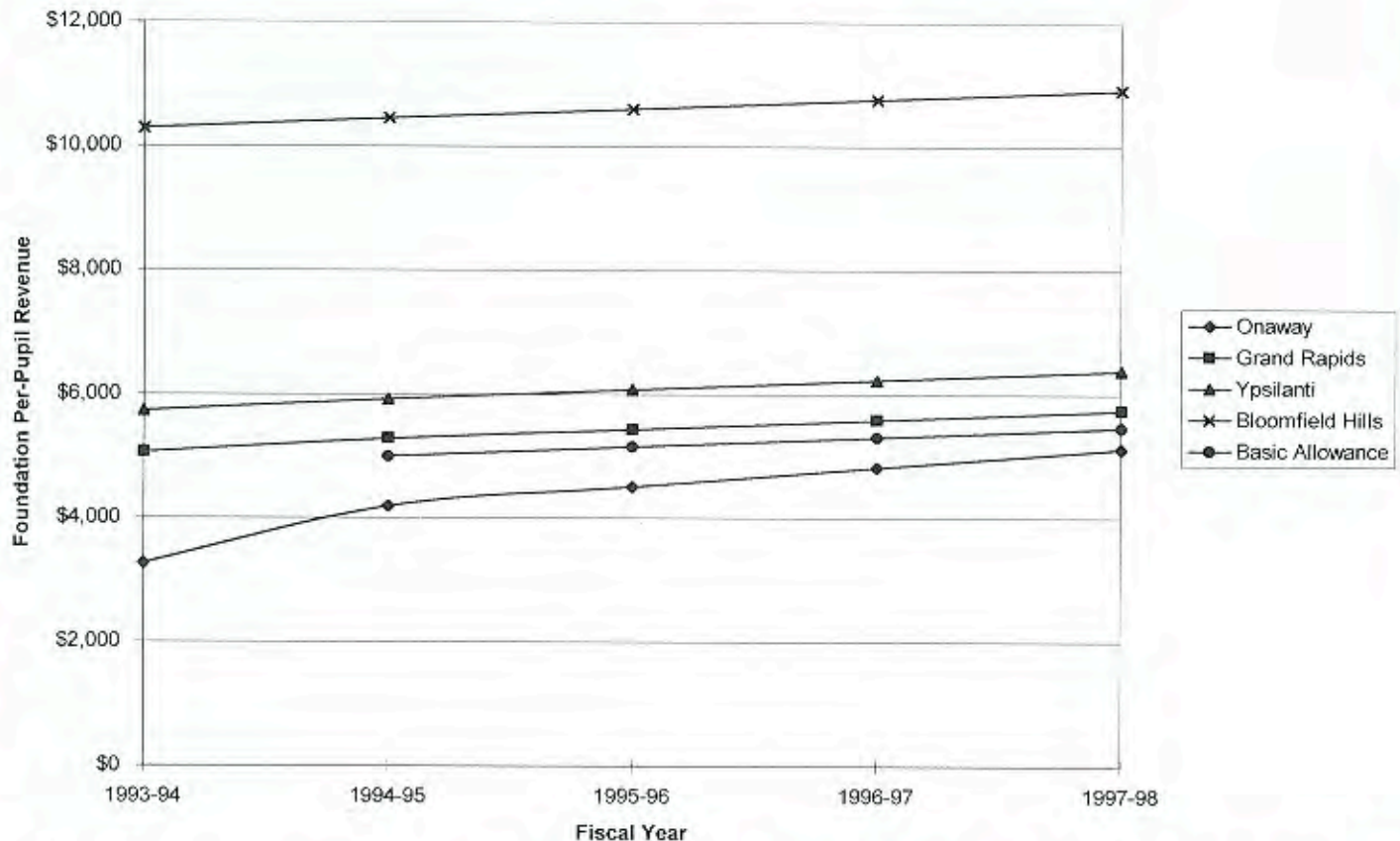
Table 1
Quintiles of Foundation Allowances (1997 dollars)

Quintile*	1993-94 Mean	1996-97 Mean	Difference
1	\$4,536	\$5,004	\$468
2	5,063	5,304	241
3	5,605	5,684	79
4	5,929	5,967	38
5	7,528	7,426	(102)

* Each quintile represents 316,910 pupils in 1993-94 and 325,688 pupils in 1996-97.

Source: Prince (1997)

Figure 1: Foundation Growth



The ratio of the fifth quintile to first quintile mean fell from 1.66 in 1993-94 to 1.48 in 1996-97, suggesting greater horizontal equity in the distribution of per pupil spending. An improvement in horizontal equity is also indicated by the equity measures presented in Table 2 below.

Taken individually, each measure reveals greater horizontal pupil equity in Michigan as a result of school finance reform. The range and restricted range have been reduced by 20.7 percent and 18.4 percent, respectively, while the federal range ratio (a restricted range in which the top and bottom 5 percent of pupils are dropped and the remaining span is then divided by per-pupil expenditure at the 5th percentile) was reduced by 26.8 percent. The lower values of the coefficient of variation and the Gini coefficient also indicate greater horizontal equity.

Table 2
Horizontal Equity in Michigan's Foundation Grant Program (1997 dollars)

Equity Measure	1993-94*	1996-97
Range	\$7,495	\$5,946
Restricted Range	3,646	2,974
Federal Range Ratio	0.8343	0.6103
Coefficient of Variation	0.2089	0.1665
Gini Coefficient	0.1089	0.0842
McLoone Index	0.8819	0.9226

* The foundation program was initiated in 1994-95. Figures for 1993-94 were calculated for comparability.

Source: Prince (1997)

Although the equity measures discussed above differ in construction and focus (for example, the range, restricted range, and federal range ratio are concerned only with the total span of distribution and ignore all data between their respective extremes, while the coefficient of variation and Gini coefficient are concerned with the distribution of all data), each measure is appropriate when the policy goal is equal educational resources for all.

In contrast to these measures, the McLoone index measures equality in the bottom half of the distribution, with the implication that the state's responsibility is to assure minimally adequate, rather than equal, spending in every district. Specifically, the McLoone index is a ratio of the actual expenditure in all districts below or at the median expenditure to what the expenditures would be if all of those districts spent at exactly the median level. As such, perfect equity (i.e., exact equality of expenditures for all districts below the median) requires a McLoone index of 1.0, its maximum value. (All of the other equity measures have a value of zero with perfect equity.) For Michigan, the increase in the McLoone index from 0.8819 to 0.9226 indicates improved equity. This improvement is not unexpected in view of the "leveling up" effect of Michigan's foundation formula.

Revenue Adequacy and Stability

Now in its fourth year, Michigan's foundation formula has accelerated revenue growth for local districts with per pupil revenue below the state basic foundation level and slowed revenue growth for those at or above that level. Further, following a substantial increase in aggregate K-12 revenue in the first year of reform, overall revenue growth for Michigan public schools has been constrained by reform. From 1994-95 to FY

1997–98, the benchmark state basic foundation allowance rose at an annual rate of only 3 percent, only slightly higher than the estimated inflation rate of 2.8 percent over this period. Had local property tax assessments not been capped by Proposal A, these assessments would have risen at an annual rate of 7 percent over this period.⁹ In addition to these constraints on district foundation revenues, the finance reforms also placed tight limits on local revenue supplementation. When Proposal A was approved by voters, enabling legislation allowed for a local, unequalized enrichment millage, whereby local voters could approve up to three additional mills for up to three years. Such enhancements, however, are quite small. Moreover, beginning in 1997, such millage must be approved, and such revenue shared, at the intermediate school district level (county or multicounty).¹⁰ The cumulative effect of these reforms has been a slowing of per pupil revenue growth, particularly for districts with exceptionally high tax bases and per pupil revenue.

Long-Run Implications.

The substitution of sales tax revenue for property tax revenue is likely to impair the long-run stability of school revenue in Michigan. It is well-established that sales tax revenue is more income-elastic than property tax revenue and thus more volatile over the economic cycle (see, for example, Fisher 1996). As an illustration, during the 20 years from 1972 to 1992, property tax assessments in Michigan grew at an annual rate of 7.1 percent, while the replacement revenue sources, consisting largely of sales tax revenue, grew 6.6 percent annually. Moreover, during the economic downturn from 1989 to 1992, property taxes rose 8 percent annually, while the replacement revenues increased a mere 3.6 percent annually.¹¹

Capital Outlay

Michigan does not provide state aid for capital outlay financing.¹² Under the provisions of Article IX, Section 16, of the Michigan Constitution, a local district may qualify its bonds according to statutory requirements, set the debt retirement tax rate, and participate in the Michigan School Bond Loan Program.¹³ Qualified bonds are guaranteed 100 percent by the state. A district may issue unlimited qualified bonds for up to 30 years upon approval by the voters and the Superintendent of Public Instruction. The local board has the authority to set annually the necessary tax rate for debt retirement, up to a limit of 13 mills. However, the local board has the option of setting the basic tax rate at seven mills and borrowing 90 percent of the remaining funds needed to meet the annual payment from the Michigan School Bond Loan Fund. In addition, a local school board, by resolution and without a vote of the electorate, may issue bonds that, with the district's outstanding bonded indebtedness, do not exceed five percent of the district's state equalized valuation. These bonds, however, must be retired from existing tax revenues. Finally, the local electorate may approve unqualified bonds, with a debt-to-valuation ratio not to exceed 15 percent, for up to 30 years.

It is worth noting that, while the Proposal A finance reforms did not address capital outlay issues, local districts have enjoyed measurably greater success in passing bond issues since those reforms were adopted. In the 31 months following passage of the reform proposal, voters approved 45.4 percent of school bond issues, a 16.7 percent increase over the 38.9 percent approval rate in the 31 months prior to Proposal A. Moreover, this increased approval rate was achieved as the number of bond proposals on the ballot more than doubled in this post-Proposal A period. While it is difficult to precisely identify the reasons for the improved passage rate, the substantial reductions in school operating millage rates and

frequency of those millage elections is quite likely a contributing factor.

Charter Schools and Interdistrict School Choice

Since the school finance reforms of 1994, the Michigan legislature has passed two additional measures designed to expand parental choice among public schools. The first measure, P.A. 416 of 1994, established a system of charter schools or "public school academies" (PSAs) in Michigan, while the second reform, passed into law as a part of P.A. 300 of 1996, the FY 1996–97 school aid appropriation, provided for interdistrict public school choice. Since funding follows the student to the PSA or the school district of choice, both school choice initiatives have important implications for public school finance.

Public School Academies.

Under the 1994 Michigan statute, a public school academy may be authorized (i.e., granted a charter) by the governing board of a state public university, community college, intermediate school district, or local school district that offers grades kindergarten through 12. A total of 104 academies were authorized as of September 1997: 88 by public universities, 11 by intermediate school districts, four by local school districts, and one by a community college. Collectively, these public school academies enroll approximately 20,000 students. In 1996, the legislature restricted the number of academies which public universities may authorize. That limit is set at 125 for the 1998 calendar year. No limit exists on the number of academies that may be authorized by the remaining authorizing bodies.

Interdistrict School Choice.

Michigan's new school choice law requires all school districts to determine whether or not they will accept nonresident students within their intermediate school district (generally coterminous with county) into their schools. Districts are responsible for publishing the schools, grades, and programs which are available for nonresident students. In cases where the number of applicants exceeds the spaces available, student selections are made by lottery.¹⁴ In the 1996–97 school year, 210 local districts (38 percent of the total) elected to participate in the interdistrict choice plan, while 162 districts (29 percent) participated in an intermediate district plan. This left 182 local districts (33 percent) opting not to participate in interdistrict choice.¹⁵

Court-Ordered Aid for State School Mandates: Durant v State of Michigan

On June 10, 1997, the Michigan Supreme Court ruled that the state must reimburse local school districts for special education services mandated by state law.¹⁶ Plaintiffs in this long-running case, which was filed in 1980, were 83 local districts and one intermediate district. On July 31, the supreme court set damages at \$211 million for the plaintiffs, explicitly limiting the damages to the 1991–92, 1992–93, and 1993–94 fiscal years. Some policymakers expressed concerns over the equity impacts of this decision, since most of the payments are owed to relatively affluent, suburban districts whose special education aid in past years had been reduced by the state in order to increase state equalization aid to property-poor school districts. Further concerns arose from the likely "zero-sum" character of the settlement. That is, most observers expected that the plaintiffs' damages would be paid by means of reductions in other school aid payments, principally foundation formula payments or state compensatory aid. Districts with large concentrations of low-income children would be particularly burdened by the latter strategy. The legislature adjourned for the summer without addressing the issue, but the governor, in an effort to both

force legislative action in the fall and preserve funds for the court order, vetoed some \$300 million from the FY 1997–98 school aid appropriation, including \$252 million in state compensatory aid.

At the time of this writing, the matter of reimbursement remains unresolved. Moreover, the governor and legislative leaders have agreed to pay additional compensation to an estimated 470 districts that were not a party to the suit but were nevertheless adversely affected by the state's underfunding of special education costs. This additional liability is estimated at approximately \$768 million. Reimbursement proposals under consideration include the governor's plan to pay plaintiff districts approximately \$70 million annually for the next three years from interest on the state's \$1.1 billion budget stabilization fund and to issue bonds for the larger payments to non-litigant districts. The bonds would be paid off over 15 years at some \$70 million to \$80 million annually. An alternative legislative proposal would reimburse litigant districts in full in FY 1997–98 from the budget stabilization fund and reimburse non-litigant districts over a ten-year period from interest earnings of the fund. Each proposal would include restoration of the \$252 million in state compensatory aid vetoed by the governor.

Concluding Observations

Michigan's school finance reforms were intended to accomplish four objectives: 1) substantially reduce property taxes; 2) increase the state share of total K–12 revenue; 3) reduce interdistrict disparities in per-pupil revenue; and 4) assure all local districts a minimum level of per-pupil revenue with which to meet state and local education standards, including outcomes-based school accreditation standards and new assessments of student achievement.

It appears that the first two objectives have been accomplished. Proposal A reduced total property taxes by about 26 percent. For homeowners, the reduction is about 32 percent (somewhat smaller for the approximately 30 percent of Michigan taxpayers who itemize for federal income tax purposes), while the cut for businesses is about 13 percent (Kleine, 1997). Further, the state share of K–12 revenue has risen from 45 to 79 percent, placing Michigan second among states in the state-financed portion of school funding. Measurable progress has also been made toward objective three, as indicated by the equity measures presented above.

Progress toward objective four, however, is more problematic. While the reforms established minimum funding levels for local districts and substantially increased aggregate K–12 revenue in 1994–95, including proportionately large increases for low-spending districts, aggregate revenue growth has slowed since then. With new constraints on local revenue growth and a greater reliance on more income-elastic revenue sources, overall real spending levels could fall during a recession. Centralization and equalization of public school funding along the lines of the Michigan reforms have led to slower revenue growth in other states.¹⁷ Should Michigan experience a similar trend, residents of traditionally high-spending districts may turn to booster clubs, local education foundations, private spending or other means to supplement public revenue sources.¹⁸ Alternatively, residents of such local districts could exert political pressure for the relaxation of legislative constraints on local school revenue, thereby sacrificing some measure of distributional equity for revenue enhancement and the exercise of local school spending preferences.

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2. *Milliken v. Green*, 389 Mich. 1, 203 N.W. 2d 457 (1972); 232 N.W. 2d 711 (1973).
3. Wassmer and Fisher (1996), p. 92.
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5. For a more complete account of Michigan's school finance reforms, see Michael F. Addonizio, C. Philip Kearney and Henry J. Prince (1995).
6. The linear formula for each district's 1994–95 foundation is: 1994–95 revenue per pupil = 1993–94 revenue per pupil + (\$250 - (\$90 * (1993–94 revenue per pupil - \$4,200) ÷ \$2,300)).

- 7 The revenue and pupil membership indices are combined into a "final index," which may be written as follows:

$$I = (Rt / Rt-1) (Mt-1 / Mt)$$

where I = final index

Rt = total school aid fund revenue in current year

$Rt-1$ = total school aid fund revenue in prior year

$Mt-1$ = total pupil membership in prior year

Mt = total pupil membership in current year

The annual basic foundation allowance is determined by:

$$BFt = BFt-1 * I$$

where BFt = current year basic foundation

$BFt-1$ = prior year basic foundation

- 8 Wassmer and Fisher (1996), p. 94.
 9 Kleine (1997), p. 2.
 10 The Michigan reforms, in effect, remove the school spending decision from local voters and give it to the state. For an economic analysis of this divergence between local spending preferences and state mandates, see Addonizio (1997a).
 11 Kleine (1997), pp. 2-3.
 12 The state of Michigan provided aid to partially equalize local district debt millage until 1980, but has provided no such aid since then. The Proposal A reforms left this policy unchanged.
 13 The information presented in this section follows Kearney (1995).
 14 Exceptions to this rule of random student selection include nonresident students who were already enrolled in the school of choice. Further, students who have been suspended or expelled from another school may be excluded from the choice program.
 15 Participation in interdistrict choice is expected to increase in 1997-98, as local districts have more time

to plan their choice programs. The choice bill was signed on June 19, 1996 and districts needed to determine by July 1 whether or not they would accept choice applications. In future years, districts must decide by June 1. Of the 182 local districts opting not to participate in the choice program in 1996-97, 107 cited insufficient planning time as the reason for their decision, and 92 said they are working on a plan for 1997-98.

- 16 Michigan is one of the few states that impose special education mandates in excess of those established by federal law. While federal law mandates services for disabled persons ages 3 to 21, Michigan law extends the mandate to all such persons from birth through age 26. A key issue in the case was whether the contested services and associated costs resulted from state or federal requirements. Plaintiff districts argued that the state requires certain programs and therefore must pay its share of the associated costs under Section 29 of the voter-approved constitutional amendment (popularly known as the "Headlee amendment," after its author, businessman Richard Headlee) which provides, in part:

The state is hereby prohibited from reducing the state financed proportion of the necessary costs of any existing activity or service required of units of Local Government by state law.

The plaintiffs contended that the state violated this section by reducing the state financed proportion of the necessary costs incurred by the plaintiffs in providing special education services required by state law.

- 17 See, for example, Downes (1992) and Silva and Sonstelie (1995).
 18 At the time of this writing, 144 local districts in Michigan had local education foundations. For a discussion of the scope and equity effects of these local foundations, see Addonizio (1997).

Mississippi remains one of three states that has not seen its state system of financing public education challenged in the judicial system.

Major Reform of Mississippi's Public School Finance System and the Historic Legislative Session of 1997

Gary Johnson

INTRODUCTION AND HISTORICAL BACKGROUND

Mississippi remains one of three states that has not seen its state system of financing public education challenged in the judicial system. The 1997 legislature's passage of Senate Bill 2649, the Mississippi Adequate Education Program, may be the legislature's attempt to remain in this non-challenged status. Many legislators, educators, and policy-makers have referred to the 1997 legislative session as "historic" in its implications and consequences for public education and its financing.

Prior to 1997, the state's system of funding K-12 public education could best be described structurally as a modified Strayer-Haig minimum foundation plan. In addition to this equalization state-aid program, the state provided additional financial aid to local school districts to support special education programs, vocational education, instructional support programs, and transportation. In addition, the state's school finance system allocated funds to local school districts for central office and building level administrative costs and teacher salaries. All of these features of Mississippi's school finance system are grouped together under what is called the state's "Minimum Education Program (MEP)." Conceptually, the MEP is a state school finance plan that utilizes a distribution formula that is minimally equalizing and several distribution formulas that are nonequalizing in their consequences. The MEP has been in place since 1954, with little substantive change since its inception. At the heart of this state aid program has been the "teacher unit" which has been used as the basic measure of local school district educational need and as the basis for the state distribution of the lion's share of state funds to local school districts.

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The Minimum Education Program and Teacher Units

To understand the MEP, the significance of the 1997 legislative session, and Senate Bill 2649, it is necessary to first understand how the teacher unit has been used by the state to fund local school districts since 1954. It is well known that how a state defines and measures educational need is the cornerstone of its school finance system. As noted, Mississippi employs the teacher unit as a measure of local school district educational need. Operationally, it is a ratio of teacher per students in average daily attendance (ADA), where the ADA figure varies to reflect different educational needs by age and grade level. The specific teacher units used in the calculation of state aid to local districts in Mississippi are as follows:

Regular Classroom Teacher Units:

- One teacher unit per 24 ADA students in kindergarten and grades one, two, three and four.
- One teacher unit per 27 ADA students for all other grade levels.

Special Education Teacher Units:

- Adds an additional full teacher unit for each State Department of Education approved program (in measuring the special education needs of the district).

Vocational Education Teacher Units:

- Adds an additional 1/2 teacher unit for each State Department of Education approved program (additional funds are provided—see section of handbook entitled Non-equalization State Aid).

Based on these measures of local educational need, the state determines the total number of teacher units each school district has and then allocates state aid to local districts based on a statewide "Minimum Program Salary Schedule" (See Table 1 for the 1993-94 teacher salary schedule used by the state in calculating teacher unit state aid). The salary level and schedule vary according to years of teaching experience and type of certificate held by the teacher. Experience increments are \$375 for each year of experience for a teacher with a Class A certificate (through 15 years); \$450 for each year for a teacher with a Class AA certificate (through 19 years); and \$500 per year for teachers with a Class AAA certificate (through 19 years) and \$550 for teachers with a Class AAAA certificate (through 19 years).

In summary, the basic measure of local school district educational need used by Mississippi to calculate state aid to local school districts is the number of teacher units in the school district. Under most circumstances, the larger the number of teacher units a school district has, the more state aid the district will receive. We now turn to a discussion of how the teacher unit is used in the calculation of various components of Mississippi's MEP.

Calculation of Selected Components of the MEP: Teacher Units

To see how teacher units are calculated and used in determining state financial aid under the MEP for a local school district, a numerical example for a hypothetical district is provided below.

To determine or calculate the number of teacher units (TU) in a school district, the state uses four items of information about the district:

- number of special education teachers.
- number of vocational teachers.

- number of ADA students in grades K-4.
- number of ADA students in grades 5-12.

Assume our hypothetical school district has ten special education teachers, sixteen vocational teachers, two thousand students in ADA grades K-4, and five thousand students in ADA grades 5-12. Remembering our four types of teacher units in the previous section, where the state defines and counts one teacher unit for grades K-4 for every 24 students in ADA, one teacher unit for grades 5-12 for every 27 students in ADA, one teacher unit for each special education teacher and 1/2 a teacher unit for each vocational teacher, the following formula allows us to determine the total number of teacher units for our hypothetical district:

$$TU = (K-4 \text{ ADA}) \div 24 + (5-12 \text{ ADA}) \div 27 + \text{Number of special Education Teachers} + \text{Number of Vocational Teachers} \div 2$$

Putting the information from our district into the above formula, we get:

$$TU = (2,000 \div 24) + (5,000 \div 27) + 10 + (16 \div 2)$$

$$TU = 83.33 + 185.18 + 10 + 8$$

$$TU = 286.51$$

In our example of how school district teacher units are calculated by the state, our hypothetical district has a total of

286.51 teacher units. These teacher units are used by the state as a measure of the educational need for each local school district. The state, in allocating state aid annually, calculates the total number of teacher units in every school district throughout the state.

MEP Allocations for Teacher Salaries

Teacher salary monies are allocated by the state to local school districts. This allocation is determined using the state's "Minimum Program Salary Schedule" (See Table 1). In addition to this salary schedule, the state obtains from the local district an annual personnel report which contains, among other things, a list of teachers, their years of teaching experience and their highest certificate held (A, AA, AAA, or AAAA certificate). Using the state salary schedule, a total state teacher salary allotment is made to the local district, based on the information contained in the local school district's annual personnel report.

To see how this district teacher salary allotment is calculated, let's again use our hypothetical district and make some assumptions that are a bit unrealistic but make the calculation easy to follow. First, assume there are total number of 225 teachers in the district: 150 with A certificates, 50 with AA certificates, 15 with AAA certificates and 10 with AAAA certificates (doctoral degrees). To further simplify this numerical example, assume that all teachers holding the same certificate

Table 1:
1993-94 Minimum Program Salary Schedule

Years of Exp.	Certification Level			
	AAAA	AAA	AA	A
0	\$20,825	\$20,025	\$19,225	\$18,425
1	21,375	20,525	19,675	18,800
2	21,925	21,025	20,125	19,175
3	22,475	21,525	20,575	19,550
4	23,025	22,025	21,025	19,925
5	23,575	22,525	21,475	20,300
6	24,125	23,025	21,925	20,675
7	24,675	23,525	22,375	21,050
8	25,225	24,025	22,825	21,425
9	25,775	24,525	23,275	21,800
10	26,325	25,025	23,725	22,175
11	26,875	25,525	24,175	22,550
12	27,425	26,025	24,625	22,925
13	27,975	26,525	25,075	23,300
14	28,525	27,025	25,525	23,675
15	29,075	27,525	25,975	24,050
16	29,625	28,025	26,425	24,425
17	30,175	28,525	26,875	
18	30,725	29,025	27,325	
19	31,275	29,525	27,775	
20	31,825	30,025	28,225	

Legend: AAAA—Doctorate
 AAA—Master's Degree + 30 hours
 AA—Master's Degree
 A—Bachelor's Degree

Calculations for the holders of different certificates are as follows:

Personnel	Certificate	Yrs. Exp.	State Min. Salary
150	A	2	\$19,175
50	AA	5	\$21,475
15	AAA	9	\$24,525
10	AAAA	10	\$26,325

have the same years of teaching experience. In our example, we have 150 teachers with an A certificate, all with 2 years of teaching experience. For this group, we would go to the salary schedule, find 2 under the first column, titled *Years of Exp.*, and go over to the column labeled A, where the salary listed is \$19,175. Since there are 150 teachers in our hypothetical district with 2 years of experience, we would multiply 150 times \$19,175, to calculate the amount the district is entitled to for this group of teachers.

Based on this district's personnel profile, a total teacher salary allocation would be calculated as follows: Teacher Salary Allocation (TSA)

$$TSA = 150(\$19,175) + 50(\$21,475) + 15(\$24,525) + 10(\$26,325)$$

$$TSA = \$4,581,125$$

While the example was simplified, it does demonstrate how the state uses the teacher unit to allocate state monies to local districts for teachers salaries. It should be noted that this state money accounts for more state aid than any other item in the MEP.

District and Local Administration Cost Allocations

The state also allocates monies to local school districts under the Minimum Education Program to support district and school level administrative support services. The amount of money each district receives is "tied to" or determined by the number of teacher units in the district and certain state determined dollar amounts per teacher unit. Each local district is allotted \$15,000 for "District Administration", plus \$50 for each teacher unit in excess of 50 units, with the total amount of this allocation not to exceed \$25,000:

$$\text{District Administration Allocation} = \$15,000 + \$50 \text{ (Teacher Units in excess of 50)}$$

Using the information again from the hypothetical district, the state allocation to the local district for "District Administration" would be calculated as follows:

$$\text{District Administrative Allocation (DAA)} = \$15,000 + (\text{District Teacher Units} - 50)$$

$$DAA = \$15,000 + \$50 (286.51 - 50)$$

$$DAA = \$15,000 + \$11,825.50$$

$$DAA = \$26,826$$

But, since the state "caps" this allocation at \$25,000, our hypothetical district would receive an actual allocation of \$25,000 from the state, instead of the calculated \$26,826.

For "Local Administration" support, the state allocates to school districts \$75 for each teacher unit:

$$\$75 \text{ (District Teacher Units)}$$

For our hypothetical local district, the state aid allocation for Local Administration (LA) would be:

$$LA = \$75 (286.51) = \$21,488.25$$

These selected examples of how the state uses the teacher unit to allocate state aid to local school districts indicates how important the teacher unit is in the state's MEP.

Major Reform of Mississippi's School Finance System in 1997

As noted above, the Mississippi legislature passed major school finance reform legislation during the 1997 session and did so in spite of an initial gubernatorial veto. This legislation will be phased-in beginning in fiscal year 1998 and be fully implemented in fiscal year 2003. During this six year phase-in period, school districts will receive approximately \$273 million in state revenue beyond (in addition to) their 1997 level of funding. School districts may utilize these new revenues in a number of ways:

- capital improvement projects
- paying or refinancing current debt service
- issuing state aid capital improvement bonds up to \$160 per student in ADA
- technology or instructional programs (20% limitation).

More importantly, the reform legislation also changed the basic measure of school district educational need in the state's funding formula. Senate Bill 2649 replaces the teacher unit and MEP with a funding method that operates like a "guaranteed yield" plan. It uses as a major component a base student cost

Figure 1:
Senate Bill 2649—Mississippi Adequate Education Program

The new basic finding formula will work as follows:

$$\begin{array}{r}
 \text{Base student cost (\$2664)} \\
 \times \\
 + \\
 \text{at risk student add-on} \\
 + \\
 \text{Other add-ons: (special education, transportation, vo-tech} \\
 \text{gifted education, alternative education, \& health insurance)} \\
 = \\
 \textbf{Adequate education Program Cost} \\
 - \\
 \text{Local Contribution:} \\
 \text{(28 mill levy + 100\% severance tax + 50\% other revenues)} \\
 = \\
 \textbf{"State" Program Cost} \\
 \text{=/- hold harmless adjustment} \\
 + \\
 \text{Local levy Over 28 mills} \\
 = \\
 \textbf{Total Revenues Available to Local School Districts}
 \end{array}$$

figure to reflect or measure educational need. This base student cost figure is \$2,664 and it represents the average per-pupil cost of educating a student in a Level 3 school district. School districts annually receive a state accreditation rating ranging in value from a low of 1 to a high of 5. School districts receiving a Level 3 rating are considered "satisfactory" and performing adequately by state authorities. Thus, the new funding method will use the average per-pupil cost of educating a student in a Level 3 school district as a "base" cost figure. This base student cost per-pupil amount will be guaranteed to all school districts in the state, regardless of their local tax base, as long as their local tax levy equals or exceeds 28 mills.

