

Financing Public Schools

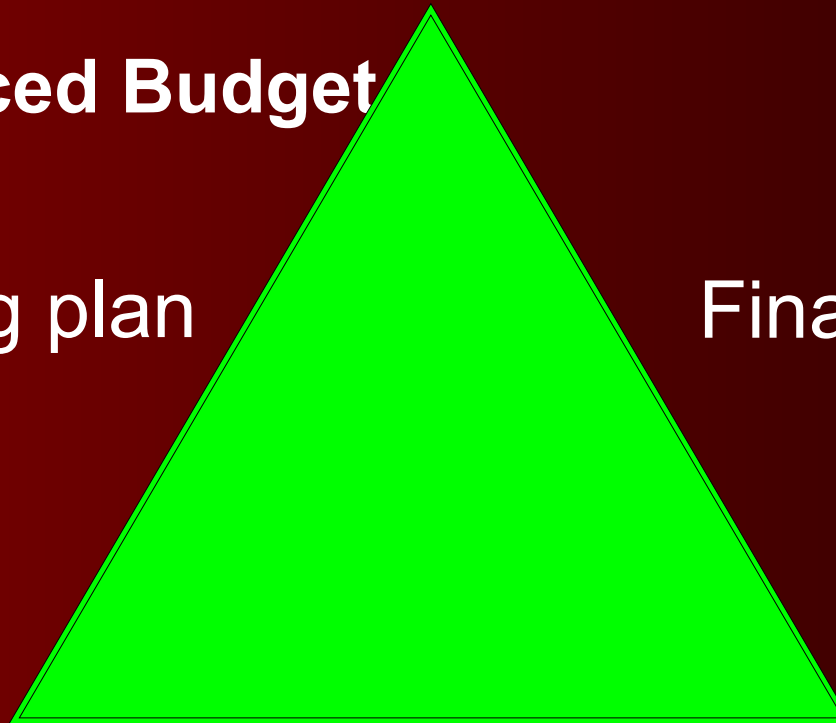
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Budgeting for Current Operations

The Balanced Budget

Spending plan

Financing Plan



Educational Plan

De Young, Cris, Budgeting in Schools, 1936

**Economics
of
Education**

Capital

Cost Effective

Cost-Benefit

Rates / Return

**Education
Financing**

Revenues

Fairness

Expenditures

Reforms

**School
Business
Administration**

Budgeting

Auditing

Accounting

Implementing

Brief History of Public School Finance

- **Colonial Mass.: 1st Legislative Law- 1642**
 - First time in English speaking world that legislative body required laws for children to be taught to read.
- **Ye Olde Deluder Law- 1647**
 - "Defeat Satan; Teach children to read bible and scriptures
- **Rise of "Public Schools"- 1720**
 - move away from "church schools"
 - CT, Maine, N.H., VT- "Public Schools"
 - NY, Penn, NJ- "Parochial" Schools
 - "Rate Bills": Special parent tax for # of children

Brief History...(2)

- South: "Parochial" and "Private" schools
 - function of parental wealth
- South: "Apprenticeship" and "Charity Schools"
- **Evolution of Public Tax Support for Schools**
- NW Ordinance of 1787
 - Education is "State" responsibility
 - applied to NW ordinance States only
 - " Religion, morality and knowledge being necessary to good government and the happiness og mankind, schools and the means of education shall be forever encouraged."
- Constitution: Education is implied power of States
- 14th amendment: "equal protection"

Brief History ..(3)

- **1830: Middle Atlantic States begin "Public Education"**
- **1837: Horace Mann: Secretary of State Board of Education**
 - **Henry Barnard: Chief State School Officer: RI, CT**
 - **Both tax support school advocates**
 - **both trained lawyers**
 - **Horace Mann's "12 Annual Reports"--widely read**
- **1850's- 1870's**
 - **Organized labor begins--strong advocates for public support of education**
 - **tax support for elementary education begins; secondary optional**
- **1875: Kalamazoo Case, Michigan**
 - **Supreme Court decision**
 - **Tax supported elementary and High schools**
 - **8% of 14-17 pop went to school by 1900 (now 86%)**

Brief History...(4)

- 1870's: "Rate Bills" abolished; "incidental fees" still exist
- 1897: Walter Hines Page: The School that Built a Town
 - "forgotten man speech"
 - Creed: Basis of Public Education as we know it.
- **1900- 1930 Formative Era of School Finance**
 - TC: Strayer-Haig Plans: "Foundation Plans"
- **1930-1990: Era of Special Needs**
 - More students, more needs;
 - broadening scope of education
 - TC: Paul Mort: Compensatory Education Funding
- **1990's: Era of Reform**
 - Choice
 - "Horizontal Equity" = treatment of ='s
 - compel districts to spend according to rules
 - "Vertical Equity"
 - Unequal treatment of unequals
 - planned rational unequal spending according to need

Influential Court Cases

- **Brown v. Board of Education, 1954**
 - desegregation
- **Serano v. Priest, 1967 (CA)**
 - Education is a "Fundamental interest"
 - Education should be funded by "Fiscal capacity"
 - "Fiscal Neutrality"
 - = treatment of ='s
- **Levittown Case, c. 1975 (NY)**
 - unequal treatment of unequals
 - "Municipal Overburden"
- **Rodriguez v. San Antonio, 1973 (TX)**
 - "Rational Basis Test"
 - "Compelling interest"
 - "State not obligated to demonstrate a compelling interest to defend its finance plan"
- **Robinson v. Cahill, 1973 (NJ)**
 - "Thorough and Efficient" educational finance system
 - "caps"
 - Horizontal Equity
 - Vertical Equity

Summary: Revenue Sources for Public Schools

- History of Taxation
 - Historically local
 - Land, measure of wealth
 - Property decreases in importance
 - Rise of other taxes, Income
 - Tax Incidence shift; Local to State, Federal
- Technical problem of many taxes
- Overlapping tax considerations
- Evaluation of Tax Systems

