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GUEST EDITORS' FOREWORD

This issue of *Educational Considerations*, as well as the next, is devoted to the financing of public elementary and secondary schools in America. Twice each decade, the editors plan a broad, yet state-specific, overview of the funding of public schools for state and local policymakers. In this manner, individual policymakers and researchers can study what other states are accomplishing in the complex arena of school funding. We are well aware that generalities are difficult to draw since education is essentially a state and local function; yet, we believe it is important to present some of the leading commentary on the activities of various state legislatures, since school funding is one of the most vitally important public policy debates occurring today.

It is often said, by those who have limited knowledge of school funding, that states have not changed distributional formulas in 20 years, leading to fiscal inequity and inadequacy as self-evident truths. Whether this is true is open to debate, but *Educational Considerations* again is providing a forum for leading authors to have an opportunity to reflect on stagnant or regressive conditions or, alternatively, to describe the progress being made in individual states. Under these conditions, the current state overviews vary greatly as to the status of the states in which authors were asked to provide analysis.

McKeown notes that Arizona is in the wake of a recent state supreme court ruling which found the school funding system unconstitutional. She notes that the state has yet to implement a plan that might meet the intent and directive of the court. Picus notes that California faces great obstacles stemming from the complexity of educating nearly 5.5 million children, combined with the struggles stemming from being in its 25th year since Serrano I. He discusses the reality of reforming an already complex system, making the distributional formula one of the more complex ones in our nation. The Colorado analysis by Mathers and King offers an overview of the issues confronting the state legislature, with the authors discussing the legitimate differences accounted for in the state aid formula, as well as offering the issues that must be addressed within the near future. In contrast, the Nakib article on Delaware displays the breadth and differences that are found in the states. He points out that Delaware has only 19 school districts within only three counties. Yet major reforms have guided funding issues in the state of Delaware, as reform has driven new monies for public education.

The complexity continues, as Florida's distribution formula is discussed by Harrington and Trimble, including the ever-present inadequate tax base of this growing state. Holmes and Dayton, on the other hand, discuss the rapidly growing state of Georgia, where its use of reforms and programs have met with widespread public support. An overview of Illinois is presented by Ward in which he discusses the current situation facing that state's legislature as it attempts to put more money into schools while facing much anti-tax sentiment. Theobald, Bull, and Vesper discuss recent changes in Indiana which has taken bold steps toward a reward for effort aid formula. Even more complex, Payne and Cambron-McCabe discuss Ohio in light of its recent state supreme court ruling which overturned the system of school revenue. The authors comment on and analyze the different education finance policy alternatives that the legislature may have to consider.

The series in this first volume concludes with descriptions of other states' opportunities and problems. Green discusses aid formula changes since *Tennessee Small Schools v. McWhorter* in 1992. Specifically, he discusses the mechanisms, with accompanying strengths and weaknesses, of the present state aid formula. Verstegen discusses Virginia school funding in light of the state supreme court's upholding the state aid formula in a recent challenge. Finally, Busch, Kucharz, and Odden discuss the state of affairs in Wisconsin. They consider the movement toward retarding property taxes in a state which utilizes the property tax as the largest source of school revenue.

These studies reflect several trends since our last overview. One trend, without a doubt, is the reality that the reform movement has finally discovered that fiscal resources must follow to enable meaningful reform. Another trend is a growing awareness and hostility toward the property tax. This will continue to have a significant impact on schools in all states. Finally, one is struck by the differences, and yet the similarities, of the issues in each state. As the editors have written for many years, the financing of public education continues to be one of the most important public policy topics that every state legislature faces virtually every year.

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Confusion reigns; at best, the state of the state seems to be unsettled.

EDUCATION FINANCE IN ARIZONA: 1997 THE UNSETTLED STATE OF THE STATE

Mary P. McKeown

As the 1997 session of the Arizona Legislature began on January 13, the state's largest newspaper, the *Arizona Republic*, proclaimed in its headlines that school finance was the most important topic to be taken up by the legislature. The senate majority leader declared school financing "the first among equals" in the issues to be addressed during the legislative session.¹ At the same time, the Governor filed a law suit asking the state supreme court to remove a deadline on fixing the school finance system which the supreme court in 1994 found unconstitutional. The Governor claimed that the system's problems had been corrected and no further remedies were needed.

These mixed messages—on the one hand, a legislature intending to repair inequities in a school finance system that the state supreme court had declared unconstitutional; and on the other hand, a Governor who thinks the system is "fixed" by a \$100 million construction fund—are delivered at the beginning of what promises to be an historic year for Arizona schools, perhaps the year of reform of elementary and secondary school funding.

This confused state of the state has existed before in Arizona. The 1993, 1994, 1995, and 1996 sessions of the Arizona legislature also were expected to mark watershed reform of elementary and secondary education. And just like the last four years, the 1997 legislative session has the potential to be especially rancorous. For example, 45 votes were needed to elect the Speaker of the House, who then immediately fired all the senior education House staff. In addition, in a state that has a Republican legislature and a Republican governor, there has been an amazing amount of discord between the governor and the legislative leadership over education funding.

Arizona is enjoying another boom year related to state finances; revenues have increased over 6 percent so far during the current fiscal year. Fiscal Year 1998 revenues are pro-

jected to increase another 6 to 8%. At the beginning of the current fiscal year, the state had a budget surplus of over \$300 million (approximately 5% of the state general fund), which is kept in a rainy day fund. Funds in the rainy day fund grew to over \$400 million by January 1, 1997.

Yet, despite increasing state revenues and a state supreme court ruling that the school finance system is unconstitutional, little additional funds are earmarked for education in the Governor's or the legislative budget staff Fiscal Year 1998 budget proposals. The legislature and governor appear to disagree on how to fix the school finance formula, with the state's top Democrat calling the Governor "arrogant, removed, and distant" from the state's school finance dilemma.² It is against this backdrop that reform of Arizona school finance will take center stage in 1997.

History of Arizona School Reform

The current "reform" movement in Arizona began in 1990 when Governor Symington appointed a task force of educators, citizens, and business persons who proposed a sweeping package of over 60 educational reform items, including vouchers, charter schools, site-based management, and additional at-risk programs. The cost of the proposals exceeded \$200 million the first year. Despite significant publicity, nothing passed through the 1991 legislature.

During the 1992 and 1993 sessions, notable legislation to reform education was introduced by the chairs of the House and Senate Education Committees. Severe differences of opinion among legislators and the Governor appear to have prevented passage of any of these legislative packages. The Governor insisted that public school reform should follow sound business principles of competition (which he defined to be vouchers for private schools), before he would support additional funds for the public schools. The majority of legislators seemed to believe that the public schools should be funded adequately before any private school funding could be approved.

Adequate funding of the current school finance formula likely would require new taxes. (The current formula has been in effect since 1980.) However, Arizona's citizens passed Proposition 108 in the fall of 1992, and that proposition requires a two-thirds majority of both houses of the legislature for any tax increase. Given Arizona's political climate of fiscal conservatism, and Republican control of the Governor's office and both houses of the legislature, new taxes are unlikely.

During the 1994 session of the legislature, a series of bills reforming the public schools were pre-filed, i.e., filed before the session began. Called the "Essentials of Education Reform," the legislation stated that it was the legislature's intent to ensure that the state would provide quality educational opportunities and to revise taxation so that the school funding formula could be corrected. A critical component of the reform effort was parental involvement in the schools so that attendance, discipline, and school safety would be improved.

Charter Schools

The charter schools components of the reform package passed in modified form in 1994. Charter schools are permitted for the purpose of providing a unique setting for learning that would improve student achievement. As a primary part of the "choice" component of the 1994 reform package, charter schools were envisioned as providing choices outside the public schools, but are funded like a public school, and are expected to more closely meet the unique needs of child(ren).

Any applicant for a "charter" may petition a school district governing board or the state board of education to approve establishment of a charter school. The application includes a mission statement for the school, a financial plan, hiring policy,

Mary McKeown, Arizona Board of Regents and Past President, American Education Finance Association.

description of facilities, and an outline of the criteria to be used to measure effectiveness of the school. The school or state board must act on approval within 90 days. Local school boards assume no legal responsibility for schools chartered by the state board of education, but do have responsibility for schools chartered by the local school board itself.

The charter is effective for five years, and requires that the school be non-sectarian and non-discriminatory. Teachers previously employed by a school district do not lose any rights of certification, retirement, salary status, or any other benefits provided by law if the teacher returns to the school district from the charter school within three years. Funding for charter schools is based on the same method as the public schools, with assessed values of property and student counts determined, and included in the state funding formulas. Pupils "move" from school districts to the charter schools exactly as if this "move" was from one school district to another, and this movement impacts funding for the local school district in the same way as a move to another district. The loss of one student to a charter school increases the district's assessed value per student, and has the same impact as a student's dropping out or moving out of a district.

Local districts may "sponsor" charter schools, with the local district receiving current year funding for students in their charter schools. The distinction of "current year" funding is an important one in Arizona's funding formula, which bases the general state aid formula on the prior year's student count, except for charter schools. Consequently, any new student added to a school district through its sponsorship of a "charter" school which had been a private school adds state general fund support for the local district. This provision will be discussed further below.

During Fiscal Year 1997, local school districts enrolled approximately 3,100 students in schools the districts chartered; and \$10.7 million was appropriated for these schools. The Governor's budget proposal included \$28 million for Fiscal Year 1998. In addition to operating funds, district sponsored charter schools may receive state appropriations for capital costs of charter schools start-up. Capital funding is allocated to the district through a provision in the funding formula called the "Capital Outlay Growth Factor."

For Fiscal Year 1998, the Joint Legislative Budget Committee (JLBC) staff recommend a reduction in funding for district sponsored charter schools, and a change in the manner by which capital funds are allotted. JLBC staff state that the current funding formula for capital provides an incentive for schools wishing to become "chartered" to affiliate with small districts (i.e., districts with few students) so that the growth factor in the funding formula would be higher and result in additional state dollars.³

Approximately 46 schools received state charters to begin operations in Fall, 1995, but only 42 state approved charter schools were in operation in 1997, enrolling over 14,000 students at a total cost of \$62 million.⁴ School districts watched anxiously the impact these schools had on state revenues through the school funding formula. In Fiscal Year 1996, \$16,300,000 was appropriated for the operation of state charter schools as part of the basic aid formula. For Fiscal Year 1997, this appropriation increased to \$66.4 million, and the Governor's budget proposal for Fiscal Year 1998 includes \$92.6 million, based on 21,500 students. The Governor's recommendations include \$175 per student for transportation costs.

The largest of the charter schools, Valley Academies, with about 500 students, faced financial difficulty almost from the beginning of its existence. Disaster, in the form of forced closure, was averted when a parent "loaned" the fledgling school several million dollars to make required repairs to bring the school up to state building codes and to cover payroll costs for

the teachers and other personnel. Almost all of the charter schools are in the state's two metropolitan areas, Phoenix and Tucson, in predominantly middle and upper-middle class neighborhoods. In January, 1997 one of the charter schools had its charter revoked because of financial irregularities.

Site Based Management

In addition to charter schools, the 1994 legislative package included provisions for reform of the schools through a "decentralization process" that empowered school councils and site based management teams. Parents, principals, teachers, non-certified employees, pupils, and community members could become members of school councils for each school and develop plans to improve the school and achieve goals reflected in an annual report card. Annual report cards would describe the current academic goals of the school, the previous year's goals and progress in achieving the goal, test results, attendance rates for teachers and pupils, number of career ladder teachers, number of violent incidents, and a description of services available.

Vouchers

Included in the Governor's 1994 package were provisions for "parental choice grants" or vouchers for students attending any Arizona public or private school accredited by the North Central Association. During Fiscal Years 1995 and 1996, 2,000 students not enrolled in a private school during the previous year were to be included; the program would expand to 4,000 students in 1997 and 1998, and reach 8,000 pupils by 1999. Parental choice grants would be available to students who met the economic eligibility requirements for free lunch.

The state superintendent, who campaigned on a platform of vouchers and educational reform, and who is a former Chair of the House Education Committee, had a voucher bill introduced in the 1995 legislative session, with the full support and endorsement of the 1995 chairs of House and Senate Education committees and the Governor. Despite these endorsements, vouchers did not pass in 1995; they reappeared during the 1996 legislative session, met a quick death, but are expected to return during this session.

Property Tax Reform

In addition to school reform, both the 1995 and 1996 legislatures provided \$200 million tax reductions. The 1996 \$200 million tax reduction was a property tax reduction. Maintenance of current levels of funding for local school districts will require tax overrides for many districts; tax overrides have about a 50% chance of passing in Arizona. The 1996 legislation eliminated the state property tax rate, which had been 47 cents per \$100 of assessed valuation, and it reduced the qualifying tax rate for state school aid. This legislation will be watched closely to determine the impact on local school district revenues.

Legal Challenges to Funding Formulas

In 1993, four school districts and several parents filed suit challenging the provisions of the Arizona school finance system related to expenditures for buildings, equipment, and other capital items. The plaintiffs alleged that the capital funding formulas resulted in massive inequities in the quality and types of capital facilities available to students in the various Arizona school districts and that these inequities were in violation of Arizona constitutional mandates for a general and uniform public school system and equal protection of the law. The suit also claimed that Arizona violated its constitutional duty to maintain, develop, and improve the common schools and high schools by failing to fund sufficiently property-poor districts that had substandard and unsafe facilities.

Oral arguments on the case were heard in the Arizona supreme court in November of 1993. The Court ruled that not only was the capital funding portion of Arizona's school funding scheme unconstitutional, but that the entire school finance method did not meet the general and uniform provisions of the constitution. The finding for the plaintiffs requires revision of the capital funding formulas and the entire general state aid formula. It also requires that the state must provide an adequate education, but that disparities caused by local control above the statewide system did not "run afoul of the state constitution."

The court directed the legislature to develop a statutory scheme for funding of the public schools that would comply with the general and uniform provisions of the constitution. The legislature was "to enact appropriate laws to finance education in the public schools in a way that does not itself create substantial disparities among schools, communities or districts."⁵ No time limit was specified.

Arizona provides some capital funding for local school districts through a special capital funding portion of the general state aid formula. However, the primary source of facilities funding is school district bonding. Just as in other states, the ability to sell bonds is dependent upon on local school district property wealth. Arizona's school districts vary widely in the amount of property wealth per pupil, ranging from near \$1,000 per student to over several million per student. Such great variation in property wealth is difficult to correct in a general state aid formula. The law suit was brought over this provision of the funding formula.

During spring of 1996, the legislature was directed to meet in special session to reform school finance to meet the directive of the state supreme court. (Arizona's legislature may meet in special session at the call of the Governor at any time, including at a time concurrent with the regular session.) During a special session concurrent with the regular 1996 session, the legislature established a Capital Equity Fund, and a State Board for School Capital Facilities to oversee distribution of revenues to local school districts. The Board itself is comprised of nine members appointed by the President of the Senate, Speaker of the House, and the Governor. The Board has a staff of five and operating budget of \$600,000.

The legislation appropriated \$30 million a year for the next ten years from the earnings of the Permanent State School Fund to be distributed as loans or grants to school districts for buildings, land, capital improvements, vehicles for pupil transportation, equipment, or technology. Distributions are made according to need, as determined by priorities set by the Board. Districts are eligible for aid if they have low wealth, high tax rates, or insufficient bonding capacity. A local share related to district wealth is required, but may be waived by the Board. The Board also may choose whether to distribute aid in the form of a loan or a grant.

The plaintiff school districts believed that the \$30 million appropriated was insufficient to meet the outstanding needs of school districts, and asked for additional resources. The plaintiffs also threatened to return to court to have the amount declared inadequate. Others in the education arena agreed that the amount was insufficient to address all the needs but believed that the system should begin operation to assess what actual needs were, and what the second stage of reform should involve. Conservatives, like the Governor, denied the existence of a problem, and appear to resent the intrusion of the court.

As a result, the Governor indicated that he would call another special session of the legislature as soon as agreement on a solution could be reached. But, no agreement could be reached between the Governor, the state superintendent, and the legislative leadership until July. On July 18, 1996 the Governor signed into law a bill that critics say does nothing to

solve the underlying funding inequity that prompted the supreme court decision.

The second special session legislation added \$70 million from the State General Fund to the original \$30 million from the earnings of the Permanent State School Fund. The operating costs of the State Board for School Capital Facilities are a part of the \$100 million appropriation. Consequently, \$99.4 million is available during Fiscal Year 1997 for grants and loans.

This special fund for school repairs and construction has as its top priority correction of emergency health and safety needs. The Board established a three stage priority process for eligible districts: first, there is an expedited process for buildings that have potentially serious health and safety issues as identified by the legislative Joint Committee on Capital Review (JCCR). The JCCR is comprised of members of the House and Senate Appropriations Committees. The second priority are those projects identified as health and safety issues that do not fall into the first category; all other capital needs are given third priority.

School leaders quickly identified over \$600 million of needs for this \$100 million fund. About \$25 million needed for 18 priority projects fall into the expedited category. Over 600 projects totaling \$154 million are in category 2, and 680 projects with a cost of \$420 million are in category 3. As of January 1, 1997, a little more than \$4 million has been awarded for projects that have potentially serious health and safety issues. The Board intends to review all 1,300 applications for aid and award the entire \$99.4 million during the fiscal year. (They will be very busy during the next six months.) Awards will not be made or funds disbursed until projects go through a design, bid, and review process. Staff of the Board have determined that approximately 25% of the cost of the projects would be funded by the state, and the remainder should be funded by the districts.

A commission to study the issuing of bonds for capital needs also was created by the special session legislation. The Governor is calling the legislation "a permanent fix," but others (including the lawyer representing the school districts that brought the original case) say that the bill is only a first step because it does not end discrepancies in funding.

In November, 1996, a superior court judge warned lawmakers that, unless they act to revamp the entire school funding system by June 30, 1998, she will order the state to shut down the entire school system. Judge Rebecca Albrecht ruled that, although the legislature had taken a few positive steps, legislators have not systematically removed the disparities created by the school finance system. The judge said that a reasonable time had passed to correct the problems. The state superintendent lauded the rules, but the Governor immediately appealed the ruling to the supreme court, contending that the system was fixed by the establishment of the capital fund.

In January, 1997 the state supreme court upheld Judge Albrecht's ruling, confirming that June 30, 1998 is the deadline for reform of the school finance system. The Governor continues to maintain that the system is fixed, while legislators have produced a number of proposals. None of the proposals have details worked out, and none of the proposals has a majority of legislators supporting it.

There is disagreement among legislative leaders on how extensive reform should be, with those supporting the Governor reluctant to tinker at all, and some leaders arguing for complete structural overhaul. A district power equalizing plan with recapture has been proposed by some, including the Senate majority leader. The chair of the Senate Education Committee, on the other hand, prefers to solve the problem by targeting aid to only those districts which truly need help, without making any structural changes. Another proposal would pool commercial property taxes and distribute equal amounts statewide, and yet another would change assessment ratios.

Education organizations have proposed their own reform, which calls for funding for special and bilingual education, and an increase in the special construction fund. In any case, reform will occur, or the courts will develop their own plan.

Arizona School Funding in 1997

The majority of state funding for elementary and secondary schools in Arizona is distributed through the Basic State Aid formula. The formula is comprised of components that limit funding for maintenance and operation of the schools, capital expenditures, and transportation. For FY 1997 Basic State Aid for the schools was estimated to be \$1,802,989,600; or \$1,949,269,000 when "additional state aid" is included. Beside Basic State Aid there are five other formula programs and 20 non-formula programs that comprise a total of \$50 million in funding.

The statutory funding formula for K-12 was enacted in 1980, modified in 1985, and equalizes funding among the school districts while placing limits on the amounts that can be spent. Districts with similar characteristics have similar budget limits. The Basic State Aid formula limit is based on the district's prior year average daily membership, weighted by handicapping conditions, size of school, and other factors. The student count may be modified for districts whose enrollments decline more than 5% for the budget year or for those districts who experience growth in excess of 3%. The 1997 budget bill included \$20 million to change this to the current year enrollment count, and reduced the requirement for growth funding to 2% in 1997 and removed the percentage limit totally in Fiscal Year 1998. Cost to implement current year enrollments in the funding formula is over \$33 million for 1998. Weighted student count is multiplied by a dollar amount to determine the Base Support Level. Districts with teacher experience greater than the state average or those with career ladder programs have higher base levels. The base level was adjusted each year by the growth in the Gross Domestic Product Implicit Price Deflator. The inflation factor was not fully funded for a number of years, and was eliminated completely in 1995 for the 1996-97 year. As a result, school districts have frozen salary schedules, increased class size, and transferred capital funds to operating. This transfer is allowed under state law, and was mentioned by the supreme court as one of the exacerbating factors in their ruling of inequity in the school finance system.

The 1995 state aid budget rolled forward into the next fiscal year \$53,500,000 of Basic State Aid, as it has since 1988 to "balance" the state budget. In 1996, this practice was stopped, and school districts received the full amount of the funding formula. In addition to the Basic State Aid formula, "Additional State Aid" is given to school districts whose revenues are affected by the "homeowners' property tax rebate program." Under this program, the primary tax liability of homeowners in certain income classes is reduced by 35%. The 1990 Tax Reform Act included provisions to reduce the rebate by 5% per year until phase out in 2001. However, the FY 1995 budget froze the rebate at 35%.

Conclusions

The Arizona legislature is likely to continue to "reform" the elementary and secondary schools and the school finance system. Since the supreme court ruled that the deadline for reform of the finance system is June 30, 1998, the legislature may need to meet again in special session to rewrite the basic state aid formula as well as the capital funding formula. Because the Governor and legislative leadership do not agree on reform measures, crafting an acceptable funding compromise that could meet the requirements of the court may be an impossible mission. The acrimony that accompanied the beginning of the legislative session does not portend a positive outcome, unless the rhetoric is toned down and reasonable behavior prevails.

Charter elementary and secondary schools are just beginning to operate, and will have long-term impacts on basic school funding formulas. "Parental choice" and open enrollment in the elementary and secondary schools also are likely to be continuing areas of interest to a very conservative legislature.

1996 was an election year for all state legislators in Arizona. Because the pressures of campaigning were great, there was some question about whether the legislature really would meet in special session to address school funding issues. When they did meet and passed out a bill, it was a temporary measure that did not "fix" the underlying inequities.

Over 25% of the 1997 Arizona legislature are freshmen; both senate and house leadership are new to their leadership positions. House staff also are new since the incoming speaker fired all staff who had served in House staff positions for many years. In addition, the Governor is in bankruptcy court, and has been indicted on 23 federal felony charges. His trial is likely to begin during the legislative session. Democratic legislative leadership and the Governor publicly traded insults and name calling.

These events are "signs" that do not portend agreement on school finance reform. Confusion reigns; at best, the state of the state seems to be unsettled. If the past can be used to predict the future, it appears unlikely that school finance reform will occur in Arizona in 1997.

Footnotes

- 1 Mattern, Hal. "Legislators ready to fix school funding," *Arizona Republic*, Sunday, January 12, p. A12.
- 2 Mayes, Kris. "Top Dem brands governor 'arrogant' on schools," *Arizona Republic*, January 8, 1997, p. B1.
- 3 Joint Legislative Budget Committee Staff, "Proposed budget FY1998 and FY1999, analysis and recommendations," January, 1997, p. ADE-9.
- 4 Joint Legislative Budget Committee, "Proposed budget FY1998 and FY1999, analysis and recommendations," January, 1997.
- 5 Supreme court ruling, *Roosevelt v. Bishop*, p. 24.

California's system of school finance has grown into a needlessly complex system.

A Quarter Century of Turmoil: School Finance in California on the 25th Anniversary of *Serrano*

Lawrence O. Picus

This year marks the 25th anniversary of the California supreme court's August 1971 ruling that the Golden State's system of school finance violated the equal protection requirements of the state and federal constitutions. That ruling, commonly referred to as *Serrano I*,¹ set in motion a series of changes to the ways schools are financed in California that continues to have repercussions across the state and the nation. This article, written in January, 1997, offers an historical perspective on how school finance has changed in California over the past 25 years, and suggests that the legacy of *Serrano* may not be equal opportunity for California's public school children, but rather a confusing and needlessly complex funding distribution formula that in reality fails in providing the equity (or equality) mandated by the courts.

The article begins with a brief summary of California's current school funding picture, looking at both student demographics, current revenues and expenditures, and measures of school finance equity. This section takes a close look at the categorical programs currently included in the school finance system, and suggests that these programs do a poor job of providing funding to meet identified student needs, and instead are created and distributed on the basis of political expediency. Because nearly one-fourth of education funds are distributed through these programs, they have had a detrimental impact on school finance equity. The second section provides a very brief history of the major stepping stones in the development of the current funding formulas. The final section of this article offers some suggestions for improving the financing of California's schools.

K-12 Public Education in California Today

In 1996-97, the 1,000 school districts in California are responsible for the education of 5,418,707 children in grades K-12, as well as another 396,344 adults and pre-school age

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children. To provide this education, the districts will spend an estimated \$32.951 billion (EdSource, 1997). Of this total, \$25.863 billion, or \$4,773 per pupil in average daily attendance (ADA) is allocated to meet the minimum funding requirements of Proposition 98. The balance comes from federal funds, local miscellaneous revenues, adult education programs, and the state lottery. Despite the large total, California ranks in the bottom decile of the 50 states in per pupil expenditure (Education Week, 1997).

These limited funds, are used to educate the most diverse student population in the United States. Children of color represent 59% of school enrollment. Approximately 45% of them receive free or reduced price lunches, and over 24% do not speak English as their primary language. While Spanish speakers dominate, there are some 45 different languages spoken by children in the state. Twenty-four percent of the children live in poverty, and 26% come from single parent households (Education Week, 1997). Moreover, because of limited funding, California public school classes are the largest in the nation, with an overall pupil-teacher ratio of 24.1 to 1, compared to a national average of 17.1 to 1 (EdSource, 1997). In the most recent NAEP tests, only 18% of fourth graders were classified as "proficient readers," and only 16% of eighth graders were considered proficient in math (Education Week, 1997). Approximately 9% of the state's children have been identified disabled. Rural residents make up 18% of the student population, suburban and small city residents 50%, and urban children compose 32% of total district enrollment.

While teachers are somewhat better compensated than the average across the United States, the state's ranking for average teacher salary continues to slip. In 1994-95, the average teacher salary in California was \$40,667, ranking 11th among all of the states. For 1996-97, at the initiative of Governor Pete Wilson, a large share of the new revenues available to schools (after a long drought in additional state funding due to the lingering effects of the recession), was focused on reducing average class size in the primary grades to no more than 20 students per teacher. This policy, which provided an incentive of \$650 per pupil in classes of 20 or less, focused on the first and second grades, with districts encouraged to expand it to grades K and 3 as well.

As this brief discussion shows, California has the most diverse student population of any of the 50 states, and seems to have fewer resources to provide for their education than do most other states. The source of those funds and how they are used are described next.

Where does the Money Come From?

The single largest contributor of school revenues is the state, which provided an estimated 57.4% of the total. Table 1 shows sources of revenue for the three most recent years. The table shows that the state's share has increased over these three years from 53.1% of the total to over 57% of that total. The reason for this is the robust revenue growth the state has experienced compared to the growth in property values which has been generally stagnant in most parts of the state. All of the other sources of funds have declined somewhat in importance over the last three years, and in the case of lottery receipts, are estimated to actually drop by some \$5 million a year.

Where does the Money Go?

Table 2 shows in both per pupil expenditures and percentages of the total how educational dollars were spent in California in 1994-95. Nearly two-thirds of expenditures occurred at the classroom, with teachers representing the single largest expenditure item, and accounting for over 51% of the total. School site costs, including principals and other

Table 1
Sources of Revenue for K–12 Education in California: 1994–95 to 1996–97

| | 1994–95 | | 1995–96 (est.) | | 1996–97 (est.) | |
|--------------|----------------------------------|----------|----------------------------------|----------|----------------------------------|----------|
| | Amount in millions (\$) | % (%) | Amount in millions (\$) | % (%) | Amount in millions (\$) | % (%) |
| Federal Aid | 2,449 | 8.32 | 2,548 | 8.10 | 2,569 | 7.80 |
| State Aid | 15,658 | 53.20 | 17,482 | 55.61 | 18,928 | 57.44 |
| Property Tax | 8,573 | 29.13 | 8,661 | 27.55 | 8,705 | 26.42 |
| Local Misc. | 2,110 | 7.17 | 2,110 | 6.71 | 2,110 | 6.40 |
| Lottery | 643 | 2.18 | 638 | 2.03 | 638 | 1.94 |
| Total | 29,433 | | 31,439 | | 32,950 | |

Source: EdSource (1997), p. 22

Table 2
Distribution of Expenditures by Category,
California School Districts: 1994–95

| Category | Amount Per Pupil (\$) | Percent (%) |
|------------------------------------|--------------------------|--------------|
| Classroom Costs | 3,165 | 65.03 |
| Classroom Teachers | 2,504 | 51.45 |
| Instructional Aides | 236 | 4.85 |
| Pupil Support ¹ | 135 | 2.77 |
| Books, supplies, Equipment | 291 | 5.98 |
| School Site Costs | 1,398 | 28.72 |
| Site Leadership ² | 357 | 7.34 |
| Instructional Support ³ | 212 | 4.36 |
| Buildings ⁴ | 480 | 9.86 |
| Food | 208 | 4.27 |
| Transportation | 141 | 2.90 |
| District Office Administration | 261 | 5.36 |
| State Department and County | 42 | 0.86 |
| County Oversight | 23 | 0.47 |
| Calif. Dept. of Education | 19 | 0.39 |
| Total Costs | 4,867 | 100 |

1 Counselors, psychologists, nurses

2 Principal, vice principal, secretary

3 Curriculum, library, media, clerical

4 Utilities, maintenance

Source: California Department of Education, 1996

administrative staff, utilities and maintenance, food, transportation and instructional support amounted to another 29% of the total. As the table shows, almost 94% of all expenditures occur at the school site, while central district administration accounts for just over 5% of total expenditures.

Equity

Most analyses of school finance equity in California find that the distribution of funds to school districts is highly equitable. Hertert's (1996) work in this field showed high levels of equity at the district level, but considerably less equity when comparisons are made across schools. In fact, compliance

with the *Serrano* requirement that per pupil expenditures be within \$100 per ADA (adjusted for inflation, the figure is now approximately \$300), has been measured by the percent of pupils in districts within the bands. Overall, in 1995–96, 96.4% of students in the state were enrolled in districts that had per pupil expenditures within the adjusted *Serrano* band.

The problem with these measures is that they only consider general revenue limit expenditures.² And in fact, since *Serrano* specifically requires elimination of wealth related spending disparities, many other ways to distinguish districts for funding purposes have been developed. Most important is the analysis of the *Serrano* bands themselves. While compli-

ance seems high, it is important to realize that there are in reality six different bands for analysis, based on the type (unified, high school or elementary) of district, and the size (large or small) of districts. The mean expenditures per ADA vary considerably across those bands.

Also missing in these equity analyses is state categorical funding which represents nearly one-fourth of total school district revenues. Typically left out of equity analysis, these funds are distributed to school districts through a variety of formulas and procedures that often have little to do with student need and more to do with political expediency.

Today there are over 70 state and federal categorical programs in California, ranging from special education, which accounted for nearly \$2 billion in state funds in 1996–97, to very small programs such as restructuring grants for which just over \$26 million was appropriated in 1996–97. The funding requirements of each program are different, and often confusing. Examples of some of the larger programs and the problems they create are offered below.

Special Education

The largest single categorical grant program operated by the state, special education suffers from insufficient funding to fully reimburse districts for the costs of providing educational services to children with disabilities. In addition, the system in place, which provides funds to districts on the basis of student placements, is in need of modification.

First, something on the order of one-third of special education costs must be borne by local school districts, creating an encroachment on the general fund (Goldfinger, 1996). While Murphy and Picus (1996) show that this encroachment, along with encroachment for pupil transportation, only averages 6% of general fund budgets, they also show that the impact varies substantially from district to district with some experiencing little or no encroachment and others encroachment levels as high as 12% of the general fund budget. In a state where general spending per pupil is substantially equal, dramatic differences in the proportion of the general fund represented by this encroachment seem to create a serious problem with *Serrano* equalization, and could leave the state open to another legal challenge.

The way funds are distributed is also needlessly complex, requiring districts to fill out a number of intricate forms and make a number of difficult judgments as to how to maximize state reimbursements. Funds are distributed to districts for program units based on the service delivery mode (i.e. self contained or resource room programs, etc.). The value of a program unit depends on the service delivery mode. Each district's program unit values were established in 1981–82 and since that time have been adjusted (sometimes) with a cost of living adjustment (COLA). The result today is that the amount of money a district generates for each program unit may have little relationship to its special education costs.