The basic revised funding formula is algebraically presented in Figure 1. The passage of this school finance reform bill is by far the single most consequential piece of legislation in this year's legislative session.

Beyond Senate Bill 2649, there are several other school finance and related issues that warrant inclusion and discussion in this paper. First, the legislature has passed another bill that will raise public school teacher salaries over a three year period by 10 percent, with the first increase going into effect in the 1997-1998 fiscal year. The passage of this bill was aimed at a current and growing shortage of teachers that is already a crisis in certain regions of the state. Many of the lawmakers believe increasing teacher salaries is a first and necessary step toward increasing the supply of public school teachers over the long term.

Second, there is a trend towards increasing public support for privatization of public education. This increasing support for privatization has manifested itself in a variety of bills that call for: (1) the purchase of textbooks for certain nonpublic schools, (2) waiving certain accreditation requirements for alternative school programs, and (3) granting charter status to ten local public schools. This trend towards privatization is expected to continue and accelerate in the next few years.

A third school finance issue confronting policy makers and educators is that of "annexation." It is an issue that is currently being litigated in the state court system. Annexation refers to a Mississippi law that allows cities to annex neighboring property and coterminously expand their school district and municipal boundaries. If the court does not declare annexation to be valid, it could lead to a chaotic situation and cause a significant redistribution in local school district wealth. Given the current local school district wealth distribution, the "legalization of annexation" would in all likelihood lead to a redistribution in wealth that favors the higher cities and municipalities and discriminates against the lower wealth school districts in counties and the more sparsely populated rural areas.

In conclusion, it must be said that 1997 was a very good year for public education in Mississippi; one that offers very real hope for substantive long-term educational and financial reforms of the state's educational system.

Missouri is already one of the lowest per capita taxing and spending states in the nation for public education.

The Missouri Experience from 1992-93 through 1996-97 with a Guaranteed Tax Base Type of State Aid Formula

John A. Jones

This paper addresses the following questions concerning the Missouri system for financing public education and the state aid formula established by the Outstanding Schools Act of 1993 (OSA).

- What are the basic policy issues addressed by the Missouri state aid formula created by the OSA?
- What changes in school finance equity measures have occurred for the state for school years 1992-93 through 1995-96?
- What changes in school finance equity measures are likely for the state beginning in school year 1996-97 when the OSA formula is fully implemented?
- How may greater gains in equity measures be achieved by modifying the OSA formula?
- What are some of the perceived concerns with the OSA formula?

Policy Issues Addressed in Outstanding Schools Act

The following policy issues are addressed by the Outstanding Schools Act based system for financing public education:

- equity (horizontal and vertical)
- revenue equality
- equal access
- wealth neutrality

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- adequacy of educational resources
- stability for districts
- responsiveness of state aid
- comprehensive system of school finance
- efficiency (revenue required and student achievement)

1.(A) *Equity*—occurs when all students in the state are treated equally in accordance with the constitution and statutes of the state. Equity usually refers to equal treatment of equals.

The concept of equity is based upon the Judeo-Christian concepts that all persons are of equal worth and that each individual person is of great worth. Therefore, when it comes to public education, all students are worthy of both equal and adequate treatment. Equity can also refer to unequal treatment of unequals. Some students bring with them handicapping or disabling conditions which make them more challenging to educate, requiring greater educational costs and services to help them reach their potential.

The OSA formula provides very similar amounts of revenue from state and local sources for students in school districts with the same local property tax rate and with equal concentrations of special needs students. State categorical add-on revenue sources allow districts with higher concentrations of special needs students to receive greater revenue for additional services required for these students. New funding of programs for at-risk students has been provided by the OSA state aid formula.

(B) *Equity*—may also be defined as the condition when all students in the state have equal opportunity to participate in quality educational programs.

The Missouri School Improvement Program for classifying school districts is the primary means of the state for determining the quality of educational programs. The OSA provides for greater equity of educational opportunity by giving all parents in unaccredited school districts the freedom of choice to send their children to accredited school districts with transportation and tuition paid by the district of residence. Also, the OSA provides for greater equity of educational opportunity by requiring that all districts which are unaccredited for two consecutive years be lapsed and their territory joined to accredited districts.

2. *Revenue Equality*—occurs when students with equal educational needs have equal amounts of revenue to purchase educational services regardless of their location within the state.

The OSA formula is not designed to provide revenue equality because increasing amounts of state aid are provided for a wide range of district property tax rates between the minimum tax rate of \$2.75 (unless exempt) and the maximum tax rate for state aid of \$4.60 per \$100 of assessed valuation (AV) which may be entered into the state aid formula. This provides a ceiling to revenues from the state based upon local effort.

School districts may levy tax rates in excess of \$4.60 with no matching state aid on the portion of the levy in excess of \$4.60.

The OSA formula does provide a limited but significant amount of gain in revenue equality primarily because the minimum tax rate was increased which allowed poorer, lower tax rate districts to gain more revenue from the OSA state aid formula. The OSA formula and the increased minimum tax rate increase the revenues for students in poorer school districts while not decreasing revenues for any student in any other school district in the state. This strategy of increasing state and local revenues for many poor districts over a four year phase-in period while not decreasing revenues for any other district was made possible by means of individual and corporate income tax increases which were a part of the OSA.

3. *Equal Access*—to combined state and local revenues is achieved when each penny of local property tax rate produces the same amount of revenue per pupil in all school districts.

When fully implemented and fully funded, the OSA state aid formula is designed to provide equal access to a combination of state and local revenues for about 90 to 95 percent of Missouri's public school students within the range of property tax rates between the minimum tax rate and the maximum tax rate for state aid of \$4.60 per \$100 of assessed valuation (AV). The OSA state aid formula is not designed to provide revenue equality or equal revenues per pupil for all students in the state. The only way an equal access state aid formula can provide an extremely high level of revenue equality is to require all school districts to levy the same property tax rate or to limit local tax options for districts so that no district may receive revenues in excess of a pre-established amount per pupil.

4. *Wealth Neutrality*—a state system of financing public education occurs when there is little or no relationship between school district wealth per pupil and the amount of revenue per pupil available to purchase educational services.

Wealth neutrality for a state system is usually measured by calculating the correlation between a wealth per pupil measure and a revenue or expenditure per pupil measure for all school districts. For Missouri school districts, wealth is usually expressed in terms of assessed valuation (AV) per pupil and average gross income per state tax return for school district residents. Expenditures or revenues are expressed as revenue or current expenditures per pupil in average daily attendance (ADA) or per pupil enrolled.

An equal access formula, like the OSA formula, that uses local school district property tax rates to access revenue from a Guaranteed Tax Base (GTB) can provide perfect wealth neutrality only when there is little or no relationship (correlation) between tax rates and wealth. As a consequence of the importance of wealth neutrality issues, the General Assembly has mandated public reporting of the correlation between district tax rates and districts' assessed valuation (AV) per pupil after each property tax reassessment (RSM.163.021.4)

5. *Adequacy*—occurs when students have access to high quality education programs which prepare them to successfully function in American society.

A minimal level of adequacy of funding is provided in the OSA by increasing the minimum local property tax rate required for eligibility for increases in state aid from \$2.00 per \$100 of AV to \$2.75 per \$100 AV. A minimal level of fiscal adequacy is also provided in the OSA by setting the GTB at a high level based on the ratio between the 95th percentile rank AV per pupil and the state average AV per pupil in 1993-94 and by providing more state revenue to fund the new state aid system.

6. *Stability*—of combined state and local revenues for school districts occurs when the combined revenues do not fluctuate widely from year to year.

Stability is provided in the OSA formula by a three year phase-in period which limits the amount of revenue paid to gaining districts and prevents any losses in revenues paid to districts which might have lost revenue. A hold harmless provision provides stability of state aid to districts which might otherwise be paid less state revenue than was paid in the last year of the previous formula. Stability of state aid paid to districts losing enrollment is increased by allowing districts to be paid based on the greater of the previous or current years' enrollment. Stability of combined state and local revenue is also provided by proration of entitlements of the formula when it is under- or over-funded. Stability of revenue usually works against equity and responsiveness.

7. *Responsiveness*—is achieved when a formula reacts to increase state aid when local revenues decrease and vice versa.

Because state aid plus local wealth equals a constant amount per pupil for each penny of tax rate and because local revenues received the prior year are more fully deducted, the OSA formula will change the state aid amount within one year on a dollar for dollar basis as local revenue deductions change.

8. *Comprehensive*—systems for financing schools bring together both general and categorical sources of state and local revenues for education so that no one program is funded at the expense of other programs.

The OSA formula increased the number of state and local revenues used as deductions and provides for proration of state entitlements so that nearly all state education funding priorities bear the consequence of under-funding together using a common proration factor.

9.(A) *Efficiency*—of a state equalization program for funding education may be measured in part by the amount of revenue required to maintain equity.

The OSA formula reduced the cost of full funding of the state aid formula from about \$1.9 billion to about \$1.3 billion. The cost of funding the OSA formula is not driven by previous levels of spending for education as was the 1976 formula. Therefore, the state is more likely to sustain over time high percentage or full funding of the OSA formula. The OSA formula is designed to establish a high correlation or relationship between school district expenditures and local tax rates.

(B) *Efficiency*—of a state system for funding of public education may be viewed as obtaining the maximum amount of student achievement from a given amount of expenditures for public education.

The reforms sections of the OSA are designed to:

- increase the levels of pupil performance measured by the state wide assessment program which has been referenced to the Show-Me Standards and Curriculum Frameworks,
- increase the graduation rate for public high schools, and
- increase the successful placement rates for public high school graduates for first time employment, trade school training, military service, or college education.

The OSA education reform sections are designed to increase the efficiency of public education by increasing its measured outputs.

State Aid Formula as Modified by Senate Bill 795

This section provides a brief description of the state aid formula as modified by Senate Bill 795. During the 1996 legislative session, the General Assembly enacted the first amendments to the OSA formula to make state aid more stable for districts that lose tax rate because of reassessment of property.

The entire OSA state aid formula worksheet consists of 19 lines and four distinct parts:

District entitlement (Line 1)

Deductions (Lines 2 through 10)

Categorical add-ons (Lines 11 through 18)

District apportionment (Line 19) (See Appendix A).

The first two parts of the OSA state aid formula result in a "basic formula", lines 1 through 10, payment amount which is intended to increase the equity of the entire state and local system for financing public schools.

The district entitlement is determined annually for each eligible pupil (EP) by multiplying the district equalized tax rate for operations times the GTB. The GTB is the state mean AV per EP times 2.167 based on data for the third preceding year.

The size of the state's appropriation for the foundation formula also determines the amount of a district's entitlement on Line 1. A proration factor or decimal fraction, which is the same for all districts is multiplied times each district's entitlement to make the payments to school districts equal the appropriated amount. Proration of district entitlements on Line 1 of the foundation formula causes the entitlement per eligible pupil to change in equal proportion for all districts when the formula is under- or over-funded.

The placement of the proration factor within the state aid formula is critical to its ability to maintain equity when it might be under- or over-funded. Prorating the state aid payment amount after deductions is a proration of the difference between the state entitlement and local wealth deductions. Prorating the difference results in a proration of both the entitlement and the deductions which favors the more wealthy districts when the formula is under funded and favors the less wealthy districts when over funded. Therefore the efficiency of a state aid formula in providing equity when it is under- or over-funded is greatly enhanced by prorating district entitlements before deductions which causes the district entitlement to change in equal proportion for all districts.

The prorated district entitlement is supported by a combination of state and local revenues. The greater the wealth of a school district, the greater the district's share of funding (deductions) of the prorated entitlement, and the smaller the state's foundation formula payment. The actual amount of a district's share is determined in the deduction section of the formula (Lines 2 through 10). The state's share of the prorated district entitlement is the difference between Line 1 and the sum of Lines 2 through 9. This remainder is called the "basic formula" amount. The state basic formula amount plus the total deductions (sum of Lines 2 through 9) is equal to the prorated district entitlement.

In Line 2 of the formula, the equalized tax rate is multiplied by the district's equalized assessed valuation (AV). If the district income factor is 1.0 or less, the assessed valuation (AV) tax rate product is multiplied by the district income factor. If the income factor is greater than 1.0 in value, it is multiplied times the 1994 AV and any growth in AV since 1994 is multiplied by an income factor of 1.0. This adjusted AV is then multiplied by the equalized tax rate. The income factor is based on a ratio between the average income of district residents and the average income of all state residents. When the property of a county is more than 5 percent under assessed based on State Tax Commission studies the assessed valuation and tax rate of each school district in the county are equalized to 33 1/3 percent equivalent values. All but two of the significant state and local revenues which are non-categorical in use are deducted at 100 percent of the amounts placed in the operating funds (general and special revenue funds).

The third part of the OSA state aid formula is the categorical add-ons (Lines 11 through 18). These are state revenue sources for programs which are unique to the district or for programs for special needs students who are more costly to educate and are not uniformly distributed among schools districts. If the state aid formula (Lines 1 through 10) is under-funded, which is indicated by a proration factor of less than 1.0, the categorical programs in Lines 11 through 15 shall be prorated so that none of these programs have a proration factor greater than the proration factor on Line 1 of the state aid formula. The categorical programs were included in the OSA state aid formula to prevent them from being funded completely at the expense of the state's ability to fund the basic formula portion (Lines 1 through 10) of the formula.

The total district payment is shown on the last line of the state aid formula (Line 19). For most districts, the total payment amount is the sum of Lines 11 through 17 plus the differ-

ence between Lines 1 and 10. Extremely wealthy districts will have total deductions (Line 10) which are greater than their district entitlement (Line 1). These districts are held harmless by paying them the Line 18 amount for categorical add-ons plus an amount based on their per pupil payment rate from the last year (1992-1993) of the previous formula minus the amount they gain from Line 14 for their free and reduced priced lunch eligible students.

The Legal Context for Equity Analysis

On January 15, 1993, State Circuit Court Judge Byron Kinder issued a Memorandum Opinion and Judgment concerning the school finance lawsuit between the *Committee for Educational Equality, et al. v. State of Missouri et al.* and *Lee's Summit School District R-VII, et al. v. State of Missouri, et al.* The following statements from the Kinder opinion and judgment are very important for equity analysis:

The Range, the Restricted Range, the Federal Ratio, the Coefficient of Variation, the Gini Index and the McLoone Index are generally accepted measures for determining school finance equity. Testimony of Dr. Robert Bartman, Dr. John Jones and Dr. Kern Alexander. See Exhibit 502 for definitions of these equity tests (p14).

The Constitution of Missouri requires that the State of Missouri provide and fund a system of free public schools so that every child in Missouri will be afforded substantially equal educational opportunities without regard to place of residence, wealth, or other economic circumstance. A child living in a poor school district must have the same opportunity to receive substantially the same education as a child living in a rich district (p. 30).

A deviation from equality on a per student basis is the distribution of the total resources (both state and local) among the schools in the Missouri school system should not be permitted except to provide resources either (a) to the least advantaged or (b) for specially identified educational needs. There are greater costs involved in educating disadvantaged or "at risk" children (p. 30)

The state must provide adequate funds to "maintain" a system of education providing a "general diffusion of knowledge intelligence" at the level which is necessary in this era to "preserv[e] the rights and liberties of the people (Missouri No. CV190-137cc, p. 30).

The system of public schools in Missouri is a state system, not separate district systems (p.30).

Judge Kinder's order stated that deviation from equality should be attributable only to revenues for students with the least advantages or for students with specially identified educational needs. Therefore, based on Judge Kinder's ruling, categorical revenues for special, at risk or disadvantaged students should be excluded from any equity analysis. Currently, only revenues available to pay for general education costs have been included in this equity analysis.

As currently designed, the state system for financing public education provides a limited amount of state support for capital expenditures and no direct state support for the debt service fund. Therefore, no revenues placed directly in the capital projects or debt service funds which are used for non-routine, one-time expenses will be included in any equity analysis of the Missouri system for financing public education.

Equity Analysis Procedures

Equity is a concept based on the fair treatment of individual students. However, funds are allocated to local school districts for delivering educational services for students.

Therefore, students are the subjects of equity analysis and school districts that serve them are used as data sources. All analyses were weighted by the number of pupils served in each district. The pupil count used for all equity calculations is average daily attendance (ADA) which is the sum of regular school term attendance plus summer school attendance expressed on a regular term equivalence basis.

There are two fundamental methods or approaches which are used by most states when creating systems for distributing revenues to school districts. These methods are the "revenue equality" or "foundation" approach and the "equal access" to revenue or "guaranteed tax base" approach. The OSA state aid formula uses the equal access approach, with a required minimum tax rate to provide a foundation of equalized support for basic adequacy of revenue. Therefore this equity analysis proceeded along two parallel lines using revenue per pupil in ADA to test revenue equality and revenue per pupil in ADA per penny of property tax rate to test equal access to revenue. Revenue per pupil is obtained when the total of 14 general revenues for each Missouri school district is divided by the number of students in ADA during the same year. Revenue per pupil per penny of tax rate is obtained when the total of 14 general revenues is divided by the product of the number of students times the equalized operating levy of the district.

The same tax rate entered in the OSA state aid formula was used for equity calculations. Two variables were used to indicate the wealth of a school district, these are average income per state tax return for residents of the district and equalized assessed valuation per pupil in ADA.

Revenues were used rather than expenditures because districts can make so many decisions concerning their use of revenue in the form of tradeoffs between fund balances, capital expenditures, and current operating expenditures. A previous study of Missouri data by Allan Odden (1995), was based on expenditures made during the 1992-93 and 1993-94 school years. Use of expenditures in the analysis was found to introduce so much variance that it became difficult to detect changes in equity across years.

Correlations between revenue per pupil and wealth were used to measure the "wealth neutrality" of the Missouri school finance system. Ability to spend was expressed as revenue per pupil. In the equal access sense, ability to spend was expressed as revenue per pupil per penny of tax rate. Wealth was indicated by assessed valuation per pupil and/or by adjusted gross income per state tax return. Equity analysis also involved measuring the amount of dispersion about the central tendency using the standard deviation, coefficient of variation, range and federal range ratio.

Data from Missouri school districts for the following school years were analyzed:

Year	Situation
1992-93	Last year of use of the 1976 Foundation Program
1993-94	First phase-in year; 25% of O.S.A. formula amount 75% of 1992-93 payment amount
1994-95	Second phase-in year; 50% of O.S.A. formula amount 50% of 1992-93 payment amount
1995-96	Third phase-in year; 75% of O.S.A. formula amount 25% of 1992-93 payment amount
Simulated 1996-97	Simulated, fully implemented OSA formula amount; 100% of 1994-95 formula payment amount which requires about \$187 million in additional basic state aid above the amount distributed in 1994-95.

Summary of Results

This equity analysis was based on non-categorical revenue data for Missouri school districts for the years 1992-93 through 1995-96 plus a simulation of the consequences of a fully funded and implemented OSA state aid formula using 1994-95 data and an additional \$187 million in basic state aid. The individual student was the subject of this analysis. Data

Table 1
Five Year Changes in Equity Statistics Summarized for All Districts

Variable Statistics	Equity Viewpoint	1992-93 Value	1995-96 Value	1996-97 Simulated Value	Desired Value
Rev/Pupil Mean	Adequacy	3632	4201	4206	
Standard Dev.	Rev. Equality	1025	762	762	0
Range	Rev. Equality	6,003	7,471	4,467	0
Federal R. Ratio	Rev. Equality	1.21	.75	.73	0
Coeff. Var.	Rev. Equality	.282	.184	.181	CV<1.0
r with Levy	Equal Acs.	0.665	0.717	0.777	r>0.80
r with Inc.	Wealth Neu.	0.139	0.492	0.450	r<0.20
r with AV/P	Wealth Neu.	0.463	0.681	0.624	r<0.20
Rev/Pupil/Penny Mean	Adequacy	12.86	13.20	13.21	
Standard Dev.	Equal Acs.	3.49	2.32	2.06	0
Range	Equal Acs.	34.02	30.76	26.02	0
Federal R. Ratio	Equal Acs.	1.23	.40	.28	0
Coeff. Var.	Equal Acs.	.271	.176	.156	CV<.10
r with Inc.	Wealth Neu.	0.306	.412	0.422	r<0.20
r with AV/P	Wealth Neu.	0.282	.781	0.749	r<0.20
r O. Levy with Inc.	Wealth Neu.	0.306	0.148	0.150	r<0.20
r O. Levy with AV/P	Wealth Neu.	0.282	0.079	0.123	r<0.20

were analyzed from both revenue equality and equal access to revenue viewpoints.

The following conclusions are apparent based upon this analysis.

- The correlation between assessed valuation per pupil and district tax rate is 0.079 which indicates a negligible relationship for the 1995–96 school year. Based on this analysis of 1995–96 data an increase in the state minimum property tax rate is not necessary at this time from a wealth neutrality viewpoint. Whether or not the minimum tax rate provides an adequate level of funding for school districts with that tax rate is another issue.
- All statistical indicators justify the conclusion that the OSA state aid formula produces a very high level of equal access to combined state and local revenues for about 86 percent of all public school students.
- All statistical indicators demonstrate that moderate but significant gains have been made in revenue equality. Increases in the minimum property tax rate when applied against a high level of guaranteed tax base (GTB) have resulted in substantial increases in revenue for most of the poorer, lower revenue school districts.
- All statistical indicators point to the conclusion that a small improvement has been made in wealth neutrality. For all school districts in 1992–93, the last year of the previous formula, the correlation of 0.764 between revenue per pupil and AV per pupil accounted for 58 percent of the variation in revenue per pupil among students served by school districts in the state. The same correlation based on simulated values for a fully funded and implemented OSA formula was 0.624 which accounts for 39 percent of the variation in revenue per pupil among students served by school districts in the state. This small decrease in the correlation between revenue per pupil and AV per pupil is more significant than it appears to be upon first inspection.
- Adequacy of funding for public education has improved. This is indicated by the 9.7 percent increase in the mean general state and local revenue per pupil from \$3,474 in 1992–93 to \$3,812 in 1994–95. During this same period the Consumer Price Index increased by 5.6 percent. This growth in purchasing power for public education in Missouri during was made possible by a combination of the equal access state aid formula, the increased minimum property tax rate, and the progressive income tax increase which were contained in the OSA.

Thus it can be demonstrated quantitatively that the OSA state aid formula and tax increase have significantly improved both the equity and adequacy of the Missouri system for funding public education.

Perceived Concerns Regarding the OSA Formula

The following concerns have been expressed in regard to the OSA formula:

1. My school district is not receiving much revenue growth because of the OSA formula. Where is all this new revenue for schools going?

Response: This question involves a comparison between revenue received from the previous state aid formula of 1976 and revenue received from the OSA formula, which will be fully phased-in and is likely to be fully funded for the first time in the 1996–97 school year. For various reasons in 1992–93 the previous state aid formula paid some school districts as little as 24 percent of their full funding payment amounts while other

school districts might be paid as much as 75 to 90 percent of their full funding payment amounts. In 1992–93 districts were paid on the average about 48 percent of their full funding payment amounts.

Therefore districts that were highly advantaged by the previous formula tend to receive small or no increases in state aid from the OSA formula, while most disadvantaged districts receive relatively large increases in state aid.

The OSA provides additional revenues for school districts by means of a minimum property tax rate increase from \$2.00 to \$2.75 per \$100 AV and by means of changes in individual and corporate income taxes. In the first full year of implementation the increased minimum property tax produced about \$55 million and the increased income tax produced about \$315 million. These new state and local revenues will be distributed to school districts for the following reasons which are presented in rank order from greatest to least in distribution of new revenue:

- Line 14 of the OSA formula will distribute about \$185 million when fully implemented and fully funded.
- Minimum tax rate school districts will receive increased local revenues plus matching state aid, often on a 2.0 to 3.5 to 1 state to local match basis.
- Higher tax rate school districts will receive additional matching state aid because of their higher local effort.
- State funded hold harmless districts will receive state aid at their 1992–93 payment rates so their revenues will not be reduced because of the OSA.

2. It is difficult to predict revenue coming to a district from the OSA formula.

Response: Senate Bill 795 has attempted to correct this problem by using the state mean assessed valuation per pupil during the third preceding year times 2.167 to calculate the value of the Guaranteed Tax Base (GTB). This makes the value of the GTB more stable and predictable and a known number about two years before it is first used for payment purposes. The GTB is now a known value during the budget preparation period for both the state and school districts.

Equal access to revenue produced by the OSA state aid formula comes from both state and local revenue sources combined; therefore, increases in local revenues are accompanied by corresponding decreases in basic state aid one year later and vice versa. The reciprocating relationship between state aid and local revenues should be considered before making any comparison between years or districts.

One should never speak of decreases in state aid without also documenting corresponding increases in local revenues. School administrators and policy makers should always document the changes in total state and local revenues when describing the financial situation in their school district.

3. Reassessment of real property causes downward adjustments of property tax rates to make the reassessment cost neutral for taxpayers. The downward adjustment of tax rates causes school districts to lose state equalization aid because a lower tax rate is used in Line 1 of the formula for multiplication against the GTB.

Response: Senate Bill 795 has attempted to correct this problem by authorizing entry of an add-on tax rate in the state aid formula sufficient to pay the district the same amount of state aid it would have received if reassessment had not caused a reduction in its tax rate ceiling. To qualify for this add-on tax rate to hold a district harmless from reductions in state aid due to reassessment a district must meet the following criteria:

- a) demonstrate a reduction in its tax rate ceiling due to reassessment.

- b) not increase any voluntary rollback in its tax rate ceiling, and
- c) pass on to the taxpayers any reduction in its tax rate ceiling.

4. The OSA formula does not provide support for the capital projects and the debt services funds.

Response: Originally the OSA provided support for capital projects fund types of expenditures by elimination of the building fund and by providing state aid for the entire general fund tax rate. No support was provided for the debt service fund. The OSA also provided for the issuance of no interest loans from a school building revolving fund to be financed from riverboat gaming revenues.

In the 1994 legislative session SB676 reestablished the capital projects (building) fund and provided for a limited amount of revenue transfer from the incidental fund to pay for capital projects fund expenditures which can no longer be expensed out of the incidental fund.

In the 1995 legislative session provision for using riverboat gaming revenue to fund the school building revolving fund was eliminated and a revenue intercept procedure was established to help assure timely debt service fund payments which increases the ratings given school district bond issues and lowers interest costs. This legislation also provided state financing for bond issuance costs. Presently, there is no state support for debt service fund expenditures.

5. The OSA formula is not responsive enough to the financial needs of rapidly growing districts for either current operating or debt service costs.

Response: If this is judged to be a valid issue, here are several options to consider:

- a) Funding of the school building revolving fund,
- b) Providing some level of GTB support for the debt service fund levy, and
- c) Providing a temporary weight for two years of 1.2 times the eligible pupil count for any newly opened school site to help pay for opening the school.

6. The OSA formula is too responsive to year to year fluctuations in local revenues and eligible pupil counts. Because the deductions in the formula run one year behind the receipt of local revenues it seems like a school district gets hit twice during the year following a large one year increase in a local revenue.

Response: Large year to year fluctuations in local revenues could be handled by accumulating fund balances the first year and spending the fund balance increase the second year, when the increased deduction decreases state aid. If school administrators cannot manage this two year strategy it would be reasonable to base deductions on an average of revenues received during the second and third preceding years. It would seem fair to base pupil counts and levy amounts used in the formula on the same concept; which would make the cost of full funding of the formula very predictable, but somewhat less responsive. There is always a trade off between responsiveness and predictability for any state aid formula. As a compromise the state aid formula could be modified to make it less responsive to decreases in state aid per pupil and to keep its responsiveness to increases in state aid.

7. Some argue that the OSA formula does not provide enough revenue equality across the state, equal access to revenue is not enough.

Response: This is in part an adequacy of revenue argument. The minimum tax rate times the GTB might not produce enough revenue to support satisfactory educational programs. Please see the previous section for suggestions concerning how to make an equal access type formula provide greater revenue equality.

The equal access approach was used for the OSA formula for at least these reasons.

- a) It provides a direct matching reward for local taxpayers to vote for increased tax levies to support schools, and
- b) It is supportive of local control by allowing patrons to enrich their programs or to maintain smaller more expensive to operate schools and school districts with state and local revenue support, if they levy enough tax rate to pay for the added costs.

8. The OSA formula cannot provide equity when property assessment practices vary widely from county to county.

Response: To provide a more accurate data base for determining the market value of property on the assessment rolls, certificates of value should be required by county or city officials before real property transactions are recorded. The state should provide financial assistance to county governments to help them computerize property tax rolls and give them the ability to more rapidly update these tax rolls during reassessment years. The OSA formula can be no more equitable than the accuracy of real property assessed valuations.

An alternative would be to adopt a revenue equality formula with a uniform statewide property tax or with abolition of property tax support for education. Some alternative form of tax support would have to be found to make up for the lost revenue because Missouri is already one of the lowest per capita taxing and spending states in the nation for public education. In the long run, if property assessments cannot be uniformly administered in the various counties of Missouri a foundation type of state aid formula will have to be enacted with the purpose of providing revenue equality for all students.