Taxes as Revenue Source

- **Tax:** A compulsory payment by a person or government for the purpose of providing for the well-being of society
- **Tax base:** that which is taxed. eg. land, buildings, income, consumption

Tax Dimensions and Objectives

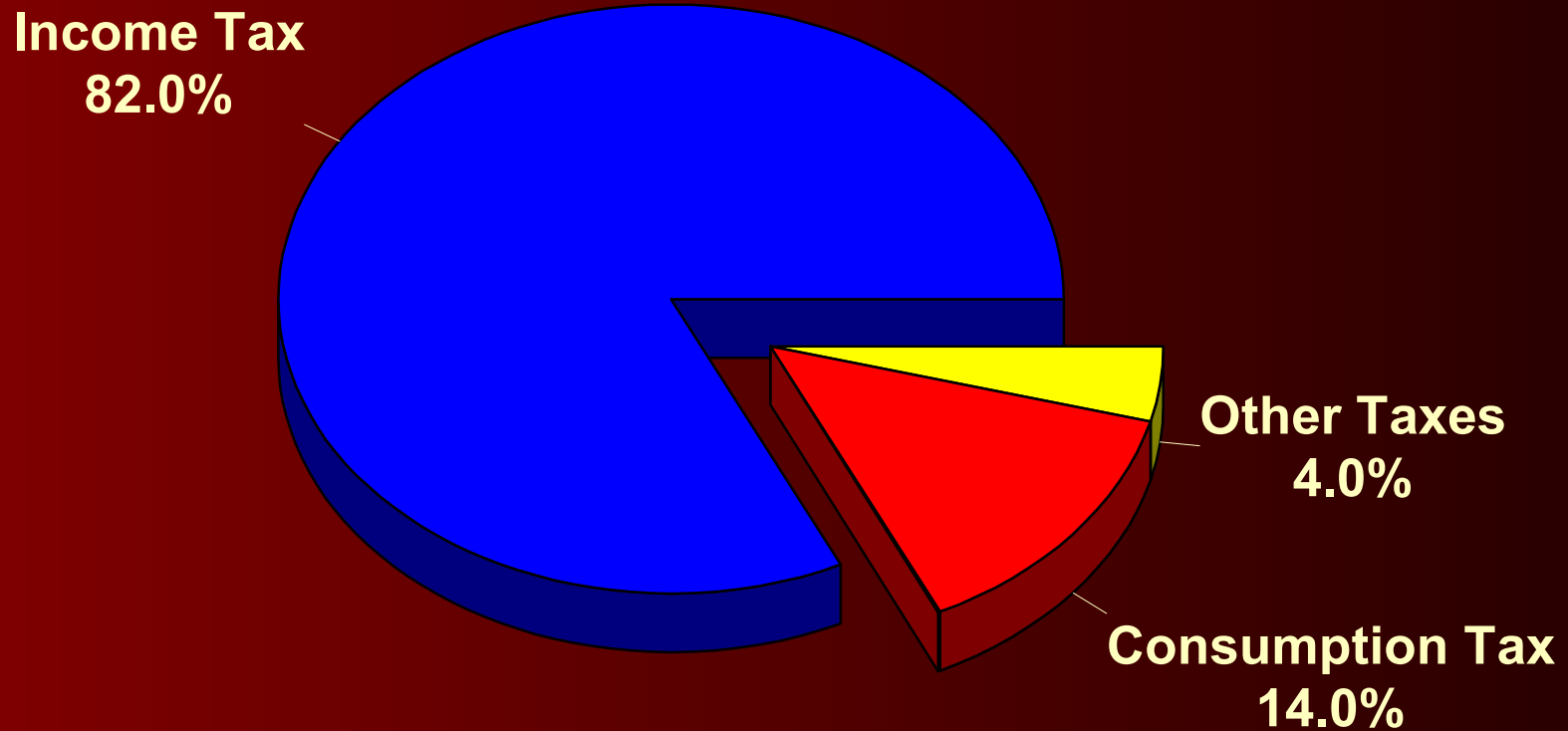
- **Raising revenue** to support government
- **Re-distribution** of wealth and income
- **Regulate** and protect general well-being
- Constitution: "Tax is a power of government"
 - a "compulsory levy"

Types of Taxes

- Income Taxes
 - Income tax, Corporate Tax
- Consumption Taxes
 - Sales tax, Excise Tax, Import Tax
- Wealth Taxes
 - Property Tax
- Privilege Taxes
 - License fees