Districts are also compensated for the "indirect" costs of providing these services through a support services ratio, which is a percentage (also determined in 1981–82) of the direct costs of each program unit. Picus and Miller (1995) show that the current system has allowed many districts to "take back" programs for severely disabled children from county offices of education and keep the higher support services ratio of the county, which is typically higher. Unfortunately, Picus and Miller (1995) also found that when districts do this, they experience higher costs of providing the service to the children they have taken back, and moreover, the county also incurs increased per pupil costs for those students who are left in the county program. This often leads to the county charging a higher price to the disabled students' home districts.

Pupil Transportation

Due to different geographic conditions and population densities, pupil transportation costs can vary dramatically across districts. Today, the state transportation reimbursement program provides districts with 95% of the funding they received in the previous year, regardless of need. Thus, districts able to reduce transportation costs often are at an advantage compared to districts that have increasing transportation costs due to population growth or other factors. Since the allotment to districts is a lump sum rather than a per pupil amount, districts with growing enrollments are at a substantial disadvantage (for details see Goldfinger, 1996).

Supplemental Grants

Perhaps the best example of the problems with categorical grants in California are supplemental grants. Offered to districts for three years starting in 1989–90, districts qualified for funding if they had a low revenue limit, and if they received lower than average receipts from 27 other categorical programs. In effect, districts were treated as disadvantaged, and thus eligible for additional funds, if they were not generally disadvantaged enough to qualify for other programs. This program, which was justified on the basis of improving more equalization of total funding, was eventually rolled into recipient district revenue limits.

The Mega-Item

To give districts more flexibility in the use of categorical programs, beginning in 1991–92 the legislature has combined at least 30 categorical programs into a \$3 billion "mega-item" in the state budget act (EdSource, 1997). Districts are allowed to redirect up to 15% of the funding in any program within the mega-item to any of the other designated programs, or, in 1996–97, to or from Healthy Start or Conflict Resolution programs. In addition, for 1996–97, districts are allowed to shift as much as 50% of a program's revenue to cover one-time expenses of class size reduction. Designed to give districts more flexibility in the use of categorical funds, it still places districts with low categorical funding receipts at a disadvantage compared to districts receiving more revenue through these programs.

The state legislative analyst offers an interesting perspective on the importance state policy makers have begun to place on the use of categorical programs to direct money to certain districts and/or to accomplish specific state goals. In her analysis of the Governor's 1997–98 budget bill, the legislative analyst states that the growing emphasis on categorical programs means that none of the new 1997–98 money available to schools under the requirements of Proposition 98 will be available for locally determined priorities. She argues that none of the increased funding projected for 1997–98 will be used to increase revenue limit funding beyond the statutorily required COLA, concluding that "as a result, the budget would provide increases only in those targeted areas and not for needs identified by local school boards" (Legislative Analyst, 1997: 12).

How has California found itself in the position where despite large increases in revenue for public schools, local districts have no flexibility in how they can spend their funds? The next section of this article offers a very brief history of the major events of the last 25 years and how they have shaped the current situation.

School Finance in California: 1971 to the Present

Among the 50 states, California's school finance formula is perhaps the most complex.³ Rather than reform the system from top to bottom, as is generally done in other states, California's response to school finance reform has been to layer additional formulas and programs on top of the existing

program. The result is a system so complex and unintelligible that only a few individuals in Sacramento are able to navigate through the thicket. School finance theory suggests that a more straightforward and simple approach to the distribution of funds is more efficient, and more likely to insure that funds are targeted to the students for which they are intended (see for example, Odden & Picus, 1992).

How did California's system become so complex? Three factors have led to the development of the current funding scheme:

1. The *Serrano* court ruling
2. Passage of Proposition 13
3. Passage of Proposition 98

Serrano

Serrano v. Priest, originally filed in 1968, was California's vehicle for school finance litigation for many years. Based on the state constitution's equal protection clause, *Serrano* requires substantial equality in the way general funds for K–12 education are allocated to school districts. Specifically, *Serrano* requires that all property wealth-related spending differences across districts be reduced to no more than \$100 per student in Average Daily Attendance (ADA). Court rulings in the case have allowed the \$100 figure to be adjusted for inflation, so that today it is approximately \$300 per ADA. Moreover, the court has allowed the state to reach "substantial" compliance with this requirement, meaning that we have reached an acceptable level of equality today with some 96% of our students enrolled in districts where expenditures are within that \$300 band.

Serrano only applies to wealth related spending differences, allowing differential expenditures for district characteristics such as type and size, and for differing student needs. It is out of this flexibility that our system of categorical grants has grown. However, to fully understand today's system, a brief discussion of Proposition 13 is essential.

Proposition 13

Proposition 13, passed by the voters in June, 1978, placed a constitutional limitation of 1% on property taxes, and further limits the growth of a property's assessed value to no more than 2% a year until it is sold, at which time it is reassessed at market value. It was this dramatic reduction in property taxes that led to the establishment of today's basic school finance system.

Prior to passage of Proposition 13, realizing that the courts would eventually require the state to improve school funding equity, the legislature had made a number of changes in how school district revenues were collected. Primary among those changes was the establishment of revenue limits for each district. Each district in the state was assigned a revenue limit based on its 1970–71 general revenues. It was called a limit because districts had few options for exceeding it on an annual basis. The state then established the rates by which district revenue limits would increase each year, allowing districts with low revenue limits greater increases than those with high revenue limits. Districts still had some flexibility to ask voters to approve additional increases in property taxes for their schools.

Proposition 13 changed all that. Property taxes were constitutionally limited to 1%, and the dramatic reduction in tax collections meant that, absent state assistance, districts would have dramatic revenue shortfalls. Fortunately, the state had a substantial funding surplus and was able to use that money to "bail out" the schools and other local government agencies. The system established to fund schools relied on the revenue limit system. Today, each district's revenue limit is based on the previous year's revenue limit adjusted by a Cost of Living

Adjustment (COLA). Property taxes are distributed to local jurisdictions by the county tax collectors as directed by the legislature, and in the case of school districts, the state makes up the difference between property tax receipts, and the district's revenue limit. There is no local ability to raise additional taxes, and school districts are also quite constrained in their ability to implement other kinds of user fees for revenue purposes.

Proposition 98

The final piece of the puzzle is Proposition 98. While Proposition 98 is a complex law, it essentially creates a minimum funding floor for education by dedicating a fixed share of the state's general fund to K–12 education and community colleges. This has created two problems for schools:

1. The legislature has tended to look at Proposition 98's spending floor as a ceiling, and
2. Dependence on the state for funding has left the districts with relatively slow revenue growth over time, particularly during recessions (see Picus, 1991).

The system that has evolved as a result of these events is needlessly complex and has become ineffective in providing an adequate level of funding to school districts and in insuring that funds are targeted to students with identified special needs. The next section offers some possible solutions to these difficult problems.

What Should California Do?

Repairing the current school finance system in California is no small task. There are a number of difficult decisions that need to be made to establish an adequate, student focused funding system for the state's 5.5 million school age children. The recommendations that follow are designed to create a system that will provide more money for education, and focus those funds on student needs.

Adequacy

Given the tremendous needs of California's public school children, it seems important to increase spending generally. While a lofty goal, the difficulty of finding more funds for education is underscored by voter passage of a Proposition lowering the top marginal tax rates for the state's personal income tax. Despite the fact that the measure only affected individuals with taxable incomes exceeding \$200,000 a year and joint incomes in excess of \$400,000 a year, the voters elected to lower tax rates. Similarly, Governor Wilson continues to call for more general cuts in income and business taxes. Since Proposition 98 guarantees schools a share of the state's general fund revenues, these cuts would directly impact education.

What is needed is more money, not less. Unfortunately, options are few. The voters have already indicated how they feel about raising income taxes (even on the wealthy), and it seems unlikely they would be willing to change the terms of Proposition 13 even though simply assessing all property at its market value would probably nearly double state-wide property tax collections. While that may not be feasible, one possibility would be to reassess all property at market value, and then lower the tax rate so that the same amount of property taxes would be collected in each county. With tax rates below the constitutional limit of 1%, voters of local jurisdictions could be allowed to increase their property taxes, up to the 1% limit, with a majority or two-thirds vote.

This option would have differential impact on property tax payers depending on when they purchased their home or business, and where they live. Generally, the longer they have owned the property, the more they would have to pay. To mitigate any major problems of overtaxing individuals on limited or fixed incomes, a state circuit breaker property tax relief program could be established. Moreover, by allowing decisions on

the level of property taxation to be made at the district level, the system would infuse much needed local control back into the governance of our schools.

Equity

While general funds for education (revenue limits) are distributed in an equitable fashion, the trend in California in recent years has been to place more and more of the total funding for schools outside of the revenue limit, reducing overall equity. Two solutions stand out here. The first is to work hard to put increases in funding that become available into the revenue limit foundation system rather than into new or existing categorical programs. The second is to reform the categorical grant system so that funds are targeted at identified student needs and follow students, not districts. For programs like special education, a weighted pupil formula seems ideal. In other areas where categorical programs are needed, pupil weighting schemes or state reimbursement programs should be considered. Finally, the state should work to eliminate most small specialized categorical programs, rolling their funding into district revenue limits, and then working to more fully equalize district revenue limit funding. This will allow all districts to benefit equally from increases in state revenues, while maximizing local decision making over how those funds are used.

Conclusion

California's system of school finance has grown into a needlessly complex system that does not provide adequate funding for the state's schools, and distributes what funding it does make available in a manner that often has little to do with identified student needs. Major reforms of the current system are needed to simplify the distribution of funds and to insure that resources are aimed directly at the students most in need of fiscal support. Making these changes will not be easy as there is very little willingness across the state to increase taxes to pay for any public service, including education. Moreover, many of the state's current programs have developed through political processes designed to help specific regions of the state. Undoing this political allocation of educational funds will be an extremely difficult task.

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Finding solutions to the perennial problems of inadequate operating revenues . . . proves as difficult as scaling any of Colorado's famous '14'ers.

Promoting Equalization and Local Control in Financing Colorado's Schools

Judith K. Mathers
Richard A. King

The Colorado landscape is a study in extremes. Mountain peaks over 14,000 feet high descend to the more gentle foothills of the front range, and finally level to the rolling farm and ranch lands of the eastern plains. Small mountain streams become raging whitewater rivers, crashing through deep canyons before flowing quietly onto the plains.

The extremes of per pupil property valuation among Colorado school districts are as varied as the landscape itself. If communities depended solely on property tax revenue to finance schools, the amount of money available for programs or facilities would range greatly. The challenge of designing a satisfactory state finance plan that levels the extremes in districts' capacities, without removing the financial abilities of communities to reach higher educational goals, is not unlike the challenges of scaling the highest peaks or riding the roughest rapids.

There must be a satisfactory base of funds guaranteed, perhaps comparable to the elevation of the eastern plains, so that all children of the state can access an adequate education. Beyond this base, a formula structure must recognize that characteristics of school districts and children vary greatly and direct additional funds where they are most needed. The funds available to deliver educational programs that the state considers adequate in the 176 districts then appear as the lower mountains of the front range. But even this distribution of money under the formula would not satisfy all communities, and allowances must be made for those who would climb the highest peaks.

The school finance act adopted in 1994 built upon earlier attempts to equalize revenues available to school districts while also permitting local control in deciding overall resources. King and Whitney (1995) traced the recent history of Colorado school finance reforms, and Whitney, King, and Martinez (1995) provided greater detail on the foundation plan. In this

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overview of the formula, we briefly describe provisions for adjusting the base for district size and cost of living, determining educational needs including the presence of at-risk students, and permitting local leeway in raising the funding level above the state guarantee. Other sources of state and local revenue, as well as provisions for charter schools, are presented as illustrations of state aid outside the equalization program and as attempts to encourage local control over educational programs and spending. We then turn to challenges facing policy makers, including providing adequate funds to meet educational needs, determining whether to blend school performance measures into the funding formula, and financing needed improvements in capital outlay and technologies.

Our journey through the Colorado school finance landscape begins in the relatively flat eastern plains before scaling the highest peaks and riding whitewater rapids.

The Eastern Plains: Defining a Financial Base

In a foundation plan, the state legislature identifies a funding level to be made available for all students' education regardless of where they reside. This base is multiplied by a count of students to determine the funds that must be provided to ensure at least minimal educational offerings.

Colorado's school finance rests upon pupil counts, defined as districts' enrollments (membership) on the school day nearest to October 1. Included in the count are 3 and 4 year olds with disabilities and 4 and 5 year olds determined to be at-risk. A maximum of 8,500 pre-schoolers can be served in half day programs and 500 others can participate in full day kindergartens during 1997-98. Beginning in 1997-98, declining enrollment districts are permitted a three-year average of enrollments to cushion the decline in funds (HB 97-1249, Section 8).

The legislatively determined base funding level is \$3,667 in 1997-98. Simply multiplying this base by pupil counts would not provide sufficient money to recognize variations in children's and districts' needs. The formula structure thus includes a number of adjustments, which take us from the level plains to the uneven landscape of the foothills.

The Front Range: Variations Due to Districts' Characteristics

State legislatures consider a variety of adjustments within finance formulas to address legitimate differences in educational and financial needs of school systems (see Swanson & King, 1997). Colorado relies on a school district's cost of living, size, and number of at-risk pupils in determining the guaranteed funding level. The result is a distribution of guaranteed levels of funds, resembling the front range's lower mountains.

First, the statewide base is modified by each district's proportion of costs accounted for by personnel, cost of living, and size to determine a "per pupil funding" level. This formula depicts the adjustments for size and cost of living:

$$\text{Per Pupil Funding} = [(\text{Base} \times \text{Personnel Costs Factor} \times \text{Cost of Living Factor}) + (\text{Base} \times \text{Nonpersonnel Costs Factor})] \times \text{Size Factor}$$

A cost of living analysis is conducted every two years, taking into account the costs of housing, goods and services, transportation and taxes in regions of the state. The factor ranges from 1.004 to 1.630 in 1997-98 (Legislative Council, 1997b, p. 3) to indicate each district's cost of living relative to a base defined in 1994. This factor affects only the portion of the base that reflects the district's personnel costs, assuming that regional cost variations affect the salaries that must be paid to attract and retain qualified personnel. The personnel cost factor for each district reflects historical proportions of costs asso-

ciated with personnel. This factor is 79.6% in a hypothetical district with zero pupils, and it increases (at a decreasing rate) as enrollments rise to 90.5% in a district having over 30,000 pupils. The cost of living factor is not applied to the portion of district expenses that is not personnel related. Thus, a district's nonpersonnel cost factor is the difference between 100% and the personnel cost factor (e.g., a district presumed to devote 88% of expenditures to personnel costs would be expected to spend only 12% on nonpersonnel costs).

The size factor is an enrollment-based formula that mirrors a backwards J curve. The factor directs additional funds to the smallest districts, decreasing from a high of 159% in a hypothetical district with zero pupils to 0% in a district of 5,814 pupils. No size adjustment is granted districts with enrollments between 5,814 and 21,940 students. The largest districts also receive an adjustment for their diseconomies of large size, with the factor increasing in districts over 21,940 students to a maximum of 3.42% in those with 32,193 or more pupils. The range in size adjustment is from 1.0000 to 2.4135 in 1997-98 (Legislative Council, 1997b, p. 5).

The Act encourages large districts to divide, while also discouraging small districts from deconsolidating to gain additional size adjustment:

Therefore, when a reorganization results in a lower size factor, and less funding per pupil, the lower size factor is phased in over six years. When a reorganization results in a higher size factor, and more funding per pupil, the district or districts involved in the reorganization receive the lower size factor of the original district. (Legislative Council, 1997b, p. 5)

Second, an adjustment is made for the presence of at-risk pupils. The number of at-risk pupils is determined by the greater of (1) the actual number of K-12 students eligible for the federal free lunch program or (2) the percentage of the grade one through eight enrollment eligible for the federal free lunch program multiplied by the total student enrollment. The amount of funds available to meet needs of at-risk students is calculated by the following formula (per pupil funding is defined above):

At-Risk Funding = Number of At-Risk Pupils X At-Risk Factor X Per Pupil Funding

A district receives at least 11.5% of its per pupil funding for each at-risk pupil in addition to the per pupil funding level determined in the first adjustment to the base. In districts over 459 pupils, this percentage increases to a maximum of 30% as the concentration of qualifying at-risk pupils increases (by three-tenths of a percentage for each percentage point that the district's at-risk proportion exceeds the statewide average). Initially, neither the legislature nor the state department of education specified how the money was to be used, but beginning in 1997-98 districts are required by statute to spend at least 75% of the at-risk funds on direct instruction of at-risk pupils or for staff development related to at-risk pupils (HB 97-1249, Section 4).

The total guarantee for financing the operations of a district, referred to as "Total Program," is the sum of (1) per pupil funding times the pupil count and (2) at-risk funding:

Total Program = (Per Pupil Funding X Pupil Count) + At-Risk Funding

Adjustments for size, cost of living and the presence of at-risk youth mean that all districts' Total Program guarantees exceed the previously mentioned base. However, districts with optimal sizes, low costs of living, and few low income families would be held to an amount of spending approximating the base. A floor ensures that no district has a program cost below a minimum per pupil funding level, which increases annually along with the base. The affected eight districts are guaranteed

a Total Program of \$4,305 plus any increase in a district's per pupil funding from 1996-97 to 1997-98 (Legislative Council, 1997b, p. 12).

We turn now to an examination of how local and state funds are blended to pay each district's Total Program. This equalization of local capacities might be thought of as adding elevation to the lowest valleys in an attempt to level the property-wealth landscape.

Raising the Valleys: Equalizing Local Capacities

Once the guaranteed level of funding is determined for each district, a foundation plan blends state and local money to pay for this operating revenue. In the Colorado formula, the state share is the difference between the Total Program and applicable local revenue. Property taxes and revenue raised from an ad valorem "specific ownership tax" (SOT) on motor vehicles make up the local contribution.

Per pupil assessed valuations range greatly, from a peak of \$796,201 in the wealthy mountain resort community of Aspen to only \$9,915 in Sanford, a district serving the very poor San Louis valley (Legislative Council, 1997a). Assessed valuation is determined by two ratios: 29% of market value of commercial and industrial property or of annual production of mines and mineral property; and a "floating" rate on residential property (about 11% in 1997-98) which is adjusted biennially to ensure that residential property makes up the same percentage of total assessed valuation that it did in 1985. Property is reassessed every other year with reviews by the State Board of Equalization.

Each district is required to impose a property tax in conformance with the Taxpayers' Bill of Rights (TABOR). This constitutional provision, which was approved in 1992, limits the growth of tax revenue to the rate of change in inflation and district enrollment. Districts levy the lesser of (1) the prior year's levy; (2) the levy required to generate the maximum amount of property taxes permitted under the constitution; or (3) the levy that will generate the district's Total Program less minimum state aid and SOT revenue.

Thus, the required local effort is not a uniform millage rate as is generally associated with a foundation plan. Rather, the tax rate floats due to effects of the constitutional limitation on revenue growth. Nearly all districts had reached a uniform levy (40.08 mills in 1993-94) under the leveling provisions of the prior Act, and that levy became the required rate for most districts under the 1994 Act. The 1995 General Assembly established a maximum levy of 41.75 mills for the equalization program. Because of TABOR, and because excess money that would be raised in the wealthiest communities under larger tax rates is not recaptured, districts with the highest per pupil capacities have very low tax rates. As a result, the required levies range greatly, from 6.647 mills in a wealthy district to 41.75 mills in another district in 1997-98 (Legislative Council, 1997a).

Districts raise an estimated \$1.2 billion in property taxes and \$124 million in SOT revenue, as their share of the Total Program in 1997-98 (Legislative Council, 1997b, pp. 9-10). Depending on the amount of local revenue raised, the state share varies from 90% of the Total Program cost in the poorest communities to 0% in the wealthiest district. The estimated average state share is 56% of the Total Program (\$3.1 billion) in 1997-98.

The metaphorical landscape has shifted, elevating river valleys and eastern plains to direct sufficient revenue to property poor districts to meet most educational needs. However, the metaphor falls apart as the General Assembly recognizes a number of programs outside the equalization plan.

Beyond Equalization: Additional State Aid

States generally finance a number of programs through categorical funds and this money is not always subject to equalization. Colorado districts receive categorical aid for special education, bilingual education, vocational education, and pupil transportation. They also benefit from state revenue derived from land reserves and mineral leases.

Special education under the Exceptional Children's Educational Act is partially funded by a legislative appropriation. This appropriation is distributed as a flat grant to a district, a board of cooperative services, or a combination of districts sponsoring programs. The base funding amount for an administrative unit is the same as the prior year's state funding; the remaining appropriation is distributed to districts based on the number of students with disabilities relative to the total number of qualifying students statewide HB 97-1249, Section 30). Remaining special education costs beyond the \$69.4 million provided by the state in 1997-98, are financed by funds received under the foundation program or by a voter override election. An additional \$4 million is appropriated by the General Assembly for gifted and talented student programs.

State funds under the English Language Proficiency Act partially finance bilingual education. Additional services are provided for up to two years for those students whose dominant language is not English (A/B students) and for those students who are bilingual or multilingual but their dominant language is difficult to determine (C students). Three quarters of the state appropriation (\$2.6 million) finances programs for students in the A/B categories, and the remaining 25% of funds pays for education of students in the C group.

Approved transportation costs are funded at 38.87 cents per mile, plus 33.9% of the amount by which actual operating costs exceed the mileage reimbursement. Costs may include contracted services, reimbursements to students using public transportation, and transportation for special education and vocational education programs. Reimbursement may not exceed 90% of operating expenditures; a district may impose an additional mill levy with voter approval to raise its share. The average state share of transportation costs from the \$36.2 million appropriation in 1997-98 is about 81% of total costs.

In addition to these categorical state aid programs, districts receive state funds collected as investment revenue from the sale or lease of school lands and as federal mineral lease revenue. All districts, including the wealthiest who do not receive support under the equalization program, benefit from this minimum state aid, which amounted to \$55.99 per pupil in 1997-98 (Legislative Council, 1997b, p. 11).

These categorical funds and other state aid derived through land and mineral leases supplement the Total Program guarantee in all districts. If these sources still do not satisfy communities' spending goals, voters may choose to raise additional local funds.

The Mountain Peaks: Local Overrides and Fees

An equalization plan satisfies advocates of uniformity in spending among districts, but not all communities would be satisfied with a legislatively determined level of adequacy for school operations. The foundation approach differs from a fully state funded plan in permitting a degree of local control over ultimate spending levels. The importance of liberty, or responsiveness to differing needs and desires, is thus recognized in Colorado by empowering voters to override the required property tax levy of the equalization plan. Because of variations in capacities among districts, however, the landscape includes many mountain peaks—those wealthy communities that can achieve educational goals at lower tax rates.

Local control found support in the 1982 Colorado supreme court's holding that inter-district variations in spending neither denied equal protection of the law nor the "thorough and uni-

form" language of the state constitution (*Lujan*, 1982). The court stated that the constitutional mandate did not require "... absolute equality in educational services or expenditures." Rather than forcing equalized revenues for districts, the court found the finance system to be rationally related to the state's objective of furthering local control of education: "Taxation of local property has not only been the primary means of funding local education, but also of insuring that the local citizenry direct the business of providing public education in their school district."

The School Finance Act recognizes the desires of voters to override the guaranteed funding level, but limitations on override amounts keep the wealthiest communities from climbing to heights otherwise possible. Voters may override the equalized foundation guarantee up to the greater of 20% of a district's total program funding level or \$200,000. This leeway was increased from 15% under the prior Act. In addition to this statutory limitation, districts may not hold override elections when the revenue growth would exceed the TABOR constitutional limitation.

User fees may be charged to raise additional local money. Fees must be spent for the purposes for which they are collected, including out-of-district tuition, textbooks or supplies, participation in extracurricular and interscholastic activities, summer school, transportation beyond that which is reimbursed by the state, continuing education, or community education programs.

Override elections and user fees enable spending in many communities to rise above legislatively-determined amounts. This local control over educational programs and spending decisions is reinforced by policies that permit the formation of charter schools and districts.

Local Control of Programs and Budgets: Charter Schools and Districts

The importance of maintaining local control over how state and local money is expended is evident in statutory provisions for charter schools and charter school districts. Colorado was one of the first states to permit districts to charter schools, and the recent action to permit the state board of education to charter school districts may signal the beginning of a national movement to ease state regulation of local governing boards.

The 1993 Charter School Act permitted district boards of education to charter 50 schools statewide; in 1996, this total was raised to 60 schools. Charter schools are released of specified local and state requirements while being held accountable for meeting district and state standards. The statute calls for charter schools to encourage diverse approaches to learning, innovative teaching methods, different forms of assessing learning and achievement, new professional opportunities for teachers, expanded choices for parents and pupils, and parental involvement. Priority is given to schools that increase opportunities for low-achieving and at-risk pupils.

The form which a charter school might take to meet the above purposes is left to the design of teacher and parent groups. Yet, the school cannot be sectarian, religious, or home-based; nor may it be a conversion of a prior private or home school. A board of education may waive local regulations, and the initial contract must identify requests for release from specified state regulations. Once approved, the school and the local board petition the state board of education for exceptions.

Despite the creation of school-based governing bodies to oversee operations, charter schools are not independent entities, and local boards of education exercise control through initial approval and retention of a portion of funds. Pupils enrolled in charter schools count toward the total district enrollment for state funding, but a school's base budget is 80% of the

district's per pupil operating revenue. The remaining 20% is negotiable, enabling the charter school to purchase varying amounts of district-sponsored operations. Charter schools may contract with outside vendors or the district for such services as food, custodial, curriculum, media, libraries, and warehousing.

The Charter School District Act of 1996 created a pilot program of not more than five school districts of 15,000 or fewer students. A participating district will operate under a charter rather than under state law and regulations, beginning with the 1997-98 school year. A district desiring a charter submits a plan to the state board of education and may receive approval for up to six years. Like the creation of charter schools, this possibility of forming charter districts reinforces the value of liberty in enabling ever greater local control of educational and budgetary decisions.

Rapids and Other Challenges

As beautiful as the Colorado mountain and valley landscapes may be from a distance, those who traverse the land confront rugged terrain. Melting snow caps become rivers, carving deep canyons through the mountain passes. Even the most skilled rafters find challenges in taming the swiftest white water rapids.

Those who shape school finance policies face similar challenges in balancing continuing demands for greater equalization of educational opportunities and for local control of spending and educational programs. Among the greatest challenges faced today are the adequacy of revenue, the wisdom of blending performance measures into funding formulas, and sources of funds for capital outlay and technology needs.

The adequacy of revenues provided through the equalization formula was questioned in a study commissioned by the state associations of school boards and administrators (Augenblick & Myers, 1996). The primary conclusions pointed to the growing inadequacy of funding, particularly in relation to recent population growth (62,000 new students) and influxes of pupils with special needs. Average spending per pupil in the state in 1988-89 was \$4,553, which was \$278 above the national average (\$4,275). By 1993-94, average expenditures of \$4,894 had slipped relative to the national average (\$5,373). Teachers' salaries followed the same pattern, and the number of teachers per 1,000 pupils decreased in Colorado, whereas the national average remained about the same. Appropriating adequate funds for public education, or including current categorical funds within the equalization plan to place the burden on wealthier districts to finance these needs, would ease this challenge.

The General Assembly outlined state and local responsibilities for content standards and assessments in 1993. Local assessment is beginning at grades 4, 8, and 11, and the Department of Education administered statewide tests in fourth grade reading and writing in 1997. The General Assembly faced the challenge of providing funds for an expanded testing and accountability program in the future, and earmarked up to \$1.8 million of the 1997-98 appropriation for the assessment program (HB 97-1249, Section 40). Furthermore, when the testing program is in place, questions will be raised about the feasibility of tying a portion of allocations under the School Finance Act with districts' and/or schools' performances. Our recent research of performance-based rewards in four states (King & Mathers, 1996) revealed, however, potentially severe unintentional consequences to conditioning rewards and sanctions on school performance. Care must be taken in the design of such programs in order to gain the benefits of team-based recognition, without emphasizing narrow performance indicators or advantaging schools whose students' performance reflects community socio-economic status rather than school effectiveness.

Colorado's foundation plan levels the disparities in per pupil wealth for school operations, but the financing of major capital outlay projects continues to depend on local property taxation. A continuation of the Augenblick and Myers (1996) study examined district capital outlay needs, showing a shortfall of over \$2.4 billion to improve school facilities. Because the state provides no funding for large construction projects, the burden has been on local property taxes to repay debt created by issuing bonds. The General Assembly has been asked to appropriate general funds for this purpose or to examine whether the constitution should be amended direct a portion of lottery revenue to public school capital outlay. Once again, if large amounts of funds were to be directed to capital outlay, the distribution method must be sensitive to district wealth inequities.

Funds are needed in all parts of the state to finance an adequate level of technologies within classrooms and to link all schools to the internet. An information infrastructure committee was created by the 1996 General Assembly. This committee had the task of developing a statewide information infrastructure to connect urban and rural communities with school districts, institutions of higher education, libraries, and other public agencies and to provide access to the information superhighway. Whatever design emerges from this task force will demand appropriations to bring the plan to fruition.

Finding solutions to the perennial problems of inadequate operating revenues and school facilities continues to prove to be as difficult as scaling any of Colorado's famous "14'ers," peaks that rise above 14,000 feet. Technology needs expand faster than whitewater during the spring runoff, and funding an adequate level of technologies in all schools may prove more challenging than shooting the rapids. Just as rapids are always followed by a stretch of gentle flowing water, even today's funding challenges can be met. But the turbulent policy arena, with its demands for balancing uniformity with local control and for adequately financing education, will once again push the legislative agenda from calm water into surging rapids.

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The state is in the midst of a tragic and long term reform.

School Finance and Reform in Delaware: A Summary

Yasser A. Nakib

Delaware, although a small state with less than 20 school districts, is no different from other states in the dynamics and complexities of the political structure that has the most profound impact on educational policies in general and on public school finance in particular. The balance existing between the recent waves of reform initiatives that espouse a decentralized role of managing public school systems and the growing reliance on state government in funding these systems, is not unique to Delaware. However, in a state where almost two-thirds of school funding is provided by the state government while various major reforms are being implemented, this balance is proving to be elusive. Recent developments in the state have demonstrated the continuing struggle to achieve a sustainable if not a workable balance. But short of substantive reforms of the approach to school funding in the state, many of the new initiatives may only achieve a limited success.

Delaware is the second smallest state in the nation and is 5th smallest in population (nearly 700,000). In 1995–96, the state enrolled 108,461 pupils (48th in the nation) in 170 public schools within 19 school districts in all of its three counties. About 35.3% of enrolled pupils are considered minority, while about 12% are enrolled in special education programs. The state employs 7,918 professional staff, of whom 6,417 are classroom teachers (81%). Of the classroom teachers, 46.2% hold masters level and higher degrees. They earn an average salary of \$40,551 (12th in the nation), while they average about 15.3 in years of experience. Current 1995–96 expenditures for public elementary and secondary schools per pupil enrolled was \$6,944 ranking Delaware sixth in the nation. The state provides higher than average support for public K–12 education (67.3% ranking 7th in the nation), while supplementing the relatively lower contribution by local governments (25.3% ranking 44th in the nation). Federal revenue provides the remaining 7.4% (ranking 21st in the nation) and has been an important source of relief for state government.¹

After over a decade of declining K–12 public school enrollment leading to 1985, the state experienced a reversal of trend over the next decade with an average of 1.4% growth each year. However, over the same period classroom teaching staff increased by only 1.2% overall, with a relatively higher proportion employed in special rather than regular instruction programs. As a result, estimates of regular class size as revealed

by the pupil to teacher ratio have increased. At almost the same time period, total education support by the state (K–12 and higher education) declined from 37.8% (1986) to 30.9% (1995) of the total state expenditure budget. This has occurred while the state has been embarking on major reform initiatives ranging from implementing new directions of standards for schools to school choice. The impact of these reforms has focused attention on many finance related issues, primarily the way the state has been providing funds for its public schools system and the role of accountability at the school level.

The School Funding Process

State support of public schools in Delaware is primarily determined by three major components termed "divisions" that are object oriented. Enrollment, through a unit funding system, initially drives the allocation of personnel (weighted "units") that eventually determine the primary component of funding (Division I) depending on a state salaries and benefits scale². This fund provided nearly 58% of total state appropriations in 1995–96 which covers roughly 70% of all district's personnel expenditures, ranging from teaching to administrative to support staff. The second component of the formula (Division II) funds material and supplies, along with energy costs based on "units" that are driven by enrollment. The third component (Division III) is an equalizing factor used to compensate for funding disparities between property rich and poor districts. These funds are distributed in an inverse relationship to local property wealth based on enrollment, and are incrementally capped at a certain percentage for a given level of property wealth using an ability index. Districts have considerable discretion in their usage, although they only amount to about 8% of total state appropriations. Additional special and categorical funding is provided to cover transportation (fully funded by the state), capital outlay, debt service, academic excellence, staff development, school discipline, and other.