Endnotes

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Appendix A

The Outstanding Schools Act of 1993 (SB380) State Aid Formula

(Data shown are for illustrative purposes)

District Entitlement

1. (Eligible Pupils) x (Equalized Operating Levy + Reassessment Adjustments) x (Guaranteed Tax Base) x (Proration) 1,050 x (\$3.25/\$100 AV) x (\$110,000 AV/E.P.) x (1.0000) = \$3,753,750

Appendix A
The Outstanding Schools Act of 1993 (SB380) State Aid Formula
 (Data shown are for illustrative purposes)

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District Wealth Deductions

2. [(1994 Equalized Assessed Valuation) x (Income Factor) x (Equalized Operating Levy)] + [(current Equalized Assessed Valuation - 1994 Equalized Assessed Valuation) x (Income Factor*) x (Equalized Operating Levy)] *cannot exceed 1.0000 in value [(\$35,000,000) x (1.033) x (\$3.25/\$100)] + [(\$7,233,138) x (1.000) x (\$3.25/\$100 AV)] = \$1,410,456
3. Intangible Taxes, Fines, Forfeitures, Escheats, Payments in Lieu of Taxes, etc. (100% of previous year amount for school purposes) (\$75,000) x (1.00) = \$75,000
4. State Assessed Railroad and Utility Tax (100% of previous year amount for school purposes) (\$450,000) x (1.00) = \$450,000
5. Federal Properties Receipts (100% of previous year amount for school purposes) from federal forest, mineral lease, and flood control lands (\$15,000) x (1.00) = \$15,000
6. (Federal Impact Aid received the previous year for school purposes - \$50,000) x (.xxx) (\$80,000 - \$50,000) x (.90) = \$27,000
7. (Proposition C Receipts the previous year for school purposes) x (.xxx*) *usually deducted at 50% (\$603,750) x (.50) = \$301,875
8. Fair Share Receipts (100% of previous year amount for school purposes) (\$34,000) x (1.00) = \$34,000
9. Free Textbook Receipts (100% of previous year amount for school purposes) (\$75,000) x (1.00) = \$75,000
10. Total District Deductions (Sum Lines 2 through 9) \$2,388,331

Categorical Add-Ons

11. (Pupil Transportation Aid Entitlement) x (CP) (\$250,000) x (.93) = \$232,500
12. (Special Education Entitlement) x (CP) (\$210,000) x (.95) = \$199,500
13. (Gifted Education Entitlement) x (CP) (\$40,000) x (1.0000) = \$40,000
14. (Free and Reduced Lunch Eligible Pupils) x (.20) x (GTB) x (Min. Levy) x (CP) (250) x (.20) x (\$110,000) x (\$2.75/\$100 AV) x (1.0000) = \$151,250
15. (Career Ladder Entitlement) x (CP) (-0-) (1.0000) = (-0-)
16. Vocational Education Entitlements x (1.0) (\$30,000) x (1.0) = \$30,000
17. (Early Childhood Education Entitlements) x (1.0) (\$15,000) x (1.0) = \$15,000
18. Total Categorical Add-Ons (Sum Lines 11 through 17) = \$668,250

District Apportionment (Greater of 19.A. or 19.B. the Hold Harmless Amount)

- 19.A. (Line 18) + (Greater of 0.0 or (Line 1 - Line 10) (\$668,250 + (\$3,753,750 - 2,388,331)) = \$2,033,669
- 19.B. Hold Harmless Amount (Line 18) + ((EP) x (1992-93 Payment Rate)) - (Line 14) \$668,250 + ((1,050) x (\$1,250/EP)) - \$151,250 \$668,250 + \$1,312,500 - \$151,250 = \$1,829,500

District Wealth Deductions

2. [(1994 Equalized Assessed Valuation) x (Income Factor) x (Equalized Operating Levy)] + [(current Equalized Assessed Valuation - 1994 Equalized Assessed Valuation) x (Income Factor*) x (Equalized Operating Levy)] *cannot exceed 1.0000 in value [(\$35,000,000) x (1.033) x (\$3.25/\$100)] + [(\$7,233,138) x (1.000) x (\$3.25/\$100 AV)] = \$1,410,456
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 19.B. Hold Harmless Amount (Line 18) + ((EP) $\times (1992-93 \text{ Payment Rate}) - (\text{Line 14}) \$668,250 + ((1,050) \times (\$1,250/\text{EP})) - \$151,250$ \$668,250 + \$1,312,500 - \$151,250 = 1,829,500

Appendix B

Definition

District Eligible Pupils (EP)—is determined by adding the average daily attendance (ADA) of resident pupils the preceding year to two times the ADA for summer school. ADA is the total hours of attendance of resident students divided by hours in session. Summer school ADA is total hours of summer school attendance divided by the number of hours in the regular school year. The greater of the preceding year's EP or the current year's estimated EP is used.

District Equalized Operating Levy (EOL)—is determined, when the effective sales ratio is less than .3167, by multiplying the sum of the adjusted incidental (general) and teachers' (special revenue) levies by the effective ratio for the county and dividing the product by .3333. When the effective sales ratio is greater than .3167 the adjusted operating levy is used as the EOL. Effective sales ratio for a county is the greater of either the ratio for the preceding year or the average of the largest three of the last four years' ratios.

Senate Bill 795 of 1996 allows the EOL to be less than the minimum tax rate if adjustments required by Article X, Section 22 of the Missouri Constitution would cause the tax rate to be less than the minimum. Beginning in the 1996-97 school year, districts which are required by Article X, Section 22 of the Missouri Constitution to reduce their property tax rates, may qualify for an add-on tax rate for Line 1 of the formula which prevents any loss in state aid that would have resulted from the forced tax rate reduction.

District Equalized Assessed Valuation (EAV)—is determined, when the effective sales ratio for the county is less than .3167, by multiplying the assessed valuation (AV) of real property by .3333 and dividing the result by the effective sales ratio and then adding to this dividend the personal property AV. When the effective sales ratio is greater than .3167, the actual AV is used as the EAV.

District Free and Reduced Lunch Eligible Pupil Count (FRL)—is the number of pupils on a FTE basis eligible for free or reduced price lunches who were enrolled on the last Wednesday of January of the prior school year.

Phase-In Period—In 1993-94 the district payment amount is based on categorical add-on payments plus 75 percent of the minimum guarantee per EP payment rate in 1992-93 plus 25 percent of the per pupil payment rate from Line 1 - Line 10 + Line 14. In 1994-95 the payment amount is based on categoricals, plus 50 percent of the 1992-93 payment rate, plus 50 percent of the payment rate from Line 1 - Line 10 + Line 14. In 1995-96 the payment amount is based on categoricals plus

25 percent of the 1992-93 payment rate plus 75 percent of the Line 1 - Line 10 rate plus Line 14. Beginning in 1996-97 the payment amount will be based 100 percent on the OSA State Aid Formula as presented. During each phase-in year a lesser percentage of Line 1 - Line 10 + Line 14 amounts may be used to determine district payment rates if the appropriation is too small to fully fund the formula.

Hold Harmless—is the amount of state aid required so the total of Line 1 minus Line 10 plus Line 14 is not less than the base year payment rate (BR) for foundation formula aid for 1992-93.

Guaranteed Tax Base Per Eligible Pupil (GTB)—is the equalized assessed valuation per pupil of the district containing the 95th percentile pupil in the state when districts are ranked from lowest to highest based on equalized assessed valuation per pupil.

After two years of experience with a 95th percentile GTB, it was determined that basing the GTB on the AV per EP of an extreme outlier in the distribution of districts gave a GTB which varied widely from year to year in an unpredictable fashion. An unpredictable and highly variable GTB makes long range financial planning difficult for both the State of Missouri and for local school districts. Therefore the definition of the GTB was changed by Senate Bill 795 of 1996 to 2.167 times the state mean AV per EP for the third preceding year. The 2.167 value is based on the ratio relationship between the state mean assessed valuation and the 95th percentile GTB during the 1992-93 school year. Using third preceding year data makes the GTB a known value about two years before its first use in calculating state aid, which is in time for preparing budget estimates.

Proration Factor (PF)—is a decimal fraction which allows the total payment to all school districts equal the amount appropriated.

District Income Factor (IF)—is 1.0 plus 0.30 times the difference between the district income ratio and 1.0. The district income ratio is the district average adjusted gross income per state tax return divided by the state average adjusted gross income per return.

School Purposes—includes revenues placed in the incidental (general) and teachers' (special revenue) funds.

Federal Impact Aid (P.L. 81-874)—is deducted at 90 percent of the amount received the prior year for school purposes less \$50,000 or at the percentage allowed by federal regulations if less than 90 percent.

Proposition C Receipts—are deducted at 50 percent of the amount received the previous year. However, during FY 95-FY 97 districts which by board action forego any portion of the Proposition C rollback will calculate their deduction percentage as 100 percent minus the percentage of revenue used for rollback divided by total Proposition C revenue received the previous year.

Categorical Program Proration Factor (CP)—for categorical add-on programs must be equal to or less than the proration factor used on Line 1 and should not be greater than 1.0.

Minimum Operating Levy (MOL)—is equal to \$2.00 per \$100 AV for 1993 and to \$2.75 per \$100 AV for 1994 and thereafter.

Required Placement of Revenue—the total payment (Line 19 amount) for each district must be placed in the General Revenue and Special Revenue Funds (operating funds) based on the ratio of the tax rate for that fund to the total tax rate of the two funds.

It appears that the condition of funding Montana schools is returning to what was in existence in 1989—i.e., a relationship between state funding and local funding.

School Funding in Montana

Ernie Jean

General Background

A foundation program method to finance public elementary and secondary schools in Montana was instituted in 1949 and still serves as the distribution vehicle for school funds through 1998. As it was designed in 1949, the state was to provide 80% of the revenue to fund the foundation program with the remainder from district and county tax sources. The balance between those funding sources gradually shifted in their relationship where the percentage of state participation in 1986 was approximately 55% of the revenue necessary to fund the schedules.

In 1986, 64 school districts filed suit in district court challenging the method the state used to finance public elementary and secondary schools relative to the state's constitution. In what became one of the nation's first court challenges to the equity of a state's funding mechanism, the *Helena District #1 et. al v. State of Montana* was tried. The plaintiff districts prevailed in district court. The state appealed to the Montana Supreme Court, who, in January 1989, affirmed the district court decision.

The court ruled the Montana system to fund school's general operations levy (i.e. the General Fund) as well as the retirement, transportation, and debt service funds was inequitable. The legislature took this funding issue under consideration and attempted to resolve the disparity in funding by attempting to remodel the existing method in such a way as to make it more equitable.

What evolved in legislative action taking six months and a gubernatorial veto was a "new" approach to financing Montana schools. This new system utilized a Guaranteed Tax Base (GTB) component within the framework of a foundation plan. In the 1990 legislation, the GTB aid was permissive to districts and acted as supplemental to the local district tax levy.

The 1990 approach capped a district's growth at 4% of the previous year's budget or 135% of the foundation program amount, including special education. (See Table 1) To finance the additional state support, a 40 mill tax levied statewide on property was instituted in addition to the 55 mills currently levied on all property in each county for the school equalization account. As in the past, and since 1979, a full recapture of those funds flowed to the school equalization account. Beginning in 1990 the revenue from the 95 mills levied statewide went directly to the school equalization account. Also, any amount of a district's budget beyond the permissive amount was funded solely from local district taxation (a tax

levied against local property) after being submitted and subsequently approved by the majority of voters within the district.

Neither the debt service or transportation funds were addressed in this first legislative attempt to solve the equity issue in Montana. However, the retirement fund was equalized within each county utilizing a similar GTB system.

From its passage in 1989 and its enactment in the budget year of 1990, the "under funded" schools as well as a new coalition of small, rural schools attempted to get the Montana Supreme Court to retain jurisdiction. The court refused. In 1992, both groups filed suit claiming the new method to finance Montana's public elementary and secondary schools did not achieve equity in providing revenue to schools. Further, the rural schools argued that the new system of GTB was distributed unfairly to the small schools.

In the 1991-92 school year, there were 538 school districts in Montana. However, this number is somewhat misleading in that Montana funded districts as either K-8 or 9-12. School systems, having both an elementary and secondary units, would have two distinct budgets (even though both may be within the same city limits). A more appropriate number of districts within the state would be to note there were 154 combined administrative units (containing elementary and secondary districts). The total administrative units, counting the above, was 381.

Districts received foundation program revenue based upon schedules legislatively set during Montana's biennial sessions. Montana used a method of Average Daily Membership (ADM) called Average Number Belonging (ANB). ANB is counted for the 180 pupil instruction (PI) days, as well as for up to 7 pupil instruction related (PIR) days. The ANB figures used by districts were derived from the previous year figures.

Because of the system of two separate budget units, Montana uses two foundation schedules, one elementary and one secondary. The amounts in each schedule reflect a decreasing amount per pupil to a maximum of 301 for secondary and 601 for elementary. After these maximum ANB numbers each additional ANB above the maximum received the amount of the maximum number per ANB. The secondary schedules also reflects more money per ANB than does an elementary ANB.

To encourage districts to provide students in the 7th and 8th grade students with an expanded curriculum, the state apportions revenue to the elementary budget for 7th and 8th grade students at the secondary schedule level. This is done only for those schools who have a state approved 7th and 8th curriculum.

In 1991-92 transportation was financed on a "reimbursement" basis for approved costs of providing transportation service. Reimbursement was statutorily established based on an amount per bus mile. This "on-schedule" amount was funded equally between the state transportation fund and a county-wide permissive tax (on property). Any amount of budgeted amount above the "on-scheduled" amount is financed within the district but is a permissive levy. This amounts to \$0.85 per bus mile, which was set in 1991. Districts may receive an additional amount \$0.0213 per capacity unit above 45 in each bus—i.e. an additional \$0.0213 for each student more than 45 per bus.

The retirement fund was financed as a permissive levy on property county-wide. This was supplemented through the use of a GTB formula with revenue coming from the state. In this case, the GTB is computed on the average county mill value per ANB the state provided approximately 28% of the costs of retirement.

Special education was financed by legislative appropriation and distributed to schools on an allowable cost basis for those students identified and placed in special education.

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Students who spent more than half-time in special education were not counted in the ANB calculation and thus received no state foundation aid support. Special education "cooperatives" were funded in like manner as well. In 1990-91 there was \$33.8 million allocated to fund special education. Of that total \$29.5 million flowed to districts and \$4.3 million to fund the state's 26 special education cooperatives.

In the fall of 1992 make up of the state's legislature changed. The people of Montana elected a new governor, who still from the Republican party, was more centralist than his predecessor. The House of Representative majority also swung to the Republican party as well. Given this change in political make up, facing a rising discontent among school districts with 1990 method to fund elementary and secondary schools, as well as two different court challenges, the legislature worked in earnest to find a method to equitably fund schools that would keep the state out of court, remain relatively revenue neutral, and satisfy the measure of equity established by the court.

The speaker appointed a Select Committee on School Finance. He provided this committee with broad legislative powers and provided this committee with the charge to develop such a system to meet all of the above criteria. The chair of this committee approached two statisticians from the state auditor's office to construct a "mathematical" model, irrespective of the model in existence in Montana, or any model existing in the nation.

What eventually developed was a method to finance schools which was proposed to the legislature under a committee bill enrolled as HB 667. This bill eventually was passed and signed into law. It is the vehicle used to finance elementary and secondary schools today.

This system maintains several aspects of previous funding measures, however. First, ANB continues to be used to determine pupil counts. However, two qualifying dates were used to determine those enrolled—i.e. the first Monday in October, and February 1. This figure still drives any pupil calculation of revenue. The foundation program schedules were also maintained. A GTB finance calculation was also included in the new system (although it was calculated much differently).

The basic model was to determine what a maximum budget might be within a given set of funding parameters as determined by a district's ANB. This would determine a "budget cap". Next, using formula calculations, a "base" budget was determined. The base was approximately 80% of maximum, which included special education. The rationale for this framework was taken from the court—i.e. to achieve a system in which the budget available to students would be no greater in ratio than 1 to 1:25. If all schools budgets could be forced to exist between the base and the maximum, than this would be a reality. (See Table 2)

To begin to develop the maximum budget each elementary district was given \$18,000 and each secondary district was given \$200,000. The flat allocation was termed the "Base Entitlement". Schools who had an approved 7th and 8th curriculum were funded at the secondary level. A prorated amount of K-6 was allocated of the elementary flat amount as well as a prorated 7th 8th of the secondary amount was allocated¹.

A second entitlement was the "Per Student Entitlement". This entitlement was based upon a statutorily defined amount per ANB decreasing for each additional ANB to a maximum of 800 in the secondary and 1000 in the elementary. This amount was fixed at \$3,500 for each elementary ANB (decreasing by \$0.20 per ANB to 1000. At 1001 the amount for 1000 ANB was applied for each additional student) and \$4,900 for each secondary ANB (decreasing by \$0.50 per ANB to 600. At 601 the amount for 800 ANB was applied for each additional ANB).

Special education remained on an "allocation basis" under this new approach. However, it was placed within the general

fund. The state provided GTB aid for that portion of the special education budget of the district's special education allowable cost payment. Designed within this bill, and beginning in 1994-95 required districts to provide \$1.00 of local revenue to match every \$3.00 in allowable special education funds that it receives from the state. (See Table 3).

The base budget was determined by a calculating 80% of the two entitlement and a calculated portion of the special education revenue. These two figures became the benchmark figures to drive subsequent budget calculations. These figures were used to determine if growth in budgets were possible or budgets were either frozen or reduced.

The auditors office ran a scattergram of 1990-91 school district budgets, utilizing this system to determine where district budgets would fall in relation to the base and maximum budget benchmarks. The bill dictated that:

1. Those districts that were below the base were to mandatorily grow to the base within 5 years or less.
2. Those districts above the maximum were frozen at their previous year's level.

Budgets BELOW the Base

School districts whose previous years budget was below the base were provided three options of budget growth:

1. Increase 4% above the previous year's budget
2. Increase 4% above the previous year's mean budget per ANB for the district times the new ANB. (This would benefit those districts who had increases in ANB).
3. A mandatory growth between the previous year's budget and the base. This mandatory growth amount to 20% the first year, 33% the second year, 50% the third year, 66% the fourth year, and 100% (or to the base) the fifth year).

A district whose budget was below the base was required to grow at least the mandatory amount. However, a district was permitted to permissively grow to the greatest (or to any level up to the greatest) of any of the options.

Budgets BETWEEN the Base and Maximum

The districts whose previous year's budget was between the base and the maximum were limited to maintain the previous years budget unless the difference was presented to the voters and they approved an increase. However, the increases were limited to:

1. Increase 4% above the previous year's budget
2. Increase 4% of the previous year's mean budget per ANB for the district times the new ANB. (Again, this would benefit those districts who had increases in ANB).

In no case, however, could a district that was once above the base level, reduce its budget below the base budget level.

For those districts where enrollments were declining, growth really wasn't an option.

Budgets ABOVE the Maximum

Those districts above the maximum were frozen at the level of their previous year.

This legislature attempted to address inequities in capital outlay. The original court action required redress in the general fund, retirement, transportation, and capital outlay. This and previous legislative sessions resulted in measures to provide equity in all of the funds except for capital outlay.

For all capital projects after 1 July 1991, and for the bien-

num 93–94 and 94–95, the legislature established a reimbursement payment system with a maximum limit of \$220–\$330 per ANB. However, the legislature only funded \$2 million for the biennium. This funding was insufficient to satisfy the law for all of the capital projects that qualified. Thus, qualifying districts receive a prorated share of the allocation. Each year the amount of money allocated to districts for equity in capital projects would vary depending upon the amount of capital projects that qualify and the amount allocated by the legislature. Table 4 shows the amount of capital dollars qualifying for state support and, since the legislature has never allocated enough to fully fund the law, the amount of the prorated percentage.

Facing decreasing revenue and a projected shortfall in the state's budget, the governor called a special session of the legislature for November 1993. As part of the legislative budget cutting, education received its share of the ax cutting measures. The approach used by the legislature was to make across the board type cuts of all programs. Cuts of 4.5% were made in most governmental budgets and education was no exception.

The cut was accomplished by reducing the "Base Entitlement" from \$18,000 in the elementary and \$200,000 for secondary to \$17,190 and \$191,000 respectively. The "Per Student Entitlement" was similarly reduced from \$3,500 for elementary and \$4,900 for secondary to \$3,343 for elementary and \$4,680 for secondary.

Also included in the cuts were to limit those districts above the maximum to 95.5% of their previous year's budget. Those districts between the base and the maximum budgets were limited in that manner as well. Those districts below the base were not touched. The concept of moving districts to the base remained.

In other action during this session, the budget growth options originally established remained in affect. However, a district was now required to vote any budget growth beyond the mandatory growth required to move to the base.

Concurrently to budget cutting, the method of funding special education was changed. Instead of allocating revenue to districts on an allowable cost method, districts receive special education funds based upon the district's total ANB. The total amount of revenue to the state for special education was divided by the total amount of ANB for the state to arrive at the number. It amounted to an "Instructional Block Grant" of \$128.04 per ANB. This was to fund special educational programs within the district. A "Related Service Block Grant" was also allocated to each district to pay for the operations for occupational therapy, physical therapy, psychological service and administration. The grant amounted to \$40.93 per ANB. Portions of these grants were calculated into the maximum budgets. This amount varies each year.

No substantive changes in the system to provide revenue for Montana schools occurred in the general session of the legislature in 1995², other than districts working within the constraints of the system—i.e. those districts below the base moving their budgets to the base.

In the legislative session of 1997 a concerted effort was mounted by the educational community, and concerned legislators, bolstered by the governor, to replace the 4.5% to the entitlement. The Republican controlled Senate and House did not agree with the governor's request (despite the fact that the governor was extremely popular and also a Republican). In a compromise effort the 1997 session passed an increase in the entitlement. The base entitlement moved to what was originally determined (i.e. \$18,000 and \$200,000 respectively).

The per student entitlement was increased to \$3376 and \$4726 respectively for the first year of the biennium. They also increased those amounts to \$3410 and \$4773 in the second year of the biennium.

The legislature also allocated \$76.26 per ANB for technology. To receive this money, districts are required to match the legislated amount. However, this revenue need not be placed in the general fund and therefore can be carried over budget years. The legislature left the door fairly wide open (even

Table 1
General Fund Revenue by Category in Montana Schools³

YR	LOCAL	%	STATE*	%	FEDERAL	%	OTHER	%	Total	%
1991	113948112	0.205	420465889	0.755	21581688	0.03878	546780	0.0010	556542469	
1992	126254217	0.221	422625949	0.739	21878077	0.03827	958280	0.0017	571716523	0.027
1993	124825618	0.216	426789230	0.738	20779131	0.03592	6084118	0.0105	578478097	0.012
1994	160161024	0.273	425012941	0.724	25307	0.00004	1918318	0.0033	587117590	0.015
1995	180626867	0.297	426108682	0.701	17184	0.00003	1405820	0.0023	608158553	0.036
1996	194482405	0.311	428747654	0.686	8674	0.00001	1710097	0.0027	624948830	0.028
Total									0.123	

Table 2
ANB In Montana Schools⁴

YR	Elementary	High School	Total	Average Total Revenue Per ANB	Percent Change	Average Local Revenue Per ANB	Percent Change	Average State Revenue Per ANB	Percent Change
1991	105593	42407	148000	3760.422		770		2841	
1992	106579	41890	148469	3850.747	0.0240	850	0.10	2847	0.002
1993	108523	42614	151137	3827.508	-0.0060	826	-0.03	2824	-0.008
1994	111497	45457	156954	3740.698	-0.0227	1020	0.24	2708	-0.041
1995	114758	47811	162569	3740.926	0.0001	1111	0.09	2621	-0.032
1996	114734	49045	163779	3815.806	0.0200	1187	0.07	2618	-0.001
Totals					0.0147		0.54		-0.079

though they labeled the money for technology) for districts to spend this money. It was, however, not be spent for any salary item.

Conclusion

With the current system of funding Montana schools, it is likely that the level of equity required by the court will be reached. However, from the data, it appears that the conditions of funding Montana schools is returning to what was in existence in 1989—i.e. the relationship between state funding and local funding.

There has been progress in achieving equity in retirement and transportation as well as capital outlay. With respect to the latter, however, there is insufficient revenue allocated to make substantial progress.

Table 3
Special Education Funding⁵

Year	Base	% Change	Pupil	% Change
1994	\$128.04		\$40.93	
1995	\$122.73	<0.042>	\$43.68	0.067
1996	\$118.89	<0.032>	\$38.88	<0.11>
1997	\$116.25	<0.022>	\$38.43	<0.01>
		<0.092>		<0.061>

Table 4
Capital Outlay⁶

Year	Maximum	Budgeted	%
FY94	\$1,113,315	\$1,000,000	79.65%
FY95	\$1,380,762	\$1,000,000	72.42%
FY96	\$1,486,269	\$1,393,112	91.81%
FY97	\$2,519,285	\$1,999,997	79.39%

Figure 1

HB 28

District Voted Levy	Max - 104% of Previous General Fund
Permissive - GTB if eligible	Max. - 35% above Foundation Program
40 Mills Statewide	Foundation Program Maximum
	----Statewide Equalization
33 Mills - Elementary	----County Equalization
22 Mills - High school	

Figure 2

HB 667

	Maximum Budget
	----Voted Levy
	Base Budget
	(80% of Maximum plus portion of Special Education)
	----GTB Support, if eligible
	----Direct State Aid

Endnotes

¹ Assume an elementary school district with an enrollment of 1800 students. Of this 1800 students, 400 students are in the 7th and 8th grade. The base entitlement would be calculated as:

$$\frac{1400 \text{ times } \$18,000}{1800} = \$13,999 \quad \frac{400 \text{ times } \$200,000}{1800} = \$44,444$$

The total base calculation for the elementary district in this example is \$58,443.

² The Montana legislature meets in biennium session starting in January on odd numbered years.

³ Office of Public Instruction, Budget Office, August 1997.

⁴ Legislative Fiscal Division, Budget Analysis 1999 Biennium (January 1997), State of Montana.

⁵ Office of Public Instruction, Budget Office, August 1997.

I have seen the future and it looks like the past, only longer. (attributed to Dan Quisenberry)

New Jersey School Finance, 1997

Robert K. Goertz

Note: The analysis and conclusions contained in this article do not necessarily represent the views of the State of New Jersey or the New Jersey Commission on Higher Education.

New Jersey School Finance, 1997

In 1996 New Jersey overhauled its funding formula for elementary and secondary education for the second time in six years. And in 1997, for the third time in six years, the state supreme court declared the state's school finance law unconstitutional as applied to urban districts. However, the current law still applies to the vast majority of districts, and because of the methods and assumptions used to develop the two most recent laws, a comparison is fruitful.

The first significant change to New Jersey school finance occurred in 1990, with the enactment of the Quality Education Act (QEA). This law shifted the basis for distributing aid from a guaranteed tax base to a foundation formula, thus moving from a primary concern for taxpayer equity to a concern for student equity. The bill was introduced in anticipation of a New Jersey supreme court decision on a challenge to the constitutionality of then existing statute, the Public School Education Act of 1975 (better known by its pamphlet law number, Chapter 212). The QEA was enacted with some changes shortly after the supreme court declared Chapter 212 unconstitutional as applied to plaintiff urban districts for failure "to provide for the maintenance and support of a thorough and efficient system of free public schools for all children in the state between the ages of five and eighteen years" (*Abbott v. Burke*, 119 N.J. 287, known as *Abbott II*).¹

In July 1994, the supreme court declared the QEA (as amended in 1991) unconstitutional (*Abbott III*, 136 N.J. 444) and ordered the legislature to adopt a new funding formula by September 1996 (later extended to December 31, 1996). The new formula was required to assure parity between spending for regular education in the urban districts and in their wealthy suburban counterparts and to address the additional needs of students in urban districts. The court, it should be noted, has consistently held that spending parity is but a surrogate for parity in the regular educational programs available to students; discrepancies between programs available in urban districts and those in wealthy suburban ones were well documented in the court's *Abbott II* decision.

On December 20, 1996, the Comprehensive Educational Improvement and Financing Act (CEIFA) of 1996 was approved by Governor Christine Todd Whitman, meeting the deadline established by the state supreme court. Like its predecessor the QEA, the CEIFA provides aid in three broad categories: equalized foundation aid; flat grant categorical aid; and

aid for other related programs. A fourth category of aid, that for facilities, awaits further definition.

Before turning to the discussion of the separate categories of aid, several descriptive facts about New Jersey's school system will help set the context. First, New Jersey is consistently one of the highest spending states in the nation: \$10,425 dollars per pupil in 1995-96 (Budget, 1997), but it also consistently ranks among the top three in personal income per capita. The average teacher's salary is also among the highest in the nation, at \$46,801 in 1994-95 (NCES, 1995), but these data should be adjusted for the fact that the cost of living in New Jersey is also high, 13 percent above the national average according to one estimate (Halstead, 1994). The public schools educate approximately 1.25 million students; 23 percent of them in the 28 urban districts affected by the supreme court decision. State support consistently hovers around 40 percent, federal aid around 2 percent, with the remainder coming primarily from local property taxes. Total formula aid budgeted for 1997-98 is \$4.932 billion, including facilities aid (Budget, 1997).