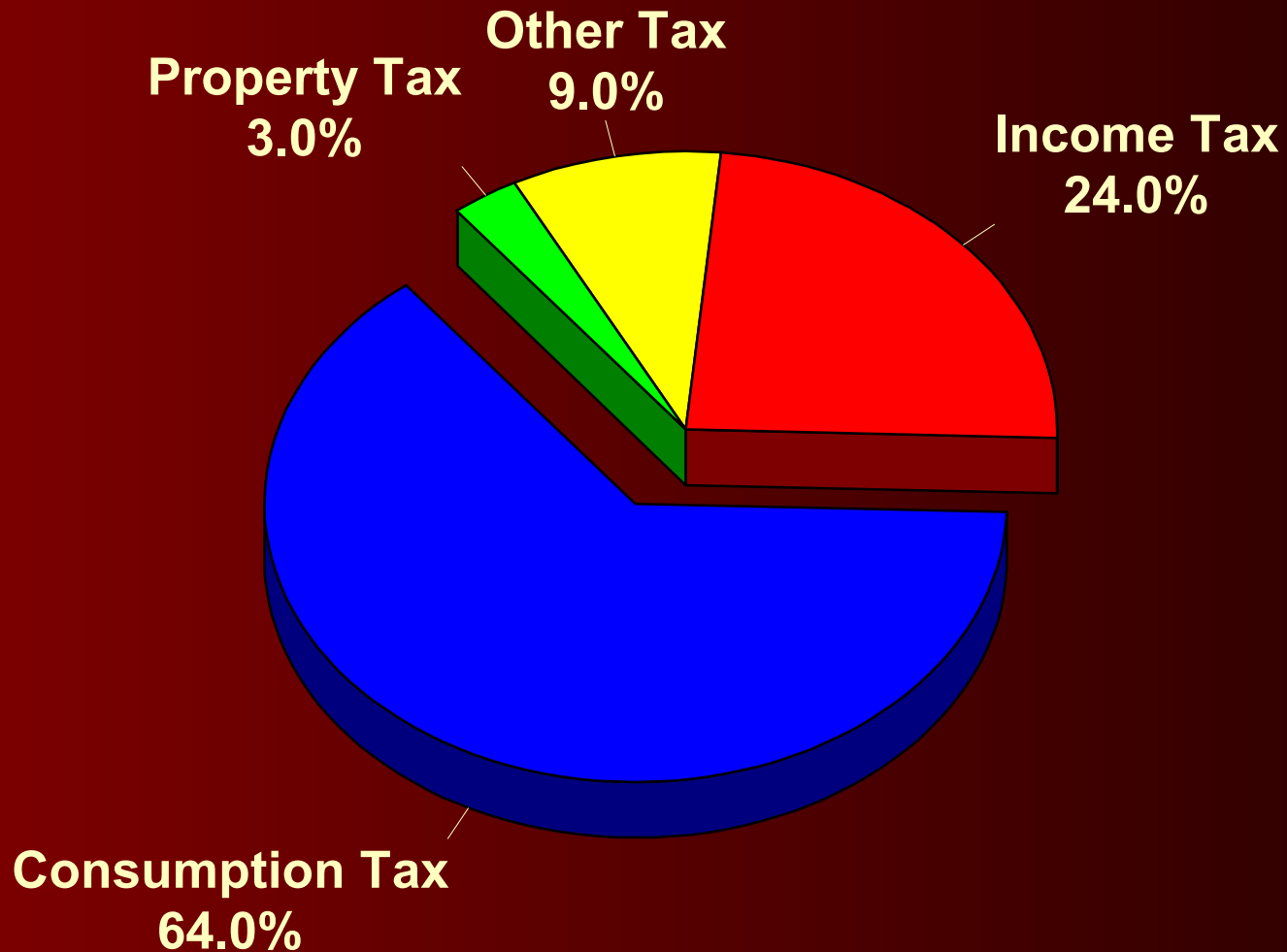
Generating Revenues

Federal Level



Generating Revenues

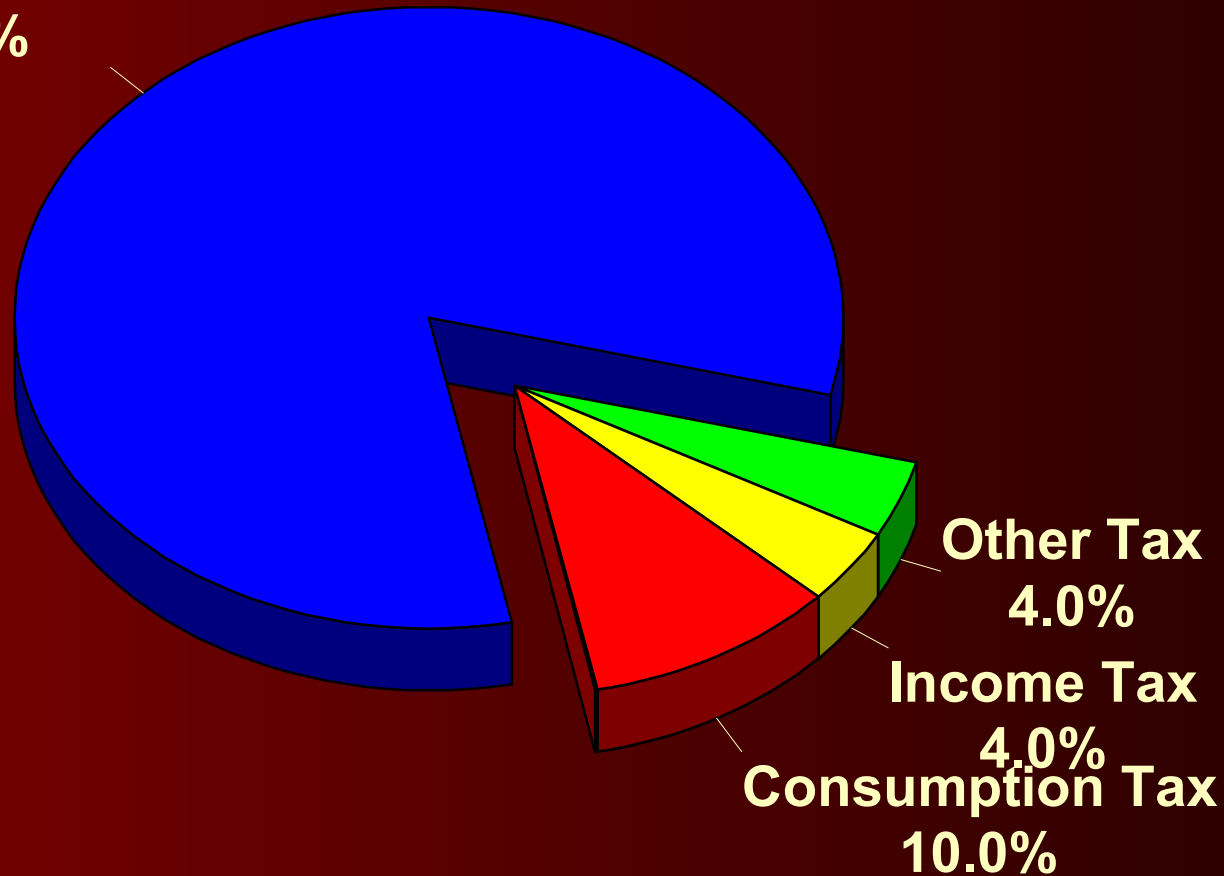
State Level



Generating Revenues

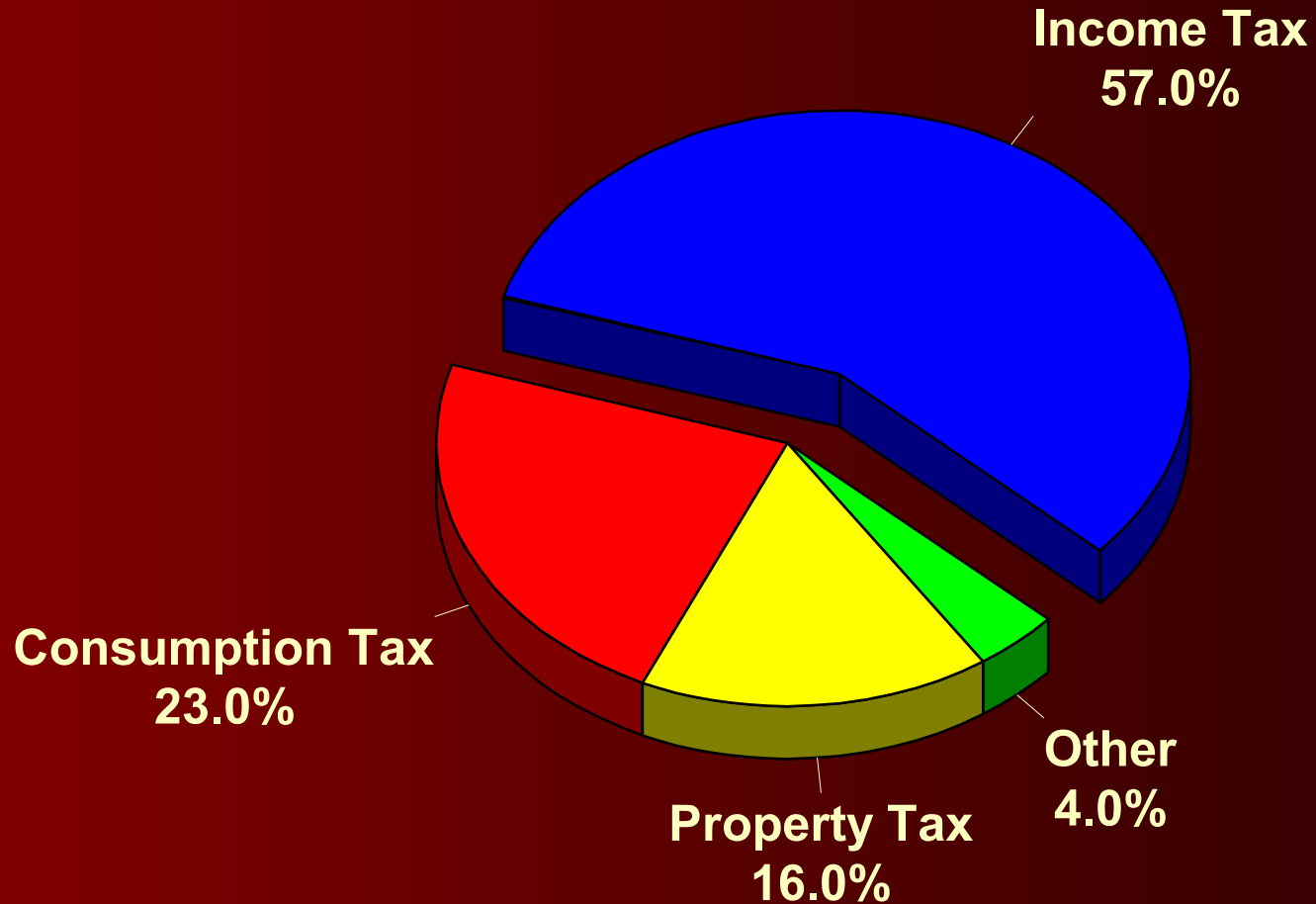
Local Level

Property tax
82.0%



Generating Revenues

Total Level



Tax "Modes" and "Effects"

- **Direct Taxes**
 - income tax, sales tax, property tax, inheritance tax
- **Indirect Taxes**
 - Corporate Tax
- **Tax Impact and Incidence: Upon whom does tax ultimately fall?**
 - "forward" and "Backward" shifting of
 - eg. Corporate Tax:
 - backward to worker
 - fForward to consumer

2 Tax Theories

1. Benefit Theory

- **Benefit Theory**
 - one pays tax according to cost or value of service received
 - eg. gasoline tax => maintains roads
- **Problems:**
 - "Free riders": Those who don't travel much
 - or Natl defense, Fire, Police, other services
 - Consumption influenced by taxes
 - Tax "Elasticity"
 - a small change in tax => ? change in consumption
 - gas: high elasticity tax
 - cigarettes: Low elasticity tax
 - Voucher Advocates: Like benefit tax theory