Delaware's 19 local school districts (three of which are vocational-tech districts) are autonomous in their taxing authority. Their responsibilities include raising funds to cover their share of current expenditures, debt services, and the "major" and "minor" capital improvement funds that finance construction and maintenance of building structures. Local school districts are required to raise the bulk of their share (for current operating expenses) through district-wide referenda. They are also allowed to charge "tuition" taxes for special education programs, although without a referendum. Capital improvement funding by the state varies with the district's ability to raise funds. While the vo-tech districts' capital costs are fully covered by the state, most districts (based on their ability index) are required to raise 40% of the capital improvement funds. No district (regardless of wealth) is allowed to contribute less than 20%. Approval of local referenda allows district authorities to set a property tax rate sufficient to pay for bonded expenses (capped at 10% of the district's assessed property value). Districts are limited to only two scheduled referenda within a 12-month period.

State appropriations for 1995–96 amounted to \$572.5 million or about 67.6% of all school expenditures, and about 76.4% of current expenditures (\$748.7 million). Salaries and benefits received the bulk of these appropriations (57.6%), followed by "enhancement" and capital funds (16.1% for items such as substitute teachers, staff development, capital outlay and maintenance, etc.). The district wealth equalization fund consumed 7.8% of total state appropriations; followed by transportation at 7.0%; material, supply and energy at 5.7%; "major instructional program" for academic purposes at 3.4%; and debt service at 2.4%. Current expenditures (all funds) in 1995–96 totaled \$748.7 million. Of which 60.6% was used for instruction, 9.8% for maintenance and operation, 6.1% for student transportation, 5.5% for school level administration, 4.7%

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for student services, 3.0% for food services, 1.4% for instructional staff support, 1.2% for general administration, and the remaining 7.9% for other types of support.

School Reform Initiatives and School Finance

The state governor formed an Education Improvement Commission in the summer of 1994 to recommend fundamental changes that are needed to improve the state's education system and to help achieve the recently developed new directions of academic standards and assessment. The commission recommended among many things, more flexibility and increased authority for local schools and a systematic approach to reform. Following the recommendation, the state legislature in the spring of 1995 passed two separate bills that would drastically change local school operations. One authorized school choice that allows parents to enroll their children in any public school in the state. The other empowers local school boards to grant charters to groups or organizations seeking to operate schools independent of state regulations. Although limited to five schools in each of the first three years, the bill imposes no limits thereafter. In both of these bills, there were no specific modifications to the way a school would receive state funds. As long as the pupil is enrolled in a specific school on September 30th, his/her district would receive the state funding. In the case of inter-district pupil movement under the choice program, the sending district would have to reimburse the receiving district for its own locally raised per pupil revenue. Ultimately, this phenomenon could implicitly lead to an uneven redistribution of locally generated funds where there could develop an uneven movement across districts, as the program reaches its full potential. Most importantly, transporting pupils to and from their chosen schools remains a state funded responsibility as long as the pupil remains within his/her school district. This could exert additional burden on the state given that in practice a higher proportion of the movement of pupils usually occurs within their own rather than to an outside school district. In districts that are sparse, this could prove costly.

The state legislature has also recently passed a host of other bills that would directly and indirectly contribute to the various reform initiatives. Among the most significant is the "shared decision-making" bill that provides financially backed incentives that help districts and schools in implementing their own site based governance structures. These incentives, although very small in their amount, partially fund the development, transition, adoption and implementation of procedural plans over a specified period of time. They may prove to be too small to instigate any serious change. More importantly, absent serious and tangible commitment on the part of the state and district offices to decentralize the budgeting process, it is doubtful that meaningful outcomes can be achieved.³

The state is also in the midst of a strategic and long term reform that is highlighted by three major components:

1. *Standard based reform* (New Directions): is a systemic and focused curriculum reform that established a norm-referenced standards for two core areas (Math and English) that are assessed through performance and writing tests. Although it is not very innovative in what it offers, it is well developed and received by the various players. These standards, if to be sustained, will require increased state effort and support to ensure adequate and equitable preparation. Initial attempts during 1994 and 1995 to implement interim-new standards in math, reading and writing for grades 3, 5, 8, and 10 have shown low achievement results. Efforts have concentrated on building capacities of local schools to adopt and implement the new standards. However, these efforts have no serious infusion of additional funds.

2. *Assessment for accountability*: the state's current assessment program implemented with a more permanent and comprehensive plan to be completed by 1997-98 is the primary focus for accountability. That plan espouses the school as a unit of accountability with rewards and sanctions yet to be developed. It has not yet linked the mastery of standards to the promotion or graduation of students. It is doubtful that without such linkage any other rewards and sanctions would be substantial to spur meaningful and long-lasting change. Absent the full development of this program, the public has relied on ad-hoc information regarding how school district operations are handled and most importantly how local school funds are being used. A recent survey (Delaware Research and Development Center, 1996) indicated that more than half of Delaware residents believed that their district's funds are not well spent. This has in many cases played a major factor in the defeat of few recent district funding referenda. The recent school choice and charter reforms reflect the political mood for more local control and accountability. Another effort is currently being debated concerning the requirement by the state that each district provide detailed accounts of school level expenditures as well as outcome measures.

3. *Capacity building*: professional development is paramount among its many objectives in order to meet the needs to achieve the various goals of the enacted reforms. The public has firmly supported it and the legislature appropriated special funding (currently at about \$250 per teacher) to meet the needs. Other elements are also being developed.

There are various minor and pending legislative bills currently under discussion that were primarily a result of the recommendations of the state commission. Those include reforming the existing special education funding formula and easing of the financial reporting process. Yet some in the state recognize that reforming the existing funding formula is essential to achieving most of these reforms. They believe that it is essential to eliminate or minimize the reliance of local school districts on having to pass tax referenda so that they are able to fund basic programs and additional functions created by the latest reforms. It is unlikely that the issue of abolishing the method of using referenda to raise local funds would currently gather the political support, however. With the general public weary of paying more school taxes in the absence of tangible improvements, the focus is on the need for better accountability on the part of both the state and local authorities.

Finally, the state receives a small amount of federal support for educational services through the U.S. Departments of Education and Agriculture. This support represents a relatively higher proportion than the national average of all public school revenue. The recent threats of federal budget cuts have caused a major concern in the state. It is because the state is small with limited resources and less flexibility, that many education interest groups have mobilized to find ways to fend off any proposed cuts. Although the 1996 proposed cuts did not materialize, there is still concern over any future cuts in federal funding. It is feared that the impact of these cuts and the lack of immediate options to supplant them, could have serious ramifications on current state reform initiatives. The potential impact of having to cut staff, especially teachers in curricular support areas that are essential to the current reform, could be most troubling. Moreover, any form of revenue reduction could lead to problems of funding inequity, especially with limited abilities and options by state and local authorities to make up for lost proceeds.

Conclusion

It is yet to be seen how the recent wave of active school reform initiatives in Delaware will fare given the lack of major funding enhancement and the rising demand on its educational system. Issues of accountability and adequacy of funding are shaping the recent political debate in the state. More importantly, the concern remains as to how the recent reform initiatives (especially choice and charter schools) would impact the approach to school funding when they are soon implemented on a large scale, and how these programs can be sustained under the existing funding structure. Although equity of school funding in the state has not recently been a major issue due primarily to the high proportion of the state share of funding public schools, the erosion of the reliability of having to pass referenda for local district funding is evoking some concerns. Perhaps the most profound challenge for the next few years is for the state to balance the pressure for the need of its increased involvement and support created by the reform initiatives, and the requisite for the system to become more decentralized so that the goals of these reforms can be attained.

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Endnotes

1. Amounts provided in this paper are actual amounts drawn from *Report of Education Statistics: 1995-96*, while rankings are drawn from slightly adjusted figures/estimates in *1995-96 Estimates of School Statistics*. All amounts are for Fiscal Year 1995-96 unless otherwise indicated.
2. Delaware Code, Title 14.
3. A recent analysis by Wohlstetter and Van Kirk (1996) of exemplary school-based managed schools points out the need for decentralized discretion of the school budgeting process.

Educational finance in Florida is at an impasse.

EDUCATIONAL REFORM IN THE SUNSHINE STATE: HIGH NEED, LOW FUNDING AND A DISAFFECTED ELECTORATE

Carolyn D. Herrington
Susan Trimble

The state of Florida greets the 20th century as the fourth largest state in the country. Currently the state's public schools enroll 2.3 million children, an increase of over 600,000 in ten years. Many of these children come with unprecedented levels of personal, familial and social problems and represent a cultural and linguistic diversity that strains the professional competence of educators and the fiscal resources of the state. At the same time, public confidence in schools is waning, state and local governments are facing huge resource demands from other service sectors and taxpayer resistance to higher taxes is at record high levels.

Public school funding in Florida differs from other states in a number of important ways. One, Florida has a highly equalized resource distribution formula resulting in a high degree of inter-district equity. Two, concerns for quality, while constant, have had to compete with the state's phenomenal growth. Three, the state exercises a much greater degree of control over the level of total funding (state and local) than many other states meaning that public school financing is highly vulnerable to shifts in financing of other state programs. This article offers a description of the current condition of educational funding for public schools in Florida, a review of the pressures facing educational finance in the state, and an analysis of the fiscal, political, and judicial issues they raise.

Description of the State Funding Formula

Funds for Florida schools are provided primarily by legislative appropriations through the Florida Education Finance Program (FEFP). When implemented in 1973, it was considered a model for states trying to craft distribution formulas that could withstand judicial review in the light of recent equity rulings. According to Florida statute, the FEFP was enacted "...to

guarantee to each student in the Florida public education system the availability of programs to services appropriate to his education needs which are substantially equal to those available to any similar student notwithstanding geographic differences and varying local economic factors."

The FEFP is designed to equitably distribute funding for individual students independent of local economic circumstances. The FEFP recognizes and accounts for factors that affect education costs across the state (such as local variation in cost of living) and for factors that affect the quantity or quality of education services delivered to students (such as special needs). The formula incorporates factors such as varying local property tax bases; varying program cost factors; district cost differentials; and differences in operating costs due to sparse student population and declining enrollments. The FEFP formula is based on a number of separate calculations but depends primarily on five basic components: (1) the number of full-time equivalent students; (2) the base student allocation; (3) individual program cost; (4) district cost differentials; and (5) the extent of local effort required.

The FEFP bases funding on the number of students in an educational program rather than on the number of teachers or classrooms. Therefore, the primary unit of calculation for the FEFP is the equivalent of one full-time student on the membership roll of one or more school programs for a school year. Each year, the legislature establishes a minimum allocation for each FTE in a form of the base student allocation (BSA). The FEFP recognizes that students' educational needs vary and that certain programs cost more than the BSA provides; for example, more funds are needed to teach a visually handicapped student than a student in a regular fourth grade class. To account for these cost differences, the FEFP provides additional funding to students enrolled in more costly programs. This is accomplished through a series of program cost factors (PCF) which are computed from a three-year average of program expenditures. There are currently 38 different program cost factors in three separate categories. The legislature sets the program cost factors for the year in the General Appropriations Act. Each district's allocation is then adjusted to account for differences in the cost of living. A district cost differential (DCD) is a numerical figure assigned to each school district based upon a three-year rolling average of the Florida Price Level Index (FPLI). Upon determining the number of FTEs and setting the BSA, PCFs and DCDs, the basic amount for current operations of school districts is calculated by multiplying the FTE x the BSA x the PCFs x the DCD. Once the amount for current operations is calculated, the fiscal responsibility of each school district is determined.

Required local effort (RLE) is the "fiscal responsibility" or revenue each school district must raise in order to participate in the FEFP. The non-voted millage is calculated at the state level and varies by the yielding capacity of each district's property tax rolls. For FY 1994-95, millage rates across the state ranged from 6.498 to 7.054 mills, with a mean of 6.725 (or \$6.725 for every \$1,000 of assessed value). Low-wealth districts are required to raise as little as 8% of their total appropriation; wealthy districts as much as 92%. Each district school board may also, at its discretion, levy an additional non-voted millage for operations. This millage is referred to as discretionary local effort (DLE). The legislature set the maximum non-voted discretionary operating millage for FY 1994-95 at .51 mills.

The legislature also earmarks funds for categorical programs to ensure funds for legislative priorities such as instructional materials and transportation. Since 1991, the legislature has significantly reduced the number of categorically funded programs to allow more local control of how education dollars are spent. Only five major categorical programs were funded in FY 1994-95: instructional materials, student transportation,

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pre-kindergarten, educational technology, and school lunch/breakfast. The legislature also makes special allocations for other programs. Special allocations are similar to categorical programs. There are currently seven major special allocations: Blueprint for Career Preparation, Instructional Technology, Summer Inservice Institutes, Parent Involvement in Education, Cities in Schools, Programs of Emphasis, and Full Service Schools/Interagency Cooperation.

As can be seen, the Florida finance formula is effective in equalizing educational funding throughout the state. In fact, the only unequalized part of the formula is the local discretionary millage which is capped at approximately one-half mill. However, the formula does not speak to need or adequacy.

Adequacy

While Florida, at least compared to many states, has successfully tackled the issue of inter-district equity, it has struggled continuously with the issue of adequacy. Like most southern states, it entered the post-World War II era with a severe deficiency in educational infrastructure, personnel and aspirations. It has fought continuously since then to move from a parochial educational orientation to a more cosmopolitan one, in keeping with the state's transition from an agrarian economy to one based on services. After struggling with racial integration in the 60s, the state concentrated its efforts in quality improvements in the 70s and 80s, increasing funding by over one-third in each of the two decades and mandating quality improvements through a series of reform efforts. However, these efforts appear to have stalled in the 1990s and the legacy of Florida's southern agrarian past intersecting with a new no-taxes environment and large enrollment increases is threatening the state's resolve to become internationally competitive. A description of the current school funding impasse facing Florida follows.

Structurally Inadequate Tax Base

The predominance of revenue to fund Florida's public schools comes from the state. The state's contribution is 50.5% and is derived from the general revenue fund and from proceeds of the Florida Lottery. As mentioned above local support is primarily through a state-determined required local effort levied on local property (plus a much smaller discretionary millage) contributing 42.5% of total funding. Federal sources provide 7.5%.

Because the state contributes approximately 50% of total public school funds and controls another 40% through the required local effort, limitations on state revenue sources severely impact school funding. Currently Florida state revenue sources face a number of constraints: some are old, some are new. Unlike most states, Florida has a constitutional prohibition against a state personal income tax. The general revenue fund is, therefore, highly dependent on revenues generated through various other taxes, the largest of which is the sales tax. In 1995-96, the sales tax alone accounted for 72% of the general revenue fund. However, the sales tax has failed to keep up with growth in demand for services. Florida sales tax is primarily a tax on goods. Services, on the whole, are exempt. For FY 1997-98, total taxable sales is estimated to be \$214.0 billion but exemptions will add up to \$265.1 billion. The failure of the tax base to keep up with growth in Florida income is dramatically portrayed when taxable sales is computed as a percentage of personal income. In the early 1970s, taxable sales were indexed at about 70% of personal income. By 1996, the percentage had fallen to 55% (Executive Office of the Governor, 1997).

New Political and Constitutional Barriers to Tax Expansion

The inadequacy of the sales tax base was recognized

early in the 80s and the 1987 Legislature enacted legislation to repeal the exemptions on most services. However, in the face of hostile voter reaction, the Florida legislature retracted from its action less than a year later. Since 1987 there have been no successful efforts to significantly expand the tax base. Additional barriers to tax base expansion have also been erected. In 1992, voters enacted two constitutional amendments limiting the state's ability to raise funds for education. The first requires the state to establish a budget stabilization fund amounting to 5% of the general revenue fund by fiscal year 1998-99. This limits state budgetary discretion by requiring that the state lay aside over \$600 million over five years. The second limits property tax assessment increases to 3% annually. Two years later in 1994, voters overwhelmingly approved a tax cap that limits state government budgetary growth to the average increase in personal income over a three-year period.

Fierce Sectoral Rivalry for State Revenues

Repeated inability to expand the state taxation base has led to more careful scrutiny of how the available funds are distributed among state-funded programs. For Florida, approximately 90% of all discretionary general revenue funds are currently appropriated among only three sectors: education, social services, and criminal justice (Montanero, 1996). In this atmosphere of intense inter-sectoral rivalry, education has fared poorly. In 1985-86, education accounted for 62% of state general-revenue spending. By 1994-95, this had slipped to only 50%. Medicaid which represents the bulk of the state's social services program increased from \$1 billion to just under \$7 billion between 1985-86 and 1996-97. As a federal entitlement program subject to congressional mandates, state budgeteers' discretion is limited in controlling the expansion of the program. Likewise, criminal justice spending quadrupled from \$600 million to \$2.6 billion between 1982-83 and 1996-97.

Efforts to Find Other Funding Sources

Since the late 80s, there have been a number of attempts to reach beyond the general revenue fund to find other sources of funds or to institute a funding guarantee. They have all met with mixed or limited success.

Lottery

In November 1986, Florida voters approved an amendment to the constitution which allows state operated lotteries. The law provides that revenues generated by the lottery be distributed as follows: 50% to be returned to the public as prizes; at least 38% to be deposited in the Educational Enhancement Trust Fund (for public education); and no more than 12% to be spent on the administrative costs of operating the lottery. During the lottery's first full year of operation (FY 1988-89) lottery ticket sales totaled \$1.83 billion, resulting in \$622 million being transferred to the Education Enhancement Trust Fund. Since that time, total lottery ticket sales grew to almost \$2.2 billion for FY 1994-95. In FY 1996-97, sales are estimated at \$2.145 billion with \$815.4 million available for transfer to the Education Enhancement Trust Fund. While lottery ticket sales have grown 18% since the first full year of operation, the Florida lottery is nine years old and has matured to the point that growth in ticket sales is leveling off. Population growth now contributes the most to growth in lottery ticket sales.

Local Sales Tax

Constraints on statewide revenue sources led the 1995 Legislature to authorize school boards to impose a 0.5% sales surtax for school fixed capital outlay, subject to approval by voters. However, to date only three counties have successfully levied the tax. In another five counties, voters turned it down.

The defeat of the local option sales tax for public schools has been blamed in large part on the public's perception that the state failed to deliver on its promise to use lottery funds to enhance education (MacManus, 1996). This has stimulated a flurry of legislative proposals to better earmark lottery funds so that their use is more visible to the taxpayer and so that it is clearly being used to enhance and not supplement general revenue funding. The problem, however, is that many districts are using the money for operations and would have great difficulty replacing the funds if the lottery money was pulled out.

Adequacy Lawsuit

In 1994, a coalition of school districts, the state school board association and the state school superintendents association sued the Florida legislature, the Governor and the state board of education claiming that the state has not provided enough money to give schoolchildren an "adequate" education, which the Florida constitution guarantees. The lawsuit alleges inadequate funding focusing on three issues: the additional fiscal burdens caused by increasing numbers of students who are expensive to educate, the state mandated improvement and accountability plan (Blueprint 2000) which requires higher achievement levels, and under-funded, state-mandated transportation services. An initial ruling by a Tallahassee trial judge in 1995 was in favor of the state stating that adequacy was a political determination to be made by the legislative branch, not the judiciary. The coalition appealed and in June 1996, the Florida supreme court, in a 4-3 decision, refused to revive the lawsuit.

Constitutional Designation of Percent of Budget for Education

In an attempt to stave off the reduction in the percentage of total general revenue allocated to public schools, the Florida Education Association-United is leading a coalition of public schools advocacy groups to collect enough signatures to place a referendum before the voters of the state which would guarantee a fixed percentage of general revenue funds for public schools.

Equity

The Florida finance formula currently allocates as much as \$700 more per student in some districts than in others. Even though this level of inequity would be a distant goal in many states, Florida with its large and few school districts (67 districts for 2.3 million students) has traditionally been intolerant of even small disparities. This issue surfaced recently with a legislative report showing large inter-district disparities in the portion of students categorized as gifted, ESOL and learning disabled disparities, perhaps based on different placement policies rather than different levels of need. In reaction, it has been proposed that all weights in the formula be eliminated, thus distributing the identical per-student allocation statewide regardless of factors such as sparsity, percentage of at-risk students, and percentage of special education students. However, to date no such proposal has been enacted.

Another area of growing controversy is the calculation of the district cost differential (DCD). This formula factor is designed to ensure that variance in cost of living in different geographical areas of the state is adjusted for in the formula. There have been some technical issues surrounding the mix of items in the marketbasket that is used to determine the DCD but there have also been broader, more philosophical disputes about the effect of the DCD on district-level salaries and instructional staff quality. The factor was intended to adjust for pre-existing cost differences but questions have arisen whether or not by enabling certain (usually large, urban) districts to compensate their teachers better, the DCD is inadvertently drawing the better and more highly educated teachers to these

districts. These concerns have been exacerbated by the rising range of the differentials. The 1995 legislative session accommodated these concerns by cutting the range in half. However, this is just a temporary accommodation and the issue will no doubt surface again.

Capital Construction

The most pressing fiscal issue in Florida today is overcrowding, particularly, but not restricted to, the large South Florida districts. Dade County (Miami) and Broward County (Ft. Lauderdale) rank third and fourth respectively in national rankings of high-growth districts. (U.S. Department of Education, 1996). Overall, state growth in FTE for K-12 is expected to bring between 40,000 to 60,000 new students between 1996-97 and 2002-2003. The state has two major sources of capital construction funds: PECO, the Public Education Capital Outlay program and local capital outlay millage.

PECO, adopted by the state in 1961 to bond gross receipts tax on utilities to pay for community college and state university system capital construction, (with K-12 education added in the early 1970s) is the major state program for educational capital outlay. After peaking at more than \$1 billion available for construction in 1994-95, the PECO program will yield only 50% to 60% as much in the next eight years. In 1990, the Legislature averted a PECO shortfall by raising the gross receipts tax from 1.5% to 2.5% over three years. That additional revenue produced additional bonding capacity, which by now has been absorbed. A task force convened in 1993 recommended that the gross receipts tax be broadened to include water, sewer, cable and solid waste, on a four-year phase-in. That report resulted in no action. Locally-levied capital outlay millage is the second largest funding source for public schools. At the discretion of local school boards, districts may levy up to two mills. In addition, voters may approve other capital outlay millage and sales tax increases in referenda. In recent years, voters have rejected a majority of local referenda seeking tax increases for schools.

Enhancing Efficiency

An issue that has become increasingly prominent over the last few years is the issue of productivity. There is a growing belief that lack of funds is not an impediment to school reform and that more attention should be paid to how current funds are being utilized. Concerns about administrative bloat and the failure of past infusions of new resources to impact classroom performance are expressed repeatedly by legislators. In an attempt to get a handle on this issue, the 1994 legislature required the districts to submit a report indicating what percentage of funds are spent in administrative vs. instructional activities. The 1995 legislature tried to go even further requiring the districts to redirect some of their resources away from non-instructional activities to the benefit of instructional activities. However, the governor vetoed the provision claiming that the legislature was making substantive policy decisions in the appropriations bill. The 1996 legislature is trying again with a requirement that \$75 million in non-instructional expenditures (administration) be shifted to instructional expenditures (the classroom). The legislature also is requiring a common expenditure/personnel classification system to better compare instructional vs. non-instructional costs across the 67 school districts. Other productivity issues addressed by the 1996 legislature include (1) \$30 million to provide incentives to schools and school districts to reduce the need for high school graduates to enroll in postsecondary remedial coursework and (2) state-funded performance audits in three school districts to determine if better management and improved resource allocation may yield improvements in student performance without the need for new resources. These audits are currently underway.

Educational Reform

Like many southern states, Florida has been actively involved in high profile state reform efforts for almost three decades. During the 1980s, these efforts consisted of maintaining the equitable funding formula in place from the previous decade while adding categorical funding in pursuit of specific reform components, designed to add quality. These included funding pre-kindergarten, seven-period days in high school, longer school years, smaller class sizes, middle school reform, management information systems, math, science and computer education improvement, and merit pay for teachers and schools (both subsequently repealed). In 1991, in reaction to complaints from educators that the accumulation of special categorical programs was reducing their fiscal flexibility and the drying up of new state funding sources, the state switched courses deregulating the majority of the programs and folding the money into the general funding formula. Between 1991 and 1997, the state has pursued (1) an increasingly deregulatory approach by each year eliminating additional categorical programs and increasing budgetary flexibility, and simultaneously (2) a regulatory approach by intermittently adding new program requirements in response to high profile issues in which the public appears to be demanding legislative action (Trimble & Herrington, 1997).

Conclusion

The most current educational reform efforts focus on increasing local control, establishment of statewide curriculum standards and aligned assessments, stimulating innovation through alternative governance strategies (open enrollment, charter schools and limited choice) and enhancing technology. Establishing higher standards and experimenting with new governance mechanisms have limited fiscal implications. However, upgrading the teaching force to match the new curricula frameworks and the purchasing and staff training required by new technologies will require significant additional investments. The state has added about \$55 million annually

for the last two years to allow for school district investment in administrative and institutional technology improvements. And, the current Commissioner is requesting an additional \$25 million for 1997-98 for professional development. How sufficient this level of funding is or how substantial its translation into education improvement remains to be seen.

Educational finance in Florida is at an impasse. Political leaders and the voters who elect them appear unwilling to confront any substantial reform in the state's taxation structure. Pressure for funds to meet enrollment growth and to address needs for quality improvements have been met by ad hoc patchwork fixes that have failed to buy anything except short-term relief.

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In 1996, Georgia voters narrowly approved a constitutional amendment to permit sales and use tax. Due to growing enrollment, boards will need to exercise this option.

Financing Public Elementary and Secondary Education in Georgia

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In 1986 the Quality Basic Education (QBE) Act was established to provide funding for public elementary and secondary education in Georgia. Additionally the voters in 1992 approved a state lottery whose proceeds supplement QBE spending on education. The QBE program is a foundation program, with a power equalization component, that annually guarantees a financial support base per weighted full-time equivalent pupil (Ga. Code §20-2-160).

Quality Basic Education Act

State funding is allocated based on full-time equivalent (FTE) counts made on two specific dates designated by the State Board of Education. One of these dates is in the fall and the other is in the spring. School districts determine each student's assigned programs for each one-sixth segment of the school day on the designated reporting dates. Authorized programs are assigned relative weights according to assumed costs of those programs in comparison to the high school general education base program. The total value of the one-sixth segments for which each student is enrolled in an authorized program is determined, and then divided by six to calculate the average weighted FTE on that designated date. The fall FTE count is counted twice, the spring FTE count is counted once, with the total divided by three to calculate the annual average weighted FTE. Current program weights are included in Table 1. Under QBE, some courses and activities are specifically excluded from funding. Those excluded are: study hall, non-credit courses, courses that do not devote a major portion of time to competencies adopted by the Georgia Board of Education, courses that require competitive participation in an extracurricular activity, service as a pupil assistant unless the activity is an approved career or vocational education work program, individual study courses without outlines of course objectives, courses requiring fees or tuition of resident pupils,

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Table 1
1996-1997 Program Weights in Funding QBE

| Program | Weight |
|---------------------------------------|---------|
| Kindergarten | 1.31722 |
| Primary Grades (1-3) | 1.23962 |
| Upper Elementary Grades (4-5) | 1.00732 |
| Middle Grades (6-8) | 1.01209 |
| High School General Education (9-12) | 1.00000 |
| High School Nonvocational Labs (9-12) | 1.15792 |
| High School Vocational Labs (9-12) | 1.26449 |
| Category I Special Education | 2.33495 |
| Category II Special Education | 2.71584 |
| Category III Special Education | 3.44965 |
| Category IV Special Education | 5.56514 |
| Category V Special Education | 2.40030 |
| Intellectually Gifted | 1.63599 |
| Remedial Education | 1.28806 |

and courses requiring fees or tuition in excess of the local costs per pupil of nonresident pupils. 90% of the total appropriations must be spent in the area earned.

For each local school system, the basic program entitlement for support of programs under QBE is determined by multiplying the weighted FTE pupil counts by the guaranteed financial support base. In 1996-1997, the financial base is \$1,837.30 per weighted pupil. Each district is required to provide what is known as the "local fair share." The local fair share is equivalent to the amount of revenue generated by a five mill tax on property assessed at 40% of the fair market value. The state-wide fair share amount for 1996-1997 was \$673.3 million. While the local fair share could theoretically be raised through any number of legal means, all districts levy more than the required five mills. The state's share of the basic support is calculated as the difference between the district's basic entitlement and the local fair share. The state's share is primarily generated by a statewide sales tax and by a state income tax. For 1996-1997 the state's share was \$3.706 billion.

District Power Equalization

In addition to the basic entitlement, QBE provides for district power equalization on up to 3.25 mills (or an equivalent amount raised from other sources) above the 5 mills required as the local fair share. That is, the state subsidizes districts below the 90th percentile in property wealth per pupil that generate local revenues for education above the required local fair share. The state transmits to the local districts the difference between what would be generated by the property tax by the district at the 90th percentile in property wealth per pupil and the amount actually generated in the local district. The total equalization money provided by the state for 1996-1997 was \$165.25 million. This represents about 4.46% of total state school aid.

Sources of Local Revenue

In Georgia there are a total of 180 school systems. Of these, 159 are fiscally independent county district systems, while the remainder are fiscally dependent city school systems. The independent systems are permitted to levy a tax of up to 20 mills on local property assessed at 40% of the fair market value. The 20 mill limit may be increased or removed upon

approval of a majority of the qualified voters (Ga Const. Art. VIII, §VI). To insure equity in assessment practices, sales/assessment studies are conducted annually by the Georgia Department of Audits. These ratio studies are used in determining the tax base in calculating the local fair share contributions for QBE purposes. Homeowners are provided a \$2,000 exemption. The elderly are entitled to homestead exemptions ranging from \$4,000 to \$10,000 depending upon age and income. Totally disabled veterans are provided exemptions of up to \$38,000.

In addition to property tax, local school boards have the option of asking local voters to approve local special purpose sales taxes. These sales taxes are to be used for special purposes and are of limited duration. When the purpose no longer exists or the initial time limit expires, the tax can only be extended by an additional referendum.

Categorical Grants

Middle Schools. An additional 13% of the basic QBE entitlement is granted as an incentive for local systems that operate middle school programs according to criteria established by the Georgia Board of Education. Pupils in grades 6, 7, and 8 are eligible for funding under this incentive grant. The programs are required to include among the other criteria, organized teacher teams with common planning times. For FY97 the middle school grants totaled \$77.2 million.

Sparsity. If a district is unable, due to sparsity, to offer a full QBE program to all or some of its pupils and consolidation or merger within and between districts would not create schools or districts of sufficient size, or would create excessive travel time, or the district has attempted to consolidate with another district which has rejected the offer, the district may be eligible for special financial assistance. If any of these three conditions exist, the state board of education will conduct a study to determine if consolidation is feasible, and if not feasible, to determine what additional resources are needed. This study must be conducted every five years and the district may not reject an invitation to merge to continue the sparsity grant. In FY97 no sparsity grants were awarded.

Transportation. Pupils who reside more than 1.5 miles from the school to which they are assigned are provided free transportation to and from school. All individuals with disabilities that require transportation services are also provided free transportation even if they live within the 1.5 miles. Local school systems are provided funding for students transported on routes and buses determined by the Georgia Department of Education as necessary for eligible students. The state pays replacement amounts to local school systems for buses of 7.2%, 10%, and 12.5%, depending on the bus size and equipment, in addition to compensating for drivers, insurance, and operating costs. Operating expenditures exceeding that allotted by the state are borne by the local district. Additionally many districts transport students who live within the 1.5 mile walking distance at local expense. In FY97 the grants amounted to \$139.2 million.

Limited English Speaking Program. The system is allocated the base cost of a teacher factored up by the system training and experience factor, for each eight FTE needing the service (for each six FTEs receiving itinerant services). The total for these grants in FY97 was \$14.36 million.

Special Instructional Assistance. These grants are based on the FTE counts for grades K through 3 and totaled \$87.84 million in FY97.

In School Suspension. Each system is allocated the basic cost of a teacher, factored up by the district's training and

experience factor, for each high school and each middle school in the system. For FY97 these grants totaled \$25.29 million.

Counselors Grades 4-5. These grants provide for counselors in elementary schools housing grades 4 and 5, and totaled \$7.58 million in FY97.

