POLITICIANS, JUDGES, AND CITY SCHOOLS

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with the assistance of Thomas A. Ciano

RUSSELL SAGE FOUNDATION
New York

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Cover and text design: Huguette Franco

Library of Congress Catalog Number: 84-60265
Standard Book Number: 0-87154-108-4

To the memory of Joel S. Berke

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PREFACE

This study is an outgrowth of the authors' interest and involvement in school finance reform nationally and in New York State. In 1974, Levittown and twenty-seven other school districts filed a suit, *Levittown* v. *Nyquist*, charging that New York State's education finance system was unconstitutional. The late Joel S. Berke, director of the Education Policy Research Institute, Educational Testing Service, was asked to analyze the distribution of education revenues and resources across the state's 708 school districts. Berke was a natural choice. He had directed a study of New York State's school finance system for the Fleischmann Commission in 1972 and his research on the way that the state of Texas funded its schools had figured prominently in the *San Antonio* v. *Rodriguez* litigation. The report and subsequent testimony prepared by Berke and his colleague, Jay Moskowitz, formed the cornerstone of the case presented by the *Levittown* plaintiffs.

In 1978, the trial court upheld the claims of Levittown and the other plaintiffs, and those of the state's largest cities who had joined the case as plaintiff-intervenors. While the school districts were optimistic about their victory and the changes it could bring, they knew from past experience that a court mandate, no matter how strong, was only the starting point in implementing school finance reform. Decisions on how to formulate a more equitable system of funding education are ultimately the responsibility of the state legislature. In addition, the process of reform in New York is complicated by five factors. First, the *Levittown* litigation raised a dual equity standard: in achieving equalization, both variations in prop-

erty wealth among all school districts and the special fiscal and education needs of the state's large urban school systems need to be recognized. Second, other court cases, *Hurd* v. *Buffalo* and *Hellerstein* v. *Islip*, impose additional requirements on taxation for education that must be resolved concurrently with school finance reform. Third, the traditional politics of school finance in New York results in an allocation of education aid that conforms to the distribution of legislative power and contradicts equity goals. Fourth, slowed economic growth and reductions in federal aid limit the dollars available to fund a major school finance reform. Finally, the size and complexity of a single school system, New York City, pose political, substantive, and technical problems for designers of a finance system that must also address the problems of 707 other school districts in the state.

We recognized the need for a book that would inform policymakers in New York of the issues, alternatives, and trade-offs in developing a new school finance system. Under Joel Berke's direction, and with support from the Russell Sage Foundation, we undertook an analysis of the problems, processes, and substance of reform which emphasizes the distinct aspects of New York's school finance agenda. Our understanding of the complexities of the problems and the needs of the state's urban areas was heightened by our involvement in the deliberations of the New York State Special Task Force on Equity and Excellence in Education. As consultants to the New York City Board of Education and the United Federation of Teachers, we attended the meetings of the task force and its subcommittees, reviewed technical reports prepared by task force staff, and evaluated the impact of alternative school finance plans on New York's urban school districts.

On June 23, 1982, five months after the task force issued its final report, the New York State Court of Appeals upheld the constitutionality of the state's education finance system. Citing the responsibility of the legislature, not the court, to reform the state's inequitable school finance system, the justices unexpectedly reversed the ruling of two lower courts. School finance reform was quickly dropped from New York's political agenda. However, publication of *A Nation at Risk* by the National Commission on Excellence in Education and the release of the New York State Board of Regent's *Proposed Action Plan to Improve Elementary and Secondary Education Results in New York State* the following year thrust education in the limelight again. The debate that ensued over who should pay for the recommended changes also created a new

awareness of the negative relationship between school district wealth and the availability of educational programs.

This book was written to be used by a wide audience—public officials and their staffs, leaders of organizations that affect school funding issues, and citizens who are active in education affairs—as they struggle to formulate a school funding system that meets the objectives of educational excellence and equity. It offers the necessary background for an informed consideration of the New York school finance issue: an overview of developments in the field; a discussion of central concepts and terms; a description of the New York funding system; an analysis of the judicial decisions; and an evaluation of the educational and fiscal needs of the state's urban centers. Policy-makers are provided with an in-depth understanding of the current system's limitations and of the political and economic constraints that condition efforts to develop reform policy. We suggest options for change and evaluate their impact against political, economic, and equity criteria.

While we accept the responsibility for the analyses and alternatives presented in this book, we are indebted to many people who provided financial, technical, and moral support. The project was made possible by a grant from the Russell Sage Foundation. In his capacity as director of the foundation's New York City Project, Bernard R. Gifford encouraged the submission of our proposal and provided guidance in the early stages of our research. Priscilla Lewis oversaw the publication of the manuscript. We are grateful for her encouragement and support during the final stages of the project. We also appreciate the superb editorial assistance provided by Herbert Morton. Educational Testing Service provided the funds we needed to complete and revise the manuscript. Joan C. Baratz and Ernest J. Anastasio supported our requests for additional time and secretarial support, never doubting that we would finish this book.

We owe a special debt to Thomas Ciano, who reviewed the extensive literature on the politics of education in New York State; prepared detailed analyses of education finance proposals developed by the governor's office, the Board of Regents, and education interest groups over the last decade; and researched alternative ways of measuring fiscal capacity and fiscal stress. He also painstakingly compiled the footnotes for the opening three chapters of the book. The analyses of the higher costs of educating special education students in large cities presented in chapter 6 is drawn from a paper written for our use by Mary T. Moore.

We received guidance from a number of experts on New York State politics, economics, and education finance. Early drafts of the manuscript were critiqued by Walter I. Garms, School of Education, University of Rochester; Robert Goettel, director, Center for Research and Advanced Studies, University of Southern Maine; David Greytak, professor of economics, Syracuse University; and Donna E. Shalala, president, Hunter College. Richard Glasheen and Robert Lamitie, of the Educational Finance Research Services Division of the New York State Education Department, patiently answered our questions and reviewed our descriptions of New York's intricate state aid system. James P. Gifford and Joan Scheuer, of the New York City Board of Education, and Bernard Gifford and Ron Choy, his associate at the Russell Sage Foundation, gave us a greater understanding of the unique problems of New York City, while Eugene Samter, former executive director of the Conference of the Large City Boards of Education, provided insights about New York State's other major cities. Daniel P. Levitt and Elliott C. Lichtman reviewed the chapter on the *Levittown* litigation for errors of fact and interpretation.

We are grateful to Gloria Graham, Rowena Gear, and Irma Kienitz for typing and retyping drafts of this manuscript. Their competence, patience, and good humor enabled us to overcome many of the logistical problems associated with writing a book in two locations—Washington, D.C., and Princeton, N.J. The text-processing staff at Educational Testing Service made final additions and corrections and relayed drafts between the two offices.

Joel Berke died before this, his last book, was published. His untimely death cut short a career devoted to the study and advocacy of educational equity. A native of New York City, Joel focused his extensive research on the political and fiscal factors that prevent educationally needy children, especially those living in large cities, from obtaining quality educations. He understood the intricacies of the policy process and used his research to inform that process. His articles, speeches, and testimony contributed to the formulation of more equitable school finance policies throughout the nation. Joel's life-long commitment to equal educational opportunity was a driving force behind the writing of *Politicians, Judges, and City Schools*. We dedicate it to his memory.

Margaret E. Goertz
Richard J. Coley
September 1984

POLITICIANS, JUDGES, AND CITY SCHOOLS

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INTRODUCTION

The Background for Reform

During the decade of the 1970s, major changes occurred in the way that states finance their public elementary and secondary education systems. Twenty-eight states enacted new or revised education aid programs,[1] state education expenditures nearly tripled,[2] and the state education policy-making arena widened as legislators, governors, and groups representing minority, urban, and business interests joined traditional education interests in shaping new school finance formulas. These changes were the end product of a nationwide school finance reform movement: one initiated by legal scholars; supported by a network of researchers, lawyers, public advocacy groups, and national organizations; and fueled by litigation that challenged the constitutionality of state education funding laws. Not all school finance court cases were successful, and not all school finance reform laws were enacted in response to specific court mandates.[3] However, the activity of the courts and reformers placed these issues on the agendas of state legislatures throughout the country.

Enactment of reform legislation is a complex task. Reaching agreement on the size and shape of a new funding scheme requires consensus on such philosophical questions as the meaning to be

given to equality of educational opportunity or to equity in distributing tax burdens for education. A new finance system also necessitates bottom-line decisions on such pocketbook issues as tax rates, aid payments to localities, and funding priorities for competing groups of students and different school programs. Lurking behind those particular decisions is a potentially divisive concern over how the state can exercise its constitutional responsibilities for assuring a system of common schools without extinguishing the widely prized value of local control.

This book was written to provide policy-makers in New York with a better understanding of the political, economic, and equity issues that underlie the school finance reform debate in the state. It provides background, information, and potential approaches to resolving New York's school finance problems, paying particular attention to the question of how to fund urban schools within the overall context of statewide fiscal equity. It details the inequities present in New York's education finance system; describes how the current system operates and what elements of its operation have led to the documented inequities; and presents a number of options for change. More important, it illustrates the trade-offs involved in developing a more equitable school finance system within the political and economic constraints facing New York in the 1980s.

Finance and Educational Equality: Two Centuries of Evolution in New York

Issues of finance and educational equality are not new to New Yorkers. Enhancing educational opportunity has been an evolving concern in the state for two centuries. The first object of reform was the establishment of free schools. New York had provided some state support of elementary education as early as 1795, and in 1812 the interest on a state education trust fund was dedicated as a permanent annual distribution to local districts for the hiring of teachers. To qualify, districts had to supply a schoolhouse and raise funds through local taxation equal to the amount of the state aid. But these revenue sources were typically inadequate to operate the schools, and the difference was made up by tuition charges based on the number of days a pupil attended school. As the tuition charges increased because the state and local revenues grew at a slower rate than the pupil population, poorer parents reduced the number of days they sent their children to school. Reformers sought

to eliminate this practical obstacle to universal education, and at midcentury the free school movement was successful. In 1849, the legislature passed and the electorate approved through statewide referendum a finance system which eliminated tuition in districts receiving state funds.

Even then, however, reforms sometimes turned out to have unintended consequences that undercut the central purpose of the new measure. Variations in local wealth among the then 11,000 school districts of the state led to marked disparities among districts in the ability to raise tax revenues for public education. Without the tuition supplements, poor districts cut back the length of their school year. Inequalities in educational services due to disparities in local tax bases accordingly became the next issue linking school funding and the extension of educational opportunity. The problem grew more acute with the passage of time. While at its enactment the 1849 statute provided for a state share of school funding of 52 percent, the fixed appropriation could not keep up with rising school costs, and local real property taxes had to bear an increasing share of the burden. This phenomenon heightened the public perception of inequity created by disparities in taxes for education among districts.

At the turn of the century rudimentary efforts to compensate for differences in local fiscal capacity were made. Districts were classified into two categories: those under $40,000 per pupil in assessed valuation, and those over that amount. Districts in the poorer category received a higher allotment of state funds per pupil than those in the richer category. This principle was extended in subsequent years, but the limited nature of this equalization system left children in poorer districts with proportionately fewer teachers, fewer school days, and more limited curricular offerings than pupils in richer districts. Parents in less wealthy districts typically paid higher tax rates for their inferior school systems than did parents in districts with more property per pupil on the tax rolls.

The 1920s saw the emergence of a modern approach to overcoming the educational problems of low-wealth districts. The Cole-Rice Law of 1925, the product of a legislative study commission, established a state-determined minimum, or foundation, expenditure level for all pupils (then $44 per pupil in average daily attendance) and guaranteed that all districts making a prescribed tax effort ($1.50 per $1,000 of full property value per pupil) would be assured the foundation level of educational spending. To the extent that local funds were unable to provide the specified support level,

state aid would make up the difference. Furthermore, an additional modern principle of equalization was introduced with this legislation. Previously, the wealth of districts was measured by the locally assessed value of its real property. Since local districts could vary in the extent to which their local property assessors reflected reality in the values they assigned to properties in their districts, some districts benefited from unrealistically low valuations which increased their state aid. The 1925 law provided that the state would adjust local assessments to full market value for purposes of state aid distribution.

The structure of general state aid established by the Cole-Rice Law remained in place with periodic adjustments until the early 1960s. The principal beneficiaries of its provisions were the rural districts with low property values and low school spending, but the size of the minimum foundation expenditure ignored the inequities felt by the majority of taxpayers and school children in districts spending above that minimum. Variations in local wealth among those districts were not fully compensated for by the state aid system, since all expenditures above the minimum foundation level had to come entirely from local taxes. For some wealthy communities this was not particularly difficult. Large tax bases made school spending relatively painless. But for many others with more moderate resources to draw upon, high tax rates were necessary to improve the quality of education in their district. Some districts chose to bear the heavier tax burdens; others opted for a less extensive and costly school system.

In 1962 a new state support system was adopted that would, in theory at least, include all expenditures in the equalization system in inverse proportion to district wealth. Recommended by the Legislative Committee on School Finance (the Diefendorf Committee), the "percentage-equalizing" formula would provide financial assistance to support a percentage of school expenditures for all districts inversely to their property wealth. For a district of average wealth, the state would support approximately 50 percent of expenditures; for a district with twice the average wealth, only 25 percent; and for a district with half the average wealth, 75 percent.

Overcoming inequalities created by disparities in local district wealth was only one aspect of the quest for equality of educational opportunity. Along with the first efforts to compensate for tax base differentials in 1901, the legislature also began "stimulation grants" to encourage the offering of particular elements of the school curriculum. As these special aids were increased in subsequent years,

they stimulated offerings in industrial education, trade schools, evening and vocational schools, physical training, and farm schools. The state funds did not pay the full cost of these activities, so the beneficiaries were pupils living in districts wealthy enough to have such programs already under way or able to bear the added costs of instituting them.

In the 1960s, these special aids rapidly evolved into mechanisms for meeting the special needs of pupils with physical, mental, and environmental disadvantages. In 1956, the legislature enacted a number of recommendations of the Heald Commission appointed by Governor Dewey, expanding aid for the mentally retarded and disadvantaged.[4] The Diefendorf Committee also recognized the importance of tailoring the state aid system to special problem areas, and its recommendations led to statutory provisions which addressed the financial problems of the most urban and most rural districts.[5] In 1974 a dramatic step was taken: Belatedly acting on a recommendation of the New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education (the Fleischmann Commission), the legislature adopted a finance structure to help districts provide programs for students requiring compensatory education.[6] In effect, every student scoring in roughly the bottom 25 percent on statewide tests of reading and mathematics generated 25 percent more state aid for the school district than a student above that score. The aid was intended to provide compensatory education programs.

This brief history illustrates New York's long tradition of seeking equality of educational opportunity for its children. The reality of equalization, however, did not live up to its aspiration. In theory, the percentage-equalizing formula adopted in 1962 was designed to provide incentives for higher levels of school support in all districts, with greater proportional benefits for less wealthy districts. In practice, however, a series of political decisions limited the equalizing impact of the law. Ceilings were placed on the spending level in which the state would share, so wealthier districts continued to be able to raise funds above the ceiling at lower tax rates than poorer ones. Furthermore, minimum aid was guaranteed to even the richest districts, thus widening the gap in resources between the low- and high-wealth districts. Finally, as time passed, the legislature adopted "save-harmless" provisions, which assured that districts would not have their aid reduced from year to year, even if growing property values or a decline in pupil populations entitled them to less aid under the formula.

At the same time, state support levels failed to keep pace with the growth in school budgets and in school district property wealth. The state's share of education expenditures peaked at 48 percent in 1968–69, then declined steadily to 39 percent in the mid-1970s.[7] One result was that the number of districts eligible for aid under the save-harmless provision rose. By 1976, 699 of the state's 708 major school districts were receiving aid on this basis.[8] The upshot of the system was the perennial school finance problem: differences among districts in the quality of education tied directly to the size of their local tax bases.

A National Reform Movement in School Finance

New York was not unique either in the components of its school support program or in their shortcomings. By the mid-1960s, virtually all states had aid systems that nominally followed an equalization formula, but no state had adopted these plans in pure form. Most were riddled with legislative amendments providing minimum grants regardless of wealth or maximum limits to equalization aid; or they were inadequately funded to accomplish their aims. As a result, the predominant factor in establishing funding patterns across the nation remained the size of the local tax base, with all the variability in school spending it entailed. But in the 1970s these patterns were to be challenged more effectively in the courts, not the legislature.

School Finance Goes to Court

In a 1965 article, a graduate student at the University of Chicago named Arthur E. Wise asked, "Is denial of equal educational opportunity constitutional?"[9] and suggested the possibility that variations in school spending among the school districts of a state might violate the Equal Protection Clause of the federal Constitution. Wise's argument was based on three judicial doctrines. First, as enunciated in *Brown* v. *Board of Education of Topeka*, the fundamental nature of public education requires that education be made available to all children on equal terms.[10] Second, the ruling in *Griffin* v. *Illinois* and other "indigent defendant" cases established the princi-

ple that poverty could not constitutionally condition a fundamental right, such as the right to a fair trial, and that the state must absorb costs of an indigent's defense.[11] Finally, Wise cited the case of *Baker* v. *Carr* and the other reapportionment decisions.[12] These cases held that the accident of geographic residence within a particular voting district in a state could not result in variation in the value of a vote.

Wise argued that taken together these three lines of precedent could support a holding that state laws ought not permit variations in educational quality throughout a state because of the poverty of some local school districts and that a child ought not receive a lower quality education because of the geographic accident of his living in one district instead of another. To remedy these unconstitutional allocation patterns, he suggested that only a child's need for educational services or some other explicit concept of equal educational opportunity was appropriate as the state's allocation criterion. In the activist era of the Warren Court, and the optimistic atmosphere created by the gains of the civil rights movement and the Great Society legislation, Wise's suggestion found a ready audience of scholars and litigators.

The courts, however, were initially less enthusiastic. The first suit to test the theory, *McInnis* v. *Shapiro,* was dismissed, the judges concluding that while "the inequalities of the existing arrangements are readily apparent . . . the allocation of public revenues is a basic policy decision more appropriately handled by a legislature than a court."[13] Furthermore, the decision added: "Even if the Fourteenth Amendment required that expenditures be made only on the basis of pupils' educational needs, this controversy would be non-justiciable. . . . There are no discoverable and manageable standards by which a court can determine when the Constitution is satisfied and when it is violated."[14]

Instead of a quietus, however, this defeat served as a stimulus. A loose network of civil rights attorneys, legal scholars, and social scientists set about the task of developing an effective litigation strategy that could convince judges not only that existing school finance arrangements were inequitable but also that practicable remedies could be devised. With the support of foundations, conferences were held, a clearinghouse for school finance litigation materials was established by the National Lawyers Committee for Civil Rights under Law, articles and draft pleadings were circulated, and numerous new suits were filed. These efforts proved successful

when, on August 30, 1971, the Supreme Court of California held that that state's system of financing education was unconstitutional in the case of *Serrano* v. *Priest*.[15]

The *Serrano* opinion explicitly adopted an argument which owed much to the writings of Professor John E. Coons, then of the Northwestern Law School, and two of his students, William H. Clune III and Stephen D. Sugarman. In a 1969 article in the *University of California Law Review*, and subsequently in their book *Private Wealth and Public Education*, they explained how school finance laws caused high per pupil school spending in wealthy districts despite low tax effort and lower educational revenues in poorer districts despite higher local tax rates.[16] Furthermore, they demonstrated that reformed school finance systems, particularly one they called district power equalization, could end those inequitable patterns by using state aid to overcome differences in local wealth.

More important, however, they constructed a constitutional theory which demanded a minimum of judicial activism for courts to adopt. Rather than asking judges to order states to allocate educational resources in proportion to the educational needs of pupils as the *McInnis* plaintiffs had, the only remedy the *Serrano* plaintiffs requested was a negative one: that the state may not make it harder for poor communities to raise revenues for education than it is for wealthy school districts. This concept was called "fiscal neutrality." As adopted by the California court in *Serrano* v. *Priest*, this new judicial doctrine required that the state's school finance system may not "[make] the quality of a child's education a function of the wealth of his parents and neighbors."[17]

The *Serrano* doctrine was explicitly and rapidly adopted in other states such as Minnesota (*van Dusartz* v. *Hatfield*, 1971), Texas (*Rodriguez* v. *San Antonio*, 1971), Michigan (*Milliken* v. *Green*, 1972), and Kansas (*Caldwell* v. *Kansas*, 1972). Even the rejection of the doctrine by the U.S. Supreme Court in 1973 was ineffective in ending the impact of the new line of constitutional decisions on school finance. The Supreme Court's opinion in the closely contested, 5-to-4 *Rodriguez* decision held that school funding disparities within Texas did not violate the Equal Protection Clause of the Fourteenth Amendment primarily because education, which was neither explicitly nor implicitly mentioned in the U.S. Constitution, did not constitute a "fundamental interest" that would require a finding of unconstitutionality by federal courts.[18]

Set back but not defeated, attorneys for children in low-wealth

districts quickly returned to court—state courts—with pleadings alleging violations of state constitutions. Since education is explicitly designated a state responsibility in state constitutions in language leaving little doubt as to its fundamental importance, state courts continued to strike down school finance laws resulting in wealth-based disparities either under state constitutional guarantees of equal protection of the laws or under their state education clauses. California, for example, quickly confirmed that its state constitution alone provided ample grounds for affirming *Serrano* despite the U.S. Supreme Court's *Rodriguez* decision.[19] During the next few years, New Jersey, Connecticut, Colorado, and Washington were also to come under court orders to eliminate unconstitutional school finance systems. In June 1974, a group of twenty-seven school districts led by Levittown, a blue-collar suburb of New York City, filed a complaint that applied these judicial doctrines to New York.

Legislative Responses

In the aftermath of the successful legal challenges, the informal network of activist attorneys, legal scholars, and social scientists that had spawned the litigation underwent a steady transformation. Its frequent conferences shifted in focus from wrong to remedy, and membership came to include fewer attorneys and legal strategists and more legislators, legislative staff, and state education department officials. Though the forum had shifted from the courts to the legislatures, the participants' impact in what had now come to be called a "movement"—the school finance reform movement—continued with substantial effect. The new laws were often based on research projects supported in part by foundations, principally the Ford Foundation, and were shepherded through the legislative process by public officials who had been participants in conferences on school finance reform.

Legislators and chief executives were confronted with a set of complex and interrelated decisions in designing new or revised state aid formulas. First, they had to determine what role the state would play in financing education. The states vary widely in their support of education, ranging from a low of 7 percent of elementary and secondary education expenditures in New Hampshire to a high of 85 percent in Hawaii. However, the reform states increased the size and proportion of their support. As a result of their efforts, the

average state share nationally rose from 41 to 49 percent of education spending between 1970 and 1980.[20]

A second decision involved selecting mechanisms for distributing state education aid. The school finance programs adopted by legislators reflected the need to address three conflicting concerns: (1) assuring equality of educational opportunity, (2) providing taxpayer equity, and (3) guaranteeing property tax relief. The most common formula favored by those who wished to reduce the disparity in spending levels throughout a state was the minimum foundation program. Developed by George Strayer and Robert Haig in 1923, this approach guarantees that every student's education is supported by an equal amount of education money up to a state-prescribed level, regardless of the fiscal capacity of the individual school district.[21] Local school districts must contribute to this guaranteed amount, generally by levying a state-established tax rate.

Another approach to state aid formulas, "capacity equalization," places great emphasis on achieving equity in raising revenues for public education. These formulas are designed to ensure that districts levying equal school tax rates receive equal school revenues through a combination of local and state funds. For example, under a district power equalization formula, the state would establish a schedule of property tax yields and guarantee that any given property tax effort would result in equal tax yields in every district of the state.[22] In districts where revenues fell short of the schedule, state funds would make up the shortfall. Alternatively, instead of guaranteeing the yield of property tax rates, states could guarantee a hypothetical tax base (that is, a state could treat each district as though it had $100,000 per pupil in real property valuation to tax). Under this guaranteed tax base program the state would provide revenues to make up the difference between the yield of a district's actual tax base and that of the hypothetical guaranteed tax base.

A few states, such as New Mexico and Hawaii, assumed responsibility for providing nearly all of the necessary revenues for elementary and secondary education programs. This approach, often called full state assumption, requires the state to determine the ultimate level of education expenditures in each district. Variations in expenditures are based on the need rather than the wealth of the local school district.

While the primary objective of these equalization formulas was to reduce spending disparities that were linked to differing local wealth, policy-makers in the 1970s were also concerned with fund-

ing programs for pupils with differing educational needs. In some states, adjustments were made to the general operating aid formula. In determining the amount of aid distributed under the formula, instead of counting each pupil as one, higher weights were assigned to educationally disadvantaged and handicapped pupils and to those who for other reasons were enrolled in more expensive programs. Other states chose to establish or expand categorical aid programs, separate programs designed to address specific education needs, such as special education, compensatory education, and vocational education. By the end of the 1970s, all states had comprehensive programs for providing services to students with physical or mental handicaps. Sixteen states provided direct aid for compensatory education programs, supplementing the $3.1 billion of federal aid distributed through the Elementary and Secondary Education Act (ESEA) Title I program, while eight other states provided additional aid to districts with large numbers of poor students but did not earmark the funds for remedial programs. Twenty-two states provided bilingual or bilingual-bicultural education services to nearly 660,000 students, using both state and federal funds.[23]

Finally, a growing public dissatisfaction with property tax burdens led legislators to consider how they could link property tax relief with the increased state role in financing education. During the first half of the 1970s, all but two of fourteen newly enacted state school finance laws incorporated tax or expenditure limitations. In addition to limiting or reducing local property tax rates, these provisions were designed to brake the growth of expenditures in fiscally advantaged school districts and/or minimize the number of new state dollars required to equalize the resources of fiscally disadvantaged school districts.[24] For most school finance reformers such provisions were seen as the political price that had to be paid to bring essential members into the coalition for enactment of the new laws. Achieving local property tax relief and assuring that the reform laws would not break the state treasury convinced a number of taxpayer, economy, and business-oriented interest groups and legislators to join in supporting school finance reform.

The Changing Context of School Finance Reform

During the early 1970s, school finance activists benefited from a fiscal, social, and political environment that was conducive to re-

form efforts. An expanding economy, the increased use of general sales and personal income taxes by states, and rapid growth in federal aid to states and localities gave many states the funds they needed to increase their support of education programs. Eighteen of the twenty-eight reform states had fiscal surpluses at the time their legislatures enacted new school finance laws.[25] Although elementary school enrollments peaked in 1969, the number of high school students continued to grow until 1976. Public opinion was supportive of public education. In 1974, for example, nearly half of the respondents to a Gallup poll gave their schools high marks.[26] Finally, the school finance reform movement reflected a renewed national concern for social equity. The civil rights movement had heightened public awareness of inequities in society, and passage of the Civil Rights Act of 1964 and the ESEA in 1965 had focused federal government attention on issues of equality of educational opportunity.

School finance reformers face a significantly changed environment in the 1980s. The fiscal health of most states has been undermined by tax and expenditure limitations, a recession-plagued economy, and reductions in federal aid. Shifting social and demographic patterns and the public's growing dissatisfaction with the public education system have led to increased competition between education and other public services for increasingly scarce resources. And a new focus on efficiency, choice, and excellence in education has challenged equality as the major focus of education policy.

The Changing Fiscal Condition of State and Local Governments

In the period from 1949 to 1975, the state-local government sector grew at almost twice the rate of the national economy. Between 1975 and 1981, however, state-local spending declined steadily from 15 to 13 percent of the gross national product (GNP).[27] Similarly, while per capita state and local government expenditures, adjusted for inflation, tripled between 1949 and 1978, they slowly declined from $887 per capita in 1978 to $853 in 1981.[28] Three factors contributed to this slowdown in the state-local sector: state-imposed tax and expenditure limitations, the condition of the national economy, and the changing role of the federal government.

Tax and expenditure controls were not new to education when

the passage of Proposition 13 in California in 1978 made them a top media event. Property tax rate limits originated in the late nineteenth century, and restrictions on school district tax rates and debt were a widespread response to finance problems during the Great Depression, particularly for city school districts. Several new trends emerged in the post-1970 period, however. There was a movement away from tax rate limits to a broader limit on the total amount of revenue generated by the property tax, which occurred because rate limits alone had little effect during a period of rising property values. Legislation in a number of states limited the growth of state expenditures or revenues to a fixed percentage or to a rate of change linked to growth in the state's economy, population, and/or rate of inflation.

Current fiscal limitations fall into two broad categories: those which cut back existing levels of government expenditures or taxes and those which restrict the future growth of public expenditures or revenues. Proposition 13 is a prototype of the former approach. Intended to cut back the local public sector, this initiative rolled back property assessments to their estimated 1975–76 level, limited property tax rates to 1 percent of a property's full value, and restricted the growth in property assessments to 2 percent a year. The effect of Proposition 13 was to reduce annual property tax revenues by nearly $7 billion, without providing for a substitute source of funds. In the short run, huge state government surpluses were available to bail out local school systems in California, with the result that the state share of school support leapt from 40 to 75 percent in a year's time. But in the longer run in California, and more immediately in other states like Massachusetts which lacked California's rapidly growing economy and productive state revenue system, the impact on local schools of Proposition 13 and clones like the Bay State's Proposition 2½ was direct and severe, forcing teacher layoffs and school closings.

Only two other states, however, adopted measures as rigid as California and Massachusetts. More common has been a more restrained emphasis on limiting future growth, rather than accomplishing immediate cutbacks, in state and local revenues and expenditures. Approximately half the states are considered to have measures of this kind, but the models are varied.[29] Limitations affect expenditures in some states and revenues in others. Some restrictions apply to local governments, some to the state, and others to both. In New Jersey, whose 1976 law was a prototype in this area, limits apply to spending for both jurisdictions. The state can in-

crease expenditures only by the percentage increase in per capita personal income in the state from one year to the next, local government budgets can grow only 5 percent without approval of the local voters, and increases in school budgets are tied to their relative expenditure level and changes in the statewide property valuation.

Still other states responded to the "anti-tax" mood of voters by reducing the rates of existing taxes. Between 1977 and 1980, 16 states reduced their sales taxes, while 22, including New York, reduced state income tax rates. By 1981, 9 states had "indexed" their personal income taxes; that is, they redefined income tax brackets to keep inflation from pushing taxpayers into higher tax rate brackets.[30]

National economic growth in the late 1970s, coupled with a high rate of inflation, kept state and local government coffers filled in spite of tax rate cuts. These jurisdictions felt the adverse effect of tax limitations and reductions in the early 1980s, however, when the national economy slid into a recession. In 1983, 33 state legislatures raised taxes to prevent deficit spending, while 41 states reduced spending and 22 laid off personnel. In spite of these austerity moves, 38 states still expected expenditures to exceed revenues.[31]

The Changing Role of the Federal Government

The fiscal health of state and local governments is affected by the reduced role that the federal government has come to play in their budgets. State and local governments became increasingly reliant on federal aid in the post–World War II years. By 1978, federal aid was nearly 35 percent of state and local governments' own source revenues. Slowed growth in federal aid over the next three years reduced this reliance to below 30 percent.[32] In education, federal aid reached a high of 9.3 percent of elementary and secondary education revenues in 1979–80, then slipped to 7.4 percent in 1982–83.[33]

Although federal aid to education never exceeded 9 percent of school costs, it has been allocated through a strategically focused set of aid programs. Their objective has been to provide civil rights protections or supplementary aid to groups of pupils afflicted by racial discrimination or by educational deficiencies stemming from poverty, poor health, or limited English language skills. Enacted originally because Congress and the courts concluded that states and localities were inadequately addressing these special problems,

the federal programs and enforcement activities have until recently been the major source of financial support for these groups. State regulations for compensatory education, bilingual education, and desegregation activity were influenced, to varying extents, by the federal programs. Similarly, although paying a smaller share of the costs, the federal government has stimulated the rapid growth of education for the handicapped in the states.

Two developments at the federal level threaten this support for special-needs students: cutbacks in categorical federal aids and the push for federal block grants or increased state discretion over the allocation of federal aid to school districts. Between 1980 and 1982, total appropriations for major federal education programs for special-needs students decreased from $6.2 billion to $5.5 billion. While aid for the handicapped increased, aid for compensatory and bilingual education declined about 10 percent and 28 percent, respectively.[34]

These reductions and the trend toward granting states more authority over the allocation of federal dollars without strict targeting requirements will have a similar political effect: States will be asked to assume a greater responsibility for assuring that the needs of special pupil populations are met. Yet, state legislators do not seem inclined to assume the equity agenda that defines much of the current federal role in education. While all states have programs to serve handicapped students, other special-needs groups have had more spotty success in winning passage of state laws guaranteeing them civil rights protections and special educational services. In most states with state programs in compensatory and bilingual education, the federal government still provides the bulk of the funds. In addition, political support for special-needs groups is neither broad nor deep. The traditional education interest groups do not tend to actively promote federal programs in state legislatures and, with the exception of special education, interest groups representing the beneficiaries of the federal programs are loosely organized, uncoordinated, and not consistently active in the state level policy process.[35]

In light of the unevenness of state program mandates for special-needs programs, low state funding levels (except in special education) and limited interest group activity, the erosion of federal dollars and federal program regulations may leave special-needs students with fewer services and fewer protections. Since the proportion of handicapped, bilingual, and compensatory pupils is highest in central cities, federal aid has been proportionately high in

such districts, and the impact of aid cuts or relaxation of the federal targeting requirements will probably have greatest negative impact in urban areas. The effect for states will be to raise the saliency of the special funding problems of urban education to an unprecedented level.

Shifting Support for Public Education

Several nonfiscal factors also threaten the support that education has enjoyed in the previous two decades. A continued decline in the number of children enrolled in public schools could translate into reduced electoral support for local education budgets. It has been projected that overall K–12 public school enrollments will decline until the late 1980s and then level off at 17 percent below the peak year of 1971.[36] This means that fewer households will have school-aged children and thus a direct stake in voting for higher levels of education spending. It is also argued that a growing proportion of those families with children in public schools will be poor and minority groups that traditionally have low voter turnout and limited involvement in politics.[37] Declining enrollments have already led a number of taxpayer groups to question why education spending continues to grow at a time when fewer students are being educated.

Shifting social and demographic patterns will also change the mix of public services demanded by the public. The growing number of working mothers will bring greater pressure for publicly supported day care facilities. The elderly, who represented 11 percent of the population in 1978 and are projected to grow to 22 percent by 2030,[38] are concerned with issues of national health insurance, old age assistance, and property tax relief.

Finally, the public's dissatisfaction with the quality of public education grew during the 1970s. For example, in 1983 only 31 percent of those polled gave their schools a grade of A or B, a drop of 17 percentage points from 1974.[39] This credibility gap was widened by sagging SAT scores and lagging achievement levels. Average verbal scores on the SAT fell over 50 points between 1963 and 1980, while average mathematics scores dropped nearly 40 points. Of equal concern was the fact that both the number and proportion of students scoring 650 or higher also dramatically declined. Results of the National Assessment of Educational Progress showed a steady decline in the mathematics and science achievement scores

of 17-year-old students.[40] By the end of the 1970s, growing dissatisfaction with the performance of the public schools had increased interest in efforts to widen parental choice over education through tuition vouchers and tax credits and to make schools more productive.

Enhancing Parental Choice in Education

One element in the diversity of American public education has been the existence of nonpublic schools. Effectively confirmed by the U.S. Supreme Court in *Pierce* v. *Society of Sisters* in 1925, the right of parental choice in education has resulted in a private school population that hovers around 10 percent. The largest component of this independent school population is enrolled in the Catholic parochial schools, and for decades churchmen and parents of parochial school children have sought to secure public funds for their schools. For the most part, their efforts have been unsuccessful, except for some minor ancillary aids, largely because courts, like those in New York, have applied federal and state constitutional prohibitions against governmental aid to religion to invalidate "parochial" legislation. Nonetheless, the campaign for public funds for religious education has continued, seeking indirect mechanisms that will relieve what parents of private school children consider double payments for education, that is, taxes for public schools which they do not use and tuition payments for the schools their children attend.

In recent years this continuing effort to secure public funds for private education has been bolstered by conservatives like Chicago University economist Milton Friedman, who favor improving education through incorporating private market concepts of competition and consumer sovereignty, and educational liberals like those in the Office of Economic Opportunity in the 1960s and Berkeley Professors John E. Coons and Stephen D. Sugarman in the 1970s, who seek to encourage diversity and innovation in educational programs. They proposed the tuition voucher, which would assign an amount of money for each pupil to be presented to the school in which he or she enrolled, whether public or private. In theory, schools that were effectively serving the desires of parents would prosper and those that were not would lose support, eventually either to change their ways or to dwindle and close. Ideally, a variety of differentiated schools would become available, ranging from those that satisfied parents seeking traditional values and subject matter, to others that satisfied parents seeking schools with icono-

clastic philosophies or methods. Voucher proponents themselves spawned a variety of complicated proposals, but their ability to obviate prohibitions against support of religious schools was constitutionally doubtful.

Despite a number of highly publicized initiative ballot campaigns, the opponents of the voucher plan have been successful in thwarting its adoption. Their principal concerns are that a voucher system would be divisive, whereas public schools have long served the purpose of socializing children to a broad societal philosophy and of overcoming barriers of religion, class, income, and, most recently, race. Furthermore, supporters of the public schools argue that the competition that vouchers are meant to foster is not the perfect competition of an economic model but an unfair competition, in which nonselective public schools, enrolling children of the poor and of racial minorities, and the handicapped, would be at a disadvantage compared with selective private schools, which can screen out "undesirable" or troublesome applicants. Particularly in the urban centers, opponents of vouchers see them as the road to the destruction of public education and thus the elimination of a critical asset to social unity and political civility.

A second proposal for securing public funds for parents of children in private schools is the tuition tax credit. A major congressional issue since the late 1970s, a tuition tax credit proposal was passed by the U.S. House of Representatives in 1978, and without the explicit promise of a Presidential veto might have passed in the Senate as well. The bill would have permitted parents to deduct a portion of their tuition for elementary, secondary, and higher education on their federal income tax returns; and while the amount was relatively small, $250–$500 in the first year, it was assumed that it would be expanded in the future. Religious school interests hoped that the tax credit approach might be sufficiently indirect to withstand constitutional attacks, although the U.S. Attorney General issued an opinion to the contrary. Although the tax credit failed, its congressional sponsors are still active, and President Reagan has indicated philosophical agreement with the approach.[41] Opponents point out that even a $250 rebate would provide more federal aid to private schools per pupil than the current federal programs provide to public schools and that projections indicated that many of the beneficiaries would be those with higher incomes.

One outcome of the near-success of the tax credit measure in 1978 was the improvement of mechanisms to assure that federal aid reached more children in private schools than it had in the past. But

such minimal measures have not satisfied proponents of public support for the costs of private education, and the threat of a future private school "raid on the federal treasury" continues to stir public school interest groups to active opposition. Given the perilous state of financial support for schools in many areas of the nation and particularly in many urban centers where private schools are most prevalent, public schools argue that they cannot accept a diversion of funds to nonpublic education. For proponents of greater equalization of the disparities of support in the public schools, tuition tax credits would constitute a new source of competition for the revenues needed for reform.

Improving Educational Efficiency

Over the last twenty-five years, efforts to make education more efficient have gone through three stages: applying technical-industrial accountability models, testing, and fiscal containment.[42] In the late 1960s and early 1970s, education publications and consulting firms packaged and pushed the new management techniques of program budgeting, systems analysis, and management by objectives. Several states followed California's lead in implementing program-planning budget systems at the local school district level. The federal government sponsored experiments in performance contracting, while states developed competency-based teacher education programs in an attempt to improve pedagogical skills.

States adopted another strategy in an attempt to improve educational outcomes: They used tests to measure school output so that educators would be induced, by public scrutiny, to produce better test results. By the end of the 1970s, thirty-five states had adopted some form of testing,[43] and thirteen states required students to pass an achievement test as a condition for graduation from high school.[44] Some of these states incorporated test results in their evaluation of teachers and/or school districts. Others used scores from statewide tests to trigger required remediation services. The fiscal containment movement took a more indirect approach to achieving efficiency: limiting the amount of public money school districts could spend on education. Some proposals were designed to limit the rapid growth in education expenditures that would result from school finance reform legislation (for example, New Jersey). In other cases, voters supported tax and expenditure limits

because they thought they would force greater government efficiency as well as lower taxes.[45]

The current efficiency thrust has been labeled the "school improvement program." Broadly defined it includes elements of the earlier movements: a focus on better management practices, competency testing of students, and an emphasis on approaches that involve relatively minimal state financial contributions. Recent initiatives draw on a new and different body of research, however. Throughout the 1970s, researchers assessed factors associated with instructional effectiveness and reduced them to a set of characteristics and processes that they felt described effective schools. Most stressed factors such as shared emphasis on academic subjects which are deemed significant (for example, reading and math); high staff expectations for student learning; a safe, comfortable, and orderly learning environment; principal leadership; and instructional staff involvement in school decision-making. Converging with the effective schools literature was research concerning variables associated with effective teaching and effective classrooms. This work revealed the importance of factors such as student-engaged learning time (time on task), organized instructional presentations, and appropriate feedback. Educators and policymakers have sought to translate the lessons of these effective schools and classrooms into action through such programs as More Effective Schools, principals' academies, and instructional management systems.[46]

Searching for Excellence

In 1981, a National Commission on Excellence in Education was created by U.S. Secretary of Education T. H. Bell, as a result of his concern about "the widespread public perception that something is seriously remiss in our educational system."[47] The conclusions of the commission, which was charged with assessing the quality of teaching and learning in the nation's schools, are reflected in the title of its report—*A Nation at Risk: The Imperative for Educational Reform.* Its findings, and those of no fewer than seven other studies published in 1983,[48] documented the decline in academic achievement that had occurred over the past twenty-five years and identified five general causes of this situation.

First, demographic changes and changes in societal values have changed the role of schools. The schools have to teach more

"hard-to-educate" youngsters skills that were once possessed by only a few, while performing the roles of parent, nurse, nutritionist, sex counselor, and policeman. Second, schools now expect and require less of students. The amount of homework assigned to high school seniors has decreased, the difficulty of subject matter has been reduced, grades have become inflated, and "minimum competency" examinations have replaced more rigorous standards of performance. Third, the content of education is less rigorous. More students are taking "general track" courses; fewer students are choosing to enroll in advanced mathematics and science courses. An emphasis on "back-to-basics" has diminished the concern for science and has emphasized computational skills rather than the mastery of mathematical concepts. Fourth, American high school students spend too little time on school work in terms of the number of hours spent in school and on homework, the number of days in the school year, and the time spent in class on academic instruction. For example, within a week's time of approximately twenty-five instructional hours in the nation's elementary schools, only one hour is devoted to science and fewer than four hours are devoted to arithmetic. Finally, not enough of the more academically able students are attracted to teaching. Existing teacher preparation and in-service training programs need improvement.

A Nation at Risk generated an unexpected response from the press, the public, and the President. Throwing his support behind the commission's work, President Reagan toured the country speaking about the need to reform our national educational system. Fueled by a steady stream of reports from other study commissions and research institutes, education became the nation's top domestic issue in 1983 and a major topic of debate among the 1984 presidential candidates.

While these soundings of national alarm are recent, state initiatives targeted at the same problems are not. States have long been flexing their muscles in behalf of educational accountability. Between 1966 and 1976, thirty-five states passed accountability statutes.[49] During the 1980s, several states enacted education reform programs, and in many other states initiatives to improve the quality of education are working their way through the political process. While many of these reforms are traditional ones—changing teacher certification standards, increasing in-service training requirements, upgrading curriculum standards, and mandating student competency testing—others are more novel and are drawn from the extensive menu of recommendations contained in the na-

tional studies. These include efforts to raise the status and pay of teachers, to increase the length of the school day or year, and to develop business and education partnerships.

Comprehensive reform bills signed in the summer of 1983 by the governors of California and Florida are examples of current state initiatives. Both plans contain provisions for merit pay for outstanding teachers and higher salaries for all teachers; more time in school for students; more rigorous graduation and curriculum requirements; changes in teacher education and certification requirements; and new initiatives in the areas of math, science, and technology. In New York, frequently a harbinger in education reform, the Board of Regents unanimously approved an action plan in July 1983 to improve elementary and secondary education in the state.[50]

This comprehensive and integrated proposal, to be phased in over the next twelve years, focuses on the instructional program and instructional requirements. The plan, as modified after a series of public hearings, includes a new requirement that students take courses in the arts and demonstrate proficiency in the use of computers. Current curriculum requirements in math, science, and social studies are to be increased and state examinations will be required in several new areas. Elementary schools and junior high schools with the lowest achievement levels will be required to follow a state-developed curriculum. The plan also deals with teacher-quality issues—new teachers will be required to pass competency tests and current teachers will be evaluated yearly.

Such reform will not come cheaply. The California bill, for example, provided an additional $800 million over prior year revenues for the first year of the program and called for an additional $1.9 billion in the second year. While the governor agreed on the first year spending figure, he threatened to veto $600 million of the second year increase.[51] While New York's governor and legislature will have to approve any of the reforms that require additional funding, one of the state's teachers unions estimated the cost of the original Regents' proposal at $1 billion a year. This figure is well above the annual increases in state education funding in New York of less than $300 million a year.[52]

Summary

Since the eighteenth century, New York State has often been in the forefront of education reform movements. New York was the first

state to create a state department of education. The Cole-Rice Law of 1925 was a model equalization aid formula copied by other states throughout the country. The state was an early supporter of state programs for handicapped and disadvantaged children and an advocate of civil rights guarantees. The school finance reform movement of the 1970s passed New York by, however. While other states were increasing their support of elementary and secondary education, New York's state share was falling. At a time when neighboring states were designing new mechanisms for allocating state education aid, the New York legislature made only incremental changes in an already complex school finance system.