Foundation Aid and Required Local Share²

Developing the Foundation Amount

Unlike its predecessor, the CEIFA purports to directly link educational inputs with a set of educational outcomes, specifically students' meeting 56 core curriculum content standards in seven academic areas and five cross-content workplace readiness standards³ adopted by the state board of education. According to the CEIFA, these standards define a thorough education, perhaps for the first time, thus meeting half of the constitutional mandate. The foundation amount established in the law is intended to enable districts to deliver the standards efficiently, thus meeting the other half of the constitutional mandate. To determine the foundation amount, the New Jersey Department of Education created a model district. As explained in the Department's Comprehensive Plan for Educational Improvement and Financing (May 1996),

The elements which the state has used to determine the aid level are based on an assumed enrollment of 3,075 students in three elementary schools, one middle school, and one high school, with no more than 10 percent of the students classified for special education services other than speech. Cost assumptions are from 1994-95 data [state average audited expenditures] and projected to 1997-98 dollars. (NJDE 1996, p. 3)

Some of the other significant features of the model district include elementary schools of 500 pupils in grades kindergarten (half-day) through five, a middle school of 675 pupils in grades six through eight, and a high school of 900 students. Class sizes are 21 for grades K through three; 23 for grades four and five; 22.5 in middle school; and 24 in high school. Two guidance counselors, a nurse, and two media services/technology specialists are allotted to the middle school; the number of guidance counselors and nurses doubles in the high school. Each school has principals, assistant principals, and clerical staff consider appropriate to its size, and one security guard. Provision is made for a central office staff. Other inputs include one computer for each five students, with a five year replacement cycle, released time for professional development for teachers, and allowances for cocurricular and extracurricular activities (\$23 per elementary pupil, \$137 per middle school pupil, and \$434 per high school pupil). Although no specific basis is cited in the plan for the specific amounts of the various inputs, they arguably reflect patterns in suburban districts in a generally suburban state.

The approach is similar to that embodied in Massachusetts' recently enacted funding law, with two exceptions. First and foremost, the CEIFA explicitly links inputs and

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outcomes, although the relationship is asserted. Second, the CEIFA simply specifies a foundation amount, which was developed using the model district. The Massachusetts law specifies the individual inputs and varies them by the size of schools and districts; Massachusetts thus makes explicit both the linear and the step-wise functions¹ associated with changes in the scale of a school or a district, whereas CEIFA leaves these functions implicit.

Foundation Budget

The CEIFA established the basic foundation, or T&E amount, at \$6,720 for pupils in grades one to five. The weight for kindergarten pupils is 0.5; that for middle school, 1.12; and the high school weight is 1.20. By contrast, the QEA made provision for half-day preschool students with a weight of 0.5 and full-time kindergarten (1.0), and established weights of 1.2 for middle school and 1.33 for high school. The basic foundation amount was not strictly comparable since the QEA included pension payments for teachers and other members of the Teachers' Pension and Annuity Fund, which are paid by the state. For 1998–1999, the basic foundation amount is increased by the regional consumer price index² to adjust for inflation. As in other foundation programs, a district's foundation (T&E) budget is the product of its weighted enrollment and the foundation amount, although there are provisions to recognize historical budget patterns in calculating the T&E budget.

Unlike many foundation programs, the CEIFA assumes that the appropriate level of spending for each pupil can be found within a range, defined in dollar terms equal to five percent more or less than basic foundation amount. There is thus a minimum T&E budget and a maximum T&E budget for each district, except for the urban districts, for which the minimum budget is the maximum budget to bring about parity. The range partly addresses cost differences in the state as well as local voter preferences.

The CEIFA also establishes a biennial process for reviewing and revising the foundation. In even numbered (non-election) years, the governor, after consultation with the education commissioner, is to transmit to the legislature a "Report on the Cost of Providing a Thorough and Efficient Education." This report has three required elements. The first is the amount necessary to deliver the core curriculum, including the types of programs, services, activities, and materials necessary to achieve a thorough and efficient education. The practices of high performing schools and districts are to be used as benchmarks. The second element is range around the T&E amount, and the third element comprises the additional per pupil amounts for the following categorical aid programs: special education; early childhood programs; demonstrably effective programs; instructional supplement; bilingual education; county vocational schools; and distance learning network. (See below for a description of these programs.) Unless the legislature adopts a concurrent resolution indicating disagreement with the report and stating specific objections, the recommendations are considered adopted.³ In odd numbered years the T&E amount is increased by the regional consumer price index.

Required Local Share

The required local share for all districts except the urban districts is calculated at the minimum T&E budget. The prebudget year is used if it is lower. Local fiscal capacity is measured by weighting property wealth and personal income equally, a provision carried over from the QEA. No specific tax rates are specified in the formula; rather, tax rates or "multipliers" are calculated annually so that a defined amount of state aid is distributed and the capacity measures are weighted equally. Statewide data and the limited experience of the QEA suggest that the personal income "multiplier" will be four times the prop-

erty multiplier. Both income and property tax data are obtained from state tax records.

The required local share need not be raised solely from property taxes, which are the only general purpose taxes available to school districts in New Jersey. Instead, the required local share consists of the local levy, designated general fund balances, and miscellaneous local revenue, plus state aid intended to reduce local tax burdens rather than provide for local spending. The CEIFA also presumes that six percent of the general fund budget is a reasonable surplus by requiring that funds in excess of that amount be appropriated unless designated for approved capital purposes.

Core Curriculum Standards Aid

A district's foundation aid, termed Core Curriculum Standards Aid (CCSA) in the formula, is the difference between its T&E budget and its local share. Because the aidable budget can vary, a state support ratio is established at the minimum T&E budget; this ratio is the percentage that state aid comprises of the minimum T&E budget. The state support ratio is then applied to the district's actual budget. In other words, actual aid is based upon the actual T&E (regular education) budget with the percentage of the budget that is aided determined at the minimum level for districts other than the urban ones.

Like the QEA, the CEIFA limits the growth of equalized aid, presumably to a rate commensurate with estimated revenue growth. For 1997–1998 the total amount of CCSA is set at \$2,620.2 million. Its growth is indexed by growth in the regional CPI and statewide enrollment. Core Curriculum Standard Aid comprises 50 percent of total state aid to education for 1997–1998, including direct payments for the employers' share of teachers' pensions and social security, which are not reflected in local budgets (Budget, 1997).

The CEIFA also contains a provision for tax relief for districts with high concentrations of low-income pupils, equalized tax rates in excess of 110 percent of the statewide average, and, for districts with more than 2,000 pupils, property wealth not more than twice the statewide equalized valuation per pupil. A district's Supplemental Core Curriculum Standards Aid equals the difference between its minimum equalized tax rate and 110 percent of the statewide average equalized tax rate multiplied by the district's equalized property valuation. Primary beneficiaries are urban districts.

Facilities Aid

Although not part of the foundation, aid for facilities is also presumed to be equalized. As noted earlier, the exact formula has been deferred, but both debt service and lease purchase payments are to be covered.

Categorical Aid

The new law contains eight categorical aid programs to address special needs; these programs provide aid on a per pupil basis without regard to the wealth of the district in which the pupil resides. Aid amounts or excess cost factors are subject to biennial revision in the "Report on the Cost of Providing a Thorough and Efficient Education;" aid amounts are set for 1997–98 and increased by the CPI for 1998–99.

Special Education

Like earlier laws, aid for special education is based on excess cost factors that reflect additional costs associated with educating children with disabilities. The law groups a previous set of partly diagnostic and partly service categories into four tiers, although the assignment to a tier is still related to a diagnosis. The excess cost factor is applied to the T&E (base foundation) amount, but unlike previous laws, the students are

counted in their grade-appropriate categories rather than being weighted 1.0. The tier weights are: 0.0223 for Tier I; 0.4382 for Tier II; 0.8847 for Tier III; and 1.2277 for Tier IV, for students receiving intensive services such as those for autistic or chronically ill individuals. To counter an alleged overuse of the perceptually impaired classification, a limit is placed on the percentage of a district's students who may be so classified. In addition, a district may request aid, either on an emergency or a reimbursement basis, for pupils whose placement cost exceeds \$40,000. Costs of speech correction services and child study teams are included in the foundation aid amount.

Bilingual Education

Additional aid is provided for students in approved bilingual or English as a Second Language programs, subject to a threshold enrollment. The additional cost amount for 1997–98, \$1,073, is 0.1597 of the T&E amount.

Transportation

Transportation aid is calculated according to an expected cost formula, with an incentive factor for vehicle capacity utilization applied to the transportation of regular public and non-public school pupils plus those special education pupils who do not have special transportation requirements. The incentive factor does not apply to the transportation of special education pupils with special requirements.

The only variables in the formula are the number of pupils eligible for transportation (2 miles for elementary students; 2 1/2 miles for high school students) and the average distance students are transported. The coefficients in the aid equation assume that the fixed pupil costs are more than four times higher for special education pupils with special requirements than for regular pupils, but the variable costs are somewhat less than three times higher. Previous formulas either included additional factors in the expected cost formula (the QEA) or reimbursed a portion of approved costs (Chapter 212).

County Vocational Schools

In addition to foundation aid based upon the county's aggregate fiscal capacity (determined by comparing local fiscal capacity to local T&E budgets), counties receive categorical aid for pupils in county vocational schools. Aid in 1997–98 is \$1,662 per pupil, or 0.2473 times the T&E base, with shared-time pupils weighted 0.5.

Demonstrably Effective Programs

Aid in this new category is allocated to assist districts with concentrations of school or district poverty. Districts that have schools with between 20 percent and 40 percent low-income students receive \$300 per pupil for students in those schools, and districts receive \$425 per pupil for students in schools with more than 40 percent low-income students. In addition, districts in which low-income pupils comprise between 5 percent and 20 percent of the total population receive \$339 for each low-income pupil in "Instruction Supplement Aid." "Low-income pupils" are defined as those coming from households with income at or below 130 percent of the federal poverty guidelines.

This category replaces the QEA's aid for pupils at risk of educational failure, which was allocated according to the number of pupils eligible for the federal free lunch/free milk program.⁷ Aid must be used for programs such as alternative or community schools, class size reduction, parent education, and telephone, teleconference, and video tutoring. These programs are subject to separate budgeting, accountability, and monitoring requirements. The cost of remedial education programs has been included in the foundation amount.

Early Childhood Programs

The purpose of this new category is to enable districts with high concentrations of low-income pupils to provide full-day kindergarten, preschool classes, and other early childhood programs and services, which were included in the foundation program under the QEA. Districts with between 20 percent and 40 percent low-income students receive \$465 for each resident K–12, county vocational, or out-of-district special education student; those with more than 40 percent low-income students receive \$750. Districts must submit a plan to establish preschool and full-day kindergarten for all four- and five-year-old children by the 2001–2002 school year. For the next four years, aid may be used to construct facilities, and districts implementing an approved plan may use the aid for demonstrably effective programs prior to establishing early childhood programs.

Distance Learning Networks

Each district receives \$40 per resident student enrolled; the aid must be accounted for in a special revenue fund. The goals of the aid program are to create by 2001–2002 "a statewide infrastructure for the delivery of voice, video, and data" and to "provide all districts with the opportunity to share curricular offerings so as to expand the scope, quality, richness and diversity of curricula in all school districts and contribute to the redefining of teaching and learning in the contemporary setting." (CEIFA, section 22)

Adult Education

For 1997–98 each district receives \$1,345 per pupil (unweighted) for individuals enrolled in approved adult high schools, post-graduate programs, and approved full-time post-secondary programs in county vocational schools. Both program definition and the appropriate amounts of aid are to be reviewed.

Other Programs

The CEIFA includes a number of supplemental education programs to help districts that would otherwise lose aid because of formula changes and to address specific circumstances considered by key legislators to be unduly burdensome. The basic such program, Stabilization Aid, assures that no district receives less than 90 percent of the aid received under earlier programs or, in subsequent years, from the CEIFA formulas. Supplemental stabilization aid is provided to districts with high concentrations of senior citizens or tax rates in excess of 130 percent of the state average but who do not receive SCCSA.

To encourage and reward school and district outcomes, absolute achievement awards are made to schools in which 90 percent of the enrollment achieves passing scores or better on one or more of the three statewide assessments (mathematics, writing, and reading comprehension). Significant progress awards are made to schools demonstrating the most improvement in the passing rate on the tests. For the significant progress award, schools are divided into quintiles for each test based upon initial passing rates; the top 10 percent of schools in each quintile receives the award.

Lastly, grants are authorized to encourage districts to consolidate or regionalize support and specialized services.

Expenditure Limitations

Like its predecessors, the CEIFA includes limitations on the growth of district expenditures. The general limit is three percent or the increase in the regional consumer price index, whichever is greater, adjusted for changes in enrollment, certain capital outlay expenditures, special education transportation costs, and special education costs in excess of \$40,000 per pupil.

Conclusion

Shortly after Governor Whitman signed the CEIFA, the plaintiffs returned to court to challenge the constitutionality of the new law on the grounds that it failed to assure parity in regular education expenditures and to assure that additional needs of children in poor urban districts are met, as required in the Court's opinions in *Abbott II* and *Abbott III*. (Plaintiffs' Brief, 1997) The state supreme court, which retained jurisdiction of the case, heard oral arguments on March 4, 1997 and two months later decided in favor of the plaintiffs.

Independent of the court's decision, several observations are worth making. First, the CEIFA continues the pattern of distributing slightly more than half of state aid on the basis of a local district's fiscal capacity.

Second, CEIFA continues to distribute substantial aid for pupils at risk of educational failure on the basis of a poverty measure rather than on the basis of the actual delivery of services. Several legislators criticized the QEA for providing at-risk aid on the basis of eligibility for the federal free lunch/free milk program, arguing that not all children eligible for the program lunch needed additional services and ignoring the argument that the criterion for distributing aid recognized the strong relationship between poverty and educational risk. Many of these same legislators voted for not one but two programs that use poverty as the criterion for allocating aid, and one of the programs, early childhood, distributes aid not according to the target population (preschool- and kindergarten-aged children) but according to their older peers. In sum, the essential validity of the measure outlasted its critics.

Third, the use of average cost data to establish or modify a foundation or categorical amount can be criticized on at least two grounds, especially as it reflects salaries, the largest object of expenditure. On the one hand, using average costs makes no provision for cost of living differences in a state, even one as small and seemingly homogeneous as New Jersey. On the other hand, average cost data obscure often significant differences in the quality of the inputs purchased, such as the experience or training of teachers. The CEIFA partly addresses the first criticism since the T&E amount and budget calculations allow for a ten percent variance; however, one analyst recently estimated that the cost of living varies by 22 percent in the state. (Halstead, 1994)

Finally, the law breaks new ground by explicitly linking foundation inputs to specific desired outcomes. Nevertheless, given the current state of knowledge about how the former are transformed into the latter, there is no a priori reason to believe either that the foundation is sufficient or that it is not, or that the standards themselves are sufficiently comprehensive. From a constitutional standpoint, the standards and inputs conceivably could assure a thorough education without providing for equal educational opportunity, since there is no reason to assume that access to advanced placement courses, for example, is necessary to achieve the standards. By contrast, the foundation level in the QEA was established by looking at overall curriculum offerings, general staffing levels, and spending patterns in districts that achieved desirable outcomes on such measures as standardized tests and percentages of graduates going to postsecondary education. It is not necessarily clear that one approach is more defensible than the other.

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Endnotes

1. For a description of the provisions of the original QEA, see Robert K. Goertz and Margaret E. Goertz, "The Quality Education Act of 1990: New Jersey Responds to *Abbott v. Burke*," *Journal of Education Finance* 16 (Summer 1990).
2. In its May 14, 1997 decision, the New Jersey Supreme Court ordered the state to increase regular education funding to the 28 urban districts so that each of the districts can spend the same amount per pupil in 1997-1998 as the average of the wealthy suburban districts. This aspect of the decision effectively removes these urban districts from the foundation calculations discussed in this section.
3. The seven academic areas are mathematics, science, language arts literacy, visual and performing arts, social studies, comprehensive health and physical education, and world languages. The cross content workplace readiness standards are: apply critical thinking, problem solving, and decision making skills; use technology, information and other tools; develop career planning and employability skills; acquire the skill of self-management, including goal setting, efficient use of time and working cooperatively with others; and acquire knowledge of safety principles and basic first aid. (NJDE, 1996)
4. An example of a linear cost is textbooks, since each student requires one. An example of step-wise costs is guidance counselors, where, as in the CEIFA, it might be specified that there be one for every 125 students. How one treats an increment less than 125 will vary depending upon what one thinks the maximum load for a counselor should be.
5. The regional CPI is "the average annual increase ... in the consumer price index for the New York City and Philadelphia areas during the fiscal year preceding the prebudget year..." The CEIFA does not indicate how the two indices are to be weighted, and various weights have been suggested over the years that a "New Jersey CPI" has been used.
6. A legislative commission, the Commission on Business Efficiency in the Public Schools, is charged with developing advisory benchmarks for the cost of delivering non-instructional services such as food services, transportation, operation and maintenance of plant, purchasing, extracurricular and cocurricular activities, and health and guidance services.
7. In an example of intended consequences, basing state aid on this eligibility criterion encouraged some districts to increase the number of students enrolled in the federal programs.

New Mexico's school formula for financing public school operations is widely regarded as one of the nation's most equitable.

School Finance Formula in New Mexico

David Colton and John B. Mondragon

Formula: Origins—1994

New Mexico's formula for financing public school operations is widely regarded as one of the nation's most equitable. Although there are sizable variations among districts' spending per pupil, those variations arise from cost factors rather than from inter-district variations in local property value. Fiscal neutrality has been achieved. (However, as discussed below, funding for capital expenditures is a different story.)

The main features of the current funding formula were adopted in 1974. Previously, most state aid was distributed to districts on a flat-grant or weighted-pupil basis, without regard to local tax effort or capacity.¹ Districts supplemented the flat grants with local property tax revenues. These revenues varied widely, ranging in 1973 from less than \$50 per student in economically-depressed communities to more than \$700 per student in mineral-rich districts.²

Concern for wealth-based inequities in school spending officially was acknowledged in the late 1950s. Paul Mort was commissioned to study the situation. In 1961, he recommended a foundation-type program.³ Although the foundation concept was not compelling to New Mexico's school policy-makers at the time, the legislature did institute a "minimum support" distribution to the poorest districts. The effort was small. By 1968 only 1% of state aid was going into the minimum support fund.⁴

In the early 1970s equity concerns became more compelling, nourished by nationwide attention to equal protection issues in many social arenas, by the *Serrano* and *Rodriguez* school finance cases, and by policy-oriented inquiries such as the National Education Finance Project (NEFP). A doctoral study found that New Mexico's patchwork school aid system was "disequalizing."⁵ Although the legislature subsequently increased its minimum support distribution, a law review article warned that New Mexico was unlikely to prevail in a *Serrano*-type case unless the state aid system was revamped.⁶ A *Serrano*-type suit was filed soon thereafter. Meanwhile, legislative reapportionment had led to the formation of a powerful new coalition of legislators representing Albuquerque and poor rural districts. Coalition members were receptive to ideas beneficial to these areas.⁷

In 1973 the governor appointed a committee to study the school funding situation and make recommendations. Applying concepts advocated by the NEFP, the committee proposed a

weighted-pupil formula for distributing state funds. The base funding unit, weighted at 1.0, was a student enrolled in grades 4–6. Different weights were attached to students at other grade levels and to students in special programs. Other cost-based formula factors included an index of teacher training and experience, and a small-school factor, each capable of generating additional funding units for a district. Using the formula, each district could tally its funding units and, ultimately, its share of statewide school operational funds. All state operational funding except for transportation and textbooks was to flow to districts through the formula, effectively ending categorical funding.

It would be up to the legislature to annually establish the "unit value" and, hence, the size of a district's budget (units x unit value). However, the committee did not propose that the legislature assume the full burden of funding the units. Local property levies would continue, albeit at a uniform mill rate. Ninety-five percent of the proceeds of each district's property levy (plus other local revenues, plus the proceeds from non-categorical federal aid), was to be deducted from each district's entitlement to state aid. The remainder of the entitlement would be supplied by the state. Thus, except for the five percent exempted from crediting against a district's state entitlement, total operational funding in each district was to be determined by the district's tally of funding units, rather than its wealth.

The proposed plan offered several attractions. It was appealing on equity grounds, and it eliminated the threat of judicial intervention. It replaced an increasingly complex set of categorical funds with a single block grant. It substituted ostensibly-objective cost calculations for partisan and localist considerations in distributing school operational funds. It retained local discretion inasmuch as it simply established the magnitude of local operational budgets, rather than defining how the funds should be utilized. It responded to the needs of the coalition newly empowered in the legislature. Adding only a "district sparsity" factor intended to offset potential opposition in several thinly populated districts, and a short-term save-harmless proviso, the proposed plan was enacted by the legislature early in 1974.⁸

In the ensuing years the formula underwent continuous scrutiny. By the time of its twentieth anniversary in 1994, some forty amendments had been adopted.⁹ Many of them were technical refinements which closed loopholes, adjusted weightings based on new cost studies, modified definitions and counting rules, and accommodated special circumstances such as unusual enrollment fluctuations, or the formation of new districts.

Other amendments affected the equity features of the formula. The most important of these occurred in 1981. In the midst of a nationwide property tax revolt signaled by California's Proposition 13, and bolstered by a state treasury overflowing with revenues from then-flourishing extractive industries, the New Mexico legislature slashed the required local school property tax levy from \$8.95 per \$1000 to \$0.50 per \$1000. There were three notable effects on school funding. Two of them served to enhance the fiscal neutrality of the New Mexico school funding plan. First, the reduction in local school tax revenues reduced the inter-district revenue disparities stemming from the 1974 statutory proviso which left five percent of local revenues free from crediting against a district's state funding entitlement. Second, the few extremely wealthy districts which had found it advantageous to forego participation in the 1974 funding program, could no longer afford to do so. Whereas a \$8.95/\$1000 levy produced higher operating budgets in these districts than did the state guarantee, a levy of \$0.50/\$1000 did not. Only one district, Los Alamos, remained "outside the formula." Created as a wartime science and engineering enclave subsidized by federal government,

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Los Alamos still is an anomaly in New Mexico's progress toward full equity in school funding.

The third effect of the 1981 reduction in school property taxes was to shift to the legislature virtually the entire burden of providing operational funds for schools. Under the original 1974 formula, only one-sixth of operating funds in New Mexico came from local taxes. This modest cushion against fluctuations in state revenues was lost with the 1981 cut in local school tax rates. In 1983 the state's economy, heavily dependent on oil and other extractive industries, suddenly entered a period of fiscal stress. With half of the state's annual budget already going to the public schools, and with the schools' near-total dependence on state appropriations, revenue problems at the level quickly were reflected in revenue problems at the district level. The situation was aggravated by a reversal in the previous years' pattern of enrollment decline, and by demands for expensive school reforms stimulated by publication of *A Nation at Risk* in 1983.

Calls for re-imposition of school property taxes soon materialized. In 1984 a Governor's Commission recommended repeal of the school property tax cut enacted two years earlier.¹⁹ However, neither the governor nor the recommendation were very popular, and the proposal went nowhere. A new governor elected in 1986 was generally opposed to tax increases, but he lent his support to discussions about instituting "local option" levies. Proponents of equity protested that such a strategy would compromise the state's previous accomplishments in providing equitable school funding. Efforts to forge an acceptable solution persisted through the rest of the decade, but none made it through the legislature. Instead, increases in income and gross receipts taxes were enacted. While they were sufficient to forestall reductions in force in the schools, they were not sufficient to prevent major declines in New Mexico's national rankings in teacher salaries and per pupil spending. By the early 1990s the state's economy had recovered somewhat, and talk of school property taxes subsided. However, competition from other sectors, e.g. corrections and health, resulted in gradual diminution of the public schools' share of total state appropriations. Thus, while the equity agenda remained intact, adequacy questions grew in importance.

Some post-1974 amendments stemmed from the nationwide school reform movement which began in the mid-1980s. As enacted in 1974, the New Mexico funding formula was deliberately designed to insulate school districts from the legislative interventions that might be expected with legislative assumption of full responsibility for school funding. Categorical funding was curtailed, statutory language expressly provided for local discretion, and misalignment between formula factors and local accounting categories was sustained—all in an effort to minimize legislative intervention in school decisions. The strategy meshed with New Mexicans' deeply-rooted suspicion of central authority, but it proved to be a problem when a reform-minded coalition gained control of the legislature in 1985 and then enacted a comprehensive school reform bill. Whereas formula weightings heretofore had been derived from studies of how school districts allocated their funds, i.e. from the bottom up, the 1986 reform legislation sought to alter school spending patterns (e.g. lowering primary grade class sizes) by making top-down changes in formula weightings, by demanding changes in State Department of Education regulations, and by introducing categorical funding which compromised the 1974 strategy of appropriating all education funds through the formula.

The reform coalition lost its grip on the legislature in 1987, and many of its initiatives subsequently were attenuated or deferred. However, a derivative discussion, focused on "at risk" students, became the pretext for a coalition of large districts to

win legislation adding an "urban density" factor to the formula, ostensibly balancing the long-established "sparsity" factor. The strategy backfired. Middle-sized district filed suit alleging that the factor was unreasonable one, inasmuch as -risk students were not unique to urban districts. Another legacy of the reform movement was growing dissatisfaction about the formula's exclusive attention to cost inputs, without regard to school outcomes.

By the mid 1990s then, the 1974 formula had accrued criticisms from many quarters. Adequacy issues which had come to the fore in the 1980s had not been resolved. State-initiated school reform efforts in the 1980s had been frustrated by the 1974 formula's barriers to state interference with local operations, but accountabilists still sought some connection between school funding and school performance. The Los Alamos exception, and the formula's inattention to long-standing inequities in the capital spending area, armed critics with arguments for revising the formula. Critics also emphasized per pupil spending differences among districts, neglecting to note that the 1974 formula was intended to eliminate wealth-based spending differences rather than cost-based spending differences. Adoption of the urban density factor, coupled with complaints about the Albuquerque district's use of waivers to obtain extra "training and experience" dollars, fractured the fragile consensus which had united school districts around the 1974 formula. Faced with these contending pressures and agendas, in 1995 the legislature and governor turned to a traditional solution—an outside study.

The Funding Formula Study—1995

The 1995 Legislature passed legislation that would fund a study of the funding formula. The study was to be based on the 1994–95 school year. However the legislation was vetoed by the governor, who claimed that the State Board of Education had the authority and the funds to do the study.

Subsequently the Governor's Office, the Legislative Council Service, and the State Board of Education, found enough funds to proceed with the study. These three units of state government then appointed a Funding Formula Task Force and a Request for Proposals was issued. The major purposes of the study were: 1) to analyze the equity of the New Mexico public schools funding formula, 2) to make recommendations for changes in the formula, 3) to review and analyze the capital outlay system for schools, and 4) to review and analyze current regulations and procedures for local district budgetary review, student and fiscal accounting, and accountability reporting.

The consultant, with assistance from Legislative Study Committee and State Board of Education staff members, conducted a series of meetings with the Funding Formula Task Force and conducted interviews with over 80 state officials, education leaders and local district personnel. A survey was sent to all 89 local school superintendents and other district administrators. In September 1996 the consultant presented its findings to the Funding Formula Task Force. The findings were:

- 1 The formula is highly equitable, and enjoys strong support throughout the state;
- 2 Weights for special education should be changed to reflect the current practice of inclusion;
- 3 Despite the acknowledged equity of the formula, there is strong perception of unfairness in the density factor which is applicable to larger school districts and in training and experience (T and E) waivers;
- 4 There is a compelling concern about the adequacy of funds appropriated to equalization guarantee;

- 5 There are insufficient resources in the State Department of Education to effectively monitor the desired level of accountability within the school districts; and
- 6 In contrast to the highly equitable distribution of operational funds through the formula, funding of capital outlay is highly inequitable.

After a series of forums, the Task Force accepted the findings through consensus. The findings were pretty much what had been expected. The chairwoman of the Task Force, a highly respected legislator, worked diligently in keeping the group focused on the purpose of the Task Force which was to come together on recommendations to the three entities that had given them the charge: the State Board, the Legislature and the Executive. This was a specially difficult task because of intense political division among the governor, legislative leaders and the state board. At the heart of the struggle were differing conceptions about the amount of money to be appropriated for schools at the 1997 legislative session, and the proportion to be used to "fix the formula."

After much debate and testimony, the Task Force made the following recommendations:

- 1) The special education students should be counted as regular student membership with added weights depending on the severity of the disability, and
- 2) The size adjustment relating to density be repealed and replaced with an at-risk factor that would be available to all school districts and would be determined for each district by a computation based on the number of Title I eligible students, limited-English-proficient (LEP) students, mobility of students, and drop out rates.

The task force made some other recommendations outside the funding formula. These were:

- 1 Terminate waivers to training and experience index calculations.
- 2 Appropriation of money to establish a state wide accountability data system; and
- 3 Appropriation of money to conduct a comprehensive inventory of public schools facilities and assessment of capital outlay needs.

The Task Force recommended an infusion of \$55 million in new money in order to make these changes. This amount would be above the money required for growth, inflation and salary adjustment. This would prevent those districts previously benefiting from waivers and density funds from losing money.

The recommendations listed above were presented to the Legislative Education Study Committee which is a permanent legislative committee of representatives and senators from both parties. The committee accepted the findings and recommendations. They knew that there would be heated debate in the legislature. The Legislative Finance Committee was adamant that the economic condition of the state and the needs in such areas as corrections and health and social services would not permit a \$55 million formula fix. The Legislative Finance Committee predicted that the most they could come up with for education was \$22 million. In order for the formula fix to be implemented \$55 million was needed. Commitment to this figure had been the key to attaining Task Force consensus. It was the minimum if no district was to get hurt.

The legislature vehemently debated the recommendation and specifically the additional funding needed. The governor's office proposed a constitutional amendment in which 50% of the state budget eventually would go for education. The amount for the previous year was 46.7% of the state budget for education. The legislation introduced on this subject got nowhere in the

legislature. However, it must be noted the governor in principle had committed to increased funding for education.