Technology Training. Each system earns the basic cost of a teacher for each four schools or fraction thereof. For FY97 these grants totaled \$15.29 million.

Special Adjustments

Adjustments are made to the basic funding program for special factors. These factors include training and experience levels of local teachers and changes in pupil counts.

Training and Experience. The funding entitlement of local school districts are initially computed based upon costs of teachers having a bachelor's degree and no teaching experience. A "T&E" factor is applied to the portion of the state entitlement that represents costs of teachers to reflect the actual training and experience of the teachers within the local school district. These adjustments are made to reflect the guaranteed salaries under the state supported schedule of minimum salaries for teachers.

Changing Pupil Counts. Because the QBE formula is based on pupil counts taken in the preceding year, school systems with growing school populations need adjustments to their basic entitlements to account for growth. Adjustments are made in January for changes in pupil counts. While growing systems are adjusted up, systems with decreasing pupil counts are not adjusted down but continue to receive the amount of funds calculated from the counts of the previous year.

Consolidation. If local school districts were to consolidate, all new construction required by the consolidation, approved by the state, would be finance entirely by the state. If schools smaller than the base size are consolidated or merged to form one school, larger than base size, or containing all of the districts students of those grades, the district would only be required to fund half the normal local share for any state-approved construction. The state pays all of any eligible costs for consolidation of schools across district lines. There are two special conditions for receiving financial incentives for consolidation of schools or school systems. No student can be required to travel a greater distance or time than permitted by state board policy, and all schools eliminated by consolidation must continue to be used for educational purposes, if that is practical.

Capital Outlay

Each system must develop a long-range facilities plan in order to participate in the state facilities financing plan. This five-year plan must include (1) enrollment projections, (2) the educational programs the system plans to provide for, and (3) their architect's cost estimates for providing these facilities. The system's plan is then reviewed by the state. Each system earns state funds annually as a function of the identified needs in relation to the total state needs and the program authorization level set by the General Assembly that year. Each system may choose to allow the earned funds to accumulate until some later date or to submit an application to utilize funds earned. Local matching funds are required. The cost to each local system is based on its ability to pay as determined by its property wealth per student. The wealthiest system is required to pay no more than 25% of the eligible construction costs while the poorest system is required to pay 10% of the eligible construction costs.

Georgia's constitution requires a referendum before local

governments may incur debts to construct new facilities. Recently the Houston County School District received legislative permission to create a "Houston County School District Building Authority." The Authority sold \$12,180,000 in trust certificates, using the proceeds to fund construction of two new schools. The trust certificates are secured by a contract between the Authority and the Houston County School District that obligates the district to make annual payments to the Authority (Holmes, Dayton, & Matthews, 1995). The underwriter of the trust certificates, Lex Jolly & Company of Atlanta, stated that the contract "is a general obligation of the district to which its full faith and credit and taxing power are pledged and is absolute and unconditional and will not expire so long as any of the installment payments of purchase price remain unpaid" (Whitt, 1994). According to Whitt (1994, p. E9), "The plan requires taxpayers, without a referendum, to pay whatever tax rate necessary, and for however long necessary, to retire debts created by school building authorities." Although some advocates of the plan have presented it as a revolutionary new method of funding new facilities, the legality of the plan is questionable, as is the likelihood that the legislature would authorize many other school systems to form school district building authorities similar to the special legislative authorization quietly granted to Houston County in the concluding days of the 1994 legislative session (Holmes, Dayton, & Matthews, 1995).

Optional Local Sales Tax

On November 5, 1996, Georgia voters narrowly approved an amendment to the Georgia constitution authorizing an optional local sales and use tax for public schools. Specifically, the voters were asked: Shall the Georgia Constitution be amended so as to authorize the boards of education of county school districts and independent school districts to impose, levy, and collect a 1% sales and use tax for certain educational purposes subject to approval in a local referendum? By a 51% to 49% margin, voters narrowly approved the proposed amendment. In addition to existing laws authorizing public school bond referendums funded by local property taxes, public schools may now propose special purpose projects to be funded through a local sales and use tax. Subject to voter approval, school boards can levy a 1% sales and use tax for up to five years. Due to growing student enrollments, it is likely that many school boards will exercise this new option to fund necessary facilities construction and renovations.

RESAs and Psychoeducational Centers

There are 16 Regional Educational Service Agencies (RESAs) that provide local districts with assistance in planning and research, staff development, curriculum and instruction, assessment and evaluation, and electronic technology. These RESAs are funded as part of QBE and do not require local contributions for basic services; however, each RESA board of control may establish fees for additional services. One-third of the membership of the RESA local board of control must be educators or public office holders.

A state appropriation provides for 24 psychoeducational centers. These centers are for those severely emotionally disturbed children who need services that cannot efficiently be provided by local school systems. These centers are wholly state supported and require no local matching funds.

Georgia State Lottery

Revenues generated by the state's lottery have contributed significantly to funding for public education. Under the provisions of the Georgia constitution, lottery proceeds may only be used for educational purposes. The amendment to the Georgia constitution authorized by Georgia voters in 1992

stated, "The General Assembly may provide for the operation and regulation of a lottery...and the Governor shall make specific recommendations as to educational programs and educational purposes to which said net proceeds shall be appropriated" (Georgia Constitution, 1993, Sec. II, Para. VIII (c)).

The first full fiscal year of lottery funding generated \$280 million in new revenue for education (League of Women Voters, 1994). In 1996, Governor Zell Miller celebrated the transfer of the one billionth lottery revenue dollar to education. Lottery revenues have exceeded the projections of even its advocates. As Governor Miller noted, "My highest expectations were for \$350 million a year...and now it's done \$500 million" (Billion, 1996). Lottery money has been primarily used to provide new technology for schools, create a statewide, universally available pre-kindergarten program for four-year olds, and provide Hope Grants (Holmes, Dayton & Matthews, 1995). There were five computers for every classroom in the state in the schools by the end of the 1995-1996 school year.

Georgia's "Hope Grant" program established the state as a national leader in promoting higher educational opportunities by paying for tuition and books at any Georgia public college, university, or technical institute, for all students who graduated from an accredited Georgia high school with a "B" average and who maintained a "B" average. Additional "Hope Grants" are available for teachers pursuing graduate programs in "shortage fields" (Holmes, Dayton, & Matthews, 1996).

FY98 Budget Requests

Governor Zell Miller ordered each state agency to identify 5% of its FY97 budget to be redirected in the FY98 budget. For the State Board of Education this amounts to approximately \$200 million. The Board unanimously approved a redirection plan that would combine the \$89.5 million currently earmarked for remedial program with the \$87.9 million earmarked for the Special Instructional Assistance Program to fund a program in which "systems would design school/system improvement plans that clearly state what student achievement gains are being sought. After review by the DOE, plans would be implemented . . . Systems would be given three years to complete their plans with benchmarks and assessments occurring annually" Budget Matter, 1996, p. 1). Additionally under this proposal \$20 million in earnings for media materials and \$7.7 million earned for extended day salaries through nonvocational laboratory and regular 9-12 QBE program weights would be redirected. Governor Miller's recommendations for redirection in the FY98 budget is not yet known. He will take the State Department of Education's (SDOE's) proposal into consideration but is not obligated to include it in his budget request to the General Assembly.

In addition to the redirection, the SDOE requested \$44 million in budget enhancements exclusive of salary increases. These additions included \$10.6 million increase for instructional materials, \$18.3 million increase for facility maintenance and operation (M&O), \$11.6 million for vocational equipment at new or modified high schools or middle schools, \$3 million for the creation of six new technology centers, \$350,000 for technology center staff, and \$350,000 to expand the elementary foreign language program to the 5th grade.

The majority of the board supported a quick look at the middle school incentive grants so that if it could not be shown that they have led to achievement gains that legislation could be introduced this term to allow for the redirection of that \$77.2 million in the future.

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Estimates of school finance reform in Illinois . . . exceed \$2 billion in cost to the state.

Financing Public Schools in Illinois: A Decade of Discontent

James Gordon Ward

Governor Jim Edgar and the Republican and Democratic leadership of both houses of the Illinois General Assembly vow that 1997 will be the year of school finance reform in the state. Of course, similar statements have been made for every year since 1987. In 1985, as part of an omnibus education reform act, the Illinois General Assembly repealed the general state grant-in-aid formula for funding public elementary and secondary school districts, effective August 1, 1987. The intent was to spend the next two years building a consensus around a new formula that would address issues of both equity and adequacy in Illinois school finance. When the fragmentation of the state's education community, the regionalism of the state, and the hesitancy to devote large amount of new funds to public education led to an inability to reach any semblance of consensus, the General Assembly restored the existing general state grant-in-aid formula in its spring 1987 session and preserved the status quo. Leading educational voices cried that school funding had reached crisis proportions in Illinois, and "we just cannot go on like this for much longer" became the leading lament of school superintendents and board members.¹ Go on they have and, in spite of numerous attempts at reform by a variety of groups and countless promises from state officials that each year will be the year of reform, there has been little material change in Illinois school funding since 1987. The year 1987 marked the beginning of a decade of discontent in Illinois school finance.

The Current Situation

In 1995-96, Illinois public elementary and secondary schools provided education services for approximately 1,932,000 students in 907 public school districts, the number of students trailing only the enrollments in California, Texas, New York, and Florida. The public schools received \$12.4 billion in funds in 1995-96, with the largest proportion being \$7.3 billion, or 58.7% of the total coming from local sources. An estimated \$6.9 billion was derived from local real property taxes. The state provided an additional \$4.0 billion, or 32.3% of the total, and the federal government contributed \$1.1 billion, or 9.1%. The state share of total revenues had reached a peak at 48.4% in 1975-76, but declined to 41.0% in 1985-86. The current

state share of 32.3% represents the lowest level of state support since the enactment of a state income tax in the late 1960s. The Illinois State Board of Education has calculated that state funds for public education has doubled since FY 1976, while local school funds have increased about four-fold. It should be no surprise that while school officials argue that they do not have sufficient funding, taxpayer groups have clamored for property tax relief.²

Illinois has two patterns of school district organization. There are 408 unit districts, which have grades pre-kindergarten through 12. Other areas have dual districts with separate elementary (pre-kindergarten through grade 8) and high school (grades 9-12) districts. Elementary and high school districts usually do not have coterminous boundaries so that a number of elementary districts may feed into a single high school district and children from one elementary district may go to different high school districts. There are 392 elementary districts and 107 high school districts in the state. The total number of public school districts decreased from 1028 in 1975-76 to 997 in 1985-86, and then to the current 907 in 1995-96. The loss of 121 districts over a twenty year period resulted from a decline of 38 unit districts, 61 elementary districts, and 22 high school districts. Dual districts are the dominant form of school organization in the Chicago suburban area, while unit districts are more common in the rest of the states.

Total public school enrollment reached a peak in Illinois in 1971-72, when there were almost 2.4 million public school pupils. By 1975-76, enrollment had fallen to just under 2.3 million, with a further decline to 1.8 million in 1985-86. Enrollments actually fell to below 1.8 million in the late 1980s, but have grown again to the current number of just over 1.9 million.

Of the approximately \$4.0 billion in state funding for public education in 1995-96, about \$2.3 billion was in the form of general state aid, \$1.3 billion was provided in about 80 categorical funding programs, about \$400 million went to fund the various retirement programs, and the remaining \$86 million was in transfer to other state agencies for educational programs.

General state aid is distributed to the 907 local school districts under one of three different formulas, depending on school district wealth per pupil. In 1995-96, 691 mostly low and medium wealth school districts received aid under the "Special Equalization" formula, which is essentially a foundation formula with the foundation level for 1995-96 set at \$2949.17. For 147 moderately wealthy districts, an "Alternate Method" formula provides a bridge so that these districts receive at least some general state aid. Finally, a flat grant set at 7% of the foundation level, or \$206.44 per pupil in 1995-96, is used for 69 wealthy school districts. These last two formulas exist for the political purpose of ensuring that all districts receive at least some minimum level of general state aid and, therefore, are invested in the state system. The pupil count used in all three formulas is based on average daily attendance and is weighted for grade level and incidence of poverty in the district. The tax rates used in the formulas are state-set calculation rates for each district type.³

The categorical aid programs are generally not equalized for wealth differences and are in the form of flat grants. Major categorical program areas include special education (\$416 million), pupil transportation (\$257 million), early childhood programs (\$102 million), vocational education (\$55 million), and bilingual education (\$54 million).

Illinois, like many other states, has wide disparities in spending per pupil because of a heavy reliance on the local real property tax to support public schools. The situation in Illinois is made more acute by the large number of school districts and the different district types, which results in many small districts and extremes in spending levels. For example,

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in 1993–94, among elementary districts the operating expense per pupil ranged from \$2618 to \$14,525. In high school districts, the figure ranged from \$4305 to \$14,182, and from \$3146 to \$10,416 among unit districts. The range is more restricted if only the largest school districts are considered. For the 27 elementary districts with an ADA higher than 3000, the range was \$3350 to \$8810. For the 21 high school districts with an ADA above 3000, the range was \$5305 to \$11,891. Finally, among the 25 unit districts with an ADA of 6000 or more, the range went from \$3740 to \$7328. With whatever measure used, the ranges show large differences in spending per pupil among Illinois districts, prompting the call from educators and others for reform of the system.

Executive and Legislative Attempts at Reform

Since 1987, there have been a number of attempts at reform of the Illinois school finance system through a combination of executive and legislative action. They have met with only very limited success and the Illinois school finance system is not much different in 1997 than it was in 1987.

In 1989, Gov. James Thompson and the leadership of the General Assembly agreed upon a temporary increase in the state income tax, with half of the proceeds to support increased education funding. This temporary measure was made permanent in 1991 during the beginning months of the administration of Thompson's successor, Gov. Jim Edgar. This measure increased state education spending by almost \$500 million for the 1989–90 school year and brought the state share of total spending from 37.8% in 1988–89 to 39.4% in 1989–90. However, after an increase in state funding of only \$12 million the next year, state spending for public schools actually fell in 1991–92 from the previous year's level. State financial difficulties and the fiscal conservatism of the Republican governor created a situation where state spending on public education in 1992–93 was actually lower than it was in 1989–90. In constant dollars adjusted for inflation, state spending for schools was lower in 1995–96 than it was in 1989–90. In constant dollars per pupil, state funding for public elementary and secondary education fell 10.5% over that same six year period. Even with the increased funding that the income tax increase did provide in 1989–90, the structural problems of the Illinois school finance system that promoted inequities still existed.

In 1990, the Illinois General Assembly appointed the Task Force on School Finance to develop a new state school finance plan that ensured adequate funding for all Illinois school districts and provided a more equitable distribution of school funds. The 36 members of the Task Force represented a broad spectrum of interests in the state, including 23 members of the General Assembly and the State Superintendent of Education, and was led by Sen. Arthur Berman (D—Chicago), former Rep. Gene Hoffman (R—Elmhurst), Sen. John Maitland (R—Bloomington), and Rep. Helen Satterthwaite (D—Urbana), a bipartisan group of prominent education-oriented legislators representing the major regions of the state.⁴

The Task Force held 30 meetings, commissioned extensive staff studies, consulted broadly with many experts and interests, and conducted five public hearings across the state. They issued their report in January 1993, which called for a new foundation level of \$3898, a regional cost adjustment, extensive equity measures to raise the spending level of the bottom half of the distribution, property tax relief, and numerous changes to the state formula. A number of supplemental comments were submitted by Task Force members, indicating disagreements with portions of the recommendations.

The Report of the Illinois Task Force on School Finance was acknowledged, but hardly commented upon by Republican Gov. Jim Edgar. Powerful House Speaker Michael Madigan (D—Chicago) was described as lukewarm to the pro-

posals in the report and Senate Republicans were already discussing alternative approaches by the time the Report was released. The legislative leaders who led the Task Force were rebuffed and the Report was allowed to die an almost instant death after its release. Difficult issues of local property tax policy, state revenue issues, and distribution of school aid were discussed extensively by the Task Force, but recommendations seemed to have been forced without real consensus being reached. Everyone found something with which to disagree in the Task Force's recommendations and no action was ever taken on the Task Force Report by the General Assembly.⁵

The Governor's Commission on Education Funding was established by Jim Edgar in May 1995, the commission consisted of 18 members representing a broad spectrum of Illinois citizens, but dominated by the business community. The chairman of the Governor's Commission was Dr. Stanley O. Ikenberry, recently retired President of the University of Illinois and a trusted friend of the Governor. The Commission was charged with recommending reform of the state system of school finance, with an eye toward equity and fairness. The Governor's Commission also consulted widely and held hearings across the state. It released its report in March 1996.⁶

The Governor's Commission report echoed many of the recommendations of the earlier Task Force but focused as well on the relationship between finance and educational quality and more heavily on property tax relief. The Commission also called for a constitutional amendment to be placed on the November 1996 ballot as a mandate for a new funding system. The General Assembly totally dismissed the idea of a constitutional amendment in an election year that ultimately might result in a tax increase. The total cost of the recommendations of the Governor's Commission were estimated to be in the \$1.8 to \$1.9 billion range after phase-in. However, like the previous Task Force, the report of the Governor's Commission was "dead on arrival" for a number of reasons.

First, as a result of the 1994 state elections, the Republicans retained control of the Senate and captured control of the House. The Republican leadership in both houses were highly partisan and were outspoken in their resolve to protect the interests of the Chicago suburban districts they represented. They were suspicious of school finance reform that moved toward equity because they correctly understood that their region of the state would pay the bill and receive little back in state aid to local school districts.

Also, the Report of the Governor's Commission was released at the same time that a close ally of the Governor, Lt. Gov. Bob Kustra, a moderate, unexpectedly lost the Republican primary for the U.S. Senate nomination to a very conservative state legislator in a campaign where tax issues figured prominently. Governor Edgar's reputation in the state is one of extreme caution and he seldom takes bold initiatives on his own. The primary election results shocked the Governor and other politicians in Illinois and made them extremely hesitant to endorse anything that could be interpreted as leading to a tax increase.

As a result, the Report of the Governor's Commission was never acted upon and the General Assembly never considered it. Instead, in the 1997 legislative session a hybrid school finance plan was adopted. Governor Edgar had proposed an education budget increase of \$220 million that would have resulted in an increase in general state aid of over \$50 million. Republican House Speaker Lee Daniels initially proposed a \$500 million increase with most of it going to districts on a flat grant basis, a move to drive considerably more education dollars into suburban schools.

When it was discovered that because tax bases were growing more rapidly Downstate than in the suburbs, many Downstate districts would lose state aid under Edgar's plan, a

compromise was reached. Edgar's general state aid proposal was enacted, but added to it was \$23.2 million in hold-harmless funds for mostly Downstate districts, and \$52.6 million for a flat grant to all districts on a per pupil basis. The total education package was \$291 million, higher than the Governor's original budget proposal. However, the flat grant represented a move away from student equity. Many commentators saw this session as part of a move toward pork-barrel politics, or in the words of the legendary Illinois politician Paul Powell, in the 1997 Illinois legislative session you could "smell the meat a-cookin."

Constitutional Approaches to Reform

The decade from 1987 to 1997 saw two attempts to reform the school finance system of Illinois from a constitutional perspective. One approach was an attempt at amending the state constitution in 1992 and the other was a more traditional school finance lawsuit.

In spring 1992 a small group of legislators and school finance activists engaged in a series of conference telephone calls in which they wrote a proposed amendment to Article X of the Illinois Constitution of 1970 which revised the education article making education a fundamental right in Illinois and to include phrases like "It is the paramount duty of the state to provide for a thorough and efficient system of high quality educational institutions and services," "to guarantee equality of educational opportunity as a right of each citizen," and that "The State has the preponderant financial responsibility for financing the system of public education." The proposed amendment by approved by the necessary 3/5ths majorities of both houses of the General Assembly and was placed on the general election ballot for November 1992. The intent of the amendment was to make it clear that the people of the state wanted school finance reform and to give the courts the necessary leverage to mandate reform if the General Assembly did not act. After intense and highly visible political campaigns by both proponents and opponents, the proposed amendment received a 57% "yes" vote at the polls. However, under the Illinois Constitution an approval by 60% of those voting is necessary for adoption, so the amendment effort failed.

In a parallel strategy, a group of about fifty school districts, operating under an intergovernmental agreement beneath the banner of the Committee for Educational Rights Under the Constitution, had filed a lawsuit against the state of Illinois in November 1990 challenging the constitutionality of the state school finance system. This legal challenge was dismissed for lack of a cause of action by a trial court in 1992 and by an appellate court in 1994. On October 18, 1996, the Illinois supreme court upheld the decisions of the lower courts and dismissed the suit one final time in *The Committee for Educational Rights v. Edgar*.⁷ The essence of their argument was that since education was not a fundamental right in Illinois, then the rational basis test was the proper standard for considering the equal protection violation charge and that the state system was rationally related to the state's goal of maintaining local control. Also, the court found that the language of the education article of the Illinois constitution established a goal, not a mandate, as was clearly evidenced by the record of the constitutional convention writing the 1970 Illinois constitution. The arguments of the plaintiffs was complicated by the fact that the delegates to the constitutional convention were well aware of the spending inequities that existed in Illinois and made no material attempt to eliminate them in writing the new constitution. The Illinois supreme court upheld long-standing Illinois precedent in ruling that the legislature, not the judiciary, was the proper mechanism for redress of any perceived problems with the Illinois system of school finance.⁸

Future Prospects for Reform

In spite of the vow of many Illinois political leaders that 1997 will be the year of reform in Illinois, it seems highly unlikely that any real reform of the state school finance system will occur for a number of reasons.

1. *Partisanship.* Political partisanship is rampant in Illinois, especially with the Democratic recapture of the state House of Representatives in the 1996 elections. Governor Edgar has insisted on a bipartisan agreement for school finance reform in 1997, but that will be very difficult to achieve in the current political climate. Whether it is true or not, it is thought to be unbending political axiom that it will be difficult for the Governor or members of the legislature to run for reelection in 1998 if they raise taxes in the two years prior to the election.

2. *Revenues and anti-tax sentiment.* Distribution formulas cannot be changed without creating winners and losers. The losers can only be held harmless by an infusion of new money into the system. After a number of years of near fiscal crisis, the State of Illinois is on sounder fiscal footing. Political leaders will be hesitant to commit new funds to education without increased revenues, which almost absolutely will mean increased taxes. As indicated above, this will be politically difficult. Anti-tax feelings are strong in Illinois, just as they are in much of the nation. Interestingly enough, some members of the General Assembly have expressed an interest in a Michigan-type school finance reform because they believe it was achieved while actually decreasing the overall level of funding for education.

3. *Regionalism.* Natural antipathies among Chicago (Democratic), the Chicago suburbs (Republican), and Downstate (mixed, but marginally Republican) make any consensus solution to school finance reform difficult. On important issues, particularly those with clear regional financial implications, regional politics in Illinois often result in legislative gridlock. One interesting, emerging phenomenon in Illinois political regionalism is that the Democrats regained control of the House in 1997 by winning in some traditionally Republican districts in the south suburban region. Who pays and who gains are important questions.

4. *Fragmentation.* One impediment to school finance reform historically has been the fragmentation of the education community. The education interest groups do not speak with one voice and are often at odds with one another in a very public way. This has allowed the legislature to play the game of "we will wait until the education groups get their act together before we will consider reform." Leading educational groups are making a stronger effort in 1997 to agree on a plan for school finance reform, but it remains to be seen whether they will be successful. There are indications that many of the old fissures among the education groups will reappear.

5. *Property tax relief.* Many of the key participants in school finance reform insist that significant property tax relief be part of any package that is enacted. This presents two problems. There is no consensus on how property tax relief will be achieved and property tax relief greatly increases the cost of any reform. Estimates of school finance reform in Illinois with substantial property tax relief exceed \$2 billion in cost to the state.

Endnotes

1. For a discussion of the politics of Illinois school finance within the context of general state politics, see Samuel K. Gove and James D. Nowlan, *Illinois Politics and Government: The Expanding Metropolitan Frontier* (Lincoln: University of Nebraska Press, 1996), chapter 10.

2. The data in this section on Illinois education are derived from three publications of the Illinois State Board of Education (ISBE): *State, Local and Federal Financing for Illinois Public Schools* (Springfield: ISBE, May 1996), *Illinois Public Schools Financial Statistics and Local Property Tax Data* (Springfield: ISBE, January 1996), and *Annual State Aid Entitlement Statistics, Illinois Public Schools, 1995-96* (Springfield: ISBE, October 1995).
3. The best overview of the Illinois school finance system is in R. E. Everett, *A Guide to School Finance* (Springfield: Illinois Tax Foundation, 1995).
4. Illinois State Board of Education, *Report of the Illinois Task Force on School Finance* (Springfield: ISBE, January 1993).
5. See James G. Ward, *A Summary History of Public School Finance in Illinois, with Public Policy Issues: A Brief Background Paper* (unpublished paper prepared for Dr. Stanley O. Ikenberry, Chair, Governor's Commission on Education Funding for the State of Illinois, May 30, 1995).
6. State of Illinois, Office of the Governor, *Report of the Governor's Commission on Education Funding for the State of Illinois* (Springfield: Illinois Office of the Governor, March, 1996).
7. Illinois Supreme Court, Slip Opinion, Docket No. 78198.
8. A fuller discussion of this case is contained in James Gordon Ward, *Constitutional Politics and Illinois School Finance Reform*, paper presented at the annual conference of the Illinois Political Science Association, Normal, Illinois, November 9, 1996.

A contentious issue . . . is the call for an 'urban factor' in the funding formula.

Indiana's Reward-for-Effort School Funding Formula: Issues and Options

Neil D. Theobald
Barry Bull
Nick Vesper

Indiana is in the fourth year of a scheduled six year phase-in of its guaranteed yield reward-for-effort school funding formula. The goal of the formula is to ensure that school corporations receiving equal reward (i.e., generating equal amounts of per pupil non-categorical revenue¹) also make equal effort (i.e., levy equal general fund property tax rates).² Previous work (Theobald, Vesper, & Bull, 1995) suggests that the state has made significant progress in meeting its goal of equal reward-for-effort across Indiana school corporations.

This paper will first briefly describe how Indiana funds K-12 education. It will then review current school funding issues faced by the state and discuss possible courses of action available to the Indiana General Assembly. The intent is to provide policy makers, both inside and outside Indiana, with an overview of how the state will distribute nearly \$2.3 billion in non-categorical aid in 1997 and the challenges the 1997 General Assembly faces in devising the 1998 and 1999 school formula.

How Schools Are Funded in Indiana

The Indiana school funding formula was developed in response to a lawsuit that challenged the constitutionality of the state's previous school funding system (*Lake Central et al. v. State of Indiana et al.*, 1987). The plaintiffs in the *Lake Central* lawsuit charged that since the previous modified foundation formula allowed property-rich school corporations to generate more revenue than property-poor school corporations, it violated the equal protection clause of the state constitution (Article I, Section 23) and that the state was out of compliance with Article VIII, Section 1, which provides "for a general and uniform system of common schools." Other critics charged that the formula was "a twenty-year ad hoc accumulation of frequently conflicting and inconsistent policies" (Johnson, 1993).

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Reward-for-Effort

In 1993, the Indiana General Assembly sought to address these concerns by adopting a new concept to guide state aid to K-12 schools and state control of school general fund tax rates. This new approach allocates state aid, and prescribes school corporation general fund tax rates, in an effort to weaken the strong positive link between non-categorical revenue and property values described in *Lake Central*. Instead, the state is implementing a reward-for-effort—or guaranteed tax base—approach that attempts to establish a strong positive link between a school corporation's per pupil non-categorical revenue and its general fund tax rate. The formula requires those school corporations who receive higher revenue amounts to levy higher general fund tax rates than those school corporations who receive lower revenue amounts.

The reward-for-effort approach guarantees a unique assessed valuation amount per pupil for each per pupil revenue level (i.e., the formula assigns each per pupil revenue amount a given per pupil assessed value amount). As the per pupil revenue amount increases above \$3,755, the guaranteed assessed value decreases from its peak of \$147,200. For example, in 1997, the state allows a school corporation with non-categorical revenue of \$4,000 per pupil to use an assessed valuation of \$142,756 per pupil in calculating its target general fund tax rate. This generates a tax rate of approximately \$2.80 (\$4,000 divided by \$142,756 = \$2.8020 per \$100 AV). A school corporation with non-categorical revenue of \$5,000 per pupil will use an assessed valuation of only \$126,663 per pupil in calculating its target general fund tax rate (see Figure 1). This generates a tax rate of nearly \$3.95 (\$5,000 divided by \$126,663 = \$3.9475 per \$100 AV). Allowing a school corporation with \$4,000 per pupil in revenue to use a higher assessed valuation than does a school corporation with \$5,000 per pupil will lower the tax rate charged in the former corporation in comparison to the rate charged in the latter corporation.

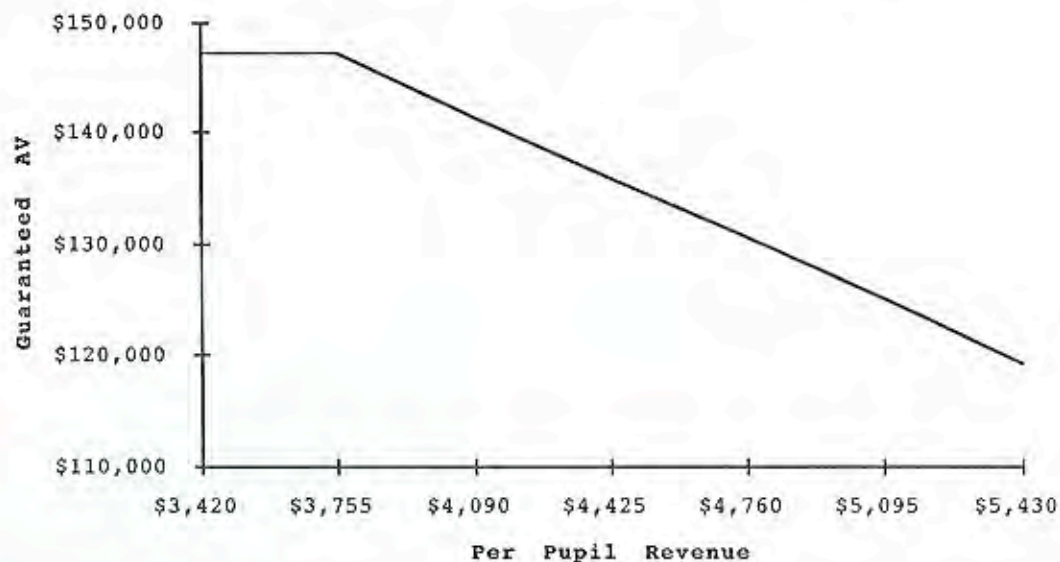
The reward-for-effort formula sets each school corporation's per pupil non-categorical revenue, its general fund property tax rate, and its percentage of state aid. Each year, the formula first adjusts a school corporation's prior year revenue amount to provide larger funding increases for school corporations with lower revenues. Once these variable grants and minimum guarantees are in place, though, the formula "adjusts the school corporation's regular tuition support downward when enrollment has declined for two consecutive years" (Mills, 1995, p. 3). This provision, known as the "deghoster", is not allowed to decrease per pupil revenue below \$3,715, the minimum guaranteed in 1997.

For each per-pupil revenue amount, the school formula prescribes a unique "target" general fund tax rate. For 123 school corporations, this 1997 target rate is within 5¢ of their 1996 general fund tax rate. These corporations are described as "corresponding" (i.e., the corporation's tax rate "corresponds" to its per pupil revenue) or "on-chart". They use the 1997 target rate as their 1997 general fund property tax rate. The remaining 171 school corporations (those whose 1997 target rate is more than 5¢ above or below their 1996 general fund tax rate) are described as "non-corresponding" or "off-chart". These corporations determine their 1997 general fund property tax rate by increasing or decreasing their 1996 general fund rate by 5¢ (whichever moves the corporation toward its target tax rate).

Non-Categorical State Aid

While school corporations use a guaranteed assessed valuation to calculate target revenues and tax rates, they use their actual per pupil assessed value to calculate the percentage of non-categorical revenue that the state will provide. The percentage of a school corporation's non-categorical revenue pro-

Figure 1
1997 Guaranteed Assessed Valuation at
Each Per Pupil Revenue Level



vided through state aid is determined by the extent to which a school corporation's actual assessed valuation per pupil falls short of the guaranteed assessed valuation per pupil.