Policy makers in the 1980s are presented with a significantly different environment in which to address educational equity issues. Slowed economic growth, taxpayer revolts, and reductions in federal aid are straining the ability of states to raise new revenues in support of education. An aging population is less willing to increase taxes to fund an educational system which they perceive to be mediocre. Finally, while the major focus of the school finance movement in the 1970s was on ways of attaining a more equitable distribution of education resources, benefits, and tax burdens, the focus in the 1980s is with educational excellence and efficiency. Business, the motivating force behind several of the national commissions formed in 1983, views reform of the educational system as an essential component of remaining competitive in an international economy and supports reforms directed at improving the mathematics, science, technology, and communications skills of the future work force. Advocates of educational equity are concerned that in its preoccupation with improving the education of the nation's "best and brightest," society will lose sight of the educational needs of the poor and educationally disadvantaged.

The challenge facing New Yorkers today is how to ensure that *all* its children receive a high-quality education. Money alone does not guarantee success in improving education, but the impact of its absence and of the shortage of the educational resources it provides, has palpable negative effects on the life chances of thousands of children in New York State. As the Opinion of the Appellate Division Court put it after reviewing the evidence and the trial court decision in *Levittown* v. *Nyquist*:

> We harbor no illusion that all the failings in pupil achievement we have described flow from incompetence of the educational system, for we are aware of other deep-seated societal and fa-

> milial failures which contribute in substantial degree to the problems of educating disadvantaged youth. Nevertheless, the record before us establishes that many of the children who fail to obtain minimal skills are educable and that properly staffed remedial programs, which afflicted school districts are prevented from providing because of fiscal constraints and misallocation of resources, do alleviate or totally remedy learning problems. In sum, despite their disadvantaged background, many of those who leave New York's educational system uneducated could be provided with skills which would equip them for life's future demands.[53]

In many areas of New York State and in school districts in many other states of the nation, "the current financing scheme is in good measure a cause for the failures." The importance of this book, then, is in the help it offers in understanding that problem and in assisting in the development of remedies so that education finance systems will not continue to doom millions of pupils to an inferior education.

Chapter 1 presents a case study of the *Levittown* litigation, focusing on the inequities documented by the court and the equity principles which emerged from the case. Chapters 2 and 3 examine the political and economic environment in which education policy is developed in New York State and outline the constraints reformers face in the legislative and fiscal arenas. Chapters 4–6 describe and evaluate the major provisions of New York's school funding formulas, providing the reader with an in-depth understanding of the system's limitations. Finally, chapters 7 and 8 describe alternative school finance approaches and suggest ways of developing and evaluating reform programs that balance the conflicting demands of resource equalization, political feasibility, and fiscal responsibility.

Notes

[1]Allan Odden and John Augenblick, *School Finance Reform in the States: 1981*, pp. 1–7.

[2]State contributions to public elementary and secondary schools grew from $17.2 million in 1969–70 to $46.6 million in 1979–80. National Education Association, *Financial Status of the Public Schools, 1971*, (Table 29), and *Estimates of School Statistics, 1982–83*, p. 20.

[3]Odden reported that reform was accompanied by court cases in twelve of the twenty-eight reform states. Allan Odden, "School Finance Reform: An Example of Redistributive Policy at the State Level," as cited in Brown and Elmore, p. 107.

[4]New York State Temporary Commission on Education Finances, *Financing Education in New York State, Final Report* (Albany: State of New York, 1956).

[5]New York State Joint Legislative Committee on School Financing, "Interim Report."

[6]New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, *The Fleischmann Report on the Quality, Cost and Financing of Elementary and Secondary Education in New York State.*

[7]New York State Board of Regents, *The Regents Proposal for Improving State Aid to Public Education in New York State,* p. 5.

[8]*Levittown* v. *Nyquist,* Supreme Court of the State of New York, County of Nassau, Index No. 8208/74, "Findings of Fact (Plaintiffs)," June 23, 1978.

[9]Arthur E. Wise, "Is Denial of Equal Educational Opportunity Constitutional?" pp. 1–4; see also Wise, *Rich Schools, Poor Schools.*

[10]*Brown* v. *Board of Education of Topeka,* 347 U.S. 483 (1954); 349 U.S. 294 (1955).

[11]*Griffin* v. *Illinois,* 351 U.S. 12 (1956).

[12]*Baker* v. *Carr,* 369 U.S. 186 (1962).

[13]*McInnis* v. *Shapiro,* 293 F. Supp. 327, N.D. Ill. (1968).

[14]*McInnis* v. *Shapiro.*

[15]*Serrano* v. *Priest,* 487 P. 2d 1241, 5 Cal. 3d 584 (1971).

[16]John E. Coons, William H. Clune III, and Stephen D. Sugarman, *Private Wealth and Public Education.*

[17]5 Cal. 3d 584. A detailed history of the *Serrano* litigation is included in Richard Elmore and Milbrey McLaughlin, *Reform and Retrenchment.*

[18]*Rodriguez* v. *San Antonio Independent School District,* 411 U.S. 1, 58 (1973).

[19]*Serrano* v. *Priest,* 20 Cal. 3d 25 (1974); and 18 Cal. 3d 729 (1976).

[20]National Education Association, *Rankings of the States, 1971,* Table 87, and *Rankings of the States, 1981,* Table F-7.

[21]George D. Strayer and Robert M. Haig, *Financing of Education in the State of New York.*

[22]Coons et al., pp. 200–42.

[23]Data are from Allan Odden and C. Kent McGuire, "Financing Educational Services for Special Populations: The State and Federal Roles" (Denver: Education Finance Center, Education Commission of the States, May 1980).

[24]Dale Cattanach, Robert Lang, and Lloyd Hooper, "Tax Expenditure Controls: The Price of School Finance Reform," p. 60.

[25]Odden, "School Finance Reform."

[26]"The 14th Annual Gallup Poll of the Public's Attitudes Toward the Public Schools," *Phi Delta Kappan,* September 1982, p. 39. Respondents were asked to give their schools the grades A, B, C, D, or FAIL to denote the quality of their work. Forty-eight percent of the respondents rated their schools A or B in 1974, the first year this question was included in the poll.

[27]Susannah Calkins and John Shannon, "The New Formula for Fiscal Federalism: Austerity Equals Decentralization," p. 24.

[28]Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1981–82 Edition,* Table 2. Constant dollars are reported in 1972 dollars.

[29]Phyllis Ellickson, "The Fiscal Limitation Movement: Present Context and Outlook."

[30]E. Kathleen Adams, *A Changing Federalism: The Condition of the States,* p. 3.

[31]National Governors' Association, *Fiscal Survey of the States, 1983.*

[32]Calkins and Shannon, "The New Formula for Fiscal Federalism."

[33]National Education Association, *Estimates of School Statistics, 1982–83,* p. 20.

[34]Edward B. Fiske, "Reagan Record in Education: Mixed Results," *New York Times Survey of Education,* November 14, 1982, p. 39.

[35]Mary T. Moore et al., *The Interaction of Federal and Related State Education Programs.*

[36]Michael W. Kirst and Walter I. Garms, "The Political Environment of School Finance Policy in the 1980s," p. 54.

[37]Kirst and Garms, p. 61.

[38]Kirst and Garms, p. 60.

[39]George H. Gallup, "The 15th Annual Gallup Poll of the Public's Attitudes Toward the Public Schools," p. 35.

[40]National Commission on Excellence in Education, *A Nation at Risk: The Imperative for Educational Reform,* pp. 8–9.

[41]On June 29, 1983, the U.S. Supreme Court upheld, 5 to 4, a Minnesota law that allows parents to take a state income tax deduction for some expenses incurred by pupils attending public or private schools. The impact of this decision, *Mueller* v. *Allen,* on the prospects for a federal tax credit is unclear.

[42]James W. Guthrie, "United States School Finance Policy, 1955–1980," p. 22.

[43]Guthrie, p. 25.

[44]Chris Pipho, "State Activity: Minimal Competency Testing."

[45]Mary F. Williams, "Earthquakes or Tremors? Tax and Expenditure Limitations and School Finance," p. 160. Williams argues that support for tax and expenditure limits was not a vote for lower service levels. Those who felt that the measures would result in major service cuts generally opposed them.

[46]For more information on these approaches, see Stewart C. Purkey and Marshall S. Smith, "Effective Schools—A Review"; and Allan Odden and Van Dougherty, *State Programs of School Improvement: A 50-State Survey.*

[47]National Commission on Excellence in Education, p. 1.

[48]These other studies included Education Commission of the States, Task Force on Education for Economic Growth (James B. Hunt, Jr., Pierre S. du Pont IV, and Frank T. Carey, chairmen), *Action for Excellence* (Denver: Education Commission of the States, 1983); College Entrance Examination Board, Educational EQuality Project (George H. Hanford, chairman), *Academic Preparation for College* (New York: College Entrance Examination Board, 1983); Twentieth Century Fund, Task Force on Federal Elementary and Secondary Education Policy (Robert Wood, chairman), *Making the Grade* (New York: Twentieth Century Fund, 1983); Carnegie Corporation (James B. Hunt, Jr., and David Hamburg, chairmen), *Education and Economic Progress: Toward a National Education Policy* (New York: Carnegie Corporation, 1983); Theodore R. Sizer, *Horace's Compromise: The Dilemma of the American High School Today* (Boston: Houghton Mifflin, 1984); Ernest L. Boyer, *High School: A Report on American Secondary Education* (New York: Harper & Row, 1983); and John I. Goodlad, *A Place Called School: Prospects for the Future* (New York: McGraw-Hill, 1983).

[49]Michael M. Kirst, *The State Role in Education Policy Innovation.*

[50]New York State Board of Regents, *Proposed Action Plan to Improve Elementary and Secondary Education Results in New York State.*

[51]*Education Week,* July 27, 1983, p. 7.

[52]*Education Week,* August 17, 1983, p. 1.

[53]443 N.Y.S. 2d at 864.

CHAPTER I

Levittown v. *Nyquist:* Setting the Agenda for Reform

In June 1974, Levittown and twenty-six other school districts filed suit in State Supreme Court claiming that the New York system of financing public education was unconstitutional. These districts, which included rural communities such as Knox Memorial in St. Lawrence County, small upstate cities such as Schenectady, and the city of Buffalo, shared certain critical characteristics: low or moderate tax bases, above-average tax effort, but below-average expenditure levels.[1] They were, in short, classic victims of the failure of a nominally equalizing state aid system to overcome the effect of disparities in property wealth. Several months later, four of the state's largest cities (New York, Buffalo, Rochester, and Syracuse), concerned that the issues raised by the low wealth districts would not address the unique problems facing urban school systems, joined the case as plaintiffs-intervenors.

The *Levittown* litigation, which spanned a period of eight years, documents the financial and educational inequalities that persist among school districts in New York: the positive relationship of property wealth and the quality of a district's education program; the negative impact of urban finance problems on the ability of city districts to provide educational services; and the failure of the state

education aid system to assure that districts with higher-cost pupils have proportionately more funds available to educate these students. The decisions issued by the trial court, appellate court, and Court of Appeals justices provide an agenda for legislative and executive consideration of changes in the finance system, whether incremental changes to the existing state aid law or a total redesign of the school finance system, and a set of equity criteria against which to evaluate the success of these efforts. This chapter traces the origins of the *Levittown* suit, describes the factual evidence and legal arguments presented by both sides, and examines the decisions handed down by the courts. It ends with a discussion of the equity principles which emerged from the litigation and frame the current debate over reform options.

The Origin of *Levittown* v. *Nyquist*

The idea of bringing suit against the state to invalidate the school aid formula had circulated among New York City officials and lawyers for some time before the 1974 filing. A seminar at Columbia University Law School, taught jointly by Professor Abraham Sofaer and Theodore Sorensen of the New York firm of Paul, Weiss, Rifkind, Wharton, and Garrison, had led to the filing of a federal court case that was abandoned after the U.S. Supreme Court's decision in the *Rodriguez* case in 1973. But the specific *Levittown* suit owed most to the independent initiatives of two New York public school officials, Robert Neidich, school superintendent of Levittown, and Adam Kaufman, counsel to the Rochester School Board.

Neidich, Kaufman, and the people they secured to research and litigate *Levittown* were familiar with current developments in school funding and the work of the leading scholars in the field. Neidich's work as a consultant to the Fleischmann Commission, an early 1970s New York State commission on school finance, had brought him into contact with some of the scholars who had participated in the *Serrano* litigation in California. As administrator of a blue-collar suburban district whose low property wealth, low levels of school support, and high tax rates contrasted sharply with the neighboring wealthy districts in Nassau county, Neidich organized a coalition of similarly disadvantaged districts and obtained legal counsel from the Manhattan firm of Paul, Weiss, Rifkind, Wharton, and Garrison. Daniel P. Levitt, the partner who was to serve as chief counsel for the original plaintiffs, had previously prepared one of the

major U.S. Supreme Court *amicus* briefs for the plaintiffs in the *Rodriguez* case and had written briefs in other school finance cases. Assisting him was Tracy Sillerman, a law school student and doctoral candidate studying school finance at Columbia University who had served on the staff of the Fleischmann Commission.[2]

As the case was being organized, New York and the other Big Five cities were considered as plaintiffs, but only Buffalo was poor enough in property value per pupil to meet the litigation strategy of the original plaintiffs. The other large cities, however, had independently been considering a law suit for some time. In 1972 the Rochester School Board asked Adam Kaufman to explore the feasibility of legal action. Kaufman, who had become aware of the legal issues in school finance as a student of John Coons at Northwestern Law School, realized that Rochester's status as a relatively wealthy district (as measured by property valuation per pupil) required a different theory of constitutional inequities than the fiscal neutrality approach characteristic of the school finance decisions of the early 1970s. Fearing that the case being organized by the Levittown group might lead to new legislation that could continue to ignore urban problems, Kaufman recommended that the urban districts obtain their own legal representation, and the boards of education of New York, Syracuse, Rochester, and Buffalo agreed to participate in a joint intervention in the *Levittown* suit.

Kaufman secured as counsel to the cities John Silard, a partner in the Washington, D.C., law firm of Rauh, Silard, and Lichtman and one of the group of attorneys who had been writing on school finance issues since the late 1960s.[3] Silard had prepared an *amicus* brief with Levitt on the plight of urban school systems for the *Rodriguez* case, and in later writings and speeches Silard had argued forcefully for an emphasis on the problems of poor children and of urban areas in school finance reform.[4] In addition to their own legal backgrounds in school finance and constitutional litigation, attorneys for both groups of plaintiffs were able to secure help from nationally prominent scholars in the field, in some cases aided by James A. Kelly, of the Ford Foundation. These experts assembled data, conducted studies, prepared exhibits, and presented testimony.[5]

While Rochester served as the catalyst for the urban intervention, the New York City Board of Education played a central role during the preparation for and conduct of the urban portion of the trial. Deputy Chancellor Bernard Gifford took a direct and personal interest in the litigation, cut through the usual New York City Board

of Education red tape, and saw that essential data were compiled. He and his personal staff, principally Ron Choy, Rick Guttenberg, and Joan Scheuer, prepared and published a series of analytic reports on the pupil population, staffing, and funding patterns of the New York City schools that illustrated many of the problems that underlay claims of discrimination against urban areas.

Litigating *Levittown* v. *Nyquist*

The *Levittown* suit was a dual challenge to New York's state aid system. The case presented by the original plaintiffs was relatively simple and concise. Applying the concept of fiscal neutrality developed in the *Serrano* litigation and refined in subsequent challenges to other state constitutions, the plaintiffs argued that the state's education system allows school expenditures, and therefore educational opportunity, to vary with the property wealth of the communities where the students reside. The cities raised a different school finance concern from those addressed in the *Serrano*-type legal challenges: State aid formulas geared to equalizing wealth defined as property valuation per pupil do not take into account the unique educational and financial problems of large urban school districts. They charged that New York's state aid system discriminates against them by overstating their fiscal capacity to fund education and by failing to recognize their special educational needs and higher costs.

The Case of the Original Plaintiffs

The heart of the case presented by the original plaintiffs was contained in a compact report prepared by two expert witnesses from official New York State school finance data.[6] The authors, Joel S. Berke and Jay H. Moskowitz, demonstrated, first, that a substantial range existed in the distribution of taxable real property among New York State's 708 school districts, from $412,370 per pupil in the wealthiest district to $8,884 in the poorest. Disregarding the districts at the extreme ends of the wealth range, and considering only the fairly typical 80 percent of all districts, the variation in taxable wealth per pupil in that year, 1974–75, was more than 4 to 1, or $86,300 to $20,840 per pupil.

Second, they found that a marked variation in operating expen-

ditures per pupil was "highly and directly correlated" with this variation in property values. The state's highest spending district spent $4,215 per pupil; its lowest spending district less than one quarter as much, or $936 per pupil. Again, even when the extreme 20 percent of the state's districts were eliminated from their analysis as "atypical," the variation in amounts spent remained substantial: From the district at the 90th percentile of spending to the district at the 10th percentile, the disparity was $2,051 to $1,089 per pupil, or nearly 2 to 1.

Third, they concluded that the two classes of variation—property wealth and expenditure levels—were directly linked. A direct, positive, and significant correlation between property value and expenditures was found. That is, the wealthier a district in property value, the more it spent per pupil; conversely, the poorer the district, the less it spent. (See Table 1.1.) While they did not claim that the consistency shown in Table 1.1 proved that property valuation differences caused or brought about disparities in expenditures, they noted that the correlation between property values and operating expenditures, +.71, is highly significant statistically and could not occur by chance in more than one out of a hundred cases. The report also noted that Table 1.1 demonstrated that state aid, while inversely related to wealth and expenditures, was ineffective in overcoming the "basic fact of New York State school finance: differences in wealth are directly associated with differences in expenditures."[7]

Fourth, they found that these disparities in spending had a regular, direct, and discriminatory impact on the educational opportunities afforded to public school children in New York State: the wealthier the district in which a child resided, the higher the expenditures were likely to be, and the better the educational services available to its pupils. For example, they found a strong, statistically significant correlation between higher expenditures and the availability of proportionately more and better qualified teaching and professional staff. (See Table 1.2.)

Summarizing their conclusions the authors wrote:

> . . . it is our overall finding based on our analysis of the data contained on the 1974–1975 official New York State computer tapes, . . . that there is a wide range in property valuation per pupil among the districts of the State, that expenditures per pupil vary directly with property value differentials, that state

TABLE 1.1

The Relationship of Expenses and State Aid per Pupil to the Full Value of Property per Pupil, 1974–75

Full Value of Property per Pupil[a]	State Aid per Pupil[b]	Operating Expense per Pupil[b]	Total Expense per Pupil[b]
Under $20,000	$1,180	$1,125	$1,508
$20,000–27,999	1,129	1,263	1,642
28,000–35,999	1,011	1,361	1,717
36,000–43,999	938	1,531	1,871
44,000–51,999	843	1,552	1,921
52,000–59,999	742	1,733	2,115
$60,000 and over	$ 617	$1,992	$2,487

Source: Joel S. Berke and Jay H. Moskowitz, "Analysis of Data Contained in 'School District Basic Fiscal Data, 1974–1975' and 'New York State Consolidated Data Base, 1974–1975' " (Princeton, N.J.: Education Policy Research Institute, Educational Testing Service, June 1976).
[a]The pupil count is Resident Weighted Average Daily Attendance.
[b]The pupil count is Weighted Average Daily Attendance.

TABLE 1.2

Staffing Patterns per 1,000 Pupils by Expenditure Categories, 1974–75

Operating Expense per Pupil[a]	Total Classroom Teachers	Total Administrative Staff	Total Professional Staff	Percentage of Teachers with Master's Degrees
Under $1,000	44.80	3.49	50.80	21%
$1,000–1,199	47.74	3.29	54.44	33
1,200–1,399	49.58	3.93	57.33	39
1,400–1,599	51.18	4.72	59.93	45
1,600–1,799	50.08	5.02	59.29	51
1,800–1,999	52.59	5.22	62.50	60
2,000–2,499	56.61	5.79	67.85	66
$2,500 and over	62.91	7.79	76.64	72

Source: Joel S. Berke and Jay H. Moskowitz, "Analysis of Data Contained in 'School District Basic Fiscal Data, 1974–1975' and 'New York State Consolidated Data Base, 1974–1975' " (Princeton, N.J.: Education Policy Research Institute, Educational Testing Service, June 1976).
[a]The pupil count is Weighted Average Daily Attendance.

> aid fails to offset that pattern, and that its result is a systematic discrimination in the educational opportunity provided to the public school pupils of New York State.[8]

The remainder of the plaintiffs' case consisted of testimony by administrators, teachers, students, and parents from plaintiff school districts, designed to give reality to the statistical report. Through their testimony, the plaintiffs sought to convey the "real life" consequences that resulted from disparities in educational resources. Plaintiffs also offered testimony from the superintendents of such property-rich districts as Great Neck and Scarsdale to show the educational advantages that were, in fact, affordable in more fortunate districts, often neighbors of the plaintiffs. Finally, expert testimony described school finance techniques that would enable the legislature to eliminate these inequities.[9]

The plaintiffs argued that New York's school finance system as it was shown to work in practice violated the state constitution in two respects. First, it violated the state equal protection clause: It discriminated against pupils in low-wealth districts by making the allocation of educational resources among the state's school children largely a function of the local real property wealth of the school districts. Second, the school finance system violated the Education Article by creating over 700 separate school districts endowed with disparate amounts of real property wealth, with the result that the happenstance of local property wealth distribution determined the allocation of the state's educational resources. Finally, the plaintiffs alleged that the discriminatory school finance system also violated the Equal Protection Clause of the U.S. Constitution's Fourteenth Amendment.

The Case of the Plaintiffs-Intervenors

The case presented by the four large cities was of a different kind, although they concurred in the positions taken by the original plaintiffs. Instead of focusing on intrastate disparities in school funding, the urban plaintiffs' special concern was the inequitable treatment received by the state's four largest school districts in the distribution of education aid. Their primary challenge was to translate scholarly research on the problems of financing urban education into a constitutional challenge that would invalidate the New York State school aid legislation.

School Finance and Urban Problems. Problems of urban education had not been a part of traditional school finance research and litigation activities. On the contrary, the developmental years of school finance were characterized by a concern with redistributing the wealth of the major cities with their then-excellent school systems to the outlying areas whose lesser wealth resulted in shorter school years, restricted grade span and limited curricula, and fewer educational resources generally.[10] With the rise of urban economics and its analysis of metropolitan disparities, a new set of challenges presented themselves.[11]

Analyzing the effects of the demographic and economic developments that accompanied the suburbanization of metropolitan areas in the 1950s and 1960s, urban economists identified some critical trends. Central cities, in comparison with their suburbs, had higher proportions of dependent populations. These populations increased service needs and decreased revenue levels. At the same time, related economic and commercial trends were developing. Important segments of commerce and industry were moving to the suburbs, where space and qualified employees were readily available, and where taxes were lower. The impact of these trends on central city tax bases was obvious and substantial. While suburban property values per capita in the largest metropolitan areas were growing rapidly, those of the central cities were at best stagnant and at worst declining.[12]

By the late 1960s, analysts had traced the impact of these secular trends on the financing of education. First, they found that whereas suburbs specialized in education, devoting more than half their budgets to the public schools and typically requiring only 45 percent of their revenues for general government purposes, central cities had emphasized municipal services, leaving only a third or perhaps 40 percent of their annual budgets for public education.[13] This central city fiscal response to the needs of an increasingly dependent population, as well as the traditional social, cultural, and employment center responsibilities of cities, came to be called "municipal overburden." Its effect on education was to make it more difficult for cities to raise revenues for public schools because the totality of these central city expenditures—for school and nonschool services together—imposed a markedly higher total local tax burden on city residents than prevailed in their suburban ring. In 1967, for example, in the largest thirty-seven metropolitan areas central city taxes averaged 6.1 percent of income, whereas suburban taxes amounted to only 4.3 percent.[14]

As analysts traced the effects of these trends on the public schools, they noted the implications of the urban demographic composition for education finance. Higher proportions of poor families and of minority populations implied more pupils in need of expensive compensatory and bilingual services. Exacerbating the problem was the higher prevailing cost levels that confronted central city school systems: for example, higher average teacher costs due to the seniority and degree credentials of the older urban teacher corps and higher salary levels for nonteaching personnel because of central city public service unionization and higher general costs of living.[15]

Traditional state aid systems did not compensate for these differences in fiscal capacity, educational needs, and operating costs in large cities. To the extent that aid systems were geared to equalizing wealth defined as property valuation per pupil, they were of little help to cities which, despite stagnant economies, still possessed higher than average property tax rolls because of their high concentrations of commercial and industrial property. And in those states whose aid systems rewarded greater local education tax effort, cities received little benefit: Their high total taxes were irrelevant under education aid calculations which took into account only their school tax rate, usually below the state average.

Urbanists were also concerned that the *Serrano* approach to school finance reform, with its fiscal neutrality orientation, would not be the answer to urban education finance problems. Fiscal neutrality required only that the promise of capacity equalization be realized, that the wealth of the entire state, as harnessed through the state aid system, determine school spending rather than local wealth. Fiscal neutrality did not require that unusually costly educational needs be recognized or that the higher total service responsibilities of central cities be taken into account. Nor did it require that the effects of poverty and economic deterioration on nominal fiscal capacity levels be compensated for or that differing cost levels for delivering similar educational services be recognized in distributing state aid.

Making provision for these special fiscal needs of urban areas was not prevented by the *Serrano* requirement to equalize wealth disparities, since the state would be free to define "wealth" in any reasonable manner and to meet the entire range of finance problems facing its school districts. But some analysts feared that in meeting the newly articulated command of the courts in the easiest and most efficient manner, state legislatures would focus only on

overcoming disparities in property wealth among districts and piously pronounce themselves reformed. Should that occur, some warned, *Serrano* v. *Priest* could become a millstone, not a milestone, for the cause of adequate financing of the nation's largest school systems.[16] It was for these reasons that the cities' lawyers translated the specialized issues facing urban schools into specific legal claims.

The Legal Claims of the Cities. Like the original plaintiffs, the urban districts alleged violations both of the state's guarantees of equal protection of the laws and of equality of educational opportunity. The core of their equal protection argument was that the state's equalization formula overstated the ability of the urban school districts to support public schools out of their local revenues by ignoring certain unique dimensions of their financial structure and responsibilities with the result that their state aid was unfairly reduced. The brief for the intervenors summed up their objections in one sentence: "While the public education fiscal burden of the large urban districts is by far the greatest in the state, the levels of state education assistance they receive are almost the lowest."[17]

Four factors, which they termed overburdens, were cited by the urban plaintiffs as constraining their ability to finance schools:

1. The municipal services overburden. The high needs of urban populations for police, fire, sanitation, and welfare services impose a massive drain on the tax dollars of urban districts, leaving less of each tax dollar for education than in suburban and rural districts. These service requirements are not simply a matter of taste for the large cities but are inexorably determined by the demographic character of their population, the physical characteristics of the jurisdiction, and the service mandates of the state, the intervening districts argued.

2. The cost overburden. Operating costs for education are unavoidably higher in cities than in other areas because of higher average teacher salaries and generally higher costs of operation. Therefore, the intervenors argued, the urban tax dollar buys fewer educational services than the same dollar in suburban and rural areas.

3. The absenteeism overburden. Counting students by attendance instead of by enrollment in measuring fiscal capacity and distribut-

ing state aid penalizes big city districts because of the higher absenteeism rates of urban pupils. The effect of this type of pupil count is to reduce the aid they receive at the same time that absenteeism raises their costs for remedial services.

4. The education overburden. Despite their higher concentrations of students who are expensive to educate—that is, disadvantaged, handicapped, and non–English-speaking—the cities receive lower per pupil aid to meet these needs than do other districts.

The state's foundation equalization formula was responsible for this perverse distribution of education aid, the intervenors argued. Rather than taking into account problems like the overburdens, the state aid formula defined the local capacity to support education only in terms of the real property wealth divided by the average daily pupil attendance in a school district and provided aid to school districts inversely to such wealth per pupil. By measuring the ability of a community to support schools in this manner, the formula worked to the detriment of large urban school districts which were, for the most part, wealthy in property valuation.

> In 1974–75, the urban plaintiffs received state operating expense aid per pupil unit as follows: Rochester, $451; New York City, $569; Buffalo, $728; Syracuse, $577. By contrast, in 1974–75, among the remaining school districts in the state, the average district was receiving $850 per pupil and some districts were receiving as high as $1,054 and $1,107 per pupil. . . .[18]

Besides violating the equal protection clause, the aid formula, the intervenors urged, was a denial of equality of educational opportunity as guaranteed by the state's constitutional requirement that the legislature "shall provide for the maintenance and support of a system of free common schools wherein all the children of this State may be educated."[19] The plaintiffs-intervenors contended that a discriminatory distribution of equalization aid occurred because the state measured a school district's ability to finance schools only in terms of real property per attending pupil (which made cities appear wealthy), without taking account of their unique overburdens. As a result, urban pupils, both those "who perform far below the statewide norms of minimum competency" and those who are not educationally disadvantaged, received less than average state aid and inadequate educational services; they are, accordingly, denied

equality of educational opportunity under both the state's education clause and the U.S. Constitution's Fourteenth Amendment.[20]

Since they were asserting a theory not previously litigated, the attorneys for the intervenors knew they had to carry an extraordinarily heavy burden of persuasion if they were to succeed. Accordingly, the case they presented was far more intricate, time-consuming, and extensive than that of the original plaintiffs. Where the original case involved thirteen witnesses and took thirteen trial days, the intervenors presented eighty-one witnesses over several months of the trial. Two separate research agencies were utilized to prepare background material and exhibits: the Syracuse University Research Corporation's Education Finance and Governance Center and the staff of Deputy Chancellor Bernard Gifford of the New York City Board of Education. To prove the existence of each of the four overburdening conditions and their discriminatory effect on education in the large cities, Attorney Silard and his co-counsel Elliott Lichtman presented exhaustive statistical materials and a parade of nationally known scholars and public officials.

With regard to municipal overburden, the plaintiffs-intervenors sought to convince the court that the problems and responsibilities of government in the metropolis imposed costs that took first claim on tax revenues, leaving proportionately fewer funds for the support of schools than were available in the less troubled areas of suburban, small-town, and rural New York State. John J. Callahan, director of the National Conference of State Legislatures' school finance unit, prepared and testified on thirty-one statistical exhibits establishing the higher noneducational expenditures and tax rates in cities and the demographic and economic developments which caused them. Alan K. Campbell, noted urban economist and dean of Syracuse University's Maxwell Graduate School of Citizenship and Public Affairs, provided an academic perspective on these problems. Thereafter, for each of the four intervening cities, public officials took the stand to expand on the finance problems they faced. Mayor Beame of New York City; Mayor Lee Alexander of Syracuse; Budget Director Phillip Cook of Buffalo; and Councilman Paul Haney, chairman of Rochester City Council's Finance Committee, were among the witnesses. For each important area of municipal service—police, fire, public assistance, health, corrections, courts, mass transit, parks and recreation, housing, school construction, and state mandates—authoritative witnesses explained the reasons behind the higher costs in the large cities.[21]

The plaintiffs-intervenors conducted their most extensive presentations on the issue of the educational impact of inadequately funded urban schools. Classroom teachers, guidance counselors, social workers, and principals described their pupils—the children of the urban ghettoes—and their schools. Urban sociologists, epidemiologists, and educational researchers explained the obstacles that the culture of urban poverty posed for normal educational progress, and state achievement test scores gave effective proof of the tragic results. In all, forty witnesses spoke to the educational aspects of the case, testifying to the proposition that the case ultimately was not about dollars and aid formulas, but about children and their life chances: "While judicial and legislative concerns in the area of education must focus on budgets and dollars, it cannot be forgotten that what is at stake in school finance is the quality and meaning of the experience which the state provides to its young people during their most important formative years."[22]

The Case for the Defense

In mounting its defense, the state did not rely only on a denial of the plaintiffs' and plaintiffs-intervenors' claims. Running through the testimony of its witnesses were several defenses of the constitutionality of the existing state aid system. First, the state claimed that the form of a state aid formula was an inappropriate subject for a court to consider. Educational funding must be balanced against other needs. Before taxes are increased to pay for education aid, the long-run impact on industry and commerce must be considered. These matters, the defense maintained, are the grist for the legislative mill, not for the courts.

Second, the generous levels of state aid for education, more than $3 billion, should be adequate to meet the state's constitutional responsibility. The Education Article does not, the state argued, guarantee any particular level of achievement to a child. It guarantees a basic minimum standard for education which, by reasonable financial or educational measures, New York was providing. At the time of the trial, the $1,200 foundation guarantee level in New York was approximately the average per pupil expenditure for all fifty states.

Third, the state argued that the current state aid system has significantly reduced the discrepancies in local resources among

districts. It functions to provide more aid to poorer districts and closes the gap between the district spending at the 10th percentile of wealth to about half that of the district at the 90th percentile of wealth. Thus, the glass that was half empty for the plaintiffs was half full for the defendants.

Finally, the defense called a number of state legislators and school superintendents to explain the "rational basis" behind features of the aid formula attacked as disequalizing by the plaintiffs, such as flat grants to wealthy districts (which, the state's witnesses alleged, ensure that every district receives some benefit from the general state revenues in return for its state tax payments); to urge the importance of maintaining a system which did not pose threats to local control of education; and to support the use of average daily attendance rather than a membership count in the distribution of aid in order to encourage districts to stress pupil attendance.

The Courts' Decisions

The trial court supported the claims of the plaintiffs and plaintiffs-intervenors. In a 106-page decision issued on June 23, 1978, Justice L. Kingsley Smith declared the legal structure for financing New York's public schools unconstitutional.[23] Finding that "the current wealth-based system severely constrains the ability of school districts . . . to furnish the educational offerings they deem suitable to their pupils,"[24] he held that the state had failed to meet the requirements of the state constitution's education clause and had denied its children their constitutional guarantee of equal protection.

Some thought that an appeal of Justice Smith's decision might be avoided. The governor was thought to favor school finance reform. The Board of Regents and the State Education Department had long called attention to many of the problems identified in *Levittown* and had urged their remediation. A *New York Times* editorial publicly urged speedy compliance rather than procrastination through appeal.[25]

The appeal was taken to the Appellate Division of the Supreme Court, an intermediate court that could have been bypassed for a direct appeal to the Court of Appeals. Because the Appellate Division is a finder of fact as well as of law, it offered the attorneys for the state an opportunity to improve the factual record on which the Court of Appeals would eventually decide the case. Because so

much time had elapsed before the decision was completed, several subsequent hearings and stipulation submissions were required to assure that the record reflected the present, not the past, and to establish what effect state aid legislation since 1974 had had on the disparities among districts and the failure to focus resources on educational needs.

On October 26, 1981, the Appellate Division unanimously upheld Justice Smith's decision on all issues of substance.[26] Justice Weinstein, once a leading legislator, wrote a separate opinion, in which he argued that there were additional grounds for finding the current aid system violative of the equal protection clause as it affected children in the cities: discrimination based on race. Justice Hopkins concurred in holding that the education clause was violated in regard to both sets of plaintiffs, but he dissented on the issue of equal protection.

The *Levittown* litigation moved quickly through the second stage of appeal. Arguments were heard before the Court of Appeals of New York on May 10, 1982. Two *amicus* briefs were filed in support of the state's position: one on behalf of eighty-five relatively wealthy school districts[27] and one on behalf of Warren Anderson, majority leader of the New York State Senate. The contentions of the plaintiffs and plaintiffs-intervenors were supported by an *amicus* brief on behalf of the Public Education Association, the Educational Priorities Panel, the New York Civil Liberties Union, and the City Club of New York, and an *amicus* brief for the Council of Churches of the City of New York, the Department of Education of the Diocese of Brooklyn, the NAACP Legal Defense and Educational Fund, and the New York Metropolitan Council of the American Jewish Congress.

The decision was handed down less than six weeks later. By a vote of 6 to 1, the justices reversed the rulings of the trial court and Appellate Division.[28] The court did not dispute the disparities documented in the trial court and Appellate Division decisions. It determined, however, that these disparities do not violate either the federal or state constitution. Applying a different line of reasoning from that used in the lower courts, the justices found that the state's system of funding education has a "rational basis" since it ensures that "a uniform, minimum expenditure will occur in each district," while protecting the "local control of education available to students in individual districts."[29] The court concluded its opinion by stating that the primary responsibility for providing a "fair and equitable opportunity" rests with the state legislature.[30]

The Factual Record

All three courts concurred that there are "significant inequalities in the availability of financial support for local school districts, . . . resulting in significant unevenness in the educational opportunities offered."[31] With regard to the original plaintiffs, Justice Smith's opinion quoted from Plaintiffs' Exhibit 37 (discussed above) and then from a succession of State Education Department and State Commission reports to document the inequities resulting from the operation of the state aid system in 1974. First, he found that a "particular school district's capacity to provide local financing of the cost of operating its public schools is directly tied in with its taxable real property wealth."[32] Second, the statutory plan for providing state aid "makes it easy for wealthier districts to achieve high levels of spending while making it difficult, if not impossible, for poorer districts to do so."[33] Low-wealth districts are placed in the position of having to levy higher property tax rates to reach the same or lower levels of expenditures than is the case of districts with more property wealth. Third, these wealth-related expenditure disparities produce significant consequences: Low-spending districts suffer deficiencies in the areas of class size, curriculum, programs in the arts, teacher experience and degrees, and levels of speech and hearing therapy.[34]

Justice Smith found the case presented by the plaintiffs-intervenors equally convincing. Adopting the structure of their argument, he held that the evidence established that the four cities labored under four overburdening conditions which were not recognized in the state aid formula; that this "flawed" state aid formula therefore provided less money than the cities were entitled to in operating aid and in regard to other aid provisions; and that because of their disadvantaged economic, financial, and demographic condition, the cities were unable to provide equality of educational opportunity to their pupils. In particular he described the effects of poverty on impaired learning readiness of children entering school and on their progress through the grades; the problems of emotional and physical health; the comparatively higher concentrations of costly handicapped, foreign language, and occupational education students; and the problems of absenteeism. He concluded:

> The inability of the large city school districts to cope with the several categories of the educational overburdens has had effects on a great number of pupils that are both serious and

> tragic. National achievement tests given in large city school districts produced scores showing that substantial numbers of pupils had not acquired even basic minimal educational skills.
>
> Effective programs to remedy or alleviate the problems of severe underachievement and failure cost much more money per pupil than the regular educational program because they require substantial numbers of additional personnel. The large urban school districts with limited local resources and reduced state aid are unable to bring effective remedial education to all their underachieving and failing pupils.[35]

The Appellate Division brought the analysis up to date by discussing the current disparities and aid payments in light of subsequent legislation through 1981. The factual conclusions in the opinion mirrored those of the trial court, although more briefly. First, the aid system was deemed inadequately equalizing, partly because of the use of flat grants, "total save-harmless" provisions, and "special aid."[36] Second, disparities in property wealth per pupil are directly correlated with the level of educational expenditures available to districts.[37] Finally, after a recitation of various ways in which the school programs in the higher-wealth districts exceed those in lower-wealth districts, the appellate court noted the effects of low wealth in negating local control of education and in restricting educational quality:

> The record reveals that low-wealth districts have little leeway in developing curricula beyond what is required as a state minimum. In Levittown, advanced mathematics, language courses and certain mechanical arts courses were discontinued, basic curriculum courses were reduced, industrial arts programs could not be offered, foreign language programs in junior high school could not be re-established, and conversational foreign language courses could not be introduced in its elementary schools—all as a consequence of lack of funds. . . .[38]

The factual base of the intervenors' case was similarly confirmed in terms of the four overburdens. The court found that municipal overburden, cost overburden, the discriminatory effects of an attendance measure, and the failure to adequately compensate for the education overburden of handicapped, disadvantaged, and other high-cost pupils had been established at trial and had de-

prived the intervenors of many millions of dollars of state aid.[39] The court also noted the discriminatory effect of the 1981 amendment to the state aid formula which tied the second tier of basic aid to adjusted gross income. "This provision further discriminated against the cities because their income generally exceeds the statewide average despite the huge masses of poverty-stricken who reside within their boundaries."[40]

The Court of Appeals did not dispute the factual conclusions of the two lower courts. Commenting briefly on the "context in which the legal issues . . . arise," the court recognized that there are inequalities in amounts of money spent on education, "disparities [which] may properly be ascribed in some respects to the wide variances between the property assessment bases on which local district taxes are imposed."[41] The justices also concurred that "the four major cities represented by the intervenors, by reason of the factors encompassed in metropolitan overburden, are forced to provide instructional services and facilities of a lesser quantity, variety, and quality than those provided in some other school districts."[42]

Legal Arguments

It is one thing to identify problems in public policy; it is another to establish that they violate state or federal constitutional provisions. The plaintiffs and plaintiffs-intervenors argued that New York's system of financing education violated the state constitution's equal protection clause, the education article on the state constitution, and the federal Constitution's guarantee of equal protection under the Fourteenth Amendment.

Equal Protection. How closely a court will examine a claim that equal protection has been denied depends upon the interests being adjudicated. If the claim involves either a suspect classification such as race or fundamental rights or interests such as freedom of speech, religion, or voting, the state's actions will be subject to "strict scrutiny" by the court. Under this test, a compelling state interest must be served by the distinction for it to pass constitutional muster. If the interests are not fundamental, the courts have traditionally applied a "rational means" test. Under this test, challenged legislation will be upheld if it furthers a "legitimate" state interest, bears a rational relationship to the ends for which it was established, and does not make arbitrary or invidious distinc-

tions between classes of persons. If a rational relationship is established, a court will inquire no further. Because there can be a wide gulf between the strict scrutiny test and the rational means test, courts have considered an intermediate standard of review for interests which are considered important, but not fundamental. This approach, called the "sliding scale" or "intermediate" test, asks, first, whether the classification scheme satisfies a substantial state interest, and, second, whether the state could have accomplished its ends less objectionably. The sliding scale test requires a higher standard of justification than does the rational means test, but not as high a standard as the strict scrutiny test.

Because a prior Court of Appeals decision, *Matter of Levy*,[43] had established that education is not a fundamental right under the New York constitution, the trial court and Appellate Division judged the constitutionality of the state's finance system against both the sliding scale and rational means standards.[44] In both instances, they found that the statutory system was unconstitutional. In applying the sliding scale test, the justices first determined that education was an important state responsibility.[45] The next step entailed balancing the evidence of disparities against the state's justification for the existing school finance system—preservation of local control. The justices argued that meaningful local control is generally available only to those school districts with sufficient property wealth to exercise it.

> Local school districts cannot choose to have the best education by imposing the highest tax rate. Instead, the quality of the educational opportunity offered by any particular district is largely determined by the amount of taxable property in the district. For the property-poor, local control of education is more illusory than real, for it cannot be utilized to produce the educational output local authorities perceive as appropriate but only what a limited local tax base will permit.[46]

They concluded that the system is so discriminatory that the important state interest in assuring local control of education was deemed insufficient to justify it under the state equal protection clause. The final step in the sliding scale approach is to determine whether the objectives advanced by the classification scheme could be achieved by a less discriminatory alternative. Although the courts did not

have to address this second issue, having already found that the school finance system does not further an important state interest, they determined that other finance systems of a less discriminatory nature are available that could be used to support local control.[47]

Justice Smith applied the rational means test as well to the claims of both the plaintiffs and the plaintiffs-intervenors. In the latter case, he found the state aid formula so riddled with flat grants, save-harmless provisions, and aid caps that it perpetuated, rather than corrected, inequities in revenues and expenditures.[48] With regard to the large cities, Justice Smith determined that the failure of the system to recognize the four overburdens affecting large city school districts resulted in overstating the capacity of these districts to fund education, thereby depriving them of state aid. Thus, the operation of the formula bore little relationship to its purpose of "providing state aid to districts in direct proportion to their need."[49]

The Court of Appeals drew exception to the use of a sliding scale approach in the *Levittown* case. Citing *Rodriguez* and *Matter of Levy*, the justices determined that a rational basis test is the proper standard for review of the challenged state aid system.[50] Applying this standard, the Court of Appeals then found, unlike the lower courts, that "the preservation and promotion of local control of education . . . is both a legitimate State interest and one to which the present financing system is reasonably related."[51] The justices reasoned that the state supports a uniform minimum expenditure in each district to assure that a basic education will be provided. Voters, through their actions on school budgets, can authorize additional expenditures reflecting the educational program and opportunities they desire. Therefore, it is "the willingness of the taxpayers of many districts to pay for and to provide enriched educational services and facilities beyond what the basic per pupil expenditure figures will permit that creates differentials in services and facilities."[52] They then cited *Rodriguez* as the justification for such a system.

The Court of Appeals determined that the plaintiffs-intervenors were also not denied equal protection under a rational basis test. The justices argued that while education must compete with other public services for municipal dollars, it was beyond the power of the court to "determine whether the [budgets] of the intervenor plaintiffs are . . . fairly divided in terms of priority of need between the competing services . . . [or] to determine whether the resources of the intervenor plaintiffs can otherwise be employed so that their educational needs can be met."[53]

Education Clause Analysis. The two lower courts also established that New York's state aid system violated the Education Article of the state constitution mandating the creation of a statewide system of free public schools. The justices drew on precedents from other states' cases, such as New Jersey and Washington, and from New York's own history to give an expansive definition to the clause: "The absence of adorning language in New York's education article does not reduce the State's duty to that of inculcating the minimal skills of reading, writing and arithmetic."[54] They then argued that the state's system of delegating revenue-raising responsibility to districts with varying taxable capacity, combined with inadequate equalization through state aid, left property-poor districts with insufficient funds to develop curricula beyond what is required as a state minimum. The courts also considered the achievement of the state's students in measuring whether public schools have provided the constitutionally prescribed education to all children in the state. They found that "large numbers of children emerge from the school system lacking even the minimal tools necessary to function in society."[55] Since remedial programs are unavailable in many districts because of inadequate resources, the justices concluded that the state aid system "is in good measure a cause for the failures."[56]

The Court of Appeals offered its own interpretation of the Education Article. Unlike the two lower courts, it did not look beyond 1894 for guidance. "What appears to have been contemplated when the Education Article was adopted at the 1894 Constitutional Convention was a statewide system assuring minimal acceptable facilities and services in contrast to the *unsystematized delivery of instruction* then in existence within the State."[57] Using this definition of education, the justices had no difficulty in determining that the system of education established by the legislature meets the requirements of the state constitution. The state has made provision for a system of free public schools and has prescribed attendance requirements, teacher qualifications, pupil transportation, and other policies. In addition, New York's average per pupil expenditure is one of the highest in the country.

