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AUTHOR	Hansen, Kenneth H.; And Others
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ABSTRACT

Ways of rethinking school financial policy issues are examined in this report. This rethinking has evolved from growing recognition of two related principles: school finance as part of public finance; and policy formation as a product of commitments and constraints. Principles of public finance, commitments and constraints are described. Five policy options are offered, which include subsuming school finance within public finance, developing comprehensive databases, rearranging the sequence of school finance policy, developing an accountability system, and increasing collaboration. A conclusion is that each part of the system must compromise to a small extent and that school finance reform will not take place until actual school improvement occurs, which requires additional funding. (LMI)

THE Northwest Regional Educational Laboratory
PROGRAM REPORT

Rethinking School Finance

A Policy Issues Paper

Prepared for the Chief State School Officers
of the Northwest and Pacific

Kenneth H. Hansen
Robert R. Rath
Rex W. Hagans

Northwest Center for State Education Policy Studies
Northwest Regional Educational Laboratory

Northwest Regional Educational Laboratory
101 S.W. Main Street, Suite 500
Portland, Oregon 97204

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Rethinking School Finance

A Policy Issues Paper

"The Big Shift in School Finance," the title of a recent TIME article, headlined one of the major current debates over funding inequities in state-level school support, citing the nearly one-dozen states recently or currently embroiled in school finance suits. This surely is the most prominent development in the area of school finance, but a quieter, but no less significant movement is currently visible in the field: a rethinking of the fundamental policy issues which underlie how American schools are and should be supported.

This rethinking comes out of a growing consciousness of the importance of two related principles. First, that school finance is not a separate issue, concerned only with funding for the schools, but is in reality only one facet of a much more comprehensive topic—*public* finance. Second, establishment of school finance policy should not be driven, as it often has seemed to be, by the development of complex statistical formulas or ingenious tables of distribution, but by consideration of the *commitments* which the policy seeks to address and the *constraints* under which the policy must operate.

Commitments and constraints—these seem to be the fundamentals upon which school finance policies rest, and the determining considerations which must underlie policy choices made. To shift from considering school finance policies as something apart from public finance policy generally, and to go beyond the "finance formula" concern alone—these changes may well require a fundamental rethinking of school finance.

Rethinking the commitments and the constraints which govern school finance policy planning in the broad context of public finance necessitates a brief mention of some of the fundamental principles upon which this broader context is based.

I. Some Principles of Public Finance

Even the briefest outline of the entire area of study labeled "public finance" is well beyond the scope of this paper, but a highlighting of some of these principles most basic to the understanding of school finance may be helpful.

1. Long-term public investment. In public finance the basic concern is not just with the immediate (annual or biennial) authorization, appropriation, or budget, but with the longer-term *investment* being contemplated. This concept is not new or difficult to understand and support: as long ago as the 1940's and 1950's, the U. S. Chamber of Commerce published successive issues of a brochure entitled "Education: An Investment in People." The business community, which necessarily views many of its outlays as investments, not just expenses, early recognized that education *is an investment*, a long-range capital outlay, analogous to building a new manufacturing plant—only the schools are an investment in *human* capital.

The long-term capital investment concept has been given new importance with the release of the president's version of proposed education goals for the nation, two of which propose that we rank first among nations in math and science student achievement and that we position ourselves to become more competitive in the global economy, both long-term goals. Despite assurances that money is not the problem, that we are spending more money on education than do our competitors, and—most memorable statement!—that we are now "lavishing" money on our children's education, a study recently released by the Education Policy Institute, "Shortchanging Education," indicates that we are not now making a sufficient or even a reasonable investment in education, short-term or long-term. Considering only elementary and secondary education, the U.S. ranks fourteenth out of sixteen of the most developed nations.

To reach our nation's education goals, the long-term public investment concept must become central in school finance planning.

2. Opportunity costs. Like any outlay of either private or public monies, educational investments cost not only the amount *expended,* but entail also the costs associated with *not* putting the money into something else—the costs of *foregone opportunities*. This concept is vividly illustrated in education: if the opportunity to fund an adequate educational system is foregone, in order to "save the taxpayer money," the costs in greater expenditures for human services, strains on the criminal justice system, the training of under-educated workers, and similar expenses from the public purse, will far outstrip what would have been spent on education in the first place. "Opportunity costs" do *cost.*

3. Tax expenditures. "Tax breaks" are a politically popular way of seeming to reduce the tax burden for individuals or businesses and at the same time accomplishing some socially desirable purpose. The classic example is the popularity and persistence of the major tax break provided by the exemption of home-mortgage interest payments from taxation: it encourages individual home ownership. Clearly, the American Way!

