

Below is presented the Content Outline and information central to understanding Resource Generation/Resource Distribution (RG/RD) and Budgeting. The Content Outlines for all areas are provided as guides to what will be done in class. The information following the outlines should be carefully read **before** the RG/RD and Budgeting sessions. Candidates should be familiar with the “Key Concepts” of Resource Generation and Distribution and they should read the descriptions of the principal state aid programs provided here. Similarly, candidates should come to the lecture knowing the meanings of the “Key Concepts” designated for Budgeting.

CONTENT OUTLINE

Revenue Generation

A. Who Should Pay for Education?

1. The “market,” the private sector, and the public sector
2. Of what value is education?
 - Social and private benefits
 - Economic growth and education

B. Distributing the Cost of Government Activity

1. Public and private sector components of a “mixed” economic system
2. Benefits received approach to paying for public services
3. Ability to pay approach to paying for public services
4. Horizontal and vertical equity

C. Sources of Revenue

1. Four bases that may be taxed—wealth, income, consumption and privilege
2. Some criteria for evaluating taxes
 - Equity
 - Ease of administration
 - Adequacy
 - Stability
 - Incidence
3. Computation of Tax Rates
 - $\text{Tax} = \text{Rate} \times \text{Base}$
 - $\text{Rate} = \text{Tax}/\text{Base}$
 - Regressive, proportional and progressive taxes

D. Comparison of Major Taxes

1. Sources of tax revenues by governmental level--local, state, and federal
2. Taxes related to income, consumption, and property
 - Characteristics
 - Administration

- Pros and cons

E. Other Sources of Revenue

1. Municipal bonds
2. Public grants
3. Educational foundations
4. Lotteries

Revenue Distribution

F. Development of Public School Support in the United States

1. Colonization to 1785
2. Establishing free public schools, 1785--mid 19th century
 - Federal land grants and Northwest Ordinance
 - State constitutional requirements; delegation to local units
3. Developing functioning state school systems, mid 19th century--1900
 - Decentralization; reliance on local property tax
 - Minimum requirements; first state aid
 - Extension to free secondary schooling
 - The Industrial Revolution; implications for education finance
4. Devising state school aid formulas, 1900 - present
 - Cubberley—reward for effort and equalization
 - Foundation program
 - Power equalization
 - Full state funding
5. Trends in the 20th century
 - Greater reliance on state revenue sources
 - Federal involvement using categorical aid
 - Weighting for “special needs”
 - Legal challenges to state school finance systems

G. Methods Used in Distributing State Financial Aid to School Districts

1. Flat grants, matching grants, block grants
 - Flat amount per unit (pupils, lunches, miles traveled, etc.)
 - Categorical aid v. general aid
 - Political appeal—something for everyone
 - Effect on equalization of funding between and among districts
2. Foundation program (Strayer and Haig)
 - Defines minimum educational opportunity by expenditure level
 - Sets a required local tax rate
 - Permits an optional local tax (local control)
3. Power equalization programs (Guaranteed tax base or tax yield, etc.)
 - Equal revenue yield for equal local school tax effort (Updegraf and King)
 - State aid related directly to local tax effort and inversely to district wealth