Where *Levittown* Leads Us

The Court of Appeals left school finance reformers without the court mandate they had sought for more than eight years. Instead,

the justices exhorted those concerned with alleviating existing disparities to address their concerns to the legislature: "Primary responsibility for the provision of fair and equitable educational opportunity within the financial capabilities of our State's taxpayers unquestionably rests with that branch of our government."[58]

No simple reform exists that will remedy the inequities documented in the *Levittown* litigation. However, four equity principles emerged from the years of deliberation that can provide general guidelines to policy-makers concerned with developing a fairer school finance system.

1. The quality of the educational program available in a school district should not be related to the wealth (property and/or income) of the community. Thus far, the principle seems closely related to fiscal neutrality, the *Serrano* case command that only the wealth of the state as a whole, not local wealth, shall determine educational spending. But fiscal neutrality is often given a tax equity emphasis; that is, that taxpayers in every district should be able to choose any level of effort and be assured of revenues equal to those of every other district choosing the same effort level. There was no concern with "taxpayer equity" in the *Levittown* case, however. The wrong is not that different tax rates yield different revenue levels; the wrong is that low-wealth districts are barred from adequately financing their schools because of the high, frequently unrealistic, tax rates they would have to adopt to equal the educational spending of wealthier districts. The emphasis in *Levittown* was on the effects of finances on education, not on taxpayers.

2. Educational resources should be allocated in proportion to the differing education needs of students. New York has a long tradition of providing additional state funds to help offset the higher costs of educating children with special education needs. Yet, despite their higher concentrations of such students, the cities receive below-average state aid payments. The trial court concluded that this distribution is inequitable: "Where there is demonstrated that there is a greater need, it follows that a greater amount of aid must be furnished if equal educational opportunity is to be available. Something more than average aid to school districts must be furnished to accomplish that goal."[59] The allocation of aid must recognize special needs for education services and the distribution of such aid must not be artificially reduced by an inappropriate fiscal capacity equalizing mechanism.

3. All students should be assured an adequate level of educational support. This principle is related to the second one, is far less precise, and yet is central to both the trial court and the Appellate Division decisions: a failure of the present system to guarantee equal educational opportunity to all children. The issue was discussed in connection with the lesser educational programs of low-wealth districts and the effect that high-cost remedial programs have in reducing the quality of education for all pupils in city schools. The equalization of fiscal capacity alone may be inadequate if it fails to assure that all districts provide some appropriate level of education for all their pupils.

4. The system of financing education should be sensitive to the higher municipal service needs of urban areas (which drive up total tax rates) and the higher cost levels (which increase finance requirements). Just as low property wealth undercuts the capacity of small-town, suburban, and rural districts to support education, special finance problems affect the large urban districts that, if not offset by state aid, diminish their capacity to provide educational services. Other aspects of urban finance also impinge on the delivery of education: Higher cost levels for comparable services effectively diminish the purchasing power of an education dollar in the large cities, delivering fewer services for the same amount of money. Thus, a state aid system which equalizes property tax bases alone is not a solution to New York's school finance problems.

In addition to those four broad elements of equity, the trial and appellate opinions singled out specific elements in the state aid system. Flat grants and save-harmless provisions; attendance counts rather than membership numbers; and BOCES (Boards of Cooperative Educational Services) funding and the formula for supporting education of the handicapped were inequitable as they then functioned. Yet, all these explicit provisions must also be assessed as they operate as an integrated system of aid. As the trial court noted in another connection: "It is the end product which has emerged from use of several methods selected by the state to finance public education that is being examined for constitutional compliance."[60]

The design of a school finance reform program must address more than just the equity principles raised in the *Levittown* litigation, however. Enactment of a new education aid law requires the support of a majority of the state's legislators, men and women who

are concerned not only with equity issues but with the impact of aid changes in their legislative districts. Legislators must also consider the cost of a new aid package since they are responsible for raising the money to fund the reform as well as determining how state aid dollars are allocated. The next two chapters describe the current political and economic environment in New York and present the constraints that face school finance reformers as they strive to develop a new education aid formula that is more responsive to the educational needs of the state's children.

Notes

[1]In addition to Levittown, Knox Memorial, Schenectady, and Buffalo, the *Levittown* plaintiffs included the Roosevelt (Nassau County); Brentwood, Commack, Copiague, Lindenhurst, Brookhaven-Comsewogue, South Country, Middle Country, Bayport–Blue Point, South Huntington, Sachem Central, East Islip (Suffolk County); Guilderland (Albany County); Burnt Hills–Ballston Lake, Shenendehowa, Saratoga Springs (Saratoga County); Scotia-Glenville (Schenectady County); Churchville-Chili (Monroe County); Marathon (Cortland County); South Kortright (Delaware County); Clyde-Savannah (Wayne County); Mahopac (Putnam County); and Lakeland (Westchester County) school districts.

[2]Levitt took the case with him when, in midtrial, he left Paul, Weiss to join Kramer, Levin, Nessen, Kamin, and Soll, another large Manhattan firm. Sillerman, who had joined Paul, Weiss on graduation from law school, remained active in the litigation until 1980.

[3]See John Silard and Sharon White, "Intrastate Inequities in Public Education: The Case for Judicial Relief Under the Equal Protection Clause," p. 9.

[4]John Silard, "Major Issues Unresolved by the *Serrano* Principle," pp. 6–14.

[5]These experts included Joel S. Berke and Jay H. Moskowitz, Education Policy Research Institute of Educational Testing Service; John Callahan, National Conference of State Legislatures; and Robert Goettel, Syracuse University Research Corporation.

[6]Joel S. Berke and Jay H. Moskowitz, "Analysis of Data Contained in 'School District Basic Fiscal Data, 1974–75' and 'New York State Consolidated Data Base, 1974–1975.' " This report was introduced as Plaintiff's Exhibit 37.

[7]Berke and Moskowitz, p. 4.

[8]Berke and Moskowitz, pp. 2–5.

[9]*Levittown* v. *Nyquist,* brief for Plaintiffs-Respondents-Appellants, Supreme Court of the State of New York, Appellate Division (1979), pp. 5–6.

[10]E. P. Cubberley, "School Funds and Their Apportionment: A Consideration of the Subject with Reference to a More General Equalization of Both the Burdens and the Advantages of Education."

[11]Wilson C. Riles, *The Urban Education Task Force Report. Final Report of the Task Force on Urban Education to the Department of Health, Education and Welfare* (New York: Praeger, 1970).

[12]See Alan K. Campbell and Seymour Sacks, *Metropolitan America: Fiscal Patterns and Governmental Systems;* and Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System.*

[13]See Joel S. Berke, "The Impact of Present Patterns of Funding Education for Urban Schools"; and Seymour Sacks, David Ranney, and Ralph Andrew, *City Schools, Suburban Schools: A History of Fiscal Conflict.*

[14]Advisory Commission on Intergovernmental Relations, *Metropolitan Disparities—A Second Reading.*

[15]See John J. Callahan, William H. Wilken, and M. Tracy Sillerman, *Urban Schools and School Finance Reform: Promise and Reality;* and Betsy Levin, Thomas Muller, and Corazon Sandoval, *The High Cost of Education in Cities: An Analysis of the Purchasing Power of the Education Dollar.*

[16]Joel S. Berke and John J. Callahan, *"Serrano v. Priest:* Milestone or Millstone for School Finance?"

[17]*Levittown* v. *Nyquist,* pretrial memorandum for Plaintiffs-Intervenors, Supreme Court of the State of New York, County of Nassau, p. 5.

[18]*Levittown* v. *Nyquist,* pretrial memorandum for Plaintiffs-Intervenors, p. 14.

[19]New York State Constitution, Art. XI, Sec. 1.

[20]*Levittown* v. *Nyquist,* pretrial memorandum for Plaintiffs-Intervenors, pp. 77–78.

[21]For example, Patrick Murphy, president of the Police Foundation and a former New York City police chief, described research which established the linkage between poverty, density, unemployment, and crime rates that were a hundred times greater in some central city census tracts than in their suburbs. New York City Fire Commissioner John O'Hagan testified about the higher equipment and training costs for fighting fires in the highrise buildings, varied types of multiple dwellings, and densely populated areas of New York City as compared with the costs and problems in less urbanized areas of the state.

[22]*Levittown* v. *Nyquist,* pretrial memorandum for Plaintiffs-Intervenors, p. 86.

[23]*Board of Education, Levittown Union Free School District* v. *Nyquist* [*Levittown* v. *Nyquist*], 94 Misc. 2d 466, 408 N.Y.S. 2d 606 (Nassau County S. Ct. 1978).

[24]*Levittown* v. *Nyquist* (1978).

[25]*New York Times,* July 3, 1978.

[26]*Levittown* v. *Nyquist,* 83 A.D. 2d 217, 443 N.Y.S. 2d 843 (App. Div. 1981).

[27]Peter M. Fishbein, an attorney representing these districts, also presented oral arguments before the Court of Appeals.

[28]*Levittown* v. *Nyquist,* 57 N.Y. 2d 27, 453 N.Y.S. 2d 643 (1982).

[29]*Levittown* v. *Nyquist* (1982), pp. 651, 652.

[30]*Levittown* v. *Nyquist* (1982), p. 654, note 9.

[31]*Levittown* v. *Nyquist* (1982), p. 647.

[32]*Levittown* v. *Nyquist* (1978), p. 486.

[33]*Levittown* v. *Nyquist* (1978), p. 489.

[34]*Levittown* v. *Nyquist* (1978), pp. 491–93.

[35]*Levittown* v. *Nyquist* (1978), p. 518.

[36]*Levittown* v. *Nyquist* (1981), p. 849.

[37]*Levittown* v. *Nyquist* (1981), p. 850.

[38]*Levittown* v. *Nyquist* (1981), p. 851.

[39]*Levittown* v. *Nyquist* (1981), pp. 851–52.

[40]*Levittown* v. *Nyquist* (1981), p. 852.

[41]*Levittown* v. *Nyquist* (1982), p. 647.

[42]*Levittown* v. *Nyquist* (1982).

[43]*Matter of Levy*, 38 N.Y. 2d 653.

[44]The two lower courts found the sliding scale approach to be applicable under *Alevy* v. *Downstate Medical Center*, 29 N.Y. 2d 325.

[45]*Levittown* v. *Nyquist* (1981), p. 858. In his concurrence, Justice Weinstein of the Appellate Division argued that discrimination based on race also supplied a "cogent reason for the application of the heightened scrutiny test" (pp. 866–68).

[46]*Levittown* v. *Nyquist* (1981), p. 859.

[47]*Levittown* v. *Nyquist* (1981), p. 860. The Appellate Division did not uphold the lower court finding that the federal Equal Protection Clause had been violated in regard to the urban intervenors, holding that reliance upon the Supreme Court's dictum that absolute deprivation might violate the Fourteenth Amendment was too tenuous to support a finding of unconstitutionality (p. 861).

[48]*Levittown* v. *Nyquist* (1978), p. 527.

[49]*Levittown* v. *Nyquist* (1978), pp. 429–30.

[50]*Levittown* v. *Nyquist* (1982), p. 650.

[51]*Levittown* v. *Nyquist* (1982), p. 651.

[52]*Levittown* v. *Nyquist* (1982). The courts also ruled that flat grant, save-harmless, and special aid provisions do not render the school financing system unconstitutional

"so long as the relief granted is uniformly available to school districts falling within the classification" (p. 652).

[53]*Levittown* v. *Nyquist* (1982), pp. 649–50.

[54]*Levittown* v. *Nyquist* (1981), p. 863.

[55]*Levittown* v. *Nyquist* (1981), p. 864.

[56]*Levittown* v. *Nyquist* (1981).

[57]*Levittown* v. *Nyquist* (1982), p. 653.

[58]*Levittown* v. *Nyquist* (1982), p. 654, note 1.

[59]*Levittown* v. *Nyquist* (1978), p. 533.

[60]*Levittown* v. *Nyquist* (1978), p. 520.

CHAPTER II

Political Factors Affecting Reform

Litigation is a starting point, not an end point, for reform. This is particularly apparent in the area of school finance where court decisions identify objectionable effects of the existing legislation without prescribing mechanisms for overcoming the problems. Design of the new school aid law is left to the state legislature, that is, to the political process. Thus, the strategy of turning to the courts to escape the inadequacy of legislative action cannot avoid an eventual return to the traditional political arena, albeit armed with a court order.

In such circumstances, and in many where the judiciary was not involved, the enactment of school finance laws to serve goals similar to those that evolved from the *Levittown* litigation has been accomplished. Since that task is the challenge facing the lawmakers of New York, it is appropriate to ask: Are there lessons to be learned from the experiences of other states? The answer is a resounding "yes." This chapter will draw on those lessons. It will identify the political factors that led to success in those states and compare them with New York in the early 1980s. We shall find that the political obstacles to enactment of far-reaching change appear more threatening in New York in the near future than they were in,

say, Florida, Minnesota, Kansas, or Washington in the 1970s. But we also note that some of the political components that led to success in those states also lie at hand in New York, either immediately or potentially.

The Politics of School Finance Reform: A Composite Scenario[1]

Let us state the caveats first. The study of politics is an art, not a science. Every state is unique. Cause cannot definitively be separated from coincidence. People's perceptions of events are affected by their roles in those events. Case studies are noncumulative. With those qualifications in mind, however, it is possible to sketch the outlines of the politics of successful school finance reform, an outline whose features have been described and analyzed by scholars and participants of the process in a dozen states. The scenario that follows is an idealized model abstracted from case studies and recent events. As such, it lies somewhere between the hypothetical character of an economist's model of perfect competition and a physicist's empirically descriptive model of the hydrogen molecule.

Because meaningful change in raising and distributing revenues for education affects important economic and societal interests—who pays for and who benefits from public education—legislative action of a substantial sort is anything but routine policy-making. Routine policy-making takes place in annual or biennial tinkering with state aid formulas. School finance reform, however, entails major alterations in the law that affect the proportion of tax revenues contributed by and redistributed to the school districts of a state.

A Precipitating Event

The first factor necessary to make possible a major change of that kind is a precipitating event, an occurrence which heightens the saliency of the school funding issue, which rivets political attention on it, and which requires that action be taken. Court cases invalidating existing law are the purest example of a precipitating event. The *Serrano* case in California in 1971 was the first of those, and it has led to a continuing series of skirmishes over that state's school finance system that have outlasted the decade. Most recently, New

Jersey (1976), Connecticut (1979), and Washington (1977) have enacted new aid systems after the impetus of legal cases. In the early 1970s, in Florida, Kansas, and Minnesota, too, judicial decisions were made that contributed to school finance change, although in none of those states was the legal case as central an event as in the states mentioned above.

Minnesota exemplifies another type of principal precipitating event. Partly through the happenstance of an unexpected question asked by a reporter at a candidates' debate, the issue of whether the state should assume the full financial responsibility for education divided the contenders and became a central topic in the 1970 gubernatorial campaign. By election day it had come to be the major dispute dividing the opponents for governor, and upon his election, Governor Wendell Anderson's party in the legislature introduced a plan for major revision in school funding, featuring a near doubling of the state share of school support and a sharp reduction in local taxes. Part way into the legislative session a federal district court struck down the existing school finance system, closely modeling its decision on the *Serrano* case, and provided a final shove to legislators already moving toward enactment of reform.

Tradition, Background, and Development

If a precipitating event seems necessary to break the mold of marginal annual state aid changes, a tradition, background, and time for development for school finance reform seem essential as well. Even in Minnesota, whose new school funding law was termed the "Minnesota Miracle" by commentators, a well-publicized study a few years before had recommended full state assumption of school costs and a more limited tax base sharing plan had previously been adopted for the Minneapolis metropolitan area. The school finance law applied these now-familiar principles to education finance.

Florida, whose 1973 law was seen as a model for school finance by many reformers, drew upon a previous equalization law whose central features had been adopted in the mid-1960s after a traumatic statewide teachers strike had precipitated major change. In 1973, a gubernatorially appointed blue ribbon commission comprising the legislative leaders and education committee chairmen, as well as representatives of all the important interest groups active in education and finance issues, grafted a number of important refinements onto the state's earlier equalization plan and recom-

mended legislation whose features were faithfully translated into law in the following year. Here, too, the combination of a familiar tradition, a politically potent study commission, and an extraordinary event—part way through the legislative session the state supreme court invalidated the state's laws on local property assessment—led to the enactment of major reform in school funding.

Kansas, also illustrates the model. Spurred by a serious financial crisis in school funding, the Kansas legislature had since 1971 been slowly working its way toward a new method of funding elementary and secondary education. A continuing group within the legislative leadership and education committee membership had pursued the problem, first during the 1971 legislative session and thereafter as an interim study commission during the period when the legislature was out of session. In addition, a legal suit challenging the school finance system included the Senate majority leader as one of the attorneys for the plaintiffs. When the court decision was announced giving the legislature the 1973 session to come up with a new law, the legislative leadership was ready to move, and they prepared and passed a substantially improved equalization law on schedule.

Political Leadership

A third element of the politics of reform has become apparent. Precipitating events and a period of preparation did not alone effect new laws. The role of active and informed political leadership was crucial. School finance reform was nowhere forced on a reluctant governor and legislature by an aroused citizenry, although public dissatisfaction with the status quo may have existed. In each state where sharp change took place, legislative leaders, an education committee chairman, or a governor seized on the school finance issue as his or her central agenda, and in many cases markedly improved a political career in the process. In Kansas, for example, Robert Bennett, Senate majority leader, was among a handful of senators and representatives who crafted a bill and an intricate legislative strategy and pressed it without change through both houses of the legislature. Bennett became governor of Kansas two years later. Florida Governor Reubin Askew, a former Senate education committee chairman, set reform in motion with appointment of a blue ribbon commission. Key legislative leaders such as Robert Graham, Senate education committee chairman and subsequently

governor of Florida, carried the issue to legislation. Perhaps Governor Milliken in Michigan holds the record for persistence and commitment, championing the issue of reducing the disparity in education quality for a decade.

Governors are, of course, the most visible state public officials. But the list of state legislators who took the trouble to learn the issues in school finance, translate the goals of equity and adequacy into viable legislative proposals, and assemble the coalitions for passage is a longer one. Activist legislators pressed the issue to enactment, sometimes working closely with the governor, as did Speaker Martin Sabo and Representative Joseph Graba in Minnesota; sometimes carrying the principal responsibility themselves, as did Senator Bennet Katz in Maine, Senator Stephen Wiley and Representative Al Burstein in New Jersey, Senator James McDermott in Washington, Speaker Klebanoff in Connecticut, and perhaps a score or two of others in the reform states in the early and mid-1970s. They often participated in national and regional meetings, learning from experts in the field, sharing information, and developing a network of support.

With these public officials must be linked their staff aides, relatively anonymous by style and profession, but essential to mastering the background material in the field, evaluating the detail of finance data, and developing options. Many were professional legislative or governor's staff members; a few were essentially on loan from the state education agency, although this pattern was not typical. In most cases academic consultants were utilized, often with Ford Foundation support, in the developmental stages of the process.

Creative Compromise

The laws which eventuated from this process bore the mark of their champions: political compromise. But in the states which are credited with major reform, it was creative compromise, bargains which recognized a variety of interests but which made substantial progress in the direction of reducing the impact of local wealth on school spending; focusing resources on pupils with more threatening educational needs; or reducing spending disparities among the school districts of the state—often all three in combination. Creative compromise, then, was the fourth characteristic of the dynamics of successful school finance reform in the 1970s. No state enacted a

textbook plan; every state law differed in detail; most reflected state traditions; yet all advanced to one degree or another in the equity directions charted by the courts and the leading scholars in the field.

Usually the compromises moderated the degree of equalization in the plan and left wealthier districts with a continuing tax or revenue advantage, although less than in the past. Sometimes the compromises assured that urban districts and/or rural districts received special treatment in addition to the basic equalization formula. Mechanisms to stretch out or phase in the funding of the reform plans met the objections of others or postponed their final day of reckoning. And in some cases collateral issues (noneducation tax provisions, state assumption of welfare responsibilities, and so forth) were the material of compromise, leaving the new education formula more or less intact. Because school finance affects explicit school district issues—aid payments, tax rates—it is the quintessential legislative issue requiring compromise solutions. Perhaps that is why public officials, not educators or experts, were the leading actors in reform, and it is to their considerable credit that creative solutions were devised that advanced the goals of equity while meeting the needs of practical politics.

Interest Groups

In most states that adopted new school finance systems in the 1970s, the prominence of education interest groups was surprisingly low in profile. One obvious reason was that the issue cut across traditional groupings and pitted group members against each other. School boards associations in many states had difficulty coming out foursquare for new laws that would work to the disadvantage of some of their most active members. Statewide teachers unions had much the same problem. There were, of course, exceptions. In Maine, both the School Boards Association and the Maine Teachers Association were important initiating forces in advocating the 1973 reform law there, although as the effort caught on, a deliberate policy of keeping the teachers association out of the limelight was adopted by the other members of the reform coalition.

Those other members illustrated what was unique about the interest group action on school funding in the 1970s: Interest groups from fields other than education were most distinctive in the effort. In Maine, the Maine Municipal Association wanted full state

funding of education so that the property tax would be more available for education. The Maine Manufacturers Association and Chamber of Commerce joined the campaign, partly in return for an agreement by the education coalition to support abolition of the inventory tax. By making school finance reform tax reform as well, the school finance coalition broadened its base substantially and illustrated a tactic common in other states as well. Some education leaders felt that this tactic had given away too much, that the emphasis on tax reform was greater than on education reform, but political strategists at the time saw no other way of attracting majority support. Besides, education was the largest item in most state budgets, and political leaders felt that its financing was too important to leave to educators alone.

In Kansas the Cattlemen's Association, speaking for rural interests which considered themselves land-rich and income-poor, supported the school aid law in return for an agreement to make income a prominent part of the measure of a local district's wealth, thus making the cities and suburbs richer and less deserving of state aid. In South Carolina a coalition of interest groups played an atypically major role in initiating a long-term effort that led to the first equalization law in the state. The broad coalition included the American Friends Service Committee, the League of Women Voters, and the South Carolina Education Association and drew upon foundation support for reports and expert consulting. Typically, the principal initiative lay with the politicians; educators were expected to be supportive, but business, tax, municipal, and other interest groups provided important lobbying efforts. This particular interest group dynamic, in which education groups played low-key or even neutral roles, with other sectors providing strategic and even leading support, was the fifth characteristic of school finance politics in the 1970s.

Positive Economic Fiscal Conditions

Finally, there was an underlying factor that may have been most important of all: The public economy was in good shape. Many state budgets were in surplus, and the state's share of general revenue-sharing was becoming newly available. Most states were able to absorb an increase in state support for education without new or increased state taxes. Where there was a need for additional revenues, it was comparatively modest. And in light of the freezing or

reduction of local property taxes in many districts made possible by the new school finance laws, school finance reform was seen as a bargain. As important as the apparent low cost was the postponing of hardship made possible by additional revenues. High-wealth districts slated to lose state aid eventually could be "held harmless" in the short run with federal revenue-sharing or state surplus funds. As a Florida legislator put it in a debate, "a rising tide lifts all the boats." In the school finance community it was taken as a truism that school finance reform meant "leveling up," that is, bringing low-wealth and low-spending districts up, not bringing high-wealth, high-spending districts down. The gains of the winners were financed by increased revenues for education which came from a flourishing economy and intergovernmental aid.

In short, the political dynamics of school finance reform in the legislative sessions of 1972, 1973, and 1974—the years when the majority of reform laws were enacted—took place in a salubrious fiscal climate. Can the politics of plenty work in more straitened times?

The answer appears to be a qualified "yes." As the decade wore on and the economy soured, school finance laws became less reformist. Less equalization occurred; laws were put in place with funding to come later; periods for phasing in were stretched out; new taxes were required. But school finance changes continued to occur.

A Summary Scenario

To summarize this discussion of the politics of reform, a simplified scenario can be constructed. To start, an event must occur to break the mold of business-as-usual adjustments to the state's school aid formula. A judicial declaration of the unconstitutionality of the pre-existing education aid system is the most obvious way of satisfying this requirement, but others are possible. However, the state should have some reform tradition that can be built upon, such as an equalization formula that can be improved, or a period of time and a policy development mechanism such as a study commission assisted by able staff or consultants. While state politics usually requires the stimulus of a precipitating event to force reform, policymakers also need technology, familiarity, and/or time to bolster confidence that a new system is feasible.

Political leadership is also critical to success. A governor, legis-

lative leaders, and/or an education committee chairman must take the issue seriously and develop and press a school finance bill aimed at eliminating the inequities of the old system that have been identified by a court, a commission, or other study team. At the same time, the legislation must take sufficient account of the education, taxpayer, and political interests of the state to constitute a viable compromise for legislative enactment.

The process of school finance change is clearly not an easy one. Perhaps the thorniest problem is the potential opposition of influential representatives of high-wealth districts and the distrust of a new system even by representatives of many districts which would benefit from it. This situation requires that influential groups support the reform. Education groups can help, but municipal, business, and taxpayer groups can be even more potent. Finally, nothing makes adoption of a fairer finance system easier than money. Appropriations cannot simply be shifted from high-spending and high-wealth districts to those below the average. Educationally, it would be damaging to many school systems; contractually, it would require abrogation of school board–teachers union agreements; and fiscally, it could impose unpopular local tax increases in high-wealth districts. Where additional funds can be drawn upon, however, the leveling up of deficient school districts can be accomplished without detracting from higher caliber systems. The gap, in short, can be closed by leveling up the bottom more easily than leveling down the top. Put crassly and assuming all other parts of the scenario to be in place, the amount of new money available over the prereform year often determines how much equity can be bought.

The Politics of School Finance in New York: Prospects in the 1980s

How does New York in the early 1980s live up to this simplified script? Let us proceed element by element.

Levittown as a Precipitating Event

Courts traditionally have been viewed as decision-making institutions. They render a decision, and the parties to the case are obligated to comply with the ruling, generally an order to refrain from

a particular course of action. In the eyes of many scholars, however, the role of courts in adjudicating issues of public policy has changed in recent decades. Courts have become "agenda-setting" institutions, with litigation used to raise issues as well as settle disputes.

> The typical image of litigation as a conflict-resolving process . . . may be by now simply a straw man. . . . In a sense it is as much a conflict-generating as a conflict-resolving process. . . . Courts cannot determine political outcomes in issue areas . . . but they can . . . take steps that make it essential for other institutions—legislatures and executives—to participate in the process of collective decision. . . . The Court functions as a kind of access point and agenda-setter, not a final decision-maker.[2]

Litigants in school finance cases know that legislatures, not courts, will shape reform packages in their states. But a court mandate can be used to prod legislators to act and to act in a way that might be contrary to their normal inclinations. In New Jersey, for example, *Robinson* v. *Cahill* rendered education politics less partisan than normal, because it gave the problem of funding education "an air of law about it, a feeling that it was somehow different."[3]

Had the lower court decisions been upheld, *Levittown* would have had a similar effect on New York policy-makers. These were strong opinions that struck down the formula under several legal theories with specific citations to a detailed trial record. But the plaintiffs lost their case. Does this diminish the role of *Levittown* as a precipitating event? The answer to this question is "yes" and "no." The litigation and the trial court and Appellate Division decisions were complex and controversial. In particular, the holdings on the claims of the urban plaintiffs broke new ground in school finance jurisprudence and led some observers to doubt their validity. As a result, an air of tentativeness characterized the legislative reception of the case. Legislators would not give serious consideration to the reform proposals submitted by the governor, Board of Regents, and education interest groups until the case was settled. Now that the Court of Appeals has spoken, there is even less reason to expect the legislature to act on its own. So, on the one hand, *Levittown* has lost much of its clout in the legislative chambers.

On the other hand, *Levittown* structured the substance of debate over modifications to New York's state aid formula during the last several years. Although none of the major concerns of the case

were addressed—greater wealth equalization, the use of enrollment, and adjustments for high levels of noneducation expenditures or high educational costs—an income measure was incorporated into the formula, "active enrollment" was considered as an alternative to average daily attendance, and the last two governors proposed redistributing state aid from property-wealthy to property-poor school districts. *Levittown* kept the issue of equity in front of policy-makers for eight years. This task passes now to the state's political and educational leaders.

A Tradition of Reform

How does New York measure up with regard to the presence of a tradition of reform, a period of development, or the availability of building blocks already in the state formula that could be expanded upon and improved?

Perhaps no other state has a richer tradition of concern with the relation of finance to the quality of education throughout the state than New York. Its levels of school support, fueled for generations by the strongest state economy in the nation, provided some of the nation's leading school systems and its highest average support levels. Since the 1920s, its aid formulas have furnished prototypes for equalization in large regions of the nation. Columbia University's Teachers College was the home base of some of the leading theoreticians and scholars in school finance. Professors George Strayer and Robert Haig in the 1920s and 1930s and Professor Paul Mort in the 1940s and 1950s developed aid formulas that became the standard for assisting low-wealth districts and encouraging high-wealth districts to increase support of education. Their students filled key positions in state education departments, schools of education, and educational professional associations throughout the Northeast. And despite their professional titles and scholarly publications, they worked closely with the politicians and their staffs who composed the state commissions and legislative committees which developed and sponsored the state finance laws.

Various state commissions—for example, Educational Finance Inquiry Commission in the early 1920s, Heald in the mid-1950s, and Diefendorf in 1960–62—have been an important part of New York tradition. Their expert staff and consultants provided analyses and technical assistance; their representative memberships led to broad-gauged, feasible recommendations; and their closeness to

powerful politicians led to gubernatorial support and legislative success.

The result of these historical factors is that the New York school finance system has the building blocks of reform within it. Equalization provisions like the percentage-equalizing and foundation approaches; special urban and rural aid provisions; recognition of the need for added resources for low-achieving pupils—all these have been or are a part of the New York state school finance tradition.

But how relevant is that tradition for the 1980s? Surprisingly, New York was essentially unaffected by the reforms in school funding that took place during the 1970s. Spending disparities among districts increased and the state share of school costs decreased in a period when the opposite was occurring in more than half of the states in the country. The major school finance study effort of the decade, the Fleischmann Commission of 1969–71, saw its principal recommendations—full state assumption of school finance, a statewide property tax for education, leveling up of all districts to the 65th percentile district—ignored by the policy-makers of the state. Early in his administration, Governor Carey appointed a series of task forces to provide guidance in dealing with the issues of educational finance.[4] The task force identified the issues, recommended directions for reform, but received little public notice. Unlike the blue ribbon panels in such reform states as Florida and Kansas, the composition of New York's commissions did not give them the political resources to translate their recommendations into action. Legislative leaders, for example, were conspicuous only by their absence from task force membership.

The post-*Levittown* study commission, the New York State Task Force on Equity and Excellence in Education, continued that trend. Known more commonly as the Rubin Task Force after its chairman Max Rubin, a prominent attorney and former New York State regent and New York City Board of Education president, its membership contained no legislators nor was there a legislative voice in the selection of members. Appointed by Governor Carey and the Board of Regents in 1978 to develop recommendations for addressing the requirements of the trial court decision in *Levittown*, it consisted of a microcosm of the state's education interests, representatives of local school districts, principal staff assistants to the governor, and a smattering of local government officials and business representatives. Staffed by school finance consultants from the Denver-based Education Commission of the States, it

labored for much of its existence under two paralyzing constraints: the absence of a final court decision to provide ground rules for recommendations and pressure from the governor's representatives on the task force to avoid costly proposals. Nonetheless, its interim reports updated the analysis in the *Levittown* case and found the problems as serious as they were at time of trial. Its recommendations provide the first attempt to come to grips with the requirements of the court decision. In February 1982 seven alternative school finance packages were offered by the task force to reduce expenditure disparities and the close association between expenditures and wealth. The plans varied in their basic design with respect to spending requirements, minimum guarantees, pupil counts, student need factors, and overburden adjustments. Though these approaches differed in their cost and distribution of aid, they shared similar goals of constitutional acceptability and fiscal soundness.[5]

What, then, of the existing formula structure as a potential vehicle for reform? New York has the knowledge base and technology for improving its aid formula. Whereas the adoption of an equalizing aid structure in itself was a major innovation in such states as Connecticut and South Carolina, the Empire State took its first steps in that direction fifty years ago. Staff of New York's legislative committees, State Education Department, and Division of the Budget are so adept at aid formula manipulations that despite major structural changes (for example, changing from a foundation plan to a percentage-equalizing plan), the relative shares of aid remain essentially unchanged from one year to the next. It is through the Byzantine complexities of the operating aid formula and the welter of special aids, rather than through the absence of an equalizing format, that patterns of discrimination have been perpetuated for generations in New York. Thus, adopting one of the equalizing approaches will not by itself constitute reform in New York; only a genuine commitment to the goals of reform will bring meaningful change. In short, New York knows the way to reform, but in recent years it has lacked the will.

Political Leadership

The stimulus for school finance reform and translation of its concepts into policy may be shaped by a variety of events, processes, and traditions. But the will to accomplish meaningful change in the distribution of the costs and benefits of public education must even-

tually be supplied by powerful executive and legislative leaders if a state is to pass effective reform legislation. What are the prospects for a commitment of that kind in New York?

The Governor. Discussions of the politics of policy formulation in New York begin with a consideration of the role of the governor. Since the 1920s New York's governors have had wide-ranging executive powers: appointive authority, consolidated state agencies, extensive personal staff, the item veto, and, perhaps most important, budgetary leadership. In addition to, or because of, these formal powers, New York governors have frequently exercised party leadership within the state as well. As a result, most historic state legislation is associated with the state's governors, and education funding legislation has been no exception to that rule. Al Smith gave important support for the Cole-Rice equalization law as part of his populist political program in the early 1920s. Governor Dewey endorsed expansion and modernization of that foundation plan in the 1940s, and in the 1960s Governor Rockefeller associated himself with the recommendations of the Diefendorf and Heald commissions, which recommended, respectively, enhanced equalization (the percentage-equalizing format) and categorical aid for special and compensatory education.

But a closer look at Governor Rockefeller's educational emphasis, and that of Governor Carey as well, illustrates a phenomenon that will be central to drawing conclusions about the politics of public school funding in the future: Elementary and secondary education declined as a subject of gubernatorial innovation during the 1960s and 1970s. For Governor Rockefeller, the principal education issue was expansion of the state university system. During the 1960s, at his urging, it doubled as a proportion of state expenditures, while elementary and secondary education declined.

Other concerns detracted from Governor Carey's ability to spearhead reform in school finance. Unlike the Rockefeller years when policy competition had to do with determining which areas would be expanded most, the emphasis since the middle 1970s has been on tax reduction and retrenchment. Governor Carey's early interest in school finance reform, symbolized by his appointment of consultant commissions, led to annual reform proposals. However, emphasis on tax reductions and fiscal constraint gave his recommendations a quixotic air. Unveiled with the fanfare that greets the governor's annual budget proposals in Albany, his education aid

recommendations were subsequently left to the legislature's disposition, with no effective coalition building or mobilization of support by the executive. Featuring redistribution from high- to low-wealth districts without much softening of the impact on the losers, his plans were regularly rewritten by the legislature to maintain the status quo. As Chairman Kremer of the Assembly Ways and Means Committee put it after the governor's 1979 aid plan was revealed: "No one should get overly depressed . . . because it's not going to happen. The Robin Hood concept is dead. There is a commitment on the part of the Assembly to see that there are no dollar losses for any school district in the state."[6] Yet although the governor's proposals had little visible impact on the structure of educational finance in the state, the Carey stance helped to keep the issue of school finance reform alive pending final decision from the courts.

The principal professional staff arm to the governor on education finance is the education unit in the Division of the Budget. The budget division staffs the governor's task forces, generates annual budget proposals, and provides the authoritative computer printouts on aid distributions. The Office of the Secretary to the Governor works closely with the Division of the Budget, communicating with the educational interests around the state. State Education Department officials are drawn into the annual deliberations as well, but their principal allegiance to the commissioner of education and to his employers, the New York State Board of Regents, divides their loyalty and thus lessens their involvement in the governor's proposal development.

The Legislature. Although New York has a strong governor, active in forming the state's political agenda and policy initiatives, the state also has a strong legislature. Its leaders must be bargained with rather than directed by the governor, and its staff resources give it the capacity to compete with the executive in the development and revision of policy proposals. When both houses of the legislature and the governor are of the same party, conflict among the branches of government is decidedly less apparent than when one house of the legislature and the governor are of different parties. But even in years of complete Republican control of both branches, the governor's electoral need to run well in New York City in order to capture a statewide majority often puts him at odds with the predominantly upstate legislature. Since 1975, however, at least one house of the legislature has had a different party majority

than the governor, and that divided government has led to complicated and combative partisan politics in Albany. Thus, although New York's governor may be the state's most visible political leader, the legislature is not his to command.

Rather than the governor, it is the legislative leaders of each house who command New York's lawmakers on most important issues. By tradition and by extensive formal authority, the speaker of the Assembly and the temporary president and majority leader of the Senate (one person always holds both Senate titles) have substantial control over appointments to committees, the calendar of legislation, and ultimately the votes of the rank-and-file legislators of their party. To be sure, that authority is shared with a small group of cohorts—principally the majority leader and chairman of ways and means in the Assembly, the chairman of appropriations in the Senate—and in the final analysis rests on the presession vote of the majority conference in each house. Once the leaders are chosen, however, party discipline assures that they can speak with the authority of the majority of votes in their respective houses.

As a result, policy tends to be the outcome of a three-way negotiation among the governor, the temporary president of the Senate, and the speaker of the Assembly. While the governorship has alternated between political parties throughout the twentieth century and control of the Assembly has done likewise since 1965, the Senate has been a Republican bastion. Since legislation must pass both houses and receive the governor's signature to become law, each member of that triumvirate has a veto over the other two; and while the governor's formal veto can be overridden by a two-thirds vote of both houses of the legislature, the close partisan division in the Assembly and the Senate makes such an event exceedingly rare.

Most of the more than one thousand laws that are passed in Albany each year are not made partisan issues by the leaders. In education, numerous amendments to the education code dealing with the day-in, day-out issues of school management, contracting, and even competency testing are introduced by members at the behest of local school systems, interest groups, or the State Education Department; they are reviewed and reported out by the education committee of each house; they receive usually unanimous, or lopsided, votes on the floor of each house and are signed into law by the governor with no involvement in partisan politics and little attention from the leaders or their powerful staffs. But when it

comes to the education aid formula, the issue is considered too important to be left to such a relatively minor committee as education. Instead, the leadership and the money committees of both houses take control.

Taking control does not mean dictating an arbitrary outcome to the rank-and-file legislators for ratification. Education aid is one of those bread and butter issues on which representatives are elected and defeated in many districts. Since attitudes toward education and the financial structure of the state's more than seven hundred districts vary so markedly, the annual school aid bills have a complexity and political saliency that exceed almost any other measures on the legislative agenda. Achieving a majority behind an aid proposal in each house requires the propitiation of a variety of legislative factions, and that result is accomplished through the complex operating aid formula and a host of special aids that distribute funds to particular districts or small groups of districts not adequately accommodated by more general provisions.

Most prominent among these factions are the broad geographic divisions. For education aid politics, New York can be divided into three principal areas: New York City, the New York City suburban counties, and upstate. For the city, the principal concerns have been to get more money into categorical programs or student weightings that provide added funds for educating high proportions of disadvantaged and handicapped pupils; for an equalization system that does not make the city appear too wealthy because of the high levels of Manhattan commercial and industrial property; and for ways of counting pupils for aid purposes that do not penalize low attendance rates. Traditionally, the city has been notably unsuccessful on the latter two issues. The goals of the metropolitan suburban bloc are basically two: to assure that their high local tax effort for education is rewarded with increased state aid and to preserve the flat grant and save-harmless provisions, so that its districts remain eligible for aid in the face of escalating residential property values and declining pupil population. Finally, the upstate area with lower tax rates for education and a general conservatism toward government spending has sought to hold down the cost of the aid package and to eliminate or hold to a minimum required local tax rates for participating in the operating aid program. The suburban counties and upstate have been largely successful in achieving their goals.

What has made that success possible has been the differing

geopolitics and priorities of the two houses of the legislature. The Senate's Republican majority is upstate in orientation and leadership. Since the Great Depression, with the exception of the single year of 1965 when the Johnson landslide gave the Democrats control, its temporary president and majority leader has hailed successively from upstate jurisdictions such as Watertown, Perry, Plattsburgh, Kingston, Buffalo, Wilson, and Binghamton. Reapportionment in the 1960s ended rural domination, but a coalition of upstate areas and New York City suburbs has maintained Republican control. United by opposition to the metropolis and a primary interest in education aid, the Senate has had the upper hand in legislative action on the annual aid package.

The Assembly, while New York City–dominated in ten of the seventeen years since 1965, has never given education aid the same single-minded attention as has the Senate. In New York City the issues of welfare, housing, and mass transit have been of principal interest to its mayors, citizens, and their representatives. Similarly, the minority caucus, composed of approximately a dozen assemblymen and senators, despite its numerical potential to determine the majority in the Assembly, has not focused on education as an issue of priority to its constituents. As a result, the education formula reflects the upstate and suburban interests that dominate the legislative body that gives the issue top priority. The Senate, it is said, has education; the Assembly has welfare.

The prospects of a legislatively initiated reform in school finance seem slim in New York. Expertise in the issue is lodged primarily in the Senate whose main interest in recent years has been to maintain the pre-existing distribution of state aid. The ultimate in this regard came in 1976, when all but nine of the state's 708 districts were receiving aid under save-harmless, rather than equalizing, provisions of the education assistance law. But while revisions have taken most of the state's districts off save-harmless, little change in the distribution of funds has occurred.[7] In short, the legislative design for the distribution of state aid to education continues to mirror the distribution of power in the legislature rather than the educational needs of the state or the implications of equity in the raising and distribution of revenues for education. Neither leadership for change nor support for the governor's proposals is apparent in the statehouse in Albany. If anything, the existence of *Levittown* was seen as an infringement upon legislative prerogatives and reinforced opposition to a redistribution of revenue benefits and responsibilities.

Creative Compromise

We noted earlier that creative compromises were central to the reform process in other states. Given the partisan and geographic composition of the New York State legislature, every aid bill has been built on compromise that has provided a basic equalizing framework but has limited it to serve a variety of other interests. For example, although the New York formula requires a minimal local taxing level for participation in the program, low-effort districts which fall below that level, largely upstate and rural, are treated "as if" they had qualified. Downstate suburban districts which are too wealthy to qualify for aid receive flat grants, and those whose declining pupil populations and increasing property wealth would reduce their aid are protected by save-harmless provisions. New York City, treated as five separate boroughs to maximize its aid payments, somehow receives a magical 27 to 29 percent of total state aid year after year, regardless of its school funding needs and the numerous changes that are made in the formula. Thus, although compromise is a well-practiced art in New York, it has not been applied to redress New York's great disparities in school spending among districts or the financial problems of education in its major cities.

Interest Groups

Elected political officials operate in an environment of organized interests exerting pressures which politicians either satisfy, oppose, or ignore. In New York in the past, educational interest groups maximized their effectiveness on matters of school support through coordination, expertise, and grass roots strength. As a result, their annual recommendations were never ignored, seldom opposed, and usually satisfied.

The New York State Educational Conference Board was formed by education groups to achieve this power. Founded in 1937 by the New York State Teachers Association and the School Boards Association, the Conference Board brought together virtually all the major associations of parents, teachers, and school administrators in the state. Its policies were restricted to the common concern of all member districts—increasing state aid. Its annual proposals were developed by a handful of prominent educational experts, ratified by the Conference Board, and publicized throughout the state. Dis-

agreements were ironed out at the regular Conference Board meetings, so that a unified annual package was brought to the legislature. Direct links to the mass memberships of the constituent organizations were called upon to assure that active lobbying took place in home districts as well as in Albany. As a result, "both the executive and legislative branches of the government found it difficult to ignore the demands of unified educational leaders during the years when the importance of public education was being recognized as never before."[8]

As the 1960s unfolded, a growing discord brought an end to this unity. Teacher strikes, conflicts over racial integration and community control, the deteriorating financial situation in the cities, and taxpayer revolts in suburban districts—these and other education issues fragmented the community of teachers, administrators, and parents.[9] For example, the Public Education Association, once a full-fledged participant in the Conference Board, actively lobbied against increased aid to New York City rather than permit the United Federation of Teachers (UFT), another Conference Board member, to succeed in raising teacher salaries. The large urban districts, dissatisfied with the rural/small-town/suburban orientation of the Conference Board, formed their own organization, the Conference of Large City Boards of Education (the Big Six, now the Big Five). By the 1970s, single-interest politics also had an effect. Organizations urging the interests of handicapped children, such as the Council for Exceptional Children, or of limited-English-speaking children, such as ASPIRA, pleaded their causes independent of other public education concerns. The Conference Board, while it still continues to function, has become one among a number of competing voices. As a result, instead of hearing a single message, the governor and the legislature came to hear a discordant babble, leaving them free to interpret its meaning as they saw fit. And their propensity to do just that increased throughout the 1960s and 1970s. The governor's and legislature's staffs grew in number and in access to the technology of modern policy development, and the communities of interest within the legislature increased in independence and more actively pursued the regional demands of their constituents.

The Regents and the State Education Department have also gone their separate way on many issues. Progressive commissioners and a new group of urban-oriented Regents in the 1960s and early 1970s brought a different focus to the State Education Department's activities. Pressing for racial integration and urban aid, the

commissioner and regents fractured many of their old alliances in the legislature and among the upstate education associations.