Actually, however, this provision so prized by homeowners is not a tax break but a *tax expenditure:* tax money that otherwise would be available for another public purpose is being expended for the purpose of stimulating home ownership. And, in like fashion, any "tax break" associated with the educational enterprise is, from the standpoint of public finance and budgeting, a tax expenditure also.

4. Cost-benefit relationships. All public finance calculations must address the problem of balancing costs of competing programs against the presumed benefits. The term "presumed" is used because it is often virtually impossible, given even the most extensive data bases and the most precise computer programs, to *measure* with any accuracy the benefits that will accrue. We can know quite precisely what it would cost a school district to decrease average class size by *x* number of students; we know that within certain limits class size makes a difference in selected aspects of student performance. What we *don't* know is how *much* difference it makes to the educational process overall.

This dilemma—we're better at measuring relative costs of programs than we are at measuring relative benefits—is not peculiar to education: all public-purpose programs are bedeviled by the same problem. Nor does the seeming intractability of the problem provide any excuse for not trying to expand the data bases and refine the analytical procedures to give more precise and solid foundation for making the necessary choices "for the public good."

That phrase itself poses another problem: What *is* "the public good?"

5. Competing "public goods." Just as in the field of school finance pressures must be resisted to give primacy to any one of numerous essential programs—early childhood, special education, vocational education, and others—as having "first call" on available funds, so in the broader context of public finance the tendency of educators to propose that education should have first call on available public funds must give way to a more comprehensive view. A plausible case could be made (and often is) by proponents of greater commitments of public funds to health care, ADF, Social Security, highways, safe streets, national defense—any of these worthwhile public services, or others. In each case, however, *in the public interest*, compromises must be made. Education must take its lumps.

Viewed as a public finance problem, school finance can hope to compete on an equal footing with other public-goods only as it manages to provide public-policy decision makers with assurance that (1) educators do have comprehensive data bases and can provide the analytical techniques to make their case on rational grounds and (2) that the measurement and evaluative devices are in place to enable accounting for what is being accomplished with the public funds provided.

II. Commitments

Equality of opportunity and equity of tax burden. Fortunately, the most basic commitment underlying school finance policy formulation is one shared alike by specialists in the field and the general citizenry: any acceptable finance plan should provide both equality of opportunity for the students and equity of burden for the taxpayer.

It is on the first of these considerations—constitutional and statutory provisions for equality of opportunity—that almost all of the state-level school finance suits have been based. *Public* policy, not just *educational* policy, demands that the taxpayers of the state be treated equitably, but even more important, that the school children receive equitable treatment. The courts are, almost without exception, in agreement that in most if not all of the states in which school finance suits have been instituted, the intent of the legal terminology is clear: whatever the exact wording ("thorough and efficient," "basic education," "uniform and equal," or other phrases commonly used), the legal intent and the results expected are such that the historically accepted and commonly employed state school finance programs are not acceptable.

The school finance programs now in place in a great many of the states are quite emphatically neither thorough nor efficient, uniform nor equal, nor do they provide fully for all education that can reasonably be considered to be "basic." The precise meaning of each of these terms, and similar terms embedded in the constitutions of many of the states, is subject to prolonged and involved debate whenever the constitutionality of a state school finance system is challenged, and state courts at various levels have wrestled with the problem of what the constitution of the state *says* and *means*. In almost every case so far decided, the courts have reached the same conclusion: the challenged system of financing schools offers neither equality of educational opportunity nor equity of tax burden.

Special-needs student populations. There seems to be no serious disagreement that as sound public policy, as well as effective educational policy, certain special-needs groups need special consideration—bluntly, they need a disproportionate share of the available funds. This may seem to negate the principle of equal treatment for all students, but that is not the point. Despite occasional anguished protests from concerned parents who feel that some special group is getting special treatment at *their* children's expense, there appears to be emerging agreement that some special groups are going to have to get a larger slice of the pie than others—there simply seems to be no way around that if the *public* policy of giving primacy to certain needs is to be carried out.

Currently, this seeming "inequity" of fund distribution affects a number of different groups of students and taxpayers. Notable among these are three special groups: young children, the handicapped, and "distressed" populations.