- Coons, Clune and Sugarman--state aid should be wealth neutral
 - Operation of power equalizing plans
 - *Guaranteed tax yield or guaranteed tax base
 - *“Negative aid” or “recapture of excess wealth”
4. Full state funding
- Eliminate local tax support; abolish local school districts
 - Equivalent to a very large flat grant (or voucher)
 - Potential for local “add-ons”
- H. School choice options; their implications for revenue distribution
1. Home schooling
 2. Private schools (tax credits for tuition, etc.)
 3. Vouchers
 4. Charter schools
 5. Open enrollment (inter- and intra-district)
 6. Specialty schools
 7. Site-based management/restructuring
- I. Dealing with special needs
1. Sources of special needs
 - Variance among school units providing the program or service
 - *Population sparsity or density—economies of scale
 - *Population growth or decline, e.g., school building needs
 - Variance among clients (students)
 - *Disabilities—physical, mental, emotional, etc.
 - *Linguistic—non English speaking
 - *Socioeconomic—compensatory, early childhood, etc.
 - *Program variations—vocational education, at-risk, etc.
 - Cost variations are due primarily to personnel and/or material costs (or both)
 2. Allocating funds to meet special needs
 - Categorical aids for specific target populations or services
 - Reimbursement of specified expenditures or “excess cost”
 - Special programs, e.g., state aid for capital outlay
 - Pupil weightings; equalizing distribution through the general aid program
- J. School finance litigation
1. Fourteenth Amendment provisions for due process and equal protection (*San Antonio v. Edgewood Independent School District*)
 2. State constitutional provisions for due process and equal protection (*Serrano v. Priest, Robinson v. Cahill, etc.*)
 3. The state constitution’s education clause (*Rose v. Council for Better Schools*)
 4. Educational adequacy
- K. Resource distribution within districts
1. Formulaic distributions to school
 2. School site budgeting and management

Key Concepts in Revenue Generation

Following are some of the key concepts involved in the generation of revenue for education and distribution of revenue to local school districts:

Ability to pay	Incidence of a tax
Assessed value of property	Market value of property
Benefits received	Mill (of tax)
Circuit breaker	Neutrality (of a tax)
Compliance cost (of a tax)	Opportunity cost
Corporate income tax	Personal income tax
Education production function	Progressive tax
Educational foundation	Property tax
Elasticity	Proportional tax
Excise tax	Public goods
Exclusion principle	Regressive tax
Fiscal capacity	Tax burden
Flexibility (of the yield of a tax)	Tax levy
Four bases for levying a tax	Tax rate (compute)
Fractional assessment	Tax yield (compute)
General sales tax	True market value of property
Homestead exemption	School bonds
Horizontal equity	Screening hypothesis
Human capital theory	Selective sales tax
Impact of a tax	Vertical equity

Key Concepts in Revenue Distribution

Accountability	Guaranteed tax yield
ADM and ADA	Guaranteed tax base
Block grant	Horizontal equity
Categorical aid	Local control
Cost reimbursement	Matching grant
Economies of scale	National Defense Education Act (NDEA)
Elementary and Secondary Education Act	Negative aid/Recapture of excess wealth
Efficiency	Power equalization
Equalization	Program cost differentials/ratios
Equal educational opportunity	Pupil weighting
Equity	Reward for effort
Excess cost	School choice
Federal land grants	Site-based management
Federal impact aid	Smith-Hughes Act
Fiscal dependence/independence	Tax credit
Flat grant	Tenth Amendment
Foundation program	Vertical equity
Fourteenth Amendment	Voucher
Full state funding	Wealth neutral
General aid	
General welfare clause	

Brief Descriptions of Principal State Aid Programs

FLAT GRANT

Definition: Aid distributed without regard to the amount of money raised locally or the wealth of the local school district. Every district receives a uniform amount of money per pupil or other funding unit such as teachers, lunches served, etc. The flat grant is the earliest form of state aid, dating back to the mid 19th century when policymakers were looking for some way to enforce state statutes and regulations. Flat grants provided a simple and effective mechanism because if local districts failed to follow state requirements their aid would be withdrawn. They are seldom large enough to support the entire educational

program so local districts typically supplement the flat grant with local revenue from property taxes or other sources.

Formula:

$$\text{State Aid per Pupil} = \frac{\text{Total Flat Grant Appropriation by the State}}{\text{Number of Pupils in the State}}$$

Advantages

- All districts are treated the same—each receives a uniform amount of money per pupil.
- May be spent for any legal educational purpose the district wishes to support.
- May be used in conjunction with other state aid plans.
- Generally does not reduce the variation in expenditure per pupil among local school districts in the state unless it provides a very large percentage of the total revenue
- Politically popular because it usually provides something for nearly every district, provides a visible way to respond to emerging problems, and permits legislators to identify exactly how much money their constituent districts will receive.