In 1997, the mean per pupil non-categorical revenue in Indiana is \$3,823, while the mean assessed valuation per pupil is \$48,713. According to the 1997 funding formula, a per pupil revenue amount of \$3,823 would allow a school corporation to assume a guaranteed assessed valuation of \$145,909 per pupil. Since the guaranteed assessed valuation is about three times the local tax base, a school corporation with average per pupil revenue and average assessed valuation will receive approximately three times the revenue generated solely by their local assessed valuation. Thus, state aid accounts for about two-thirds of an average school corporation's non-categorical revenue.

The percentage of non-categorical state aid received by a school corporation varies inversely with revenue and with assessed valuation. The percentage of state aid increases for school corporations with below-average revenues or below average assessed valuations and falls as revenues or assessed valuations increase across school corporations. At the extreme, the most property-rich school corporation in the state receives no state aid, but is allowed to levy a slightly lower general fund tax rate to keep the non-categorical revenue it collects from being greater than its targeted amount.

Categorical State Aid

Along with the non-categorical revenue generated through the reward-for-effort formula, the state apportionment formula provides additional grants for (a) enrollment growth, (b) at-risk programs, (c) K-3 class size reduction, (d) special education, and (e) vocational education.

1. To qualify for the enrollment growth grant, a school corporation must enroll 250 more students than in the prior school year. For these school corporations, the state provides an additional four months of revenue (to cover expenses for September-to-December of the prior fiscal year) for each added student.

2. To qualify for an at-risk program grant, a school corporation must be among the 234 school corporations in the state with the highest "at-risk indexes" as measured by a state formula. The formula uses percentages of (i) adults without high school degrees, (ii) children living in single-parent homes, and (iii) children living in poverty as proxies for social conditions that create unique and significant expenses for school corporations.
3. To qualify for a K-3 class size reduction incentive (i.e., PRIMETIME) grant, a school corporation must either reduce pupil-to-adult ratios in grades K-3 in the current year or maintain the grade level ratios prescribed for a particular grade (18-to-1 in kindergarten and first grade; 20-to-1 in second and third grades). An instructional assistant is counted as one-third FTE for purposes of calculating this ratio. In 1997, school corporations receive \$25,000 for each FTE added to the ratio in the current year or needed to maintain the ratio below the grade level threshold.
4. Special education grants are based on the number of children identified in three categories. In 1997, students in the severe category generate \$7,000 per pupil, those in the mild and moderate category generate \$1,900 per pupil, and those in the communication and homebound category generate \$450 per pupil.
5. Vocational education grants are based on an additional pupil count (APC) matrix that has remained unchanged since 1979. Each of 11 vocational programs is weighted to provide an additional pupil count that generates \$1,540 per APC in 1997.

Current School Funding Issues in Indiana

The remainder of this paper highlights three current school funding issues faced by Indiana and discusses possible courses of action available to the General Assembly. The first two—property taxes and urban school funding—are enduring issues that will require efforts across several sessions. The last

issue—alternative schools—is narrow with objectives that are reachable in a single session. This section presents each issue, followed by a discussion of pertinent data and, when appropriate, recommends an option to the 1997 Indiana General Assembly in addressing the issue.

Issue #1

- The new formula generates higher average general fund property tax rates. This trend compounds a widespread perception that property taxes are increasing too fast in Indiana.

In 1993, school corporations in Indiana levied general fund property tax rates that averaged \$2.92 per \$100 of assessed valuation. In 1996, all property in Indiana was reassessed. Due to this reassessment, the charged rate fell to slightly less than \$2.73 per \$100 of reassessed property in 1997. Without this reassessment, though, school corporations in Indiana would have levied general fund property tax rates that averaged \$3.10 per \$100 of assessed valuation. Thus, over the first four years of the phase-in, general fund tax rates have increased by 18¢, or 6.3%.

This tax increase, though, has begun to address the taxpayer inequity that lay at the heart of *Lake Central*. In 1993, taxpayers in the 30 school corporations with the highest general fund tax rates paid more than double the tax rate paid by the taxpayers in the 30 school corporations with the lowest general fund tax rates (see Figure 2). The 40% of school corporations with general fund property tax rates above the state average paid nearly \$1.00 per \$100 of assessed valuation more in taxes than did lower tax rate school corporations (\$3.49 per \$100 for high tax rate school corporations; \$2.54 per \$100 for low rate corporations).

As shown in Figure 3, the new formula has increased tax rates for low rate corporations by an average of nearly 10%, while higher rate school corporations have increased by less than 3%. It could be argued, therefore, that the property tax rate increase created by the new formula resulted not from a flaw in the formula, but instead as a necessary by-product of the very low property tax rates prevailing in a large number of Indiana school corporations.

One of the anomalies of the current formula is that the 90 lowest revenue school corporations in Indiana are all classified by the formula as "low-tax-high spend" (i.e., the corporation's general fund tax rate is too low given its per pupil revenue). These school corporations have low per pupil revenue, but they have very low general fund property tax rates. To rectify the taxpayer inequity described in *Lake Central*, the new formula must bring tax rates in these very low rate school corporations closer to those prevailing in the rest of the state.

Thus, an immediate course of action for the 1997 General Assembly seems uncertain. Although the previous court order to rebuild Indiana's property assessment system has been vacated, the 1997 General Assembly will be under increasing pressure to find alternatives to the current dependence on property taxes to fund public schools. This pressure, though, seems to be, at least in part, in reaction to efforts to improve taxpayer equity. One course of action the 1997 General Assembly might consider is establishing an interim committee to study the Indiana tax system as it relates to public schools. Such a study could include exploration of alternative sources of revenues for public education, but should also address how proposed changes would affect the fairness of the tax system across Indiana's school corporations.

Issue #2

- An increasing number of school corporations, and especially those in urban areas, believe the funding formula should better recognize real differences in the cost of education across the varied school corporations in the state.

Currently, urban school corporations receive an average of about \$400 more per-pupil revenue than other Indiana school corporations (Theobald, Bull, & Vesper, in press). These corporations have come to increasingly question the extent to which this additional revenue sufficiently reimburses them for the expenses generated by the special populations they serve (Indiana Urban Schools Association (IUSA, 1997). For example, students in Indiana's urban school corporations are three times more likely to live in poverty, twice as likely to require remediation for the statewide academic exam, and are

Figure 2
General Fund Property Tax Rates in 1993, by Decile

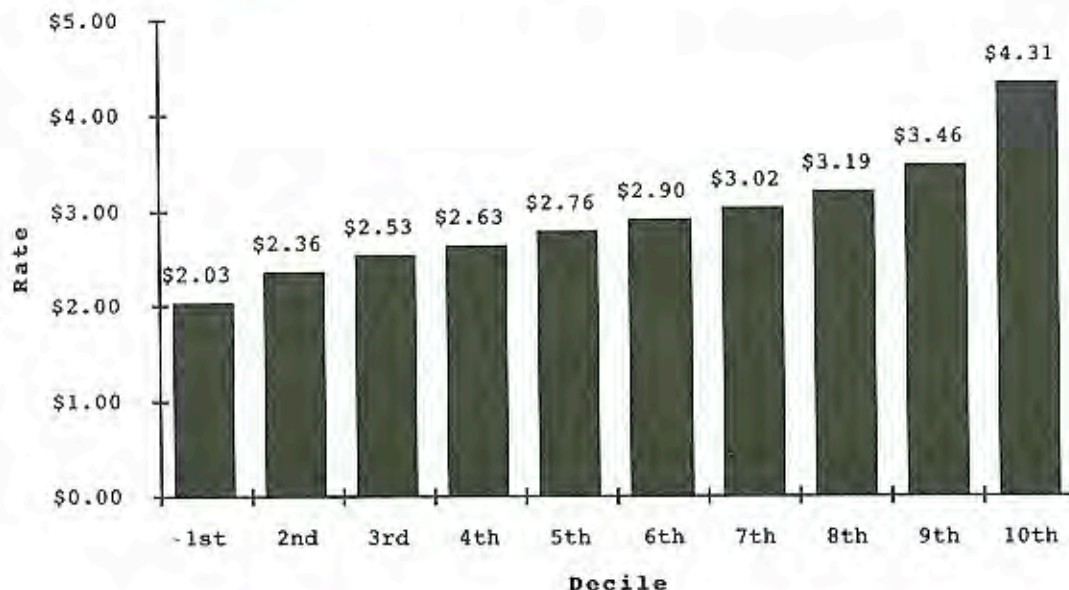
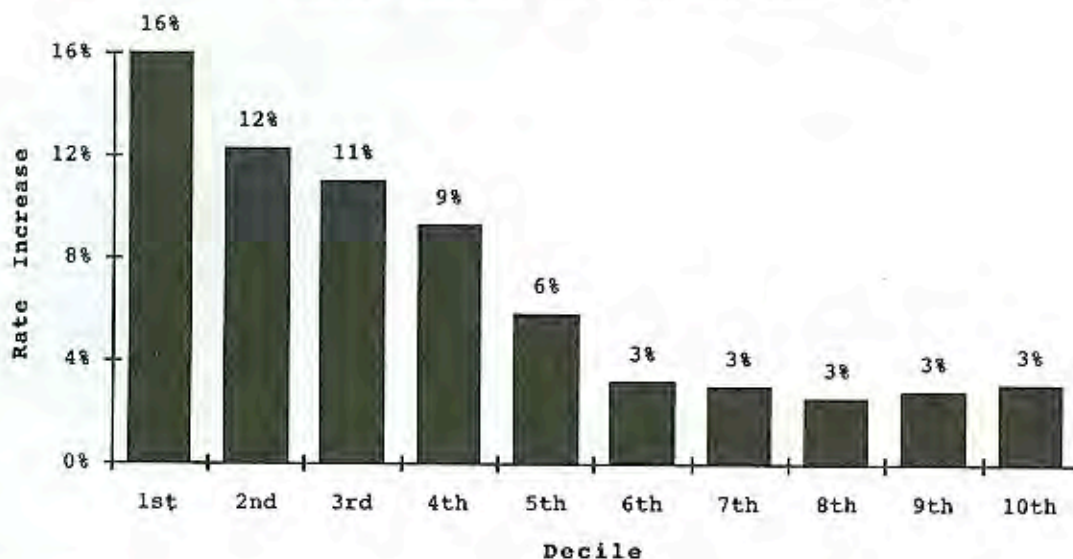


Figure 3
General Fund Property Tax Rate Increase
from 1993-1997, by Decile
(Rates Adjusted for 1996 Reassessment)



more than twice as likely to live in a single-parent home than are students in non-urban districts (Theobald, Vesper, & Bull, 1995).

As a result, urban school corporations have approached the 1997 General Assembly with requests that the school funding formula be revised to provide additional revenue for expenditures (i.e., security, English as a second language, free textbooks for students living in poverty) that they believe heavily impact urban schools. According to these corporations, without support for these kinds of expenditures, urban corporations are left with relatively less to spend on instruction.

In response, the 1997 General Assembly might consider establishing an interim committee to study cost factors that affect urban schools uniquely. The increasing diversity in our urban centers is well documented. What has not been documented is the way in which these factors constrain the ability of urban schools to meet their constitutional charge to "provide a free and appropriate education" for all children. An interim study committee could address itself to questions such as:

- How do distributions of expenditures in urban school corporations differ from those in non-urban school corporations?
- What needs (e.g., remediation programs) are generated by special populations in urban school corporations?
- How does the role that urban school corporations play in providing special and vocational education services to other school corporations impact urban corporations' spending for regular education programs?
- What is the impact of current at-risk identification practices (i.e., at-risk students aren't "counted" in a manner similar to special and vocational students) and spending restrictions on the adequacy of services provided to this population of students?
- How well do graduates of urban school corporations perform in college and in the labor market?

Issue #3

- Increasing numbers of policy makers and educators are calling for state funding for alternative education.

Alternative schools were championed by a number of candidates in the 1996 election, most prominently the incoming governor, as one means of providing better educational opportunity for students exhibiting behavior problems and showing an inability to function in the traditional school setting. In addition, alternative schools are seen as leading to greater overall achievement by students in the traditional setting whose educations are currently being negatively affected by chronically disruptive students.

The 1997 General Assembly might consider developing a formula to provide funding for the excess costs involved in developing and operating alternative schools (primarily staff training, facility upgrades, and student transportation). An initial step will be defining the purposes and means of alternative education that would be supported by state funds. One option is to define alternative education as instructional and pupil personnel programs, in settings outside the regular school program, that are designed to enhance the likelihood that students placed in them will attain the performance levels established by the state testing (i.e., ISTEP) program and graduate from high school.

Clear specification of the problem should provide the General Assembly with needed guidance in designing a funding system. Currently, most proposals for alternative school funding call for a categorical program with a separate funding formula, such as that used for special education. Unfortunately, program-focused categorical funding formulas have historically suffered from over-identification of students for these programs.

A more promising approach for distributing funds might be to attach alternative schools to the state's current at-risk program grants. Such an approach would see alternative education as the solution for addressing the problem of "at-risk students". If the General Assembly chose instead to specify "chronically disruptive students" as separate from "at-risk students", then it might develop a formula similar to the at-risk

index. Such a formula could base a school corporation's alternative school funding to indicators of chronic disruption such as reported incidents of disorderly conduct or drug incidents. Tying alternative school funding to students and their circumstances—as could be accomplished through either the current at-risk formula or through a new alternative school formula—effectively targets funds without providing incentives to over-qualify students.

Conclusion

Before the implementation of the new guaranteed yield reward-for-effort school funding formula, differences in property values were more important than differences in tax rates in explaining why some school corporations had access to more revenue than did other school corporations. Currently, differences among school corporations in local property tax rates are eight times more important than differences in property tax wealth in explaining why school corporations generate differing amounts of revenue (Theobald, Vesper, & Bull, 1995). Thus, the new funding formula is dramatically succeeding in moving toward its goal of providing higher revenue amounts to school corporations with higher tax rates.

However, the 1997 General Assembly still faces a number of difficult challenges as it attempts to continue this progress in 1998 and 1999. The current formula has increased general fund property tax rates by 6.3% in an environment in which property taxes—and their use to fund public schools—are coming under keen scrutiny. This increase in property taxes is far from uniform, though, and it could be argued that the tax rates in a large number of very low rate school corporations need to be brought closer to those prevailing in the rest of the state if the formula is to rectify the taxpayer inequity described in *Lake Central*.

Another contentious issue facing the 1997 General Assembly is the call for an "urban factor" in the funding formula that would reflect differences in the cost of education across the varied school corporations in the state. Urban school corporations believe that they "have expenditures which are unique to the nature of the communities in which they are located" (IUSA, p. 4).

This paper recommends establishing interim committees to study both (a) the Indiana tax system as it relates to the state's public schools, and (b) cost factors that affect urban schools uniquely. Each of these issues has wide-ranging financial and legal ramifications. Detailed analysis of current and alternative practices would provide future legislative sessions with extremely valuable guidance on these enduring school finance issues.

The other major challenge facing the 1997 General Assembly—funding of alternative school programs—is nar-

rower in scope and seems amenable to more straight-forward legislative action. Students in an alternative setting are almost necessarily more expensive to educate than children in a traditional setting. Additional staff training and lower class sizes produce higher operating expenses, while the development of segregated settings may require additional on-going transportation expenses. This paper recommends that General Assembly not develop a separate categorical funding formula for students placed in alternative education settings. Instead, the General Assembly should either build a factor into the state's current at-risk formula to trigger funding for alternative settings or establish a new alternative school formula that ties funding to students and their circumstances as is the case with the at-risk index. Such an approach will allocate alternative program funding across school corporations without providing an incentive to over-identify students for such programs.

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Endnotes

1. Per pupil non-categorical revenue is the sum of a school corporation's (a) state tuition support, (b) state at-risk grant, (c) maximum local levy, (d) vehicle excise and financial institutions taxes, and (e) state share of Social Security employer contribution, divided by the school corporation's average daily membership.
2. General fund property tax rates are the general fund dollars raised per \$100 of assessed valuation of real property in the school corporation.

The absence of standards does not excuse the conditions that exist in Ohio's schools.

Ohio School Finance: Continuing Challenges to Adequacy and Equity of Funding

Gary L. Payne
Nelda H. Cambron-McCabe

Like many states, Ohio struggles as it attempts to fund and maintain public schools. The Ohio constitution requires the General Assembly to make such provisions, by taxation or otherwise, that will secure a thorough and efficient system of common schools throughout the state. Clearly, education is a state function and a state responsibility. Yet, many argue that Ohio operates one of the most inequitably funded school systems in the nation. As the state confronted its second legal challenge in modern times to the constitutionality of the school funding system, notable disparities abound: a per pupil funding disparity of approximately four to one exists between the richest and the poorest school districts; funds in excess of \$10 billion are needed to bring public school buildings into compliance with state building codes (Ohio Public School Facility Survey, 1990); Ohio's public school buildings have the highest percentage of major flaws of any state in the nation (U.S. Government Accounting Office, 1996); and over half of the public school buildings cannot accommodate the technology available through the state's new \$495 million "SchoolNet" initiatives (Ohio Legislative Office of Education Oversight, 1996).

In September 1996, the condition of Ohio's schools was dramatically and poignantly portrayed in a two-hour PBS special program entitled *Children in America's Schools with Bill Moyers* (1996). The program was broadcast the week the Ohio supreme court heard oral arguments in *DeRolph v. State of Ohio*, the latest constitutional challenge to the state's funding system. Moyers noted that the program focuses on Ohio but mirrors American schools everywhere, echoing the debate occurring around the nation.¹ Juxtaposing Ohio's affluent suburban schools against problem-plagued rural and urban schools in the documentary magnifies the difference money makes in educational opportunities for children. The wide disparities and glaring inadequacies portrayed raise critical politi-

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cal and moral questions that policy makers and citizens must confront.

This paper examines the structure of Ohio's school funding system and highlights specific elements that shape educational opportunity within the state. The first section describes the funding system and the specific distribution formula used by the state. Elements of the funding system that raise equity concerns follow in the next section. The third section explores the legal challenge now confronting the state. The concluding section raises issues that Ohio must address to ensure equitable and adequate educational opportunities for all children.

State Funding for Schools

Ohio serves over 1.8 million public school students in 611 school districts, spending in excess of \$9 billion annually. In FY95, the state contributed 43% of the revenue for schools while school districts generated 51%. Like other states, local school revenue is derived primarily from property taxes.² The state spends less than one-fourth of its General Revenue Fund on education; this is a decline from 30% of the general fund in the mid-1980s. Major sources of state income include state personal income tax (41%), sales and use tax (36%), corporate franchise tax (8%), public utility excise tax (6%), and cigarette and alcoholic beverage taxes (3%). Before the 1930s, financial support for Ohio's schools came primarily from local real property taxes. In 1935, the General Assembly enacted a 3% sales tax for schools and levied the first state income tax in 1971 with the intent of funding schools. Over the past two decades, the legislature often defended other state tax increases as needed to fund schools. In 1987, Ohio citizens passed a state referendum approving a state lottery to provide "extra money" for schools.

With the approval of the 1935 state sales tax for education, the General Assembly assumed responsibility for providing a basic level of state support for education and adopted its first state school foundation program. The state formula for funding schools in Ohio has undergone several changes over the years. In FY76 an Equal Yield Formula (district power equalization) replaced earlier versions of a school foundation formula. The state legislature never fully funded the equal yield formula and eventually replaced the formula in 1982 with the present system, a basic Strayer-Haig foundation plan. The current formula consists of two major components—Part A: Basic Program Support, and Part B: Categorical Program Funding.

Funding Formula

Part A (Basic Program Support). The first part of the Basic Program Support begins with an amount of money per pupil decided by the state legislature for each year of the two-year state budget. In Ohio, the state legislature provides funding biennially, and the promised two-year appropriations are subject to immediate reductions by the Governor if the state economy suffers a downturn and state tax revenues decline. In FY82 when the General Assembly approved the current formula, the initial per pupil amount was calculated by simply allocating a lump sum of money for education in the state budget and dividing the amount by the number of pupils in the state. From the FY82 per pupil amount, the General Assembly has allocated a percentage increase each biennium based on the Consumer Price Index (CPI) and any other factors that may influence this political body at the time. In FY82, the per pupil amount was \$1,410; in FY97, the amount is \$3,500³. The designated amount bears no relationship today to any determinations of what an adequate or a quality program costs. The cumulative percent increase of the per pupil amounts over the past fifteen years is 196.61%. State figures reveal the CPI rose by 90.41% over the same period. Once determined by the state legislature, the per pupil amount is multiplied by the dis-

trict's average daily membership (ADM) times a Cost of Doing Business (CDB) factor:

$$(\$ \text{ Per Pupil} \times \text{District ADM} \times \text{CDB})$$

The Ohio Department of Education (ODE) calculates the Cost of Doing Business factor based on wage data for all workers in the state supplied by the Ohio Bureau of Employment Services. The cost factor for a district is based on the average weekly wage for the county in which the district is located and its contiguous counties. This factor ranges from 1.00 to 1.075, and serves as a proxy to offset regional costs of providing equivalent educational services.

The second part of the basic program support section of the formula is the qualifying section. To qualify for State Basic Program Support, each district must levy a minimum local property tax of 22 mills (up from a previous requirement of 20 mills and scheduled to increase to 23 mills in FY97). Other sources of local income are not considered. Revenue derived from this local taxation is subtracted from the total amount obtained in the first part. The complete formula for Basic Program Support is:

$$(\$ \text{ Per Pupil} \times \text{ADM} \times \text{CDB}) - (\text{Total Value of Assessed Real Estate} \times 22 \text{ mills})$$

The state makes additional adjustments at this point to account for variations in the number, training, and experience of teachers, and other services provided. These adjustments may either increase or decrease the Basic Program Support. The amount will increase if a district employs teachers with above average training and experience or will decrease if their pupil/teacher ratio or number of educational service personnel is below average. Further, through a guarantee provision, the state cushions school districts against a loss from the previous year's level of basic aid revenue.⁴ The original intent was to avoid instability in school operations that occur with the loss of state aid due to changes in student population or real property valuation.

Disadvantage Pupil Impact Aid (DPIA), the final calculation of Part A, provides additional funds for districts with a high percentage of economically disadvantaged students. The state bases the amount for each district on the percentage of district students receiving Aid to Dependent Children (ADC) benefits. A formula provides increasing funds per pupil based on the district's percentage of students receiving ADC benefits. At the top level, districts with more than 30% of their students qualifying for funds receive \$1,288 per student. For many years the use of these disadvantaged pupil funds was unrestricted; the legislature did not require that districts spend these funds on the education of ADC students. State law, however, now requires that 70% of these funds must be spent on specific programs identified by the General Assembly.

Part B (Categorical Funding). Part B of the Funding Formula provides support for specific programs and/or services that the state wishes to support and foster in local school districts. By providing funds for these specific areas, the state increases the likelihood that districts will offer these programs in local schools. Supported programs include:

- Vocational education classes
- Special education classes and services
- Gifted programs
- Summer work for some school employees
- Transportation
- Programs for children in institutions
- Teacher mentor programs
- Summer remediation programs

The General Assembly funds these programs through established unequalized special formulae. Except for summer

work, transportation, and teacher mentor programs, all districts receive the same flat grant amount per unit regardless of school district wealth. For example, school districts are allocated approved units for special education based on the number of eligible students who require special education services. Lack of available *funded* units from the state results in school districts operating *unfunded* units.

Sources of Local School Districts' Revenue

Local school districts receive revenue from property taxes (assessed on 35% of real market value) based on approval of the taxes by local citizens who reside in a school district's attendance area. Tax issues may be placed on the ballot at general or special elections. Local school boards request these tax increase referenda for a specific number of years or for a continuing period of time (permanent unless the issue is repealed). Obviously, most school districts attempt to secure voter approval for "continuing" levies.

By state law, school taxes also are levied against the tangible personal property (inventory and equipment) of businesses located within the school district's attendance area. The state collects this tax and distributes the funds to the school districts. Businesses strongly oppose personal property taxes, and over the past two decades, the legislature reduced this tax assessment from 45% of assessed value to its present assessment of 25%. This tax highly favors school districts where factories, shopping malls, and other large businesses/industries may be located. In some districts, revenues from personal property taxes exceed significantly the revenues from real property taxes. Districts with high personal property income are among the most wealthy in the state. School districts comprised largely of residential and rural farming areas receive relatively small amounts of income from this source. Further exacerbating equity in the distribution of state aid, school district income from this tax is not considered in the qualifying section of the basic aid formula, and state guarantee provisions do not consider income from this tax.

In an attempt to provide school districts with other sources of income, the General Assembly in 1989 enacted a law to permit school districts with voter approval to tax the income of residents. Many municipalities objected strongly when this legislation passed since the local income tax option had been historically the major source of income for these local governments. The tax has not been popular, and currently only about 15% of the school districts receive funds from local school income taxes. Although some Ohio districts may receive income from all three sources of local income, schools depend primarily on property taxes.

Equity Concerns

Various laws weaken the impact of Ohio's school funding system and pose significant issues for ensuring an adequate or equitable level of funds in low wealth and high pupil need school districts. In this section, issues related to property tax limitations, state loans, guarantees, and lottery revenues are discussed.

Property Tax Limitations

The 1970s high inflationary period resulted in the General Assembly enacting House Bill 920 in 1976. Continuing protests from citizens, who complained about higher tax bills following reappraisals of their property, motivated the legislators to act. Significantly, HB 920 mandated that real property owners must receive a tax reduction equal to any increase in property taxes resulting from reappraisal or readjustments of real property. This legislation further provides that the county tax assessor will not change the assessed value of property more than once every three years and will not increase the property tax bill

because of reappraisal or readjustment. Additionally, the legislation provided for a 10% property tax rollback for all property owners. (In 1979, an additional 2.5% rollback followed this 10% rollback.) The local school districts, however, do not lose these funds; the state makes direct payments to cover the rollback reductions.

The cumulative effect of HB 920 on Ohio's local school districts has been devastating. Despite the increasing value of real estate, school districts do not receive more funds than the amount generated the first year after an operating tax levy is passed. In effect, voters approve the amount of revenue to be collected rather than a fixed millage rate. Without additional tax funds from the increasing value of property, school districts continually face inadequate income growth to cover inflationary costs. Districts, therefore, must return to voters repeatedly for additional school tax levies to cover ever-rising costs. With these additional levies, districts are often asking voters to approve tax rates that they previously approved but rolled back due to the increasing valuation of property. Voters perceive these levies as simply more taxes. No other state has a tax limitation measure with such a severe impact on local revenue generation (Fleeter, 1996).

Not only does HB 920 curtail local revenue growth but it also can affect the state aid a school district receives. This occurs when real estate in a school district has undergone reappraisal or an update that results in an increase in the total property valuation in the school district. In the basic program support formula, this district is now wealthier because its valuation has increased, which will likely result in a decrease in state assistance. However, from the school district's perspective revenue has not changed since school taxes do not increase when property values increase. Thus districts lose twice; tax revenues do not keep up with inflation and state assistance is reduced because the district's taxable wealth has increased. This circumstance has become known as the "phantom" revenue problem (Fleeter, 1996).

In Ohio, school districts are not the only entity seeking approval from voters for property tax increases. Ohio voters face an astounding array of proposals to increase property taxes at election time. Property tax levies often are proposed for county government expenses, mental health services, senior citizen services, police, fire, hospitals, parks and recreation, 911 services, and even the local zoo. Sandwiched in among all these also may be a school levy. With the number of issues that appear on the ballot each year, it is not surprising that voters reject most school tax levies. From 1979 to 1991, only 47.8% of all local school operating levies passed. In 1987, 59% of these levies failed.

State Loans

The latter of half the 1970s was a low point for school funding in Ohio. Faced with inadequate state funds, recalcitrant taxpayers, and a balanced budget requirement, some Ohio schools were forced to close because they did not have sufficient operating funds. Students often remained home for weeks or, sometimes, for the remainder of the school year. With widespread media attention to this school closing phenomenon, Ohio's school funding problems became a matter of national interest. Responding to the obvious embarrassment of children being denied an education because of schools closings, the General Assembly in 1980 quickly approved legislation forbidding school closures. This legislation did not address any school funding problems; it simply required school districts faced with the prospect of insufficient funds to reduce programs to state minimum standards. Once districts pared programs to minimum standards, they could qualify to borrow funds from a newly established state loan fund that required repayment of loans with interest.

Since 1981, 176 (29%) of Ohio's school districts have

received funds through the State Loan Fund. The General Assembly never intended the emergency loan fund to become a long term solution. Yet it still exists, and many school districts have been forced to obtain frequent loans from the fund over the past fifteen years. One school district has been approved for loans eleven times and has an application pending now. Depending upon need, districts have received loans as small as \$25,000 and as large as \$79,485,000. As an example, one school district remains in such financial difficulty that the state has taken it over and outstanding loans total more than \$212,000,000. Despite a state takeover, this district has yet another loan application pending.³ These financially bankrupt school districts have little hope for financial stability, and the prospects that they will repay the loans are not good. With each succeeding year, the list of bankrupt Ohio school districts grows. By October 1996 of the current fiscal year, another 24 districts had filed loan applications; only six of these districts were filing loan applications for the first time. These data suggest serious problems of financial inadequacies and inequities in the state's school funding system.

Guarantees

In 1981, knowing that local school districts faced high inflationary costs, insufficient growth from local property taxes, high failure of tax levies, and/or declining enrollments, the General Assembly enacted a minimum guarantee provision for the Basic Program Support section of the foundation formula. The guarantees, which continue today, assure districts of a minimum amount of funds despite the formula. In 1981, 389 of the 615 Ohio school districts (63%) received funds through the guarantee provision. Initially, guarantees provided that districts would receive at least the amount of funds they had received the previous two years. In some years, the guarantees even provided inflationary increases so districts were guaranteed 105 or 106% of their previous basic support funding.

Funds required to be set aside for guarantees have been substantial. In the first two-year budget that provided guarantees (1982-83), \$750 million were set aside to fund guarantee districts. By providing guarantees, the General Assembly used tax dollars that could have funded the formula at higher levels. Clearly, these guarantees advantaged many districts but hurt others that could have benefited from higher per pupil amounts in the formula.

Realizing the difficulty created by the guarantees, the General Assembly has tried, with mixed results, to eliminate or reduce them. Politically, legislators have found it difficult to abolish support to wealthy influential school districts that receive guarantees. The General Assembly, however, in FY93 began reducing the guarantees to districts with very high property values per pupil so that previous guarantee funds would flow to lower wealth districts. Currently, districts with assessed valuation of real estate per pupil above \$285,000 will receive a 15% reduction of the guarantee amount for each year the district's valuation has exceeded \$285,000 since 1993. For example, if a district's valuation per pupil has exceeded \$285,000 every year since 1993, the district would have a reduction of 75% (5 years x 15%). Thus, this district would receive only 25% of the established guarantee. A 5% reduction also applies to districts with valuations per pupil at or above \$200,000, but less than \$285,000.

Despite these attempts to restrict guarantees, the Ohio Department of Education estimates that 155 school districts will receive guarantee funds in FY97, costing the state an additional \$104.2 million. The attempt to restrict guarantees has progressed slowly. Furthermore, districts that benefit from substantial amounts of personal property tax income continue to receive guarantee funds because the state does not consider this revenue source when attempting to restrict guarantee funds. For example, in FY97 a district currently spending

almost \$15,000 per pupil and other districts ranking among the ten highest per pupil expenditure districts in the state are receiving guarantee funds.

State Lottery

Citizens frequently ask the legislature and school boards in Ohio: Whatever happened to the lottery money? The General Assembly enthralled Ohio taxpayers with the potential a state lottery held for solving the school funding problem. Citizens approved the state lottery by the second-largest margin ever for a constitutional amendment, believing the profits would provide "extra money" for schools. However, the lottery profits, growing from \$37 million in 1980 to more than \$660 million in 1995, gave the General Assembly more flexibility and funds generally for other state services. By anticipating the growing amount of lottery profits each year that can be used for the education budget, the General Assembly has the flexibility to redirect general tax revenue funds to other state needs. The General Assemblies use of lottery funds to supplant general tax revenue for state basic education aid honors its commitment to direct lottery profits to education in name only while freeing up millions of dollars for other state programs. The idea of "extra money" for schools that was sold to the voters became, simply, basic funds for education—and another way for the legislature to balance the state's budget.

Legal Challenges

In 1923 the Ohio supreme court declared that "A thorough system [of public education] could not mean one in which part or a number of the school districts were starved for funds. An efficient system could not mean one in which part of or any number of school districts lacked teachers, buildings, or equipment" (*Miller v. Korns*, 1923, pp. 297–298). Plaintiffs in the latest challenge to the state's funding system argue that many districts are starved for funds and that, in effect, many lack minimal facilities. Similar to legal suits in other states, plaintiff school districts are asserting that the school funding system violates the equal protection and state education clauses of the Ohio constitution.