2 Tax Theories

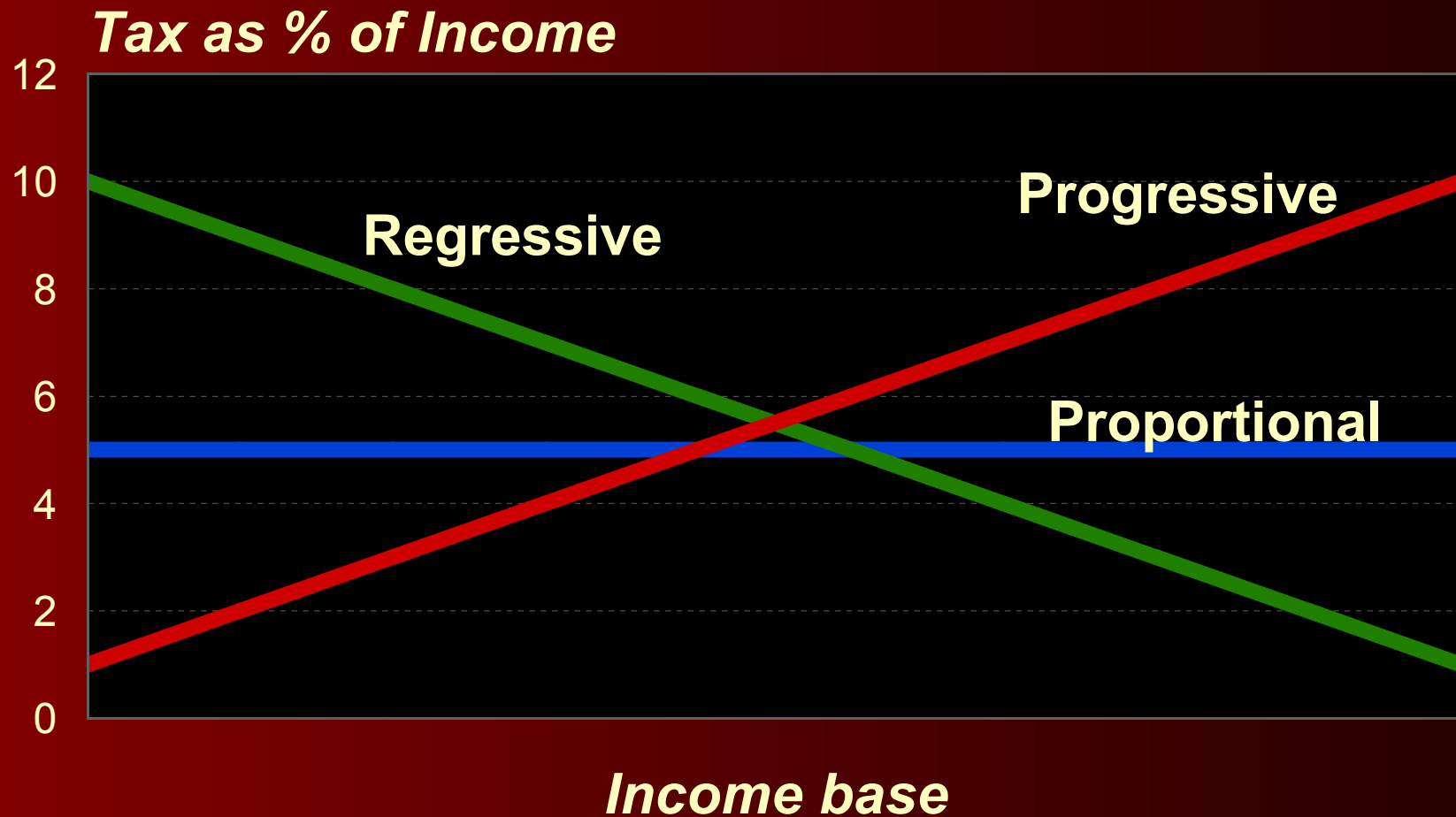
2. Ability to Pay

- **Separate tax from service**
- **amount of "sacrifice"**
 - **same absolute amount**
 - **Regressive Tax**
 - **"diminishing marginal utility"**
 - **\$1,000 add \$100 => means a lot**
 - **\$10,000 add 100 => means less**
 - **\$100,000 add 100 => means little**
 - **same proportional amount**
 - **Proportional tax**
 - **different proportional amount**
 - **Progressive Tax**