Disadvantages

- The amount of the flat grant is not based on the district's wealth or tax effort. Rich districts receive the same amount per pupil as poor districts and districts levying a high property tax rate receive the same amount per pupil as those levying a small tax rate.
- Generally does not recognize (or equalize) differences in districts' wealth, need, or cost of providing needed educational programs and services.
- Generally does not reduce the disparity in expenditure per pupil among districts in the state.
- Assumes the flat grant is sufficient to support the adequate minimum educational program required by a state's constitution. (In fact, the amount of money determined by the political process is too often inadequate to support such an educational program.)

FOUNDATION PROGRAM

Definition: Sets a **minimum local tax rate** and a **minimum level of expenditure per pupil** (the foundation amount) for all local school districts in the state. If the required local tax rate does not produce sufficient funds to allow the district to spend at the foundation amount per pupil, the state provides the funds needed in order for the district to spend at the foundation amount. The state does not typically specify a maximum tax rate or spending level, permitting school districts to spend more than the foundation amount per pupil if they wish to do so. It is assumed that the foundation amount is large enough to provide every pupil with a sound basic educational program. The foundation program was first described by George Strayer and Robert Haig in 1923.

Formula: A. Foundation Program = Number of Pupils x Foundation Program Amount

B. Local Share = Required Tax Rate x District's Assessed Property Valuation

C. State Share = Foundation Program – Local Share

Advantages:

- Equalizes expenditures among districts at the foundation amount
- Establishes uniform statewide standards for minimum school tax rate and expenditure level.
- Provides for local control through the option to levy more than the minimum tax rate and to spend at higher a higher level per pupil than the foundation program amount.
- Provides more state aid to poor districts than to wealthy districts (which may receive no foundation program aid if their local tax levy provides enough money to spend at the foundation amount).
- Attempts to equalize expenditure per pupil among districts and can be used with pupil weightings to reflect the cost of educating pupils with “special needs.”

Disadvantages:

- The foundation program amount established by a legislature is frequently not high enough to support a sound basic educational program. The amount should be adjusted regularly to reflect changes in the cost of a sound basic educational program but legislatures often fail to make the needed changes in a timely fashion.
- Wealthy districts may be able to produce more than the amount of revenue needed to spend at the foundation program amount with their required local tax rate. This enables them to either levy less than the required tax rate or to levy the required rate and have a higher level of expenditure per pupil than the foundation program amount.
- The optional to levy more than the required local tax rate is disequalizing. It creates even wider disparities in spending because wealthy districts can raise large amounts of additional revenue with a small increase in their local tax rate while poor districts raise relatively little revenue even with very high local tax rates.

DISTRICT POWER EQUALIZING

Definition: Attempts to **equalize the ability** of school districts to raise money from local taxes. It is based on the “wealth neutrality” principle, i.e., the quality of a child’s education should be determined by the wealth of the state as a whole rather than the wealth of the district in which he/she happens to reside. It is assumed that a given tax rate should raise the same amount of money in every local school district. The decision about how much money to spend per pupil is determined locally but each district that chooses to spend a given amount per pupil would have the same local tax rate. This is accomplished by either establishing a schedule of tax rates with a given amount per pupil guaranteed to a district for each level of tax effort or by guaranteeing that a specified amount of tax base (GTB) will be available to support each pupil. This program was first described by Harlan Updegraf in 1922 and popularized by Coons, Clune, and Sugarman in 1970.

Formula (GTB Method):

Local Revenue/Pupil = District Tax Rate x District Assessed Property Valuation*

$$\text{State Share} = \frac{\text{Guaranteed Tax Base/ Pupil} \times \text{District Tax Rate} - \text{Local Revenue/Pupil}}{\text{Pupil}}$$

*If the district's local tax base/pupil exceeds the state guaranteed tax base per pupil, the district will receive no state aid and could be required to remit to the state any revenue greater than the amount guaranteed if "negative aid" (also called "recapture of excess wealth") has been adopted.