The heated discussion in the legislature was between the two houses. The House insisted they could not afford the \$55 million, the Senate, willing to call the governor's hand, proposed to go for the total amount of new money available which was approximately \$130 million, which would raise 1997-98 spending for education K-12 to 50% of the total state budget. After much debate and exploring all kinds of funding within the state budget the legislature agreed on funding the first two recommendations, thus providing for inclusion funding for special education students and establishing the at-risk factor in the funding formula. The amount for this was at the level that the Task Force had recommended, with some additional money for salary increases. Also included in the legislation was the request for the implementation of 1) an accountability system for use by the State Department of Education and 2) a capital outlay study.

The latter two recommendations were vetoed by the governor. However he did sign the legislation which provided \$62 million new dollars. This, the governor stated, was enough money for the implementation of the accountability system and for salary increases for public school employees.

The legislature and the governor finally supported and enacted this substantial funding increase because of a concerted and united effort of the major constituencies which included: school administrators specifically school superintendents, the School Boards Association, the two major teachers unions (NEA, AFT), state PTA, the League of Women Voters and other major constituencies. They had all been involved in the formula study in some way and thus they all had ownership and supported the recommendations of the Task Force.

Even though the recommendation for updating the accountability system and study of capital outlay needs did not make it, the legislative session was a success for K-12 education. The capital outlay issue is still being debated and it appears at this time that the state board will find some money to do something in each of these two critical areas of need.

The future

The future of educational funding and finance for K-12 education in New Mexico will continue to be one of the top issues for the state. The agenda items in educational finance for New Mexico continue to be the same as across the country. One of the major items that is being addressed is increasing funding with accountability for student achievement. The whole issue of vouchers, home schooling and charter schools are big discussion items which will impact the financing of schools. There is another hot item and this is standards and bench marks. The State Board of Education is in the process of developing standards in all the basic areas of the curriculum. At the same time the whole issue of student testing and accountability will fill the agenda in the area of financing schools. The legislators and state board are addressing issues in a more proactive manner since the governor attempted to do away with an elected state board. He proposed the education system be managed by his office through a secretary of education and a governor-appointed state school board. The whole issue of adequacy is one that will not go away. The state has handled the funding for public schools well and has in place one of the most equitable funding formula.

Another task that elected officials have to address is where to find enough resources to increase the dollars for K-12 education. It appears that along with this discussion will be an attempt to allow school districts to tax themselves to improve their programs. This of course is against all efforts made to equalize education across the state.

Endnotes

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- 5 Jose A. Perea, "A Comparison of the Equalization Effects of Federal and State Public School Fund Distributions in New Mexico," (unpublished PhD dissertation, University of New Mexico, 1971).
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The figures suggest that educational expenditures in New York State are not equalized on a per pupil basis and that the goal of providing equal opportunities for education, in terms of equal expenditures on education, is not even close to being achieved.

Financing Public Elementary and Secondary Education in New York State

Scott R. Sweetland and Stephen L. Jacobson

Our purpose in this report is to provide a state-of-the-state snapshot of public school finance in New York. We discuss, in turn, major aspects of the state aid funding program, revenues that are used to support elementary and secondary education, and selected policy considerations which affect or are affected by the current funding structure.

The New York State Education Department reported that for the 1994–95 school year, the public school system included “38 Boards of Cooperative Educational Services (BOCES), 711 districts, 4,068 schools, and 2,733,913 students” (The University of the State of New York, 1996a, p. xiv). Reported district revenues for the prior school year (1993–94) were \$23.41 billion, of which the state provided 38.7 percent in aid to local districts (The University of the State of New York, 1996a). The average expenditure per pupil in 1994–95 was \$8,421, which places New York as the third-highest expenditure per pupil state, behind New Jersey and Alaska (U.S. Department of Education, 1996).

Although New York State has one of the largest public education systems in the United States, and an elaborate complex of representative governance and regulatory administration, the perennial problems associated with public school finance persist. For example, despite a modified percentage equalizing state aid formula that provided an average \$1,313 per pupil to the highest wealth decile districts and an average \$5,400 per pupil to the lowest wealth decile districts in 1993–94, the average per pupil expenditure in those poorer districts (\$6,338) was less than half of the average per pupil expenditure in wealthier districts (\$12,996). [The University of the State of New York, 1996a.] Clearly, these figures suggest that educational expenditures in New York State are not equalized on a per pupil basis and that the goal of providing equal opportunities for education, in terms of equal expenditures on education, is not even close to being achieved.

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State Aid Program

The hallmark of state aid to schools in New York is that it is based on a combined property and income wealth ratio that drives a percentage equalizing mechanism of distribution. Straightforward as this may seem, the percentage equalizing mechanism includes a foundation target, various caps, and appended formulae that are used to determine total state aid to schools. The complexity of this school aid arrangement was criticized by Crampton (1993, 1994) and further examined by Brent and Monk (1995) who reported that the school aid package included more than 40 different formulae. Next, we outline the major components of the school aid package, provide additional sources of technical information in the References section, and consider fundamental components of New York State aid to public elementary and secondary schools.

Pupil Units and Attendance

While we use descriptors such as per pupil and pupil units in the generic sense, it is important to recognize that New York State makes use of pupil unit measures that are weighted to reflect costs of education at different levels and across different types of programs. Part of the complexity of the New York funding system is due to the fact that pupil weightings and counts are arrived at differently for certain formula calculations and that these calculations are based on different years of operation. For example, district wealth measurements rely on Total Wealth Pupil Units (TWPU) based on the district's resident pupils' average daily attendance two years prior while Operating Aid calculations rely on Total Aidable Pupil Units (TAPU) based on the adjusted average daily attendance of all pupils attending a district one year prior (Diefenbach et al. 1995). Furthermore, while the basic funding structure primarily uses Average Daily Attendance (ADA), certain aid formulas, such as the Extraordinary Needs Aid (ENA) formula, rely on both ADA and Average Daily Membership (ADM) measures.

Combined Wealth Ratio

Rather than basing school aid singularly on the value of property owned or the income earned by residents within district boundaries, the New York program considers both property and income wealth within the district. The Combined Wealth Ratio (CWR) represents an equal weighting of property value and earned income at which 1.000 is the estimated average wealth measure for the state. The CWR can be illustrated as such:

$$.5 \times \frac{\text{District Property Wealth Per Pupil}}{\text{State Average Property Wealth Per Pupil}} + .5 \times \frac{\text{District Income Wealth Per Pupil}}{\text{State Average Income Wealth Per Pupil}}$$

Because of this equal weighting formulation, districts that have property wealth above the state average can still participate fully in the state aid program if their income wealth is correspondingly below the state average. This occurs, for example, in relatively poor income wealth districts that have large utilities or commercial enterprises as property owners. Less likely, but still possible theoretically, is the situation of an income wealthy district that is correspondingly property poor.

Operating Aid Ratio

The Combined Wealth Ratio (CWR) is used to determine each district's Operating Aid Ratio (OAR). The OAR is “selected” because it is the optimal result from one of four alternative OAR formulas established by the state. The 1996–97 OAR formulas are:

1. $1.35 - [1.50 \times \text{CWR}]$
2. $1.00 - [0.64 \times \text{CWR}]$

3. $0.80 - [0.39 \times \text{CWR}]$

4. $0.51 - [0.22 \times \text{CWR}]$

Which of the formulae is optimal depends upon the district's CWR measure of wealth. For example, a district that has a low CWR will benefit most from the first formula whereas the fourth formula will be most beneficial to wealthy districts. A district that has the state average CWR, 1.000, will calculate a .41 OAR by selecting the third formula (Diefenbach et al. 1996).

Operating Aid

The Operating Aid Ratio (OAR) is used to determine each district's amount of Operating Aid through a basic formula that supports a foundational target of \$3,900 in Approved Operating Expense (AOE) per pupil. Districts are, however, provided some incentive to spend more than \$3,900 through use of an adjustment that recognizes approved operating expenditures up to \$8,000 per pupil. The adjustment, which is based on a district's Combined Wealth Ratio (CWR) and its per pupil AOE between \$3,900 and \$8,000 establishes, in effect, a ceiling on state operating aid per pupil. The operating aid formula can be expressed as:

Operating Aid Ratio \times [$\$3,900 + \text{Adjustment}$] = Aid

Adjustment = $[\text{AOE} - \$3,900] \times [.075/\text{CWR}]$

Sample calculations for the state average wealth district (CWR=1.000; OAR=.41), with expenditure levels below and above the state average (\$8,421), are provided to illustrate the effect of the Operating Aid formula adjustment:

AOE = \$7,000 .41 \times [$\$3,900 + \233] = \$1,695

AOE = \$8,421 .41 \times [$\$3,900 + \308] = \$1,725

AOE = \$10,000 .41 \times [$\$3,900 + \308] = \$1,725

With Approved Operating Expense of \$10,000 per pupil, this district would receive \$1,725 in Operating Aid. If the district spent substantially less, \$8,421 per pupil, it would likewise receive \$1,725, because both levels of expenditure are above the \$8,000 cap on the formula adjustment. Notice that with an Approved Operating Expense of \$7,000 per pupil, \$1,421 less than the state average, the district would receive \$1,695, which is only \$30 less than the operating aid maximum for this district. A final note, all districts in New York State receive operating aid. For those districts that have extremely high CWRs and hence OARs that equal zero, the State provides flat grant Operating Aid in the amount of \$400 per pupil.

Other Aids

Operating Aid is the general or basic aid provided to New York's public schools. For the 1996-97 school year, Operating Aid was expected to be 56.6% of the total school aid package. The other 43.4% of the package was distributed among the following types of aids with expected percentages given (New York State Education Department, 1996):

Operating	56.60%
Excess Cost	14.92%
Transportation	7.32%
Building	6.07%
Tax Effort and Equalization	5.08%
Extraordinary Needs	4.84%
BOCES	3.50%
Software, Library, Textbook	1.43%
Special Services for Big Cities	1.25%
Growth Aid	0.71%
Limited English Proficiency	0.64%
Educationally Related	
Support Services	0.42%

Reorganization Incentive	0.37%
Gifted and Talented	0.15%
Hardware and Technology	0.11%
Transition Adjustment	-3.40%
Total	100.00%

BOCES aid is unique to New York State. The acronym represents Boards of Cooperative Educational Services which provide services and programs such as vocational and special education for districts that could not otherwise offer such programs and services efficiently. This aid helps to support district participation in the BOCES system. Special Services for Big Cities aid helps to support programs and services similar to those provided by BOCES in the five cities—Buffalo, New York City, Rochester, Syracuse, Yonkers—that are not allowed to participate in the BOCES system. Excess Cost and Extraordinary Needs aids help to support the educational programs and services provided to handicapped and at-risk students (The University of the State of New York, 1996b).

Revenue Sources

The revenues received by public school districts in New York State are derived primarily from the property tax and the state aid program. In the 1993-94 school year, districts received 56.8 percent of their revenues from local sources and 38.6 percent from state sources, the 4.6 percent remainder was derived from federal sources (The University of the State of New York, 1995). The local revenue sources consisted of property taxes and, for some districts, modest amounts from sales and or utility taxes. New York State schools also receive lottery aid, but proceeds from lottery operations flow to the state rather than directly to local school districts.

During the past six years (1988-89 through 1993-94), total revenues for New York's schools increased, but the state's proportional share decreased over 5 percent. For the most part, local revenue sources were used to make up this difference along with modest increases in the proportion of federal revenues. Table 1 presents the local, state, and federal shares of revenue for years 1988-89 through 1993-94:

Table 1
Proportion of Total Public School Revenues.

School Year	Local Sources	State Sources	Federal Sources
1988-89	53.1%	43.8%	3.1%
1989-90	55.0%	41.4%	3.6%
1990-91	53.8%	42.8%	3.4%
1991-92	55.1%	40.8%	4.1%
1992-93	55.9%	39.6%	4.5%
1993-94	56.8%	38.6%	4.6%

(The University of the State of New York, 1995, p. 7.)

Given that the state proportion of district revenues peaked in 1988-89, and that federal relief has remained modest, it seems likely that the trend of increased local burden for the operation of public schools will continue.

Policy Considerations

As demonstrated earlier, educational expenditures in New York State are not effectively equalized. While perfect equality in expenditure is not possible or even desirable if it imposes limits on educational investment, the disparities produced by New York's current system of finance could be reduced. In theory, the percentage equalizing approach to distributing state aid to schools in New York could be implemented to equalize educational expenditures across the state. However, the cur-

rent practice prevents such equalization from occurring, because (1) the state guarantees a flat grant amount of operating aid to even the wealthiest of districts, and (2) the state's equalization scheme ignores expenditures beyond \$8,000 per pupil.

In order to equalize educational expenditures across the state, the guaranteed flat grant would need to be repealed and the operating aid formula would need to support per pupil expenditures beyond \$8,000. Whereas the repeal of the flat grant would free some funding for the equalization of higher levels of expenditure, obtaining the required amount of funding and achieving an environment of strict equalization would not likely occur until some form of recapture were imposed on high-wealth districts.

Support for expenditure equalization funding beyond \$8,000 per pupil, at least to the \$8,421 average expenditure per pupil mark, could possibly survive the political process. However, repeal of the guaranteed flat grant in operating aid and the imposition of recapture provisions would likely fail politically. Short of a court order, considerable disparities in expenditure among New York's public school districts, due to the modified implementation of the percentage equalizing approach, are likely to continue.

The proportion of public school revenues provided by the state has been declining. Although Governor Pataki has acknowledged the problem and attempted to relieve local burden by proposing a \$302 million increase in state aid to schools (Sorensen, 1997), his proposed budget may be defeated by the state legislature and, if passed, would only increase the state's share to roughly 39.8 percent of total public school revenues. Therefore, it seems likely that the trend revealed in Table 1 will continue, and that New York's public schools will be forced to rely more heavily on the local property tax as a means to financing educational programs. Considering an inherent relationship between localized wealth measures and educational spending levels, the impact of this trend would unequally affect property poor and property wealthy districts, causing the poorer districts to put forth greater effort in terms of taxation or to suffer decreases in educational services. While the New York State school aid formulae recognize local fiscal capacity and local tax effort based on full property valuation, imperfections in the operation of these school aid formulae and weaknesses in the overall equalization approach, due largely to the lack of recapture provisions, would likely be magnified during an era of increased reliance on the local property tax. During such an era of increased reliance on the property tax, perhaps it would be prudent to consider other sources of revenue to school districts or to consider changing the current system of property taxation.

Traditional sources of revenue for public schools include the income tax, sales tax, and the property tax. New York State assesses the income tax and uses a portion of it to support the education program, including state aid to schools. Sales tax receipts are shared by the state and New York counties, some of which pass a portion of the revenues on to schools. For example, in Erie County in Western New York, the sales tax rate is 8 percent, of which 4 percent goes to the state and the county distributes .87 percent to local school districts (New York State Office of the State Comptroller, 1996). Overall, the state's operation depends heavily on income and sales tax receipts. Swanson and King (1997) make this point clear by reporting that individual income and sales tax receipts account for 49.5 and 19.9 percent of New York's tax collections, respectively. Furthermore, they illustrate that relative to fiscal capacity, New Yorkers put forth the greatest tax effort in the nation. Because the property tax is the only substantial source of revenue not captured by higher levels of government and the only revenue source that local school districts have primary

control over, it is likely that any future reductions in state and federal aid to schools will be offset by increased property taxation.

Once again, we are challenged by an equalization problem which, in this case, is rooted in the valuation of property within each district and the relative ability and effort of districts to tax that property value. The current system of property taxation is inefficient in the sense that there is considerable disparity among the property tax bases available to school district taxing authorities. Were the equalization measures implemented by the state through state aid to schools effective, disparities in property tax bases would less likely be reflected in educational spending patterns. However, given fundamental inconsistencies in the state's implementation of equalization measures, inefficiencies in the distribution of property tax bases among school districts will become more apparent with greater reliance on the property tax.

A reasonable approach to reducing the disparities among local tax bases would be to consider all properties in the state as one tax base. This would enable a system of property taxation that could levy one effective tax rate for all districts without the need for equalization formulas based on property tax ability or effort. The major problem with consolidating the state tax base as such would be the removal of localized control over revenue generation. This would diminish local district and community autonomy, and directly conflict with liberty interests and the current trend of placing greater authority and responsibility at local levels of school administration. This effect could be reduced if tax bases were consolidated at regional or county levels rather than at the state level.

Effecting fundamental changes to the state aid distribution program or the collective property tax base available to support educational program expenditures would pose overwhelming political challenges. This does not mean, however, that these potentially positive changes should be ignored. If we choose to adopt an educational expenditure equalization mechanism, why should it be ineffective? Furthermore, if failed equalization attempts are tied to the current system of property taxation, why should it remain unchanged? Answering these fundamental questions and arriving at plausible solutions will require considerable research, reflection, and input from various political proponents. In the meantime, one direction of research that could begin to address both questions would involve the study of consolidating non-residential tax bases for generating education revenues.

The operations of large utilities and commercial enterprises effect the employment, income, and general economic well-being of citizens outside local school district geographic confines. For example, the Kintigh Station in Barker, New York provides electrical power for much of the Western New York region, but the property tax revenue that it generates primarily benefits the Barker Central School district. It would make sense to distribute tax revenues from these entities among a number of school districts that comprise the broader economic locale. If, under such a plan, residential properties were still taxed by local authorities, local autonomy would be reflected throughout the revenue generation process. Local district representatives could lobby with representatives of neighboring districts, belonging to the broader economic locale, to formulate policies of taxation on non-residential properties. And, local district residents, who have the greatest interest in local school affairs and tax levies on residential properties, would continue to have local school district and community control over their own taxation in support of educational programs. Properly implemented, this type of system could better represent the educational priorities of the residential community and simplify the process of equalization, which would then be primarily concerned with local income wealth.

Conclusion

Especially through initiatives to study and improve efficiencies within school districts and schools (e.g., Berne, 1994; Hanushek, 1986, 1994; King & MacPhail-Wilcox, 1994; Monk, 1989, 1992, 1994), much attention has been focused on historical and improved function and object expenditure patterns. While we believe that these pursuits are paramount to financing excellent educational programs in an environment of fiscal uncertainty, we have attempted to draw attention toward another piece of the puzzle. Our emphasis has been on some of the fundamental flaws in the generation of revenues for elementary and secondary education in New York as well as operational inconsistencies in the state's implementation of equalization measures. We hope that our articulation of these inconsistencies and some of the potential alternatives will encourage other researchers to pursue these aspects of education financing more comprehensively than can be accomplished in this brief state-of-the-state report.

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North Dakota policymakers are faced with many of the same issues related to school funding as their peers in other states. Opposition . . . greatly reduce(s) the likelihood that any significant changes in school finance systems will be enacted before the turn of the century.

School Funding Issues in North Dakota

Gerald R. Bass

The funding of public schools in North Dakota continues to constitute a series of issues demanding consideration by the governor, members of the state legislature, and other policymakers. While the adequacy of funding continues to be a major focus as these and other interested parties propose and support varied levels of state support that should be provided for public education, a number of other topics have been proposed for consideration. Equity continues as an important issue competing for attention with suggestions to change specific elements of the funding formula, the proper mix of taxes for local and state services, the degree to which school boards and/or local voters are able to increase local operating levies, and the manner by which special education programs are funded.

Funding Formula

Any actions to enhance adequacy and/or equity in school funding must first be examined in relation to the equalized formula used for the distribution of state aid to the North Dakota's school districts. The Foundation Aid Program formula for the 1996-97 school year contains a "per pupil payment" of \$1,862. Under Governor Ed Shafer's budget proposal for the 1997-99 biennium, the appropriation for state aid would be increased by \$15 million with per pupil payments established at \$1,899 for 1997-98 and \$1,935 for 1998-99. Members of the North Dakota Council for Educational Leadership have suggested a \$40 million increase, a level likely to be supported by other education groups.

There are six categories of weighting factors to adjust actual school district enrollment (in average daily membership): preschool special education, kindergarten, rural grades (1-8), elementary (1-6), grades 7-8, and high school (9-12). The elementary and high school categories contain varying weighting factors differentiated by school size. For high schools the weighting factor decreases as size increases, while for elementary schools the factor is higher for both the smallest and the largest schools. Annual adjustments to statutory weighting factors were instituted by 1995 legislation which provided that weighting factors for the 1995-96 school year would be modified by 50% of the difference between the existing weighting factor and that established by a five-year average of costs for

students in each weight classification. For the 1996-97 school year, the adjustment would be at 65% of the difference.

As with virtually all equalized formulas, the Foundation Aid Program formula includes a deduction which varies according to local wealth, in this case property tax revenue. For 1996-97, the "deduct" is calculated at a tax rate of 32 mills, an increase from the previous year's rate of 28 mills. Legislation in 1995 provided that the deduct will continue to rise in proportion to increases in the appropriation for Foundation Aid but cannot exceed 25% of the statewide average general fund levy. While not integral components of the Foundation Aid Program formula, transportation aid and state apportionment (income from school lands) can be reduced for districts which generate more revenue from the 32-mill chargeable levy than is guaranteed by the per pupil payment.

Equity

Equity in North Dakota school funding became a central issue during judicial consideration of the Bismarck case.¹ While three of the five justices ruled on behalf of the plaintiffs/appellants, the January 1994 supreme court ruling did not overturn the existing school funding system, falling one vote short of the supermajority needed to declare a legislative action to be unconstitutional. The case did, however, signal to state policymakers that equity needed to be addressed.

During the 1995 session, the North Dakota legislature passed a bill that created a supplemental payment system by which \$2.25 million were distributed during the 1995-96 and 1996-97 school years to "poorer" school districts, those with below average amounts for both taxable valuation per student and cost of education (expenditures per pupil as measured by average daily membership). Governor Ed Shafer's budget proposal for the 1997-99 biennium included \$20 million for a similar equity fund but did not recommend a specific system for distribution of such money if appropriated by the legislature. Before reviewing proposals for distribution of appropriations for an equity fund, it is important to consider first the causes of inequity in North Dakota's aid distribution system.

The major factor in the equity debate is the degree to which local property tax revenue should be deducted in the equalized formula used in the state. As noted above, the 1996-97 Foundation Aid Program formula includes a deduction of the revenue from a 32-mill levy. Although this is an increase from the previous year's 28-mill deduct, it represents only a small portion of the total levy for most school districts. In fact, the operating levies for districts in North Dakota average over 180 mills. While it might seem obvious that increasing the number of mills used in computing the property tax deduct would result in a more equalized formula, legislators and others have proposed doing just the opposite. One suggestion would reduce the deduct to 16 mills while another would eliminate the deduct altogether. The latter idea would abandon the concept of an equalized formula in favor of a mechanism for distribution of state aid to each school district regardless of local wealth or lack thereof.

With so much of the local property tax revenue accruing to school districts outside the equalized formula, there is considerable potential for inequities in school funding. For example, per-pupil taxable valuation for 219 North Dakota school districts in 1995-96 ranged from \$169 to \$124,694.² Of course, this range was affected greatly by the enrollment, the amount and proportion of land that is not subject to local property taxes, and the type and value of taxable property in each school district. Even eliminating the highest and lowest districts, the range for the remaining 80% was still \$6,628 to \$23,752, nearly four to one. If one were to assume that each of these districts had an operating levy totalling 180 mills, the per-pupil property tax revenue would range from \$1,193 to \$4,275.

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The 32-mill deduct would reduce the disparity from a 148-mill levy to a range of \$981 to \$3,515. The fact that only a relatively minor proportion of the total property tax revenue for school districts is deducted in the formula accounts for the fact that Foundation Aid provides for only a limited portion of the total revenues received by school districts in North Dakota. The remaining funding is generally not equalized to adjust for local wealth. Obviously, any reduction in the deduct would further limit equalization.

In addition to proposals concerning the amount of property tax revenue that should be deducted in the Foundation Aid Program formula, other revenue sources have also been suggested for deduction. Revenue from oil and gas taxes and from federal impact aid are two substantial sources of operating revenue for some school districts. Neither of these is subtracted in the calculation of a district's Foundation Aid. Since the state's distribution system is somewhat lacking in the wealth neutrality standard that is expected from the federal government and leaders of impact aid districts have established considerable political influence, a deduction for such revenue is not likely to be considered at this time.

The obvious political, and fiscal, problem with changing the state aid distribution system to incorporate either significant increases in the deduction of property tax revenues or oil and gas taxes is the certainty that there will be districts which would lose substantial amounts of revenue by such changes. Without major increases in state appropriations to support the Foundation Aid Program formula, not a possibility at this time, too much money would be directed away from the relatively higher property wealth districts and those which receive oil and gas revenue. While this would promote equity, the cost of such equity would be too high to obtain legislative support for such action.

Since there is little likelihood that any major changes will be enacted in the formula, attention has turned to the governor's equity fund proposal. Four different approaches to distribution of the proposed \$20 million appropriation were made to legislative committees in January of 1997. Department of Public Instruction staff made two proposals. One called for distribution of supplemental funds through a guaranteed tax base system that was proposed but defeated during the 1995 legislative session. The second plan would continue the existing calculations used to distribute the previously appropriated \$2.25 million equity funding according to below average taxable valuation and cost of education. This author proposed a more complex supplemental funding system involving the development of a "more ideally equalized formula" that would include the addition of program-related weighting factors, adjustments to existing grade level weighting factors, and deduction of greater proportions of the property tax levies as well as oil and gas revenue and federal impact aid. The new formula would be used only to distribute any money appropriated separately for equity enhancement but could also serve as a demonstration of elements that might be incorporated eventually, if desired, in a modified comprehensive funding formula that would result in greater equity. However, there is little likelihood of support for that concept due to its complexity and aura of change. The professional associations representing the state's education interests have taken the position that all major increases in funding for education should be put into the existing Foundation Aid Program formula and are likely to oppose the continued use of any supplemental system.

During the 1995-97 interim period, a legislative committee devoted one of its sessions to issues related to the funding of capital outlay. Equity concerns were raised in regard to the unequalized, and thus greatly disparate, levies for the Building Fund and the Sinking Fund in North Dakota school districts. In addition, the overall needs of those districts for repair, renovation,

and/or construction of school buildings were cited. Despite those concerns, no committee action was taken. It is likely that issues related to the overall adequacy and equity of school funding will keep capital outlay out of the arena of legislative activity for some time to come.

Tax Bases

During the past year, the North Dakota legislature's Interim Education Finance Committee received a proposal from the North Dakota Stockmen's Association calling for enactment of a \$200 million increase in the state's income tax with \$180 million of that revenue used to reduce existing property taxes. While there was some interest expressed by legislators in reducing property taxes, there was little support for the portion of the proposal that would allocate \$20 million in new funding to public schools. This perspective continued in the legislative session with opposition to any net increase in taxes but continued interest in proposals to reduce property taxes, with or without a replacement through increases in income tax rates.

Consistent with current opposition to tax increases, the legislature in 1995 adopted a measure that, in part, strengthened an existing limitation on the ability of school boards to increase property tax levies. Under this law, school districts are affected quite differently in regard to the ability to raise property tax revenue. Six school districts have locally-adopted unlimited levy authorization that allows those school boards to set the primary general fund levy at any level by majority vote. For the remaining school districts, there is a cap of 184 mills. For districts at or above that cap, the 1995 legislation allowed boards to increase the amount levied by 2% in 1995 and by 1% in 1996. Beginning with fiscal year 1997, districts at or above the cap are not permitted to increase the general fund levy. School boards in districts with levies below the cap are allowed to increase the levy by up to 18% if such increase does not exceed the 184-mill cap.

Special Education

The means by which special education services are funded in North Dakota has been changed in each of the last three legislative sessions. The current system provides funding on both a per-pupil basis and on a supplemental basis for excess costs associated with contracts for services to students with disabilities, low incidence and/or severely disabled students, and certain boarding care. Special education services are provided for administrative units that may consist of a single school district or represent numerous cooperating districts. As the population density varies greatly across the state, so too does the incidence for most disabilities and the ability to access services in a cost-effective manner. It is this variation in demand for and ability to supply special education and related services that has led to so many recent attempts to change the existing funding system. Attempts to fix perceived inequities for some units through legislative action have invariably led to demands in the next session to address new issues of inequity arising from the modified distribution system.

While there is little agreement on how special education funds should be distributed, there is substantial agreement that the costs of special education are rising beyond the ability of local districts and, according to some, the state to provide sufficient financial support. Given the legal environment for special education at this time, there are few who expect any significant reduction in the level of service provided or in the number of eligible students. Therefore, policymakers in North Dakota, and elsewhere, will continue to debate but not put to rest issues regarding the funding of special education.

Outlook

Attention will continue to be focused on the adequacy of the per pupil payment in the North Dakota Foundation Aid Program formula and the total appropriation necessary for such funding at various proposed levels. Of interest also will be the amount of the property tax deduct. However, it is very unlikely that there will be major changes in any of the formula elements before 1999. The Interim Education Finance Committee took no action, and entertained relatively little debate, regarding changes to the existing formula during its hearings in 1995 and 1996.

One likely change to school funding in North Dakota will be a substantial increase in the supplemental equity funding which was set at \$2.25 million during the 1995-97 biennium. Whether or not that appropriation will be increased to the \$20 million figure proposed by the governor, this supplemental funding mechanism is likely to be continued. Support for greater equity within the Foundation Aid Program is limited by the negative fiscal impact that suggested changes would have on some school districts and widespread opposition to any major tax increases. The opposition to tax increases could be tempered by interest, especially by rural legislators, in shifting the relative tax burden from property to income taxes.

Issues related to equity in capital outlay will not be addressed for at least several years. The lack of tax revenue to support major new initiatives noted above will be even more likely to preclude any new state role in funding school con-

struction or supporting the operation and maintenance costs of existing buildings. This could, however, become a more critical issue if proposed legislation is adopted that would strengthen the enforcement role of the state fire marshal's office in inspections of school buildings.