Early childhood programs that are currently being vigorously proposed, and widely supported politically, are extremely costly—so expensive, in fact, that there is not in any reasonable prospect enough available school-tax money to meet all of the identified needs. The resulting dilemma is clear: if all of the necessary commitments to early childhood programs are to be met, the money will have to come from other educational and social programs to which both educators and the public have strong commitment. Alternatively, some of the programs may have to be offered by social institutions other than the school; some in noninstitutional settings; some by private sector.

Similar problems are found with programs for the handicapped. No longer will vaguely-authenticated, though well-intentioned, "incidence" figures which set ceilings on expenditures for certain identified handicapping conditions be permissible grounds for deciding how much money will be spent, and how it will be allocated. Courts, especially at the federal level, have made it increasingly clear that the often inordinately high expense of providing a program that meets the IEP needs of a single child or a group of children is not grounds for failure to provide the program which has been identified as "needed." Even evidence which would seem to offer compelling support to the contention that, were the program to be provided, the child could not "profit" from the prescribed treatment, ordinarily does not sway the courts, though there have been some conflicting rulings on this point. The net result has been that, given the limited availability of funds, other programs must be shortchanged.

And likewise with "at risk" populations (now, in an attempt to remove the stigma that has come to be associated with that term, coming to be called "distressed" groups or even "distressed" schools). With the host of social, economic and personal problems that beset many categories of students, especially but not exclusively in the inner-city schools, the education system faces the task of providing *inequitable funding* in order to bring about *equality of opportunity*. (The reason that this is not only an urban problem is evident—there are "distressed" rural districts too, with their perennial shortages of funds needed to provide programs and services essential for *their* students.)

Accountability. A third commitment which affects educational finance policy is not a new one, but one looming larger than ever in the light of popular (and governmental and business) disenchantment with the public school system. From the "education summit" on down to the smallest, most remote school, there is renewed demand for "accountability."

Sometimes accountability is seen only as an outside pressure, stemming particularly from governmental and business leaders, and directed *against* the schools. Very often this is true: an "outside" group announces that they are no longer willing to "throw money at the problem," as they like to say; instead, they are *committed* to assuring that the taxpayer gets his money's worth and that society gets the results from the education system that they can reasonably expect—no, that they *demand.*

But there is really a similar commitment to accountability on the part of the schools—educators at all levels in every professional position repeatedly proclaim their devotion to accountability. They believe they *should* be accountable to the public they serve, and especially to the children they teach.

The rub comes at two places: (1) the definition of accountability and (2) the willingness to pay the price.

All too often, accountability is seen as a kind of *threat* or *punishment*. The very term, "hold schools accountable," suggests that some external force is going to be directed *at* school personnel—hold their feet to the fire, make them shape up or ship out, or, as one recent letter-to-the-editor writer seriously suggested, ". . . find a way to punish teachers if all their students don't come up to the achievement levels the society has a right to expect."

Moreover, some of those who call most belligerently for greater "accountability" do not seem at all willing to pay the price. They are the ones who speak most often of not wanting to throw money at the problem, who denigrate even the best efforts of the teaching staff, who believe that the money being spent now is wasted ("get rid of the administrative blob"; "create marketplace competition, and the poor schools and their costs will just disappear"). In all fairness, too, it must be said that there are some educators who publicly profess to be committed to accountability, but who resist serious evaluation of their own performance, or who put all of the blame for student shortcomings on the students, the parents, or the society.

Commitment to accountability is a significant factor which must be faced as sound educational finance policy is developed.

III. Constraints

The constraints under which desirable school finance policy labors are in part, as indicated above, the results of commitments which have been made, but they go beyond that. A few examples, noted in brief rather than discussed in detail, may illustrate the extent of the problem.

Growth of programs at a rate which overwhelms available revenue is a particularly vexing concern. Commitments which attempt to meet the needs of special student populations, considered not only as current expenses but projected into the future, are so costly that finance plans to support these commitments must look to previously untapped revenue sources.

This constraint is especially burdensome when the decision about *whether* to spend the money has been removed from educational—and political—authorities by virtue of court order. "Judicial intrusion" is one way of describing this "usurpation" of local and state decision-making authority, but it would be equally valid to suggest that the courts generally move in—often very reluctantly—only when the legislative and executive branches have failed to act.