Advantages:

- Equalizes the ability of local districts to pay for education and can be used with weightings that reflect districts' varying cost of meeting special needs.
- Maintains local control of education because the district determines the expenditure per pupil.
- Provides taxpayer equity, that is, equal tax yield for equal tax effort.
- Theoretically, the state may recapture from wealthy districts any funds they raise in excess of the guaranteed amount for a given levy rate. This is referred to as "recapture of excess wealth" or "negative aid."

Disadvantages:

- Does not equalize expenditure per pupil (because local districts decide how much to spend).
- If the guaranteed tax base is too low, the amount of revenue per pupil will not be sufficient to enable a district to maintain a sound basic educational program.
- Politically, it is very difficult to enact the "negative aid" provision, primarily because it results in diverting the proceeds of a local tax to state uses. Negative aid has been declared to violate the state constitution in at least one state (WI).
- If negative aid is adopted it reduces the incentive for wealthy districts to levy higher tax rates.
- Without negative aid, a power equalizing program does not equalize spending per pupil.

Full State Funding

Definition: The state assumes complete responsibility for financing local schools. The same amount of state aid per pupil, perhaps with adjustments for special needs, would be distributed to all school districts. There would be no local property tax (or any other local tax) to support education under a complete state funding program. Under pure full state funding local districts would not be permitted to supplement state funds with local revenue, although some writers have proposed permitting a very limited local add-on to the state money that would be funded by local taxes. This plan was first proposed by Henry Morrison in 1930 and reiterated by James B. Conant in the 1960s. (Hawaii has used full state funding since it attained statehood.)

Formula: State Aid Per Pupil = $\frac{\text{Total State Appropriation for Education}}{\text{Total Number of Pupils in State}}$

Advantages:

- Eliminates all local district disparities in taxing and spending.
- Provides fair treatment of pupils and taxpayers:
 - (a) All pupils have equal education opportunities (as measured by expenditure per pupil).
 - (b) Local taxpayers will pay no local property tax, although the overall tax impact will depend upon the revenue sources the state adopts to fund the full cost of education.
- Eliminates local wealth and local tax effort as factors in determining the expenditure per pupil in local school districts.
- May enable local school administrators to spend more time on curriculum and instructional issues rather than on local fiscal matters.

Disadvantages:

- Total loss of local fiscal control (and likely the loss of local control of educational program decisions).
- Increased state regulation is likely to accompany full state funding.
- Does not take local educational preferences into account.
- The level of funding may be inadequate to support a sound basic educational program.
- Unless there are provisions for dealing with special needs, such as pupil weightings, there will not be equality of educational opportunity for pupils.

At least initially, there will be substantial shifts in the tax burden borne by citizens of the state, with some experiencing much higher taxes and others enjoying lower taxes depending on the sources of revenue the state uses to fund the program.

Using the State School Finance Program Simulations

In the textbook (the 2nd edition of *School Finance: A Policy Perspective* by Odden & Picus) you will find directions for using the state school aid program simulations developed for use in conjunction with the textbook. The instructions are found in the textbook at pages 426-428. To perform the simulation exercises, you will need access to Microsoft Excel for Office 97 (or a higher version). You will be able to change some of the parameters (e.g., use pupil weightings, use various levels of state flat grants or foundation aids, use differing levels of local tax rates, etc.) and then compare the results when changes are made..

First, access the McGraw-Hill web site at (<http://www.mhhe.com/schoolfinance>). If you have not run the simulations before, be sure to follow the instructions for “Running the Simulations for the First Time” found on page 427 of the textbook. When you have accessed the web site, click on **simulations** and then click on **Using the School Finance Simulations**. This will give you information on how to run the simulations if you have not done so previously. You may want to print out a copy of the instructions because they must be followed *precisely*. When you have the instructions, click on **Return to the Main Page** and then click on the **sim20** choice.