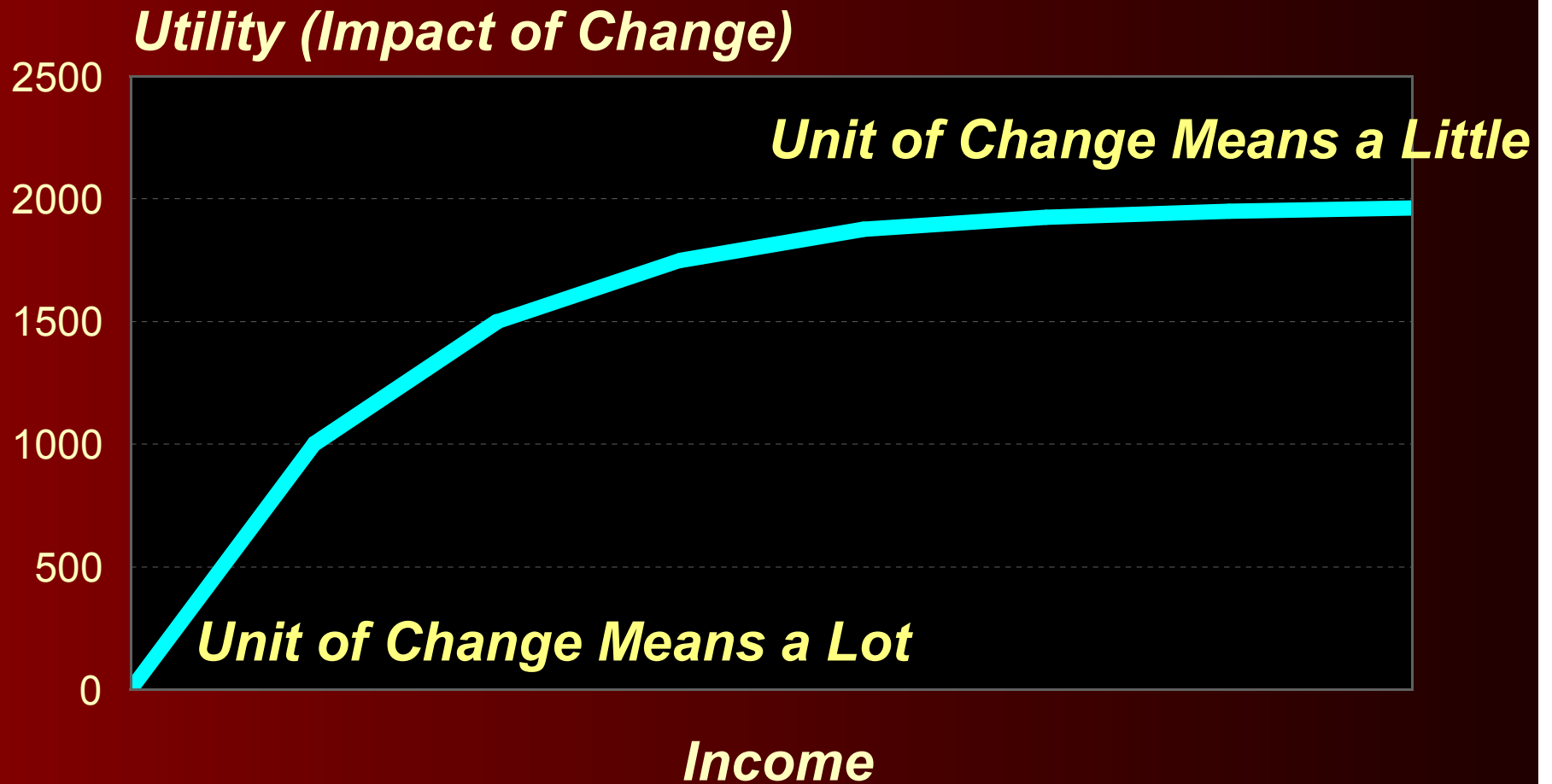
Types of Tax Incidence

- **Proportionate taxes**
 - tax according to ability to pay (%)
 - e.g State income tax, property tax ***
 - Both "Regressive":
 - taxes restricted to portion of income
 - inequality of assessments
- **Regressive tax**
 - Proportionately greater impact on lower incomes
 - same tax regardless of ability to pay
 - e.g consumption taxes
- **Progressive taxes**
 - Greater impact on higher incomes
 - e.g federal income tax
 - proportionately larger amount according to ability
 - higher rate
- **Balance of Federal-State-Local**
 - Property-Sales taxes: Regressive
 - Federal Income tax: Progressive

Ability to Pay Tax Types



Marginal Utility



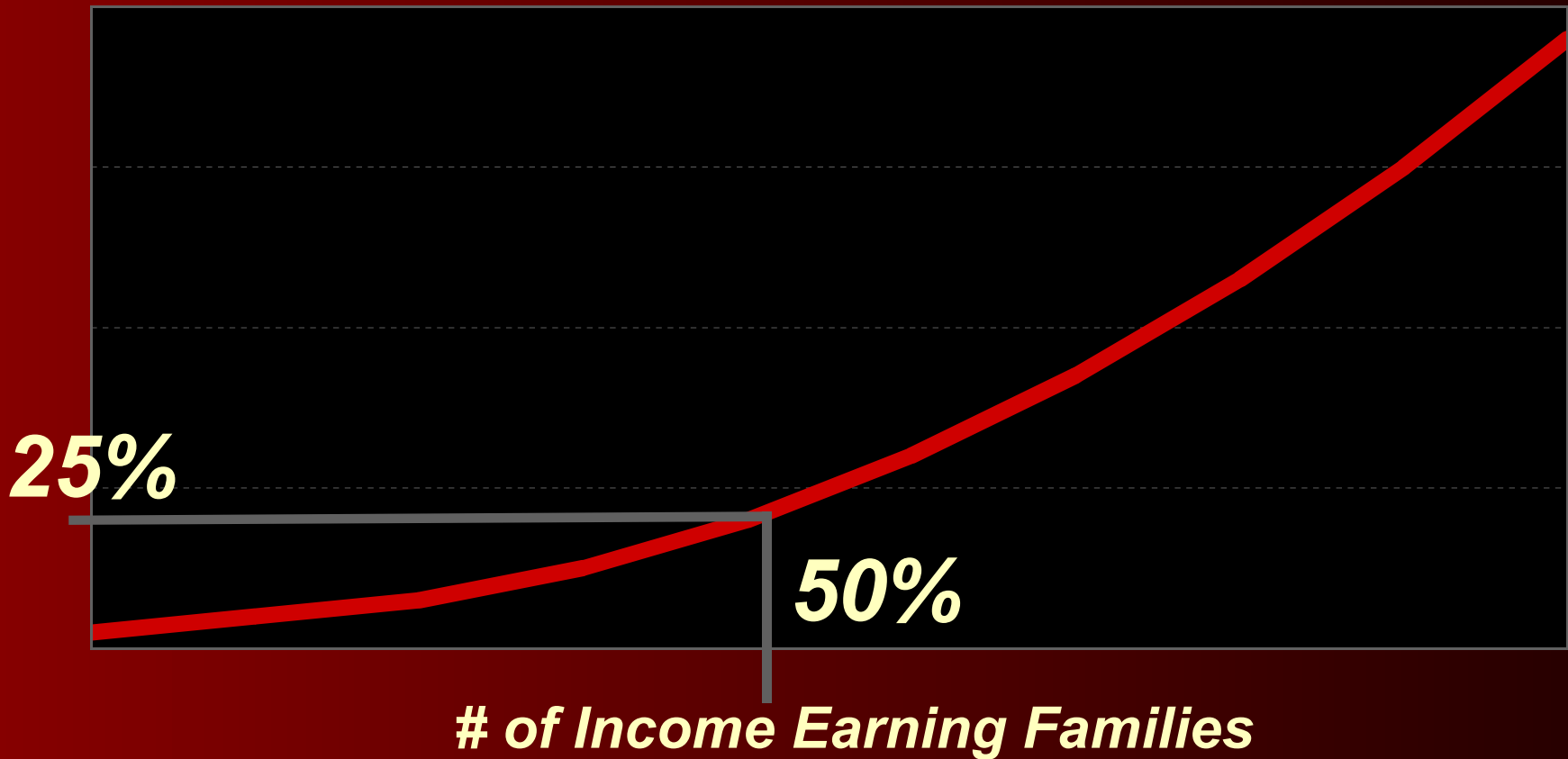
Tax Types

	<i>Income</i>	<i>Tax</i>	<i>Tax %</i>
Proportional	\$10,000	100	1.00%
	\$20,000	200	1.00%
Regressive	\$10,000	100	1.00%
	\$20,000	150	0.75%
Progressive	\$10,000	100	1.00%
	\$20,000	400	2.00%

Lorenz Curve

Inequality of Income

% of Total Income



Tax Vocabulary

- **"Ability to Pay"**
 - distinguishes among taxpayers in the amount of tax owed based upon tax base.
- **"Tax Levy"**
 - Dollar amount collected
- **"Tax Impact"**
 - "Who receives the tax bill?"
- **"Tax Incidence"**
 - "Who ultimately pays?"