The present law suit follows in the shadow of *Cincinnati v. Walter* (1979), in which the Ohio supreme court upheld the state's previous equal-yield formula under both the equal protection clause and the "thorough and efficient" education clause of the Ohio constitution. Although education is explicitly guaranteed in the Ohio constitution, the state supreme court avoided the question of fundamental right that would have required strict judicial scrutiny, stating that the case was more directly about how Ohio "has decided to collect and spend state and local taxes than it is a challenge to the way in which Ohio educates its children" (pp. 375–376). Invoking the rational basis test, the court found the principle of local control to be a legitimate basis to uphold the funding system. The court noted that local control not only allows citizens to determine how much money they are willing to devote to education but also allows for "local participation in the decision-making process that determines how these local tax dollars will be spent" and in the development of "programs to meet perceived local needs" (p. 380). Examining whether the legislature had met its duty to provide a "thorough and efficient" system of schools, the court concluded that the equal yield formula did ensure an adequate education.

Distinguishing *DeRolph v. State* (1994) from *Cincinnati v. Walter* (1979), the trial court concluded that *Walter* was not binding on the trial court. Specifically, the court noted that the system reviewed in 1979 no longer exists: the former "equal yield" formula has been replaced, new state standards apply to schools, districts now face substantial revenue limitations under H.B. 920, and schools can no longer close but must bor-

row funds to operate. The court stated that while the *Walter* case focused on taxation and fiscal policy, the crux of the present case is "the astounding impact our state system of education is having on the youth of this state." (p. 468). On the facts before it, the trial court ruled that public education is a fundamental right guaranteed by the Ohio constitution. In subjecting the funding system to strict judicial scrutiny, the court rejected the state's reliance upon "local control" as establishing a compelling state interest to justify large disparities in funding and educational opportunity. The court found local control to be a cruel illusion for the plaintiff school districts. The court further ruled that the state through shifting major obligations for funding from the state to local schools districts did not fulfill its responsibility to provide a thorough and efficient system of education.

On appeal this decision was overturned by an Ohio appellate court in 1995 but subsequently upheld by the state supreme court in March 1997. Based on the record presented, the state high court concluded that "we can reach but one conclusion: the current legislation fails to provide for a thorough and efficient system of common schools in violation of Section 2, Article VI of the Ohio Constitution." The court in finding that the present system is a "far cry from thorough and efficient" noted that many districts are starved for funds and lack teachers, buildings, and equipment required for even a minimally adequate education. Rejecting the contention that wide disparities in educational opportunity are caused by poor districts' inability to pass tax levies, the court cited evidence to illustrate that poor districts cannot raise as much money as wealthier districts even if they exert the same tax effort.

In setting the framework for the state's response, the court cautioned that it does not advocate a "Robin Hood" approach, or a system that mandates the same educational opportunities for all children, or one that imposes spending ceilings on the wealthier school districts. While the court did not require specific legislation, it ordered the General Assembly to "create an entirely new school financing system." In a strongly worded conclusion, the court stated:

By our decision today, we send a clear message to law-makers: the time has come to fix the system. Let there be no misunderstanding, Ohio's public school financing scheme must undergo a complete systematic overall. The factors which contribute to the unworkability of the system and which must be eliminated are (1) the operation of the School Foundation Program, (2) the emphasis of Ohio's school funding system on local property tax, (3) the requirement of the school district borrowing through the spending reserve and emergency school assistance loan programs, and (4) the lack of sufficient funding in the General Assemblies biennium budget for the construction and maintenance of public school buildings. The funding laws reviewed today are inherently incapable of achieving their constitutional purpose.

Although policymakers, educators, parents, and taxpayers may debate the efficacy of the *DeRolph* decision, it is clear that Ohio must address in significant ways the disparities among school districts and the inadequacies of the current system. By focusing widespread public attention on the deplorable school conditions that threaten the future of many Ohio children, litigation has provided a means to confront a system that does not work.

Conclusion

Ohio, as many other states, aspires to achieve equal educational opportunity for all children. A number of research studies (Adams & Crampton, 1983; Cohen, 1983; Edlefson, 1983; Mitroff & Erikson, 1988) have examined the equity of Ohio's school finance system, finding success on some equity mea-

tures but movement away from equalization on other measures. Drawing implications from most of the studies is difficult because they employ different methodologies, rely upon different variables, and examine relatively short time periods. Long-term impact of the funding system, however, can be seen in a longitudinal study (1980–1989) conducted by Johnson and Pillianayagam (1991), which examined horizontal equity (equal treatment of equals) and equal educational opportunity (absence of a relationship to districts' fiscal ability and available resources). The researchers concluded from their analysis that Ohio's system of financing education has been "ineffectual in moving toward greater equity in school funding" (p. 82). Several findings are important to note. The data analysis revealed that Ohio's system of providing guarantees to school districts exacerbated movement toward greater equality of educational opportunity. Further, assessed property valuation per pupil was "a significant predictor of current operating expenditures throughout the 1980s" (p. 78). These findings support the plaintiffs' claims in the *DeRolph* case.

The General Assembly also has recognized the need to address equity concerns of low wealth school districts. Under the provisions of Sub. H.B. 671, the General Assembly began distribution of equity funds to Ohio's poorest school districts in FY93. The first equity fund allocation (\$50 million) was distributed primarily based on school district size and adjusted valuation per pupil (considers both district property valuation and income of residents). In FY93, the law required that the threshold valuation figure be set at such a level that the poorest 218 districts in the state would receive funds. While this attempts to recognize the significant need of the poorest districts, it represents less than 1% of the total foundation program expenditure. The trial court in *DeRolph* pointed out that the state's recognition of inadequacies through the allocation of these "equity" funds merely substantiates the inequities in the current funding system (p. 466). Despite the addition of these equity funds (in excess of \$350 million over five years), the discrepancies among districts' expenditures per pupil for education are significant. In FY95, education expenditures per pupil in Ohio ranged from \$3,695 to \$14,985, a difference of \$11,920 between the lowest and highest spending districts. Assessed valuation per pupil ranged from below \$20,000 to more than \$500,000.

Ohio's frustration in its attempts to fund schools in an adequate and equitable manner is not unique. Public school districts in many states face great disparities in funding that create very wealthy and very poor school districts. In the United States, a student's place of birth often determines the quality of the student's education. Moreover, with variability in funding one usually finds differences in curricular expectations and school performance (Cusick, 1983; Powell, Farrar, & Cohen, 1985). These funding and school performance variabilities have resulted in litigation resulting in a number of state courts declaring their school funding systems unconstitutional.

In fairness to states, however, our country's decentralized systems of education encourage disparities. With fifty state educational systems and the absence of any national standards or expectations, each state defines what constitutes an "adequate education" and what that education costs. Ohio, like most other states, does not have clearly defined education standards and thus what constitutes an adequate education is simply the amount budgeted for a specific year. Legislators, faced with the pressure of increasing state services without raising taxes, look for escape routes of least resistance. Many believe state legislators, knowing the inequities that exist in their states, welcome court decisions that "order" them to

improve the quality of education in their state. Meanwhile, citizens embrace the idea of having control over their local schools and resist any state "interference" in local education.

We expect the school funding concerns of adequacy and equity, like those in Ohio and elsewhere, to continue until our nation faces directly the need for educational standards that define what its students should know and be able to do. Until we resolve this dilemma, an adequate education will continue to be difficult for politicians and courts to translate into dollars. The absence of standards, however, does not excuse the conditions that exist in Ohio's schools. Too many children continue to attend schools in unsafe buildings, to use out-dated texts and curricula, and to learn marginally from teachers who receive inadequate support and development from their school districts.

Toward the conclusion of the PBS special *Children in America's Schools with Bill Moyers*, one student from a poor, rural Ohio school district stood and challenged the distinguished panel that included policy makers and educators "to look me in the eye and tell me I am not worth the money." It is past time for Ohio to respond to this student.

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The history of education reform reveals that achievements rarely match expectations.

Education Finance Reform in Tennessee

Harry A. Green

Tennessee has been in the mainstream of education reform for the past decade. For a variety of political, economic, and humanitarian reasons, the focus on student needs and effective schooling practices has been a priority for both Republican and Democrat administrations. Tennessee's reform efforts were in concert with a national effort to reform American public education. Prior to the 1990s in Tennessee, public schools were funded using minimum foundation program mechanisms that were based on the weighted average daily attendance, but the level of equalization was small. The result was an inequitable distribution of learning resources to meet the needs of Tennessee's children.

EDUCATION REFORM IN TENNESSEE: THE EDUCATION IMPROVEMENT ACT

After nearly two years of debate and careful deliberation by the Tennessee General Assembly, the Education Improvement Act (EIA) was signed by Governor Ned McWherter on March 11, 1992, and became effective on July 1, 1992. This Act specified new policies, plans, and procedures for the funding and operation of Tennessee's K-12 education system¹. The Education Improvement Act:

- Created the Basic Education Program (BEP), the Education Trust Fund, and the BEP Account.
- Provided for a phase-in of full funding over a six year period.
- Established that any unexpended balance of the BEP Account would not revert to the General Fund, but rather remain in the Education Trust Fund.
- Required that the state provide 75% of funds generated by the BEP formula in classroom components and 50% in nonclassroom components.
- Authorized the creation of a funding formula that provided unprecedented flexibility to school systems to determine how state funds should be spent to meet local needs.
- Required BEP funds earned in classroom components to be spent solely in the classroom.
- Authorized incentive grants for schools that exceed performance standards.

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- Set out conditions and requirements for Local Education Agencies (LEAs) to receive BEP funds.
- Set the 1990-91 Tennessee Foundation Program (TFP) appropriations as a base and prohibited LEAs from receiving less under the BEP until full funding is realized.
- Provided for maintenance of effort standards by LEAs.
- Mandated class size reductions.
- Provided for education funding on a fair and equitable basis by recognizing the differences in the ability of local jurisdictions to raise local revenues.

The Education Improvement Act (EIA) placed an emphasis on obtaining adequate resources, up-to-date textbooks, better transportation and facilities, reducing class size, accountability, and value-added testing. This initiative resulted in a large increase in the hiring of new teachers and support staff. One important part of this plan was the creation of a management information system that would link teachers and schools to a central database at the State Department of Education.

Funding Allocation Reform. One of the most significant changes has been the introduction of a new funding formula—the Basic Education Program (BEP). This initiative involved a major shift from the Tennessee Foundation Program (TFP) to focus on the application of funds where they count the most—on direct student or classroom needs. The central feature of the BEP is the specification of essential resources needed in schools. Categories for funds include classroom (state share = 75%) and nonclassroom (state share = 50%) components with specific items contained in both. Total costs are calculated by applying cost specifications to Local Education Agency (LEA) student population data.

Equalization and Equity. Another difference in this unique effort (EIA) was the introduction of the local fiscal capacity index, created by the Tennessee Advisory Commission on Intergovernmental Relations (TACIR). This index is used to equalize education funding ability across counties. Factors that influence a local government's ability to raise revenue for education—the property and sales tax bases, the ability to export taxes, resident income, and the school age population in each county—are considered in calculating fiscal capacity.

System Accountability. The focus in Tennessee on system accountability is to provide the public with information about where education funds come from, how the money is spent, and the results in student gains. The BEP has been phased in over six years and is projected to be fully funded by 1998. Annual state reports illustrate the percentages of total state funding and total spending for both classroom and non-classroom categories. This is consistent with a national trend in which more and better information on where tax dollars are going and how they are being spent is needed. Without such data, a host of new ideas for education reform, such as deregulation, site based decision-making, charter schools, and choice issues, will not have an adequate baseline of data for accountability comparisons.

Report Card. The notion of a system-wide Report Card and individual school report cards is one innovation which allows the public to receive an array of information about schools. For the first time in Tennessee's history, information regarding school and system attendance, promotion, dropout rates, achievement scores, and value-added scores are contained in one report. This report is available each October to the public in each school district in Tennessee. However, for

the computer literate, on-line citizen, the report card is also accessible on the internet. Financial information regarding expenditures are made available including district funding revenue as well as state and federal sources of revenue. Grade level, as well as school and district level, information is also provided. Accountability for spending can now be linked with proficiency test information.

The report card contains system and school results in value-added, achievement areas and attendance, promotion, and dropout rates. The issue of "value added" measures the effect of "in school" variables per year on a child's achievement. The value-added model contains rewards for schools that meet state standards and sanctions for schools that fail to meet such standards. Flexibility was extended to systems through the extinction of 3,700 pre-existing state rules and regulations.

Value-Added Assessment. The value-added assessment system was officially adopted by the Tennessee General Assembly in 1992. Value-added is a concept borrowed from economics which has been applied to schooling and children. The value-added assessment measures academic gains each

year in grades 3 through 8 on a 999-point scale. These gains are then expressed on a system-by-system and school-by-school basis as a percentage of the national average gain by students in that subject that year. Tennessee's Comprehensive Assessment Program (TCAP) utilizes both norm-referencing for national comparisons as well as criterion-referencing for remedial purposes. Additionally, students are pre- and post tested to determine the impact of in-school variables.

This particular innovation is controversial. Schooling is a complex and typically immeasurable process which involves outside, intervening variables that often cannot be controlled by the schooling process. Tests used must measure what the teachers are teaching, and teachers must teach state required curriculum frameworks. The test must match the curriculum in order to be valid and reliable.

Governance Reform. The EIA forced a governance shift from elected superintendents to appointed directors of schools, and from appointed school board members to elected board members. The new law states that school board members and directors of schools may be removed from office by the Commissioner of Education if state projections are not met for

Table 1
Major Funding Components of the Basic Education Program

| Classroom Components | Nonclassroom Components |
|--|--|
| Regular education | Superintendent |
| 1 per 20 ADM K-3 | one per county (counties with more than one system receive portion based on share of total ADM) |
| 1 per 25 ADM 4-6 | Administrative support positions based on ADM |
| 1 per 30 ADM 7-9 | system and school secretaries |
| 1 per 26.5 ADM 10-12 | technology coordinators |
| Special education | Maintenance and operations |
| based on caseload allocations for students identified and served | based on square feet allocation per K-4, 5-8 and 9-12 ADM at M & O cost per square foot with custodians allocated for specified amount of square feet based on survey data |
| Vocational education | Noninstructional equipment |
| 1 per 20 vocational ADM K-3 | based on total ADM |
| Other certificated and non-certificated personnel based on ratios: | Capital outlay |
| regular, vocational and special ed. supervisors | based on square feet allocation per K-4, 5-8 and 9-12 ADM at construction cost per square foot adding 10% for equipment, 5% for architect's fee, and debt service at state bond rate |
| principals, asst. principals | Pupil transportation |
| librarians | based on formula which estimates per ADM transportation costs |
| art, music, physical education | Staff benefits |
| social workers, psychologists, guidance coun. | insurance and retirement funded by position |
| nurses | |
| substitute teachers | |
| at-risk | |
| assistants | |
| Materials, equipment, supplies and travel based on ADMs by program area | |
| Textbooks based on total ADMs | |
| Staff benefits | |
| insurance and retirement funded by position | |
| Other components funded based on ADMs | |
| alternative schools | |
| duty-free lunch | |
| technology | |

five components in a system Report Card—which has value-added, proficiency tests scores, attendance rates, dropout rates, and promotion areas.

The Tennessee Small School Systems Lawsuit

Tennessee was thrust into the equity battle by a group of 77 small school systems in *Tennessee Small School Systems v. McWhorter*. In reaction to funding inequities, a coalition of Tennessee Small School Systems (TSSSS) filed a lawsuit in 1988 against the state. They sought declaratory judgment that K-12 education funding was inequitable under the education and equal protection clauses of the state constitution. In July 1991, the chancery court in Davidson County ruled in favor of TSSSS. The General Assembly was assigned responsibility for the reform of school funding before June 30, 1992. An appeal was filed by the state on October 11, 1991. In June of 1992, the appeals court reversed the trial court. The TSSSS requested a Tennessee supreme court review of the case.

The TSSSS lawsuit appeal (April 1992) was heard after the Education Improvement Act of 1992 was signed into law. In an opinion filed in March 1993, all five justices of the Tennessee supreme court unanimously endorsed the conclusions of the trial court. The case was then remanded back to the trial court for the judge to craft an order to correct the school funding crisis in Tennessee. At the chancery court hearing on resolution recommendations (July 1993), the chancellor agreed with the state's argument that since the EIA was just being implemented, more time was needed in which to evaluate its effects.

Basic Education Program

The EIA established an Education Trust Fund in which all funds for K-12 education are placed. Within this trust fund, a special revenue account entitled the Basic Education Program was created. Into this account, all earmarked revenues for K-12 must be deposited. This is to ensure legislative accountability to the public for the tax increase that was necessary to fund education reform.

The Basic Education Program (BEP) is a funding formula that determines the full amount of funding needed by Tennessee's K-12 schools. Embodied in the funding formula are the concepts of adequacy of funding of programs through the annual application of inflation and reevaluation of unit costs based on actual expenditures and equity in funding through fiscal equalization among the LEAs. The BEP, including improvements, accounts for approximately 90.7% of the recommended state allocation for K-12 public education, with the remaining K-12 education funds designated for such initiatives as Career Ladder, curriculum and instruction, driver education, adult and community education, technical assistance and administration, and special schools.²

How the BEP Addresses Adequacy

The BEP formula determines the funding level required for each school system to provide a common, basic level of service for all students. Funds are allocated between classroom and nonclassroom components as shown in Table 1 and explained below:³

Classroom: Classroom components provide the resources for personnel, which include teachers, counselors, assistants, and other professional staff. Classroom components also provide resources for textbooks and other instructional and classroom materials and supplies, as well as staff benefits and insurance. The state government is responsible for funding 75% of the classroom components.

Nonclassroom: Nonclassroom components provide funds for certain administrative and support personnel, maintenance and operations, pupil transportation, and capital outlay. The state government is responsible for funding 50% of the non-classroom components.

The BEP formula is composed of 42 components which are costed primarily on the basis of average daily membership (ADM) in specified classifications. For example, under the "Regular Education" Classroom components, the BEP funds a number of teachers based on the ratios in Table 1 for prior-year ADM.

Thus, a LEA that has 2000 ADM in K-3 would be funded for 100 teachers compared to 50 teachers for a system with only 1000 K-3 students. For non-position components, unit costs are developed each year and multiplied by the number of ADM counts in regular education, vocational education and special education. Once this is completed for each of the 42 components, the costs are summed to produce total estimated BEP funding for each LEA. Costs are re-estimated each year and adjusted for inflation.

Cost Differential Factor. LEAs with above-average costs receive an adjustment known as the "cost differential factor" (CDF). The CDF is measured at a county-area level using average wage data collected by the Tennessee Department of Employment Security. The CDF is designed to adjust funding in counties with above average non-government wage costs. This will affect 18 LEAs during FY 1998. The CDF adjustment is applied to all classroom and non-classroom personnel costs (i.e. salaries) in the BEP formula.⁴

How the BEP Addresses Equity

The final step in the process is to equalize these two components and the statutory ratios.

In Section 49-3-337 of the Education Improvement Act, the General Assembly stated its intent concerning the fiscal equalization of education funding in Tennessee:

It is the intent of the General Assembly to provide funding on a fair and equitable basis by recognizing the differences in the ability of local jurisdictions to raise local revenues.

**Table 2
Equalizing the BEP**

| | State | Local |
|----------------------|-------|-------|
| Classroom | 75% | 25% |
| Non-Classroom | 50% | 50% |

In pursuit of this goal, the General Assembly established ratios for equalizing spending under the Basic Education Program, as shown in Table 2.

Local education agencies (LEAs) are *collectively* responsible for 25% of the classroom components and 50% of the non-classroom components.⁵

Measuring Fiscal Capacity. The responsibility for determining how fiscal equalization occurs ultimately rests with the state board of education. Considerable attention was devoted to this subject during two different legislative sessions (1991 and 1992) when the Education Improvement Act was under consideration. There was substantial discussion and interaction among the Department of Education, the Department of Finance and Administration, the State Board of Education and the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) concerning fiscal capacity and fiscal equalization.

After careful deliberation, the state board of education adopted a method of measuring local fiscal capacity that was developed by the TACIR. TACIR spent over three years developing the concepts used in the measurement of local fiscal capacity for education in Tennessee.

The relevant factors that determine local fiscal capacity are: the property and sales tax bases; ability to pay (i.e. resident income); resident tax burden; service responsibility; and local revenue for education. A statistical model is used to measure the relationship among these factors for the 95 county areas. Per pupil fiscal capacity is then generated from the estimated relationships among these fiscal capacity factors. All factors used in the TACIR model are based on official statistics.⁶

Accountability Standards. Accountability standards began in the first year of the BEP. The EIA states that the Commissioner of Education is charged with recommending fiscal and performance accountability standards for local school systems to the state board of education. The board releases notices based on these standards, which are subsequently used in evaluating the operations of the local school systems. Performance standards that have been phased in include:

- setting student performance goals;
- maintaining acceptable attendance and dropout rates;
- establishing value-added assessment;
- comparing the BEP components with the program components existing in each school system during the reporting year;
- establishing school site-based decision making; and
- establishing an Office of Education Accountability within the Office of the Comptroller of the Treasury.

Three specific fiscal accountability measures—maintenance of local effort (MOE), 3% fund balance, and BEP Accountability Budget Summaries—were included to ensure a greater range of accountability. The MOE requirement prohibits a local government from reducing its share of local funding for schools as a direct result of increased state funding. There are two levels of the MOE test applied to local systems. When either of the two requirements is met, MOE has been met.

The 3% fund balance requirement was a fiscal accountability standard in place as a result of the passage of the EIA, but was not implemented until the end of FY 1993, when fund balances first appeared. There are three purposes for which the fund balances may be used: 1) to meet fund shortfalls in budgeted revenues; 2) to meet unforeseen increases in opera-

Table 3
BEP Five-Year Funding

| Fiscal Year | New Funds (in millions) | Cumulative Total (in millions) |
|-------------|----------------------------|-----------------------------------|
| 1992-93 | \$113.57 | \$113.57 |
| 1993-94 | \$ 53.74 | \$167.31 |
| 1994-95 | \$117.80 | \$285.11 |
| 1995-96 | \$112.00 ¹ | \$397.11 |
| 1996-97 | \$126.50 ² | \$523.61 |
| 1997-98 | \$192.50 | \$716.11 |

¹ Does not include \$7 million required for salary equalization.
² Does not include \$5 million required for salary equalization.

Table 4
Progress Toward Full Funding of the BEP from FY 1993 to FY 1996

| FY 1996 | | | | FY 1993 | | | |
|----------------------------|---------|-----------|---------|----------------------------|---------|-----------|---------|
| Top 10 | | Bottom 10 | | Top 10 | | Bottom 10 | |
| Rank | Percent | Rank | Percent | Rank | Percent | Rank | Percent |
| 1 | 98.7% | 139 | 79.7% | 1 | 91.6% | 139 | 57.8% |
| 2 | 96.6% | 138 | 80.2% | 2 | 91.5% | 138 | 62.9% |
| 3 | 96.1% | 137 | 80.7% | 3 | 90.5% | 137 | 65.4% |
| 4 | 95.6% | 136 | 81.3% | 4 | 90.5% | 136 | 65.7% |
| 5 | 95.5% | 135 | 81.7% | 5 | 89.8% | 135 | 66.0% |
| 6 | 94.7% | 134 | 82.1% | 6 | 89.7% | 134 | 66.1% |
| 7 | 93.9% | 133 | 82.3% | 7 | 86.7% | 133 | 66.7% |
| 8 | 93.5% | 132 | 82.7% | 8 | 86.3% | 132 | 67.6% |
| 9 | 92.8% | 131 | 82.8% | 9 | 86.0% | 131 | 68.0% |
| 10 | 92.6% | 130 | 82.9% | 10 | 85.5% | 130 | 68.7% |
| Average | 95.3% | Average | 81.5% | Average | 89.2% | Average | 65.1% |
| Ratio Top to Bottom | | | | Ratio Top to Bottom | | | |
| 1.17 | | | | 1.37 | | | |

tion expenses; and 3) as a budget item for non recurring purposes.

BEP Accountability Budget Summaries are a significant part of the fiscal accountability process. Each LEA is required to submit a Preliminary Accountability Budget Summary at the beginning of the school year, outlining anticipated classroom and nonclassroom funding needs. Each LEA also submits an end-of-year Final Accountability Budget Summary. The Accountability Budget Summary is intended to hold each LEA accountable for its share of the new BEP improvement funding. It is also a method for tracking the new money that is being invested into the K-12 education system in Tennessee.

Current Funding Versus Full Funding

The law requires full funding of the BEP no later than the fiscal year beginning July 1, 1997.⁷ By the end of FY 1998, a cumulative total of \$716 million in new education funding will have been dedicated into Tennessee's Basic Education Program. The phase-in for BEP funding up to FY 1998 is presented in Table 3. Funding for FY 1998 is based upon a funding increase proposed in the FY 1998 executive budget.⁸

Each year the BEP funding formula is calculated for each LEA to determine what would be allocated if the BEP were fully funded. The allocation at full funding is compared with current funding for each LEA. The current level of funding includes the old Tennessee Foundation Program (TFP) base amount, the categorical programs in place before implementation of the BEP, and cumulative salary improvements. The difference is the amount needed to bring the LEA to full funding. The sum of the amounts of all the differences between current funding and full funding for each LEA is the total amount needed statewide

to fully fund the BEP. Since the BEP is being phased in over a six-year period, state funds are not adequate to fund the total of the differences. Therefore, each year, as more money is appropriated toward full funding of the BEP, the amount each LEA receives in BEP dollars is its current level of funding plus its share of the BEP improvement dollars. The share of the BEP improvement dollars each LEA receives is their proportion of the statewide difference from full funding.

In the first year of the BEP, many systems' percentages of full funding were significantly lower than others. As the state has progressed toward full funding, the extremes in the percentages no longer exist. Since each LEA's percent of full funding each year determines their share of BEP improvement dollars, the systems with lower percentages are getting larger allocations than LEAs with higher percentages of full funding in order to get all systems to 100% by FY 1998. Table 5 shows the progress toward fully funding the BEP the state has made for the ten systems with the highest percentages compared to the systems with the lowest percentages in FY 1996.

As shown in Table 4, the average percent of full funding for the ten systems closest to full funding was 89.2% in FY 1993 compared to an average of 95.3% in FY 1996, an increase of 6.1 percentage points. The increase was much larger for the ten systems farthest away from full funding: in FY 1993 the average was 65.1% compared to an average of 81.5% in FY 1996, an increase of 16.4 percentage points.

Major Sources of Funding

As in all states, Tennessee has three major sources for funding education: federal, state, and local.⁹ Table 5 presents these numbers for the past ten years. During this period, fed-

**Table 5
Major Sources for Funding K-12 Education
State of Tennessee**

| | STATE | | LOCAL | | FEDERAL | | TOTAL |
|----------------------------------|-----------------|-------|------------------|-------|----------------|-------|-----------------|
| 1988-89 | \$1,291,053,100 | 49.3% | \$1,095,936,642 | 41.9% | \$229,729,800 | 8.8% | \$2,616,719,542 |
| 1989-90 | \$1,360,934,700 | 48.9% | \$1,175,667,534 | 42.2% | \$248,908,400 | 8.9% | \$2,785,510,634 |
| 1990-91 | \$1,400,021,700 | 47.9% | \$1,243,766,205 | 42.5% | \$279,436,400 | 9.6% | \$2,923,224,305 |
| 1991-92 | \$1,336,518,500 | 44.7% | \$1,346,506,488 | 45.1% | \$303,978,100 | 10.2% | \$2,987,003,088 |
| 1992-93 | \$1,570,246,300 | 48.0% | \$1,376,043,443 | 42.0% | \$327,073,600 | 10.0% | \$3,273,363,343 |
| 1993-94 | \$1,724,556,900 | 48.7% | \$1,476,801,561 | 41.7% | \$341,750,800 | 9.6% | \$3,543,109,261 |
| 1994-95 | \$1,878,614,500 | 49.6% | \$1,565,981,683 | 41.3% | \$345,715,700 | 9.1% | \$3,790,311,883 |
| 1995-96 | \$1,985,470,100 | 49.7% | \$1,659,879,967 | 41.5% | \$351,698,000 | 8.8% | \$3,997,048,067 |
| 1996-97* | \$2,154,105,200 | 49.9% | \$1,759,542,000* | 40.8% | \$402,166,600* | 9.3% | \$4,315,813,800 |
| 1997-98** | \$2,327,150,300 | 50.6% | \$1,865,167,000* | 40.6% | \$403,956,400* | 8.8% | \$4,596,273,700 |
| Percent Growth in Funding | | | | | | | |
| 1989-98 | \$1,036,097,200 | 80.3% | \$769,230,358 | 70.2% | \$174,226,600 | 75.8% | \$1,979,554,158 |
| 1992-98 | \$990,631,800 | 74.1% | \$518,660,512 | 38.5% | \$99,978,300 | 32.9% | \$1,609,270,612 |

*estimated

**proposed in governor's budget

eral funding has increased nearly 76%, local funding by 70% and state funding by 80%. However, the proportions of funding remained fairly stable. The federal government funded 8.8% of K-12 education in 1989 and also funded 8.8% in 1998. Local governments funded nearly 42% in 1989 falling to below 41% in 1998. State government rose from 49.3% in 1989 to 50.6% in 1998.

When this comparison is made for the six years of BEP funding, the results are dramatically different. Using 1992, the year before BEP funding began, as a base year, the proportion of state funding rose from less than 45% to nearly 51%; local funding fell from 45% to less than 41%; and federal government funding fell from 10.2% to 8.8%.

Moreover, the growth in outlays for these three major sources changed significantly. From 1992-98, the growth in state funding was 74.1%; in local funding 38.5%; and in federal funding, only 32.9%. These numbers illustrate the enormous fiscal impact of education reform and the Basic Education Program.

Commitment of Revenues Earmarked for K-12 Education

A major concern among educators is that fiscal commitments to education may be subsequently revoked or diffused.¹⁰ Many educators in Tennessee are firmly convinced that this is precisely what happened in 1984 when the sales tax was increased by one cent. During subsequent years this was a charge frequently made to legislators and it came up during the debate on the Basic Education Program.

In an effort to allay fears, the Tennessee General Assembly passed House Joint Resolution 191 in 1993. This resolution requires the Tennessee Advisory Commission on Intergovernmental Relations to produce an annual report that traces the flow of all new money from the one-half cent sales tax. TACIR has produced those reports for 1993, 1994, and 1995 and is currently working on 1996. In each of the three years studied, TACIR has found that new appropriations for K-12 education each year exceed the funds earmarked from the one-half cent sales tax increase.

State Funding Sources

Tennessee relies heavily on consumption taxes to fund state services, including education. At the local level, property

taxes continue to be the mainstay, although local sales taxes are extremely important in some areas.

In recent years, Tennessee has raised the state sales tax to fund education reform: in 1984 a one-cent increase was adopted to fund, *inter alia*, the "Better Schools Program" introduced by Governor Lamar Alexander; and in 1992, a one-half cent increase was adopted to fund the "Basic Education Program" promoted by Governor Ned McWherter.

The majority of state funding for Tennessee's public schools is generated from the sales and use tax.¹¹ Other state sources of education revenue are the tobacco and mixed drink taxes. These revenue sources for education are presented in Table 6. In FY 1997, the sales and use tax will generate \$2.63 billion for education, or over 96% of the total. The tobacco tax and the mixed drink tax generated \$86 million and 12.5 million respectively. The litigation privilege tax, which is allocated to the Department of Education and dedicated to the Education Trust Fund, generated nearly \$2 million for FY 1996. Seventy-five percent of the litigation privilege tax is earmarked for the Driver Education Training Program in public schools.¹²

While earmarked education revenues (including those allocated for higher education) fund a large part of education needs, they do not fund all education needs. In FY 1995 (the latest year of reconciliation of earmarked funds), \$2,410,666,000 was raised and deposited into the Education Trust Fund,¹³ while \$2,758,473,300 was actually spent on education.¹⁴ Earmarked revenues funded 87.39% of the total funds spent on education and transfers from the General Fund made up the difference between appropriated amounts and earmarked revenues.

Local Funding for Education in Tennessee

The Property Tax

Historically, the property tax has been the largest source of education funding. Education is predominantly a local function and the property tax is the predominant local tax revenue source. In Tennessee, the property tax provides 52.3% of total local education revenue. If payments in-lieu of property taxes are added, the property tax accounts for nearly 54% of total local revenue (see Table 7).