Following are some suggestions for running simulations to acquaint yourself with the program and its products:

Examine the base line data for this set of 20 districts (<ctrl> **B**) with no pupil weightings. Then instruct the program to use pupil weightings on the base line data (click on the pupil weights tab and replace the “no” with the word “yes”). Then click on the **sim20** tab and press <ctrl> **Q**. Note the extent to which the distributions change. *You must always click on the sim20 tab after you have changed any parameter and then press the <ctrl> Q tab to perform the calculations. If you do not click on the sim20 tab before pressing <ctrl> Q, you are likely to obtain incorrect results.*

Examine the results of using a Flat Grant from the State (<ctrl> **L**), both with and without pupil weightings and note any differences in the distributions. Then change the amount of the flat grant to \$3,000 (rather than the \$10,000 default setting), use pupil weightings, and note the differences in distribution.

Move to the Foundation Program simulation (<ctrl> **F**) and run the simulation with and without pupil weightings. Note the differences. Then run the Foundation Program simulation using a foundation level of \$5,600 (which is at about the 80th percentile of the distribution) with pupil weightings and note the results. Now change the required tax rate to 30 mills while still using the \$5,600 foundation level and pupil weighting and note the changes that occur in the distribution.

Finally, go to the Combination Program (<ctrl> **K**) and run the simulation with and without pupil weightings and note what happens to the distributions. Now change the guaranteed tax base to \$140,000 (rather than the default value of \$100,00) and run the simulation using pupil weightings and note the results.

Budgeting

Content Outline

- A. What is a budget?
 1. Document specifying receipts and expenditures for given time period
 2. History of budgeting
 3. Functions of a budget
 - Provide a record of the past
 - Provide a statement about the future
 - Provide a prediction of future actions
 - Provide a mechanism for allocating resources

- Provide a form of power
- Provide a way of signaling value preferences

B. The context of budgeting

1. The budget triangle
 - Description of the educational program to be funded
 - Estimate of expenditures needed to fund the program
 - Estimate of revenue available to fund the program
2. Value context
 - A budget represents an authoritative expression of values—local, state, and federal
3. Economic context
 - Resource scarcity or abundance
 - Constraints on resource use, e.g., categorical aids
4. Features of classical budgets
 - Unity
 - Regularity
 - Clarity
 - Balance
 - Publicity
 - Operational adequacy

C. The budgeting process

1. Developing budget guidelines
2. Organizing for budget preparation
3. Forecasting enrollments
4. Estimating personnel needs
 - Teachers
 - Other certificated non-administrative staff
 - Site administrators
 - Central administrators
 - Classified staff
5. Estimating expenditures
 - Object
 - Function
 - Program
6. Estimating revenue
7. Reconciling expenditures and revenues
8. Enacting the budget
9. Managing the budget

D. Wildavsky's aids to calculation

- Consensus
- Historical

- Fragmented
- Incremental
- Simplification
- Satisficing
- Non-programmatic
- Repetitive
- Sequential

E. Implications of school site based budgeting and management

1. Characteristics of “high performing” schools (Busch & Odden)
2. Establish school or central office responsibility for major functions
3. Establishing overall district budget target (district decision)
4. Determining basic (district-wide, not school site) costs (district decision)
5. Assign remaining funds (75 – 90%) to school sites using per capita or weighted distributions (district function)
 - Devolve significant responsibility for resource decisions to school sites
 - Use weighting procedure to reflect differing school conditions and needs
6. Develop individual school expenditure plans (school function)
 - Use broad based site teams or councils for input and guidance
 - Involve those closest to the “action” who should know how best to use resources
 - Be aware of “trade-offs” and their costs, e.g., reducing class size, multiage grouping, etc.
7. Assemble comprehensive district budget by integrating school site and district data

F. Resource reallocation in public schools

1. Examples of how instructional arrangements could be reconfigured within existing spending levels
 - Success for All
 - Roots and Wings
 - Modern Red Schoolhouse, etc.

Key Concepts in Budgeting

Following are some of the key concepts involved in budgeting in schools and school systems:

Accountability

Line item budgeting

Balanced budget

Object

Budget

Program

Budget calendar

Budget triangle

Cohort survival

Enrollment forecasting

Features of classical budgets

Function

Incremental budgeting

Program budgeting

Restricted revenue

Satisficing

School site management and budgeting

“Trade-offs” in budgeting for programs

Uses of a budget

Zero-based budgeting