Tax Rate Calculation

- **1 Mill: (An old English Coin worth 1/10 of a penny)**
 - .001 of a dollar or 1/10 of a cent
 - 1 dollar for every thousand dollars
- **Tax Rate:**
 - (Amount of tax revenue to be raised) / (Tax base) = Rate
 - $\$125,000 / \$25,000,000 = .005 = 5 \text{ mills} = 5 \text{ dollars for every thousand dollars}$
- **School Budget:** $\$10,000,000$
 - income: $-\$5,000,000$
 - need: $\$5,000,000$
- **Total Assessed Valuation: $\$250,000,000$**
 - $\$5,000,000 / 250,000,000 = .02 \text{ or } 20 \text{ mills}$

Evaluation of tax system

- Does the tax system consider:
 - varying ability to pay
 - economic effect on the unit being taxed
 - coordination of tax programs
 - benefits to taxpayer in proportion to tax
 - sufficiency of yield in meeting needs
 - economy of administering tax system
 - taxpayer's convenience
 - degree of acceptance
 - opportunity for tax evasion
 - adaptability to changing conditions
 - stability of tax

The Property Tax

- **Readily influenced by local administration**
- **Most States: dropped property tax as income producer**
- **Property tax: Mostly real estate, not all property**
- **Personal property difficult to tax efficiently**
- **Advantage to real estate: significant, stable, available locally**
- **Disadvantages: poorly designed, ineffectively administered**
 - **assessment plans**
 - **supervision**
 - **state-wide equalization procedures**
 - **uniformity of assessments**
 - **local: no legal right to fix assessment valuations**
 - **collection procedures**

The Property Tax

The Assessment Process

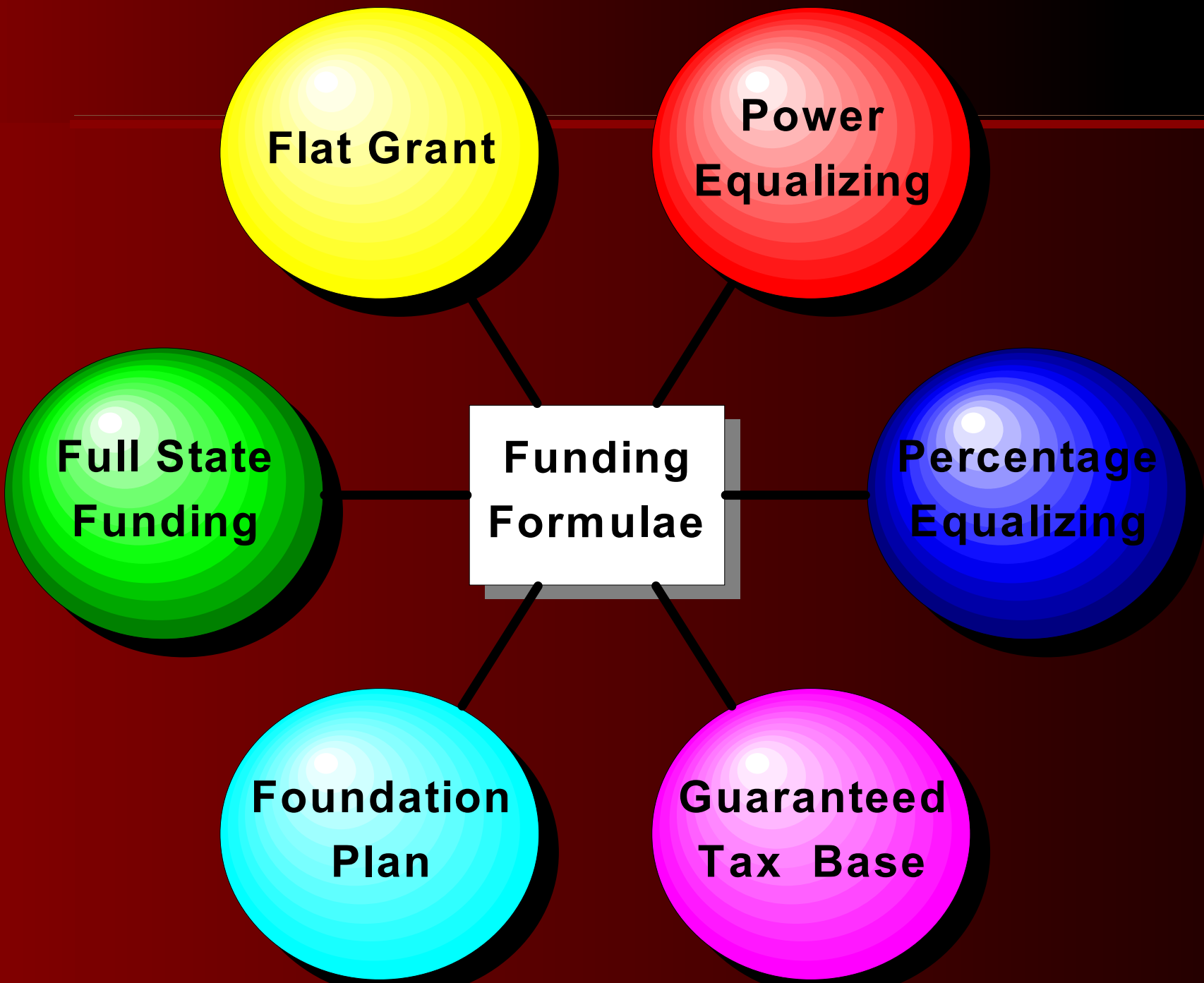
- **Effects on poor/fixed income**
 - **"circuit breakers": monitors tax as % of income**
 - **"Tax islands"**
 - **small town, big industry**
 - **eg. Shoreham, Lackawanna (power plants)**
 - **Varying community assessment practices**
 - **"Equalized assessed valuation"**
 - **State ratio to equalize tax rates based on property values between communities.**
 - **Tax bill = tax rate X equalized assessed valuation of property**