The use of the property tax among the 139 school sys-

Table 6
Earmarked State Education Funds, FY 1996 and FY 1997*

| Tax | 1996 ¹ (Actual) | 1997 ² (Estimate) |
|--|-------------------------------|---------------------------------|
| State Sales & Services | | |
| 65% of 5.5% of the state tax | \$2,155,033,596 | \$2,307,483,750 |
| 100% of the half-cent of the sales tax ³ | \$302,127,393 | \$322,725,000 |
| Tobacco (99.4% of the state tax) | \$83,366,133 | \$85,285,200 |
| Mixed Drink (50% of the 15% Gross Receipts Tax) | \$12,258,934 | \$13,050,000 |
| Litigation Privilege (75% earmarked for Driver's Ed) | \$691,152 | \$739,188 |
| GRAND TOTAL | \$2,553,477,208 | \$2,729,283,138 |

¹ Tennessee Department of Revenue, *Recap of Undistributed Revenue Collections, July 1995 thru June 1996*.

² Calculated by TACIR staff using Tennessee Department of Revenue, *Fiscal Year 1996-1997 (Revised) Estimated Collections by Fund, January, 1997*.

³ This is the tax increase that was earmarked to fund the Basic Education Program. In 1993, it brought in over \$225 million.

* The totals in this table include over \$500 million for higher education.

Table 7
Own-Source 1996 Local Revenue*

| Revenue Receipts | Dollars | % of Total |
|---|------------------------|----------------|
| Total Property Tax - Schools | \$777,322,118 | 52.32% |
| Payment in Lieu of Property Taxes | \$22,742,033 | 1.53% |
| Total Local Option Taxes | \$617,728,465 | 41.57% |
| Total Other Statutory Local Taxes | \$10,923,825 | 0.74% |
| Appropriations from City General Fund | \$56,324,403 | 3.79% |
| Licenses and Permits | \$778,608.00 | 0.05% |
| TOTAL COUNTY AND CITY OR SPECIAL DISTRICT REVENUE RECEIPTS | \$1,485,819,452 | 100.00% |

*Excluding Bond Proceeds and intergovernmental transfers.

Table 8
Equity Measurements for Tennessee

| | 1992 | 1995 | Change | % Change |
|---|-------|-------|--------|----------|
| Range Ratio | 1.27 | .93 | -.34 | 26.8% |
| Federal Range Ratio (95th/5th percentile) | .67 | .53 | -.14 | 21.1% |
| Coefficient of Variation | 16.5% | 14.1% | -2.4 | 14.5% |
| McLoone Index | 0.81 | 0.87 | 0.06 | 7.4% |
| Green Index | 1.26 | 1.19 | -0.07 | 5.9% |
| TACIR Equity Index | 0.09 | -0.51 | -0.60 | — |
| Top 10 Systems/Bottom 10 Systems | 0.85 | 0.67 | .18 | 21.6% |
| Kingsport/Hancock Co. | .53 | .32 | -.21 | 39.8% |

tems varies significantly. According to data from the Department of Education, the dependence on the property tax ranges from nearly 90% of local education revenue to 15%. Depending on the year examined, around 100 of 139 school system depends upon the property tax for 50% or more of their local education revenue.

The Local Sales Tax

The local sales tax is the second most important source of local revenue. Nearly 42% of total local revenue is derived from the local sales tax.¹⁵ Dependence on the local sales tax to fund education ranges from nearly 71% in Sevier County (a premier tourist area) to 7% in Johnson County. The local sales tax accounts for 50% or more of total local education revenue in 13 school systems.

Appropriations from Cities

Twenty-four city school systems report appropriations from the city general fund as a source of local revenue for education. Humboldt reports that 67% of its local revenues comes from such appropriations. Only three systems report dependence on city appropriations of 50% or more. Overall, city

appropriations constitute only \$56.3 million or less than 4% of total local revenue for Tennessee schools.

Impact of Fiscal Equalization on Equity

The impact of the fiscal equalization policy required by the Education Improvement Act is presented in Table 8. This illustrates that all eight measurements of horizontal equity show considerable improvement.¹⁶

The impact of fiscal equalization is also apparent from the proportion of local funding required for the BEP. The EIA requires that local school system fund 25% of the BEP in aggregate. However, for the classroom share, the proportion ranges from a low of 6% for Hancock County to a high of 40.5% for Metro-Nashville; for nonclassroom funding, the range is a high of 13% for Hancock County and only 89% for Metro-Nashville. Based on the TACIR equity index, this is precisely the empirical result that would be expected.

Although spending per pupil increased in the top spending school system (Oak Ridge City Schools), the "total range ratio" has narrowed significantly from 127.3% to 93.2%. The federal range ratio has narrowed as well, from 67.8% to 53.5%. The coefficient of variation declined from 16.5% to 14.1%. The McLoone Index increased from .81 to .87.

Four non-traditional measures have been added to the analytical mix. The Green Index measures the relationship between spending for the top 50% of students compared to the bottom 50% of students, expressed as a ratio. Although there is no standard for this statistic, a ratio close to one is desirable. This index declined from 1.26 to 1.19.

The TACIR Equity Index is a correlation analysis of state funding and local fiscal capacity. If equalization is working, the relationship should be inverse and moving toward negative one. This analysis shows that this index improved from .09 in 1992 to -0.51 in 1995.

The third non-traditional measurement was one used by the plaintiffs in the *Tennessee Small School Systems v. McWhorter et. al.* A comparison of the top ten systems to the bottom ten systems, expressed as a percentage, indicates a decline in the disparity of per pupil spending from 85% to 67%.

The final non traditional measurement is used to illustrate the impact of the BEP on two systems made famous nationally by a CNN special report. This index is the percent difference, expressed as a decimal, between per pupil spending by the City of Kingsport's school system and that of Hancock County. As this index indicates, the disparity declined from 53% to 32% during this period, a 40% improvement.

Conclusions and findings

Since full funding will not be achieved until FY 1998, it is premature to evaluate the affects of the major education finance reform initiated by the Education Improvement Act in Tennessee. The EIA reforms brought substantial new state funding and provided for fiscal equalization at a level never before achieved in Tennessee.

The effect of these reforms have been to increase the accountability of Local Education Agencies (LEAs) and to reduce significantly the disparity in school spending. This has been achieved without placing spending limits on wealthy LEAs. Without question, a much more equitable system for educating the children of Tennessee has been created.

One downside of increased state spending is the spectre of funding instability that it brings. This is a minor problem compared to the issue of inadequate state funding and spending inequity, but it must be recognized as a danger. The Tennessee state government revenue system is inelastic over time. In FY 1991-92, a funding crisis occurred because of this inelasticity and state funding for education was reduced by \$116 million. Inevitably, this will happen again in time and it is unlikely that the State Revenue Stabilization Fund will be large enough to prevent funding reductions.¹⁷

Although numerous problems remain and some dissatisfaction is found in many areas, objective criteria indicate major improvements in Tennessee's K-12 education system.

- The new system of education finance is working well in terms of the objectives of the Education Improvement Act of 1992.
- The most dissatisfied educators tend to be those in the large urban systems that possess the greatest wealth. Obviously, fiscal equalization impacts them most severely. Moreover, educators in rapid growth counties are dissatisfied because the formula lags one-year behind the most current funding year. Therefore, to some extent these systems are always underfunded.
- Most education leaders, and particularly those from the small schools that prevailed in the lawsuit, have frequently commented on the vast improvements that the new funding has allowed. According to a recent study by the University of Tennessee, for the four-year period 1992-1996, state funding increased at a compound annual rate of 14.6%; local funding by 5.2% and federal

funding by only 2.3%. This is a very large rate increase for state funding and its effect has been obvious in previously underfunded LEAs.

- Horizontal equity has improved significantly during the period 1992-1996 and is expected to continue improving through 1998. After that, equity gains should more or less stabilize. However, since there is no upper limit on local spending, high spending, wealthy LEAs could eventually cause some deterioration in the level of equity achieved.
- The level of accountability and public knowledge about K-12 education has increased significantly. The annual "Report Card" for each LEA is published each Fall and the requirement for appointed superintendents will be fully implemented by the year 2000.
- Standardized test results suggest general improvement by students in LEAs all across the state.

The history of education reform reveals that achievements rarely match expectations. However, it is fair to state that Tennessee has made a major commitment to education reform and that the achievements to date are promising. The National Conference of State Legislatures identifies five principles of a sound state school finance system: equity, efficiency, adequacy, accountability and stability. Tennessee has made considerable progress on all fronts.

Endnotes

1. This article is based in part upon Harry A. Green and Connie J. Smith, *Funding Tennessee Schools: From Reform to Restructuring*. (Tennessee Advisory Commission on Intergovernmental Relations, June 1995), and Harry A. Green, Cliff Lippard, and Lynne Holliday, *Accountability for Funding Education in Tennessee* (Tennessee Advisory Commission on Intergovernmental Relations, April 1996).
2. Interview with Mr. John Sharp, Administrative Services Assistant Manager, Division of Budget, Department of Education
3. Table 1 exhibits the major funding components on which allocations are made to local education agencies.
4. There is some confusion about legislative intent. The Education Improvement Act refers to "cost of operations" but directed a "cost-of-living" study. Also, some educators have interpreted this as a method to address "municipal overburden."
5. T.C.A. Section 49-3-356.
6. See Harry A. Green, et al, *Local Fiscal Capacity for Funding Education in Tennessee*, TACIR, July 1994 and March 1995.
7. T.C.A. § 49-3-354(i).
8. There was considerable controversy about this amount of \$192.5 million. This "balloon" payment is \$60 million more than was anticipated in FY 1997. Also, it should be noted that total new funding for the six year period exceeds \$1.2 billion.
9. See Harry A. Green, "Tax Reform and Education Funding: What are the Options?", *Tennessee's Business* (Middle Tennessee State University, Spring 1991). Also see Steven D. Gold, *Tax Options for States Needing More School Revenues* (NEA, 1994).
10. *Principles of a Sound State School Finance System* (National Conference of State Legislatures, July 1996).
11. Only the State of Washington depends more heavily on the sales tax than Tennessee.

12. *The Budget FY 1994–1995*, State of Tennessee, pages A–53–69, A–81, A–77.
13. Department of Revenue. *Apportionment of Undistributed Revenues*, July 1994–June 1995.
14. *The Budget FY 1995–1996*, State of Tennessee, B–61.
15. The way sales tax is reported by the Department of Education is “Total Local Option Taxes.” Small amounts of other local option tax collections are included in the numbers reported. However, these amounts are extremely small and have little influence on this interpretation.
16. Harry A. Green and Lynne Holliday, *Much Ado About Something: Gains in Education Spending Equity* (TACIR, July 1996).
17. The current governor has taken a “no new taxes” position and the political environment in Tennessee is hostile to both state and local tax increases.

Until there is an equality of financing, there can be no equality of quality.

Equity and Public Education in Virginia

Deborah A. Verstegen

School funding in Virginia has been a major interest of lawmakers, scholars and others since the earliest days of the Old Dominion.¹ The state's ultimate responsibility for public education was recognized as early as Thomas Jefferson's day; however, the specific authority to finance public schools didn't occur until nearly a century later. The Constitution of 1870 required the Superintendent of Public Instruction to develop a plan for a "uniform system of public schools." In 1902 the General Assembly was constitutionally directed to "establish and maintain an efficient system of public free schools." This responsibility was strengthened in 1971, "prompted perhaps in part by judicial responses to desegregation efforts and massive resistance."²

In the late 1980s, interest in school funding again heightened. This was due to growing dissatisfaction with the quality of schooling in America and the release of research³ documenting wide and growing inequalities among school districts in Virginia despite recent legislative restructuring intended to address these concerns.⁴ Subsequently, in January of 1990, as one of his first official actions as governor, L. Douglas Wilder established a Commission on Educational Opportunity for All Virginians and charged it with "advising the Governor and General Assembly on how the Commonwealth could further address and overcome differences in education programs in Virginia's public schools". The Commission submitted its final report in August 1991 which neither identified equal funding as a goal nor did it focus on measuring current fiscal disparities. However, it found widespread inadequacy, in that "all divisions regardless of their local wealth exceed[ed] the [state minimum] standards [Standards of Quality]...suggest[ing] that the divisions view the [SOQ] as too minimal to provide a quality foundation program."⁵ Recommendations included: (1) funding schools according to prevailing practices in school divisions and recognizing the costs of students with special needs including children in poverty, (2) changing the local ability-to-pay measure (the Local Composite Index) to more accurately reflect local fiscal capacity, (3) equalizing the sales tax, 1% of which is returned to localities as a flat grant based on school-aged population in public and private schools, and (4) increasing the maximum local share from 80% to 85%–90%. However, to date, none of these recommendations have been enacted.

Judicial Activity. At the same time, between 1991 and 1994 another stream of activity that propelled interest in school

finances emerged from the courts. A group of poor children and school districts challenged the constitutionality of the school aid system because it failed to furnish a "uniform system of public education which provides children throughout the Commonwealth with a substantially equal opportunity."

Two sections of the Virginia Constitution refer to education and were referenced in the court challenge: Article I, Section 15 (part of the Bill of Rights), and Article VIII, Article I, Section 15 states:

That free government rests, as does all progress upon the broadest possible diffusion of knowledge, and that the Commonwealth should avail itself of those talents which nature has sown so liberally among its people by assuring the opportunity for their fullest development by an effective system of education throughout the Commonwealth.

The Bill of Rights is buttressed by another section of the Virginia Constitution referring to the schools, commonly referred to as the education article. Under Article VIII, Section 1 and 2:

Section 1. Public schools of high quality to be maintained. The General Assembly shall provide for a system of free public elementary and secondary schools for all children of school age throughout the Commonwealth and shall seek to ensure that an educational program of high quality is established and continually maintained.

Section 2. Standards of quality; State and local support of public schools. Standards of quality for the several school divisions shall be determined and prescribed from time to time by the Board of Education, subject to revision only by the General Assembly.

The General Assembly shall determine the manner in which funds are to be provided for the cost of maintaining an educational program meeting the prescribed standards of quality, and shall provide for the apportionment of the cost of such program between the Commonwealth and the local units of government comprising such school divisions. Each unit of local government shall provide its portion of such cost by local taxes or from other available funds.

In challenging the state aid system plaintiffs cited a number of fiscal disparities that produced significant interdistrict differences and affected the quality of education that could be offered: (1) State and local funding for general education in Virginia is 2 1/2 times higher in some local school divisions than in others and this gap has increased 14% over two years. (2) Average classroom salaries are 39% higher in some school divisions than in others. (3) The ten wealthiest school divisions have an average instructional personnel to pupil ratio which is 24% higher than the ratio in the ten poorest school divisions, ranging from 81.8 per 1,000 to 66.2 per 1,000, respectively. (4) Spending for instructional materials is almost 12 times greater in certain school divisions than in others.

In 1994, after three years of litigation, the Virginia supreme court, without a trial on the facts of the case, ruled in *Reid Scott et al., vs. the Commonwealth*⁶ that Virginia's constitutional language meant that education was a fundamental right in Virginia; however, it found this did not require equal funding and upheld the disparate system stating:

"While the elimination of substantial disparity between school divisions may be a worthy goal it simply is not required by the Constitution. Consequently, any relief to which the students may be entitled must come from the General Assembly."⁷

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Nonetheless, the high court stopped short of placing its imprimatur on the disparate funding scheme and left the door open for future court challenges, should an adequacy issue be raised, stating that "...the Constitution guarantees only that the [state minimum] Standards of Quality be met" and the "students do not contend that the manner of funding prevents their schools from meeting the standards of quality."⁸

Legislative Issues. Although Virginia's finance system has recently been upheld by the state's high court, questions have been raised concerning the possibility of a legislative remedy aimed at greater equity and adequacy for all children. Since creation in the early 1970s the formula for disbursing state aid to schools has changed minimally, although there was a restructuring in 1988 when several categorical aids fully funded by the state were collapsed into the equalization grant—including special education, remedial education, vocational education, teacher retirement and transportation; and a "cost of competing" factor was implemented.⁹ Later, in 1994, an "equity package" was adopted in response to the court challenge. This provided add-on funding for some at-risk four year-olds, assistance for technology and aid for reduced class sizes in grades K-3. Despite these modest additions to the funding system, however, the major equalization grant-in-aid, the structure of the distribution system and the measurement of local wealth have remained unchanged over the past quarter century.

Virginia's Current School Funding System. Education is a federal interest, and a state responsibility that is managed locally. In Virginia, like other states, the constitution places the responsibility for the provision and governance of education on the state. Virginia is a relatively wealthy state, ranking 14th in the nation in terms of per capita income. Personal income taxes (13th) are also above the national average, as are property taxes. However, few of these resources reach children in schools and in classrooms across the Commonwealth. As a percent of total funding, state aid comprises only 35% of total school support compared to 46% nationally¹⁰. Federal aid contributes 5%; this compares to 7% nationally. Local sources provide 60% of total aid; this compares to 47% nationally. Thus, Virginia ranks near the bottom in terms of state and federal aid for schools at 45th nationally; conversely it ranks high in local support ranking 5th across the country. Thus, the local property tax is the mainstay of Virginia's school funding system for elementary and secondary public schools.

The major sources of local revenue come from the real estate tax (48%), the tangible personal property tax (16%), the local sales tax (7%) and other miscellaneous taxes.¹¹ Because state aid is often used to equalize differences in local funding for the schools and to provide equal educational opportunities for all children, regardless of where they reside—and state aid is low—one would expect to see wide variations in school funds among Virginia's school districts conditioned on local wealth. This is supported by numerous research studies.¹²

Major State Equalization Grant. Education is provided in Virginia by 137 fiscally dependent local school divisions, that have boundaries coterminous with the cities, counties and towns they serve. The local school boards do not have taxing authority; in addition, there is no local tax specifically earmarked for public education and local governing bodies are responsible for approving the school budgets submitted by the local school boards.

Over the past six years, from 1989-90 to 1994-95, enrollment has grown nearly 8% and is currently 1,052 million. During this same period students receiving special education services increased nearly 28%, or 3.5 times faster than the ADM; students for whom English is a second language increased 42% or 5 times the ADM to over 20,000; and stu-

dents in poverty (measured by free and reduced price lunch count) increased to 31% of ADM. Total spending for schooling in the state from all sources (federal, state & local) increased 16% between 1990 and 1995—from \$5,636 to \$6,534. When adjusted for inflation, however, per pupil spending has fallen over this same time—from \$5,636 to \$5,596.¹³ Instructional spending accounted for 67% of total spending in 1994-95, with increases over the six year period varying among programs: regular instruction (16%), special education (37%), vocational education (6%), and gifted education (22%).

The state provided a total of over \$6.1 billion for schools over the 1996-98 biennium. However, state aid, as a percent of total budget expenditures, have fallen over time: from 18.1% in 1992 to 17.4% in 1994 and 17.0% in 1995.¹⁴ The Commonwealth of Virginia distributes these funds to localities through a minimum Foundation Program. Under this program, most state aid is distributed through a fiscal equalization grant that provides funding in inverse proportion to local ability-to-pay for education so that the total of state and local revenue is equal across the state up to a point, which is the state guaranteed amount of revenue for basic education. The state's share of funds is determined through a series of three steps: First, a minimum per pupil expenditure for each school division is determined and guaranteed by the state. (2) The proceeds from one cent of the state 4.5 cent sales and use tax is deducted. It is returned to school districts as a flat grant based on total school-aged children. (3) A required local contribution, equivalent to a uniform tax rate, is charged to the locality and deducted from the remainder, and (4) the difference between the guaranteed amount and the required local contribution becomes the state responsibility.¹⁵ On average, the state pays for 55% of the foundation amount and localities pay 45%. Categorical programs are also provided by the state to address special categories of student needs and district costs—such as special, remedial and vocational education, and transportation—but no direct support is provided to pay for school facilities. Additionally, the state places no limit on the amount of funding that localities are permitted to raise in addition to the state minimum foundation program.

The Foundation Amount. The level of assistance guaranteed by the state, the foundation amount, is based on two calculations: a personnel cost and a support cost. The first component in the calculation, the personnel cost, is based on the state approved number of teachers paid at a "prevailing" salary level. There are 51 teachers per 1,000 students (ADM) approved by the state for basic education; occupational-vocational educational payments and special educational payments; and a minimum of 6/1000 for SOQ support. This creates a "floor" of 57/1000. Also approved are 1 teacher per 1,000 students for gifted education and 9/1000 for remedial education based on the number of students who score in the bottom national quartile of the Virginia State Assessment Program tests or who fail the state's literacy tests. These figures (and the resulting foundation amounts) vary somewhat according to the grade-level and division requirements for pupil-teacher ratios.¹⁶

Staffing estimates are multiplied times a state approved "prevailing" salary level. This sum is divided by the number of students (ADM) to determine the average SOQ cost per pupil.

A second step in calculating the foundation amount is determining support costs, which include all other components of school costs—such as salaries and fringe benefits for the superintendent and support personnel, a portion of transportation, nonpersonnel service costs, and professional development. This sum is divided by the number of pupils in a school system and added to the personnel cost to determine the state guaranteed per pupil amount.

Measure of Local Ability to Pay. The major state grant-in-aid to local school districts, an equalization grant, apportions

aid to local school districts to pay for SOQ costs based on an multifactor index of local ability-to-pay for education and is referred to as the Local Composite Index (LCI). It attempts to reflect the different sources of revenue available to localities and compares three local measures of wealth to statewide averages; and adjusts these indicators by student population and total population. The three measures of local wealth are: the property tax base including the true value¹⁷ of real estate and public service corporations; the taxable retail sales subject to the state general sales and use tax;¹⁸ and adjusted gross income, a proxy for a variety of other fees, charges and personal property taxes available to localities. These components are weighted as follows: property, 50%; income, 40%, and sales, 10%. The sum of 2/3 of the student population LCI (based on average daily membership(LCI)) and 1/3 of the population component is then multiplied by a local nominal share of the SOQ, which is 45%.

The LCI ranges from .1000 to .8000 as all indices above 80% are adjusted to 80%. As might be observed, the lower the LCI the lower a locality's fiscal capacity. An index of .1000 indicates that the local share of the Standards of Quality is 10% and the state's share is the balance or 90%; an index of .8000 indicates that the local share is 80% and the state share is 20%. The calculation is described in the Appropriations Act:

An index figure is computed for each locality. The composite index is the sum of 2/3 of the index of wealth per pupil in ADM (adjusted for half-day kindergarten programs) reported for the first seven (7) months of the school year and 1/3 the index of wealth per capita (population estimate); times the local nominal share of the costs of the Standards of Quality of 0.45. The indices of wealth are determined by combining the following constituent index elements with the indicated weighting: (1) true values of real estate and public service corporations, weighted 50%, (2) adjusted gross income, weighted 40%, and (3) sales weighted 10%. Each constituent index element for a locality is its sum per state average per ADM, or per capita, for the same element.

Cost of Competing. Since 1988, Virginia has designated Planning District Eight (Counties of Arlington, Fairfax, Loudon, and Prince William and Cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park) for a special "cost adjustment" to reflect competitive salary levels and the long standing state practice of providing regional cost-of-competing differentials to classified state employees in northern Virginia.¹⁹ Currently total SOQ costs are adjusted upward by 9.83% for these localities.

Discussion. Virginia's school funding system is characterized by large inequalities and inadequacy. For example, according to data presented in the Virginia Education Association's Virginia's Educational Disparities²⁰, in 1994–95 more affluent localities in Virginia had a spending advantage of \$5,167 per pupil. The highest spending school district, Falls Church, averaged \$9,513 per pupil; the lowest spending, Poquoson and Hanover, spent \$4,315 and \$4,379 respectively. These differences are nontrivial. They amount to \$154,020 per classroom of 30 children; or \$6.9 million more to spend divisionwide for one year—\$90 million more over 13 years.

What do these dollars buy? More funding means more teachers, higher teacher salaries, smaller class sizes and better outcomes. In 1994–1995, for example, Falls Church purchased: lower class sizes which averaged 91.5 teachers per 1,000 students compared to an average of 72 per 1,000 statewide. It ranked third in terms of class sizes statewide, Falls Church also bought more expensive teachers, paying an average of \$43,807 per teacher; it ranked second statewide in terms of teacher salaries. In terms of outcomes, Falls Church ranked second statewide in the number of graduates (95.2%)

continuing their education; and had one of the lowest drop-out rates in the Commonwealth—less than one half of one percent. It ranked 128th in terms of student drop-outs.

Several points should be made about Virginia's finance system that contribute to these disparities. First, disparities are increased when state aid fails to pay for the full cost of education. The state supports only the minimum, basic education but a quality education for all students and all schools is needed as numerous commissions, reports and studies have concluded. When localities pay for additional programs and services out of their own funds. This propels a substantial amount of unequalized local funding outside of the foundation program—and contributes to disparities in education financing due to variations in local wealth. The tax base varies 140 fold; as a result poor localities can tax high but still must spend low. For example, a one cent tax hike in Clifton Forge raises only \$9,600 but in Fairfax it raises \$7.6 million. In this scenario, there is no way that poor localities can tax themselves to excellence without additional support from the state.

Second, disparities are increased through inadequate state funding for Virginia's schools. In 1991 the Commission on Educational Opportunity for All Virginians found that "all divisions regardless of their local wealth currently exceed[ed] the state minimum standards suggesting that the divisions view the standards as too minimal". In 1994–95 the VDOE found that all localities exceeded the state minimums for the SOQ; 25 more than doubled the effort required by the Standards of Quality and 52 exceeded the requirement by more than 50%.²¹ This leads some to question the degree to which the SOQ is an appropriate standard against which to judge the adequacy of the resources available to the schools.²² It also should be noted that the prevailing salary level is less than both the average or median statewide salary and also has been criticized for driving down the true cost of education under the SOQ.

Third, disparities increase when requirements for schooling are not funded by the state. The state finance program supports operations; buildings and major maintenance and renovation costs are paid for exclusively out of local funds although the state provides loans and interest subsidies through The Literary Fund and the Virginia Public School Bonding Authority.²³ About half of Virginia's schools use trailers as temporary classrooms; almost half of Virginia's schools are over 30 years old; an estimated 68% of the schools need major renovations or replacement; and Virginia's two lending programs have both been impacted by transfers. Unmet need is estimated at \$8 billion over the next five years.

Fourth, disparities are increased through funding that rewards only wealthy localities through such measures as the "cost of competing" factor. Questions include: why only one part of the state is receiving a special cost adjustment when areas such as Hampton Roads and Richmond also register higher costs on state studies; and whether the adjustment reflects "the high cost of living or the cost of living high", in that the wealthiest localities in the state are the sole beneficiaries.

Fifth, disparities are increased through the use of minimum aid provisions and flat grants. These provide assistance without regard to local ability-to-pay for education. Currently the state aid system provides a uniform per pupil grant to school districts from sales tax revenues without regard to local ability-to-pay for education, based on the number of school-aged children; this acts to offset the equalizing effects of the foundation program.

Sixth, disparities are increased when local ability-to-pay is not measured accurately. Previous methods of calculating local wealth relied solely on real property values. The current index was developed by the Governor's 1972–1973 Task Force on Financing the Standards of Quality and remained largely unchanged over the past 2 1/2 decades. Recent attention has focused on variations among local revenue sources or local

needs for services across the state that are not reflected in the fixed weights and the artificial ceiling imposed on the index of 0.8000, both of which erode the overall purpose of the index as a measure of local ability-to-pay for education.²⁴ Wealthy localities benefit through provisions that artificially reduce their local ability to pay for education to 80%; this provides a flat grant of 20% which favors revenue-rich school districts at the expense of revenue poor localities. If the state wishes to assure that all school districts receive at least 20% of equalized accounts then all values of local wealth (LCI) should be recalibrated—that is, lowered proportionally until the highest value stands at .8.

In sum, to offset the differences in school funding generated by local ability and spending on education, new methods of distribution are needed but little can be accomplished without considerably more state funds.²⁵ As the Wyoming court put it, "Until there is an equality of financing there can be no equality of quality."

Endnotes

1. Early history is drawn from: Virginia Division of Legislative Services (n.d.). *A Legislators Guide to Public Education in Virginia*. Richmond, VA: Virginia State Capitol, mimeo.
2. A.E. Dick Howard (1974) *Commentaries on the Constitution of Virginia*, p. 880–884, in Virginia Division of Legislative Services (n.d.). *A Legislators Guide to Public Education in Virginia*. Richmond, VA: Virginia State Capitol.
3. Versteegen, D. A. & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity in School Finance in Virginia. *Journal of Education Finance*, 15(2), 205–228. Versteegen, D. A., (1990). *Closing the Gap? An Equity Analysis of Virginia's Education Finance Reform*. Richmond: Virginia Education Association, pp. 1–26. Versteegen, D. A. & Salmon, R. G. (1991). *Closing the Gap? An Update on School Finance Equity in Virginia*. Richmond, VA: The Virginia Education Association, pp. 1–19.
4. Versteegen, D. A. & Salmon, R. G. (1989). Virginia Education Finance Reform: Have Excellence and Equity Been Achieved? *Journal of Education Finance*, 14(2), 200–220.
5. Governor's Commission on Educational Opportunity for All Virginians. *Final Report*. August 1991, p.1, 5.
6. *Reid Scott et al., v. the Commonwealth of Virginia* [cite]
7. See, for example, Versteegen, D. A. (1992). Keeping Track: School Finance Litigation in Virginia. (pp. 79–85). In Westbrook, K. C., Ed., *State of the States '92: Bridging Troubled Finance Waters*. Proceedings of the Fiscal Issues, Policy and Education Finance Special Interest Group of the American Education Research Association; Versteegen, D. A. & Salmon, R. G. (1995). Issues of Choice and Equity in Virginia. (pp. 183–189). In Edlefsen, C., Ed., *The State of School Finance Policy Issues, 1995*. Ohio State University: Policy Research for Ohio-Based Education.
8. Versteegen, D. A. (1994). The New Wave of School Finance Litigation. *Phi Delta Kappan*, 76(3), 243–250.
9. For a discussion, see: Versteegen, D. A. & Salmon, R. G. (1989). Virginia Education Finance Reform: Have Excellence and Equity Been Achieved? *Journal of Education Finance*, 14(2), 200–220.
10. Data are for 1994 and are drawn from: National Education Association (1995). *Estimates of School Statistics*. New Haven: National Education Association.
11. Rickman, J.B. (1995). Virginia. (pp. 621–632). In Gold, S. ed., *Public School Finance Programs in the United States and Canada*. p. 621.

12. Versteegen, D. A. (1996). Concepts and Measures of Fiscal Inequality: A New Approach and Effects for Five States. *Journal of Education Finance*, 22(2), 145–160.
13. Versteegen, D. A. & Salmon, R. G. (1991). Assessing Equity in Virginia School Finance: Cross-Time Comparisons. *Journal of Education Finance*, 16(4), 417–431. Versteegen, D. A. & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity in School Finance in Virginia. *Journal of Education Finance*, 15(2), 205–228.
14. Virginia Department of Education (1996). *Spending on Public Education*. Richmond, VA: VDOE, p. 4.
15. National Association of State Budget Officers (1996). *State Expenditure Report, 1996*. Washington, D.C.: NASBO.
16. Salmon, R. G. *Virginia School Finance: A Manual for Understanding the Virginia System for Financing Public Schools*. (1990–91). Blacksburg, VA.: Virginia Technological Institution and State University, p. 1.
17. Licensed instructional personnel shall be assigned by each school board in a manner that produces division-wide ratios of students in average daily membership to full-time equivalent teaching positions, excluding special education teachers, principals, assistant principals, counselors and librarians that are not greater than the following ratios: (i) twenty-five to one in kindergarten with no class being larger than thirty students; if the average daily membership in any kindergarten class exceeds twenty-five pupils, a full-time teacher's aide shall be assigned to the class; (ii) twenty-four to one in grade one with no class being larger than thirty students; (iii) twenty-five to one in grades two and three with no class being larger than thirty students; (iv) twenty-five to one in grades four through six with no class being larger than thirty-five students; (v) twenty-four to one in English classes in grades six through twelve. In addition, instructional personnel shall be assigned by each school board in a manner that produces schoolwide ratios of students in average daily memberships to full-time equivalent teaching positions of twenty-five to one in middle schools and high schools. (Virginia Department of Education (July 1, 1992). *Standards of Quality for Public Schools in Virginia*. Richmond, VA: VDOE, Standard 1 (G).)
18. True value is the full market value.
19. Localities are permitted to raise a 1% option sales tax—the revenue from this remains with the city or county; in addition, as discussed, 1 cent of the sales tax is dedicated to public schools.
20. See, Joint Legislative Audit and Review Commission (1996). *Technical Report: The Cost of Competing in the Standards of Quality*, Senate Document 8. Richmond, VA: State Capitol.
21. Virginia Education Association (October 1996). *Virginia's Educational Disparities*. Richmond, VA: VEA.
22. Virginia Department of Education (November 1996). *Spending in Public Education 1989–90 to 1994–95*. Richmond, VA: VDOE, mimeo.
23. cf., McDowell, George, Elias, Carlos & Driscoll, P. (1992). *Paying for Schooling in Virginia: A Citizen's Guide to School Finance*. Blacksburg, VA: Virginia's Rural Economic Analysis Program, Virginia Tech, p. 10.
24. Versteegen, D. A. (1988). Building for the Future: Capital Outlay Financing in Virginia's Elementary and Secondary Education Sector. *Journal of Education Finance*, 13(4), 429–435.
25. cf., McDowell, George, Elias, Carlos & Driscoll, P. (1992). *Paying for Schooling in Virginia*.
26. McDowell, Elias, & Driscoll, "Paying for Schooling."