Special education will continue as an issue related to school funding. With major changes having been made during each of the last three legislative sessions, there is likely to be a period of stabilization while policymakers examine the impact of the most recent changes in special education funding and debate whether there is further need for revision.

In summary, North Dakota policymakers are faced with many of the same issues related to school funding as their peers in other states. Opposition to major tax increases, demands for support of services other than education, and lack of agreement among education groups regarding any fundamental changes in funding mechanisms greatly reduce the likelihood that any significant changes in the school finance systems will be enacted before the turn of the century.

Endnotes

- 1 *Bismarck Public School District No. 1, et al. v. State*. 511 N.W.2d 247 (N.D. 1994) (S.Ct. No. 930079).
- 2 North Dakota Department of Public Instruction. (1995). *95-96 district enrollment (K-12), Building Fund levy, tax valuatn* (SAS System printout, December 6).

Oklahoma remains among the lowest five of the states nationally in terms of per-pupil education funding.

Financing Statewide Education Reform in Oklahoma

Jeffrey Maiden

Introduction

Oklahoma is not among the wealthiest of the 50 states. Historically reliant on the petroleum industry, the state economy suffered substantially with the financial decline of that industry beginning in the early 1980s. This, coupled with the initiation of massive statewide education reform in the late 1980s and early 1990s, has resulted in continuing struggles to provide adequate funding to support the education of children in Oklahoma common schools.

Typical of education systems in most of the other states, the state of Oklahoma includes a tripartite funding relationship among the federal, state and local levels of government. Federal dollars typically flow to schools through various entitlement programs, such as Title I of the Improving America's Schools Act and Part B of the Individuals with Disabilities Education Act. The state of Oklahoma provides funding to local school districts primarily through a two-tiered equalization system as well as through a variety of categorical programs. Local districts derive the remainder of the revenues used to support education through county and local district sources, the majority of the local funding derived through ad valorem taxation. A summary of the revenues raised to support education from each of the three levels of government over the past decade is provided Table 1.

Particularly noteworthy is the magnitude of the increase in public school funding from the state level beginning in fiscal year 1991, explained largely by the passage of extensive statewide reform. The Oklahoma Legislature passed HB 1017 into law in 1990, with most of the specific reform provisions implemented from fiscal years 1991 through 1995.¹ The reform initiated and implemented in Oklahoma through HB 1017 was arguably among the most broad, sweeping educational reform of any of the states in recent years. Included in the reform legislation were structural and organizational changes that potentially had tremendous impact on funding of education among Oklahoma school districts, including specific provisions for:

- the adoption of state accreditation standards applicable to all Oklahoma schools;²
- the development of statewide curricular standards to be

deployed in all Oklahoma school districts,³ and the periodic evaluation of district curricula by the State Board of Education;⁴

- additional early childhood educational programs;⁵
- the option of local school districts to offer an extended school year to students, with accompanying state aid;⁶
- increased use of norm- and criterion-referenced tests among local districts, and the dissemination of test results to the public;⁷
- alternative teacher certification;⁸
- the required possession by local school board members of high school diploma or equivalent;⁹
- progressively smaller class sizes in primary grades through the years of the reform. Districts were penalized through withholding state aid for each student in grades one through three in average daily membership in a class exceeding, with some exceptions, the following sizes: 1990-91 through 1992-93, 21 students; 1993-94 and thereafter, 20 students. In grades four through six, these restrictions were 1990-91, 25 students; 1991-92, 23 students; 1992-93, 22 students; and 1993-94 and thereafter, 20 students;¹⁰
- progressively smaller student loads for secondary school teachers (with certain exceptions). By 1993-94, no teacher of grades 7-12 should be assigned as instructor for more than 140 students. By 1997-98, no teacher of grades 7-12 should be assigned as instructor for more than 120 students;¹¹
- the encouragement of outreach between school personnel and parents;¹²
- progressively increased minimal salary schedules for teachers mandated of all Oklahoma school districts. During 1990-91, teachers at the bottom of the schedule, with a bachelor's degree and no previous experience, were paid a minimum \$17,000 annual salary. By 1994-95, teachers at the bottom of the schedule were paid a minimum \$24,060 annual salary. Annual minimum salary for teachers at the top of the schedule, with at least 15 years experience and a doctoral degree, progressed from \$24,244 in 1990-91 to \$31,304 in 1994-95;¹³
- incentive pay plans for teachers based on approval of 20 percent of teachers in a given district;¹⁴
- the periodic review by the State Board of Education of pupil and district weighting systems utilized in the state equalization formulae.¹⁵

These reforms were coupled with increases in the amount of public financial support for education, with a substantial portion of the increase coming from state appropriations. Given this impact that state revenue has on total financial support of education, what follows is a description of the primary mechanisms used in distributing financial aid from the state to local school districts.

Oklahoma Education Finance System

The ultimate responsibility for providing and funding public education rests with the state, according to the Oklahoma Constitution. Specifically, states that "[t]he Legislature shall establish and maintain a system of free public schools wherein all the children of the state may be educated,"¹⁶ and provides the legislature the authority to establish appropriations for education.¹⁷ Though equalization of funding among districts is not

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Table 1
Oklahoma Public School Revenue by Source, 1985 to 1994

FY	Local Revenue	Percent Local	State Revenue	Percent State	Federal Revenue	Percent Federal	TOTAL REVENUE
1985	\$450,847,993	30.80	\$915,328,056	62.52	\$97,795,572	6.68	\$1,463,971,621
1986	\$467,757,402	28.84	\$1,056,183,734	65.11	\$98,093,238	6.05	\$1,622,034,181
1987	\$485,846,910	31.76	\$948,112,588	61.97	\$95,973,238	6.27	\$1,529,932,736
1988	\$503,881,931	32.05	\$963,935,241	61.31	\$104,479,690	6.65	\$1,572,296,862
1989	\$509,804,315	30.68	\$1,034,000,674	62.22	\$117,938,690	7.10	\$1,661,743,679
1990	\$518,945,584	30.07	\$1,083,919,528	62.80	\$123,156,389	7.14	\$1,726,021,501
1991	\$516,219,483	26.92	\$1,282,255,116	66.87	\$119,176,242	6.21	\$1,917,650,841
1992	\$530,889,053	25.80	\$1,409,391,147	68.51	\$117,059,757	5.69	\$2,057,339,957
1993	\$504,450,974	23.50	\$1,492,920,350	69.54	\$149,327,280	6.96	\$2,146,698,604
1994	\$487,737,799	21.71	\$1,592,082,635	70.88	\$166,274,335	7.40	\$2,246,094,769

Source: Oklahoma State Department of Education, *Annual Report 1994-95* (Oklahoma City, OK: OSDE, 1996).

required by the Oklahoma Constitution, the Oklahoma legislature has established as a goal the maintenance of a degree of interdistrict funding equity, as specified in state statute.¹⁸

To this end, the state has utilized a two-tiered equalization system since 1981. The equalization components of the Oklahoma education funding system include a foundation formula, a transportation supplement to the foundation formula, and the second tier salary incentive aid (a modified guaranteed yield).

Similar to other state finance distribution systems, the Oklahoma system is enrollment driven. Both the foundation formula (not the entire foundation system, which includes the foundation formula and the transportation supplement) and salary incentive aid are based on weighted average daily membership (ADM). ADM for the foundation formula are weighted according to three criteria: grade level, special education, and district sparsity or isolation (the district calculation).¹⁹ Grade level and special education weights are intended to reflect variant programmatic costs, typical of state weighting systems. The special education weights have remained unchanged since the inception of the funding system,²⁰ while the grade level weights have remained constant with a few exceptions.²¹

The weighted district calculation is designed to assist small and isolated districts facing relatively higher per-pupil costs due to diseconomies of scale. Basically, eligible districts are categorized into one of two weighting adjustments. The small school district weighting provides supplemental funding for any district that has an extremely low ADM, while sparsely populated districts are eligible for a supplemental weighting through the district sparsity/isolation factor.²²

The foundation program for a given local district includes a legislatively determined statewide base support factor multiplied by the district's weighted ADM (the higher weighted ADA/ADM from the previous two fiscal years).²³ The foundation program income for the district, consisting of revenues derived from a variety of sources, is subtracted from this product. Two of these foundation program chargeables are derived from property taxation. The first of these consists of a local district 15 mill tax levy, based on an annual certification of need for each school district submitted to the respective county equalization board without a vote of the electorate. The millage rate is applied to net assessed valuation in the district from the preceding fiscal year. The second property tax component includes 75 percent of actual collections in the district from a 4 mill countywide levy received from the second preceding fis-

cal year (the revenues collected annually from the 4 mill county levy were apportioned to local districts based on unweighted average daily attendance (ADA)).

The remaining components of the foundation program income are derived from state dedicated revenues from several sources. A certain percentage of revenue derived annually from each of these sources was earmarked for the financial support of common education. These sources include motor vehicle collections, gross production tax revenues, rural electrification tax revenues, and school land earnings. Actual collections from these sources derived during the second preceding fiscal year constitute this element of the foundation program for each local school district in a given year. The subtraction of the foundation program income from the total foundation program results in state foundation aid to the district. State appropriated aid to school districts is therefore disbursed in inverse proportion to local ability to raise revenue.²⁴

Districts are also provided a transportation supplement to the foundation program. The transportation supplement is calculated by multiplying average daily haul (ADH) by a per-capita transportation allowance and then multiplying this product by a transportation factor. ADH for a district represents the number of students legally transported who live at least one and a half miles from school.²⁵ The transportation supplement provides general aid intended to supplement local district transportation costs, though the dollars provided to districts constitute general rather than categorical aid.

The salary incentive aid component of the Oklahoma funding system, basically a guaranteed yield formula, constitutes a second tier resource equalization program. The local portion of the program are derived from an annual levy of a maximum 20 mills for each local district, from three property tax sources. The first of these is the local support levy of 10 mills, requiring annual approval of the electorate in a given district.²⁶ The second source, the emergency levy with a maximum 5 mills, also requires majority vote (50 percent plus one of the voting electorate).²⁷ The last of these is the county levy, levied annually by each County Excise Board.²⁸ Each county is required to allocate the levy from 5 of 15 total mills to school districts within the county based on ADA. The state annually guarantees a certain dollar amount per weighted ADM (the incentive aid guarantee) for every mill levied up to 20. ADM was weighted according to grade level, special education, and district size or sparsity, identical to the foundation formula. A teacher experience and degree calculation is used as an additional weighting

factor, giving districts the fiscal incentive to hire more experienced and educated teachers. The higher weighted ADM from the previous two fiscal years were used in calculating the salary incentive aid in a given year.²⁹

The foundation and salary incentive aid constitute a two-tiered system of general equalization aid from the state to local school districts in Oklahoma. In terms of the equity of the system, in FY 1995, 540 Oklahoma's 551 districts had foundation program income equivalent to \$1149 per weighted ADM, with only 11 districts exceeding the minimal foundation level per pupil.³⁰ With all 551 districts levying the maximum 20 mills allowed in the local effort portion of the salary incentive aid, 547 districts received a total of \$1120.20 through the salary incentive aid program per weighted ADM (for all 20 mills), while only 4 exceeded this level of funding per pupil.³¹

The sources of general state aid, to summarize, are appropriated and dedicated revenues. Dedicated revenues (include motor vehicle collections, gross production tax, etc.) flow through the foundation formula. The legislature annually authorizes the remainder of the foundation and salary incentive aid as the largest single appropriation in the state budget. Finally, the Legislature annually provides categorical funding for local districts, with each categorical program provided through a separate budget appropriation. State aid is supplemented at the district level with locally generated revenue, derived primarily through property taxation.

Local Property Taxation

Arguably the single source of taxation most closely linked to financial education is the property tax. Property tax proceeds constitute the largest portion of locally derived revenue used to financial support education in Oklahoma. As previously discussed property tax revenues constitute most of the local effort portion of both the foundation and salary incentive formulae. Two additional property tax sources are available to local school districts. The first of these is the building fund levy, with an annual maximum 5 mills for each school district approved annually by district electorate.³² Revenues from this levy are limited to certain capital expenses. The revenues derived from the building fund levy are not part of any state equalization formula.

The final local property tax levy available to school districts in Oklahoma may be derived through the sinking fund levy.³³ The revenues raised through the sinking fund levy are limited to debt service. Sinking fund levies require the approval of 60 percent or more of voters participating in a bond issue election. Technically, no millage maximum is required, though no district in Oklahoma may not incur debt exceeding 10 percent of total net assessed property valuation within that district.

Three classes of property are subject to taxation in Oklahoma. These include public service, business/corporate, agricultural, and residential. Public service property is appraised by the Oklahoma Tax Commission, while appraisal of the remaining three classes are the responsibility of the respective county tax assessors. Historically assessment levels among Oklahoma taxing jurisdictions have been below 20 percent, and the state has been notorious for the existence of inequities among local jurisdictions.³⁴ Litigation and legislative reform during the 1980s was instrumental in increasing equities in the assessment of property for taxation.³⁵ In 1996, a the constitution was amended through statewide initiative requiring land to be assessed at between 11 and 13.5 percent and personal property between 10 and 15 percent of fair cash value, with a higher percent allowable for each type of property through voter approval.³⁶

As part of the tax reduction and restriction mood of the nation during the mid 1990s, an unsuccessful attempt to amend the constitution to restrict property tax revenues was undertaken in 1996. The initiative proposed that residential real prop-

erty tax yields were to be rolled back and virtually frozen at December 31, 1993 levels. Property tax increases according to the initiative would be possible only under certain prespecified conditions. The most noteworthy of these conditions was that jurisdiction-wide increases were permissible only with a 60 percent vote of approval in special election called for that purpose. Even under this special circumstance property tax yields could then be raised no more than 3 percent than previous levels. The initiative caused a great deal of concern for many education policy makers in the state because of the potential effects of the amendment on education funding. Fortunately for the initiative opponents, it was soundly defeated in a statewide election.³⁷

More modest property tax reform measures, however, passed in statewide initiative elections in November, 1996. In addition to the amendment restricting assessment levels discussed previously, two other initiatives passed. The first restricted increases in fair cash value of real property for tax purposes to no more than 5 percent per taxable year.³⁸ The second provided a circuit breaker provision, allowing generous homestead exemptions for property owners 65 years of age or older on limited incomes.³⁹

Capital outlay and Debt Service

Currently, the state provides no financial support to local school districts to defray capital outlay costs. Some of the dollars raised for capital outlay are derived from current revenues, though the bulk are derived through bonded indebtedness. Bond issues for local districts, typical of many states, are passed only after a laborious process delineated in statute,⁴⁰ and any bond issue must have the approval of at least 60 percent of the voting electorate for approval. With passage of a bond issue the sinking fund levy is instituted to service the debt.

Conclusion

The struggle funding at least minimal educational programs for Oklahoma continues. State policy makers struggle to find sufficient levels of revenue to fund statewide education reform, while local district policy makers continue to stretch scarce local dollars in the face of the tax reduction mood of the nation. Unfortunately, despite well intentioned efforts to provide and fund a reformed educational program in the 1990s, Oklahoma remains among the lowest five of the states nationally in terms of per-pupil education funding.⁴¹

Endnotes

- 1 The reform discussed herein was passed by during an extraordinary session of the 1989 Oklahoma Legislature, Ok. Laws 1989, 1st Ex. Sess., c. 2. The official title was the Oklahoma Educational Reform Act, though it is more commonly known as HB 1017. Most of the provisions, with some slight modifications, have been incorporated into Oklahoma Statutes. The exception were some of the provisions for increased funding for education, primarily through state dedicated sources. These increases failed a statewide vote for constitutional amendment on June 26, 1990 (H.J.R. No. 1005, State Questions 634, 635, and 636).
- 2 Ok. Laws 1989, 1st Ex. Sess., c. 2, sec. 2.
- 3 Ibid., sec. 6.
- 4 Ibid., sec. 3.
- 5 Ibid., sec. 15.
- 6 Ibid., sec. 18.
- 7 Ibid., sec. 19.
- 8 Ibid., sec. 23.
- 9 Ibid., sec. 25.
- 10 Ibid., sec. 28.
- 11 Ibid., sec. 28.
- 12 Ibid., sec. 34.

- 13 Ibid., sec. 44-49.
- 14 Ibid., sec. 50.
- 15 Ibid., sec. 60.
- 16 Ok Const. art. XIII sec. 1.
- 17 Ok Const. art. XIII sec. 1a.
- 18 70 O.S. sec. 18-101.
- 19 Beginning in Fiscal Year 1997, ADM for the foundation formula is additionally weighted utilizing the teacher degree and experience index.
- 20 70 O.S. sec. 18-201(B)(1,2).
- 21 The exceptions were first/second grade weights, changed from 1.351 to 1.317 in FY 1991; and third grade weight, changed from 1.017 to 1.051 in FY 1991. Additionally, beginning in FY 1997 the early childhood weights were changed from .5 to 1.3.
- 22 See 70 O.S. sec. 18-201(B)(3).
- 23 Beginning in FY 1997, districts may choose the higher weighted ADM from the previous two fiscal years or the current year weighted ADM.
- 24 70 O.S. sec. 18-200(B)(1).
- 25 70 O.S. sec. 18-200(B)(2)(a).
- 26 Ok. Const. art. X sec. 9(d-1).
- 27 Ok. Const. art. X sec. 9(d).
- 28 Ok. Const. art. X sec. 9(a).
- 29 70 O.S. sec. 18-200(B)(3).
- 30 The exceptional districts were Laverne at \$1200.58 per weighted ADM; Beaver at \$1211.42; Optima at \$1213.77; Reydon at \$1315.23; Leedey at \$1404.72; Straight at \$1428.55; Hammon at \$1484.31; Frontier at \$1585.53; Cheyenne at \$1607.42; Sweetwater at \$2162.25; and Garrett at \$2424.96.
- 31 The exceptional districts were Optima, which received a total of \$1384.89 per weighted ADM; Straight at \$1594.65; Frontier at \$1698.81; and Garrett at \$2662.95.
- 32 Ok. Const. art. X sec. 10.
- 33 Ok. Const. art. X sec. 26, 28.
- 34 See Alexander Holmes, "Property Tax Reform: Fair at Last?" in *Property Tax in Oklahoma: Current Issues and Recent Reforms* (Oklahoma City, OK: Oklahoma 2000, 1990).
- 35 State ex. rel. Poulos v. State Bd of Equalization, 646 P.2d 1269 (1982); Ok. Laws Chap. 162 (HB 1750), 1988; Ok. Laws Chap. 321 (HB 1388), 1989.
- 36 Enrolled House Bill 2198, State Question 675. Article 10 section 8 of the Oklahoma Constitution was amended effective January 1, 1997.
- 37 See Jeffrey Maiden, "In Re Initiative Petition 362 State Question 669: State Supreme Court Refuses to Render an Ex Ante Ruling of Unconstitutionality of a Statewide Property Tax Initiative," *NOLPE Notes* vol 31 no. 6.
- 38 Enrolled House Bill 2198, State Question 676. Section 8B was added to Article 10 of the Oklahoma Constitution effective January 1, 1997.
- 39 Enrolled House Bill 2198, State Question 677. Section 8C was added to Article 10 of the Oklahoma Constitution effective January 1, 1997.
- 40 62 O.S. et. seq.
- 41 National Center for Education Statistics, *National Public Education Financial Survey* (Washington, D.C.: U.S. Department of Education NCES, 1996).

General dissatisfaction may lead to legislative efforts to completely revamp school finance.

Texas Public School Finance, 1997

Catherine Clark

Introduction

In 1993, the Texas Legislature enacted far-reaching school finance reform to resolve the longstanding *Edgewood* school finance equity lawsuit.¹ Senate Bill 7, the resulting reform bill, was signed on May 31, 1993. In it, the system retained the two-part school finance equalization program enacted in 1984 and refined over the previous decade. The law also retained the foundation program formula weights and adjustments that characterize the Texas system. But the reform law made major changes to the treatment of school district property wealth, imposing tax base reductions and tax rate caps. These changes leveled down the revenue-generating capacity of school districts and reduced the range of wealth-related disparities between poor and wealthy school districts. In January 1995, the Texas Supreme Court declared the school finance system created under Senate Bill 7 to be constitutional.² Not wanting to tinker with success, the Texas legislature permitted the elements of Senate Bill 7 to survive intact when it rewrote the Texas Education Code in 1995. The only new school funding element that resulted from the reform was a facilities grant program.³ This report describes the current system of public school finance in Texas. It includes a brief assessment of the equity of the system, and a review of issues facing Texas as it continues to struggle to provide equitable and adequate support for schools.

The Foundation School Program

Tier I funding. The funding structure for the Texas Foundation School Program has two parts or tiers. The first tier is a traditional foundation program with a required minimum tax rate of 86 cents per \$100 of taxable value and a foundation level calculated to meet specific educational program costs and district needs. Determination of the foundation level for each district begins with a Basic Allotment set in statute. Currently, the basic allotment is \$2,387 per student. The level of this allotment remains a policy decision and, despite attempts to quantify it so that it represents the actual cost of a basic regular education program, the level remains low.⁴ The formula calculations adjust the Basic Allotment upward for district size and for an index to correct for the cost of education in different regions of the state. The cost of education index tends to increase the basic allotment for urban area school districts because it is keyed to salary costs within a region. Texas currently provides a small-district adjustment for districts with fewer than 1,600 students in average daily attendance (ADA).

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There is a mid-sized district adjustment for districts with ADA of between 1,600 and 5,000. Texas also provides an additional adjustment to districts that are both small and sparse. After both cost and size adjustments are computed, the Adjusted Basic Allotment ranges from \$2,487 to \$4,185 for Texas' 1,044 school districts.⁵

Each district's Adjusted Basic Allotment is applied to student enrollment in different programs.

Regular Program. The regular program allotment is determined by multiplying the number of regular education students times the Adjusted Basic Allotment. There is no special weighting associated with regular education, and the adjusted allotment is the same for all grade levels within a district.

Compensatory Education Program. Texas provides additional compensatory education funding to school districts. Calculation of the amount is keyed to the number of students disadvantaged by a poverty background, but districts are not required to spend the allotment on those particular students. Instead, districts identify at-risk students and develop appropriate programs to supplement their education. For each child identified for participation in the federal school lunch program, a district is entitled to an annual allotment equal to the Adjusted Basic Allotment times 0.2. In other words, compensatory education provides an additional 20 percent on top of the regular foundation program allocation. Children identified for the compensatory education allotment are not counted for the regular education allotment.

Bilingual Education Program. For each students in a bilingual education program, the district is entitled to an annual allotment equal to the Adjusted Basic Allotment multiplied by 0.1, or a 10 percent increase. Students who are both poor and bilingual generate a larger total allotment as a result of the two needs.

Gifted and Talented Education Program. Up to five percent of students within a district may be identified to qualify for gifted and talented education. The district's gifted and talented education allotment is equal to the Adjusted Basic Allotment times 0.12. This result is multiplied by the number of eligible students.

Vocational Education Program. Vocational education in Texas is now called "career and technology education." For each full-time-equivalent (FTE) student in an approved career and technology education program, the district is entitled to an annual allotment equal to the Adjusted Basic Allotment multiplied by 1.37.

Special Education Programs. Students in special education are served in instructional arrangements, each of which has a different funding weight. FTE student counts are determined for each arrangement, then the FTE is multiplied by the weight for the arrangement. The weight for resource room is 3.0, speech therapy is 5.0, homebound is 5.0, hospital class is 3.0, self-contained mild and moderate is 3.0, self-contained severe on a regular campus is 3.0, off campus instruction is 2.7, nonpublic day school is 1.7, and vocational adjustment class is 2.3. The weight for mainstreamed students is 1.1 applied to ADA rather than FTE. Weighted FTEs and mainstream ADA are multiplied by the Adjusted Basic Allotment.

To the Tier I foundation program total is added an allotment for transportation cost that the state determines using reported bus routes and a schedule of rates per mile. The Tier I foundation program total allotment is the sum of all the program costs. Program costs, in turn, are affected by size and

cost adjustments to the Basic Allotment. Once a district's foundation program allotment is calculated, the state determines the required local share and then the state share.

Prior to determining state share, Texas imposes limits on administrative costs. The commissioner of education is responsible for determining a cost ratio, or allowable percentage, of administrative costs for different district size groups. The administrative cost ratio ranges from 0.11 for districts with 10,000 or more in ADA to 0.26 for districts with ADA of less than 500. Districts that exceed the limit are notified so that they can reduce costs prior to the close of the fiscal year. The state will deduct from Tier I an amount equal to the amount by which the administrative costs exceed the limit in those districts that do not comply with the limitation.

Tier I Financing. The local share or "local fund assignment" of the first tier of the foundation program is determined by multiplying the prior year's total taxable property value by a rate of 86 cents per hundred dollars of value.⁶ The resulting local share is subtracted from the foundation program cost of Tier I, and the remaining amount is state funding. In 1995–96, Tier I local costs were \$5.2 billion and state aid was \$6.5 billion.

The state pays aid from revenue in the general fund and the Available School Fund. The Available School Fund is a constitutionally dedicated fund that must be distributed, in part, on a per-student basis. The 1995–96 per student distribution, based on earnings from the Fund, was about \$300. High-wealth districts that receive no foundation program state aid continue to receive the per-student allotment because the constitution requires it. The total amount of revenue "lost" to high wealth districts is about \$26 million, or one-tenth of one percent of the total budgeted expenditures for public education in Texas. The persistence of this disequalizing flat grant is debated briefly each legislative session. However, resolving the issue by denying the allotment to high-wealth districts requires a constitutional amendment.

Tier II Funding. In 1989, the Texas legislature replaced the percentage equalizing second level of the finance program with a guaranteed-yield funding structure. Tier II provides all districts the ability to raise similar revenues above the first tier at similar tax rates. The higher the tax rate, the more revenue the district will generate per student. In 1995, Texas set the guarantee at \$21.00 per penny of tax per student (or a guaranteed wealth base of \$210,000 per student).⁷ Districts set their tax rates at the desired level above 86 cents, but there is no requirement for participation in Tier II. Local tax levies yield as much as they can, and state aid will make up the difference between the guarantee and what the district can generate through its own tax base. The state limits its participation to 64 cents. The taxes that make up Tier II can be maintenance taxes or debt services taxes. Districts that are able to raise the guarantee entirely through local property taxation (districts that have wealth between \$210,000 and \$280,000 per student) do not receive state aid. Districts with wealth in excess of \$280,000 per student must redistribute their wealth according to one of the options described below. The current formula for Tier II results in 85 percent of Texas students receiving the \$21.00 minimum guaranteed revenue per penny of tax. The remaining students are in districts that are able to obtain more revenue for the same level of tax effort. In other words, districts above \$210,000 in wealth per student can generate and spend unequalized revenue. Some sources refer to this as Tier III, local enrichment.⁸

Tier II Financing. Tier II provides equal access to funding for tax effort above the minimum required in Tier I. In order to determine tax effort, tax collections that exceed the local share of Tier I are divided by the taxable property value for the prior year. The result is a tax effort measure which actually drives Tier II funding. To the extent that the local tax effort produces

less than \$21.00 per penny per student, state aid makes up the difference. For purposes of Tier II funding, the student count incorporates special program participation.⁹ State aid for Tier II was \$1.9 billion and local support in Tier II was \$3.4 billion in 1995–96.¹⁰

Tax Rate Limits. Texas tax rates are expressed in dollars and cents. They are applied to the taxable value of property expressed in multiples of \$100. In 1995, the average total tax rate in Texas school districts was \$1.41 per \$100 of value. Texas places statutory limits on school tax rates. The limit for the maintenance and operations (M&O) tax rate is \$1.50. A few districts have rates in excess of this amount because they raised the rate prior to enactment of the statute and they have a voter authorization to tax at that higher level. Several Texas school districts have voter authorization for M&O tax rates that are less than \$1.50. The large district of Arlington (50,000 ADA) is one notable exception at a \$1.35 authorized limit. The statewide average M&O rate for 1995 is about \$1.23. Texas also limits the tax rate school districts can adopt for debt service to \$0.50. The 1995 state average debt service tax rate is about \$0.18. Recall that the school finance equalization system is tied to a total tax rate of \$1.50 (86 cents in Tier I and 64 cents in Tier II).¹¹ Districts with wealth less than \$280,000 per student and with tax rates between \$1.50 and \$2.00 generate unequalized local revenue, usually for debt service.

Leveling Wealth to Create Equity. The key component of legislation enacted in 1993 was the requirement that school districts above a wealth level of \$280,000 per student take one of five permissible steps to reduce their wealth. Districts may (1) consolidate with another school district to reduce wealth, (2) detach property from the tax roll and cause it to be attached to the tax roll of a low-wealth school district, (3) buy attendance credits from the state, (4) contract for the education of students in another district or districts, or (5) conduct an election and form a consolidated tax base with another district or districts.¹² By offering options rather than a single mandate, legislators avoided the problems that mandatory recapture and the appearance of a state property tax present.

Within months of passage of the law in 1993, all 98 affected school districts had taken appropriate action to reduce wealth and comply with the law. Most districts selected options 3 or 4. Option 3 is easily accomplished by writing a check to the state to purchase attendance credits. By increasing the number of students, the district effectively lowers the wealth per student. Option 4 involves contracting with other school districts to finance educational programs. This approach is attractive because high-wealth districts maintain more contact with districts they help. However, low-wealth districts with contracts do not receive all the money as extra resources. Most redistributed revenue received by low-wealth districts offsets state aid. In fact, the resulting shift of per-student wealth and revenue from local districts results in roughly \$350 million of local tax money redistributed through the school finance system and counted as state aid.