Will the current interest group dynamic prevail in the 1980s? The formation of several independent groups of districts concerned with pressing for implementation of the *Levittown* claims in ways that favor their own interests alone suggests that a twenty-year habit of independent action dies hard. Activity within the Rubin Task Force seems to support the same conclusion, as little consensus developed during its deliberations. Of course, there are some small exceptions. The Big Five have made overtures to a group of small and middle-sized upstate urban districts whose financial characteristics have much in common with the state's metropolises. The UFT and its usual arch-rival, the New York City Board of Education, have joined forces to study the issues and to search for a common proposal. But overall, there is much the same ambivalence among education interests to reform school finance policy in New York as there was in most of the states we discussed earlier. For those groups which perceive their interests clearly but narrowly, there appears to be an attempt to join cause with the like-minded. For statewide organizations, however, whose membership includes both high- and low-wealth, urban, suburban, and rural districts, the reaction has been one of suspicion and inaction. In short, if a voice of coordinated support for the principles of *Levittown* is to emerge from the professional associations and education interests in New York, they will have to undergo a substantial change of heart and habit. For at present, the prevailing style is one of fragmentation, single-interest concern, and self-protection.

Summary

The purpose of this comparative survey of school finance politics in reform states and in New York is to provide some fodder for responsible speculations about the politics of the future. The current picture, it should be clear, is not cheery. New York's tradition of progressive school funding has been dormant for decades. Effective political leadership on the issue has not been the recent rule. The most recent commission, the Rubin Task Force, operated with no ties to the legislature, whose response to the proposals will be critical. For the last twenty years, legislative compromises on education funding have been not only creative but ingenious, but their objective has been to maintain the status quo. And the educational inter-

ests have been fragmented and uninterested in making common cause on the issue of finance reform. If the future is a linear projection of this present state of affairs, the prospects for effective implementation of the message of *Levittown* are dim indeed.

For several years, the *Levittown* litigation provided a focus for groups interested in reform. Without a court mandate, these groups need a new rallying point—either a political leader willing to take on the school finance issue or a reform program crafted by representatives of the cities, *Levittown* plaintiffs, and those groups that supported the plaintiffs' case in the Court of Appeals. They must find a way to get their demands placed on the legislature's agenda and they must develop a politically feasible reform package to sell to that group.

The equity principles that emerged from *Levittown* and the proposals of the Rubin Task Force provide a starting point for these activities. The design of a viable legislative package, however, requires that these proposals (1) balance the conflicting equity concerns of the *Levittown* plaintiffs and plaintiffs-intervenors; (2) recognize the needs of other school districts, such as the smaller upstate cities or rural communities, that are potential supporters of a reform package; and (3) minimize the impact of change on the state's wealthiest communities. Implementation of this kind of program will require the grass roots and Albany activism of education interests and their allies, the support of associations and interests from the business community, and approval of the state's political leaders.

Areas of creative compromise are available. Adjusting aid payments for the cost differentials throughout the state may benefit both New York City and its suburban counties at the same time that it holds down total costs, which will please upstate legislators. Adjusting property values by a measure of poverty or income could be of benefit to both rural areas and New York City. In short, if the ingenuity previously used in designing one of the nation's most complex aid formulas to maintain existing interests and inequities were put to the purposes of reform, there is no doubt that a new formula could substantially diminish the disparities in spending throughout the state and give new recognition to the special needs of urban districts and of special pupil populations.

One important overall constraining factor will be the condition of the state's economy and its governmental finances. When these are healthy, generating ever higher revenues than they did in the past, the generous politics of leveling up can occur, cushioning the

effects of the transition to a new finance system on communities that will lose their previous advantages. When revenues are more constrained and reform must take place within a more straitened climate, the politics of redistribution must prevail. Because of the overriding importance of this issue, we devote the next chapter to a thorough discussion of the economic environment for reform.

Notes

[1]The scenario presented in this section is drawn from a series of case studies prepared by Joel S. Berke, Michael Kirst, and Michael Usdan in 1974–75 under contract with the U.S. Office of Education. Their findings are summarized in Susan Fuhrman et al., *State Education Politics: The Case of School Finance Reform.* It was first presented in Joel S. Berke, Donna E. Shalala, and Mary Frase Williams, "Two Roads to School Finance Reform"; and Joel S. Berke, *Answers to Inequity.* For a similar analysis of school finance reform in California, see Richard Elmore and Milbrey McLaughlin, *Reform and Retrenchment: The Politics of California School Finance Reform.*

[2]Jonathan Casper, *Lawyers Before the Warren Court*, as cited in Lehne, p. 17.

[3]Richard Lehne, "Complex Justice: Courts, Agenda-setting and School Finance," paper presented at the 1976 annual meeting of the American Political Science Association, Chicago, p. 22.

[4]New York State Task Force on Aid to Education, *Report to Governor Hugh L. Carey.*

[5]New York State Special Task Force on Equity and Excellence in Education, *Report and Recommendations.*

[6]*Newsday*, March 2, 1979.

[7]Joan Scheuer, "The Equity of New York State's System of Financing Schools: An Update."

[8]Michael D. Usdan, "New York State's Educational Conference Board: A Coalition in Transition," *Phi Delta Kappan*, February 1968, p. 328.

[9]For a more detailed discussion of rising teacher militancy in the late 1960s and early 1970s and the evolution of the Conference Board, see Carl George Benenati, "The State Politics of Educational Decision-Making for K–12 Public Education in New York State, 1920–1970"; Alan Rosenthal, *Pedagogues and Power: Teacher Groups in School Politics;* and Michael D. Usdan, "The Political Power of Education in New York: A Second Look."

CHAPTER III

The Economic Environment for Reform

Developing a school finance reform program requires an awareness of the resources that are currently available, and will be available in the future, to fund such an effort. In the past, state legislatures could draw on surplus revenues generated by rapidly growing economies and/or the federal revenue-sharing program to fund reform plans. Most states, including New York, do not have that luxury today. Federal aid is declining, growth rates are dropping, and greater competition exists for the state dollar. This chapter examines the economic, fiscal, and demographic changes which have taken place in New York State over the last twenty years in order to paint a fiscal backdrop against which education reform will be played out in the 1980s. The first part describes structural changes in New York State's economy and identifies factors which have contributed to this shift. The second part looks briefly at demographic trends in the state, while the third part focuses on state revenue and expenditure patterns in the 1960s and 1970s. The final section discusses the constraints that these economic and budgetary trends place on the availability of state revenues and estimates the level of resources that might be available to fund education reform programs.

The State of New York State's Economy

From the early days of industrialization in the United States, New York State dominated the national economy. By 1950 New York State, with 10 percent of the nation's population, accounted for more than 12 percent of the nonagricultural jobs and total personal income. After World War II, however, the nationalizing of the United States economy—the development of greater economic diversity and self-sufficiency in the South and the West—eroded "New York's traditional role as the predominant cosmopolitan economy producing virtually every type of goods or service available anywhere. . . ."[1] New York's share of population, employment, and income declined steadily until the distribution of employment and income more closely mirrored the state's share of population.[2] During the same period, the state's economic base shifted from manufacturing to service, financial, and technological activities. This change enabled New York State's economy to reach a new equilibrium and made it less vulnerable to downturns in the national economy.

Trends in Employment, 1960 to 1980

In the last twenty years, the rate of employment growth in New York has been well below the national average. As shown in Table 3.1, the number of persons employed in New York increased by nearly 16 percent between 1960 and 1970, one-half the national rate. In the next decade, while employment continued to grow by 28 percent nationally, New York State gained fewer than 51,000 jobs, a 0.7 percent increase. This near-zero growth rate is an average over the last decade, however, and obscures three cycles in the state's economy. The state lost nearly 80,000 jobs in the early 1970s, while employment increased 10.4 percent across the nation. The recession of 1974–75 and the fiscal crises of 1975–76 cost the state another 4 percent of its work force. The national economic upswing of the late seventies returned employment in New York State to its 1970 level, but the rate of growth during this period was once again one-half that of the national average. This upturn continued through 1981, despite the onset of the national recession.

Dramatic shifts occurred in New York State's economic base during this time as well. Table 3.2 shows the percentage of the state's workers employed in each major nonagricultural industrial

TABLE 3.1

Employment Growth in New York State and the United States, Selected Years, 1960–81

	Percentage Change in Employment	
	New York State	United States
1960–1970	+15.8%	+30.8%
1970–1980	+ 0.7	+27.9
1970–1974	(− 1.1)	(+10.4)
1974–1976	(− 4.2)	(+ 1.4)
1976–1980	(+ 6.3)	(+14.2)
1980–1981	+ 1.0	+ 1.1

Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978* (November *1979*), and *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981* (December 1982).

TABLE 3.2

Distribution of and Change in Nonagricultural Employment, New York State, 1960–80

Industry	Percentage of Total Nonagricultural Employment		Change in Employment, 1960–80
	1960	1980	
Mining	—	—	− 3,000
Contract construction	4%	3%	− 56,200
Manufacturing	30	20	− 433,600
Transportation and public utilities	8	6	− 50,800
Trade	20	20	+ 214,000
Finance, insurance, and real estate (FIRE)	8	9	+ 146,700
Services and miscellaneous	16	24	+ 732,000
Government	14	18	+ 476,200
Total	100	100	+1,025,300

Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978* (November 1979), and *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981* (December 1982).

category in 1960 and 1980. In this twenty-year period, manufacturing employment declined from 30 to 20 percent of total employment, while services and miscellaneous grew from 16 to 24 percent. Other significant shifts can be observed in the transportation and government categories. The third column in this table illustrates the magnitude of these changes. Between 1960 and 1980, New York State lost 433,600 manufacturing jobs, but gained 732,000 jobs in services and 476,200 in government.

When we examine these data over shorter time periods, some interesting trends emerge. (See Table 3.3.) During the 1960s, a period of economic growth in the state, New York lost 118,100 manufacturing jobs. Two-thirds of the new jobs were created in the service and government sectors, while trade and finance, insurance, and real estate (FIRE) showed moderate growth. In the early 1970s, the services and government sectors continued to expand, but not rapidly enough to offset the jobs lost in the manufacturing, construction, and transportation industries. The 1974–75 recession

TABLE 3.3

Changes in Nonagricultural Employment in New York State by Industrial Sector, and Selected Time Periods, 1960–80

Industry	1960–1970	1970–1974	1974–1976	1976–1980
Mining	− 1,200	− 500	− 300	− 1,000
Contract construction	+ 5,000	− 9,300	− 71,800	+ 19,900
Manufacturing	−118,100	−186,000	−135,700	+ 6,200
Transportation and public utilities	+ 18,400	− 43,800	− 28,700	+ 3,300
Trade	+194,500	− 4,000	− 27,300	+ 50,800
Finance, insurance, and real estate (FIRE)	+112,600	− 10,400	− 6,400	+ 50,900
Services and miscellaneous	+382,800	+ 91,900	+ 10,000	+247,300
Government	+380,400	+ 83,800	− 34,400	+ 46,400
Total	+974,400	− 78,300	−294,600	+423,800

Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–78* (November 1979), and *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981* (December 1982).

took its toll on all segments of New York's economy, but nearly 70 percent of the employment decline was concentrated in manufacturing and construction. When the economic climate improved in the late 1970s, those industries that had showed limited growth or decline in the 1960s were slow to rebound from the recession: mining, construction, manufacturing, and transportation. FIRE, trade, and government activities showed a moderate increase in employment, while the service sector accounted for more than one-half of New York State's new jobs between 1976 and 1980.

Intrastate Growth Patterns

These changes in New York State's economy reflect the operation of three relatively distinct subeconomies: New York City, the suburban portion of the metropolitan area, and upstate New York. Table 3.4 shows the different patterns of economic growth in the state. New York City's economy has grown at a much slower rate than other areas in the state since 1960. Between 1960 and 1970, the number of jobs in suburban New York increased 52.8 percent, while employment grew only 5.9 percent in New York City. Upstate New York had a growth rate of 20 percent. In the next four years, employment declined 8 percent in New York City, while increasing nearly 9 percent in the New York City suburbs, a rate close to the national average, and by 5 percent in the upstate labor market areas. During the recessionary period of 1974–76, all three regions lost jobs, but the rate of decline was significantly higher in New York City than in other parts of the state. In the late 1970s, the rate of growth in the New York City suburban economy equaled the national average, while the City and upstate New York showed more modest gains.

A number of factors have contributed to these differential patterns of growth. Employment trends in New York City's metropolitan areas over the last thirty years reflect a substantial movement of people and jobs from central cities to the suburbs. The explosion in suburban population during the 1950s and 1960s fueled the suburb's economic expansion. Trade, services, construction, local government, and even local manufacturing followed the movement of people out of the city. For example, between 1960 and 1969, only one of every four new jobs created in the New York metropolitan area was located in New York City.[3] In that nine-year period, the

TABLE 3.4

Employment Growth in New York State, 1960–81

Year	State Total		New York City		Metro New York[a]		Upstate New York		NYC as Percentage of State Total
	Employment	Percentage Growth	Employment	Percentage Growth	Employment	Percentage Growth	Employment	Percentage Growth	
1960	6,181,900		3,538,400		720,200		1,923,300		57.2%
1970	7,156,400	+15.8%	3,745,500	+5.9%	1,100,800	+52.8%	2,310,100	+20.1%	52.3
1974	7,078,000	− 1.1	3,446,100	−8.0	1,197,000	+ 8.7	2,434,900	+ 5.4	48.7
1976	6,783,400	− 4.2	3,204,700	−7.0	1,192,400	− 0.4	2,386,300	− 2.0	47.2
1980	7,207,200	+ 6.2	3,301,900	+3.0	1,361,500	+14.2	2,543,800	− 6.6	45.9
1981	7,281,400	+ 1.0	3,354,900	+1.6	1,374,100	+ 0.9	2,552,300	+ 0.3	46.1

Source: U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978* (November 1979), and *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981* (December 1982).
[a]Nassau, Suffolk, Westchester, Rockland, and Putnam counties.

number of jobs in wholesale and retail trade in the city grew by about 4,000, or less than 0.5 percent, in contrast to an increase of 200,000 jobs in the suburban ring. Similarly, while the city experienced a steep decline in its factory job base between 1952 and 1969, losing 229,000 jobs, the factory job total in the rest of the metropolitan area increased by 129,000.[4]

New York City underwent major structural changes in the composition of its economy as well, as it became more specialized in service-oriented activities. In 1960, nearly 27 percent of the New York City's jobs were in manufacturing; by 1980, these jobs accounted for only 15 percent of the city's employment. However, employment in the areas of FIRE, services, and public employment grew from 40 to 55 percent of the city's total. These shifts in New York City's economy reflect a nearly direct substitution of jobs in the FIRE, services, and government sectors for manufacturing employment. As shown in Table 3.5, manufacturing employment decreased by nearly 50 percent, or 451,100 jobs in that twenty-year period, while the City gained 458,200 positions in FIRE, services, and government. Sixty percent of these new jobs were in the service sector, with growth especially strong in the areas of advertising, consulting, law, and data processing.[5]

Suburban New York City exhibited a growth pattern that more nearly paralleled the national experience between 1960 and 1980—a 53 percent increase in employment in the 1960s and a 24 percent increase in the 1970s. Manufacturing remained a stable source of employment over this period, reflecting growth concentrated in high-technology industries. The FIRE, services, and government sectors were responsible for nearly 60 percent of employment growth between 1960 and 1980, however, and represented 47 percent of metropolitan New York jobs in 1980.

The upstate economy is more heavily dependent on recession-sensitive durable manufacturing (19.2 percent of total employment in 1978) than either suburban New York (11.4 percent) or New York City (3.6 percent). Upstate New York's decline in manufacturing employment generally occurred in recession years—1969, 1974–75 and 1980–81, and the region recouped most of its manufacturing jobs during upturns in the economy. For example, 72,000 jobs were lost in the 1974–75 recession, and by 1979, the region had regained 54,000 of these positions. Most of upstate New York's employment growth was due to expansion in the service and government sectors.[6]

TABLE 3.5

Employment Composition and Change in New York State, 1960 and 1980

Industry	Percentage of Employment, by Category, 1980			Change in Employment, by Category, 1960–80		
	New York City	Metro New York[a]	Upstate New York[b]	New York City	Metro New York[a]	Upstate New York[b]
Manufacturing	15.0%	19.0%	27.2%	−451,100	+ 55,800	− 38,300
Finance, real estate, and insurance (FIRE)	13.6	5.4	5.2	+ 63,700	+ 45,000	+ 38,400
Services and miscellaneous	27.1	23.0	19.8	+286,400	+192,300	+253,300
Government	15.6	18.9	21.2	+108,100	+138,700	+229,400
Other[c]	28.7	33.7	26.6	−243,600	+209,500	+137,700
Total	100.0	100.0	100.0	−236,500	+641,300	+620,500

Sources: U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978* (November 1979), and *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981* (December 1982).

[a]Nassau, Suffolk, Westchester, Rockland, and Putnam counties.

[b]New York State minus New York City and the New York City metropolitan area.

[c]Sum of mining, contract construction, transportation and public utilities, and trade.

From Frostbelt to Sunbelt

These trends in employment support the general regional economic maturity model which assumes that older industrial regions, having been the first to industrialize, should naturally experience retardation as markets diffuse and competition develops from newer industrial areas.[7] It is argued that these regions suffer from a number of competitive disadvantages: a loss of the traditional locational advantages that formerly favored the Northeast and the Midwest, an aging capital infrastructure, excessive taxes, high energy costs, higher average wages for industry and higher living costs in general, and a less pleasant lifestyle than found in less populated areas and warmer climates.

Loss of Locational Advantage. Changes in transportation, production, and communications technology and in the general structure of the nation's economy have diminished the uniqueness of the northeastern and midwestern urban areas as production centers. The primary variables which influenced the location of industrial activity in these areas have been their proximity to markets, proximity to raw materials and energy, and economies obtainable through the use of "external" facilities and services traditionally available in central cities. The increase in the use of trucks for intercity freight, however, has fostered the spread of economic activity to a larger number of smaller centers serving smaller market areas, since trucks have a competitive advantage over rail and water transport for relatively short distances. Similarly, advances in technology have weakened the ties between the production process and natural resource deposits in fixed locations by increasing the number of steps or stages in the production process and by developing substitute inputs or new products.[8]

The movement of population, income, and business away from the older central cities has resulted in the spread of external economies as well, diminishing the attractiveness of the old urban centers to small industry. Advances in communications have enabled corporate headquarters and other businesses which depend on timely access to national financial activities to move away from the northeastern centers. Finally, probably the most basic economic change which has contributed to the loss of locational advantage has been the massive shift of employment into service-oriented industries nationally—retail trade, finance, government, and services. As

these activities involve more personal contact and are less closely tied to natural resources than most other kinds of economic activity, they are free to locate close to their markets, in local areas rather than national production centers.[9]

Aging Infrastructure. The uneven geographic development of U.S. industry over time has created a widely varying set of investment needs. The Northeast and the Midwest are faced with outmoded production facilities and antiquated public infrastructures; modernization of industrial plants and public facilities would require large infusions of money. Yet, in the last decade, private sector investment in new capital equipment and nonresidential structures has been concentrated increasingly in the South and the West. While investment in new capital equipment increased 118.5 percent nationwide between 1970 and 1977, the increase was 78.8 percent in New York State, 61.9 percent in the Northeast generally, and 158.9 percent in the southern and western regions of the country. Correspondingly, investment in nonresidential structures increased 227 percent in the South and the West between 1970 and 1979 compared with 44.2 percent in the Northeast and a loss of 10 percent in New York State.[10] A recent study by staff of the Regional Plan Association found that the New York City region's present rate of capital investment is also dramatically below national levels. In addition, their figures suggest that "the Region's business savings [were] used to finance capital investment elsewhere, . . . [and] to some extent the Region's capital stock was probably drawn down for the same purpose."[11]

Factor Costs. Businesses in New York State also face a higher set of factor costs—higher state and local tax rates, higher land prices and energy costs, and higher wages. New York had the fourth highest taxes in the country in 1981, after Alaska, Wyoming, and the District of Columbia. The state's per capita state-local tax collection was 151 percent of the national average and 122 percent of the average for the Mideast region. On a different measure of tax effort, state-local taxes as a percentage of state personal income, New York's rate of 15.8 percent compared with a national rate of 11.3 percent and an average of 13.1 percent in the Mideast.[12] Another measure of tax burden is the level of indirect business tax payments (property, sales, and so forth) per $100 of labor. In 1975, indirect business taxes in the New York metropolitan area

amounted to $23 per $100 of labor, compared with $18 nationwide.[13] About four-fifths of these taxes were collected at the state and local levels.

New York State also suffers from high energy costs. The Northeast, with its cold climate and preponderance of older, less fuel-efficient facilities, is a high consumer of energy. In 1978, New York's consumption of energy was nearly three times the national average,[14] while the region's dependence on oil, primarily imported, contributes to considerably higher prices paid by energy users. Demand and price differentials are aggravated by the problem of supply. In 1976 only twelve of the fifty states produced more energy than they consumed; all of these states were located in the South and the West. In that year, New York's energy production-to-consumption ratio was 12 percent; that is, the state produced only 12 percent of the energy that it consumed.[15]

Labor costs present a more complex picture. For example, the average hourly rate for factory workers was $4.91 in New York City in 1976, 28 cents less than the national rate that year, while office and clerical workers earned 8 percent more than the average for this group in all metropolitan areas.[16] These comparative pay levels should be viewed within the context of New York's higher living costs at the time. In 1976 the Consumer Price Index (CPI) for the New York metropolitan region was 108 percent of the national average, and New York City was considered the second most expensive city to live in. By 1981, however, the CPI for the region had dropped to 96 percent of the average.

Recent studies suggest that factor cost differences, such as those discussed above, are small and/or disappearing and that, even when they are large, do not have a dominant effect on corporate location decisions.[17] Businesses are increasingly concerned with quality-of-life characteristics—housing, personal taxes, transportation, and schools. "The business climate is perceived as the sum total of environmental factors which directly affect the firm's owners, employees, their families as well as the operation of the business itself."[18] Thus, New York State's personal income and property taxes, residential energy costs, and overall cost of living may be of as much concern to business people as the level of corporate income taxes or the cost of labor.

The Myth of Migration. One popular explanation of the economic decline of New York and the region is the migration of manufacturing employment—the backbone of the region's economy—to

other parts of the country.[19] Between 1950 and 1970, while the number of manufacturing jobs grew by 27 percent nationally, the Northeast showed no gain in jobs, and New York State registered an 8 percent drop in manufacturing employment. These trends accelerated in the 1970s. While manufacturing employment grew 4.3 percent between 1970 and 1980 in the United States, it dropped 10 percent in the Northeast and 17 percent in New York State. At the same time, however, employment in this sector increased nearly 19 percent in the South and more than 26 percent in the West.[20]

Findings from detailed studies of changes in the composition of New York State's industrial base and the migration of businesses to and from the Northeast show, however, that the primary cause of the loss of firms and employment in the North in general, and in the Middle Atlantic region in particular, has been the closure or "death" of businesses, not the migration of firms from the North to the South.[21] For example, one study of changes in the profile of business firms found that 175,000 firms closed between 1969 and 1974, while only 912 firms migrated out of the Middle Atlantic region. However, the "birth" of new firms and immigration from other regions replaced only 55 percent of the firms lost, resulting in a net loss to the region of approximately 80,000 firms.[22]

At the same time, the primary factors responsible for employment growth in the South have been not the migration of firms into the region, but the major expansions of existing businesses and the birth of enough new firms to offset closures. Sixty-five percent of all jobs generated by manufacturing births in the South were in branches controlled by corporations located in a different state. "Thus, while migration per se (in the physical sense) may be small, the differential location of branches (particularly manufacturing branches) plays a major role in governing where growth takes place. It is capital and management skill, not physical property, that is migrating south, and at a good clip."[23]

In addition, the competition *within* regions for firms has been as fierce as that among the regions. Nearly half of the firms which left the Middle Atlantic region moved to other states in the North, not to other parts of the country. Approximately one-third of all the Middle Atlantic's out-migrant firms went to New England,[24] with much of this movement explained by the relocation of firms from New York to Connecticut.[25] The same explanation applies to the relocation of manufacturing establishments. Twenty-one percent of the interstate moves in the Mideast between 1969 and 1976 were to other states in the same region; another 15 percent were to states in

New England. More than one-third of interstate moves from selected manufacturing classifications in New York also relocated in other parts of the Mideast or New England regions during this period.[26]

Outlook for the Future

New York State's economy appears to have reached a new equilibrium. Assuming no major dislocations in the national economy, employment should continue to grow, but at a significantly slower rate than the rest of the country. All segments of the state's economy showed unusual resilience during the 1981–82 recession. Employment grew 1 percent statewide between 1980 and 1981, with new jobs created in all three regions of the state. The average unemployment rate in 1982 was a full percentage point below the national average, the first time that New York State's rate had fallen below the national rate since 1970.

New York City's economy, increasingly dominated by the financial and service sectors, has turned around after a twenty-year decline. By 1984, the city had regained most of the jobs lost in the previous decade. But "the city is most unlikely to regain its leading edge of national growth. New York [City] will not capture its lost glory; it will not be 'revitalized.' "[27] Upstate New York is more sensitive to the impact of national recessions, especially in the manufacturing and construction sectors. In these sectors, it will continue to show a pattern of losing jobs during a downturn in the national economy and regaining a smaller number of these jobs during an upturn. However, like downstate New York, the growth in nonmanufacturing jobs should be sufficient to replace lost factory employment in the long run. The downstate suburbs are the strongest sector of the state's economy, showing steady growth in both manufacturing and nonmanufacturing sectors. They will also continue to benefit from the movement of economic activity away from New York City.

In the last twenty years, most of the state's business decline has been due to the movement of economic activity to suburban locations in neighboring states, such as Fairfield County, Connecticut, and Bergen County, New Jersey, or to the collapse of weak businesses during periods of economic downturn. Growth in the manufacturing sector will depend on the "birth" of small, new companies or on the expansion of existing companies. An aging infrastructure

and high factor costs will provide the primary barriers to developments in this area. The creation of new jobs will continue to be concentrated in nonmanufacturing industries. One of these industries—government—will show little if any growth in the near future in the face of state and local government budget crises and cutbacks in federal aid. New York City, for example, lost over 80,000 government jobs during the 1975–76 fiscal crisis and replaced fewer than 15,000 of these positions over the next five years. Service, retail trade, and financial activities will grow as the national economy continues to shift from manufacturing to service-oriented industries. This expansion could be affected, however, by the changing demographics of New York State.

Demographic Changes in New York State

Since 1960 the nation has witnessed regional shifts in population as well as in employment. Between 1960 and 1970, New York State's population increased more slowly than the national average, but at about the same rate of change as the rest of the Northeast—8.7 percent versus 13.3 percent nationally. Population trends changed sharply in the 1970s, however. While population growth in the nation slowed to 8 percent in the decade, the Northeast showed no change in population, and New York State lost 680,000 people. The primary cause for this loss was the net out-migration (the difference between arriving and departing migrants) of more than 1.5 million persons.[28] New York City's net loss of 823,000 people between 1970 and 1980 was a major factor in the state's population decline in that period.

What are the characteristics of the population that has been leaving the state? While New York State lost 680,000 persons between 1970 and 1980, its white population fell by nearly 1.9 million people and the minority population grew by 1.2 million.[29] The state's population grew more aged as well. As shown in Table 3.6, the largest decrease in population was in the 0–13 age categories. The state also lost 308,000 persons in the age 45–64 category, a decrease of nearly 8 percent compared with a 6.5 percent increase in this age range nationally. This loss was offset by the increased number of persons between the ages of 25 and 44, the other primary source of workers. Thus, New York showed a net gain of 98,000, or 12 percent, in working-age population in the 1970s, while these age groups grew nearly 20 percent nationally. At the same time, the number of elderly in New York increased 10 percent.

TABLE 3.6

Distribution of Population Within New York State, by Age, 1960, 1970, and 1980

Age	1960	1970	1980	Change 1970–80 Number	Change 1970–80 Percentage
Under 5	10.1%	8.2%	6.5%	−351,000	−23.6%
5–13	17.5	16.8	13.0	−764,000	−25.0
14–17	6.5	7.1	7.2	− 39,000	− 3.0
18–24	5.6	10.9	12.3	+176,000	+ 8.9
25–44	27.1	24.2	27.5	+406,000	+ 9.2
45–64	23.2	22.1	21.2	−308,000	− 7.6
65 and over	10.1	10.7	12.3	+200,000	+10.2
Total	100.0	100.0	100.0	−680,000	− 3.7

Source: U.S. Bureau of the Census, *Statistical Abstract, 1962, 1972, 1981.*

New York's population also became relatively poorer. Between 1970 and 1978, the average per capita income in the nation doubled while that in New York State grew 80 percent. Recent income distribution figures reveal that poverty has been increasing in the older central cities of New York State as well. In New York City, for example, average family income in 1969 was 71 percent of its suburbs. By 1978, the figure for the city had dropped to 64 percent. In the same period, the number of people living in poverty in New York City rose from 14.6 percent to 18.2 percent of the population.[30] Similar patterns are found in the largest upstate cities.

The Relationship of New York State's Economy to State Finance

While New York State's economic and demographic decline over the last two decades have been well documented, the relationship between the declining economy and New York State's fiscal problems has not been adequately studied. "Indeed, far more attention . . . has been focused on the financial management issues which surrounded the New York City and State financial crises than on the fiscal implications of their economic problems."[31] This section examines changes in state expenditures and tax revenues over the

last twenty years and the relationship of these changes to the state's rate of economic growth.

Expenditure Patterns

In 1950, New York, like most states in the country, played a relatively minor role in the provision of services to its citizens and of aid to its local governments. The state was essentially a three-function government: expenditures for highways and mental health made up over half of total state direct expenditures,[32] while aid to elementary and secondary education accounted for nearly half of the assistance to local governments.

Both urbanization (the movement of people from rural areas to the cities) and metropolitanization (the redistribution of population and economic activities between city and suburb) led to three major changes in the role of state government after 1950. First, direct state expenditures grew dramatically, representing a major expansion of the state university system, the introduction of collective bargaining for state employees, and the state assumption of local costs of selected functions, such as the courts. Second, the state greatly expanded its aid to localities, particularly in the areas of education, social services, and local revenue-sharing. Finally, following national patterns, the mix of services and aids provided by the state changed, reflecting a shift away from the traditional emphasis on highways, mental health, and elementary and secondary education.

Expenditures from the General Fund fall into three broad categories: state operating, local assistance, and capital construction and debt service.[33] The budget for state operations accounts for approximately one-third of total General Fund appropriations. It includes the cost of operating the twenty departments of the executive branch, the legislature, and the judiciary, as well as contributions to state employee retirement funds and funds for the operation of the state university system. Table 3.7 shows actual expenditures for the largest categories within the state operations budget between 1960 and 1980; Table 3.8 presents these figures after they have been adjusted for inflation, or in "real" dollars. Between 1960 and 1970 actual expenditures tripled from $624 million to $1.853 billion while expenditures in real dollar terms doubled. Half of this growth was caused by expansion of the state university system and growth in state employee fringe benefits. New York State in-

TABLE 3.7

State Operations Budget, by Major Category,
1959–60 to 1979–80 (in Millions)

	1959–60	1964–65	1969–70	1974–75	1979–80
Mental health	$207	$230	$ 341	$ 510	$ 661
Higher education[a]	59	178	417	647	946
Transportation	57	64	160	223	276
Corrections	41	54	71	175	298
Other departments and other	239[b]	278	588	924	1,062
Judiciary/legislature	21	19	38	69	299
Employee fringe benefits	—	109	238	541	801
Total state operations	$624	$933	$1,853	$3,089	$4,343

Source: New York State, *Annual Report of the Comptroller*, various years.
[a]Includes operation of the State University of New York and scholarships.
[b]Includes employee fringe benefits.

TABLE 3.8

State Operations Budget, by Major Category, 1959–60 to 1979–80 (in Millions), in Real Dollars[a] (1960 = 100)

	1959–60	1964–65	1969–70	1974–75	1979–80
Mental health	$207	$202	$ 227	$ 253	$ 219
Higher education[b]	59	156	278	322	314
Transportation	57	56	107	116	92
Corrections	41	47	47	87	99
Other departments and other	239[c]	244	392	459	353
Judiciary/legislature	21	17	25	34	99
Employee fringe benefits	—	96	159	269	266
Total state operations	$624	$820	$1,234	$1,535	$1,442

Source: New York State, *Annual Report of the Comptroller*, various years.
[a]All figures deflated to 1960 base using the gross national product implicit price deflator for state and local government goods and services.
[b]Includes operation of the State University of New York and scholarships.
[c]Includes employee fringe benefits.

troduced public collective bargaining in 1967. Although the 1959–60 budget does not report employees fringe benefits as a separate item, in 1964–65 the state spent $109 million in this category, and by 1969–70 had increased its spending to $238 million.

Inflation accounted for most of the expenditure growth that occurred during the 1970s. Between 1969–70 and 1974–75, state operations increased 69 percent, from $1.853 billion to $3.089 billion, but in real dollar terms, this part of the budget grew $300 million, or 25 percent. Half of the real growth was again in the areas of higher education and employee fringe benefits, although the corrections budget doubled. In the second half of the decade, expenditures on state operations grew another $1.25 billion, but in real dollars expenditures decreased by 6 percent. Spending on mental health dropped by 14 percent in real dollars, while fringe benefit and state university expenditures remained stable. The major area of real growth was the judiciary, reflecting the state's assumption of the administrative costs of city and county-level courts under the Unified Court Budget Act of 1976.

The differential rates of growth within the state operations budget have resulted in a different mix of direct state services in 1980 than had existed twenty years earlier. Table 3.9 shows each of

TABLE 3.9

State Operations Budget, by Category, as a Percentage of Total, 1959–60 to 1979–80

	1959–60	1964–65	1969–70	1974–75	1979–80
Mental health	33.2%	24.7%	18.4%	16.5%	15.2%
Higher education[a]	9.5	19.1	22.5	20.9	21.8
Transportation	9.1	6.9	8.6	7.2	6.4
Corrections	6.6	5.8	3.8	5.7	6.9
Other departments and other	38.3[b]	29.8	31.7	29.9	24.5
Judiciary/legislature	3.3	2.0	2.1	2.2	6.9
Employee fringe benefits	—	11.7	12.8	17.5	18.4
Total state operations	100.0	100.0	100.0	100.0	100.0

Source: Calculated from data in Table 3.7.
[a]Includes operation of the State University of New York and scholarships.
[b]Includes employee fringe benefits.

the major expenditure categories as a percentage of the total state operations appropriation over time. In 1960, one-third of this fund was devoted to mental health; twenty years later this share was down to 15.2 percent. Similarly, the share of the budget devoted to transportation declined from 9.1 to 6.4 percent. However, higher education's portion of the state operation budget more than doubled over this period, from 9.5 to 21.8 percent, while the share accorded to employee fringe benefits grew rapidly after 1965.

Sixty percent of General Fund dollars are distributed to localities through grants to local governments for their general operation (for example, state-local revenue-sharing) and for certain specific purposes (for example, education and social services). The majority of these expenditures are in the form of statutorily mandated aid to local governments or reimbursement of social service expenditures, the cost of which the state is also mandated to share. Tables 3.10 and 3.11 present data on the growth in the Local Assistance Fund between 1960 and 1980.

Three-quarters of the Local Assistance Fund is channeled through education and social service aid programs. Between 1960 and 1970, the Local Assistance Fund grew dramatically in both actual (253 percent) and real (135 percent) dollars. Support to public schools grew from $602 million to $2.028 billion, accounting for 54 percent of the overall growth in local assistance aid. This infusion of aid reflected the 22 percent growth in public school enrollments during this time and the increasing role of state aid in funding education. In 1959, state aid represented 35.4 percent of total state and local expenditures for elementary and secondary education; ten years later this percentage was 45.5 percent.[34]

Social services aid also grew rapidly, 252 percent in real dollars. Three factors drove up these costs. First, the demographic changes among the state's population during the 1960s, particularly in New York City, coupled with a broadening by the state of eligibility requirements in the Aid to Families with Dependent Children (AFDC) program, made more people eligible for aid under New York's basic income maintenance programs. These programs, Supplemental Security Income (SSI—aid to the aged, blind, and disabled), AFDC, and Home Relief are entitlement programs; any person who meets the state's eligibility criteria for these programs, and applies for it, receives aid. Second, the enactment of the Medical Assistance to the Needy (Medicaid) program in 1966, together with New York State's unusually liberal income requirements for its Medicaid program, expanded the number of citizens eligible for

TABLE 3.10

Distribution of Local Assistance Funds by Purpose, 1959–60 to 1979–80 (in Millions)

Category	1959–60	1969–70	1974–75	1979–80
Aid to education	(638)	(2,187)	(2,941)	(4,042)
Support to public schools[a]	$602	$2,028	$2,603	$3,446
Aid to municipal and community colleges	3	134	302	383
Other	33	26	36	213
Social services	(166)	(878)	(1,382)	(1,866)
Income maintenance		295	496	680
Medical assistance		319	536	748
Other		264	349	438
Health and environment	32	64	178	171
Mental health	12	59	80	155
Transportation	66	130	211	285
Housing	18	48	113	61
Miscellaneous	16	35	136	271
State-local revenue-sharing	97	287	597	829
Total	$1,045	$3,688	$5,637	$7,680

Source: New York State, *Annual Report of the Comptroller*, various years.
[a]Figures for 1979–80 include aid paid to school districts out of a first instance appropriation supported by Lottery Fund receipts. These Lottery Fund expenditures were substituted for payments made in years prior to 1977–78 from the Local Assistance Fund.

subsidized medical care. Prior to this time, federal and state support of medical expenses was available only to those persons participating in SSI and AFDC programs. It has been estimated that in the year prior to the enactment of Medicaid, the medical assistance portion of the total welfare budget was 12 percent.[35] By 1970, Medicaid represented 36 percent of the social services aid. Finally, the monthly benefits for several of these programs were raised during the decade. As a result of all of these forces, the average number of monthly recipients of social service programs more than tripled, from 518,637 to 1,847,667, while social service aid grew more than five-fold in actual dollars.

In the early 1970s, growth in local assistance aid kept just ahead of inflation. Aid to elementary and secondary education ac-

TABLE 3.11

Distribution of Local Assistance Funds by Purpose, 1959–60 to 1979–80 (in Millions) in Real Dollars[a] (1960 = 100)

Category	1959–60	1969–70	1974–75	1979–80
Aid to education	(638)	(1,457)	(1,462)	(1,341)
Support to public schools[b]	$602	$1,351	$1,294	$1,144
Aid to municipal and community colleges	3	89	150	127
Other	33	17	18	71
Social services	(166)	(585)	(687)	(619)
Income maintenance		196	247	226
Medical assistance		212	266	248
Other		176	173	145
Health and environment	32	43	88	57
Mental health	12	39	40	52
Transportation	66	87	105	95
Housing	18	32	56	20
Miscellaneous	16	22	68	90
State-local revenue-sharing	97	191	297	275
Total	$1,045	$2,456	$2,802	$2,550

Source: New York State, *Annual Report of the Comptroller*, various years.
[a]All figures deflated to 1960 base using the gross national product implicit price deflator for state and local government goods and services.
[b]Figures for 1979–80 include aid paid to school districts out of a first instance appropriation supported by Lottery Fund receipts. These Lottery Fund expenditures were substituted for payments made in years prior to 1977–78 from the Local Assistance Fund.

counted for only 30 percent of the growth in actual dollars between 1969–70 and 1974–75 and declined by 4 percent in real dollars. Social services aid grew slightly in real dollars, as the number of welfare recipients increased another 10 percent, and Medicaid expenditures claimed 39 percent of the social service aid budget. State-local revenue-sharing aid grew rapidly after the funds distributed under this formula were tied to growth in the state's income tax collections in 1972.

Between 1974–75 and 1979–80, aid to local governments grew by another $2 billion, but in real dollars aid slipped 9 percent to a level not far above that allocated ten years earlier. Education aid

accounted for a larger percentage of the overall increase in aid, but in real dollar terms declined another 14 percent. Because of growth in aid to municipal and community colleges and aid to private colleges and parochial schools, state support for public schools dropped from 94 percent of total aid to education in 1970–71 to 85 percent ten years later. Expenditures for social services increased nearly $500 million, or 35 percent during the late 1970s, while the number of recipients declined 8 percent. The medical assistance program was the cause of nearly half of this increase. Income maintenance payments remained relatively stable between 1974–75 and 1979–80, but in 1978 the state assumed the local share of supplementary social insurance costs which were $200 million in 1980. State-local revenue-sharing grants continued to grow rapidly in the late 1970s with the steady increase in income tax collections. In 1979 the allocation was changed to 8 percent of total tax receipts and a year later support was frozen at 1979–80 levels.

Table 3.12 traces the changes in priorities in state funding to local governments over the last twenty years. State aid to education grew from 61 percent of total local aid in 1960 to a high of 67.4 percent in 1963–64. Since then, education aid as a share of total local aid and aid to elementary and secondary public schools as a percentage of total education aid have declined. Support to public

TABLE 3.12

Local Assistance Aid Programs,
as a Percentage of Total Local Assistance Funds,
1959–60 to 1979–80

Category	1959–60	1969–70	1979–80
Aid to education	(61.1)	(59.3)	(52.6)
Support to public schools	57.6%	55.0%	44.8%
Aid to municipal and community colleges	0.3	3.6	5.0
Other	3.2	0.7	2.8
Social services	(15.6)	(23.8)	(24.3)
Income maintenance	—	8.0	8.9
Medical assistance	—	8.7	9.7
Other	—	7.1	5.7
State-local revenue-sharing	9.3	7.8	10.8
Other	14.0	9.1	12.3

Source: Calculated from figures in Table 3.10.

schools represented less than 45 percent of local assistance aid (and 26 percent of General Fund expenditures) in 1980, as new programs, such as aid to municipal and community colleges and aid to nonpublic schools, gained a foothold in the budget. The rapid growth in social services aid in the 1960s and early 1970s left it with a stable 24 percent of the local assistance budget during the 1970s.

The State Revenue System

State revenues grew rapidly in New York State to meet the expenditure demands discussed above. In 1960, the state raised nearly $2 billion in tax revenues; twenty years later tax revenues totaled more than $12 billion. Some of this revenue growth resulted from growth in the state's economy; some of the growth represents changes to the structure of the state's tax system.

General Fund revenues are obtained primarily from four major types of taxes: personal income, general business, consumption and use, and all other. About 5 percent of General Fund revenues come from federal revenue-sharing and miscellaneous sources.[36] Table 3.13 shows the sources of tax revenues in New York State compared with the average distribution of revenue sources nationally. New York State relies heavily on the personal income tax. While 26.4 percent of state tax revenues are collected from this source nationally, the state income tax accounts for nearly one-half of New York State's tax revenues. The other striking difference in source of revenues is in consumption and use taxes. While states, on average, raised one-half of their revenues from sales and excise taxes, New York raised only 34 percent from these sources.

Different tax instruments respond in different ways to changes in a state's economy. For example, New York State's progressive income tax is generally viewed as income-elastic; that is, tax revenues will grow at a faster rate than the increase in income. This occurs because growth in income, whether real or inflationary, pushes taxpayers into higher tax brackets with greater tax liabilities. Sales tax revenues are also sensitive to inflation-induced increases in prices. Excise taxes, however, are less income-elastic as people do not consume proportionately more alcohol, cigarettes, or gasoline as their incomes rise. Table 3.14 shows the yield from the state's major taxes between 1960 and 1980. Between 1960 and 1965, revenues grew at an annual average rate of 2.5 percent. In the next five years, however, total tax revenues increased dramat-

TABLE 3.13

Percentage Distribution of Tax Revenues for New York State and the United States, 1979–80

Source	Percentage Distribution	
	New York State	United States[a]
Personal income	47.6%	26.4%
General business	16.3	12.1
Corporation and utilities	(4.4)	
Corporation franchise	(8.4)	
Other general business	(3.5)	
Consumption and use	34.0	48.5
Sales and use	(23.3)	
Motor vehicle, motor fuel, and highway use	(6.5)	
Alcoholic beverage	(1.5)	
Cigarette	(2.7)	
Other	2.1	13.0
Inheritance and estate	(1.0)	
Pari-mutuel	(1.0)	
Other	(0.1)	

Sources: *Preliminary Annual Financial Report of the Comptroller, State of New York*, 1980; Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism 1979–80 Edition*, M-123 (Washington, D.C.: Government Printing Office, 1980), Table 58.2.
[a]Estimated.

ically—nearly 22 percent a year, because of a strong economy and the enactment of a state sales tax in 1967. Total tax revenues grew much more quickly than personal income; total taxes rose from 4.7 percent of state personal income in 1964–65 to 7.2 percent in 1969–70. The recessions of 1969 and 1974, combined with the continued expansion of government spending, forced the state to impose tax rate increases. In 1972 the maximum income tax rate was raised to 15 percent and a 2.5 percent surcharge was imposed. The rate changes were largely responsible for the increase in tax revenues between 1969–70 and 1974–75, and the rise in the tax burden to 8 percent of income.

Renewed economic growth in the late 1970s enabled Governor Carey to initiate a three-year program of tax reductions in 1978 designed to return the maximum rate on earned income from the 15

TABLE 3.14

Changes in Major Tax Revenues, 1959–60 to 1979–80 (in Millions)

	Personal Income		General Business		Sales/Use		Consumption		Other		Total	
	$	Percentage Annual Change	$	Percentage Change	$	Percentage Change	$	Percentage Change	$	Percentage Change	$	Percentage Change
1960	$ 757		$ 399		—		$ 537		$219		$ 1,912	
1965	909	3.7%	425	1.3%	—	—	575	1.4%	249	2.6%	2,158	2.5%
1970	2,506	22.5	962	17.8	$1,012	—	1,014	12.0	322	5.3	5,816	21.9
1975	3,589	7.4	1,456	8.6	2,001	14.6%	1,300	5.1	332	0.6	8,678	8.3
1980	$5,780	10.0	$1,973	6.3	$2,824	7.1	$1,290	−0.2	$255	−5.1	$12,122	6.9
Change in Real Dollars												
1960–1970		8.2		7.8		—		5.2		2.6		10.4
1970–1980		1.4		−2.6		0.5		−7.1		−11.3		−2.4

Source: Calculated from data in New York State, *Annual Report of the Comptroller*, various years.

percent rate set in 1972 to the pre-1968 maximum of 10 percent. These rate changes limited the potential growth of the state income tax. For example, in 1978–79 the maximum rate was dropped from 15 to 12 percent. It was projected that without the rate adjustments the net increase in income tax revenues over 1977–78 would have been $1 billion, or 13 percent, rather than the actual adjusted increase of $605 million, or 6.8 percent.[37] These changes in tax rates decreased growth in state revenues to an average of 6.9 percent a year in the late 1970s and also slowly reduced the burden of state taxation. By 1980 the ratio of taxes collected to personal income had dropped to 7.5 percent.