Another shift in decision-making authority over school financial matters frequently occurs as centralized financing grows in importance. It is by no means inevitable that additional centralization of fund raising and fund distribution, whether at the federal or the state level, automatically increases centralization of power at a predictable rate (e.g., not every 10% increase in federal or state funds means a corresponding 10% decrease in local autonomy), but there is not doubt that there has been considerable erosion in state and local fiscal decision-making authority.

Of emerging importance also is another trend which constrains school-finance planning at every level: the necessity of replacing or retrofitting, at almost overwhelming expense, a vast number of obsolete or obsolescent school plants. The infrastructure of education, like that of society as a whole, shows signs of dangerous decay. The schools are caught in a double bind: not only must there be competition for funds internally (e.g., asbestos removal *vs.* new textbooks), but external demands from whole segments of society's decaying infrastructure (roads and bridges *vs.* education) pose a similar set of problems.

Finally, if school finance is considered as only one aspect of public finance as a whole, the truth of the adage that all educational decisions are political decisions is reinforced. When the legislature (or the local school board) makes decisions on the funding of conflicting priorities, these are of necessity *political* decisions, rendered in the area of public-finance policy.

IV. Policy Options

If the rethinking of school finance were to proceed somewhat along the paths outlined above, a number of policy options could be pursued. Some of them are suggested below.

1. Recast school finance planning into the general framework of *public finance*, using the principles, insights, and experience of this broader approach to illuminate school finance policy making.

2. Develop more comprehensive data bases which can be used to inform policy decision making. (The recent work of the NW Regional Educational Laboratory on costs, present and projected, of early childhood programs, would provide a useful model.)

3. Rearrange as necessary the sequence of school finance policy making, starting with goals and needs, not formulas; then, proposed budgets and—most especially—funding sources can be explored. Finally: taxation schemes and distribution formulas.

4. Develop an accountability rationale and system. If it is recognized that "accountability" does not mean "guaranteed results," but an *ability to render an accounting*, the steps become clearer: planning, programming, and finally assessing and candidly reporting successes and failures.

5. Increase collaboration. If the financing of education is to be at an adequate level, it is essential to the survival of the school system that it enter fully into collaborative efforts with not only the other actors in the public sector, but with those in the private sector as well. This does not mean just being polite to each other, but actual sharing of plans, responsibilities, and authority—even, in some instances, personnel and funds also. This could well result in sharing not only the program costs, but program benefits as well.

In Conclusion

School finance expert John Augenblick, with considerable pessimism and some hyberbole, has compared school finance reform to a Russian novel: "It's long, it's boring, and in the end, everybody gets killed." There is a measure of truth in this comparison, but it really isn't quite that bad!

Thinking through the issues, problems, and available options, and then bringing the needed reform to fruition, is a laborious task, made no easier by the often dry and stilted terms in which school finance terminology is phrased; and in any reform of this sort, *some* of the parties are going to see themselves as "losers" and will make the exaggerated claim that school taxes are "killing" them.

This perception of being "hurt" is difficult to eradicate when fundamental changes are made in school finance systems, but the improvement in equitable treatment that true reform offers does much to allay the fears of being put upon: if everybody hurts a little, no one is hurt very much.

School finance is a field of technical specialization, and bright and engaging terminology is not easy to devise. But, as the concepts and the problems, the options and the actions, become better thought out, clearer thinking may well result in clearer explanations of what is going on. The school districts and the taxpayer will not, in the process, be entertained, but they certainly should be enlightened.

In the final analysis, however, school finance reform will not be successful unless it makes a difference in the process and outcomes of education. The theories, however insightful and elaborate they may be, will probably never be appreciated by decision makers and taxpayers and education practitioners unless they can see a difference in the schools.

That "difference"—actual school improvement—will almost surely require additional funding. Nobel Laureate Leon M. Lederman, a distinguished physicist at the University of Chicago, has recently spent a good deal of time working with the Chicago schools to improve science education. Describing the nation's schools as in "total disarray," he decries the fact that "we react much more to bank failures than we do to school failures. With bank failures we come up with money, with school failures we come up with conferences."

Rethinking school finance, as an integral part of bringing about reform, must go beyond the "conferencing" level: it is a call to action and a call for political and financial support for school improvement.

NORTHWEST REGIONAL EDUCATIONAL LABORATORY

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Northwest Regional Educational Laboratory
101 S.W. Main Street, Suite 500
Portland, Oregon 97204-3297
(503) 275-9500
GTE: NWRELLAB FAX: (503) 275-9489