In 1995, lawmakers rewrote the Texas Education Code, making major changes in governance, administration of educator certification, and student discipline among other requirements. However, the new Code retained the wealth equalization options. For the 1996–97 school year, 92 districts have reduced their wealth to the required level. Most of them have purchased attendance credits from the state because there is now a fiscal incentive to do so. A few districts pay for the education of non-resident students by supporting summer enrichment, alternative education programs, and other instructional programs.

Many high-wealth districts that had relatively high state and local revenue per student before the wealth reduction legislation passed are permitted to return to those levels under a

hold harmless provision. In exchange, districts must maximize local tax effort and purchase attendance credits from the state. Currently, 45 school districts participate in the hold harmless option, reducing the amount recaptured by over \$50 million per year.

Equity Results

According to simulations conducted by the Texas Center for Educational Research,¹³ in 1995–96 over 500,000 students (14 percent) are in school districts with revenues per pupil at or above \$5,375. The same number attend school in districts with revenues less than \$4,426. The remaining 2.5 million students are within a revenue range of \$4,426 and \$5,375. If every district taxed at the level of \$1.50, the gap between the poorest and the wealthiest district would be \$600. The Texas supreme court acknowledged the \$600 revenue gap in its 1995 ruling but determined that evidence established that “all districts can attain the funding for a general diffusion of knowledge at a lower tax rate.” Since the state has a duty to provide equal access to revenue to provide funding for a general diffusion of knowledge, the \$600 gap at \$1.50 does not represent a violation of the Texas Constitution, according to the court.¹⁴ Low-wealth school districts are dissatisfied with this reasoning and argue that \$600 is a pernicious gap because it permits more advantaged districts to generate roughly \$20,000 more per classroom than poor districts.¹⁵

Statistical measures provide additional information about the equity of the Texas system. The coefficient of variation is a measure of revenue disparity. In 1995–96 it measured 0.0970. This means that about two-thirds of all students attend school in districts with revenue within 9.7 percent of the state average revenue, and about 95 percent of the pupils are in districts within 19.4 percent of the state average. The slope (weighted by the number of observations) is 0.0021, and the elasticity is 0.0520. Perfect wealth neutrality would exist if the slope and elasticity were zero. Lastly, the correlation coefficient measures the strength of the relationship between revenue and wealth. In 1995–96, it was 0.3905. The correlation coefficient squared is a measure of the proportion of change in revenue that is attributable to variation in wealth per pupil. In 1995–96, about 15 percent of revenue variation (0.1524) was due to school district wealth. The remaining 85 percent is due to other factors. There are three major sources of variation in addition to wealth: lack of equalization between wealth levels of \$210,000 per pupil and \$280,000 per pupil in Tier II, variation due to tax rates that exceed \$1.50, the hold harmless provision, and variation in tax rates among districts with less than \$210,000 wealth per pupil.

Issues

Tax Reform. School finance in Texas continues to be a shared responsibility between the state and local taxpayers. Independent school districts have their own locally elected school boards that have the power to levy and collect property taxes within limits set in law. However, even with biennial efforts by the state to keep up with rising enrollments, the requirement to provide a system that is “substantially financed through state revenue sources” has been difficult to meet. To fund teacher salary increases, new programs, technology, facilities, and inflation, school districts have drastically increased property tax rates and levies. Although state revenue for public education increases each year, it has not kept pace with increases in local property taxes.¹⁶

Approximately 42 percent of school district revenues come from state sources. Another 8 percent come from federal program revenues. The remaining 50 percent comes from the local property tax. Clearly, the property tax plays an important role in Texas school finance. In fact, from 1984 to 1996, the

school property tax levy increased 258 percent, from \$3.6 billion to \$9.3 billion.¹⁷ Parallel to the increase in tax levies, property tax rates have shot up dramatically, from about 60 cents per \$100 of taxable property value to nearly 1.41 in 1995.¹⁸ As a result of the dramatic rise in property tax support for schools, Texas has seen the state’s share of funding slip to 42 percent from a little over 50 percent in the mid-1980s.

These conditions provided the backdrop for two campaign pledges of Texas Governor George Bush. He pledged to work to increase the state’s share of school funding to 60 percent—a share that could be deemed “substantial.” He also pledged to provide Texans with significant property tax relief. In early 1996, effort was directed toward identifying a source of revenue to replace the more than \$9 billion school property tax levy. A group of experts was assembled to study revenue sources. When the governor set the income tax off limits for consideration, identification of a new source to replace such an enormous source of taxes proved difficult. The experts identified a business activity tax (similar to a value added tax) of three to four percent; a gross receipts tax of between one and two percent; or nearly double the current 6.25 percent sales tax.¹⁹

Realizing that total elimination of the school property tax is unrealistic, lawmakers are considering less drastic measures. Among the taxpayer relief mechanisms under consideration are relief from school taxes through homestead exemptions, some business property tax exemptions, and reduced property tax rates. It is also possible that legislators might impose more voter control over the school tax rate-setting process, with voter approval of the local tax rate. To replace lost revenues, policymakers are discussing small increases in the sales tax and a new business activity tax. If the business activity tax were enacted, the current tax on business (the Texas franchise tax) would be repealed. Lawmakers are considering whether to replace dollar-for-dollar lost local revenue or whether to put “replacement” revenue into the system through increasing the guaranteed yield above \$21.00 or increasing the maximum Tier II rate to a level above 64 cents. These issues are under discussion in the 75th legislative session (1997).

Property tax reform and increasing the state share of school support go together. If lawmakers provide dollar-for-dollar replacement of lost tax revenue with state aid, along with controls to prevent property taxes from rising in the near future, the state’s share will automatically increase. Estimates are that a replacement of \$2 billion of local revenue by \$2 billion of state revenue would increase the state share to about 57 percent.²⁰

Enrollment Growth. Each year Texas struggles with the requirements of increasing enrollment. The Texas Education Agency estimates that enrollment will grow by 73,000 in 1997–98 and by an additional 77,000 in 1998–99. At an average cost per student of \$4,934, this amounts to an additional \$1.1 billion over the course of the biennium. Growing enrollment will further strain school facilities in Texas and increase school district debt as districts build new schools. Fast-growing school districts face a particularly difficult situation. Enrollment growth usually brings growth in the property tax base, but the equalization system simply reduces state aid to offset that growth. In many districts, student growth is outstripping even property wealth increases, and some districts are at or near the statutory tax rate and cannot raise taxes to provide appropriate instructional services to students when state aid declines. Fast-growing districts have banded together to press the Texas Legislature for relief in the form of an adjustment to the foundation program.

School Facilities Financing. It has been a continuing source of concern among Texas educators that state support for facility construction and debt service has been weak or nonexistent. The original court opinion in the Texas school finance litigation clearly envisioned that support for facilities

and equipment be included in the equalized program of finance. Travis County District Court Judge Harley Clark wrote in 1987:

The Court hereby declares and enters Judgment that the Texas School Financing System . . . is UNCONSTITUTIONAL AND UNENFORCEABLE IN LAW because it fails to insure that each school district in this state has the same ability as every other district to obtain, by state legislative appropriation or by local taxation, or both, funds for educational expenditures, including facilities and equipment, such that each student, by and through his or her school district, would have the same opportunity to educational funds as every other student in the state, limited only by the discretion given local districts to set local tax rates . . .²¹

In response to *Edgewood*, the Texas legislature passed the Public School Facilities Funding Act in 1989, establishing a School Facilities Aid Fund and a School Facilities Aid Reserve Fund. Neither fund was actually created. The state tried again in 1990, and the legislature established a facilities grant program which was not funded. In 1991, the legislature took the step of identifying facilities and enrichment as the purpose for Tier II funds, and it also provided \$50 million for an emergency facility grant program. The grant program was not renewed in the next biennium. 1991 also saw the completion of the first school facilities inventory since the Depression. The inventory estimated \$2 to \$3 billion in current need (depending on the definition of "need") and an additional \$480 million in annual need for construction and renovations. In 1993, the legislature passed Senate Bill 826 which allowed school districts to use lease-purchase agreements to acquire facilities. None of these efforts provided general school facility support.²²

In 1995, Texas began to contribute to school construction needs through a facilities assistance grant program included in the omnibus education reform bill that rewrote the Education Code. For the 1996–97 biennium, the state appropriated \$170 million, a small fraction of the estimated \$4.6 billion needed currently to renovate and replace space, replace portables, and deal with growth and overcrowding.²³ Districts are eligible to submit construction programs for approval if they have wealth below an established level and if the M&O tax rate is above \$1.30 or the debt service rate is at least \$0.20. Each eligible district is limited to one award per biennium, and the maximum project supported is the greater of \$266 per student or \$500,000. Over 560 districts were eligible for grants, but only 276 received authorization to apply for grants because of program funding insufficiencies. To fund all 566 eligible districts would have required \$425 million for the biennium.²⁴

The Legislative Budget Board has recommended \$170 million for the 1998–99 biennium and the commissioner of education has made a biennial budget request of \$300 million for facilities. Given the press for property tax reform and the reluctance of legislators to raise taxes beyond what it may take to replace property tax revenue, it appears unlikely that public school facilities will receive a funding boost beyond the current level in the next biennium.

Outlook for the Future

The press for property tax reform will serve to change school finance in fundamental ways. In order to preserve school finance equity, lost revenue needs to be replaced by state revenue, the first year and every year thereafter. A more likely consequence of tax reform will be constraints on all school districts to keep taxes lower. While keeping taxes low and receiving only replacement revenue, districts will search for resources to fund facilities, employ teachers to serve growing enrollments, and to keep up with inflation. Of course, fiscal distress is not assured, and the legislature could provide addi-

tional funds for facilities, salaries, and other needs. The challenge is to help taxpayers understand that, whatever mechanism the legislature selects for lowering property taxes, funding education will continue to require the participation of Texas taxpayers, whether they pay local, business, sales, or other forms of taxes.

Under current law Texas has a constitutional school finance system characterized by a unique system for forcing high property wealth districts to level down their wealth by sharing it with other districts or the state. According to the court, if the state provides funds sufficient to support the "general diffusion of knowledge," measured by satisfactory performance within the state's accountability system, the system remains constitutional. The funding level in 1994, coupled with wealth reduction, appeared to the court to be satisfactory. However, high-wealth school districts are dissatisfied with the circumstances in which they find themselves, and low-wealth districts find the existing revenue gap unacceptable. Even citizens in districts not affected by the wealth reduction options are opposed, in principle, to sending local tax dollars to be spent someplace else in Texas. General dissatisfaction may lead to legislative efforts to completely revamp school finance—if not in the 1997 legislative session, in the session after that.

Endnotes

1. *Edgewood Independent School District, et al. v. William N. Kirby, et al.*, Cause No. 362,516 (250th Dist. Ct., Travis County, Texas, 1987); *Edgewood Independent School District, et al. v. William N. Kirby, et al.*, 777 S.W.2d 391 (Tex. 1989); *Edgewood Independent School District, et al. v. William N. Kirby, et al.*, 804 S.W.2d 498 (Tex. 1991); and *Carrollton-Farmers Branch Independent School District, et al. v. Edgewood Independent School District, et al.*, 826 S.W.2d 488 (Tex. 1992).
2. *Edgewood Independent School District, et al. v. Lionel R. Meno, et al.*, 893 S.W.2d 498 (Tex. 1995).
3. Texas Education Code, Chapter 42, Subchapter H.
4. Accountable Costs Advisory Committee, *The 1985–1986 Accountable Costs Study and Recommendations of the Accountable Costs Advisory Committee to the State Board of Education* (Austin: Texas Education Agency, October 1986); State Board of Education, *1987–1988 Accountable Costs Study* (Austin: Texas Education Agency, November 1988); *Public Education Special Cost Studies Staff Report* (Austin: Legislative Education Board, December 1992); *Foundation School Program Funding Elements* (Austin: Legislative Budget Board, October 1994).
5. Virgil E. Flathouse, "School Finance in Texas" (Austin: Texas Education Agency, October 1996). (Draft)
6. The Texas Comptroller of Public Accounts, Property Tax Division determines this value annually.
7. Texas uses a weighted student calculation in Tier II. Weighted ADA (WADA) is the sum of all foundation program allotments minus transportation and 50 percent of what flows through the CEI, divided by the Basic Allotment.
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9. The weighted student concept applies here in computing wealth per student. See footnote 7.
10. Daniel T. Casey, *The Basics of Texas Public School Finance*, sixth Edition, TASB, 1996, pp. 42–49.

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12. Texas Education Code Chapter 41 addresses the equalized wealth level.
13. Laurence Toenjes, "School Finance Simulations—Changing the Chapter 41 Wealth Level," (Austin: Texas Center for Educational Research, 1996).
14. 893 S.W.2d 450 (Tex. 1995) at 13.
15. *Equity Center News & Notes*, Craig Foster, ed. (Austin: Equity Center, October 1996).
16. Texas Legislative Budget Board, *Fiscal Size Up, 1997-98 Biennium* (Austin: Legislative Budget Board, 1996), p. 6-8.
17. Casey, *The Basics*, p. 105.
18. Casey, *The Basics*, p. 46.
19. Staff Work Group, *Report of the Staff Work Group on Property Tax Relief*, Part I (Austin: Governor's Office of Budget and Planning, March 1996), p. i.
20. Daniel T. Casey, "Impact of Two Property Tax Replacement Scenarios" (Austin: Texas Association of School Boards, October 1996).
21. *Edgewood Independent School District, et al. v. William N. Kirby, et al.*, Final Judgment, June 1, 1987, p. 5.
22. Lisa Dawn and Michele McLaughlin, "Financing Public School Facilities in Texas" (Austin: The Equity Center, December 1996), pp. 7-10.
23. *Ibid.*, p. 36.
24. Richard Kirkpatrick, "Facilities assistance plan upsets many school officials." *Equity Center News & Notes*, June 1996.

Utah's plan for funding public education enjoys widespread political support among a broad constituency of legislators, business people, and parents.

Utah's School Finance Plan

Patrick Galvin

Introduction

In 1973, Utah substantially changed its plan for the finance of public education to resemble that which exists today: a modified foundation plan. For more than 20 years this plan has been viewed as a strong, workable, and equitable school finance plan. Utah is one of a few states in the country that has not had its school finance plan challenged in the courts (Levine, 1991).

This paper describes Utah's school finance plan. First, the basic components of the plan are introduced along with the principles that undergird it. The state's economy and population growth are then reviewed, since these issues so fundamentally affect the operation of a school finance plan. Next, the discussion addresses details of how revenues for public education are raised and how these revenues are subsequently distributed. The paper concludes with a review of emerging funding strategies within the state as well as claims about the equity and efficiency of Utah's school finance plan.

The Basic Plan for Funding Public Education IN Utah

The state plan for financing public education in Utah, as stated in its Legislative Charter, is based on three premises:

1. that schools should provide a minimum program to ensure all students reasonably equal educational opportunities regardless of their place of residence in the state and of the economic situation of their respective school districts or other agencies (Minimum School Program Act, 53a-17a-102 [1]).
2. that although the establishment of an educational system is primarily a state function, school districts should be required to participate on a partnership basis in the payment of a reasonable portion of the costs of a minimum program (Minimum School Program Act, 53a-17a-102 [2]).
3. that each locality should be empowered to provide educational facilities and opportunities beyond the minimum program and accordingly provide a method whereby that latitude of action is permitted and encouraged (Minimum School Program Act, 53a-17a-102 [3]).

Thus the purpose of the state finance plan is to ensure equity and define the manner in which the state and the school districts pay their respective share of the costs of a minimum school program. These arrangements do not limit districts from providing additional services; indeed, the Minimum School

Program Act specifically encourages districts to exercise their right to provide services above the minimum or basic program.¹

The plan for dividing the cost of funding the minimum school plan is relatively straightforward:

1. Each school district shall impose a minimum basic tax rate on all taxable, tangible property in the school district and shall contribute the tax proceeds toward the cost of the basic program defined by the state;
2. Each school district may also impose a levy for the purpose of participating in the leeway programs provided for by the state;
3. The state shall pay the balance of the total costs (Minimum School Program Act, 53a-17a-136)

The rate for the minimum required levy is set each year by legislative action and then levied against local property wealth within each of Utah's 40 school districts. For 37 of Utah's 40 school districts, the revenues raised from this local property tax divided by the number of students enrolled are less than the per pupil guarantee made by the state as part of the minimum school program. The value of this guaranteed funding level, known as the Weighted Pupil Unit, is set each year by legislative action. As part of the state's effort to equalize funding for public education, it contributes the difference for these districts, thus ensuring that all students have, at a minimum, the same level of funding. Figure 1, provides an illustration of the idea for purposes of clarification.

Figure 1:
State Equalization Program Basic Formula



Obviously the foundation grant is only part of the financial plan by which public education is funded in Utah. Allocations for essential programs such as special education, youth at risk, and for capital facilities are all added on to the funds supplied by the basic funding grant. Like the foundation grant the arrangements for governing the cost sharing and distribution of federal, state and local revenues are all determined by individual formulae. Indeed, there are 38 line items in Utah's Minimum School Program Act, which is renewed each year by legislative action. Each of these line items has their own formula. The details of some of these formulas are discussed later in the paper.

To this point Utah's basic school finance plan has been described as basically a foundation type-funding program. It is probably more appropriate to describe the finance plan as a modified foundation grant program. In general, three features of the Utah's school finance plan distinguish it from the conventional foundation plan. First, Utah's foundation grant is weighted: Utah's kindergarten students only receive 55 percent of the value of the WPU, since they attend only a half-day. Students in grades 1 through 12 receive the full value of this basic foundation grant (the WPU). Recapture techniques provide the second fundamental difference. Property-rich districts are required to give up any revenue raised by the minimum school levy above the value of the WPU set by the legislature. The third distinction is that the state partially equalizes two of the twelve local property taxes allowed by the state, thus reducing, in part, the unequalizing effects of these additional revenues.

Per pupil expenditures for public school instruction in Utah are among the lowest in the country. This fact is not due to a lack of willingness on the part of taxpayers, local effort for public education is slightly higher than the national average, rather

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it has to do with the economic and demographic circumstances of Utah. While the purpose of this paper is to describe the finance of Utah's public schools, issues of economy and population are essential elements in that description. In the next section the growth of Utah's economy and population will be discussed.

Utah's Economy

Utah's Current Economic Prosperity

Utah has enjoyed 5 years of economic growth continuing through 1996. Factors positively influencing this growth include vigorous increases in construction of family housing as well as of commercial and industrial facilities, as well as expansion of high technology industries, tourism, financial, and service industries.

Job Growth

According to the 1996 Economic Report to the Governor, "Utah has experienced three consecutive years of job growth rates in excess of 5 percent and eight consecutive years of job growth rates of 3 percent or higher" (p. 4). Last year, 1995, Utah's job growth rate was 5.7 percent, the second fastest rate in the country.

Rising Incomes

Utah's personal income has increased steadily since 1990. Utah's 1995 personal income is up 9.5 percent from the 1994 measures. According to the 1996 Economic Report to the Governor, "From 1990 to 1995, Utah's inflation-adjusted per capita income has increased by about \$2,000, compared to an \$800 increase for that of the nation's" (p. 13). Despite this growth, Utah's 1995 average per capita income is still only 81.4 percent of the national average. This seeming contradiction is explained in part by Utah's population growth, and the fact that the ratio of workers to the number of dependents is the highest in the country (44 per hundred persons of working age compared to a national average of 31, U.S. Bureau of the Census, 1990).

Tax Collections

Tax revenues for fiscal year 1995 were the largest in Utah's recent history. According to the 1996 Economic Report to the Governor, "Unrestricted revenues in the state's general fund, uniform school fund, transportation fund, and mineral lease account increased in a rate, base, and inflation-adjusted amount of 10.4 percent" (p. 14). Additionally, Utah's gross taxable sales grew by 9.1 percent in 1996; in 1995 sales tax revenues grew by 9.7 percent.

The Future of Utah's Economic Prosperity

Authors of the Governor's 1996 Economic Report state "The Utah economy is expected to experience solid, above-average growth in 1996" (p. 27). This growth is consistent with the general economic vitality of all the Mountain Region states, where employment growth rate has become more than 3.6 times that of the national average. This growth is predicted to be broad-based, making Utah's economy more diverse and including expanded construction, high technology and tourism sectors. A fiscally conservative government augments this growth; Utah has been ranked by *Financial World* as the best managed state in the nation. The state of Utah continued to receive triple A bond rating from the nation's leading bond rating agencies—Moody's Investor Services, Standard and Poors, and Fitch (Economic Report to the Governor, 1996). In general, the economic outlook for Utah's economy is expected to hold above-average growth in the foreseeable future.

Structure of Utah's Population Growth

In the first five years of the 1990-decade, Utah's population grew at an average of 2.5 percent per year. This has made Utah one of the fastest growing states in the country. With population topping 2 million in 1997, the growth rate has recently slowed to about the national average with expectations of continued growth.

One of the consequences of this consistently high birth rates is that the people in Utah, on the average, are relatively young (the median age of 26.7 years is the youngest in the country). The percentage of Utah's population between the age

Figure 2:
Utah Demographic Summary: 1990 to 1997

Year	Total Population	Percent Change
1990	1,729,100	
1991	1,775,505	2.7%
1992	1,821,951	2.6%
1993	1,866,452	2.4%
1994	1,915,197	2.6%
1995	1,957,691	2.2%
1996	1,991,811	1.7%
1997	2,023,856	1.6%

Source: Economic Report to the Governor, 1996

5 and 17 years, for example, is the highest in the country at 25.6 percent compared to 18.7 percent nationally.² This youthful population means that the ratio of student aged dependents to employed adults is also the highest in the country. Thus, even a strong tax effort will still leave the level of revenues per student at low levels. These facts help to partially explain why Utah's per pupil expenditures per pupil are the lowest in the country while class sizes are the highest. Despite these circumstances Utah does well on many indicators of performance, an issue discussed in more detail in the final section of this paper.

Utah's strong economy has led to some speculation that the state's rapid population growth is due largely to in-migration; especially from economically depressed states such as California). The evidence suggests, however, that in-migration account for only about 20 to 30 percent of Utah's population growth. The remaining 70 to 80 percent is accounted for by the highest fertility rates in the country at 20.3 births per 1000 people compared to a 15.3 per 1000 U.S. average (Utah Foundation Statistical Summary, 1996).

Sources of Revenue

Three general taxes finance most of Utah's state and local government: property, sales, and income tax. Revenues from property taxes are used in Utah to support local government functions, such as public education. Utah's school districts are empowered to levy taxes on local property and do so to raise funds for the finance of public education. Revenues from the income tax are reserved, or earmarked, for state support of public education. Revenues from the sales tax are used for unrestricted support of general state government and projects.

Utah does not use a lottery to subsidize public education. Other state level sources of support include revenues from mineral extraction and public trust lands, but these represent only a small, although important, portion of the total.

Property and income taxes are, thus, the two main state sources of revenue funding public education. Federal grants represent the third main source of support for public education. Federal revenues accounted for 6.8 percent of the revenues during the 1994-95 school year. During this same year, state

government supplied 53.6 percent while the local share (revenues from property taxes) accounted for 39.6 percent of the total (Utah Foundation Research Report # 580, March, 1995, p. 394).

The strength of Utah's economy has resulted in record revenues for the last several years; total state revenues for FY 1996 were just over 5 billion dollars, a 8.5 percent increase from the 1995 fiscal year (Economic Report to the Governor, 1996). The inflation-adjusted increase in Utah's revenue, which include sales, income and property taxes, was 10.4 percent during the 1995 fiscal year. As a result, during FY 1994 and FY 1995, the legislature approved tax cuts totaling \$181 million. The largest portion of this tax reduction is a \$141 million property tax cut that occurred when the Legislature raised the residential exemption, lowered the minimum school program rate, and reduced the assessing and collection rate. The income tax rate was also reduced.

The above mentioned property tax cut helps explain why assessed valuation of property in Utah increased by 15.1 percent last year and property tax revenues declined by about 2 percent. Other factors constraining revenue collection are associated with the Truth-in-Taxation law, passed by Utah's 1995 legislature, which prevents local governments from reaping additional tax revenues due to increasing property values without public hearings and notices. This law essentially caps the revenues that can be generated by Utah's Basic Levy (foundation tax) for public schools. Consequently, the value of the basic levy floats relative to the estimates of the assessed valuation (Utah Foundation Research Report # 575, October, 1994). Additionally this legislation, which requires that all property be assessed at a 100 percent fair market value, provides homeowners with a 45 percent exemption (this means that residential homes are taxed at only 65 percent of their total fair market value). These legislative actions provide clear evidence of the fiscally conservative nature of Utah's politics.

Before discussing how revenues are appropriated to support public education, one additional note about Utah's tax structure is warranted. Utah's public school districts have 12 separate property taxes available to support the finance of public education. Eight of these support basic maintenance and operation services. The other four taxes provide support for capital outlay and debt services.

The rate for the statewide Basic Levy, which represents the district's contribution to the foundation grant ensured by the state, is set annually by the legislature. In the 1994-95 school year that rate was 0.004220 (or 0.422 percent of assessed valuation). In the 1995-96 school year this rate was reduced, because of the Truth-in-Taxation law, to a rate of 0.002640 (a 37 percent reduction). Interestingly, districts on the average did not compensate by increasing other taxes. Rather, of the 12 possible taxes available to school districts, ten decreased by about 5 percent. The other two were either unchanged or marginally increased.

These tax rate reductions were true even for the Voted Leeway and Board Leeway, which are subsidized by state funds to reduce the unequalizing effect of such leeways. The Voted Leeway is, as it sounds, a tax that is voted on by public referendum. The Board Leeway, introduced in the early 1990s, provides the school board with the authority to increase taxes without voter approval. These are important efforts on the State's part to maintain fiscal equity among Utah's 40 school districts.

Expenditures

State appropriations for public education were 1.864 billion dollars for the 1996-97 school year. This represents an 8.7 increase from the 1.7 billion appropriated for the 1995-96 school year. Appropriations for public education have long rep-

resented about 35 percent of the state's budget, and that has not changed despite Utah's booming economy. Thus, allocations for public education increase over time at about the same rate as increases in statewide revenues.

Utah's per pupil expenditures for instruction were estimated by the National Center for Education Statistics as \$3,670, compared to a national average of \$5,738 (1996, May). Historically, Utah's per pupil expenditure for instruction has been the lowest in the country, but if the National Center for Education Statistics data is correct, Arkansas now occupies that position with a 1995-96 expenditure of \$3,295 per pupil.

Utah's Minimum School Program provides support for four categories of service: (1) Regular Basic School Programs, (2) Restricted Basic School Programs, (3) Unrestricted Basic School Programs, and (4) Related to Basic School Programs.

The Regular Basic School Programs include K-12 support, as well as support for "Necessarily Existent Small Schools," professional staff, and administrative staff. The Necessarily Existent Small Schools funding provides additional resources to compensate for the dis-economies associated with small-scaled schools. Professional staff includes allocations for teacher salaries and benefits. Utah's costs for administration are among the lowest in the country. Funding for this category of services increased by 4.8 percent between the 1994-95 and 1995-96 school years. In the 1994-95 school year, these services accounted for 61.3 percent of the total state allocation. This percentage declined slightly for the 1995-96 school year to 59.6.

Restricted Basic School Programs include special education funding, appropriations supporting applied technology schools, and programs such as "Youth at Risk," "Adult Basic Skills," "At Risk Students," and "Class Size Reduction," to name 4 of the 13 line items. Funding for this category of services increased by 6.2 percent between the 1994-95 and 1995-96 school years. In the 1994-95 school year, these services accounted for 17.1 percent of the total state allocation. This percentage declined slightly for the 1995-96 school year to 16.9.

The Unrestricted Basic School Programs is a relative small grant of about 4.5 million dollars that provides unrestricted money for maintenance and operation of capital facilities. Funding for this category of services increased by 4.8 percent between the 1994-95 and 1995-96 school years. Funding for this category represents only 1.4 percent points of the total state allocation, which has not changed in the last several years.

Services supported in the Related to Basic School Programs category include social security and retirement, transportation, education technology initiatives, inservice education, as well as one time appropriations for classsize reduction and library services, to name just 6 of the 18 line items. Appropriations for this category of services grew by 18.8 percentage points and represented 19.8 percent of the total budget in 1994-95, and 21.8 percent of the 1995-96 budget.

Details of the specific funding formula are available from the Utah State Office of Education in their public Utah School Finance Reference Manual. As noted earlier allocations for the basic foundation grant (the value of the Weighted Pupil Unit in Utah) are based on the calculations of student attendance (average daily membership). These allocations are equalized so that every full time equivalent student receives the full value of the weighted pupil unit (\$1,739 in the 1996-97 school year).

Funding of Utah's special education program changed in 1990 from a level system that attempted to compensate districts for the services actually offered, to an enrollment based plus growth formula. The funds for special education, partially supported by federal grants, are added on to those generated by the basic foundation grant. As a matter of practice, total dis-

strict special education enrollments can not exceed 12.18 percent of total district enrollment. It is estimated that the average cost for educating special education students is 1.53 times the value of the Weighted Pupil Unit. This figure is multiplied by the district's enrollment growth factor plus its foundation enrollment (that which the district served in the 1989-90 school year).

Rather than belabor the funding details for each line item it seems more appropriate to highlight some of the more interesting funding arrangements within the state. In 1994-95, Utah's Legislature introduced a bill that would directly fund schools that were "highly impacted" by a large number of at risk students (see Galvin, 1995, for a full description of this legislation). The state identified five criteria for identifying "highly impacted schools:"

- High student mobility rates;
- Number of students applying for free school lunch;
- Number of ethnic students;
- Number of limited English proficiency students;
- Number of students from single parent families.