Outlook for the Future

In this chapter we have described changes in New York State's economy and demography and examined state expenditure and revenue trends over the last twenty years in order to forecast the fiscal conditions facing school finance reformers. Two questions must be addressed: How much will state revenues increase in the near future? How many of these new state dollars can be used to reform the state's education aid system?

It is difficult, if not impossible, to predict the growth in state revenues over a long period of time since factors outside the control of the state—such as national economic cycles, the rate of inflation, and population changes—affect the flow of revenues. One can try to estimate the magnitude of tax revenue growth, however, by making assumptions about the future of the state's economic structure and then projecting from years with similar employment growth patterns and tax revenue policies.

The underlying structure of New York State's economy has stabilized, as its economic base has shifted from manufacturing to financial and service industries. It has become less sensitive to downturns in the national economy, but at the same time less responsive to economic upswings. Therefore, employment in the state should, with the exception of recession-plagued years, continue to grow slowly throughout the 1980s, at a rate comparable to the late 1970s, but well below the national average. In the late 1970s, personal income increased at a rate of about 10 percent a year, below the rate of inflation but consistent with New York State's declining population and slowly growing economy. Although the state reduced income and business tax rates during this period, total tax

revenues grew an average of 9.5 percent for every 10 percent increase in income, generating an additional $1.3 billion to $1.5 billion a year in tax dollars. The state's tax burden, as measured by the ratio of taxes to income, continued its slow decline, but remained above the national average ratio of 6.6 percent.[38]

The flow of tax dollars into the state treasury is also affected by state tax policy. It appears that the Cuomo administration will continue to keep the lid on personal income, business, and sales tax rates. When faced with a substantial deficit in his fiscal 1984 budget, the governor recommended raising excise taxes and fees, and cutting the number of state employees, rather than increasing any of the broad-based taxes. This policy, which is designed to encourage business expansion in the state, will keep tax revenue growth in line with personal income growth. For purposes of this study we will assume that revenues will increase by the same approximate dollar amount as they did in the period 1978–82, about $1.5 billion annually.

Education aid programs must compete with other programs and services for these limited new state dollars. Since the mid-1960s aid to elementary and secondary education has been declining as a percentage of local assistance aid and of the total General Fund. In 1964–65, the support of the public schools program represented 36 percent of the state budget. In 1969–70, this share was down to 32.7 percent; it dropped to 24 percent by 1981–82. If this aid program continues to receive one-quarter of the annual increase in state revenues, and if revenues grow by $1.5 billion a year, state aid increases will total $375 million a year. This compares to increases of $245 million a year between 1979–80 and 1981–82 in the support of public schools category.

The competition for funds between education and other programs will be aggravated in the future not only by the continued slow growth in state revenues, but by changing demographics and a long-standing proposal, supported by Governor Cuomo, that the state assume most of local Medicaid costs. New York State's population became smaller, older, more heavily minority, and more impoverished in the 1970s. Although the rate of population decline may slow in the 1980s, the other trends will continue. The number of children enrolled in public schools decreased 11 percent between 1970 and 1979, a rate three times greater than the change in total population. School enrollments will continue to fall, while the number of persons dependent on other public services, especially welfare and Medicaid benefits, will stabilize or grow. As the cost of

health and welfare services has grown, New York City and the state's counties have looked to state government to relieve them of their burden. In 1981, Governor Carey proposed that the state take over the full local cost of Medicaid over a four-year period. Two years later Governor Cuomo suggested that the state pick up all but 10 percent of the local Medicaid bill by 1988. The total cost to the state then would be $6 billion, an amount almost 50 percent larger than current state support for elementary and secondary education.

In summary, school finance reformers face an uphill fiscal battle. Structural changes in the national and state economies have left New York with a more stable, but slowly growing economy. The rate of growth in personal income is declining while state tax policies, designed to encourage economic expansion, have reduced the potential yield of state tax instruments. The rapid expansion of health, welfare, and higher education expenditures in the 1970s has left elementary and secondary education with a significantly smaller share of the state budget. Proposals for state assumption of Medicaid costs, as well as an increased demand for social services from a changing population, jeopardize education's position even further. There is little evidence that education interests can gain a larger piece of the pie. They are faced with two options: design a reform plan whose costs stay within the $375 million increment discussed earlier or work with other groups to change state tax policies to enable state revenues to grow at a greater rate than projected.

The last three chapters identified basic inequities in New York's school finance system and described the political and economic backdrop against which school finance reform efforts will be played out. Before they can design an appropriate reform program, however, decision-makers must understand the limitations of existing policies. To enhance this understanding, the next three chapters describe and evaluate the structure of New York's basic school aid formula and the way in which the two major components of the formula—a school district's ability to finance education and the level of educational need—are specified.

Notes

[1]David Puryear and Roy Bahl, *Economic Problems of a Mature Economy*, p. vii.

[2]In 1980, with 7.8 percent of the population, the state provided 8.0 percent of the nation's jobs and generated 8.4 percent of its income. These figures were compiled

from U.S. Bureau of the Census, *Statistical Abstract of the United States, 1981*; and U.S. Bureau of Labor Statistics, *Supplement to Employment and Earnings, States and Areas, Data for 1977–1981.*

[3]Herbert Bienstock, "New York City's Labor Market: Past Trends, Current Conditions, Future Prospects," p. 5.

[4]Bienstock, pp. 5, 8.

[5]U.S. Bureau of Labor Statistics, *Employment and Earnings, States and Areas, 1939–1978,* and *Supplement, 1977–1981.*

[6]U.S. Bureau of Labor Statistics, *Employment and Earnings.*

[7]See, for example, Peter D. McClelland, "The Structure of the Employment Problem," p. 40; Janet Rothenberg Pack, "Frostbelt and Sunbelt: Convergence Over Time"; and Benjamin Chinitz, "Manufacturing Employment in New York State: The Anatomy of Decline," p. 77.

[8]Puryear and Bahl, p. 42.

[9]Puryear and Bahl, p. 41.

[10]Jacqueline Mazza and Bill Hogan, *The State of the Region 1981: Economic Trends in the Northeast and Midwest*, Appendix M.

[11]Regina B. Armstrong et al., *Regional Accounts: Structure and Performance of the New York Region's Economy in the Seventies*, p. 112.

[12]Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1981–82 Edition* M-135. Tables 22.1 and 23.

[13]Armstrong et al., Table 13. Income taxes as a percentage of profit-type income from domestic operations were also higher in the New York region. However, four-fifths of these taxes were collected by the federal government; no data were available on the incidence of *state* corporate income taxes.

[14]Mazza and Hogan, Appendix O.

[15]Richard Corrigan and Rochelle L. Stanfield, "Rising Energy Prices—What's Good for Some States Is Bad for Others," *National Journal*, March 22, 1980, p. 469.

[16]Bienstock, pp. 12, 13.

[17]David Birch, *Regional Differences in Factor Costs: Labor, Land, Capital and Transportation* (Cambridge, Mass.: MIT Program on Neighborhood and Regional Change, 1976), as cited in Birch, p. 50. Analysts of industrial location decision-making theorize that the process involves several stages. In the first stage, choosing a general area as opposed to a specific site, selection is based on factors such as markets, labor market conditions, raw materials, and transportation.

[18]U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal and Intergovernmental Policy, *Central City Businesses—Plans and Problems.*

[19]"The Second War Between the States," *Business Week*, May 17, 1976, pp. 92–114.

[20]Mazza and Hogan, Appendix H.

[21]Carol L. Jusenius and Larry C. Ledebur, *Documenting the "Decline" of the North*; David Birch, *The Job Generation Process*; and Advisory Commission on Intergovernmental Relations, *Regional Growth: Interstate Tax Competition.*

[22]Jusenius and Ledebur, pp. 2–3. This study used Dun and Bradstreet data which covered 60.7 percent of all firms located in the Middle Atlantic region in 1970.

[23]Birch, p. 28.

[24]Jusenius and Ledebur, p. 10.

[25]Carol L. Jusenius and Larry C. Ledebur, *Where Have All the Firms Gone? An Analysis of the New England Economy*, p. 2.

[26]Advisory Commission on Intergovernmental Relations, *Regional Growth*, Table 12 and Appendix Table 5-4. The classifications included food, textiles, apparel, chemical, fabricated metals, machinery, and electrical equipment. There were considerable differences in the region of relocation *among* these industrial classifications. The manufacturing establishments included in this study employed twenty or more persons.

[27]Twentieth Century Fund, Task Force on the Future of New York City, *New York—World City*, p. 133.

[28]U.S. Bureau of the Census, *Statistical Abstract 1982–83*, Table 12.

[29]There is no exact comparability between the 1970 and 1980 Census counts by racial background. Many Hispanic people who listed themselves as white in 1970 classified themselves as "other" in 1980. This made the decline in whites appear to be greater than it was.

[30]Figures from the President's National Urban Policy Report, cited in "U.S. Poverty Is Found Declining Everywhere But in Big Inner Cities," *New York Times*, September 29, 1980.

[31]Roy Bahl, "Fiscal Retrenchment in a Declining State: The New York Case," p. 277.

[32]Seymour Sacks, "Financing the State," p. 127.

[33]State expenditures in New York are reported through a number of funds. The General Fund represents that portion of state expenditures (approximately two-thirds of total expenditures) which are included in the governor's annual budget and are not earmarked for specific purposes. The governor and legislature have, in theory, discretion over how these funds are spent. The General Fund does not include all transportation bond monies used for highways, expenditures by agencies such as the Urban Development Corporation, the expansion of mental health and state university facilities, or most federal aid. Therefore, the following analysis, which focuses on the General Fund, must be viewed within these limitations. Between 1950 and 1980, General Fund appropriations grew thirteen-fold from $989 million to $13.1 billion. When these figures are adjusted for inflation the growth rate is 200 percent.

[34]Donna E. Shalala, "State and Federal Aid in New York," p. 253.

[35]Shalala, p. 256.

[36]In 1979–80, 61.2 percent of the state's revenues were raised through state taxes, 10.3 percent came from miscellaneous revenue sources, such as lottery operations, income from investments, licenses and fees, and reimbursement for services provided by state institutions and agencies, and the remaining 28.5 percent was provided by the federal government. All of the revenues from federal grants (95 percent of total federal revenues) and three-quarters of revenues from miscellaneous revenues are earmarked for use on specific programs, such as federal aid to localities for social service programs, debt service payments for parks, state education, and health facilities, and the operation of specific state programs.

[37]New York State, *Annual Report of the Comptroller*, 1979, p. 11.

[38]Figures computed from Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1979–80 Edition*, Table 51. These figures do not take into account increases in tax burden that may result from changes in local government tax rates.

CHAPTER IV

New York State Education Aid Policy: The Formulas and Their Impact

The *Levittown* v. *Nyquist* litigation documented basic inequities in New York's system of financing education in 1974–75: School districts in New York State differed significantly in how much they invested in the education of their children; districts with the greatest educational needs did not necessarily spend more than districts with lesser educational needs; and the wealth of a child's parents and neighbors often determined the amount of money spent on his or her education. The data presented in this chapter show that these inequities persist into the 1980s. The chapter also describes the rationale and operation of the New York State education aid formula, and the reasons that it fails to equalize education expenditures across the state.

Educational Spending Disparities: 1981–82

The educational spending data on which Judge Smith based his findings in *Levittown* v. *Nyquist* are now almost a decade old. Have the tremendous spending differences among New York State's school districts narrowed since the trial? Table 4.1 provides the answer. While spending for education increased greatly over this

TABLE 4.1

Disparities in Expenditures per Pupil, 1974–75 and 1981–82

Expenditures per Pupil[a,b]	1974–75	1981–82
Highest	$4,215	$12,173
90th percentile	2,015	3,571
10th percentile	1,089	1,921
Lowest	936	1,346
Mean	$1,458	$ 2,609
Range (highest to lowest)	4.5:1	9.0:1
Range (90th to 10th percentile)	1.9:1	1.9:1

Sources: Data for 1981–82 from the New York State Education Department, compiled and analyzed by Educational Testing Service; data for 1974–75 from Joel S. Berke and Jay H. Moskowitz, "Analysis of Data Contained in 'School District Basic Fiscal Data, 1974–75' and 'New York State Consolidated Data Base, 1974–75'" (Princeton, N.J.: Education Policy Research Institute, Educational Testing Service, June 1976).

[a]Excludes New York City.

[b]1974–75 figures are Approved Operating Expenditures per Average Daily Attendance Total Aidable Pupil Units; 1981 figures are Estimated Approved Operating Expenditures plus Selected Public Handicapped Excess Cost Aid Payable per Average Daily Membership TAPU and Total Resident Weighted Handicapped Students.

period, the disparities between high- and low-spending school districts remained wide. In 1981–82 a child attending school in Addison, a district with relatively low property wealth in Steuben County, had the distinction of attending school in the lowest spending district in the state. Addison's per pupil expenditure of $1,346 is about 11 percent of the $12,173 spent on each child attending school on Fisher's Island, a property-wealthy district on Long Island. These districts, of course, represent the extreme disparities. But even when the highest-spending 10 percent and the lowest-spending 10 percent are removed from our inspection as being atypical, the remaining 80 percent of the state's districts are by no means on equal footing. Among these more typical districts we find a difference of almost 2 to 1 in expenditures between the highest- and lowest-spending districts, the same difference observed during 1974–75.

Table 4.2 attempts to recognize the cost differences between New York's upstate and downstate areas by showing spending disparities for each area separately for 1981–82. Even when costs are

TABLE 4.2

Disparities in Expenditures per Pupil, Upstate and Downstate, 1981–82

Expenditures per Pupil[a,b]	Upstate	Downstate
Highest	$4,809	$12,173
90th percentile	2,702	4,044
10th percentile	1,845	2,595
Lowest	1,346	1,940
Mean	$2,251	$ 3,265
Range (highest to lowest)	3.6:1	6.3:1
Range (90th to 10th percentile)	1.5:1	1.6:1

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Estimated Approved Operating Expenditures plus Selected Public Handicapped Excess Cost Aid Payable per Average Daily Membership Total Aidable Pupil Units and Total Resident Weighted Handicapped Students.
[b]Excludes New York City.

crudely taken into account, as in this analysis, wide disparities remain. There is a range of spending in upstate school districts of over 3.5 to 1 and more than 6 to 1 in downstate districts. The range in both parts of the state between the more typical 80 percent of the districts is about 1.5 to 1, slightly smaller than the range statewide.

Resource Disparities and Educational Need

Such wide disparities in spending can be justified on an equity basis only if they reflect differences in educational need among school districts. From an equity standpoint we would expect districts with many low-achieving, poor, minority, and bilingual children, and many children with physical and mental handicaps to spend at above-average levels and to receive significant help from the state in the form of school aid. This expectation is tested two ways. First, we examine the educational resources available to students attending schools in New York's Big Five school districts. Second, we group the state's 708 major school districts into groups ranked on an educational need measure and examine average aid and expenditure patterns.

The Big Five. New York City and the other cities in New York State with populations greater than 125,000—Buffalo, Rochester, Syracuse, and Yonkers—have a unique status in New York State. Unlike all other school districts in the state which share the tax bases of their geographically related local governments, the Big Five are fiscally dependent upon their municipal governments. Thus, control of the school budget in these districts is explicitly assigned to the city budgeting authority, giving the city the controlling hand in the allocation of resources among school and municipal services. The Big Five school districts also share the constitutional tax limit of their city government.

Table 4.3 shows that the Big Five are responsible for educating most of the state's special-needs children, minority group children, and poor children, as well. New York City, while enrolling about 35 percent of the state's students, enrolls about 56 percent of the low-achieving, 80 percent of the limited English-proficient, and over 40 percent of the handicapped students attending school in the state. And although not to as great an extent as New York City, the other Big Five districts are responsible for the education of a disproportionate share of the state's special-needs children. The Big Five districts also enroll 80 percent of the state's black students, almost 90 percent of the state's Hispanic students, and 65 percent of the state's poverty students. New York City alone educates 70 percent of the black, almost 87 percent of the Hispanic, and 55 percent of the state's poor students.

Expenditures and state aid per pupil for the Big Five school districts are compared with state averages in Table 4.4. Although the Big Five have a difficult educational task because of the characteristics of the students attending school in these districts, for the most part they spend below the state average and receive below-average levels of state aid. New York City, for example, spends 11 percent below the state average expenditure and receives state aid 16 percent below the state average. Of the other Big Five districts, Rochester and Yonkers spend close to the state average, while Buffalo and Syracuse spend below the state average. In terms of the help that these districts receive from the state, only Buffalo and Syracuse receive state aid anywhere near the state average. Rochester and Yonkers receive below-average levels of aid.

The Statewide Distribution. To relate aid and expenditures to educational need for the entire state, school districts are grouped

TABLE 4.3

District Share of Students by Special Education Needs and Racial/Ethnic Composition, the Big Five and Rest of State, 1981–82

	Percentage of State's Students	Percentage of State's Low-Achieving Students	Percentage of State's Limited English-Proficient Students	Percentage of State's Handicapped Students	Percentage of State's Black Students	Percentage of State's Hispanic Students[a]	Percentage of State's Poverty Students[b]
New York City	34.6%	55.7%	80.3%	41.1%	70.3%	86.8%	55.4%
Buffalo	1.7	2.2	1.2	2.6	4.4	0.6	4.1
Rochester	1.3	2.0	2.4	1.9	3.3	1.1	2.4
Syracuse	0.8	0.8	0.6	0.9	1.5	0.1	1.7
Yonkers	0.8	1.0	2.3	1.0	0.9	1.1	1.1
Big Five	39.1	61.6	86.6	47.3	80.4	89.7	64.7
Rest of State	61.9	38.4	13.4	52.7	19.6	10.3	35.3

Sources: Columns 1, 2, 3, 4, and 7 from New York State Education Department data, compiled and analyzed by Educational Testing Service, Princeton, N. J.; columns 5 and 6 from New York State Education Department, Information Center on Education, *Racial/Ethnic Distribution of Public School Students and Staff, New York State, 1981–82.*

[a]"Hispanic" includes those of Mexican, Central American, South American, Cuban, Puerto Rican, Latin American, or other Spanish-speaking origins.

[b]Data for 633 districts, 1979–80.

TABLE 4.4

Expenditure per Pupil and State Aid per Pupil, Big Five Compared with State Average, 1981–82

	Expenditure per Pupil[a]	Index to State Average	State Aid per Pupil[b]	Index to State Average
New York City	$2,305	.89	$ 832	.84
Buffalo	2,209	.85	1,021	1.02
Rochester	2,746	1.06	806	.81
Syracuse	2,402	.92	914	.92
Yonkers	2,595	1.00	510	.51
State Average[c]	$2,609	1.00	$1,001	1.00

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Estimated Approved Operating Expenditures plus Selected Public Handicapped Excess Cost Aid Payable per Average Daily Membership Total Aidable Pupil Units (ADM TAPU) and Total Resident Weighted Handicapped Students.
[b]Payable Operating Aid plus Selected Public Handicapped Excess Cost Aid Payable per ADM TAPU and Total Resident Weighted Handicapped Students.
[c]Does not include New York City.

by a measure of educational need and average expenditures and operating aid payments are shown for each need group. The variable used as a measure of student need is the ratio of the weighted student count in a school district to its unweighted student count. Weighted students include those who are low-achieving, handicapped, and/or enrolled in secondary schools.[1] In Table 4.5 all of New York State's school districts are ranked from low to high on this variable and broken into quintiles (fifths) of approximately the same number of pupils. Average values for expenditures and state aid are then calculated for each educational need group. New York City is analyzed separately because its size (one-third of the state's students) would dominate the analysis. While its educational need index is 112 percent of the state average, New York City spends at only 89 percent of the state average and receives state aid per pupil that is only 84 percent of the state average.

Statewide, there does appear to be a relationship between educational need and expenditures. Districts in the two highest need groups spend more, on average, than the districts in the other groups. It should be noted, however, that districts in the highest need group (with an average educational need index that is 107 percent of the state average) spend less than districts in the fourth

TABLE 4.5

Expenditure per Pupil and State Aid per Pupil,
Districts Grouped by Quintiles of Educational Need, 1981–82

Quintile	Educational Need Index[a]	Index of Quintile Average to State Average	Expenditure per Pupil[b]	Index to State Average Expenditure	State Aid per Pupil[c]	Index to State Average Aid
1	Less than 1.218	.96	$2,505	.96	$1,014	1.02
2	1.218–1.239	.98	2,459	.95	1,096	1.10
3	1.239–1.261	1.00	2,530	.97	1,025	1.03
4	1.261–1.294	1.02	2,844	1.09	981	.98
5	1.295–1.490	1.07	2,686	1.03	903	.91
	State Average,[d] 1.259		2,609	1.00	1,001	1.00
	New York City, 1.40	1.12	$2,305	.89	$ 832	.84

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Index is the ratio of Average Daily Attendance Total Aidable Pupil Units for Expense to Combined Adjusted ADA, 1981–82. Each quintile contains an approximately equal number of pupils, excluding New York City.
[b]Estimated Approved Operating Expenditures plus Selected Public Handicapped Excess Cost Aid Payable per Average Daily Membership TAPU and Total Resident Weighted Handicapped Students.
[c]Payable Operating Aid plus Selected Public Handicapped Excess Cost Aid Payable per ADM TAPU and Total Resident Weighted Handicapped Students.
[d]Excludes New York City.

need quintile, which have about average educational need, but spend at higher levels than any other group of districts. The distribution of state aid, however, appears not to correspond with educational need. Districts with above-average educational need (quintiles four and five) receive below-average state aid. In fact, they receive less state aid per pupil than any other group of districts, on average.

Resource Disparities and School District Wealth

The amount of money invested in a child's education in New York State has more to do with the property wealth of parents and neighbors than with educational need. Table 4.6 ranks New York State's

TABLE 4.6

Distribution of Expenditures and State Aid per Pupil, 1981–82, Districts Grouped by Deciles of Property Wealth per Pupil

Decile	Property Wealth per Pupil[a]	Expenditure per Pupil[b]	State Aid per Pupil[c]
1	$ 20,241–42,119	$2,181	$1,347
2	42,177–47,818	2,200	1,260
3	47,846–52,133	2,294	1,150
4	52,192–57,687	2,303	1,173
5	57,786–64,459	2,453	1,089
6	64,477–69,851	2,506	993
7	69,871–76,899	2,726	955
8	76,979–92,966	2,751	811
9	93,090–109,333	3,006	678
10	$109,723–923,252	3,706	513
	State Average[d]	$2,609	$1,001

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.

[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1980–81.

[b]Estimated Approved Operating Expenditures plus Selected Public Handicapped Excess Cost Aid Payable per Average Daily Membership Total Aidable Pupil Units (ADM TAPU) and Total Resident Weighted Handicapped Students, 1981–82.

[c]Payable Operating Aid plus Selected Public Handicapped Excess Cost Aid Payable per ADM TAPU and Total Resident Weighted Handicapped Students, 1981–82.

[d]Excludes New York City.

school districts from low to high on the value of taxable property backing each pupil in the school district. The districts are then broken into ten groups (deciles) of approximately equal students. New York City is excluded because of its size. The average expenditure per pupil and the average state aid received per pupil is shown for each wealth group. Figure 4.1 shows the same relationship graphically.

The advantage of living in a wealthy school district is readily apparent from these data. The wealthiest group of districts in the state spent an average of $3,706 for each of their pupils in 1981–82 while the poorest group of school districts spent only $2,181. The pattern is consistent throughout the distribution—as wealth rises, so do expenditures. The distribution of state aid, however, is quite progressive: Property-poor districts, on average, receive more state aid than do rich districts. The poorest group of school districts in the state received $1,347 per pupil, while the richest group received $513 per pupil, on average. Nevertheless, this difference in state aid, is too small to offset the advantages of property-wealthy districts in raising educational revenues.

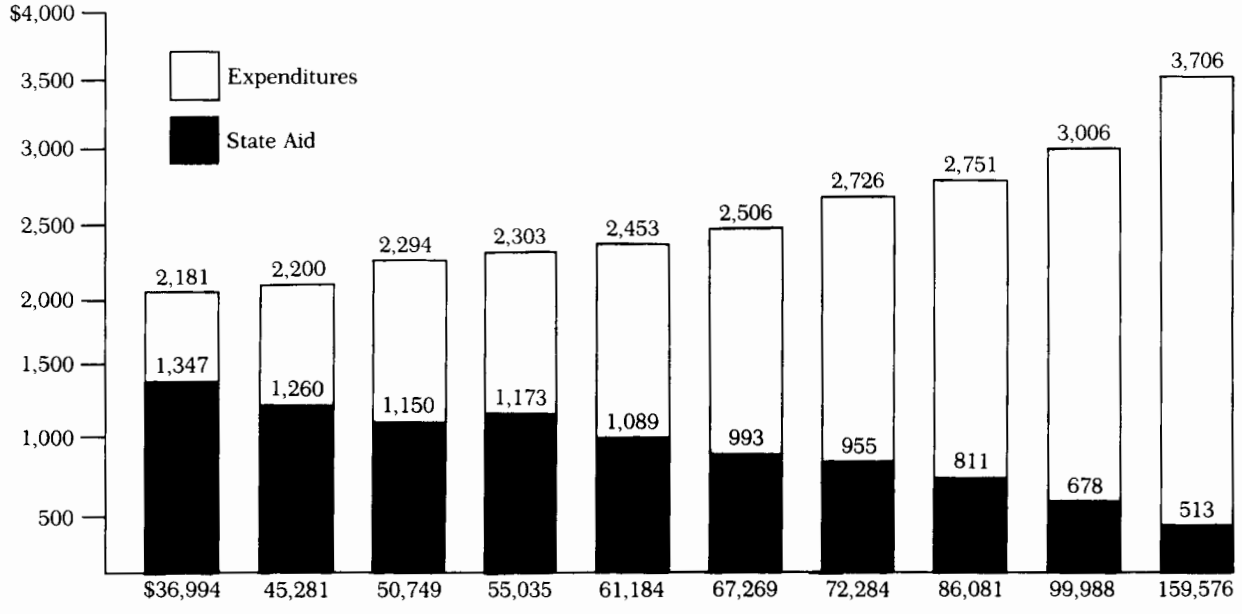
In summary, the wide disparities in educational expenditures among New York's school districts documented during the *Levittown* litigation persisted into the 1981–82 school year. These differences are attributable, in large measure, to differences in the property wealth of school districts rather than to differences in educational need. Although New York's state aid policy directs more state aid to property-poor school districts than to property-rich ones, it is ineffective in breaking the link between wealth and educational resources. The structure and limitations of this aid system are discussed next.

New York's State Aid System

New York's state aid system is designed to assure that school districts have the money necessary to support a "basic program" for all students through a combination of state and local revenues. School districts raise their share of money for education by levying property taxes. A basic source of inequity, and one to which New York State education aid policy is directed, is that a district rich in property wealth can generate more revenues for schools than poorer districts. For example, let us assume that two New York school districts—one with property wealth per pupil of $50,000 and the other

FIGURE 4.1

The Relationship of Expenditures and State Aid to School District Wealth, 1981–82



Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.

with $100,000 per pupil—tax at the same rates. A tax rate of 20 mills ($20 per $1,000 of property valuation) applied to both school districts yields the following local revenues:

Property-Poor District: $50,000 × 20 mills = $1,000 per pupil

Property-Rich District: $100,000 × 20 mills = $2,000 per pupil

Thus, for the same tax rate, the richer district can raise $1,000 more per pupil than the poorer district.

The state must assume an active financial role to ensure that a lack of property wealth does not result in unequal educational offerings to children residing in poor school districts. That role is crucial in New York since there is a tremendous range in the property wealth of its school districts (Table 4.7). The property wealth per

TABLE 4.7

Distribution of Property Wealth per Pupil, 1980–81[a]

Property Wealth per Pupil	Number of Districts	Percentage of Districts	Number of Students[b]	Percentage of Students
Less than $40,000	65	9.7%	117,185	6.9%
$ 40,000–49,999	133	19.8	271,829	16.1
50,000–59,999	137	20.4	378,229	22.4
60,000–69,999	78	11.6	299,192	17.7
70,000–79,999	53	7.9	162,819	9.6
80,000–89,999	37	5.5	75,455	4.5
90,000–99,999	36	5.3	136,857	8.1
100,000–199,999	98	14.6	216,051	12.8
200,000–299,999	17	2.5	21,051	1.2
$300,000 and over	19	2.8	9,244	0.5
Lowest	= $ 20,241			
Highest	= 923,252			
New York City	= 68,335			
Mean with New York City	= 71,670			
Mean without New York City	= $ 73,508			

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.

[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1980–81.

[b]Combined Adjusted Average Daily Membership, 1981–82.

pupil of the wealthiest district in the state, Fisher's Island, is forty-six times greater than that of Salmon River, the poorest district in the state. Even when the richest 10 percent and the poorest 10 percent of the districts are ignored, the range between the highest and lowest of the "middle" 80 percent of the districts is 2.6:1.

New York established $1,885 per pupil as representing the maximum expenditure in which it would share in 1981–82. The disparities in taxable wealth shown in Table 4.7 would force poorer school districts to tax themselves heavily in order to spend at this level, while richer districts would be able to do so easily. Differences in the tax rates that districts would have to levy in the absence of state equalization aid to raise the aidable expenditure are shown in Figure 4.2. A district with average wealth per pupil would have to impose a tax rate of 26 mills in order to raise $1,885 per pupil. The school district at the 90th percentile of wealth in the state, Herricks ($109,723), would have to tax its residents at a rate of only 17 mills to raise $1,885 per pupil, while residents of Oxford, the district at the 10th percentile of wealth in the state ($42,177), would have to bear a tax burden of 45 mills to raise that expenditure.

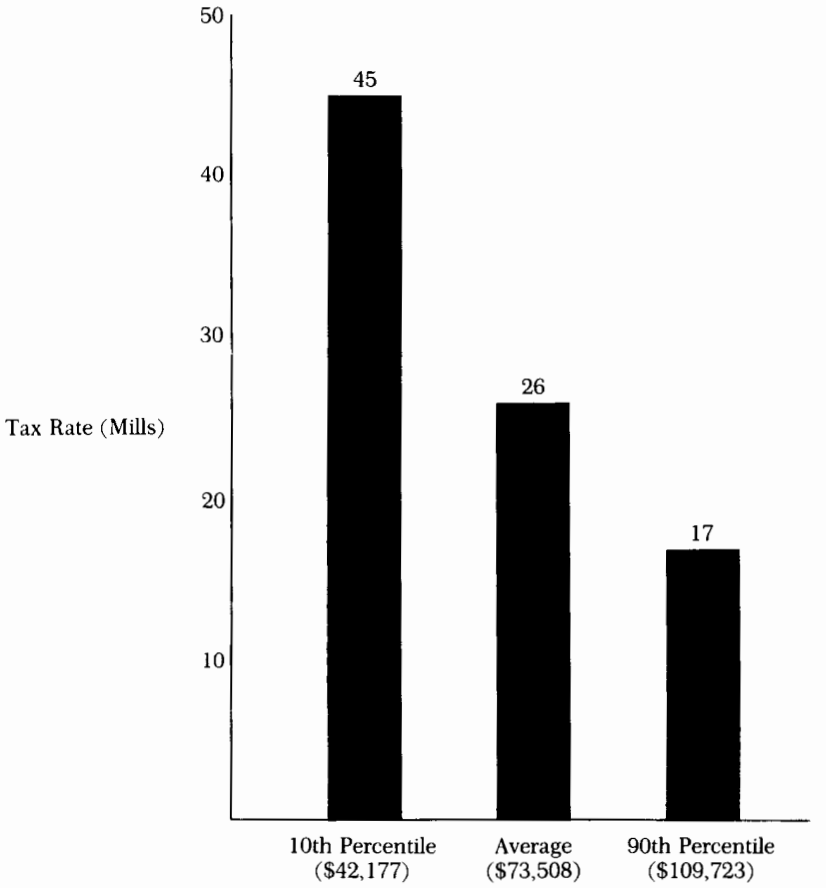
While the need for state aid is clear, the means for distributing that aid across New York State's school districts is complex. In 1981–82, over $4 billion was channeled to school districts through more than twenty different aid formulas, each embodying different variables and mathematics. Table 4.8 summarizes these aid payments. The next section of the chapter describes, in general terms, how the major education aid formulas operated in that year.[2] A detailed description of the mathematical formulas for 1981–82 can be found in Appendix A.

The Operating Aid Formula

The operating aid formula is called a two-tiered percentage equalizing formula or, more simply, an aid ratio formula.[3] This formula distributed about $2.95 billion in 1981–82, or about 70 percent of total state aid to elementary and secondary education. The legislature defines the "ceiling" expenditure in which the state will share and state aid is determined by the wealth of a school district relative to the state average school district wealth and by the educational need of the district. The state's share is also set by the legislature. In Tier 1 of the formula, the state will support 49 percent of spending

FIGURE 4.2

Property Tax Rates Required to Raise $1,885 per Pupil for a District at the 10th Percentile, Average, and 90th Percentile of the Statewide Distribution of Property Wealth per Pupil*



Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
*Based on Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1980–81.

TABLE 4.8

Summary of Aids Financed Through the General Support for Public Schools Appropriation, 1981–82

Aid Category Groups	Amount (in Millions)
Operating Aids	
Basic operating	$2,955.77
Diagnostic screening	9.88
Gifted and talented	3.00
Limited English proficiency	4.53
Handicapped—Public	266.53
Handicapped—Private	27.69
Low income	25.20
High tax	22.97
Special services	15.15
Reorganization incentive-operating	1.44
Subtotal	$3,332.16
BOCES	106.99
Transportation	443.87
Building (without BANS)	192.51
Reorganization incentive-building	2.52
Subtotal	$4,077.96
Adjustment for BOCES	0.89
Subtotal	$4,078.85
Other Aids	
Special districts	0.65
CVEEB	0.16
Section 4407 deduction	– 4.61
Subtotal	$4,075.05
Grant Programs and Other Aid Categories	
Categorical reading	$ 20.25
Asbestos	1.75
Incentive grants	10.00
Building BANS	33.91
Textbooks (including lottery aid)	49.37
Education of OMH/OMR pupils	13.62
Aid to small city districts	40.26
Refund credit	– 4.19
TOTAL CURRENT YEAR	$4,240.02
Prior year adjustments	25.00
GRAND TOTAL	$4,265.02

Source: New York State Division of the Budget, Education Unit, "Description of 1982–83 New York State Aid Programs Relating to State Support for Public Schools," August 4, 1982.

in a district with average wealth; the state share in Tier 2 is 20 percent. The rationale for these percentages is unclear, although it has been suggested that the state share has historically been selected to produce a politically acceptable level of total state support.[4]

The *ceiling amount* is the maximum approved operating expenditure (AOE) of a school district in which the state will share. In essence, the state guarantees that every district will be able to spend this amount no matter how poor the district is in property wealth. Both the school district and the state contribute to this amount. The size of the state's contribution depends on the relative ability of the school district to raise money itself for education (school district wealth) and the number and characteristics of the children it must educate (educational need).

School district wealth is defined in Tier 1 of the formula as full property valuation per total wealth pupil unit (TWPU) and in Tier 2 as adjusted gross income per TWPU. This latter measure, first used in 1981–82, is the sum of New York State taxable income reported by state taxpayers who designate a school district of residence on their income tax return. These two measures are intended to approximate the financial ability of a school district to support education. The wealth pupil measure (TWPU) counts students with special educational needs as more than one student. This makes school district wealth appear lower in school districts with high educational needs, generating more state aid.

The measure of *educational need* used in the formula is total aidable pupil units (TAPU). This is also a weighted pupil count, counting students with special needs as more than one student. The amount of per pupil aid generated by the formula is multiplied by TAPU to arrive at the district's total aid entitlement. For the specific weightings in TAPU and TWPU, see Appendix Table A.1.

Those three variables—*the ceiling amount, wealth,* and *educational need*—are plugged into an algebraic formula to calculate a school district's operating aid.

Tier 1. For a district of average property wealth per pupil, the state contributed *49 percent* of a district's approved operating expenses *up to a ceiling of $1,650.* Poorer districts received a larger portion of the $1,650 from the state and richer districts received less from the state. Algebraically, Tier 1 looked like this:

$$\text{Aid} = \left[1 - \left(.51 \frac{\text{District Wealth}}{\text{State Average Wealth}}\right)\right] \times \$1{,}650 \times \text{TAPU}$$

Tier 2. For a district of average income wealth per pupil, the state contributed *20 percent* of approved operating expenditures *above $1,650 up to a maximum of $1,885* ($235). Again, the percentage was higher for low-income districts and lower for high-income districts. Algebraically, Tier 2 looked like this:

$$\text{Aid} = \left[1 - \left(.80 \frac{\text{District Income}}{\text{State Average Income}}\right)\right] \times \$235 \times \text{TAPU}$$

The total amount of operating aid to which a district is entitled is the sum of aid generated through Tiers 1 and 2.

Calculating Tier 1 Aid. Three steps are involved in calculating the state share for an individual school district. First, a school district's aid ratio is determined.

$$\text{District Aid Ratio} = \frac{\text{District Wealth}}{\text{State Average Wealth}}$$

Second, the local share of expenditures is calculated by multiplying the district aid ratio by the state-determined local share for the average district. This latter amount is constant for all districts and is 1 minus the legislated state share.

$$\begin{aligned}\text{Local Share} &= (1 - .49) \times \text{District Aid Ratio} \\ &= .51 \times \text{District Aid Ratio}\end{aligned}$$

Finally, the state share of expenditures for a particular district is determined by subtracting the local share from 1.

$$\text{State Share} = 1 - \text{Local Share}$$

For example, the state share for a school district with property wealth per pupil of $50,000 is calculated as follows when the state average wealth is $71,670:

$$\begin{aligned}\text{District Aid Ratio} &= \frac{\$50{,}000}{\$71{,}760} \\ &= .697\end{aligned}$$

$$\text{Local Share} = .51 \times .697$$
$$= .355$$
$$\text{State Share} = 1 - .355$$
$$= .645$$

State aid for Tier 1 can now be calculated. It is simply the product of the state share and the ceiling amount. In Tier 1 of the formula, the state will aid the first $1,650 of expenditures.

$$\text{State Aid (Tier 1)} = \text{Ceiling Amount} \times \text{State Share}$$
$$= \$1{,}650 \times .645$$
$$= \$1{,}064 \text{ per pupil}$$

Calculating Tier 2 Aid. In Tier 2 of the formula the state will support 20 percent of the operating expenditure between $1,650 and $1,885 ($235) in a district of average income wealth. Tier 2 aid is calculated as follows for the school district having income per pupil of $25,000 when the state average income per pupil is $35,000.

$$\text{District Aid Ratio} = \frac{\text{District Wealth}}{\text{State Average Wealth}},$$
$$= \frac{\$25{,}000}{\$35{,}000}$$
$$= .714$$

$$\text{Local Share} = \text{State-determined Local Share (80\% for Tier 2)} \times \text{District Aid Ratio}$$
$$= .80 \times .714$$
$$= .571$$

$$\text{State Share} = 1 - \text{Local Share}$$
$$= 1 - .571$$
$$= .43$$

$$\text{State Aid} = \text{Ceiling Amount} \times \text{State Share}$$
$$= \$235 \times .43$$
$$= \$101$$

Total formula operating aid for the hypothetical school district is the sum of Tier 1 and Tier 2 aid.

$$\begin{aligned}\text{Total Aid} &= \$1{,}064 + \$101 \\ &= \$1{,}165 \text{ per pupil}\end{aligned}$$

Our example district is relatively poor, thus receiving a large proportion of its expenditures in aid from the state. Wealthier districts, however, receive less help from the state. Table 4.9 compares the operating aid levels resulting from the aid formula for two districts of quite different wealth. District A is relatively poor in terms of both property and income wealth. District B, however, with $100,000 of property backing each of its pupils and $45,000 in income per pupil, is above average in both measures of wealth. The table shows that District A receives $1,165 per pupil in state aid—$1,064 under Tier 1 and $101 under Tier 2. The state share for the two tiers are .645 and .430, respectively. District B receives only $477 in state aid per pupil—all through Tier 1. The state share for Tier 1 is .289; the state share for Tier 2 is negative (District B is too wealthy to receive any aid under the second tier). Of the $1,885 of expenditures in which the state will share, District A receives 62 percent of that expenditure from the state, leaving only $720 per pupil to be raised locally. In District B, however, the state provides only 25 percent of the aidable expenditure, leaving $1,408 to be raised from local revenues.

TABLE 4.9

State Operating Aid Variables for Two Hypothetical New York State School Districts

	District A	District B
Tier 1		
Property wealth per pupil	$50,000	$100,000
State share	.645	.289
Expenditure ceiling	1,650	1,650
Aid	1,064	477
Tier 2		
Income per pupil	25,000	45,000
State share	.430	−.03
Expenditure ceiling	235	235
Aid	101	0
Total aid	$ 1,165	$ 480

Other Operating Aid

School districts are eligible to receive operating aid under several other formulas, as well. If a district is too wealthy to participate in the equalization formula (the arithmetic involved produces no state aid or less than a state-defined minimum), the alternative *flat grant formula* is used. Since it is New York State's policy to support a portion of every child's education, all districts are guaranteed at least $360 per pupil under the flat grant formula.

Districts which are experiencing growth in attendance are also eligible to receive *growth aid.* These funds are added to the district's total formula operating aid before minimum aid provisions are applied. The two minimum aid provisions are variations on save-harmless aid (districts are guaranteed at least as much aid as they received the previous year). The *minimum special aid guarantee* enables a district whose current year aid apportionment will be lower than its prior year's allocation to receive additional aid up to 8 percent per pupil. This provision replaced the state's per pupil save-harmless program and is designed to protect school districts facing declining enrollments from aid reductions. The *total dollar guarantee* provision is a more traditional save-harmless program which guarantees each district a sum equal to the total dollar amount of aid received the previous year.

Other Aid Programs

Two other general aid programs supplement the state's operating aid funds. *Low-income aid,* implemented in 1980, is designed to allocate additional state aid to districts in inverse relation to their income wealth. Income wealth is measured as adjusted gross taxable income, as reported on New York State income tax returns, per TWPU. For 1981–82 estimated payments ranged from $25.27 per pupil in the lowest income district to $1.39 per pupil in the district with the highest income.[5] *High tax aid* is paid to low-property-wealth districts with high school tax rates and expenditures below the 80th percentile.

The other major education aid programs in New York State are excess cost aid for handicapped students, transportation aid, building aid, and aid to BOCES (Boards of Cooperative Educational Services). The *excess cost aid program,* implemented in 1980–81, distributes aid for handicapped children, severely handicapped

children, and children with learning disabilities educated in public schools and through BOCES. The operation of this formula is described in detail in chapter 6. The *transportation aid* formula reimburses districts for 90 percent of approved transportation expenses in the prior year. *Building aid* reimburses districts for debt service and capital expenditures under an equalizing aid ratio formula. Finally, the state provides aid to districts to cover a portion of their costs of contracting for services from BOCES. BOCES offer their constituent districts occupational education programs and other services that are more economically or efficiently provided by a centralized unit. Since the state's five largest cities are not eligible to join BOCES, *special services aid* partially compensates these districts for the cost of similar programs, such as occupational education, which they must operate themselves.

Why the Operating Aid Formula Fails to Equalize the Educational Resources Available to New York State's Children

Three factors limit the effectiveness of New York's operating aid formula in equalizing expenditures across the state's school districts. First, state aid supports only a minimum spending level. Districts can, and do, spend more. In 1981–82, the aid ceiling of $1,885 was only 70 percent of the state average AOE per pupil of $2,700. As long as a significant portion of education spending is unequalized, education expenditures will vary directly with the wealth of the school district and the willingness of its residents to tax that wealth for schools. Second, a large number of school districts receive operating aid through flat grants and save-harmless provisions since they are too wealthy to qualify for equalization aid. In 1981–82, 308 of the state's 708 school districts received about $183 million more than their basic equalization grants through flat grant, special aid, and save-harmless provisions. These amounts represented about 6 percent of total operating aid paid that year.[6]

The third factor that limits the equalizing impact of the formula is the size of the state share of educational expenditures. In New York State, this share has declined over the last thirteen years. As shown in Table 4.10, the state provided 44.4 percent of elementary and secondary education expenditures in 1970–71. By 1977–78 this percentage had dropped to a low of 37.6 percent. In the last five

TABLE 4.10

State Aid to Education in New York State, 1970–71 to 1982–83

School Year	Amount (in Millions)	State Aid as Percentage of Education Expenditures
1970–71	$2,333.4	44.4%
1971–72	2,379.0	42.7
1972–73	2,445.6	41.0
1973–74	2,559.9	38.4
1974–75	2,930.8	39.6
1975–76	3,070.9	40.3
1976–77	3,100.6	39.2
1977–78	3,142.6	37.6
1978–79	3,378.0	38.8
1979–80	3,602.4	38.5
1980–81	3,957.8	39.7
1981–82	4,269[a]	40.1
1982–83	$4,568[a]	40.2

Source: New York State Education Department, Information Center on Education, *Education Statistics: New York State*, prepared especially for members of the legislature (Albany: January 1983), Table 10.
[a]Estimated.

years, however, the state share has hovered around 39 to 40 percent, ten percentage points below the national average. Although the state contribution is estimated to be about $4.5 billion in 1982–83, these dollars are insufficient to equalize expenditures in a state where wealth and expenditure disparities are large and spending levels are high.