Calculating Property Taxes

- **True Valuation: Value of property**
- **Assessment ratio: proportion to be taxed**
- **Tax rate: yield amount**
- **Mills: dollars of tax expressed as a rate in 1000's**
- **Multiply: $TV \times AR \times TR = \text{Computed Tax}$**
 - eg. \$500,000 House
 - State or Local Assessment= 50%
 - Tax rate is 10 mills
 - Tax = $\$500,000 \times .50 \times 10 = \2500

State Funding Formulae

- **Major Issues:**
 - **Wealth, Effort, Inclusiveness**
- **3 long-standing school formulae questions:**
 - **"Will the state base its aid on local wealth?"**
 - **"Will local tax rates (effort) be a basis for state aid as well as local wealth?"**
 - **"Will the state plan include all expenditures, or will the state allow its localities to raise some funds on their own outside of the state plan?"**



Types of State Funding Formulae (1)

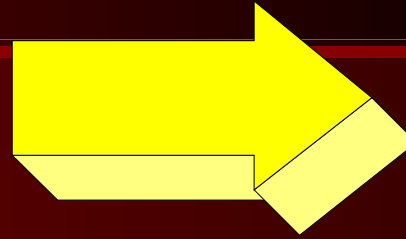
- **Flat Grant**
 - **Distribution of funds by unit (eg. per pupil) without regard to local \$**
- **Full State Funding:**
 - **Eliminates all local differences in spending and taxing**
 - **State distributes funds on "equal basis"**
- **Foundation Plan**
 - **sets minimum local property tax rates and minimum spending levels**

Types of Funding Formulae

(2)

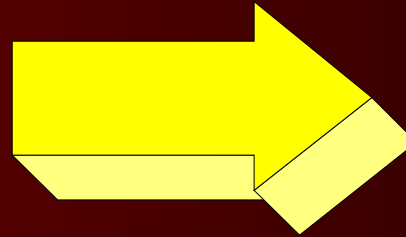
- **Guaranteed Tax Base (GTB)**
 - Matching plan; State pays % of total cost of education desired by district. Spotlights the taxing side.
- **Percentage Equalizing**
 - Like GTB, but spotlights spending side.
- **Power Equalizing**
 - Requires wealthy districts to pay a portion of school taxes back to the State.

**Flat
Grant**



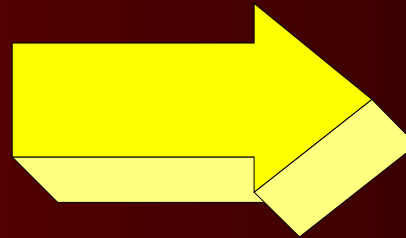
**ADA
Per Pupil**

**Full State
Funding**



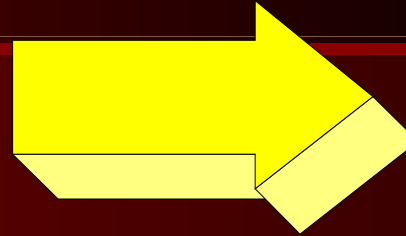
**State
Assumes
Costs**

**Foundation
Plan**



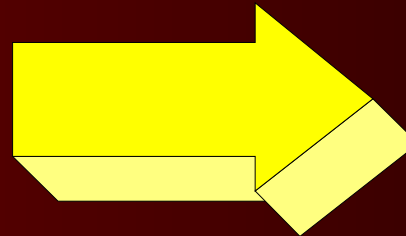
**Minimum
Levels**

**Guaranteed Tax
Base**



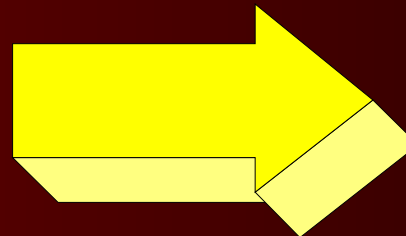
**% Taxes
By State**

**Percentage
Equalizing**



**%
Spending
By State**

**Power
Equalizing**



**Robin
Hood
Plan**

New Taxes?

The Wealth Tax

- **Wealth Tax**
 - Net worth or capital
 - All assets - all liabilities
 - Used in Europe
 - Denmark: 1% of annual worth
 - West Germany: 2.7%
 - Norway: .4 - 1%
 - Netherlands: .8%
 - Sweden: 1 - 2.5%
 - Increases horizontal equity
 - Entire family income
 - Beggar-Prince Theory
 - Beggar: no income/property
 - Prince: no income just property and jewels
 - Effective redistribution of wealth

New Taxes?

The Value- Added Tax

- Calculated difference between Production and Sale
 - Product => advertisement => freight => utilities => Sale
 - "Fiscally Neutral": does not favor production or labor
 - Consumption type of tax

New Taxes?

The Expenditure Tax

- Consumption as an Index of "ability to pay"
 - Encourages saving
 - Difficult to administer

The schooling issues today...

- ***Role of Education***
- ***Control of Education***
- ***Reform of Education***

...are also the finance issues
of tomorrow.

- *Equality*
- *Efficiency*
- *Liberty*