Forty schools, many of them in very rural areas, were provided an average of \$100,000 through this bill for highly impacted schools. The most interesting aspect of this funding arrangement is that it directly funds schools; most of the funds from the minimum school program go directly to school districts which then act as the fiscal agent for the state. The Highly Impacted School Program, as it is known, has now been funded three years. A full assessment of the program has not yet been completed, and may be difficult to quantify, but politically the funding plan has considerable support, partially because funding goes directly to the schools that need it for reasons identified and targeted by the Legislative committees that promoted the bill. Such targeted funding, which bypasses district administration, differ significantly from past funding practices.

Legislative support for Utah's MESA (Mathematics, Engineering, Science Achievement) Program represents another interesting variation in Utah's funding arrangements. MESA is funded with legislative money but is not a program governed by district policy; rather MESA is a statewide consortium between business, higher, and public education representatives. The statewide consortium (and not district authorities) control funds for the program, which are used to pay for teachers who assume additional responsibilities as MESA Program Advisors. The funding arrangements for MESA and for Highly Impacted Schools break the tradition of district control over state funds. When the legislature directly funds individual programs and schools, rather than providing districts with block grants to support such intentions, it increases the probability that its legislation intent are more directly addressed.

Another interesting funding arrangement has to with the emergence of college credit being given for student's completing high school programs. Advanced Placement (AP) programs around the country have long provided students completing AP courses with college credit. Recently Utah's legislature began funding its concurrent enrollment programs, where college professors or instructors teach required high school courses and students receive high school and college credit concurrently. The effort, according to Governor Leavitt, is to make the system more efficient by moving students more quickly through the educational system. The impetus for such programs, which includes a \$1,000 dollar voucher for higher education if high-school students graduate one year early, is also motivated by a concern for the cost of building new school facilities. Thousands of Utah's high school students are earning college credit by completing high school requirements. Utah's universi-

ties and colleges are required to accept these credits. The expected effect of these programs is equivalent to the creation of a new university but without the cost of additional facilities or faculty. Such a program is consistent with Governor Leavitt's proposal for a "Virtual University," where students could take courses via the Internet, thereby eliminating the need for the expensive mortar and brick required of traditional campuses.

There is considerable movement within Utah to promote interagency collaboration and family involvement in public education. These programs, like those above, are generally funded with relatively little money, but they reveal an innovative approach to the question of how education in Utah should be funded and governed. Funding for public education has traditionally been appropriated directly to school district offices; one of the intentions of funding individual programs and schools directly is to promote an equitable and efficient educational system. Such funding plans will require educators and policy makers to rethink the standards by which equity has traditionally been judged, since comparisons of district expenditures will not capture the full picture of public school finance. In the following section, a discussion of traditional equity studies within Utah is briefly covered.

Equity

Expenditures for instruction among Utah's 40 school districts range from \$1,944 to \$4,070 per pupil. These variations reflect, in part, the diseconomies of scale associated with small enrollment districts, where per pupil costs are driven up by fixed costs that can not be fully utilized because of limited enrollments and service patterns. Nonetheless, the correlation between district wealth and per pupil expenditures for instruction, a traditional school finance equity concern, is not strong: $r=0.35$ plus or minus a few points, depending on the year.

Studies like these (See Utah's School Finance Taskforce Study, 1990) have led Utah's educational leaders to describe the state's school finance plan as very equitable. Indeed, it is significant to note that Utah is one of the few states whose school finance formula has not been challenged in court (Levine, 1991). The perception that Utah's school finance system as equitable is a point of pride among many of Utah's school leaders (Utah Foundation, 1994).

More recent studies, such as those conducted by Lawrence and Freeman (1993), suggest that the measure of equity may be more problematic than is typically believed. Lawrence, an economist, relies on a method known as Data Envelopment Analysis for his study; this method is quite different than those typically relied upon by most school finance experts. In that study, Lawrence and Freeman conclude that funding inequities do exist among Utah's school districts, and that they are getting worse over time.

The evidence regarding school finance equity among Utah's 40 school districts is inconclusive. Currently the state provides about 75 percent of the funds necessary to support the minimum school program. In this respect, the state has gone a long way toward minimizing the relationship between school district wealth and the capacity to provide educational services. Districts and schools, however, are taking initiative in finding new sources of revenue: establishing partnerships, writing grants, getting volunteer help, and developing entrepreneurial revenue streams. These resources are generally "off budget" and hence, are not even considered in the equity debate. Yet these resources may be fundamental to the flexibility and responsiveness of districts as they develop productive programs. Thus, the ambiguity over measures of school finance equity may not be exclusively tied to the analysis of funds from the minimum school program. The extent to which school finance plans include all funds available to school districts, including off-budget items, is frequently overlooked as a

key equity issue. (See the publication from the National Conference of State Legislatures about school finance as an example of this issue, July 1996.) Additionally, these equity analyses often do not consider measures of productivity; an equitable system that is terribly unproductive or inefficient is a poor prospect for taxpayers and students.

Efficiency

A recent study, reported in *Education Week* (January 22, 1997) identified Utah's public school system as one of the more productive in the country. The basis for the study was evidence that Utah's per pupil expenditure for public education is among the lowest in the country while student indicators of achievement are consistently above national averages. Many of Utah's school districts are relatively large (over 20,000 students) and concentrated along a 100-mile corridor, known as the Wasatch Front. If the evidence from the study by *Education Week* does identify efficient school systems, then it may be that Utah's is the product of a high concentration of education, business, and social services enabling Utah's educators to get more from the resources available to them (economies of scale). It may also be that Utah's social structure, organized around the LDS church, which emphasizes community and family values, provides schools with the necessary social capital to be more productive. While speculation about the efficiency of Utah's school system is widespread, there are no systematic studies that substantiates these claims.

Summary

Utah's school finance plan is organized around a modified foundation plan. The plan does much to minimize the pernicious relationship between local district wealth and the capacity of school districts to provide their students educational services. Currently the state subsidizes about 75 percent of the minimum school program, equalizing the foundation grant as well as partially equalizing two leeway taxes. Taxpayer equity, in the last few years, has been substantially improved by better assessment and collection practices. Expenditures for public education, while among the lowest per pupil in the country, are associated with measures of student achievement above the national average. Despite Utah's booming economy, it is not likely that revenues for public education will grow rapidly enough to significantly change Utah's status as a fiscally conservative state. Utah's plan for funding public education enjoys widespread political support among a broad constituency of legislators, business people, and parents. It seems unlikely that either the constitutional basis of Utah's school finance plan, or its operational basis, will be challenged in the near future.

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Author Notes

- 1 The language is confusing here because the minimum school program refers to the all funds necessary to provide students with basic programs including special education, youth in custody and accelerated learning. The language of a minimum program is also used to describe the basic funding mechanism for financing the value of the Weighted Pupil Unit (the foundation grant).
- 2 More than 35 percent of the Utah's population is under 18 years of age.

The fiscal consequences of the change to a performance-based education system are particularly acute in Washington.

Financing K-12 Education in Washington State

Margaret L. Plecki

Introduction

This article portrays important features of Washington's school finance system. It first examines current and historical sources and levels of K-12 funding. Next, it analyzes school spending and outlines basic principles underlying Washington's system of collecting and distributing school revenue. School construction funding and the condition of school facilities are also discussed. The article concludes with a look at the fiscal challenges Washington is likely to face in the near future.

Revenue Sources

Money to operate Washington's public schools comes from state, local, and federal sources. For the 1995-96 school year, total state, local, and federal revenue exceeded \$5 billion.

Washington public schools derive the majority of their revenue from state funds. In 1995-96, state revenue comprised 79.3% of the total operating revenue for K-12 public schools, with local revenue at 14.2% and federal revenue at 6.4%. This heavy reliance on state dollars represents a dramatic change from two decades ago. In 1974-75, state revenue comprised only 47.3% of total general fund revenues for schools. This change in the level of state support resulted from the enactment of the Basic Education Act of 1997, which radically altered financing for Washington schools.

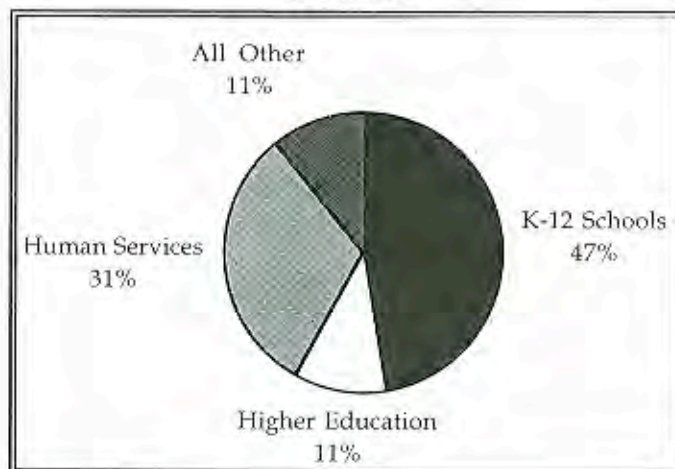
State revenue

Taxes represent 96% of Washington's general fund revenue. Retail sales and use taxes, estimated at \$9.2 billion for the 1995-97 biennium, compose the largest source of tax revenue for the state's general fund, accounting for 52.4% of all general fund tax receipts. The business and occupation tax provides the next most important source of state tax revenue. It is estimated to contribute nearly one-fifth (19.4%) of state general fund revenue. Finally, state property tax revenue is projected to constitute 12.8% of state general fund revenues for 1995-97.

The largest share of Washington's operating budget is devoted to K-12 education. For the 1995-97 biennium, nearly half of the state's general fund (47.3%) is appropriated to K-12 schools and programs. Figure 1 displays the state's percentage allocations to K-12 education, higher education, human services, and all other programs for the 1995-97 biennium.

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Figure 1
Washington State Operating Budget Allocation Percentages



Source: Washington State 1995-97 Operating Budget, GF-S

Of the total state general fund revenues for K-12 schools, approximately 95% is allocated for basic education. Basic education includes general apportionment as well as programs and services such as pupil transportation, special education, institutional education, transitional bilingual education, and the state's Learning Assistance Program. General apportionment (that is, the base allocation) comprises 71.1% of the state's general fund allocation. Figure 2 displays allocations for the 1995-97 biennium as amended in the state's 1996 Supplemental Budget and approved by the legislature on March 7, 1996.

Local revenue

In addition to the state revenue, local school districts may raise money locally through the property tax. These local taxes often are referred to as "special levies" (because they require local voter approval) or "excess levies" (because they exceed the state's 1% limit on property taxes). Four types of levies can be raised: (1) maintenance and operations (M&O), one or two year levies devoted to district operations, (2) debt service, multi-year levies used to pay principal and interest on general obligation bonds, (3) capital projects, one to six year levies used to pay for school construction or remodeling, and (4) transportation vehicles, one or two year levies used to pay for school buses or other school transportation needs. Maintenance and operations levies constitute the most frequently occurring type of levy. All levies require voter approval.

The past two decades have seen significant changes in the percentage of school revenue from local tax sources. In 1974-75, for example, excess general fund levies composed less than a third (32.23%) of total revenue. As a direct result of changes in the state's school finance formula, that figure fell to 8% by 1980-81. Since 1980-81, the percentage of total revenue from local tax sources has slowly and steadily increased. In 1995-96, local tax sources reached 14.3% of total revenue (see Figure 3).

The timber excise tax and local non-tax sources provide additional local revenue for education. All timber growing on privately owned land is exempt from property taxes. The state collects an excise tax on timber at the time of harvesting and distributes these revenues to local taxing districts which contain harvestable timber. Timber tax revenues for local districts in 1993-94 equaled \$6.7 million. These timber tax revenues are applied towards the district's local special levy amounts, thereby lowering the special levy property tax rates in those

Figure 2
1995-97 State General Fund Budget for K-12 Education

Program	Allocation (in thousands)	Percent of Total
*General Apportionment	6,428,005	71.11%
*Special Education	846,604	9.37%
*Pupil Transportation	328,753	3.64%
School Food Services	269,619	2.98%
Elementary/Secondary School Improvement	222,376	2.46%
Compensation Adjustments	218,964	2.42%
Levy Equalization	159,677	1.77%
Block Grants	114,969	1.27%
*Learning Assistance Program	114,627	1.27%
State Office and Statewide Programs	104,352	1.15%
*Transitional Bilingual Instruction	54,810	0.61%
Education Reform	48,466	0.54%
*Institutional Education	42,274	0.47%
All other programs	85,554	0.95%
TOTALS	9,039,050	100.00%

*indicates basic education program

Source: Legislative Evaluation and Accountability Program Committee: 1996 Supplemental Budget

Figure 3
Excess General Fund Levy as a Percent of Total Revenue
 (Dollars in Thousands)

Fiscal Year	Total Revenue	Excess Levy Revenue	Percent
1974-75	994472	320566	32.23%
1975-76	1095007	229516	20.96%
1976-77	1174998	253451	21.57%
1977-78	1388220	335768	24.19%
1978-79	1554498	319735	20.57%
1979-80	1822578	209972	11.52%
1980-81	1908531	152700	8.00%
1981-82	1943646	172494	8.87%
1982-83	2033549	222871	10.96%
1983-84	2238633	252350	11.27%
1984-85	2401745	266495	11.10%
1985-86	2500556	277484	11.10%
1986-87	2819337	317155	11.25%
1987-88	3027548	359371	11.87%
1988-89	3287421	394785	12.01%
1989-90	3614392	432154	11.96%
1990-91	4082666	475256	11.64%
1991-92	4385461	526638	12.01%
1992-93	4734101	596226	12.59%
1993-94	4932729	676424	13.71%
1994-95	5170141	720424	13.93%
1995-96	5384943	773784	14.37%

Source: Office of the Superintendent of Public Instruction
 Report F-196

districts. Local non-tax revenue comes primarily from investment earnings and food service fees. Local non-tax revenue composed 3% of total revenue in 1994-95.

Federal revenue

Federal revenue accounts for approximately 6% of total operating revenue in Washington. Washington thus ranked 31st in the nation in terms of the percentage of 1994-95 operating revenue contributed from federal sources. Approximately 30% of federal revenue is derived from the Elementary and Secondary School Improvement Chapter 1 and 2 money, a little more than a quarter (28%) is derived from the School Food Services program, 12% from the Supplemental Handicapped fund, 10% from Federal Impact Aid, and 6% from federal forest revenues.

Per Pupil Revenues

Washington's total general fund revenue per FTE (full-time equivalent) pupil in the 1994-95 equaled \$5,750. Figure 4 provides a 10-year review of revenue levels from state, local, federal, and other sources. This review indicates that the pattern of percentage contributions from federal, state, and local sources has remained fairly constant, with state sources providing the majority of support. The percentage contribution from federal sources has dropped from 6.72% in 1985-86 to 6.28% in 1994-95. During the same time period, the percentage contribution from state sources dropped from 77.74% to 76.28%. The highest contribution from state sources occurred in 1990-91 with state revenues providing 78.5% of total per pupil revenues. Per pupil revenues from local sources increased from 15.04% in 1985-86 to 16.77% in 1994-95.

Washington state provides a higher percentage of revenue from state sources than any other comparable state (see Figure 5). In fact, in 1992-93, only two other states provided a higher percentage of revenue from state sources: Hawaii, a single-school district state which provides 90.1% of revenue and New Mexico which provides nearly three-quarters (73.7%) of all educational dollars.

Expenditures

Washington's 1994-95 general fund expenditure per FTE pupil equaled \$5,701. Figure 6 displays general fund expenditures for the period 1984-85 to 1993-94. During this period, total expenditures rose from \$3333 per pupil to \$5532 per pupil. However, these figures are not adjusted for inflation. Figure 6

Figure 4
Comparison of General Fund Revenue and Other Financing Sources per FTE Pupil

Fiscal Year	Total Rev Per FTE	Local Rev Per FTE	% local	State Rev Per FTE	% state	Federal Rev Per FTE	% federal	Other Rev Per FTE	% other
1994-95	5749.70	964.42	16.77%	4385.80	76.28%	361.28	6.28%	38.20	0.01
1993-94	5,600.92	921.91	16.46%	4,290.94	76.61%	348.78	6.23%	39.29	0.70%
1992-93	5,499.88	839.37	15.26%	4,294.06	78.08%	328.5	5.97%	37.95	0.69%
1991-92	5,240.58	776.88	14.82%	4,111.80	78.46%	313.42	5.98%	38.48	0.73%
1990-91	4,987.03	745.06	14.94%	3,914.82	78.50%	299.22	6.00%	27.92	0.56%
1989-90	4,581.20	706.1	15.41%	3,561.30	77.74%	286.3	6.25%	27.5	0.60%
1988-89	4,277.46	665.42	15.56%	3,311.98	77.43%	277.05	6.48%	23.01	0.54%
1987-88	4,019.28	615	15.30%	3,126.33	77.78%	257.75	6.41%	20.2	0.50%
1986-87	3,804.99	564.99	14.85%	2,973.53	78.15%	249.5	6.56%	17.37	0.46%
1985-86	3,442.34	517.73	15.04%	2,676.19	77.74%	231.22	6.72%	17.21	0.50%

Notes: State average revenue per FTE pupil data for the last ten years as shown on Report 1078. Revenues shown in the Other Per FTE column are made up of revenues from other school districts, revenues from other agencies and associations, and other financing sources. The term other financing sources includes proceeds from the sale of bonds, the sale of equipment, the compensation for the loss of fixed assets, and the proceeds from long-term financing.

Source: Office of the Superintendent of Public Instruction: Bulletin No. 9-95 A/SBS and Bulletin No. 30-96 A/SBS.

Figure 5
Comparison of Revenues by Source: Washington, U.S., and Selected States
 (in percentage of total revenue)

1992-93	Federal	State	Local and Intermediate	Other
Washington	5.6	71.3	20.1	3
United States	6.9	45.6	44.7	2.7
Arizona	8.8	41.5	47.4	2.3
Colorado	4.9	42	49.7	3.4
Indiana	5.2	52.1	39.5	3.1
Nevada	4.7	34.2	57.5	3.6
Oregon	6.3	37.8	53.1	2.9
Tennessee	10.3	45.6	37	7.1
Virginia	6.2	32.1	58.8	2.8
Wisconsin	4.4	38.3	55.3	1.9

Source: Digest of Educational Statistics 1995

Note: Excludes revenues for state education agencies.

also presents per pupil expenditures adjusted for inflation using two different inflationary indices, the Consumer Price Index (CPI) and the School Price Index (SPI). When adjusting for inflation using the CPI, per pupil expenditures from 1984-85 to 1993-94 rose 20.1 percent. In contrast, when using the SPI, per pupil expenditures during this period rose 8.3%.

Washington's level of per pupil spending falls in the middle range of school spending nationwide. In 1992-93, for example, Washington's per pupil equaled \$5,614 per pupil, just slightly above the national average of \$5,594, ranking the state 21st in the nation. Ten years ago, in 1986-87, Washington's per pupil expenditure was \$3,964, just below the national average of \$3,970, ranking the state 20th in the nation. Importantly, however, these figures do not reflect differences in inflation rates from state to state.

Types of Expenditures

What do education dollars buy in Washington? Personnel costs comprise the largest share of school expenditures. In 1994-95, employee salaries and benefits accounted for 82.75% of total educational expenditures. In 1984-85, salaries

and benefits equaled 79.56% of total expenditures. (See Figure 7).

Expenditures on salaries, benefits, and other materials and services supported various school activities. For example, in 1994-95, teaching and teaching support accounted for 69.44% of the state's total operating expenditures. This category includes the costs of teachers, teacher aides, textbooks, computers for classroom instruction, librarians, libraries and other media services, and costs for guidance and counseling, speech, psychological, and health services.

Similarly, in 1994-95, administration costs composed 13.04% of total operating expenditures. Central administration costs accounted for 6.92% of total operating expenditures and building administration costs represented 6.12% of this total. Administrative expenditures as a percentage of total operating expenditures declined slightly since 1981-82, when central administrative expenditures were at 7.13% and building administrative expenditures were at 6.51% for a total of 13.64% of total operating expenditures.

Basic features of the finance system

The following paragraphs describe the rationale and primary components of Washington's system school finance system. This section is not intended as a precise and detailed accounting of all aspects of the funding system. Rather, it provides an general understanding of the system's basic features.

Article 9, Section 1 of the Washington State Constitution declares that it is the "paramount duty" of the state to make ample provision for the education of all children residing in the state. In response to a 1977 court ruling (*Seattle v State of Washington*), the state assumed responsibility for funding "basic education" for a "uniform system of K-12 public schools." According to the court, the legislature is responsible for defining a basic education. The court also declared that financial support for basic education must be provided through state, not local, sources.

The legislature codified its interpretation of this responsibility in the Basic Education Act of 1977. This act defined full funding of basic education through the use of staff-to-student ratios which allocate resources to school districts. In 1983, again in response to a court ruling, the legislature expanded the definition of basic education to include special education programs for the handicapped, transitional bilingual programs,

Figure 6
Per pupil expenditures adjusted for inflation
 Comparison of State Average General Fund Expenditures per FTE pupil

Fiscal Year	Total Expenditures	Expenditures per	CPI adjusted FTE (unadjusted)	SPI adjusted
1993-94	880,699.66	5,532.43	4004.32	3611.31
1992-93	860,763.93	5,416.77	4017.81	3656.64
1991-92	836,827.41	5,196.42	3974.82	3591.88
1990-91	818,656.18	4,983.93	3935.26	3597.38
1989-90	788,961.48	4,556.05	3792.01	3475.69
1988-89	768,545.38	4,259.05	3714.17	3435.31
1987-88	753,256.26	4,007.71	3657.88	3400.66
1986-87	740,958.29	3,805.14	3617.07	3408.58
1985-86	726,411.39	3,463.42	3366.52	3263.44
1984-85	718711.79	3,332.96	3332.96	3332.96

Notes: Total expenditures refers to all school districts General Fund expenditures in the state.

Sources: OSPI Bulletin No. 9-95 A/SBS, Bulletin No. 30-96 A/SBS, and Bulletin No. 9-86 P.S.

Inflation measure sources: School Price Index (SPI), Research Associates of Washington, D.C.

Consumer Price Index (CPI), Bureau of Labor Statistics, U.S. Department of Labor

Adjusted dollars are in constant 1984-95 dollars

Figure 7
Expenditures by object: 1984-85 and 1994-95

Object of Expenditure	1984-85	1994-95
Certificated Salaries	51.75	46.95
Classified Salaries	16	16.15
Benefits	11.89	19.65
Supplies	6.03	4.75
Instructional Materials	1.6	1.33
Contractual Services	9.91	8.69
Travel	0.4	0.35
Capital Outlay	2.49	2.13
Combined Salaries and Benefits	79.64	82.75

Source: Office of the Superintendent of Public Instruction
 Financial Reporting Summaries

remediation assistance programs, and certain specified pupil transportation costs. The state thus assumed responsibility for funding these additional components of basic education.

Distribution of state general apportionment revenue to each school district is based primarily on ratios of staff to students. Different ratios exist for each type of staff: certificated instructional, administrative, and classified. Additional revenues are allocated for smaller staffing ratios in grades K-3. The state provides funds to school districts based on their enrollment and the average salary allocation for each type of staff member. Basic education funds are also provided for Non-Employee Related Costs, that is, costs not associated with employee compensation, such as books, supplies and equipment, materials, and utilities.

Also in response to the court, the legislature enacted the Levy Lid Act. The Levy Lid Act placed restrictions on the amount of revenue school districts can raise locally. The levy lid was designed to limit local district levies to no more than 10 percent of a district's basic education allocation from the state and to ensure that such money provided enrichment programs at the local level. When the Levy Lid Act was passed, some school districts already collected local revenues that exceeded the 10 percent lid. These districts were given special authorization (or "grandfathered") to continue their higher

levies. Levy amounts for grandfathered districts were to be reduced gradually so as to eliminate higher levies by 1982. However, since its enactment, the levy lid law has been amended eight times (1979, 1981, 1985, 1987, 1988, 1989, 1992, and 1993) and the original 10 percent limit was never implemented. Under current law, districts can raise local levy amounts up to 24% of their state and federal allocation. The current 24% lid contained a temporary 4% increase which was scheduled to expire in December 1997. However, in the beginning of 1997, the legislature extended the temporary 4% increase through the 1997-98 school year.

In 1987, the legislature added an additional component of state funding called local effort assistance, or levy equalization aid. Local effort assistance provides aid to those districts which levy above-average local tax rates to compensate for low assessed property wealth. Funds are distributed according to a formula which is driven by the extent to which a district's local tax effort exceeds the state average tax effort. For the 1995-97 biennium, funds for levy equalization aid composed 1.77% of the state's general fund budget for K-12 education.

Funding for basic education also includes state support for pupil transportation. The transportation funding formula accounts for the number of pupils being transported, distance traveled, and an established cost rate. State funds are also provided for acquisition of transportation vehicles. In the 1995-97 biennium, state pupil transportation funds amount to more than \$328.7 million and represent 3.64% of the state's general fund K-12 budget.

State Categorical Aid

As noted above, state funding for basic education also includes support for students' special needs, including special education for the handicapped, transitional bilingual education, and the Learning Assistance Program.

In 1995, a major change occurred in funding special education programs for the handicapped. During the 1995 legislative session, special education funding was set at an overall cap equal to no more than 12.7% of the total student population. Previously, special education funding had been allocated at different rates based on the type of handicapping conditions of enrolled students. In general, under the previous model, districts received higher per-student allocations for students exhibiting more severe handicapping conditions.

For the past 20 years, Washington has operated a program for low-performing students called the Learning Assistance Program (LAP). Funding for LAP during 1996-97 equaled \$58,210,000. Districts qualify for LAP funding on the basis of a formula which accounts for the percentage of students performing below the fourth quartile on standardized tests and the percentage of students who apply for the Free or Reduced Price Lunch Program. Districts are responsible for allocating LAP funds to individual schools that serve eligible students from grades K-9. LAP is projected to serve 89,810 students statewide during the 1996-97 school year.

The Washington State Transitional Bilingual Education Program serves students whose primary language is not English and whose deficiencies in English language skills impair their classroom learning. Between 1985 and 1995, bilingual students as a percentage of total K-12 enrollment grew from 1.9% to 5.1%. During this same period, the number of students to staff in bilingual programs grew from 14:1 to 20:1. In 1996-97, state funding for bilingual programs was approximately \$646 per eligible student.

School Construction

Since 1965, the Common School Construction Fund has provided state revenue for capital construction. This revenue is derived mostly from the sale of timber resources, the 1.3 million acres of state school lands set aside in 1889 to fund education. Beginning in 1990, the legislature added a state General Fund appropriation to the Common School Construction Fund. Additionally, Initiative 601 established conditions under which excess state revenue can be deposited in an Education Construction Fund. Moneys from this fund may be appropriated by the legislature for capital construction projects for higher education institutions and the K-12 system.

School districts acquire funds for capital projects through bond sales, investment earnings on proceeds from these sales, and a state matching program for school construction and modernization. Districts receive varying amounts of assistance based on their per-pupil property wealth.

Condition of School Facilities

The General Accounting Office recently completed a state-by-state examination of school facilities, including ratings about building condition and features, environmental factors, facility needs for educational reform, and technology elements. Results were based on a sample of schools in each state which completed a survey, and on interviews with state officials responsible for school facilities.

Results for Washington indicated that 44% of schools surveyed needed extensive repair or replacement. The comparison national figure was 33%. However, Washington's result is close to the average for western states, 42%. The most commonly cited building problem nationally and in Washington was inadequate heating, ventilation, or air conditioning.

Increasing Fiscal Pressures

Assuming no major changes in state funding mechanisms and spending limits, Washington faces mounting fiscal pressures. School enrollment constitutes the principal determinant of school funding. Washington's K-12 enrollment growth rate will continue to outpace the state's general population growth rate through the end of the 1990's. Moreover, state spending limitations required by Initiative 601 will reduce the state's fiscal capacity to fund basic education commensurate with projected K-12 enrollment growth. Continued growth in the Washington's higher education system during this same time period also will exacerbate pressure on state resources. In short, steady growth and state and local spending limitations challenge the state's fiscal ability to meet its future educational

obligations. The legislature's recent extension of the additional four percentage point maximum lid on local maintenance and operations levies for the 1997-98 school year will likely continue the gradual trend in recent years towards an increase in dependence on local sources of revenue.

Funding School Improvement

Washington's current school finance system, although atypical in its high level of state contributions to total educational revenue, is typical of most school finance systems nationwide in that it is "input-driven." That is, the system funds staff, materials, buildings, programs, and other objects irrespective of a school's or a district's performance. This input-driven system is not strategically aligned with Washington's educational reforms.

The fiscal consequences of the change to a performance-based educational system are particularly acute in Washington. The court charged the legislature with defining and funding basic education. Fundamental changes occurring with the transition to a performance-based system (due to be in place by the year 2000) challenge the very definition of "basic education." Fortunately, the legislature has the option to reconsider this definition at any time. Given that performance-based assessments are still in the development and initial implementation stages, Washington has time to examine the implications of the current school finance system for performance-based schools.

In September 1997, results of the state's pilot performance-based assessment for fourth graders were released. Statewide, 65% of fourth graders met the standards for listening skills and 50.9% met the standards for reading. In the area of writing, 47.8% of fourth graders who participated achieved the standards, while only 22.4% met the standards for fourth grade mathematics achievement. Currently, discussions are underway regarding the implications these pilot test results have for funding school improvement. Additionally, a new statewide accountability task force is examining ways to refine accountability measures which are more directly related to student performance.

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