These limitations represent broad constraints on the equitable funding of education in New York State. But even if they were corrected—if the state share increased and the state raised the aidable expenditure, for example—equity might not be guaranteed. This failure could occur because within any school aid formula, fairness to students and taxpayers hinges as well on how the variables used in the aid formula are defined—the wealth, effort, and educational need of a district. Is the definition and measurement of local fiscal capacity fair to urban school districts which must sup-

port a greater burden of municipal services from the same tax dollar? Is it fair to rural school districts whose residents may not have the income to pay high taxes? Does the definition and measurement of educational need lead to the equal and fair treatment of all students? Do districts with high concentrations of educationally disadvantaged children receive adequate financial help to provide education programs that can break the cycle of low achievement? While this chapter has been concerned with arithmetic, algebra, and aid formula mechanics in an effort to explain how New York's school finance system works, the more important issues facing policymakers are how they define the variables that are plugged into the state equation. The next two chapters focus on how wealth, effort, and educational need are defined and measured in New York's school aid formula, and what the impact is of these measures on the children and taxpayers in New York State.

Notes

[1]This measure, TAPU for Expense, is used in the 1982–83 operating aid formula. The weightings are those used by New York in its education aid formulas to direct additional state aid to students with special educational needs.

[2]In 1984, the legislature revised the operating aid formula for the 1984-85 school year. The bill made four major changes to this formula: (1) replaced the two-tier formula with a one-tier formula having an aid ceiling of $2,750 per pupil; (2) redefined wealth as the sum of property wealth and personal income so that a district's aid ratio becomes 50 percent of its full value per pupil compared to the state average plus 50 percent of its income per pupil compared to the state average; (3) lowered the state share to 36 percent from 49 percent in Tier 1 and 20 percent in Tier 2; and (4) used 1977-80 PEP test results rather than results from the 1974-75 PEP tests to determine a district's PSEN count.

[3]This formula operates like a Minimum Foundation Program, however, because districts are aided at the ceiling whether they spend at that level or not.

[4]John E. Coons, William H. Clune III, and Stephen D. Sugarman, p. 184.

[5]New York State Division of the Budget, *Description of 1981–82 New York State Aid Programs Relating to State Support for Public Schools.*

[6]New York State Division of the Budget, *Description.*

CHAPTER V

Measuring Fiscal Capacity and Tax Effort in Urban School Districts

Since the development of the earliest school aid formulas, the capacity of local districts to raise revenues for education (fiscal capacity) has been defined as property wealth per pupil. New York State has included some form of property valuation as the primary determinant of relative school district wealth in its school equalization aid formula for more than fifty years. The use of this measure, which is also the primary measure of fiscal capacity in state education aid formulas in over forty other states, reflects local government's reliance on the property tax and the stability of this tax base over time. For education in particular, real property is the principal source of local tax revenues. While property tax revenues provided 76 percent of locally raised revenues for all local governments in 1981, 96.1 percent of all locally raised school district revenues came from this source.[1]

Litigation in *Levittown*, and in two related cases, *Hurd* v. *Buffalo*[2] and *Hellerstein* v. *Islip*,[3] however, raised questions about the suitability of using property wealth as the sole measure of a school district's financial ability to pay for education. Although large cities often have above-average property tax bases because of the prevalence of commercial and industrial property within their bound-

aries,[4] these relatively high property valuations may mask underlying demographic, economic, and fiscal characteristics that can undercut the capacity of these communities to raise revenues from their tax bases. For example, many of New York's cities and, to a lesser extent, its large suburban school districts have such high public service needs that their taxpayers are more heavily burdened than residents of other suburban or rural communities, a phenomenon labeled "municipal overburden." When these high service needs are coupled with deteriorating tax bases, school districts face economic limits on how much they can raise for education from property tax revenues. In addition, most city school districts in the state are constrained by tight constitutional property tax rate limits as well as by economic limits. Finally, property wealth does not necessarily reflect the ability of taxpayers to raise revenues for education, especially in those communities with high concentrations of families with poverty incomes. This chapter identifies the issues which underlie the debate about how school district wealth should be measured for use in the New York State aid formula and summarizes research on the impact of municipal overburden, fiscal stress, personal income, and tax rate limitations on the ability and willingness of citizens to support education and other public services.

Municipal Overburden

The concept of municipal overburden was developed first by researchers in the fields of urban economics and municipal finance and applied to education finance to explain one of the unique problems of financially troubled urban school districts. Economic analyses of municipal overburden focused initially on the interaction of noneducation and education expenditures. Suburbs were found to specialize in education, devoting a higher proportion of their budgets to school services. In contrast, large cities were found to devote the bulk of their revenues to noneducation functions associated with high proportions of poor and aged populations and requirements of public health, sanitation, fire, and police protection.[5]

With the *Serrano* case in 1971, courts began to invalidate state school finance systems for discrimination against students in school districts with low property tax bases. The courts required that fiscally nondiscriminatory systems (fiscally neutral in the legal terminology) be developed. Analysts were concerned, however, that state aid programs which focused on property tax base equalization

alone might exacerbate rather than solve the problems of the cities by understating their relative fiscal needs and tax effort. The *Levittown* litigation was the first school finance case to consider municipal overburden as a factor in measuring the relative capacity of school districts to finance public education from their local resources. New York State's failure to consider the cities' burden in delivering noneducation services led Judge Kingsley Smith and the Appellate Division to decide that the state aid formula discriminates against big city school districts by overstating their capacity to finance education from local revenues.[6] While these rulings gave legal recognition to the concept of municipal overburden, they did not answer the long-standing questions of how this concept should be defined, how it should be measured, and how it can appropriately be recognized in state education aid formulas.

Empirical evidence of municipal overburden presented in the *Levittown* trial compared the school and nonschool per capita revenues and expenditures of New York City, Rochester, Buffalo, and Syracuse with averages for other areas of the state and showed that the nonschool expenditures and revenues of these cities greatly exceeded the averages of other types of districts. The plaintiffs' approach reflected the "state of the art" in defining municipal overburden in the early 1970s: This concept had been variously defined in the literature as a high level of nonschool expenditures or taxes; a low ratio of local school to nonschool expenditures; higher property tax rates in cities; and smaller proportions of total tax levies devoted to schools in cities.[7]

These early definitions of municipal overburden were limited in several ways. First, they failed to distinguish between communities with high expenditures and those which were heavily burdened by these expenditures. The degree of tax burden in a community is affected not only by the level of education and noneducation services, but by its relative wealth, the receipt of intergovernmental aid, and the ability of local taxpayers to shift or "export" their tax burden to nonresidents.[8] Second, these approaches did not differentiate between expenditures on needed or required public services and those on services which reflected local tastes or preferences. Finally, these definitions did not consider the impact of the level of noneducation tax burden in a municipality on the level of education services it provides. Many people argue that municipal overburden is a relevant concern only if a heavy tax burden for noneducation services is systematically accompanied by a low level of educational services.[9]

A comprehensive study of municipal overburden in New York

State, prepared for the Rubin Task Force, posited and tested a multidimensional definition of the concept which addressed many of these issues.[10] The first question tested was: Do large-city residents bear heavier school and nonschool tax burdens than residents of other types of school districts? Indicators of local school and nonschool tax burdens were developed for virtually all school districts in New York State. These measures were then adjusted for the shifting or "exporting" of taxes and were related to selected school district characteristics. To determine tax burden, the research compared local revenues with three indicators of a district's ability to pay: full value of all property (including nonresidential property), adjusted gross income, and full value of residential property (homes and apartments). Table 5.1 shows taxes before shifting for school and nonschool purposes in relation to the full value of all property, and taxes after tax exporting and federal deductibility

TABLE 5.1

Local Tax Rates for New York School Districts

	Taxes Per $1,000 of Property Value			Locally Borne Taxes[a] per $1,000 of Residential and Apartment Valuation[b]		
School District Category	School	Nonschool	Total	School	Nonschool	Total
Downstate						
New York City	22.6	59.6	82.2	26.8	92.1[c]	118.9
Yonkers	19.3	31.8	51.1	21.5	36.1	57.6
Other cities	26.5	34.2	60.7	27.8	38.2	66.0
Nassau County suburbs	25.9	32.2	58.2	24.8	31.9	56.7
Other suburbs	25.2	22.3	47.6	25.2	23.1	48.3
Upstate						
"Big Four" cities (mean)	21.0	39.1	60.1	24.5	51.4	75.9
Other cities	18.4	31.0	49.4	20.7	38.4	59.1
Suburbs	16.2	21.7	38.0	19.1	27.3	46.4
Rural	14.6	20.6	35.2	19.6	31.7	51.3
State average	18.1	23.3	41.5	21.0	29.7	50.7

Source: Jerry Miner and Seymour Sacks, *Further Study of Municipal Overburden and Its Implications for State Aid to Local Schools, Final Report* (Syracuse, N.Y.: Syracuse University, Metropolitan Studies Program, May 1980), p. 5d.

[a]Tax revenues after adjustment for tax exporting.

[b]This measure is an estimate of the local taxes that actually are borne by local residents and their relationship to the fiscal capacity of these residents.

[c]Taking federal income tax deductibility into account reduces this to 89.2.

were accounted for relative to the value of residential property wealth. Under both tax rate measures, and for both school and nonschool services, residents of large-city school districts, except for Yonkers, were more heavily burdened than residents of suburban or rural districts. This result carries over to smaller cities and Nassau County districts as well.

The second stage of this study addressed the question: Do these observed higher tax burdens of the cities reflect a greater preference or desire for publicly provided local services by residents and business in the cities or do they reflect a greater necessity for such services? The level of local revenues required to support necessary public services was estimated for each school district and then related to that district's fiscal capacity to provide measures of "needed" or "nondiscretionary" tax rates.[11] Using this measure of tax burden, the cities looked even more burdened compared with other districts in the state than they did using their "actual" tax rates, leading the authors of the study to conclude that the high tax burdens of cities are inexorable rather than "volitional."

The final component of the Miner-Sacks study examined the fiscal interaction between local school and nonschool taxes and expenditures to determine whether a high or abnormal "requirement" in one of these areas diminished local spending or revenues in the other. They found that higher needs for local nonschool public revenues did not *systematically* reduce local school taxes. Rather it appeared that in high-need communities property owners bore higher total tax burdens. This analysis did not, however, test directly the question of whether municipal overburden reduces the capacity of the largest urban districts to raise taxes for local schools, that group for which evidence was presented at the *Levittown* trial. Thus, while the evidence indicates that municipal overburden, as broadly defined, exists in New York State, its magnitude in terms of its effect on spending for education is still undetermined.

Fiscal Stress

Many analysts and policy-makers remain uncomfortable with the traditional municipal overburden argument, however. Other factors could account for higher-than-average expenditures or taxes in cities even after one has distinguished required services from a community's taste for public goods. For example, the benefits of city living may justify the higher costs facing residents. City residents

commute shorter distances to work and to shop and have cultural opportunities that are less accessible to residents of suburbs or rural areas. In some jurisdictions certain services such as fire protection, sanitation, and water are provided privately; the costs of these services do not appear in traditional measures of tax effort, thus understating the impact of municipal service needs in these communities. And one could argue that part of the high public service costs of cities may reflect the inefficiencies of too dense concentrations of people.[12] In addition, researchers have been unable to establish an institutional interaction between school spending and general municipal spending. The hypothesis of an inverse relationship between nonschool and school spending has never been confirmed statistically.[13] Yet, how else can one explain the observed fiscal crises facing many large city school systems throughout the country and within New York State?

One explanation of this phenomenon is that these communities are fiscally stressed; that is, they have reached a point where it is unreasonable to expect the community to devote more local resources to education without some reduction in other public expenditure categories. Unfortunately there are as many definitions and measures of fiscal stress as there are of municipal overburden. A variety of studies have attempted to relate a community's fiscal activity with its social, economic, and demographic characteristics, utilizing different index designs, definitions, and interpretations.[14] Although the variables and methods used varied from one study to the next, the objective was generally the same—to point out which cities have high public service "needs" in order to allocate grant funds or to evaluate the distribution of existing grant programs. These indices do not measure relative "needs" directly. Rather they measure what has been called "structural" fiscal distress—those underlying problems such as age of the housing stock, percentage of population in poverty, and rate of population change—that can lead to long-run difficulties in obtaining adequate resources to meet local needs.[15]

An alternative index of fiscal stress has been proposed and tested which would measure the tax burden faced by the average resident in order for his local government to finance a "minimum bundle" of municipal services.[16] This method is similar to that used by Miner and Sacks in measuring "nondiscretionary" tax rates in New York State school districts. Both of these studies, however, use inferential statistical methods to estimate required public services, and there are objections to the assumptions underlying these estimations.

A final model of fiscal stress focuses on the "maximum sustainable level" of local tax revenues that a community can raise. Although in the short run a jurisdiction can tax at any level legally permissible, in the long run households and businesses will respond to high taxes in a locality by moving elsewhere, thereby reducing the level of local economic activity and eventually reducing local revenues. Therefore, each municipality has a unique maximum level at which it can tax itself without ultimately diminishing its tax revenues.[17] Empirical estimation of this ideal tax rate is difficult, if not impossible: "[F]iscally-stressed communities are not readily identifiable until some financial crisis draws our attention." However, Gurwitz argues that jurisdictions characterized by low general economic growth rates and relatively high tax rates are more likely than other types of communities to suffer stress. Thus,

> the municipal overburden argument has come full circle. Cities in the northeast and northcentral regions of the United States appear to suffer the lowest economic growth rate. Conditions in these cities raised the concern that originally led to the municipal overburden hypothesis. This hypothesis was seen to be less than convincing on conceptual and theoretical grounds. Nevertheless, a circuitous route from that hypothesis has led us back to the conclusion that some cities—specifically, those suffering fiscal stress—may deserve more state school aid than they would apparently receive purely on the grounds of equalization.[18]

In short, although the precise analytic methods for defining and measuring fiscal stress and municipal overburden have differed, these studies have shown that certain communities tend to stand out again and again.

The *Hurd* Problem

The concepts of municipal overburden and fiscal stress focus on economic or fiscal constraints on the ability of communities to raise sufficient resources for education. Many communities in New York State are faced with legal constraints as well. Since 1884, the state constitution has restricted the amount of property taxes that the state's largest cities may raise for operating purposes. Subsequent amendments have brought smaller cities, city school districts, villages, and counties under these restrictions. New York City's cur-

rent tax limit is 2.5 percent of the five-year average of the full value of its taxable property. All other cities have a 2 percent tax limit for municipal purposes. Because cities with populations above 125,000 have fiscally dependent school districts, the 2.5 percent limit for New York City and the 2 percent limit for Buffalo, Rochester, Syracuse, and Yonkers apply to *both* school and general city purposes. The limit for smaller cities is 2 percent for city purposes and another 1.25 to 2 percent for their school districts.[19] Thus, while Buffalo has a tax rate limit of 2 percent for school and nonschool purposes, the total limit for Niagara Falls is 3.25 and for North Tonawanda is 3.75. There are no tax limits on towns or on noncity school districts.

The inequitable and arbitrary nature of the tax limit system has long been recognized and for some time there have been attempts to deal with these limitations.[20] The first attempts were aimed at amending the state constitution. The final report of the Committee on Local Government and Home Rule at the 1967 Constitutional Convention recommended a comprehensive revision of the framework of tax limitations in the constitution, permitting adjustment of tax limits to reflect the varying needs of localities and to allow for different functions performed by different local governments within the same class.[21] The committee's proposal was not accepted by the delegates to the convention, however. A substitute provision was defeated when the revised constitution was not approved by the voters.

City school districts, unable to balance rapidly growing expenditures with slowly growing and legally limited revenues, then turned to the legislature for relief. In 1969 the legislature authorized the practice of "exclusion," whereby the city of Buffalo and other smaller city school districts could exclude the employer's share of retirement and social security contributions from the tax limit for a three-year period. In 1970, similar exclusions were voted for Yonkers and Rochester as well. "Exclusion" gave many city school districts considerable fiscal leeway as these expenditures often equaled 20 percent or more of operating costs.

In 1974, however, the State Court of Appeals invalidated the exclusion law in *Hurd* v. *City of Buffalo.* In response, the legislature invoked the emergency powers clause of the state constitution to enact an extension of the exclusion legislation in 1974. When voters rejected a constitutional amendment to allow permanent exclusion of retirement and social security contributions from tax limits, the legislature continued to extend the legislation which, in

substance, had been invalidated by the court in 1974. The legislature's extension of exclusion was found unconstitutional in 1978,[22] and the court held that the plaintiff taxpayers—residents of Lackawanna, Geneva, and Rochester—were entitled to repayment of taxes paid in excess of the constitutional tax limit. School districts that had used exclusion and still taxed to their limit had to find additional revenue to relieve their deficit. The state subsequently adopted several short-term measures to assist those school districts that faced large *Hurd*-related revenue shortfalls, including the institution of special equalization rates by the impacted cities and school districts and the advance of state funds to finance the "gap" on a revolving basis. The problems of the *Hurd*-impacted districts were further complicated by a Court of Appeals decision ordering the refund of taxes collected by the cities of Buffalo and Rochester in excess of their constitutional limits pursuant to the 1974, 1975, and 1976 exclusion extensions. The total of 1974–78 excess tax levies in Buffalo and Rochester is approximately $82 million and $108 million, respectively, amounts which are more than a third of these cities' annual budgets.[23]

Not all city districts with a tax limit have a tax limit problem, however. Table 5.2 lists those city school districts that exceeded their legal tax limits in 1977–78. Six smaller cities did not exercise the exclusion option in any of the nine years it was in effect, while sixteen other cities exercised it in some years but not in others. New York City and Syracuse did not reach their constitutional tax limits, while the three other Big Five districts required exclusion legislation.

Although the *Hurd* problem is ostensibly one of local taxation and tax limits in cities, the troubles of the *Hurd*-impacted cities reflect a more general fiscal problem: the inadequacy of local revenue resources to meet increasingly severe expenditure pressures. This more global concept of a weakened school finance structure is supported by the results of research indicating that city school districts affected by *Hurd* have many of the same characteristics as those districts that filed suit in *Levittown*, especially the plaintiffs-intervenors. Three factors were identified as strong predictors of taxing use in New York's school districts: the lack of property wealth, the presence of high concentrations of students with special educational needs, particularly low-achieving students, and the paucity of state and federal aid.[24] In addition, many districts apparently had difficulty balancing revenues and expenditures because the system of state aid was not sufficiently equalizing.

TABLE 5.2

Hurd-Affected School Districts, 1977–78

District	1977–78 Legal Tax Limit	1977–78 Operating Levy and Exclusion Amounts	Difference Between 1977–78 Legal Tax Limit and 1977–78 Operating Levy and Exclusion Amounts
Albany	1.50	1.66	− .16
Auburn	1.25	2.20	− .95
Batavia	2.00	2.17	− .17
Beacon	1.50	1.93	− .43
Binghamton	1.50	1.96	− .46
Buffalo	2.00	2.85	− .85
Canandaigua	1.25	2.02	− .79
Corning	1.50	2.33	− .83
Cortland	1.50	1.92	− .42
Elmira	1.25	1.94	− .69
Fulton	1.25	2.10	− .85
Geneva	1.50	2.06	− .56
Glen Cove	1.75	2.54	− .79
Glens Falls	1.75	2.12	− .37
Hudson	1.25	2.10	− .85
Ithaca	1.75	1.93	− .18
Kingston	1.75	2.12	− .37
Lackawanna	1.25	1.83	− .58
Lockport	1.50	2.16	− .66
Long Beach	2.00	2.59	− .59
Mechanicville	1.75	2.35	− .60
Middletown	1.25	2.00	− .75
Mt. Vernon	2.00	2.78	− .78
Newburgh	1.75	2.67	− .92
New Rochelle	2.00	2.58	− .58
Niagara Falls	1.25	2.15	− .90
North Tonawanda	1.75	2.22	− .47
Norwich	2.00	2.07	− .07
Oneonta	1.50	1.71	− .21
Oswego	1.25	1.50	− .25
Peekskill	2.00	3.27	−1.27
Plattsburgh	1.25	1.59	− .34
Port Jervis	1.50	1.74	− .24
Poughkeepsie	1.50	2.31	− .81
Rensselaer	1.25	1.99	− .74
Rochester	2.00	3.32	−1.32
Rye	2.00	2.30	− .30
Saratoga Springs	1.75	1.95	− .20
Schenectady	1.50	1.66	− .16
Tonawanda	1.25	1.53	− .28
Troy	1.75	2.29	− .54
Utica	1.25	1.61	− .36
Watertown	1.50	1.83	− .33
Watervliet	1.50	1.87	− .37
White Plains	1.75	2.03	− .28

Source: R. Dale Hickam, *Technical Report: Research Related to the Problems of City School Districts Subject to the Constitutional Tax Limitation* (Denver: Education Commission of the States, January 1980), pp. 36–37. Prepared for the New York State Special Task Force on Equity and Excellence in Education.

> Many of the districts that most exceeded their tax limit in 1976–77 had property wealth levels slightly above average for all city districts. However, because the present system [of state aid to education] is only partially equalizing, their slight wealth advantage was offset by the disadvantage of lower levels of state aid. Cities generally tend to have higher income levels and property values than nonurban areas. However, their populations . . . require additional, and more expensive, public services. This is the urban paradox, i.e., wealth sometimes more apparent than real because of extraordinary demands made on it by high service need populations.[25]

Income

One major criticism of the use of property wealth as the sole measure of fiscal capacity is that it may overstate the capacity of cities to raise revenues because of municipal overburden or fiscal stress. Another criticism of this measure is that property wealth does not necessarily reflect the *ability* of taxpayers to raise revenues for public services. Since property taxes are typically paid from income, personal income is often considered a better indicator of the ability to pay this tax and other types of taxes. The case for including income in the measure of fiscal capacity becomes even more convincing when there is little relationship between property values and income wealth in school districts. High-property-wealth districts may be low-income districts (cities, or rural areas with substantial farm or vacation properties), while some suburban communities may show precisely the opposite relationship, low property values and high incomes. A school funding formula which equalizes on the basis of property valuation alone does not help those citizens who live in income-poor, but property-wealthy communities. In New York State, income is only mildly related to the value of all property and to the value of the commercial, industrial, and public utility portion of the tax base.[26]

The argument for including income in a fiscal capacity measure assumes, however, that residents pay all of the school taxes in the community and therefore lower-income citizens suffer directly when high property values limit the flow of state aid to their districts. Yet, in most cases, the high property valuations are due to the presence of commercial and industrial activity in the community, and the residential values on which homeowners (or renters) pay their taxes are in line with their income. Since the taxpayers are shifting a large portion of the school taxes to the commercial and

industrial property, the lack of state aid does not harm them. On this point, studies of alternative wealth measures in New York State have found a high positive correlation between residential property value and personal income, although there was a limited relationship between total property wealth and income.[27]

A second justification for incorporating income into a fiscal capacity measure results from studies of determinants of school district expenditures in several states. These studies have shown that income wealth as well as property wealth positively affect the level of resources available to students in a school district.[28] That is, even if two districts have the same property wealth, there can be significant dollar differences in total revenue if these districts vary in the amount of resident income available. A study of New York State showed that household income was an important determinant of the spending behavior of school districts; districts increased local revenues by approximately $10 for every $1,000 difference in income.[29] Evaluations of school funding reforms in Illinois and Ohio found that low income is associated with low and medium tax effort, while high income (along with other high socioeconomic status characteristics) is associated with high property tax effort.[30] Since these states used capacity-equalizing education aid formulas, ones which guaranteed equal revenues for equal property tax effort, high-income districts with their higher tax efforts could continue to raise more education revenues than the lower-income districts.

Finally, the use of income in fiscal capacity measures is generally beneficial to large central cities and small rural districts where incomes are relatively lower than property values. Connecticut, for example, adopted an income adjustment as one means for providing more aid to its educationally needy cities. New York State implemented two state aid programs which use income as the sole measure of community wealth in the early 1980s. The Low-Income Supplemental School Aid (LISSA) program distributed $25.2 million in 1981–82 to districts based upon the relative income wealth of the community. The per pupil grants ranged from a high of $25 to a low of $1. In 1981 the legislature substituted income for property valuation in Tier 2 of the equalization aid formula.

The way that income is measured in these two policies—income per pupil—is not necessarily beneficial to New York's largest cities. Table 5.3 shows per pupil property valuations and per pupil income wealth for the Big Five, and their suburbs, indexed to the state average. All of the Big Five cities look relatively wealthier under a per pupil income measure than under a property wealth

TABLE 5.3

Property Wealth and Income per Pupil for the Big Five and Their Suburbs and Selected Nonmetropolitan Districts, Indexed to the State Average, 1979

	Property Wealth per Pupil[a]	Income per Pupil[b]
New York City	0.93	1.09
Yonkers	1.29	1.49
New York City suburbs	1.24	1.21
Buffalo	0.71	0.91
Buffalo suburbs	0.92	0.99
Rochester	0.95	1.04
Rochester suburbs	0.95	1.10
Syracuse	0.95	1.06
Syracuse suburbs	0.83	0.83
Nonmetropolitan		
Angelica (Allegheny Co.)	0.69	0.48
Lake Placid (Essex Co.)	2.13	0.83
Roscoe (Sullivan Co.)	1.47	0.56
Southern Cayuga (Cayuga Co.)	0.81	0.59

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Full value per Average Daily Membership Total Wealth Pupil Unit.
[b]State Adjusted Gross Income per ADM TWPU.

measure. For example, New York City's relative wealth increases from 93 percent of the state average to 109 percent of the average. The opposite occurs in its suburbs, with the average index dropping from 124 to 121 percent when one switches from a property to an income measure. A per pupil income measure is most beneficial to such rural districts as Angelica and Southern Cayuga, or school districts located in resort areas (for example, Roscoe and Lake Placid).

The change in the wealth measure in Tier 2 of the state aid formula will result in shifts in the distribution of state funds in the long run.[31] In 1981–82, the first year of the change, the Big Five districts' share of total Tier 2 aid dropped from 32.4 percent (using a property valuation measure). Other ways of measuring income, described in chapter 7, would be less detrimental to New York's large cities.

Levittown and the Taxpayer

Most discussion of school finance reform centers on the equitable distribution of education resources among school districts—legal entities which are aggregates of taxpayers of differing income and property wealth. The current system of funding public schools also impacts differently on *individual* taxpayers, and any change in school finance will alter their relative positions.

Public schools in New York are financed from a mix of revenue sources—local property taxes (50 percent), state taxes (40 percent), federal taxes (5 percent), and other sources (5 percent). The impact of this funding system can be measured in terms of an individual's school tax burden: the percentage of an individual's income used to pay school taxes (whether at the local or state level). Any New York taxpayer's share of school costs reflects his or her age, income, property wealth, purchase of taxable goods, and number of dependents, to name some of the crucial elements.

Calculating tax burdens is a complex task because it involves a determination of both direct payment of taxes (for example, payment of property taxes by a homeowner) and the shifting of taxes from one taxpayer to another (for example, the higher prices businesses place on goods as a consequence of higher taxation). A tax burden study conducted for the Rubin Task Force compared school tax burdens among counties, estimating the burden of local school taxes alone and state and local school tax burdens on families according to their ability to pay; the relative proportion of the burden imposed on families and businesses; and changes in the burden that would result from the adoption of a new school aid formula.[32] This tax burden analysis suggested a widespread pattern of regressivity in taxation for schools; that is, the school tax burden falls more heavily on low-income persons. Most New York counties effectively impose the highest real property tax rates on families with incomes below $15,000. Tax rates paid by families with incomes above $15,000 decline until the $25,000 income class is reached and then rates increase. In the downstate metropolitan suburban counties, however, not only was there substantial tax regressivity at low- and middle-income levels, but taxpayers at all income levels paid a substantially higher percentage of their income in taxes. One explanation is that the high proportion of upper-middle-income taxpayers created a greater demand for school services, while above-average property wealth limited the flow of state aid, requiring above-average local property tax effort.[33]

The inequities documented in this analysis of school tax burdens are aggravated by inequities in the way that the local property tax system is administered in New York State:

> The real property tax, which raises more revenue than any other tax in . . . [New York] State, is the only tax which, in practice, is apportioned on a random basis. Even though statute and case law require that all real property be assessed at its full value, almost all localities assess real property at varying percentages of full value.[34]

This practice tends to induce inequity in individual property assessments by removing a definite standard by which the assessor and citizens can compare the assessment of one property with that of a neighboring property. In many municipalities, different classes of property (for example, residential, commercial) are, on average, assessed at different percentages of full value (interclass inequities). A 1974 study by the New York State Division of Equalization and Assessment found that, for example, commercial property in Albany is assessed at an average of 55 percent of full value, while residential property is assessed at an average of 26 percent of full value. The corresponding average assessments for commercial and residential properties, respectively, for other large towns and cities are: Rochester, 39 percent and 28 percent; Manhattan Borough, 71 percent and 56 percent; Brooklyn, 71 percent and 34 percent; and Hempstead, 26 percent and 15 percent.[35]

There are even greater differences in assessments within classes of property than between them. Homeowners on the same block, residing in homes of similar value, often pay widely different local property taxes. Approximately one-third of the cities and towns in the state have coefficients of dispersion in residential assessments that exceed 30 percent;[36] that is, when the average assessment of a $60,000 home in a community is $30,000 (50 percent assessment ratio) assessments of similarly priced homes in the same community can range from $39,000 (30 percent higher than the average) to $21,000 (30 percent lower than the average). In such a case, the owner of the home assessed at $39,000 will pay nearly twice the property taxes of the owner of the home assessed at $21,000, even though both own equally valued property.

In 1974 Jerome Hellerstein, a New York University law professor, challenged this type of assessment practice in his hometown of Islip as being unfair. A year later, the Court of Appeals upheld the

lower court decisions that declared the practice illegal and required the Town of Islip (and, by implication, the entire state) to assess all property in conformity with the full value requirement set forth in the Real Property Tax Law.[37] The legislature responded to the *Hellerstein* decision by imposing a statutory moratorium on the implementation of full-value assessments in 1976. This prevented the court from setting a deadline for municipalities to go to full-value assessment as long as municipalities were acting in good faith to implement reassessment. This moratorium was extended several times, allowing cities and towns until May 1981 to complete their reassessments.

Opposition to reassessment centers on the fear that the switch to full-value assessment will shift the tax burden from business and industry to homeowners, particularly in those communities where residential property has been assessed at a much lower ratio than commercial and industrial real estate. A study of the impact of revaluation, based on data from 87 municipalities that completed reassessment between 1978 and 1980, showed that shifts in each municipality are unique to each city or town. A substantial percentage of the municipalities reported that the residential class as a whole assumed a greater percentage of the overall tax burden in the municipality after revaluation than before, although the extent of the overall increase was not highly significant; 2.1 percent in 1978, −0.2 percent in 1979, and 5 percent in 1980. Shifts within each major class of property (that is, residential, farm, and commercial) created a greater redistribution of property tax burden than that occurring between classes.[38]

Summary

The measure of school district wealth used in New York State's equalization aid formula—property value per pupil—is and has been for decades the measure used in most states to approximate the ability of a school district to support education. However, demographic, economic, and fiscal conditions in the state's cities limit the suitability of property wealth as the sole measure of fiscal capacity. Cities in New York tend to have above-average income levels and property values, generating below-average levels of state aid for their schools. At the same time, however, they have populations that require additional, and more expensive, public services and high concentrations of students with special educational needs. As

a result, New York's largest cities have property tax burdens that are 50 to 100 percent of the state average.

This situation is aggravated by New York's constitutional restrictions on property tax rates, which prevent many urban communities from increasing local revenues to a level sufficient to meet educational needs. The use of property wealth as a measure of fiscal capacity often does not reflect the ability of individual taxpayers to raise revenues for education. In New York, there is generally a close correspondence between the value of an individual's residential property and his or her personal income. However, inequities in the system of assessing property and the state's heavy reliance on local property tax revenues to fund education have led to widespread regressivity in taxation for schools.

Inequities in New York's school finance system extend beyond its reliance on too narrow a measure of fiscal capacity. The litigants in *Levittown* also argued that the state aid system directs insufficient resources to school districts that must educate large numbers of pupils with special educational needs. The next chapter examines the plight of these "educationally overburdened" districts.

Notes

[1]Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, 1981–82 Edition.*

[2]34 N.Y. 2d 628 (1974).

[3]37 N.Y. 2d 1 (1975).

[4]Seventeen of the nation's thirty largest cities had above-average per pupil valuations in 1976, including seven communities located in the East and the Midwest. Margaret E. Goertz, "School Finance Reform in the Cities," pp. 116–17.

[5]In an early study of this phenomenon, Campbell and Sacks found that expenditures on education composed 31.3 percent of total expenditures in central city areas and 53.7 percent of total expenditures in outside central city areas. Conversely, noneducational expenditures constituted 68.7 percent of total expenditures for central cities and 46.3 percent for areas outside of central cities. Alan K. Campbell and Seymour Sacks, *Metropolitan America: Fiscal Patterns and Governmental Systems*, p. 119.

[6]94 Misc. 2d at 501; 443 N.Y.S. 2d at 851.

[7]James Guthrie et al., *Schools and Inequality*; Seymour Sacks, David Ranney, and Ralph Andrew, *City Schools, Suburban Schools: A History of Fiscal Conflict*; Joel S. Berke, Alan K. Campbell, and Robert Goettel, *Financing Equal Education Opportunity: Alternatives for State Finance*; and Seymour Sacks, *The Municipal Overburden.*

[8]Dick Netzer defined tax burdens as the percentage of personal income absorbed by "locally borne" taxes in his early study of eight large cities; see his "State Education Aid and School Tax Efforts in Large Cities."

[9]For an expanded discussion of the municipal overburden literature and alternative definitions and measures of this concept, see Jane Sjogren, "Municipal Overburden and State Aid for Education"; and James R. Knickman and Andrew J. Reschovsky, "Municipal Overburden: Its Measurement and Role in School Finance Reform."

[10]Jerry Miner and Seymour Sacks, *Study of Adjustments of New York State Aid Formula to Take Account of Municipal Overburdens, Final Report*; and Miner and Sacks, *Further Study of Municipal Overburden and Its Implications for State Aid to Local Schools, Final Report.*

[11]The methodology used in this stage is detailed in Miner and Sacks, *Further Study*, pp. 6–12.

[12]Harvey Brazer et al., "Fiscal Needs and Resources."

[13]Helen Ladd, "Local Education Expenditures, Fiscal Capacity and the Composition of the Property Tax Base"; W. Norton Grubb and Stephen Michelson, *States and Schools: The Political Economy of Fiscal Federalism*; and Harvey E. Brazer and Ann P. Anderson, "A Cost Adjustment Index for Michigan School Districts."

[14]See, for example, Paul Dommel and Richard Nathan, *Measuring Community Distress in the United States*; U.S. Congress, *City Need and the Responsiveness of Federal Grant Programs*; Touche Ross and Company and The First National Bank of Boston, *Urban Fiscal Stress: A Comparative Analysis of Sixty-Six U.S. Cities*; and U.S. Department of Housing and Urban Development, "City Need and Community Development Funding," January 1979.

[15]Knickman and Reschovsky, pp. 448–49.

[16]Knickman and Reschovsky, p. 450. In a preliminary study of sixty-two local governments in New Jersey using this type of fiscal stress measure, Knickman and Reschovsky found that municipalities classified by the state as low socioeconomic status and urban had an average fiscal stress index of 3.9 percent, while suburban communities had an average index of 0.6 percent. Andrew J. Reschovsky and James R. Knickman, "Municipal Overburden in New Jersey: An Assessment."

[17]Aaron S. Gurwitz, *The Economics of Public School Finance*, pp. 183–86. For an expanded discussion of this theory see Gurwitz, *The Financial Condition of Urban School Districts: A Federal Policy Perspective.*

[18]Gurwitz, *Economics*, pp. 185–86.

[19]The tax limit for school districts overlapping cities with populations of less than 125,000 ranges from 1.25 percent to 2 percent. The initial rate—1.25 percent, 1.5 percent, 1.75 percent, or 2 percent—was determined by the level of school district taxation in existence as of July 1947. These limits can be raised to the 2 percent maximum by 0.25 percent increments if so authorized by a 60 percent affirmative vote in a school district referendum.

[20]For a more detailed discussion of the history of the Hurd problem, see "An Examination and Recommendations Concerning the Problems of City School Districts Subject to the Constitutional Tax Limitation," a report of the Hurd Study Group to

the New York State Special Task Force on Equity and Excellence in Education, April 15, 1981.

[21] 1967 Constitutional Convention, Document No. 52.

[22] *Bethlehem Steel Corporation* v. *Board of Education, City School District of Lackawanna*, 44 N.Y. 2d 831 (1978).

[23] "An Examination and Recommendations Concerning the Problems of City School Districts . . . ," p. 34.

[24] R. Dale Hickam, *Technical Report: Research related to the Problems of City School Districts Subject to the Constitutional Tax Limitation* (Denver: Education Commission of the States, January 1980); prepared for the New York State Special Task Force on Equity and Excellence in Education. This analysis used 1976–77 data. These findings are also presented in R. Dale Hickam, Robert Berne, and Leanna Stiefel, "Taxing Over Tax Limits: Evidence from the Past and Policy Lessons for the Future."

[25] *A Policy Report to the Special Task Force on Equity and Excellence in Education Related to the Problems of City School Districts Subject to the Constitutional Tax Limit*, p. 12.

[26] New York State Division of the Budget, *Measuring the Wealth of School Districts for the Apportionment of Aid to Public Schools in New York State: Full Valuation vs. Personal Income*, p. 22.

[27] New York State Division of the Budget, p. 22.

[28] See, for example, Martin S. Feldstein, "Wealth Neutrality and Local Choice in Public Education"; Stephen J. Carroll and Rolla E. Park, *The Search for Equity in School Finance: Michigan School District Response to a Guaranteed Tax Base;* and E. Kathleen Adams, *Analyses and Comparison of Fiscal Response in Four States.* The Adams monograph includes a brief review of the education determinants literature and a bibliography.

[29] E. Kathleen Adams, "Analysis of Normal and Cost-Adjusted Spending Variations among New York School Districts," p. 248.

[30] Alan G. Hickrod, Ben C. Hubbard, and Thomas Wei-Chi Yang, *The 1973 Reform of the Illinois General Purpose Educational Grant-in-Aid: A Description and an Evaluation*; (also available in Esther O. Tron, ed., *Selected Papers in School Finance: 1974*); Bruce Gensemer, "Personal Income Variations Among Ohio School Districts and Their Implications for the Guaranteed-Yield Formula"; and Thomas Wei-Chi Yang and Ramesh Chaudhari, "A Study of the Relationship between Selected Socioeconomic Variables and Local Tax Effort to Support Public Schools in Illinois."

[31] As a district's relative fiscal capacity increases, the amount of state aid that it is eligible to receive decreases. The state aid ratio in the Tier 2 formula is:

$$1 - 0.8 \frac{\text{District wealth}}{\text{Average wealth}}$$

If one uses a full value measure in this equation, Buffalo's aid ratio, for example, is 0.376. When income is substituted in the formula, its aid ratio drops to 0.264. Therefore, when income is used to measure fiscal capacity, Buffalo will receive only

26.4 percent of its Tier 2 expenditures rather than 37.6 percent. When the state switched to an income measure in 1981–82, however, it increased the Tier 2 ceiling from $100 per pupil to $235 per pupil. Therefore, most districts eligible for Tier 2 aid under the income measure received more aid even if their aid ratio dropped.

[32]Charles W. deSeve, *Who Bears the Cost of New York's Schools? Measuring the Tax Burden: An Interim Report.*

[33]Charles W. deSeve and H. D. Birckmayer, *Low Income Circuit Breakers and Other Methods to Reduce the School Property Tax Burden: An Analysis*, Table 4. For example, in Albany County, low-income taxpayers (less than $7,500 in household income) paid 2.8 percent of their income in school property taxes in 1977. For household incomes in the ranges $7,500 to $10,000, $10,000 to $15,000, $15,000 to $25,000, and $25,000 to $40,000, these rates were 2.3, 1.9, 1.6, and 1.7 percent, respectively. In Westchester County, the effective tax rates ranged from 6.2 percent (less than $7,500) to 2.9 percent ($25,000 to $40,000).

[34]New York State, *Report of the Temporary State Commission on the Real Property Tax*, p. 22.

[35]1974 Market Value Survey by New York State Division of Equalization and Assessment, as cited in *Report of the Temporary State Commission on the Real Property Tax*, p. 30.

[36]*Report*, p. 25.

[37]*Hellerstein* v. *Assessor, Town of Islip*, 37 N.Y. 2d 1 (1975).

[38]New York State Division of Equalization and Assessment.

CHAPTER VI

The Finance and Provision of Special-Needs Programs

Explicit in the *Levittown* litigation and implicit in the objectives of New York State education policy within the last several decades has been the philosophy that sufficient resources should be available to school districts to meet the special educational needs of their students. While there is far from reasonable agreement on effective special educational strategies, and even less agreement on the costs involved in such treatment, there is consistent judgment that special-needs children cost more to educate than "normal" children.

New York State has a variety of special finance provisions in its school aid formula to help school districts provide extra resources for their educationally disadvantaged and handicapped students. Educationally disadvantaged children—or to use New York State parlance, Pupils with Special Educational Needs (PSEN)—are those students who are estimated to be performing academically two years or more below grade level as determined by a standardized test. Bilingual education programs are supported by a program of Limited English Proficiency (LEP) Aid, the PSEN program, and a small program of competitive grants (Chapter 720). Children who are physically or mentally handicapped are supported by several state aid provisions that include excess cost aid, aid for exception-

ally expensive students, aid for handicapped students who attend private schools, aid for transportation, and aid for diagnosis and screening.

Do these special aid programs adequately compensate districts for the extra expenditures they incur in educating these students? This chapter tries to answer this question by describing and evaluating each special-needs program from the perspective of the school districts with the greatest educational needs—the large urban districts of the state. A brief history of each program is included along with a brief description of companion federal programs—ESEA Title I (now Chapter 1 of the Education Consolidation and Improvement Act of 1981), PL 94-142 (the Education for All Handicapped Children Act), and ESEA Title VII. The chapter also discusses the limitations of these special aid provisions that render the state's largest cities unable to adequately meet the needs of their special students.

PSEN (Compensatory Education)

Compensatory education gained legitimacy in New York State with the 1965 passage of ESEA Title I. Title I provided funds for supplemental educational services to deprived students in areas with high poverty concentrations. This major federal initiative required assessment of student needs and evaluation of educational outcomes. As an aid in these processes New York developed a state testing program called the Pupil Evaluation Program (PEP), which measures student attainment of basic skills in reading and math. In 1968, New York adopted its first state compensatory education program, called Urban Aid. Urban Aid was allocated to a relatively few city school districts based on district size and the concentration of special-needs children as determined by PEP scores. Funding for this program declined gradually from about $52 million in 1968 to about $46 million in 1973. Throughout those years a steady 84 percent of the aid was allocated to New York City.[1]

As PEP scores began to decline in the early 1970s, the legislature considered the recommendation of the Fleischmann Commission that the state assume a greater responsibility for ensuring that the needs of educationally disadvantaged students were met.[2] In 1974, the state established the Pupils with Special Educational Needs (PSEN) program to provide supplementary education to children who score below a certain reference point on the PEP tests.

And although there was no legislative mandate for bilingual education, districts could use PSEN funds to provide such instruction.

Four years later, the New York State Board of Regents established the improvement of reading, writing, and mathematics as special priorities. New state competency tests in reading and mathematics were developed and the regents required districts to provide remedial help to all students who score below the state reference point on the PEP test or below competency level on any of the new Regents Competency Tests. To assist districts in meeting the regents' mandate, the State Education Department merged the PSEN program and the Title I program both administratively and programmatically in 1979–80. While separate audit trails exist for each program, the programs are virtually identical at the local level and are monitored and evaluated together. School districts file a single application for PSEN and Title I aid and this application is the basis for a comprehensive district plan for remediation utilizing federal, state, and local funds.[3]

Estimation of a district's compensatory education needs in 1980–81 was based on results of PEP tests that were given to the state's third and sixth grade students in 1974 and 1975. The percentage of children in the district who scored in the bottom three stanines on the test is multiplied by the district's combined adjusted average daily attendance (ADA) to estimate the number of children eligible for PSEN aid. For example, if a district has 10,000 students and 20 percent of its third and sixth graders scored below the state reference point, then 2,000 children are estimated to be in need of compensatory services ($10{,}000 \times .20 = 2{,}000$). These 2,000 pupils are then given an additional weighting of .25 and included in the district's count of total aidable pupil units (TAPU) and total wealth pupil units (TWPU).[4]

Thus, compensatory education aid is granted to school districts by increasing their pupil counts by the percentage of children who fail the PEP test. This weighting has a double effect. By using weighted pupils (TWPU) as the divisor for local fiscal capacity, districts with high educational needs are made to appear poorer for state aid purposes. This provision has the effect of generating more state aid for all students, not only compensatory education students, in districts with high proportions of low-achieving students. Also, by inflating the number of pupils on whom aid is based (TAPU), high-need districts are made to appear to have more students and thus generate more aid.

In 1980–81 over $150 million in PSEN aid was distributed

across New York State's school districts. Table 6.1 shows the distribution of PSEN aid statewide, grouping districts by the concentration (percentage) of PSEN pupils, and the distribution of PSEN aid to the Big Five, which enroll about 62 percent of the state's compensatory education pupils.

The resulting aid patterns are the opposite of what would be expected, if aid were allocated proportionate to need. In fact, the group of districts in the highest need quintile (171 percent of the state average PSEN concentration) receive PSEN aid per pupil that is only 93 percent of the state average PSEN aid. When PSEN aid to the Big Five is viewed in relation to the concentration of PSEN pupils in those school districts, the mismatch between need and aid is again apparent. Only Buffalo receives PSEN aid at an above-average level. New York City, Rochester, Syracuse, and Yonkers, which have concentrations of low-achieving pupils ranging from 154 to 238 percent of the state average concentration, receive PSEN aid which ranges from only 49 to 98 percent of the state average. In addition, although disadvantaged children generate more general operating aid by inflating the pupil counts used to calculate school district wealth and the counts used to determine total aid, as we saw in chapter 4 the levels of operating aid received by the Big Five school districts are below average for the most part.