Taxpayer dismay and unhappiness with increasing property taxes is at the heart of changes to Wisconsin's school finance system.

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

Carolyn Busch
Karen Kucharz
Allan Odden

Across the nation, there is an ever-present debate between public education funding and property tax relief. On one hand, world competition demands that a high quality education be provided to all students in grades kindergarten through twelve (K-12), and on the other hand, taxpayers demand lower taxes. This perennial challenge is found in many states, and Wisconsin is certainly no exception. The dominant objective for changing Wisconsin's school finance formula in all three recent Wisconsin biennial legislative sessions has been the identification of new approaches to alleviate high property taxes. Because public school finance and property tax relief are so inextricably linked, minor modifications in either arena invariably generate intense discussion. As Wisconsin lawmakers continue to search for solutions to this problem, the school finance structure is eventually affected. This paper reviews Wisconsin's current public school finance system, as shaped largely by the recent efforts to provide property tax relief to the citizens of Wisconsin.

Historic Background

The quest for property tax relief has long been a primary focus of legislative attention in Wisconsin. The most significant changes to the public K-12 finance system have occurred in approximately 24 year cycles—1924, 1949, 1973, and most recently, in 1996. Each major revision represented a contemporary solution to what was viewed as a contemporary problem and was often a synthesis of numerous competing policy agendas. It is often said that history repeats itself, and the difficulties facing Wisconsin's finance system in 1996 are, not surprisingly, quite similar to the ones which have faced lawmakers throughout its history (Kingston, 1984).

The basic configuration of the current Wisconsin system has existed, in one form or another, for over 70 years. Beginning in 1924, as part of a plan to ensure "...that each community can furnish with this state aid adequate education

facilities for its children without an excessive local school tax rate." Wisconsin State Superintendent John Callahan proposed an elemental form of tax base equalization (a system in which a school district's aid is inversely proportional to wealth of its property tax base). Prior to the introduction of this plan, the major revenue source for school operations had been the local property tax. Callahan's State Support Program, however, called for the use of state money to remedy the problem inherent in unequally distributed property tax bases and school enrollments—varying ability across the state to generate revenue for public education. His new recommendations included the idea of determining state aid eligibility on a number of district factors—specifically, a district's taxable wealth and the number of elementary teachers employed by the school district. Callahan's ideas were eventually formulated into the Equalization Aid Act of 1927 (Kingston, 1984).

Then in the late 1940s, the Commission on Improvement of the Educational System was created to study the state's role in financing public education. Their final recommendations would form the cornerstone of Wisconsin public school finance for approximately the next 25 years. They included: 1) use of the state's general purpose revenue (mainly individual income tax, general sales and use tax, and the corporate income and franchise tax) to provide school district aids, instead of using a separate appropriation, 2) implementation of an equalization formula which guaranteed a property tax base per student member¹, rather than per teacher, 3) adjustment of the guarantee relative to changes in property value and school cost, specifically noting that sources other than the property tax should support a greater percentage of the total cost, 4) use of state aid to alleviate excessive tax burden and to encourage improved educational opportunities for children, and 5) re-arrangement of all public school districts into three uniform organizational structures—elementary districts (kindergarten through eighth grades), union high school districts (grades nine through twelve), and K-12 districts. Chapter 121.01 of the current Wisconsin Statutes reflects many of the ideologies set forth in the 1949 legislation:

It is declared to be the policy of this state that education is a state function and that some relief should be afforded from the local general property tax as a source of public school revenue where such tax is excessive, and that other sources of revenue should contribute a larger percentage of the total funds needed. It is further declared that in order to provide reasonable equality of educational opportunity for all the children of this state, the state must guarantee that a basic educational opportunity be available to each pupil, but that the state should be obligated to contribute to the educational program only if the school district provides a program which meets state standards. It is the purpose of the state aid formula...to cause the state to assume a greater proportion of the costs of public education and to relieve the general property of some of its tax burden. (Effective January 1, 1968)

Thus by the mid-1900s, the fundamental building blocks of Wisconsin's current system of funding elementary and secondary education had been well established (Kingston, 1984).

In yet another effort to control upward-spiraling property taxes, the 1973-75 legislature revised many aspects of the 1949 finance system. First, the allocation for state school aids was substantially increased. Second, cost controls were imposed on public school districts. The combination of increased aid and cost controls yielded property tax relief. Third, an expanded version of property tax base equalization was implemented. The new version placed a greater emphasis on the willingness of the local taxpayers to tax themselves. The 1973 revisions have been in effect for nearly 25 years and still

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provide the framework for Wisconsin's current equalization formula (Kingston, 1984).

Legislation and Events Since 1990

The school finance concerns of the 90s are integrally connected with the history and ideology which have historically defined the Wisconsin system. It is unmistakable that the two main pillars of policy in Chapter 121.01 are property tax relief and educational opportunity for children, and it is the quest for property tax relief that has driven policy-making in the Wisconsin legislative sessions of the 90s.

The ideology which has, perhaps, provided the greatest impetus for virtually all of the recent legislative action, is the ratio of state support to school cost—percent state share. Historic accounts show that the percentage of total cost supported by sources other than the property tax has been a political touchstone since 1949. Although the exact computation of the percent state share ratio has been the source of some debate over the years, it nonetheless has generally been viewed as a guideline indicating 'adequate' state support. It was not until the 1995–97 biennial session that an exact definition was clearly specified in statute. Furthermore, for the first time in Wisconsin school finance history, the percent state share ratio would explicitly determine the level of state contribution. (In previous years, the ratio was the end product of a politically and economically selected level of state contribution.) Each biennial session in the early 90s advanced ideas which, in concert, provided the backdrop for the major changes of 1996.

The 1991–93 biennial budget proposals contained the first indications of the new direction. In his biennial budget, the governor requested modest increases in state aid—\$50 million for 1991–92 and \$124 million for 1992–93. In reaction to the governor's proposal, Wisconsin's Joint Finance Committee (the primary financial body of the Wisconsin legislature) countered with a proposal for increasing state aid by \$960 million in the first year and an additional \$380 million in the second year—a level of state contribution never witnessed before! (Amounts represented annual increases over the prior year of 51.8% and 15.9%, respectively.) Along with the substantial increase in funding, the Joint Finance Committee included two additional revisions: 1) a change in the aid distribution formula, abandoning the guaranteed tax base (GTB) equalization formula for a foundation formula; and 2) imposition of school district cost controls. Not unlike events in 1973, the legislature's solution to providing property tax relief was to link large increases in aid with cost containment measures. Although the final legislation, Act 39, contained state aid increases of just 5% for both years and did not include the proposed cost controls, these actions foreshadowed the radical measures of the future.

The legislation from the 1993–95 biennial session, Act 16, contained the cost containment measures voted down in the previous session. Taking the form of school district revenue limits, this legislation limited school districts' increases in per-member revenue to the greater of \$190 or the percent increase in the urban consumer price index (CPI-U)¹. This method gave an advantage to higher spending districts—by applying the CPI-U percentage increase to a larger per-member base spending, the result would be a greater allowable per-member increase. Lower-spending districts were limited to an increase per-member spending of \$190, while some already high-spending districts were allowed to increase per-member spending by over \$350. This detail would later be cited in a circuit court case filed in October, 1995, challenging the constitutionality of the Wisconsin school finance system. Effective in 1995–96, and for all subsequent years, a uniform per-member dollar increase was used by all districts. The imposition of revenue limits was the primary focus of education legislation in the 1993–95 biennial budget.

The most significant changes to Wisconsin's school finance system in the 90's, however, occurred with the passing of Act 27, a product of the 1995 legislative session. Act 27 contained major changes which affected two general aid programs. First, technical aspects of the school finance system were altered: equalization moved from a two tiered GTB with minimum aid for districts not covered by the GTB to a three tiered GTB with minimum aid eliminated. Second, the state was to provide two-thirds of school costs beginning in the 1996–97 school year. As mentioned previously, this percentage was to singularly determine the required level of state contribution. Through either general and categorical state aid or the school levy property tax credit, two-thirds of the sum of state aid and school tax levies was now to be provided by the state. The total dollar amount of additional funds required to achieve this proportion of state aid in the 1996–97 school year was approximately \$960 million—an increase of \$808 million for general and categorical aid, plus an increase of \$150 million for the school levy tax credit (the school levy tax credit is described in more detail below). Applying similar computational logic to prior years' data, the percent state share was 48% in 1992–93, 48.7% in 1993–94, 51.0% in 1994–95, and 52.9% in 1995–96. An increase to 66.7% was, indeed, significant, and, due to revenue limits, would be used largely for property tax relief.

Recognizing the recent attention to property tax relief rather than education priorities, a group of districts, parents, and students joined in a suit against the state finance system. Filed in October 1995, their complaint stated that the system of financing public schools was unconstitutional—that educational opportunity depended on the district in which a student resided. In addition, the plaintiffs argued that the current system does not distribute revenue based on student need, and that because less wealthy districts cannot, due to limited resources, provide adequate programming to their special need students, these students are denied equal educational opportunity. The suit, although in the making for a number of years, was filed after the revisions of the 1995–97 biennial budget became law. As of this writing, the case has been accepted by the Wisconsin court system, and the trial is anticipated to begin shortly.

Wisconsin's Current School Finance System

The Organization of Public Education

Educational services for Wisconsin's K–12 students are provided by a combination of various entities. In the 1996–97 school year, Wisconsin had 368 K–12 districts, 47 elementary (K–8) districts, and 10 union high school (UHS) districts, all fiscally independent from other levels of government with the capacity to raise revenues locally. Additionally, there were 12 cooperative educational service agencies (CESAs) which provided programs and services to districts in exchange for financial support. Only two Wisconsin districts did not participate in CESA programs. Five counties had handicapped children's education boards (CHCEBs) which provided services to handicapped students. Finally, there were two state-administered special schools, one each for deaf and blind students.

System Overview

Property taxes are the single source of local district tax revenues in Wisconsin. Along with local property taxes, state general and categorical aid, property tax relief programs, and the recently-added school district revenue limits form the core of Wisconsin's current financial system. Of the five core components, categorical state aid programs, local property tax, and property tax relief programs have retained their basic structure and have remained relatively stable since 1990.

Categorical State Aid

The state of Wisconsin supports approximately 40 categorical aid programs. In 1996–97, 80% of the total categorical funding was distributed in the form of handicap and transportation aid.

Handicap Aid

Special education programs are available to resident children ages 3 through 21 who are determined to have exceptional education needs. Handicap child counts comprise almost 12% of the Wisconsin school population. Local school districts are the primary providers of special education programs, either "in house" or through consortium agreements. However, CESAs and CHCEBs also provide special education programs.

Handicap education aid is distributed by a percentage cost-reimbursement formula. School districts, CESAs, and CHCEBs are reimbursed for a percentage of approved salary, fringe benefits, and transportation costs. Statutorily, salaries and fringe benefit costs for special education teachers are reimbursed at 63%, costs for special education transportation are reimbursed at 63%, salaries and benefit costs for school psychologists and social workers are reimbursed at 51%, and board, lodging, and transportation costs for nonresident children are reimbursed at 100%. State handicap aid totals range from \$246.7 million in the 1990–91 school year to \$275.5 million in the 1996–97 school year, but generally covered only 44 to 58% of allowable costs.

Transportation Aid

The state pays a flat amount per transported student, which varies according to the distance that each student is transported to school. Public and private school children participate in the program. Total transportation aid has remained constant at \$17.7 million since the 1990–91 school year.

Local Property Tax

Although the amount of property tax has varied through time, the basic structure of local property tax collection has remained unchanged.

Property Tax Relief Programs

Wisconsin has two major property tax credit programs which aid in the reduction of property tax liability—the School Levy Tax Credit and the Lottery Property Tax Credit.

School Levy Tax Credit

The school levy tax credit was created in 1985 and revised in 1991 by Wisconsin Act 39. It is a "below-the-line" property tax relief program, appearing on the taxpayers' bill as a reduction in gross taxes owed. This credit is paid to each municipality, and is used to reduce the school taxes of all property owners in the municipality. The amount of school levy tax credit received by a municipality is based on its share of a three-year average of the total statewide school levy. Each municipality determines a credit rate to be applied to individual tax bills by dividing the total credit by the total taxable property in the municipality.

Lottery Property Tax Credit

Created in 1991, Wisconsin Act 39, the lottery property tax credit also is a "below-the-line" property tax relief program, appearing on the taxpayers' bill as a reduction in gross taxes owed. The credit equals the amount of school tax levy on a specified amount of residential property value. In 1995, for example, the credit was equal to the school tax levy up to first \$8,200 of residential property. Since 1990, the specified amount has ranged from \$5,900 to \$8,200. However, only

property which is identified as a taxpayer's principle dwelling is eligible for this credit, which caused a group of non-residents who own vacation property in Wisconsin to challenge the constitutionality of this credit program. They argued that the credit was a violation of the state constitution's uniformity clause which requires equal treatment of all property for tax purposes. In November 1996, a Wisconsin circuit court judge ruled in favor of the non-residents. Payment of this credit has been suspended, and it is anticipated that in the future the credit will be provided for all residential property owned by Wisconsin and non-Wisconsin residents.

General Aid

General aid is state aid which may be used by local school districts to support general school operations—its use is not limited to any specific program, purpose, or target population. Rather, it is to be used at the district's discretion. Although the term "general school aid" usually refers to aid distributed through an equalization formula, Wisconsin has dispensed aid through as many as five general aid programs from the years 1990–97. In the 1996–97 school year, general aid was distributed through three general aid programs—special adjustment, integration, and equalization.

Special Adjustment

Special adjustment aid is paid to districts experiencing large losses in general aid eligibility from the previous year. Act 16 repealed a provision which required a district's value per member to be less than 135% of the state average value per member. In the 1996–97 school year, the state provided additional aid to all districts losing more than 85% of their previous year's total. Since 1990, the hold-harmless percentage has ranged from 85 to 90.

Integration Aid

Integration aid is often classified as a categorical aid. However, by definition, Wisconsin considers it a general aid—it is funded from the general equalization aid appropriation, and there are no requirements that restrict its use. Integration aid is provided as an incentive to voluntarily improve the racial balance within and between districts. There are two different formulas which fund student transfers. *Intradistrict* aid is available to school districts that transfer students between attendance areas *within* the district. *Interdistrict* aid is available to school districts that transfer students *between* districts. For each *intradistrict* transfer, a district received an additional 32.5% of its per-member equalization aid payment. For each *interdistrict* transfer, the district of attendance received aid in the amount of its average resident per-member cost. An additional 20% in aid was received if the total number of transfers from other districts exceeded 5% of resident membership. These two formulas stayed relatively constant until the 1996–97 school year when the additional 20% was repealed and the additional 32.5% was reduced to 25%.

Equalization Aid

Since 1949, and until 1996–97, Wisconsin used some form of a GTB school finance system to fund the operations of its public schools (Rossmiller, 1990). The fundamental policy goal of a GTB is to rectify the structural flaw of local school district financing for schools: unequal access to a local property tax base. The GTB lowers the tax price of educational services for districts with low property values (Odden & Picus, 1992). State aid serves to reduce local property tax rates and, thus reduces the tax price for educational services. In essence, the GTB serves as a sliding scale for state financing of education. Districts with low property values receive relatively more state aid while districts with high property values receive less or no

equalization aid (depending on the level of the state guarantee).

With a substantial increase in state aid for education, Wisconsin's GTB began in 1973 with some significant adjustments in 1976 (e.g., the elimination of state recapture of local revenues) (Rossmiller, 1990) and 1995 (the shift from a two- to three-tiered GTB) (Busch, et al, 1996). The three-tiered GTB began implementation in the 1996-97 state aid year. Each of the three tiers will be discussed in detail below.

The first and second tiers of the three tiered GTB² are based on four components: 1) the district per member equalized property value; 2) the district per member shared costs³; 3) the state first tier guaranteed property value per member; and 4) the state per member primary shared cost ceiling. Implicit in these four parts is the district enrollment. Up to the state cost ceilings contained within the first two tiers, districts tax themselves as if their tax base were equal to the relevant tier and the state provides the difference. The third, or tertiary, tier is based on three elements: 1) the district per member equalized property value; 2) the district per member shared costs exceeding the second tier cost ceiling; and 3) the state second tier guaranteed property value per member (which is set in statute at the statewide average per member property value). There is no cost ceiling for the tertiary tier. Critical attributes of each of the tiers are contained in Table 1.

The first tier of the three-tiered GTB essentially provides tax relief for all districts—even the state's most property wealthy districts receive some level of funding under the first tier of the GTB and this funding may not be altered by either of the other two GTB tiers. In 1996-97, no Wisconsin school district had property value over \$2 million per member and no school district had shared costs per member under \$1,000. Thus, all school districts received equalization aid to the fullest extent under the first tier of the GTB.

In 1996-97, the second tier allowed school districts to tax themselves up to the secondary cost ceiling as if their property value were \$569,584 per member. This guarantee reflects a

very high GTB relative to actual property values in Wisconsin. In fact, after sorting school district per member equalized property value from lowest to highest and cumulating the percent of students in districts, the state second tier covered about 98% of students in the state. Importantly, because the recapture of local revenues was ruled unconstitutional in *Buse v. Smith* (1976), a district with property values over the state second tier guaranteed property value could tax itself at its actual tax rate, rather than the higher tax rate that would be required if it taxed itself at the state guarantee.

While the second tier GTB was high in 1996-97, the secondary cost ceiling reflected roughly the median (i.e., the 50th percentile) per member shared costs throughout the state. Thus, in comparison to the first tier, not all districts advantaged themselves fully up to the secondary cost ceiling. This has been true in Wisconsin for many years (Busch, et al, 1996; Busch & Odden, 1996; Odden, et al, 1996) and, in 1996-97, school districts were bound by a state revenue cap which restricted annual per member spending increases (including, but not limited to shared costs) to \$206 per member. Thus, the revenue caps may have affected the ability of district to avail themselves fully of the secondary cost ceiling. However, there was a low revenue exemption for relatively low spending school districts. Under this exemption, school districts spending under \$5600 per member could exceed their revenue cap up to \$5600 per member in the 1996-97 aid year. In addition, school districts could take proposed increases above their revenue caps to their voters. If approved, the new revenue amounts remained the base for annual increases. There were no limits to the referendum that districts could take to their voters.

The tertiary tier was somewhat more complex. Districts spending over the secondary cost ceiling and with equalized per member property values under the state tertiary tier could tax themselves as if their per member property values were at the tertiary tier. Like all other tiers, the state made up the difference and, obviously, these districts received additional state

Table 1

**Wisconsin's Three-Tiered GTB
1996-97 State Aid Year**

| | Guaranteed Tax Base per Member | Shared Cost Ceiling per Member |
|---------------|--------------------------------|--------------------------------|
| First Tier | 2,000,000 | 1,000 |
| Second Tier | 569,584 | 5,936 |
| Tertiary Tier | 232,954 | none |

Table 2

**Examples of State Equalization Aid Distribution, Local Revenues, and Local Tax Rate
for Wisconsin's 3-Tiered GTB
1996-97 State Aid Year**

| District | District Characteristics Per Member | | State Aid Per Member | | | Local Revenues Per Member & Tax Rate | |
|------------|-------------------------------------|--------------|----------------------|-------------|---------------|--------------------------------------|-----------------------|
| | Equalized Property Value | Shared Costs | First Tier | Second Tier | Tertiary Tier | Revenues | Tax Rate ⁴ |
| Albany | 173,137 | 6,081 | 913 | 3,436 | 37 | 1,695 | 9.79 |
| Brown Deer | 462,511 | 7,685 | 769 | 928 | (928) | 6,917 | 14.95 |
| Elmbrook | 607,955 | 7,228 | 696 | 0 | 0 | 6,532 | 10.74 |

Table 3

| Wisconsin's GTB Profile in Select State Aid Years GTB Levels, Shared Cost Ceilings, Minimum Aid & Percentile Rankings | | | | |
|--|---------|---------|---------|-----------|
| | 1990-91 | 1992-93 | 1994-95 | 1996-97 |
| 1st Tier GTB | 298,195 | 303,691 | 357,856 | 2,000,000 |
| Percentile Ranking | 93% | 90% | 94% | 100% |
| 2nd Tier GTB | 185,906 | 202,009 | 216,455 | 569,584 |
| Percentile Ranking | 73% | 72% | 72% | 98% |
| 3rd Tier GTB | n/a | n/a | n/a | 232,954 |
| Percentile Ranking | | | | 62% |
| Maximum Shared Cost Ceiling | 4,660 | 5,233 | 5,617 | 5,936 |
| Percentile Ranking | 72% | 66% | 58% | 50% |
| Number of Minimum Aid Districts | 48 | 53 | 51 | n/a |

aid under the tertiary tier. However, for districts spending above the secondary cost ceiling with equalized per member property values above the tertiary tier, but under the second tier, state aid was reduced up to the level of total state aid under the second tier. *Buse v. Smith* found that recapture of local revenues was unconstitutional, however, when the formula was subsequently revised by the legislature, recapture of state aid to local district was considered suitable.

In order to add some depth to the description of Wisconsin's school finance equalization program above, Table 2 provides examples from three school districts in Wisconsin.

As reflected in Table 2, Albany School District received state aid under all three tiers in the 1996–97 aid year. As a result, their tax rate was only 9.79 mills $[(1695/173,137) \times 1000]$ compared to the 35.12 mills $[(6081/173,137) \times 1000]$ that would be required locally if no state guarantee were provided. Alternatively, Brown Deer School District received state aid under both the first and second tiers, but lost the second tier state aid under the tertiary tier. In this case, for every additional dollar raised above the secondary cost ceiling, Brown Deer lost a dollar of state aid and Brown Deer residents made up the difference from local property taxes. Thus, Brown Deer's tax rate was 14.95—only 1.67 mills less than would be required of Brown Deer if no state aid were provided under any tier. Elmbrook provides the final example. It is a school district that received no state aid under either the second or tertiary tiers in 1996–97. No aid for spending above the secondary cost ceiling was re-captured from the second tier because Elmbrook's equalized property value per member exceeded the second tier and, accordingly, no state aid was provided under the second tier. These districts highlight how a GTB—regardless of the number of tiers—provides state aid on a sliding scale based on districts' property values. In addition, the three districts in Table 2 illustrate how the second and tertiary tiers work, albeit sometimes against each other!

Given that the three-tiered GTB has been in operation only one year and this paper covers several biennial budgets, it is important to discuss the previous two-tiered GTB. Table 3 presents information on Wisconsin's GTBs in select years. Until 1996–97, Wisconsin's equalization program was a two-tiered GTB. The two-tiered GTB worked identically to the second and tertiary tiers of the current three-tiered GTB. As reflected in Table 3, similar to the second tier of the three-tiered GTB, the first tier of the two-tiered GTB historically provided a relatively rich tax base up to a given cost ceiling—a GTB consistently covering over 90% of Wisconsin students in the 1990s. In addition, districts with property values between the first and second tier of the two tiered GTB and spending above the cost ceiling,

state aid was recaptured up to the total level of state aid provided under the equalization program.

Prior to 1996–97, minimum aid was provided to districts with very low or no equalization aid (including districts receiving negative aid under the second tier) and it ranged from \$175 to \$400 per member, depending on a distribution formula that included district tax rate and 1980 household income. Table 3 notes the number of districts receiving minimum aid in the years presented.

Consistent with statute, Wisconsin's largest state aid program—the equalization program (either two or three-tiered)—provides state aid for school districts' educational programs through a system that emphasizes property tax relief. In other words, the main public policy emphasis of Wisconsin's equalization program is taxpayer equity of local tax bases and not equity in funding per member or equal tax rates across school districts (Legislative Fiscal Bureau, 1993). The system allows, even assumes, that districts will have varying costs, but attempts to alleviate tax burden by equalizing tax bases. Thus, district spending decisions, at least up to the shared cost ceiling, presumably are not hindered by relatively poor tax bases. The objective of tax base equity begs questions regarding the spending equity of the system. Relevant analysis are provided in the following section.

Equity Analysis

Equity analysis provides an important description of a state's "health" regarding school finance. Conventional horizontal equity and equal opportunity statistics originated by Beme and Stiefel (1984) are used in this analysis. Horizontal equity measures the extent to which all members of a group are treated equally. To measure horizontal equity, the equalization program is used because the shared costs equalized in the GTB represents what districts spend on the regular instructional program (less any encroachments from under-aided categorical programs). These are assumed to be the main costs associated with providing the basic educational program, rather than special education, bilingual-bicultural education or other specialized programs designed for a particular district or group of students. Vertical equity is a more difficult concept to measure (Berne & Stiefel, 1984). Vertical equity addresses the fact that some students require additional services in order to appropriately meet their educational needs. In other words, vertical equity works from the assumption that some groups should be treated differently in order to provide them with adequate services. A detailed analysis of vertical equity in the Wisconsin system can be found elsewhere (Busch, et al, 1996). In addition, given Wisconsin's GTB focus on tax base

| | 1990-91 | 1992-93 | 1994-95 | 1996-97 |
|--|---------|---------|---------|---------|
| Number of Districts | 381 | 380 | 379 | 378 |
| Number of Members | 759,462 | 791,864 | 823,363 | 848,603 |
| Equity Statistics for Shared Costs per Member: | | | | |
| Average | 4,541 | 5,151 | 5,664 | 6,106 |
| Median | 4,417 | 5,002 | 5,520 | 5,943 |
| Minimum | 3,373 | 3,586 | 4,312 | 4,476 |
| Maximum | 6,638 | 7,871 | 8,264 | 9,065 |
| Range | 3,265 | 4,285 | 3,952 | 4,589 |
| 5th Percentile | 3,944 | 4,426 | 4,957 | 5,435 |
| 95th Percentile | 5,437 | 6,073 | 6,708 | 7,384 |
| Federal Range Ratio | 37.9% | 37.2% | 35.3% | 35.9% |
| Coefficient of Variation | 10.6% | 10.5% | 10.3% | 10.0% |
| McLoone Index | 0.95 | 0.95 | 0.95 | 0.95 |
| Fiscal Neutrality Statistics for Shared Costs per Member: | | | | |
| Property Value | | | | |
| Correlation Coefficient | 0.62 | 0.63 | 0.63 | 0.62 |
| Elasticity | 0.16 | 0.15 | 0.15 | 0.14 |
| Tax Rate | | | | |
| Correlation Coefficient | 0.65 | 0.53 | 0.64 | 0.91 |
| Elasticity | 0.58 | 0.45 | 0.53 | 0.49 |

equity, fiscal neutrality is assessed here to test the relationship between spending and property wealth.

Straight-forward, descriptive, statistical computations can illuminate levels of dispersion in a finance system, measuring horizontal equity. The expenditure data analyzed are the per-member shared costs associated with equalization aid. Because the state's 10 high school and 47 elementary school districts lie within coterminous land parcels, data for each elementary district were merged into their corresponding high school districts, thus simulating K-12 districts.

Table 4 contains the results for Wisconsin's school finance system for select state aid years throughout the 1990s. The statewide average shared cost per member steadily increased from \$4,541 in 1990-91 to \$6105 in 1996-97. The statewide median shared cost also increased throughout the years examined culminating in \$5943 in 1996-97. For all years, when jointly considered, the mean and median values reflect a slight skewness to the left, indicating that more than half of the distribution of district spending was below the statewide average.

Per-member expenditure minimums and maximums rose steadily throughout the years reviewed resulting in ranges of spending from a low in 1990-91 of \$3265 to a high of \$4589 in 1996-97. In all years examined, the highest spending Wisconsin district spent roughly twice as much as the lowest spending district. An alternative measure, the Federal Range Ratio, provides a descriptive statistic that is less influenced by extreme values found in the minimum and maximum spending districts within a state. The Federal Range Ratio is the difference in per member spending between the 95th and 5th percentile districts, divided by the per member spending of the 5th percentile district. It represents the percent amount more that the 95th percentile districts spent above the 5th percentile spending district. In Wisconsin, the Federal Range Ratio did not exceed 38% for any of the years examined. Put simply, the Federal Range Ratio indicates that districts that spent at the 95th percentile per member, spent between 35.3 and

37.9% more than districts that spent at the 5th percentile per member. This ratio is not nearly as extreme as that found when examining the minimum and maximum spending districts and is a more fair representation of the majority of Wisconsin districts.

The coefficient of variation, which indicates the percent deviation in district per-member expenditures around the statewide average, was consistently near 10%. The coefficient of variation is the standard deviation divided by the mean. As such, the coefficient of variation includes all school districts' per member shared costs and measures the level of dispersion in spending for two-thirds of Wisconsin's districts. Thus, the majority (2/3rds) of Wisconsin school districts spent within 10% of the statewide per member shared cost average. This represents a high level of similarity in district expenditure levels. Odden and Picus (1992) have suggested a value of 10% or less as desirable and Wisconsin just meets this standard.

The McLoone Index measures equity in the lower half of the distribution by expressing actual below-the-median district expenditures as a percent of what total expenditures would be if all districts were spending at the statewide median level. In all years examined, Wisconsin scored high at 0.95 in all years examined; which exceeds Odden and Picus' (1992) recommendation of 0.90.

Finally, fiscal neutrality statistics also appear in the lower half of Table 4. The correlation between per-member spending and property value throughout the seven year period was generally .63. Coupled with low elasticity results (consistently near .15), this indicates that although correlation was high, the magnitude of the relationship was small—that is, every 1% change in wealth would produce only about a .15% change in revenue. Correlations between per-member spending and tax rates and elasticities were quite high, indicating the important link between these two variables. Based on the policy intent of a GTB—that is, districts which spend at the same level will tax at

the same rate—it is expected that there would be a high degree of sensitivity between tax rates and spending. This was especially true in the 1996–97 aid year, as virtually all districts received equalization aid.

The high marks for equity in Wisconsin's school finance system derived from the strong GTB program, and the level of the secondary (previously, the primary) cost ceiling. Whether employing the two-tiered GTB or three-tiered GTB, Wisconsin equalized spending based on a relatively rich tax base that covered the vast majority of districts and students in the state. This allowed all districts to function as if they had a tax base of close to, though not the richest, district in the state, albeit consistently within the top 10%. Further, throughout the 1990s, districts with relatively low per member property wealth were able to top off their cost ceilings with the second tier, under the two-tiered GTB, and the tertiary tier, under the three-tiered GTB. Although the Wisconsin school finance system is not perfect, it earns high marks for producing fiscal equity for districts serving the educational needs of students and providing property tax relief for Wisconsin taxpayers.

Summary

Wisconsin school finance has been the center of considerable debate in the 1990s. Whether legislative consideration to move to a foundation program or executive proposals to alter the GTB, Wisconsin school finance continues to be a hot policy topic within Wisconsin state government. Most certainly, this continued interest in school finance is inextricably linked to how schools are locally funded in Wisconsin: the property tax. Clearly, taxpayer dismay and unhappiness with increasing property taxes is at the heart of changes to Wisconsin's school finance system. Indeed, each successive budget cycle in Wisconsin moved along the course of property tax relief through the state school finance system, eventually culminating in the three tiered GTB. In the midst of providing property tax relief, the basic GTB structure remains intact and allows school districts to exceed their revenue limits with a majority vote in districtwide elections. Even so, new debates over Wisconsin school finance are likely inevitable as school districts feel the pinch of denied referenda, the state strives to continue to meet its two-thirds funding obligation, and taxpayers face the reality of property bills that never decline as much as hoped.

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Endnotes

1. Equalization valuation is assessed valuation altered by an adjustment factor. The adjustment is designed to cause each type of property to have comparable value, regardless of local assessment practices.
2. All tiers of the GTB are higher for the state's high school and elementary school districts, three times higher and one and a half times higher, respectively.
3. Shared costs are all district operating expenditures, including debt service and excluding state categorical aid.
4. The tax rate figures used throughout this paper are not necessarily districts' actual tax rate which include other factors, such as community services. Rather, the tax rates used here are based on districts' total local revenues from shared costs (the equalization program), divided by the districts' total equalized property values, multiplied by 1000 in order to get districts millage rate.

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