This obvious imbalance between need and aid is exacerbated by the high concentrations of low-achieving children enrolled in the largest urban school districts. Districts that enroll only a few low-achieving pupils may be able to provide remediation with available resources. When special-needs children compose a large portion of a school's pupils, however, the absence of dominant peer pressure for achievement places the burden of remediation on formal educational resources alone—teachers, aides, special materials, specialized curricula, and so forth.[5]

The largest support for compensatory education in New York State comes from the federal, rather than the state, government. Title I of ESEA is the federal government's largest education program, providing supplemental funds to meet the needs of educationally disadvantaged children in areas of high poverty concentrations. Title I aid steadily increased over the years in terms of both total aid and aid per child served, peaking at almost $300 million in 1980. Title I allocations declined to $253 million in 1982, reflecting federal education budget cuts made by the Reagan Administration.[6]

Since the remediation of all pupils who fall below state stan-

TABLE 6.1

Distribution of PSEN Aid per PSEN Student, by Quintiles of PSEN Concentration and for the Big Five, 1980–81

Quintile	PSEN Concentration[a]	Index to State Average Concentration	PSEN Aid per PSEN ADM	Index to State Average PSEN Aid
1	Less than 11.85%	.53	$190	.86
2	11.89–14.81	.71	219	.99
3	14.85–18.30	.90	240	1.09
4	18.32–24.81	1.15	241	1.09
5	24.81–47.49	1.71	204	.93
State Average[b]		1.00	$220	1.00

City	PSEN Concentration[a]	Index to State Average Concentration	PSEN Aid per PSEN ADM	Index to State Average PSEN Aid
New York City	44.3%	2.38	$192	.87
Buffalo	35.7	1.92	239	1.09
Rochester	42.4	2.28	180	.82
Syracuse	28.7	1.54	215	.98
Yonkers	33.1	1.78	109	.49
State Average[b]	18.6	1.00	$220	1.00

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Pupils with Special Educational Needs Average Daily Membership as a percentage of combined adjusted ADM.
[b]Excludes New York City.

dards is now a mandate in New York State, it is important to understand the extent to which PSEN and Title I services reach pupils in need of these services. Those pupils who are not served by these programs must be served by their local districts with local funds. A 1980 New York State Education Department study of the costs of providing special-needs programs in a sample of New York State districts found that an average of almost 37 percent of the states' pupils were receiving remedial services in programs that were not supported by either PSEN or Title I funds.[7] As shown in Table 6.2, city districts appear to be the most heavily burdened in this respect, having almost 43 percent of their eligible students not supported by PSEN or Title I funds. Yet these are the districts that tend to have the highest concentrations of disadvantaged children and the districts that may be experiencing the most difficulty in raising local education dollars.

Education of the Handicapped

Over the years New York State has employed several approaches to finance the education of handicapped children. Initial finance schemes relied on funding intermediate education units called Boards of Cooperative Educational Services (BOCES). These units were particularly designed to provide shared services for two or more school districts in rural or sparsely populated areas. During the 1950s and again during the 1970s, special categorical aid was provided for handicapped students. In the 1960s general operating aid, in addition to special categorical aid, funded these programs. As a result, until 1980 handicapped aid was allocated through several different aid formulas for BOCES, the Big Five cities, private schools, and children in districts other than the Big Five.

In order to simplify and streamline this finance structure, and to advance appropriate placement policies, New York State implemented a new finance scheme for aid to special education beginning in 1980–81. The new handicapped aid formula consists of several elements designed to support special education activities. "Excess cost aid," which goes to all school districts serving handicapped children, is the core of the state's special education finance scheme, replacing four previous formulas. "Exceptionally expensive student aid" provides additional support to districts for high-cost students; and diagnostic/prescriptive testing aid provides assessment aid for new entrants and children who score below

TABLE 6.2

Estimate of Pupils[a] with Special Educational Needs and Pupils Served in a Selected Sample of New York Districts for 1979–80 School Year by District Type[b]

District Types	Estimated Pupils	Served by Title I	Served by PSEN	Difference	Percentage of Estimated Eligible Students Not Served by Title I or PSEN
City	158,312	41,848	49,021	67,443	42.6%
Suburban	32,062	10,680	17,207	4,175	13.0
Rural	6,666	2,643	3,404	619	9.3
Total	197,040	55,171	69,632	72,237	36.7
Large city	117,383	33,211	36,858	47,314	40.3
Small city	40,929	8,637	12,163	20,129	49.2
Total	158,312	41,848	49,021	67,443	42.6
Upstate suburban	14,468	3,786	7,121	3,561	24.6
Downstate suburban	17,594	6,894	10,086	614	3.5
Upstate	94,804	27,518	39,252	28,034	29.6
Downstate	102,236	27,653	30,380	44,203	43.2
Total sample[b]	197,040	55,171	69,632	72,237	36.7

Source: James M. Gaughan and Richard J. Glasheen, *Research Report of the Study on Special Pupil Needs* (Albany: New York State Education Department, March 19, 1980).

[a]Based on district estimates from Comprehensive ESEA Title I–Pupils with Special Educational Needs Application for 1979–80. Pupil counts are duplicated, that is, a pupil in both a PSEN class and a Title I class is counted twice.

[b]A district may be included in more than one type, thus the total for all types will not equal the sample total.

minimum competency standards. Additionally, the count of handicapped students is included in the weighted pupil count used to measure school district wealth (TWPU) in the general operating aid formula. A one-year total dollar save-harmless provision guaranteed that no district would receive less excess cost aid in 1981–82 than it received in 1980–81.

The formula which distributes the major share of special education aid to districts is labeled an excess cost formula. While the formula derives from the concept of excess cost it does not provide state aid over and above the amount that a district spends to educate a normal student (the traditional definition of an excess cost approach). Rather it uses weighting factors and a proxy estimate of per pupil handicapped expenditures in place of a true excess cost computation. In establishing this hybrid approach, New York legislators reasoned that calculating real excess costs would be too time consuming, costly, and unreliable for most districts. New York's excess cost aid formula multiplies three variables in the calculation of aid:

1. A weighted pupil count which weights children according to their placement. The value of the weights is derived from a New York State Education Department study of costs for special education.[8] The weights are: 1.7 for special class (that is, 60 percent or more per day in a special program); 0.90 for resource room services (that is, 20 percent or more a week in a resource room or special services); 0.13 for special instruction (that is, two or more periods a week in speech or other special services).

2. A measure of expenditure per child which serves as a proxy measure of district excess cost per child. The measure is the district's total approved operating expense divided by the TAPU for handicapped expense with a minimum value of $1,650 and a maximum of $2,300.

3. An aid ratio to equalize allocations according to district property wealth. This ratio is also used for equalizing general operating aid and is based on total property valuation per TWPU, but has a minimum value of 0.25.

The Exceptionally Expensive Student Aid Program assists districts in providing costly programs for the most seriously impaired children who require a set of intensive services from therapists, special educators, and/or psychologists. The formula entitles a dis-

trict to additional "excess cost" aid for children whose approved program costs are the lesser of four times the prior year's aidable expense per pupil, or $10,000. The per child entitlement equals the product of the aid ratio (property wealth measure) and the amount by which the child's actual cost exceeds three times the district's expense per handicapped child for the previous year. Hence the more costly a child, the greater the amount received by the district from the state to educate that child. In actuality, most districts will have few children qualifying for such aid.

Diagnostic/Screening Aid is designed to help school districts meet new state requirements to screen all children entering the district, as well as children scoring below minimum competency levels. Entitlements equal $8 per child for each child in kindergarten through sixth grade. The flat grant nature of this aid permits no distinctions among districts' costs or needs. As a consequence, the aid does not address the higher costs associated with assessments in large urban districts where many children with several deficits must be screened.

The handicapped excess cost formula distributed about $276 million in aid to school districts in 1981–82. Table 6.3 shows the distribution of public handicapped excess cost aid per handicapped student statewide when districts are grouped by the concentration (percentage) of handicapped pupils. The table also presents the aid allocations for the Big Five school districts and indexes them to the state average value. On a statewide basis, the districts with the greatest concentrations of handicapped students (quintiles 4 and 5) receive aid that is below the state average. In the extreme, districts whose average concentration of handicapped students is 172 percent of the state average concentration receive aid that is only 97 percent of the state average. Considering their concentrations of handicapped students, the Big Five do not fare much better. Buffalo, Rochester, and Syracuse receive average excess cost aid per weighted handicapped pupil. New York City and Yonkers, however, receive excess cost aid that is only 91 and 55 percent of the state average, respectively. Yet these cities have concentrations of handicapped students ranging from 131 to 165 percent of the state average.

The Education for All Handicapped Children Act (PL 94-142) delineates the responsibilities of states and school districts and provides federal aid to help them finance mandated services. Federal funding began at 5 percent of the average national expenditure and was to rise to 40 percent funding by 1982. Congress, however, has

TABLE 6.3

Distribution of Handicapped Excess Cost Aid by Concentration of Handicapped Students and for the Big Five, 1981–82

Quintile	Handicapped Concentration[a,b]	Index of Quintile Average to State Average Concentration	Public Handicapped Excess Cost Aid per Weighted Handicapped Student	Index to State Average Aid
1	Less than 4.58%	.46	$1,315	1.14
2	4.60–6.23	.73	1,171	1.02
3	6.23–7.91	.94	1,194	1.04
4	7.92–10.19	1.21	1,097	.95
5	Greater than 10.19	1.72	1,121	.97
State Average[c]	7.44		$1157	

City	Handicapped Concentration[a]	Index to State Average Concentration	Public Handicapped Excess Cost Aid Payable per Weighted Handicapped Student	Index to State Average Aid
New York City	9.8%	1.31	$1,045	0.91
Buffalo	12.3	1.65	1,189	1.03
Rochester	11.9	1.60	1,125	0.98
Syracuse	9.7	1.30	1,159	1.01
Yonkers	10.2	1.37	630	0.55
State Average[c]	7.44		$1,157	

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Handicapped students as a percent of Combined Adjusted Average Daily Membership.
[b]Excludes New York City. Each quintile contains approximately 20 percent of the remaining students.
[c]Excludes New York City.

not appropriated those funding levels. In 1980, for example, Congress appropriated 12 percent of the national average expenditure instead of 20 percent funding authorized by the legislation. These inadequate funding levels resulted in dramatic shortfalls from what had been anticipated by the states; New York received only $175 per handicapped child in that year.[9]

Bilingual Education

Over the first half of the twentieth century, the state made few attempts to address learning obstacles related to language. All such efforts, mostly directed at adult immigrants, were the result of local policy decisions and were totally supported by local finances. In 1956 the Heald Commission recommended that New York State assume support for the education of non–English-speaking students, as well as other disadvantaged students.[10] During the 1960s, bilingual education became formally recognized as a valid compensatory education strategy with the passage of Title I of ESEA, and the Federal Bilingual Act, which became Title VII of ESEA.

Chapter 720 of the laws of 1973 established state funding of bilingual education programs in New York. Although this legislation did not mandate bilingual instruction, it provided a small program of competitive grants to school districts that wished to provide such instruction. In 1974 another source of bilingual support was established with the institution of the PSEN program. As previously described, students who score below the statewide reference point on the PEP test are given an extra weighting in the operating aid formula and generate state aid under the PSEN program. Since 1974, pupils excused from taking the PEP test because of language problems are included in their school district's PEP percentage. Districts may then provide these students with remedial programs in a bilingual mode. About $9.5 million in PSEN aid was provided in 1981–82 for compensatory bilingual reading, math, writing, and English-as-a-second-language programs, making this the major state program supporting bilingual education. Data on the number of students served in these programs are unclear since the student counts are duplicative—students served in more than one program are counted for each program. It appears, however, that both the aggregate PSEN aid for bilingual programs and the number of children served in those programs have increased since 1976, the earliest year for which data are available.

A new bilingual education aid formula, Limited English Proficiency (LEP) Aid, was established with the passage of Chapter 827 of the Laws of 1982. This new formula, like the formulas used to fund compensatory (PSEN) and handicapped education programs, uses a student weighting. Aid for 1981–82 is based on current year selected operating aid per pupil multiplied by the estimated number of current year pupils in approved programs weighted at an additional 5 percent (.05). The pupil count is subject to reaudit at the end of 1981–82 and in subsequent years LEP Aid will be based on the base year count of students. $3.7 million in LEP Aid was distributed in 1981–82 on behalf of 83,134 students, about $45 per pupil.

Programs funded under this program must meet Part 154 of the Regulations of the Commissioner, which requires school districts to provide the identified students with a program of either bilingual education or English as a second language. While not a service mandate per se, the legislation and regulations, the availability of state aid, and judicial decisions requiring local districts to provide appropriate instruction to language minority children, effectively create a service mandate for most of the state's LEP children.[11]

Since 1973, the New York State Legislature has appropriated a relatively small amount of money each year to provide grants to school districts to conduct locally administered bilingual education programs. These Chapter 720 funds are used to incorporate bilingual education into a district's overall educational program. Districts submit proposals to the State Education Department to obtain these grants. The appropriation under this program has grown from $1.3 million in 1973–74 to about $2.1 million in 1979–80. In 1981–82, approximately $1.8 million was appropriated for this program in two parts: Twenty-two districts were awarded funding to continue three-year bilingual programs; and some districts approved for state aid under Part 154 (LEP Aid) were provided with supplementary Chapter 720 assistance. It appears likely that the Chapter 720 program will terminate once multiyear funded projects expire and more money is appropriated by the legislature under Part 154.

Title VII of ESEA, the Bilingual Education Program, is the federal government's major effort to respond to the needs of the country's children with limited English proficiency. The program is aimed at building the capacity of educational institutions to meet the needs of their bilingual children. Competitive grants administered under this program allow for the establishment and operation

of educational programs using effective bilingual education practices, techniques, and methods, and the demonstration of effective ways of providing English language competency to language minority children. In 1981, New York State school districts received Title VII grants totaling $21.5 million.

State support for bilingual education is not comparable to the state's provisions for compensatory or handicapped education. While state compensatory education is funded at over $150 million and handicapped education aid totals over $270 million, state aid for bilingual education in New York totals about $15 million. Table 6.4 shows Part 154, Chapter 720, and PSEN aid supporting bilingual education programs for 1981–82 for each of the Big Five school districts and for the rest of the state.

A major obstacle in assessing the extent to which resources for bilingual education reach students in need of them is that no exact or consistent estimate of bilingual children exists in New York State. Discrepancies occur because of different definitions of bilingual students and the survey methodologies used. Surveys con-

TABLE 6.4

New York State Aid for Bilingual Education by Source, 1981–82

	LEP Aid (Part 154)	Chapter 720[a]	PSEN Aid for Bilingual Programs
New York City	$3,110,827	$ 930,000	$6,851,900
Buffalo	52,289	52,289	0
Rochester	79,014	79,675	327,045
Syracuse	20,577	20,576	59,256
Yonkers	50,054	51,431	564,712
Big Five total	3,312,761	1,133,971	7,802,913
Rest of state	427,947	641,765	1,677,140
State total	$3,740,708	$1,775,736	$9,480,053

Source: Data for New York City provided by the New York City Board of Education; data for the rest of the state are drawn from the New York State Education Department, Bureau of Bilingual Education, *Directory of Educational Programs for Students of Limited English Proficiency in New York State, 1981–82*, 1982.

[a]Includes 1981–82 Chapter 720 temporary apportionment for Limited English Proficiency pupils three-year continuation programs and supplemental Chapter 720 assistance to districts approved for aid under Part 154.

ducted by the New York State Education Department in 1974 and 1978 have estimated 165,366 and 108,889 LEP pupils, respectively. The Office of Civil Rights (DHEW) has also provided estimates of 169,137 LEPs in 1976 and 145,357 LEPs in 1978.[12] The number of students enrolled in bilingual education programs in 1981–82 was 83,134, according to the State Education Department.[13] A consistent finding of all of these surveys, however, is that most of these pupils reside in New York City.

On a per pupil basis, using LEP Aid student counts, state aid was about $180 per pupil. If federal aid is included, per pupil support increases to about $440. This level of per pupil support is probably misleading, however. Since the pupil counts used in the calculation represent students enrolled in programs rather than those needing services, per pupil aid is overstated. Reductions in federal aid for bilingual education, which have already begun, will possibly erode this important source of support even more in the future. On a more positive note, recent state legislation, State Education Department initiatives, Board of Regents recommendations, and various court orders have combined to afford students in need of bilingual education greater protections at the state level than ever before.

Limitations of New York State Aid Provisions in Compensating for Special Pupil Needs

While the special attention focused on New York State's disadvantaged children is readily apparent, it is important that we understand the factors that limit the equalizing intent of these state aid programs. These limitations are discussed below.

Education Aid Formulas Limit Flow of Aid

Aid for special-needs students is provided through formula elements that do not direct greater than average aid to districts with greater than average needs. Three aspects of New York's education aid formulas limit the flow of aid to school districts with high levels of educational need. First, special-needs aid is distributed through formulas that are wealth-equalizing. That is, the state will share in a greater portion of educational spending in a poor district than it will in a rich one. Yet there is no relationship between wealth and educational need in New York State. Table 6.5 examines the concentra-

TABLE 6.5

Concentration of Special-Needs Pupils,[a]
Districts Grouped by Property Wealth per Pupil,
1981–82

Decile	Property Wealth per Pupil[b]	Handicapped Concentration	PSEN Concentration	Bilingual Concentration
1	Less than $ 42,119	7.1%	21.7%	0.7%
2	$ 42,177–47,818	7.1	18.6	0.3
3	47,846–52,133	8.3	22.2	0.8
4	52,192–57,687	6.5	17.6	0.3
5	57,786–64,459	8.5	17.8	0.3
6	64,477–69,851	7.4	18.4	0.8
7	69,871–76,899	6.7	19.5	1.5
8	76,979–92,966	6.9	16.3	0.7
9	93,090–109,333	8.7	19.1	2.4
10	$109,723–923,252	7.1	14.5	1.9
	State Average[c]	7.4	18.6	0.97

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.

[a]Special-needs students as a percentage of Combined Adjusted Average Daily Membership, 1981–82.

[b]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1980–81.

[c]Excludes New York City. Each decile contains approximately equal number of remaining pupils.

tion of PSEN, handicapped, and bilingual students in New York grouping districts by deciles of property wealth per pupil. Table 6.6 presents the distribution of special-needs aid by the same wealth groupings. The first table documents the lack of a relationship between property wealth and need. The second documents the relationship between wealth and special-needs aid: As wealth increases, special-needs aid decreases, on average.

Second, as discussed in the previous chapter, the fiscal capacity measure that is used for equalization purposes discriminates against the large cities by overstating their wealth. Use of an inadequate wealth measure produces a low state share for many cities, diminishing their share of operating aid in general, and special-needs aid in particular. Finally, by basing aid on attendance rather

TABLE 6.6

Distribution of Special-Needs Aid, Districts Grouped by Property Wealth per Pupil, 1981–82

Decile	Property Wealth per Pupil[a]	PSEN Aid per ADM PSEN[b]	Public Handicapped Excess Cost Aid per Weighted Handicapped Student	Limited English Proficiency Aid per Limited English Proficient Pupil
1	Less than $ 42,119	$303	$1,494	$69
2	$ 42,177–47,818	282	1,410	61
3	47,846–52,133	269	1,252	55
4	52,192–57,687	250	1,329	58
5	57,786–64,459	240	1,202	53
6	64,477–69,851	219	1,199	47
7	69,871–76,899	197	1,186	43
8	76,979–92,966	171	963	35
9	93,090–109,333	121	794	29
10	$109,723–923,252	89	767	24
	State Average[c]	$220	$1,157	$40

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1980–81.
[b]Pupils with Special Educational Needs aid is for 1980–81.
[c]Excludes New York City. Each decile contains an approximately equal number of the remaining pupils.

than on membership, the state formula penalizes large cities for absenteeism, which is closely related to the socioeconomic levels of their students, and over which they have little, if any, control.

Current Weightings Do Not Reflect True Costs

The current weightings do not reflect the costs of educating special-needs students in cities. Weightings currently in effect for the provision of PSEN aid assume that it costs 25 percent more to educate an educationally disadvantaged child than it costs to educate a "normal" child. The first study in New York State designed to ascertain the true costs of providing compensatory and bilingual services found that the current weighting of 0.25 did not properly reflect the additional costs of providing these programs.[14] The study, based on an analysis of available data and on-site analysis of twelve districts of varying location, size, and wealth, found that the extra costs for all special-needs programs in the sample districts ranged from 18 to 133 percent and were, on average, 37 percent above the cost of the regular program. The sampled districts spent from $282 to $4,352 per special-needs pupil. Analysis of cost data for bilingual programs in five districts revealed an average cost of 33 percent over the regular program, with costs ranging from 25 to 152 percent more.

As a result of this research, the State Education Department recommended raising the current weightings for PSEN students from 0.25 to 0.35 and establishing a weighting of 0.40 for bilingual education. These recommendations are especially critical since the Board of Regents has mandated remedial instruction for all students with low scores on either the PEP test or the Regents Competency Test. Prior to this mandate, districts with insufficient funds to serve all needy students could define the eligible population to match available resources.

To provide guidance for the handicapped formula implemented in 1980–81, the State Education Department conducted a study to determine the costs of providing services for handicapped children as well.[15] The study found that when all costs were included, the cost of serving an average, full-time equivalent, enrolled handicapped pupil is about 2.81 times greater than the cost of educating a student who requires no special services. The special education formula adopted by the legislature for 1980–81 was based largely on the findings of this study.

Three components of the special education formula, however,

are particularly disadvantageous to urban school districts. First, the weightings used in the new formula are derived from a study of the *average* amounts districts spend to serve handicapped children. Since urban districts appear to spend in the upper ranges, the use of an average cost underestimates their costs.

Second, the "expense per handicapped child," the proxy for excess cost in the formula, falls below the state's own estimate of excess cost (approximately $3,700) and below the 1979–80 state average approved operating expenditure for regular pupils (approximately $2,189). This goes against the conventional wisdom that on average it costs about twice as much to educate a handicapped child as a child in the regular program. In addition, no district's allowable expense per handicapped child can ever exceed its average per pupil expenditure because the former is the latter with a larger denominator. New York may justify this practice of setting the value of the expense per handicapped child at lower than average levels because the state separates aid for exceptionally expensive handicapped children. Estimates of average excess cost usually include these higher-cost children. However, such a justification is refuted by the fact that New York City reports very few children eligible for exceptional aid although its average excess cost per handicapped child well exceeds $3,000. This state ceiling of $2,300 proves particularly disadvantageous to districts with involuntary higher special education costs, that is, large urban districts.

Finally, the exceptionally expensive student aid formula in no way addresses the shortfall which exists for large urban districts where expenditures for handicapped children are higher than average yet less than the threshold of $8,000–10,000 per year to qualify for this additional aid. New York City's handicapped costs, for example, are estimated to average about $6,000 per handicapped child.

Formulas Disregard Higher Costs of Providing Educational Services in Cities

New York's special-needs aid programs also disregard three factors that make the costs of providing education in cities higher than it is in other school districts. First, the high concentrations of special-needs students in cities require additional resources to meet students' special needs. Second, the size and nature of the special student population in cities along with strict legal requirements

have cost consequences that distinguish large cities from other school districts. Third, research has shown that the cost of education generally is significantly higher in New York's cities than it is in other parts of the state.

High Concentrations of Special-Needs Students. The high concentrations of disadvantaged children living in the state's largest cities were the crux of the educational overburden arguments in *Levittown*. As is summarized in Table 6.7, the Big Five districts have concentrations of low-achieving, bilingual, and handicapped children that far exceed the state average concentration. New York City's concentration of low-achieving, bilingual, and handicapped students, for example, is 2.4, 7.5, and 1.3 times the state average, respectively. These high concentrations of special-needs students impose an extra financial burden on school districts. From the time they begin school, these students require additional personal attention. Such attention is very expensive when a significant portion of the class requires it. In schools where only one or two children in a class require this kind of attention, the teacher can most likely steal a few minutes of class time to deal with them. When special students compose a quarter or a half of the class, however, the ability of the teacher to deal with them effectively is greatly reduced. Additional resources—staff, counselors, special materials—are required.[16]

Yet, as we showed in chapter 4, these urban school districts have operating expenditures that are below average and receive below-average aid from the state. Thus, expensive services such as early intervention programs, cultural enrichment, parent education, and individualized programs that are necessary to bring these children even minimal skills are well out of reach of the state's largest city school districts.

The Size and Nature of the Special Student Population. While substantial concentrations of pupils in need of compensatory and bilingual education services are considered problems endemic to the urban environment, city school districts face a set of unique and complex challenges related to the size of their special education enrollments. Handling thousands of new referrals, as well as already-diagnosed pupils every year, constitutes a far different task from assessing, placing, and serving just a few hundred. While certainly some economies of scale can be realized, at a certain

TABLE 6.7

Concentration of Special-Needs Children in the Big Five School Districts, Compared with the State Average Concentration, 1981–82[a]

	Concentration of Low-Achieving Students	Index to State Average Concentration	Concentration of Limited English Proficient Students	Index to State Average Concentration	Concentration of Handicapped Students	Index to State Average Concentration
New York City	44.4%	2.4	7.5%	7.7	9.8%	1.3
Buffalo	35.7	1.9	2.2	2.3	12.3	1.7
Rochester	42.4	2.3	5.9	6.1	11.9	1.6
Syracuse	28.7	1.5	2.3	2.4	9.7	1.3
Yonkers	33.1	1.8	9.3	9.6	10.2	1.4
State Average[b]	18.6	1.0	0.97	1.0	7.4	1.0

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]District special needs students as a percentage of district Combined Adjusted Average Daily Membership.
[b]Excludes New York City.

point they lose their impact when districts have to add supervisory and coordination personnel to assure that diagnostic staff loads are equitable, that children can be accounted for, and that appropriate personnel assess and work with particular problems. At least two rather different studies corroborate a positive relationship between size of district and higher special education costs.[17]

Complex data tracking systems are virtual necessities in large urban districts, although the installation of such systems often suffers when these districts cannot locate the necessary start-up funds. In smaller districts, managing pupil records and accounting for pupil placement along the referral/evaluation/placement continuum is a relatively easier task. A few phone calls can usually locate someone knowledgeable about the student and his or her program. In larger systems, however, pupils, teachers, and specialists exist in rather impersonal bureaucratic networks in which pupil records are easily misplaced or untended, and assembling progress reports on special student services becomes a gargantuan and expensive task.

Interagency services for special children add another important dimension to the problems which ensue from serving large numbers of children. Cities characteristically contain a complex weave of service providers—hospitals, specialized clinics, rehabilitation centers, Easter Seal societies, social work agencies, and mental health organizations. Arranging a handicapped child's program within this variety of networks can be a time-consuming task, adding administrative costs to urban districts over and above those incurred in other districts. As a national study notes:

> Where there are quite a few children needing services from private or other public agencies, it takes much time to establish and maintain satisfactory links with those other agencies so that each handicapped child can be served. . . . Administrators in large sites describe how difficult and time consuming it is to deal separately with each agency and how one must deal with the priorities of each agency in order to get the services for school-referred children.[18]

In addition to serving large numbers of handicapped children, the cities may serve a greater proportion of severely impaired or multiply handicapped children who typically require expensive services. Few research analyses have investigated this possibility. Relatively dated information from a national survey of children in the mid-sixties indicates that rates of emotional disturbance for the 12-

to-17 age group rise with increasing city size, but this was the only handicapping condition clearly related to size of place.[19] Other sources show that large districts are less likely to use external placements, serving the more severely handicapped students themselves.

Handicapped urban school children share characteristics with urban children in general. These children miss school more frequently than their more advantaged peers, they change schools more frequently, and they often come from families whose dominant language is other than English. These characteristics place special demands on the skills of teaching and diagnostic personnel and make it difficult to accomplish similar results with the same resources expended in other districts. Many urban handicapped children suffer from the same learning deficits which afflict nonhandicapped urban children. Ideally, these children should receive several special services, but the effective coordination of multiple special services may have cost consequences in that they require additional time and energy on the part of teachers and administrators.

Finally, because urban districts contain large numbers of students and because many of these students are the focus of court and legislative action to achieve equal opportunity, urban districts draw the attention of judges and policy-makers seeking to effect legislative and regulatory changes aimed at equalizing opportunity. Practically speaking, a greater number of target group children theoretically will benefit from corrective actions in large school systems where the target populations reside. Additionally, well-organized advocacy group and public interest organizations frequently exist in urban areas because more heterogeneous populations and professional skills are present. These groups press their claims in court or in federal or state civil rights agencies. In contrast, the chances of coming across such groups in outlying districts, while not remote, are considerably lower.

The fact that large urban districts draw a greater share of the attention of compliance units and courts has several consequences. For instance, administrators' time can be consumed with implementing system-wide changes forcing the districts either to add administrative staff to manage the change process or to ignore regular administrative duties. This is not to suggest that change involving the equal treatment of students should be postponed; rather, it is to point out that the process of change and compliance in large school districts can entail particular costs and problems not exhib-

ited in other districts. Simultaneous change on a variety of fronts can create additional indirect cost burdens for urban districts—frequent turnover of administrative staff, frustration on the part of all levels of staff leading to absenteeism, and a low public image causing qualified special education teachers and administrators to avoid taking jobs in these districts.

The costs of being a front-runner for compliance are in many respects temporal or short-term. In theory, once new operating patterns are in place and the districts reach compliance, these unique burdens will disappear. However, the implementation of court orders and compliance plans rarely takes place within a short period of time. More frequently compliance activities stretch across years. District officials are immediately on the line during this time facing obligations to come up with the necessary financial resources to meet current year activities. Short-term costs are as real for districts as long-term operating costs.

Two recent lawsuits related to New York City's education of handicapped children clearly illustrate some of these problems. In *Lora* v. *Board of Education*,[20] plaintiffs charged that referral and assignment practices discriminated against blacks and Hispanics. A court order issued in July 1979 set specific time lines for evaluation and placement based on nondiscriminatory standards and criteria and individualized education plans. The *Jose P.*[21] case, a class action suit, requires the overhaul of New York City's special education programs to eliminate waiting lists and to provide appropriate services to handicapped children. Although the court recognized that some of the problems were not under the control of the City Board of Education, it found in favor of the plaintiffs and issued several specific requirements concerning the timing of evaluating and placing children, implementation of a data base and student tracking system, public outreach activities, and staffing.

Cost of Education Differences. The failure of the state education aid formula to compensate for differences in the purchasing power of the education dollar among school districts was also found to be a source of inequity in the *Levittown* litigation. Research conducted for the New York State Task Force on Equity and Excellence in Education confirmed this finding.[22] That study calculated cost indices for school districts that reflect the cost of an average package of resources (teachers and administrators) that are beyond the control of school districts. Thus, the indices do not reflect local taste or preferences for more or better resources. Indices were then

grouped by their location in New York's labor market areas, and average index values were calculated for each region. The resulting indices are intended to measure the relative price of the same package of educational resources among all of New York State's school districts.

Based on the 1977–78 school year, the cost of education was found to be highest in the New York City labor market area. In general, prices were lower in upstate areas and higher in downstate areas. For example, costs in the New York City area were 20 percent higher than in the Albany area. Also, costs were found to be higher in upstate central city school districts than in surrounding suburban and nonmetropolitan school districts. Many upstate suburban districts tended to have average costs, while nonmetropolitan districts tended to have below-average costs. By not recognizing these important cost differences in urban school districts, the state aid formula discriminates against the students who attend city schools—students who are generally most in need of help.

Summary

The large cities which enroll most of New York State's special students are unable to provide these students with resources commensurate with their needs. Although overall education funding levels rise with the passage of each year, the number of children in need of special education services remains high, and state and federal mandates to serve these children place severe fiscal and educational pressures on local school districts, school administrators, and teachers. The current special state aid program is inadequate to compensate urban school districts for the additional expenses they incur in educating special-needs pupils. The formulas do not recognize the actual costs of special programs, the additional resources required to remediate large proportions of urban student populations, and the higher cost of education in cities. In addition, the formulas use a measure of fiscal capacity that overstates the ability of urban school districts to fund education programs. The result is insufficient state aid for those school districts that need the most help.

The final two chapters of this book describe a range of alternatives that can make the distribution of educational resources within New York State more equitable, while recognizing the political and economic realities policy-makers must face. Chapter 7 illustrates

options, or formula building blocks, that address the limitations of New York's current school finance system. Chapter 8 constructs a school finance plan using these options; evaluates this plan in light of political, economic, and equity criteria; and illustrates the tensions and trade-offs that characterize any change in the distribution of educational resources within a state.

Notes

[1]James M. Gaughan and Richard J. Glasheen, *Research Report of the Study on Special Pupil Needs.*

[2]The Fleischmann Commission was appointed in late 1969 by joint action of Governor Rockefeller and the New York State Board of Regents to report and make recommendations on the quality, cost, and financing of the state's public school system.

[3]Richard J. Coley and Margaret E. Goertz, "The Interaction of Federal and Related State Education Programs in New York."

[4]Prior to 1980–81, secondary (7–12) PSEN students were not given the full 0.25 PSEN weight since they were already being weighted as secondary pupils. Since 1980–81, however, secondary PSEN students are weighted 1.5 (1 for full-time K-12, 0.25 for PSEN, and 0.25 for secondary).

[5]This is basically the rationale for the concentration factor in ESEA Title I.

[6]Based on Title I aid for federal fiscal years 1980, 1981, and 1982. New York State Education Department, Information Center on Education, *Education Statistics, New York State,* January 1983, Table 12.

[7]Gaughan and Glasheen, *Research Report.* Findings are based on data collected on a sample of sixty-one districts.

[8]New York State Education Department, *Providing State Aid for the Education of Children with Handicapping Conditions, Based on a Study of Program Costs.*

[9]*Special Education Funding: A Story of Broken Promises.*

[10]New York State Temporary Commission on Educational Finances, *Financing Education in New York State, Final Report.*

[11]For example, in 1974 the New York City Board of Education signed a consent decree with Aspira of New York, a Puerto Rican Community agency. This agreement was the result of a suit, *Aspira of New York, Inc., et al.* v. *Board of Education of the City of New York et al.* and required that the board implement bilingual education programs in every local district in New York City for students with limited English proficiency who could learn more effectively in Spanish. Other litigation requiring appropriate instruction to LEP pupils in New York State includes *Cintron* v. *Brentwood Union Free School District, School,* C.A. No. 77-C-1370, E.D.N.Y., Decision, 1/10/78, and *Rios* v. *Read,* C.A. No. 75 CIV. 296, E.D.N.Y., Memorandum of Decision and Order, 10/13/78.

[12]Gaughan and Glasheen, *Research Report.*

[13]State Education Department, *Directory of Educational Programs for Students of Limited English Proficiency in New York State, 1981–82.*

[14]Gaughan and Glasheen, *Research Report.*

[15]New York State Education Department, *Providing State Aid For the Education of Children with Handicapping Conditions.*

[16]Lawrence C. Pierce, Walter I. Garms, James W. Guthrie, and Michael W. Kirst, *State School Finance Alternatives*, p. 82. For further discussion and validation of this position, see Walter I. Garms and Robert J. Goettel, "Measuring Educational Need: Developing a Model for Predicting Composite Achievement Levels from a Composite of Socio-economic Characteristics."

[17]A national survey conducted by the National School Boards Association reported that large districts show the highest cost ratio between special education and regular education, 2.12 to 1. National School Boards Association, *A Survey of Special Education Costs in Local School Districts.* A study of New York's school district committees on the handicapped, the child evaluation teams used to implement special education mandates, found that the costs of programs for the handicapped constitute the highest percentage of the general fund appropriations in large districts as compared with small districts. Expenditures for the committees on the handicapped followed the same pattern. New York State Legislative Commission on Expenditure Review, *School District Committees on the Handicapped, Program Audit.*

[18]Marian S. Stearns, David Green, and Jane L. David, *Local Implementation of PL 94-142: First Year Report of a Longitudinal Study*, p. xiii.

[19]Patricia A. Craig and Norman B. McEachron, *Studies of Handicapped Students, Volume I: Whom Do Teachers Identify as Handicapped?* p. xiii.

[20]*Lora* v. *Board of Education*, 456 F. Supp. 1211 (1978).

[21]*Jose P. et al.* v. *Gordon Ambach et al.*

[22]Wayne Wendling, *The Cost of Education Index: Measurement of Price Differences of Education Personnel Among New York State School Districts.*

CHAPTER VII

Options for Reform: The Building Blocks

Previous chapters demonstrated that the distribution of educational resources in New York State does not measure up to the equity standards that emerged from the *Levittown* litigation. The resources available for the education of the state's children are dependent, to a significant degree, on the wealth of the school districts in which those children reside, and there is a lack of correspondence between the severity of special student needs and the resources available to meet those needs. The purpose of this chapter is to describe the building blocks of a school aid program as the first step toward devising a more equitable education finance system in New York. It describes the basic equalization aid formula types, specifies alternative ways of accounting for differences in fiscal capacity and educational need among school districts, and discusses formula adjustments that can compensate districts for special problems referred to as district "overburdens" in *Levittown.*

Equalization Aid Formulas

Since the turn of the century when the inequities in fiscal capacity among local school districts were first discussed, school people,

academicians, and state policy-makers have grappled with how best to reduce inequities in *educational opportunity* and in the *raising of revenues* for education. Educational opportunity focuses on the distribution of resources for education, that is, the expenditure side of the ledger. Two competing concepts have been apparent: One seeks to assure that all children receive an equal level of educational services, and the second seeks to provide service levels that vary with the different needs of particular types of pupils and school districts. On the revenue-raising, or tax, side of school finance, two approaches have also been in conflict. One focuses on assuring that equal tax yields per pupil will accrue to all school districts making the same tax effort for education, with districts retaining the choice of the effort level, that is, tax rate they will devote to education. The second provides uniform education tax rates throughout a state, with little if any leeway for different tax rate choices among school districts. School finance formulas, or factors that compose formulas, have been developed for all these value positions. And while each of the positions can be stated in isolation, state finance laws commonly combine aspects of several of these goals.

Equity in Educational Opportunity: The Minimum Foundation Program

The most common mechanism for reducing the disparity in spending levels throughout a state is the minimum foundation program. This approach guarantees that every student's education is supported by an equal amount of education money, or foundation, regardless of the fiscal capacity of the individual school district. Local school districts must contribute to this state-prescribed amount, typically by applying a state-established tax rate to a district's property valuation. The amount raised by a district from this tax rate is known as the required contribution. State aid is the difference between the foundation amount and the district's required contribution. Districts with greater wealth behind each pupil will have a larger required contribution and thus receive less state aid than those districts with less taxable wealth.

This approach leaves a district free to spend above the minimum, or foundation, amount, if it chooses to tax itself at a rate above the mandated local tax rate. Known as "local leeway," this add-on was an integral part of the original program. The supporters of the plan felt that local option would encourage adaptability and

change within the whole educational system of the state and encourage individual districts to increase the quality of their offerings. However, since this extra spending does not generate an increase in state aid, the ability of a district to raise revenues above the foundation level varies with its fiscal capacity. Therefore, a foundation aid program can result in unequal expenditures across districts unless states (1) set a very high minimum foundation guarantee, (2) restrict the extent to which a district can spend above the minimum, and/or (3) equalize the fiscal capacity of districts to raise funds under the "local leeway."

The last decade has seen adjustments to the minimum foundation approach which also permit it to serve as the vehicle for providing differential support levels for pupils with differing educational needs. In determining the amount distributed under the formula, instead of counting each pupil as one, some states assign higher weights to those pupils who have educational disadvantages, handicapping conditions, or for other reasons are enrolled in higher-cost programs.

Equity in Revenue Raising: Capacity-Equalizing Formulas

Equity in raising revenues is defined as ensuring that districts levying equal school tax rates receive equal school revenues through a combination of local and state funds. That is, the state aid system equalizes their capacity to raise money for education, but it leaves them free to determine how much of that capacity the district will choose to tap. States have adopted three variations on this approach: guaranteed tax base plans, guaranteed yield plans, and percentage-equalizing plans. Although they vary in structure, all three stress the district's freedom to choose its own tax rate and level of educational spending, rather than guaranteeing any particular per pupil expenditure.

Guaranteed tax base plans are designed to assure every district in the state that it can act as though its tax base is the same as some state-set level. Under this approach, the local school district chooses its tax rate for education, which is then applied to the guaranteed tax base and the actual tax base for the school district. State aid is the difference between what would be raised with the guaranteed tax base and what can actually be raised from the local tax base. The greater the difference between actual and guaranteed wealth, the larger will be the amount of state aid.

Under a *guaranteed yield*, or *district power equalizing, plan*, the state sets a guaranteed dollar amount for each tax mill levied by a school district. Where the district's locally raised revenues yield less than the guaranteed amount, the state provides the difference in state aid. In some forms of this plan, where high-wealth districts realize more than the state schedule, the excess is "recaptured" by the state for redistribution to poorer school districts.

Percentage-equalizing plans emphasize the way that state and local governments divide the support of educational expenditures. The state determines the percentage of educational expenditures that it will support in the district of average per pupil wealth. The proportion of state support is larger in districts with below-average wealth and lower for districts with above-average wealth. State aid is calculated by multiplying the state share of support by education expenditures in the district.

Under all of the capacity-equalizing approaches, the amount of state equalization aid given a district is related to its relative per pupil wealth and to its tax effort for education. Research in recent years has shown, however, that inequities exist in the ability of districts to provide an equal effort.[1] Therefore, capacity-equalizing formulas often do not result in equal expenditures. Extreme differences in school tax rates or in expenditure levels can even result in wealthy districts receiving more state aid than poorer ones.

Full State Assumption

Minimum foundation programs and capacity-equalizing plans are shared cost programs; that is, revenues come from both state and local sources. Full state assumption has been offered as an alternative to this type of formula.[2] Theoretically under full state assumption the state determines the ultimate level of education expenditures in the district and assumes responsibility for raising the necessary revenues from statewide sources. Variations in educational expenditures are based on the need rather than the wealth of the local school district. Tax equity is defined as uniform school tax rates throughout a state. Supporters of full state assumption argue that a system of predominant state funding would provide a broader, more reliable, and expansive revenue base for education and provide a better match between educational resources and educational needs. Opponents fear that this approach will limit local control or autonomy in education, link school support more tightly to the

economic ups and downs of the general economy, and exacerbate education's competition with other public services for tax dollars.[3]

Defining Other Formula Components

Choosing the appropriate equalization formula is just the first step in designing a school finance plan. In fact, although the equalizing ability of the shared cost formulas based either on the minimum foundation or on capacity-equalizing approaches varies with specific implementations, in their pure form these formulas are mathematically equivalent and can yield the same results.[4] Therefore, the selection of a specific formula structure is secondary to defining two critical components of the formula—fiscal capacity and educational need. The sections that follow describe alternative ways of measuring these variables and different approaches for incorporating them into a state education aid program. In most cases, the suggested changes are made within the structure of the equalization aid formula, such as modifying per pupil property valuation by an income factor or increasing pupil counts to reflect educational needs. Other approaches would provide funds to school districts through separate aid programs.

Alternative Approaches to Equalizing Fiscal Capacity

The primary purpose of state education aid programs is to assist school districts that do not have sufficient wealth, or fiscal capacity, to fund educational programs. Fiscal capacity has traditionally been defined as property wealth per pupil in state equalization aid formulas. However, we showed in chapter 5 that use of this measure alone does not recognize the economic problems and constitutional tax limits that school districts face when taxing property to raise education revenues. This section presents six alternatives that could help ameliorate these problems: (1) adjust the measure of fiscal capacity in the existing formula; (2) provide direct aid to impacted school districts; (3) expand the tax base of the district; (4) remove constitutional and statutory tax limits on city school districts; (5) transfer functions from one governmental jurisdiction to another; and/or (6) redress individual taxpayer inequities.

Adjusting the Measure of Fiscal Capacity in the Education Aid Formula

Three ways of adjusting the fiscal capacity measure to more accurately reflect a district's ability to fund education are modifying property value by income, modifying property value by measures of fiscal stress, and changing the denominator of the fiscal capacity measure to population.

Modifying Property Value by Income. Seven states, in addition to New York, currently incorporate an income-adjusted wealth measure in their equalization aid programs. As shown in Table 7.1, however, substantial differences exist among these measures.

TABLE 7.1

States Utilizing Income and Property as Measures of Local Ability to Support Schools

State	Description
Connecticut	Property valuation per capita modified by ratio of town's per capita income to per capita income of state's income wealthiest district.
Kansas	Two-year average of adjusted property valuation plus resident taxable income in the district.
Maryland	Property valuation and taxable income per pupil.
Missouri	Personal and real property valuation per pupil, with an income factor used to adjust the required local effort in the foundation part of the aid formula. The income factor is computed as 50 percent of the deviation of a district's adjusted gross income per return from the statewide average.
Pennsylvania	District wealth measure is 60 percent dependent upon property valuation per pupil and 40 percent dependent upon personal income per pupil.
Rhode Island	Equalized property valuation per pupil modified by a median family income ratio.
Virginia	Composite index including real property valuation, individual income, and taxable sales on both a per pupil and a per capita basis.

Source: Kent McGuire and Van Dougherty, *School Finance at a Glance, 1983–84* (Denver: Education Commission of the States, 1984).

The selection of an income modifier in a state aid formula involves four sets of decisions. First, what measure of income should be used? One option is adjusted gross income as reported annually on state income tax returns. This measure uses a relatively narrow definition of income; transfer payments, other untaxed income, interest on tax exempt bonds, and some long-term capital gains are excluded from its calculation. In addition, no estimate is made of the income from the population not filing returns, those who are in the lowest income group. However, these data are generally the only income figures available on a school district basis.

Second, should income be measured on a per pupil, a household, or a per capita basis? Two arguments are generally made in support of a per pupil income measure: Pupils are the best measure of local ability to support education services because they represent the population receiving those services, and it makes sense to have a consistent indicator of need in the formula if per pupil property wealth is also used as a measure of fiscal capacity.

Proponents of per household income measures argue that the household, not the student, represents the tax-paying, tax-burdened, property-owning resident of the school district and is the decision-making unit that reflects local responses to taxing and spending decisions. Opponents contend that using this measure could create a lack of consistency if it was used in conjunction with other per pupil fiscal capacity measures and that when households are indicated by the number of tax returns filed, married families filing separate returns are counted as more than one household.[5] Income per capita as an indicator of fiscal capacity is commonly used in equalization formulas for allocating noneducation aid in state and federal programs, and it better reflects the needs and costs for services in urban communities. Yet, it has been argued that a per capita measure is not the most appropriate indicator of ability to pay for education services alone, and in New York State, population data are not readily available by school district between decennial censuses.

The selection of a per capita or per household income measure would be the most beneficial to city school districts in New York. (See Table 7.2.) The Big Five show below-average or average wealth when these measures are used, but above-average fiscal capacity when income is calculated on a per pupil basis. In fact, a per pupil income measure can make these school districts look wealthier than they do using a per pupil property valuation mea-

TABLE 7.2

Income Measures for the Big Five and Their Suburbs, Indexed to the State Average, 1979

	AGI Per Pupil[a]		AGI Per Household[b]		AGI Per Capita[c]	
	$ Value	Index	$ Value	Index	$ Value	Index
New York City	$37,985	1.21	$15,763	0.94	$5,373	0.93
Yonkers	44,033	1.41	16,810	1.00	5,798	1.00
New York City suburbs	33,553	1.07	21,115	1.26	7,665	1.33
Buffalo	28,710	0.92	12,973	0.77	3,957	0.69
Buffalo suburbs	28,680	0.91	16,574	0.99	5,660	0.98
Rochester	31,498	1.00	14,066	0.84	4,893	0.85
Rochester suburbs	30,510	0.97	18,733	1.12	7,010	1.21
Syracuse	31,227	1.00	13,271	0.79	4,301	0.75
Syracuse suburbs	23,467	0.75	16,497	0.98	5,750	1.00
State average	$31,365		$16,787		$5,773	

Source: New York State Education Department data compiled and analyzed by Educational Testing Service, Princeton, N.J.
[a]AGI is Adjusted Gross Income. Pupils are 1979 Resident Total Wealth Pupil Units.
[b]Households are measured as the number of New York State income tax returns filed in 1979. AGI is 1979 reported income.
[c]Per capita measure is based on the 1976 estimated population.

sure. However, the use of pupils in the denominator of a fiscal capacity measure benefits many suburban school districts.

Third, once income has been defined for purposes of including it in a fiscal capacity measure, what is the most appropriate way to incorporate income into an education aid formula? The approaches now in use by the seven states can be divided into two groups: those that are "additive," that is, income has been added to property valuation (Kansas, Maryland, Virginia, and Pennsylvania); and those that are "multiplicative," that is, property valuation is multiplied by a ratio of district income to some key wealth measure, such as the state average income (Connecticut, Missouri, and Rhode Island). These methods can generate significantly different measures of relative fiscal capacity.[6]

Finally, if a multiplicative approach is considered, what should be the key wealth measure in the income ratio? Missouri and Rhode Island relate district income to a state average. Therefore, those

districts with below-average incomes will have their fiscal capacity measure made lower, while those with above-average incomes will look relatively wealthier. The Connecticut formula, however, relates district income to the income of the wealthiest town in the state. Staff of the Rubin Task Force proposed that district income per return be compared with the income of the district at the 75th percentile of income wealth. This type of adjustment would be slightly beneficial to New York City and Yonkers and of significant help to the upstate cities.

Adjustments for Concentrations of Poverty. In recent years, both state and federal policies have attempted to target aid to economically deprived students by using measures of poverty in aid formulas. The number or proportion of residents living in poverty, however, is indicative of more than educational need. It also represents constraints on the ability of school districts to raise education revenues, constraints that may not be recognized when average or median income measures are used in the definition of school district wealth. For example, extremely high incomes will tend to skew average income upward, thereby understating the proportion of residents with extremely low incomes, some of whom may not even file income tax returns. A formula adjustment for poverty would work to the advantage of urban areas whose average or above-average incomes may preclude them from much needed education aid.

Two types of formula adjustments could be used to reflect the distribution of income within a community. Income or property wealth could be modified by a poverty index, or a measure of poverty (for example, the concentration of poverty families or students) could be used to modify the denominator of the fiscal capacity measure. In Illinois, for example, property wealth is divided by a pupil count that includes an additional weight for each Title I child; this weight ranges from 0.53 to 0.65 depending upon the concentration of Title I pupils in the district.[7]

Poverty/Size/Density and Tax Rate Adjustments. A different type of direct adjustment to the fiscal capacity measure includes those characteristics of school districts that are associated with nonschool overburden and/or fiscal stress. Analyses have shown that poverty, population size, and population density are significant factors in creating a greater demand for municipal ser-

vices in large cities.[8] A study in New York State resulted in similar findings:

> Four key variables, apart from city status, (percent residential, property value per capita, population size, and property density) account for over 80 percent of the explained variance of the non-school burden. These considerations suggest that allocating overburden aid according to a formula that took these four factors into account would substantially provide aid in accordance with non-school burdens.[9]

An adjustment could be designed which would reduce a district's fiscal capacity along a scale if its poverty, population, or density were greater than established cut-off points. Similarly, the district's tax base could be reduced, for purposes of allocating education aid, if its nonschool tax rate exceeded the state average by a stated amount. Michigan's municipal overburden adjustment, for example, provides additional aid when a district's noneducation tax rate exceeds the state average by 25 percent. Aid is provided to 49 districts, with Detroit receiving more than 70 percent of these funds.

Property Valuation per Capita. Property valuation per capita is used currently in three states as a measure of district wealth. Connecticut and Massachusetts use a straight per capita approach, while Virginia defines district wealth partially (one-third) on a per capita basis and partially (two-thirds) on a per pupil basis. Changing the denominator in the fiscal capacity measure from pupils to population better reflects the capacity of a school district to raise revenues for all public services, not just education. This approach generally directs more aid to cities because they tend to have below-average enrollment ratios. For example, under New York State's current per pupil wealth measure New York City and its suburbs, Yonkers, and Rochester are all above the state average property wealth. When a per capita wealth measure is used significant benefits accrue to New York's large cities. The relative fiscal capacity of New York City and Yonkers drop from 104 and 135 percent of the state average to only 80 and 97 percent of the average, respectively. Buffalo, Rochester, and Syracuse also show significant declines in their relative wealth. In contrast, the suburbs all appear wealthier when property wealth is measured on a per capita basis rather than on a per pupil basis.

Providing Aid Directly to Impacted School Districts

Aid formula alternatives designed to adjust the fiscal capacity measure of districts by some proportion related to their level of income, size, density, tax burden, ratio of pupils to population, or percentage of poverty population are conceptually simple. However, this approach is subject to a number of criticisms. First, it has been shown in New York State that districts which appear to suffer from municipal overburden or fiscal stress are characterized by extreme values on a number of these characteristics. Choosing one or even some combination of these characteristics to include in a formula would be arbitrary. Second, while districts with high nonschool tax burdens tend to have high property densities or high percentages of their population in poverty, districts with moderate tax burdens do not necessarily have moderate levels of the corresponding characteristics, nor do low-burden districts have low levels. Therefore, it would not be appropriate to tie the size of the reduction in fiscal capacity to the full range of values of the characteristic. Finally, this approach provides no obvious guideline as to how much the fiscal capacity should be reduced for each increment in the characteristic(s) which measures overburden.[10]

To meet these objections, the state could identify school districts which are heavily overburdened using a method which takes many characteristics into account and provide these districts with a per capita or per pupil "municipal overburden" or "fiscal stress" grant. With this approach, districts that are overburdened will qualify for aid even if they fail to meet one of many criteria, while districts which are not really burdened would not receive special treatment because they have one characteristic of a municipally overburdened district.

Expanding the Tax Base of School Districts

Proposals to redefine the measure of fiscal capacity in the state aid formula are designed to mitigate the inequalities that result from the wide variation in property wealth among school districts in the state. Plans which would raise local school revenues from a political or geographic unit larger than the school district address the problem of unequal property tax bases directly. These plans, called "tax base sharing," increase the tax base available to a school district

without changing jurisdictional boundaries or requiring additional state aid. The purest form of tax-base-sharing

> requires each jurisdiction to contribute a certain percentage of its tax base to an area-wide pool. The tax base in the pool is assigned to jurisdictions on the basis of a set of previously determined criteria. Local authorities are then able to "tax" their share of the base at the same effective rate used for the tax base within their own boundaries.[11]

A variation of this approach involves the sharing of revenues rather than the reassignment of the tax base. A more appropriate name for this variation might be "tax-sharing" or "metropolitan revenue-sharing." Under such a plan, jurisdictions contribute revenues to a regional pool, based on some percentage of the taxing jurisdiction's base. The collected revenues are then distributed to the jurisdictions according to specified need and/or fiscal capacity criteria. Legislation to adopt some form of tax-sharing has been introduced in several states but implemented in a narrow way in only two—Minnesota and New Jersey.

Study groups in New York State have been recommending equalizing the school tax base at a unit larger than the individual district for over half a century. Strayer and Haig suggested funding education on a county basis in a report issued by the Educational Finance Inquiry Commission in 1923. Forty years later the Diefendorf Committee recommended that counties outside New York City have the option of collecting a sales tax of up to 1 percent, to be distributed to the districts in the county according to pupil attendance. The Fleischmann Commission went a step further in 1972, suggesting that full state funding for school districts be adopted, with no local option for a supplementary tax levy. In the last fifteen years, other versions of tax-base-sharing plans have been offered by the governor, the State Education Department, the Educational Conference Board, and the Division of the Budget.[12]

The State Education Department evaluated the effects of three school finance plans which would use county or statewide property taxes to support a portion of education costs.[13] A brief description of one of these plans, a state-mandated property tax raised and distributed within each county, illustrates the major components of a tax-base-sharing approach. Under this program, the state would man-

date that every district in a county levy a certain tax rate, such as five mills. The revenues raised by this levy would then be distributed on an equal per pupil basis to school districts within that county. Thus, districts with wealth above the county average would receive less revenue from the tax than could be obtained with a district tax of five mills, while districts of below-average wealth would receive more dollars. This plan is designed to redistribute only some of the local share of education costs; the state operating aid program would be continued as currently structured.

Removing Legal Tax Limits

The most direct solution to the problems faced by the *Hurd*-impacted school districts is to change the constitutional tax limits imposed on cities and city school districts. Recommended changes have ranged from authorizing the exclusion of retirement and social security costs in the computation of tax limits for all localities other than New York City;[14] to allowing a city school district to exceed its tax limit, but placing it under a constitutional expenditure limit;[15] to eliminating tax limits on city school districts altogether, and permitting city school districts to vote on school budgets as do all other school districts in the state.[16] In the latter two proposals, Buffalo, Rochester, Syracuse, and Yonkers would become independent districts. New York City is excluded from all three proposed amendments.

Reassigning Governmental Functions to Other Jurisdictions

The removal of legal restrictions on city school districts would allow these jurisdictions to raise the revenues necessary to meet their expenses. However, this change will not relieve the tax burden facing fiscally stressed cities. This can be accomplished only if demands upon the revenue base of the school district are reduced. School districts might transfer responsibility for selected noninstructional services (such as health and nutrition, maintenance and repair, libraries and transportation) to other agencies. In addition to tax relief, such functional shifts could result in greater cost effectiveness of operations. Little research has been conducted to date on these issues, however. Both the Diefendorf Committee

and Fleischmann Commission recommended regional administration of pupil transportation, with annual savings estimated at $3 million to $8.5 million. However, experiments with regional transportation systems and regional data processing centers in the 1970s did not provide the significant tax relief sought in response to the *Hurd* problem.[17]

If a broader approach was used, state assumption of selected municipal (and county) costs, such as the local share of Medicaid costs, would free up significant local revenues for other government services or for tax relief. New York City would be the primary beneficiary of the state assumption of local Medicaid costs. In the rest of the state tax relief would be provided through reductions in county taxes. This action would not help cities or city school districts which have reached their constitutional tax limits, but would provide some relief to city taxpayers.

Redressing Individual Taxpayer Inequities

None of the proposals for alternative school aid formulas address the inequitable distribution of tax burden among income groups discussed in chapter 5. Income adjustments to fiscal capacity measures would direct more state aid to districts where the average income is low, but would not help low-income taxpayers in income-wealthy districts. Nor would these approaches redress taxpayer inequities caused by existing assessment practices. Legislative proposals directed at taxpayer inequities have included creating a classification system for assessing property and linking full value assessment with an expanded homestead exemption and/or a circuit-breaker program. Circuit-breakers and homestead exemptions can also be used independently to offset the inequities of the current property tax system.

One proposal for *classification* called for the creation of nine classes of property for purposes of taxation, each to be assessed at a different rate. Localities would set the assessment ratio for each class of property; tax rates would be uniform for property within a class. A provision freezes assessment increases on residential property that result from the implementation of classification until the transfer of the title of such property. Advocates of this bill claim that it preserves local autonomy while ensuring that the tax burden is not shifted to the residential property owner. But at the same time

there is no protection against the proliferation of property classes. In Minnesota, for example, the classification scheme grew from four classes of property to twenty, which increased the costs and complexity of the system. Even without numerous classes of property, this system is so complex that it may not be easily understood by taxpayers.

Circuit-breakers tie property tax relief directly to a homeowner's income. When tax payments or the equivalent for renters exceed some fraction of income, aid is provided, usually in the form of a credit against state income taxes. The majority of states now have some form of circuit-breaker. New York State's program, implemented in 1978, covers taxpayers who have a gross income under $13,500 and own property worth less than $65,000 or pay adjusted rents under $300 per month. Maximum credits have been established to reduce the cost of the program. For the elderly, these range between $250 for the lowest income brackets to $100 in the highest bracket of $13,500. For all others, the maximum is $45. Total credits after changes in the program are effective in 1981 are predicted to be in the $30 million to $35 million range.

The current circuit-breaker program is financed from general state revenues as one of its many program expenditures. This has the effect of redistributing the tax burden geographically, such as from high-taxed suburban counties to other areas of the state, as well as redistributing it among income classes. Circuit-breakers could be county-financed, however. This approach would reform a particularly regressive burden within a county, while not shifting the consequences of high-taxing communities to other parts of the state which choose to tax and spend less.[18]

Homestead exemptions grant property tax relief by removing some dollar amount of value from a homeowner's assessment. To the extent that income and home value are positively correlated, a homestead exemption gives more relief to those most in need. New York has had a low-income homestead exemption for elderly homeowners since 1966. Currently, local governments have the option to exempt 50 percent of the assessed valuation of residences owned by elderly persons with incomes of up to $9,200. If a local government opts for such a program, it must provide an exemption for at least all households with incomes of $3,000 or less. The New York State program is municipally financed, thereby limiting the shifts in tax burden to different income classes within the same jurisdiction.

Alternative Approaches to Addressing Student Needs

Data presented in chapter 6 showed that New York's system of financing education does not direct sufficient resources to school districts with the greatest educational needs, particularly New York's largest cities. Pupil weighting systems and categorical programs are two general approaches that can be used to equalize for the needs of special students in a state education aid formula.

Pupil Weighting Systems

Pupil weighting systems provide extra funds to special students by counting them as more than one pupil for aid purposes. Pupils with special educational needs are assigned weights, reflecting the ratio of the cost of educating a "normal" pupil to the cost of educating a special pupil. Physically handicapped pupils, for example, may be weighted 3 in an aid formula, compared with a weighting of 1 for a regular pupil. This weight reflects a judgment that it costs three times as much to educate a handicapped pupil as a nonhandicapped pupil. Weights can also be used to recognize cost differences among basic programs (elementary pupils can be weighted more than secondary pupils in the belief that more resources in the early years bear a better return) and differences in the costs of providing programs such as vocational education or adult education. The sum of all such weighted pupils is then typically included within the equalization aid formula to represent the educational need of a district.

Although more than twenty states currently include at least one need differential[19] in their education formulas, there is marked diversity among specific state approaches.[20] This is due, in part, to the latitude that weighting systems allow in matching resources to student needs to reflect the particular educational objectives of a state. Other advantages of weighting systems are that they focus directly on student need, they are relatively easy to administer and understand, and they allow school districts a certain degree of autonomy in deciding how to use the aid allocated to them. As a policy lever, then, weighting programs can encourage districts to offer special programs, and from an equity standpoint they can compensate for cost differences.

One major problem of weighting programs is establishing

weights that accurately reflect program costs for special pupils relative to program costs for "normal" pupils. Because there is no universally recognized methodology for educating each type of pupil, determining the extra costs involved is extremely difficult. Methods currently used to establish weights include replicating existing expenditures, using the judgments of program specialists, or allowing policy judgments to determine emerging program emphasis; for example, the state legislature may want primary grades to be more heavily funded than secondary grades regardless of what primary education costs.

Because the added costs of special programs are shared between the local district and the state under weighting systems, districts with high concentrations of special pupils have to supply more local resources than districts with lesser concentrations. Therefore, the equity of weighting systems hinges as well on the validity of the fiscal capacity measure used in the aid formula to estimate local ability to pay for schools. In addition, when pupil weightings are applied to a minimum foundation amount (in New York State, the ceiling amount) that is less than what most districts actually spend, the aid generated by the weightings represents a far smaller percentage of actual costs than the weightings imply.

Policy-makers in New York could continue to use a pupil weighting system to recognize the needs of special-needs children. However, following the recommendations of the New York State Education Department, the PSEN weight should be increased to .35[21] and the bilingual weight to .40.[22] Policy-makers might also want to consider the possibility of applying a bilingual weight on a short-term basis (for a period of three years, for example) after which point the student would be ready for work in the regular classroom. The equity of retaining a pupil weighting system, however, will also depend on the development of a more appropriate fiscal capacity measure in the equalization aid formula.

Categorical Approaches

One of the major differences between pupil weighting systems and categorical funding is that, generally, weighting systems generate funds for special programs as part of general operating aid, while categorical formulas earmark aid for specific purposes and provide for program monitoring. Also, aid generated through weighting programs is usually wealth-equalized, while categorical aid is often

distributed without regard to school district wealth. Even when categorical aid is considered disequalizing as measured on a capacity-equalizing basis, however, it may serve to meet student equity objectives. These grants can provide important leverage in encouraging local districts to provide services that they may otherwise be unwilling and/or unable to provide.

Categorical aid may be provided on an excess cost basis or distributed in the form of a flat grant. Under an excess cost approach, school districts are reimbursed for the extra costs of educating special pupils. School districts determine what it costs to educate a special pupil, deduct from that amount what it costs to educate a "normal" pupil, and receive all or part of that extra cost from the state. In Michigan, for example, districts are reimbursed for 75 percent of additional costs for most exceptional child programs (subject to maximum) and receive 100 percent reimbursement for certain other programs. An obvious advantage of the excess cost approach is that state aid is linked directly to the extra costs involved in educating special children, and as such has much legislative appeal. At the local level, however, excess cost programs require program budgeting and increased paperwork. The state must determine what expenditures are reimbursable and perform the necessary audits. Finally, there may be a disincentive for school districts to operate efficiently when a high proportion of excess costs are borne by the state.

Aid may also be distributed as a flat grant. The state establishes a dollar amount which is allocated to school districts for each special-needs child and restricts these funds to use in a special program. For example, Maryland distributes a flat grant of $45 for each Title I eligible student in the state to support compensatory education programs. The advantage of this approach, from the state's point of view, is that the flat grant must be spent on the students on which the calculation of the aid is based. A major drawback is that school district wealth and differences in cost are not considered. Thus, poor districts and rich districts, and city and rural districts, receive the same amount of per pupil aid.

New York's wealth-equalized categorical approach to funding handicapped education could be modified to make it more responsive to the problems of large urban districts. One option is to make the basic excess cost provision a true excess cost formula. This would require a real excess cost computation instead of the proxy measure currently used. The administrative burden and paperwork generated by such an approach should be weighed against the im-

portance of responding to the higher special education costs experienced by large urban school districts. A second modification would address the burdens placed on large urban districts by virtue of the sheer number of pupils needing special education by directing more aid to districts that must educate excessive numbers of handicapped pupils. For example, the state could establish a minimum handicapped population threshold for eligibility for additional aid and allow a higher handicapped pupil cost for districts serving children beyond that threshold. Or alternatively, the state could distribute a flat grant for every child over the threshold. A third option could provide short-term categorical aid, similar to New York State's current K–3 diagnostic aid program, to help districts that face short-term cost pressures due to altering current practices, recruiting new staff, and establishing new procedures for pupil assignment and diagnosis. This kind of aid could be particularly important for districts facing compliance orders.

New York could also adopt a categorical approach as an alternative to the use of a weighted pupil system to recognize the needs of disadvantaged pupils. If the objective of policy-makers is to make the provision of special-needs aid independent of school district wealth, per pupil flat grants could be given to school districts, based upon the number of PSEN or bilingual students in the district. Such grants could be monitored fairly easily by the state to ensure that the monies are reaching the target children.

Recognizing School District Needs

The equalization approaches described so far address problems related to variations in fiscal capacity and educational needs throughout the state. Several other factors that are also beyond the control of school districts require recognition and special treatment if the education aid allocations are to be educationally effective and equitable. These factors, recognized in *Levittown* v. *Nyquist* as district overburdens, relate to cost of education, high concentrations of special-needs children, and excessive absenteeism and the educational problems it engenders.

Cost of Education

Three states currently recognize cost differentials in their state aid formulas—Alaska, Florida, and Washington. Using the data

generated for the Rubin Task Force, either a regional or a district cost of education index could be incorporated into New York's state aid formula.[23] A regional index, reflective of broad regional cost-of-living differences, has been calculated for New York's major labor market areas. The district index was calculated for each school district in the state and reflects specific characteristics of each community. Since the range of cost differences for labor market areas is smaller than the range for individual districts, the regional cost index would be less expensive to implement and would minimize the problems caused when neighboring school districts have quite different cost indices. With either approach, the cost index could be anchored to the cost of the lowest district or region so that no district would suffer losses in aid as a result of its index being less than one.

Concentration

Four states recognize the higher costs caused by high concentrations of disadvantaged children through their state aid formula. In Illinois, districts receive an additional weight of up to 0.65 for each pupil classified as a Title I eligible; the size of the weight is based on the concentration of Title I pupils in the district relative to the state average concentration. Similarly, the Aid for Families with Dependent Children (AFDC) weighting in Minnesota's foundation aid program, 0.5, is increased for districts with concentrations of AFDC children greater than 6 percent; districts receive an additional 0.1 pupil unit for each percentage of concentration greater than 6 percent, up to a maximum weighting of 1.1. Ohio's Disadvantaged Pupil Impact Aid (DPIA) is distributed to districts based on their concentration of AFDC pupils. In 1979–80, districts with concentrations of less than 18.5 percent received between $10 and $30 per pupil of aid, while districts with concentrations greater than 18.5 percent received grants ranging from $112 per pupil (18.5 to 22 percent) to $176.50 per pupil (concentration of 38.5 percent or more). In Pennsylvania, districts receive $200 per poverty pupil in "regular" poverty aid, and an additional payment of $30 to $200 per poverty pupil in "super" poverty aid, based on the district's concentration of poverty students.[24]

New York could adopt one of several adjustments designed to direct more aid to districts with high concentrations of special-needs students. If a general weighting system is continued, weights could be increased as the concentration of need increases. Under a categorical approach, variable flat grants could be allocated to dis-

tricts on a per pupil basis depending on the concentration of need within a district. Thus, a district with 50 percent of its students in need of special services could get more aid per pupil than a district with only 20 percent of its students in similar need.

Absenteeism

Much difference of opinion exists on how to count students for school aid purposes. The use of an attendance count excludes students who are absent on the day or days that the count is made. Therefore, districts that have high rates of absenteeism are penalized by having their student count understated. Advocates of the use of attendance contend that it serves to encourage school districts to get their students to school. Advocates of the use of a membership count (counting students enrolled in school) contend that since desks, materials, and teachers must be allocated based on membership or enrollment, counting students otherwise penalizes school districts whose students are frequently absent from school.

About thirty states now use membership counts in their aid formulas. Others use a combination of attendance and membership, such as half membership and half attendance. The New York State Board of Regents has proposed a count based on "active enrollment" or the number of children enrolled on a given date who were actually in attendance during the previous month. Under another recommended plan, students in districts with attendance rates over the state average would be counted on a membership basis.

Summary

The design of a school finance plan requires policy-makers to make a number of choices. First, they must select a basic equalization aid formula. Some approaches, such as the minimum foundation program, emphasize reducing disparities in educational spending; others, such as the guaranteed tax base plan or percentage-equalizing formula, are concerned with equity in the raising of revenues. Next, policy-makers must determine how to account for differences in school districts' ability to raise local revenues for education and in the educational needs of their students. A number of approaches for equalizing fiscal capacity were reviewed in this chapter, ranging from the traditional per pupil property-wealth

measure to measures that account for variations in income, poverty, or tax effort, to policies that reassign government functions or expand school districts' tax bases. The selection of any one, or combination, of these approaches would address the three fiscal equity problems raised by litigation in New York State: inequities in the distribution of wealth among the state's school districts (*Levittown*), the inequitable and arbitrary nature of the property tax limit system (*Hurd*), and inequities among individual taxpayers (*Hellerstein*).

The special needs of students can be addressed through pupil weighting systems or through categorical aid approaches. The equity of a pupil weighting system, however, hinges on the interplay of two factors: the validity of the fiscal capacity measure which determines the share of school district expenditures in which the state will share, and the accuracy of the student weight in determining the additional resources needed to educate a special pupil. The key to the equity of a categorical grant approach is the adequacy of the grant itself and the methods by which the state ensures that its investment is used in the way intended. Finally, under any of the alternative approaches discussed, adjustments are available, and have been used in other states, to recognize the unique problems of districts with higher than average costs, high concentrations of special-needs children, and excessive absenteeism.

The selections made by policy-makers from among these building blocks and the way in which they link them together can result in significantly different allocations of state aid among school districts and substantially different price tags for state government. How do they decide which alternatives are the most suitable for achieving school finance reform in New York? The next chapter addresses this issue by developing a prototype school finance plan and evaluating its impact in terms of political, economic, and equity criteria.

Notes

[1]See, for example, Helen F. Ladd, "Local Education Expenditures, Fiscal Capacity, and the Composition of the Property Tax Base"; Stephen J. Carroll and Rolla E. Park, *The Search for Equity in School Finance: Michigan School District Response to a Guaranteed Tax Base.*

[2]New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education, *The Fleischmann Report on the Quality, Cost and Financing of Elementary and Secondary Education in New York State* (New York: Viking Press, 1973).

[3]These arguments are summarized in Joel S. Berke and James W. Guthrie, "Should Financial Support of Public Schools Be Assumed Completely by States?"

[4]Peter Jargowsky et al., "School Finance Reform: Decoding the Simulation Maze."

[5]This is a problem only if the percentage of married couples filing separate returns varies significantly across income classes.

[6]For example, New York City's property wealth per pupil is 104 percent of the state average. When income is added to property wealth, the relative per pupil fiscal capacity measure increases to 109 percent. When property wealth is *multiplied* by a ratio of per pupil income to the state average, its relative fiscal capacity jumps to 126 percent of the average. In a district such as Levittown, where per pupil income is closer to the state average than is per pupil property wealth, an additive adjustment makes the district look relatively wealthier, while a multiplicative adjustment makes the district look poorer.

	Full Value per Pupil, 1979		Income per Pupil, 1979		Full Value plus Income per Pupil		Full Value Times Income Ratio	
New York City	$75,856	1.04	$37,985	1.21	$113,841	1.09	$91,786	1.26
Levittown	51,084	0.70	28,334	0.90	79,418	0.76	45,976	0.63

[7]Joe M. Kanosky, G. Alan Hickrod, and Ben C. Hubbard, *The Illinois General Purpose Grant-in-Aid System, 1973–1981 with the 1981 Amendments*. For an expanded discussion of these types of alternatives, see Joel S. Berke et al., "Implementing the Urban Mandate of *Levittown v. Nyquist*: An Analysis of Alternative Approaches to Compensating for Municipal Overburden in the New York State Aid Formula: An Interim Report."

[8]Roy Bahl, "Survey of Expenditure Studies"; and Gail Wilensky, "Determinants of Local Government Expenditures."

[9]Jerry Miner and Seymour Sacks, *Study of Adjustments of New York State Aid Formula to Take Account of Municipal Overburdens: Final Report*, p. 58.

[10]Jerry Miner and Seymour Sacks, "Specimen Recommendations for Discussion of State Aid to Local Schools for Municipal Overburden" (June 17, 1981). Prepared for the New York State Special Task Force on Equity and Excellence in Education, p. 2.

[11]Margaret C. Simms, "Metropolitan Tax Base Sharing: Is It the Solution to Municipal Fiscal Problems?" p. 2.

[12]For a summary of these proposals see, New York State Division of the Budget, *Reducing the Variations in Per Pupil Operating Expense among New York State School Districts by Enlarging the Tax Base: A Regional Tax Base Model*; and Richard J. Glasheen, Fred Bentley, and Robert E. Lamitie, *Report of the Expanded Tax Base Study*.

[13]Glasheen, Bentley, and Lamitie, *Report*.

[14]New York Legislature, S.10761, A.12415 (1974).

[15]*Hurd* Study Group, New York State Special Task Force on Equity and Excellence in Education, *An Examination and Recommendations Concerning the Problems of*

City School Districts Subject to the Constitutional Tax Limitation (April 15, 1982), p. 42.

[16]*Examination*, p. 41.

[17]*Examination*, p. 58.

[18]Charles W. deSeve and H. D. Birckmayer, *Low Income Circuit Breakers and Other Methods to Reduce the School Property Tax Burden: An Analysis.*

[19]John Augenblick, *School Finance at a Fifth Glance*, Education Commission of the States, Education Finance Center, Denver, June 1980.

[20]For a thorough discussion of pupil weighting systems, see Jack Leppert and Dorothy Routh, *A Policy Guide to Weighted Pupil Education Finance Systems: Some Emerging Practical Advice.* Also, for a comprehensive analysis of the implementation of weighting systems in three states, see Leppert and Routh, *The Development, Implementation and Impact of Pupil Weighting Education Finance Systems in Florida, Utah, and New Mexico.*

[21]James M. Gaughan and Richard J. Glasheen, *Research Report of the Study on Special Pupil Needs.*

[22]Gaughan and Glasheen, *Research Report.*

[23]Wayne Wendling, *The Cost of Education Index: Measurement of Price Differences of Education Personnel Among New York State School Districts* (Denver: Education Commission of the States, May 1980).

[24]Philadelphia and Pittsburgh are limited to $165 per poverty pupil in "regular" poverty aid and $150 per poverty pupil in "super" poverty aid.

CHAPTER VIII

Options for Reform: A Prototype and Its Implications

As policy-makers in New York pursue the goal of school finance reform, they must realistically balance a complex equity, political, and economic agenda. First, and foremost, they must change the distribution of educational resources so that neither the lack of wealth nor the unique educational and fiscal problems that affect the state's large cities lessen the educational opportunities available to a community's school children. This change in resource distribution, however, must be accomplished against a backdrop of status quo politics and economic retrenchment.

In this chapter we construct a reform school finance system from the many alternatives available to policy-makers and evaluate the impact of the new system in terms of political, economic, and equity criteria. Using many of the building blocks described in the previous chapter, we present a prototype school aid plan designed to meet the wide-ranging equity goals of the *Levittown* litigation. The resulting distributions of school aid and expenditures are examined in light of these equity standards, New York's political environment, and the cost of the program to the state. We end with a discussion of the trade-offs between equity and the economic cost and political feasibility of school finance reform.

The Prototype School Finance Plan

The design and evaluation of the prototype plan are driven by the equity guidelines that emerged from the *Levittown* litigation. These guidelines can be summarized as follows: (1) the quality of the educational program available in a school district should not be related to the wealth (property and/or income) of the community; (2) educational resources should be allocated in proportion to the differing educational needs of students; (3) all students should be assured an adequate level of educational support; and (4) the system of financing education should recognize, and be sensitive to, the higher municipal service needs of urban areas (which drive up total tax rates) and the higher cost levels (which increase finance requirements). In addition, specific elements in the state aid system singled out by the courts as inequitable—flat grants and save-harmless provisions, the use of pupil counts based on attendance rather than on membership, and the formula for supporting education of the handicapped—should be eliminated or changed.

The prototype formula is presented in three cumulative stages: the basic equalization aid formula, additional provisions designed to address the needs of special student populations, and adjustments to the district wealth measure which address the unique fiscal problems of the state's urban communities. Average daily membership (ADM) is always the basis for counting pupils, and the aid generated by each step of the formula is adjusted by a cost index which reflects the higher costs of "doing business" in the downstate school districts and in the central cities of upstate New York. Table 8.1 provides a summary description of these three stages and compares them with New York's education aid formula for 1980–81.[1]

Stage 1: The Basic Formula

The first step in designing a school finance formula is choosing an equalization plan. Our prototype utilizes a two-tiered plan. The first tier is a "minimum foundation" aid formula designed to guarantee a high level of financial support to nearly all of the districts in the state. This tier has a state share of 49 percent and an expenditure ceiling, or ceiling amount, of the prior year's average approved operating expenditure (AOE) per weighted pupil, $1,864 for 1979–80. This means that in a district of average wealth, or fiscal capacity, the state will reimburse the district 49 percent of $1,864, or $913 for

each pupil. Districts with below-average wealth will receive more than $913 in state aid, while those with above-average wealth will get fewer dollars. Ninety-three percent of the state's districts enrolling 98 percent of the children will qualify for some equalization aid under this Tier 1 formula.

The second tier provides a capacity-equalizing component that encourages districts with low property valuations to spend above the foundation level regardless of the size of their tax base. If a school system spends more than $1,864 per pupil, the state will support a percentage of the excess spending up to a ceiling amount of $2,495 per pupil (the 90th percentile expenditure in 1979–80). With a state share of 20 percent, all school districts having a per pupil property valuation below $80,000 are eligible for Tier 2 aid if they spend above the minimum foundation level. This represents 80 percent of New York's school districts.

The next step in developing a new school finance formula is determining how pupils are counted and how district wealth is measured. We have made the following choices concerning how pupils are defined. First, pupils are counted on a membership basis rather than on attendance. This decision reflects the courts' findings that attendance counts discriminate against urban school districts which have higher absenteeism rates.[2] Second, the formula for aiding handicapped students has been integrated into the operating aid formula. Thus, the pupil counts used to measure district wealth and district expenditures, as well as for the payment of aid, include a weight for handicapped students.[3] Third, at this stage of the prototype, weightings for secondary school, compensatory education (PSEN), and handicapped students are the same as those in the 1980–81 state aid formula. (See appendix Table A.1.) District wealth in the prototype is measured as equalized property valuation per weighted pupil, the measure used in Tier 1 of the 1980–81 formula.

Finally, this state aid plan does not include any minimum aid or save-harmless provisions. In addition, we have incorporated a cost-of-education adjustment into the formula. The courts found that by not recognizing cost differences in urban school districts, the state aid formula discriminates against the students who attend urban schools. Therefore, to reflect variations in educational costs documented by the Rubin Task Force we have adjusted aid payments to downstate districts upward by 20 percent and those to the large upstate cities upward by 10 percent. A more detailed description of this plan is provided in appendix B.

TABLE 8.1

Comparison of Prototype Plan (Stages 1 Through 3)
and 1980–81 Operating Aid Formula

Plan Characteristics	1980–81 Formula	Prototype Plans		
		Stage 1	Stage 2	Stage 3
Tier 1				
Aidable expenditure	$1,600	$1,864	$1,793[b]	$1,793[b]
Percentile	—	State Average	State Average	State Average
Requirement to spend[a]	No	No	No	No
State share	49%	49%	49%	49%
Tier 2				
Aidable expenditure	$1,700	$2,495	$2,474[b]	$2,474[b]
Percentile	—	90th	90th	90th
Requirement to spend[a]	No	Yes	Yes	Yes
State share	20%	20%	20%	20%

Wealth measure	Tier 1: Property Value per Weighted Pupil Tier 2: Income per Weighted Pupil	Property Value per Weighted Pupil	Property Value per Weighted Pupil	Property Value per Weighted Pupil Times Poverty Index
Pupil Count	Average Daily Attendance	Average Daily Membership	Average Daily Membership	Average Daily Membership
Student weighting				
PSEN	0.25	0.25	0.25	0.25
Concentration	No	No	Yes	Yes
Secondary	0.25	0.25	0.25	0.25
Bilingual	0.00	0.00	0.40	0.40
Handicapped	0.13–1.70	0.13–1.70	0.13–1.70	0.13–1.70
Cost-of-living index				
Downstate	No	120%	120%	120%
Upstate	No	110%	110%	110%

[a]Requirement to spend: "No" means that a district receives aid as though it is spending at the ceiling; "Yes" means that a district is aided based upon how much it actually spends, up to the ceiling.
[b]These figures are lower because of changes in the student weightings. Boxes denote change from the stage 1 plan.

Stage 2: Equalizing for Educational Needs

The second stage of the prototype plan addresses several of the problems of financing special-needs programs discussed in chapter 6. Drawing on the recommendations of the New York State Education Department, we added a 0.40 weighting to the prototype formula (Stage 1) to offset the additional costs of educating bilingual pupils.[4] We also increased the weighting for Pupils with Special Educational Needs (PSEN) to reflect the relative concentration of such pupils in a district. For example, if a district has 20 percent or fewer of its pupils counted for PSEN aid, its PSEN weighting is kept at 0.25. Districts with a 20.1 to 25 percent PSEN concentration will have a 0.30 PSEN weighting, and so forth, up to a 0.50 limit. Handicapped weightings remain the same as in the 1980–81 excess cost formula. The revised weighted pupil counts are used in calculating per pupil wealth and expenditures, as well as for the payment of aid.[5]

Stage 3: Modifying Fiscal Capacity

A major issue in the *Levittown* litigation and in the deliberations of the Rubin Task Force was how best to define a district's ability to pay for education. Our final adjustment to the prototype plan addresses this concern. Chapter 7 detailed several alternative measures of fiscal capacity; we have chosen to modify property valuation per pupil by a factor which reflects the concentration of poverty in a school district. This factor addresses two criticisms of the current wealth measure: that it does not consider the greater demand for municipal services which results from an increasingly dependent population (municipal overburden) and that it understates the true ability of taxpayers to raise revenues for government services. In this plan, the poverty adjustment is applied only to those districts with above-average concentrations of poverty and reduces property wealth on a sliding scale of 1.00 to 0.75; no district has its property wealth increased.[6]

Evaluating the Equity of the Prototype Plan

To see how well the prototype school finance plan meets the equity criteria set out in the *Levittown* litigation, the state aid and expendi-

ture distributions which result from simulations of each stage of the plan are analyzed several ways. Techniques used in chapter 4 to evaluate the impact of New York's school aid formula are used to gauge the progress made by our prototype plans. Have our prototypes reduced the relationship between property wealth and education resources? Do school districts with high levels of special-needs students have proportionately more resources to meet those needs? How do the largest cities in the state fare under our proposals?

Reducing Disparities in Wealth

Table 8.2 compares the simulated distribution of state aid under the three stages of the prototype plan with actual education aid for 1980–81 when school districts are grouped into deciles by property wealth per pupil. The third column shows state aid per pupil for Stage 1, or the basic plan. The figures in parentheses are the average increases or decreases in aid that result from the new formula. We find that this plan gives school districts an additional $1.067 billion of state aid. The largest increases are directed to the districts with the least property wealth, while districts in the second to seventh deciles receive slightly smaller increases. Aid decreases as wealth increases. Because the minimum aid and save-harmless provisions have been removed under this plan, the wealthiest districts (decile 10) lose state funds.

The addition of new weightings for bilingual pupils and the concentration factor for PSEN pupils in Stage 2 does not significantly change the total cost of the prototype program. Since New York City receives slightly more aid per pupil under this stage of the plan than under Stage 1, the other districts are left with fewer new dollars in aid. The distribution pattern across the wealth deciles remains highly equalized, however. The Stage 3 plan, which modifies the property-wealth measure in the prototype by a poverty factor, adds nearly $500 million to the price of the reform package, driving the total cost up to $4.457 billion dollars. The distribution of state funds is similar to that found in Stage 1 except that New York City receives an additional $400 per pupil in aid.

The projected impact of these aid changes on education expenditures is presented in Table 8.3.[7] Looking at the first stage of the prototype, we find that the poorest districts exhibit the largest increases; the average per pupil expenditure in the lowest wealth decile grows from 84.4 percent of the state average in 1980–81 to

TABLE 8.2

Prototype Formula:
Distribution of State Aid by Deciles of Wealth

Decile	Property Wealth per Pupil[a]	State Aid per Pupil, 1980–81[b]	Simulated State Aid per Pupil		
			Stage 1 Plan	Stage 2 Plan	Stage 3 Plan
1	Less than $37,996	$1,229	$1,587 (+358)	$1,541 (+312)	$1,580 (+351)
2	$ 38,017–43,832	1,141	1,456 (+315)	1,392 (+251)	1,423 (+282)
3	44,057–48,633	1,111	1,349 (+238)	1,285 (+174)	1,308 (+197)
4	48,634–52,175	1,041	1,363 (+322)	1,324 (+283)	1,407 (+366)
5	52,186–59,444	993	1,181 (+188)	1,115 (+122)	1,135 (+142)
6	59,461–64,883	913	1,216 (+303)	1,158 (+245)	1,234 (+321)
7	64,897–70,326	850	1,126 (+276)	1,079 (+229)	1,158 (+308)
8	70,367–84,493	743	864 (+121)	790 (+47)	821 (+78)
9	84,553–101,670	619	665 (+46)	623 (+4)	683 (+64)
10	$102,027–882,558	481	163 (−318)	122 (−359)	140 (−341)
State Average[c]		917	1,106 (+189)	1,052 (+135)	1,098 (+181)
New York City		748	1,205 (+457)	1,258 (+510)	1,601 (+853)
Total cost (in billions of dollars)		$2.933[b]	$4.000[b] (+1.067[b])	$3.997[b] (+1.064[b])	$4.457[b] (+1.524[b])

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1979–80.
[b]Sum of Payable Operating Aid and Public Excess Cost Handicapped Aid, 1980–81. All pupil counts are Average Daily Membership Total Aidable Pupil Units plus Weighted Public Handicapped Excess Cost Pupils, 1980–81.
[c]Excludes New York City.

TABLE 8.3

Prototype Formula:
Distribution of Expenditures by Deciles of Wealth

Decile	Property Wealth per Pupil[a]	Expenditure per Pupil, 1980–81[b]	Simulated Expenditures per Pupil[c]		
			Stage 1 Plan	Stage 2 Plan	Stage 3 Plan
1	Less than $37,996	$1,966	$2,186 (+220)[c]	$2,156 (+190)	$2,182 (+216)
2	$ 38,017–43,832	1,969	2,166 (+197)	2,125 (+156)	2,144 (+175)
3	44,057–48,633	2,029	2,171 (+142)	2,131 (+102)	2,146 (+117)
4	48,634–52,175	2,121	2,308 (+187)	2,285 (+164)	2,336 (+215)
5	52,186–59,444	2,061	2,173 (+112)	2,133 (+ 72)	2,146 (+ 85)
6	59,461–64,883	2,316	2,492 (+176)	2,459 (+143)	2,504 (+188)
7	64,897–70,326	2,476	2,638 (+162)	2,612 (+136)	2,659 (+183)
8	70,367–84,493	2,438	2,511 (+73)	2,481 (+43)	2,497 (+59)
9	84,553–101,670	2,784	2,833 (+49)	2,824 (+40)	2,858 (+74)
10	$102,027–882,558	3,204	3,137 (−67)	3,132 (−62)	3,137 (−67)
State Average[d]		2,329	2,455 (+126)	2,427 (+98)	2,454 (+125)
New York City		$1,823	$2,161 (+338)	$2,195 (+372)	$2,449 (+629)

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1979–80.
[b]Sum of Estimated Approved Operating Expenditures and Public Excess Cost Handicapped Aid, 1980–81.
[c]The methodology used to simulate expenditures is explained in Appendix E.
[d]Excludes New York City.

89 percent. The gap between the first and tenth deciles diminishes also, from $1,238 per pupil to $951 per pupil. This plan will not result in equal expenditures across all districts, however, for two reasons. First, the foundation guarantee is set at the prior year state average expenditure. Districts are aided for higher expenditures only if they choose to spend above this level. And in New York State, less wealthy districts tend to have lower tax efforts than wealthy ones. Second, because of the lower state share in the Tier 2 formula, only districts in the first eight wealth deciles are eligible to receive Tier 2 aid. Therefore, the prototype will narrow spending disparities primarily among this group of school districts. The expenditure gap between the first and eighth deciles has been reduced from $472 to $325 per pupil. The second and third stages of the plan result in slightly smaller expenditure increases for many of the state's districts than found in Stage 1, but the distribution of expenditures across districts grouped by wealth is more equalized than it was in 1980–81. New York City shows gains under all stages of the prototype plan.

Equalizing for Educational Need

The other major equity issue concerns the distribution of state aid and education expenditures among school districts educating high-cost pupils and facing high municipal service needs. Table 8.4 shows changes in the allocation of state education aid to school districts grouped by educational need and to each of the Big Five districts. Under Stage 1 of the prototype plan, districts with the greatest need receive an increase in aid triple that of districts with the lowest need. As a result, average state aid to the districts in quintile 5 goes from 91 percent of the state average in 1980–81 to 104 percent of the average. The Big Five school districts, all having high levels of educational need, also receive large increases in state aid, ranging from $291 per pupil for Syracuse to $457 per pupil for New York City. With these increases four of the Big Five districts finally receive above-average aid payments. The Big Five school districts together, educating 39 percent of the state's number of weighted pupils, receive 41 percent of the simulated aid compared with 32 percent of aid in 1980–81.

The changes in pupil weightings incorporated in the Stage 2 plan have the effect of shifting aid increases from low-need districts to high-need city school districts. The lowest-need districts receive

TABLE 8.4

Prototype Formula:
Distribution of State Aid by Quintiles of Educational Need and for the Big Five

Quintile	Educational Need Index[a]	State Aid per Pupil, 1980–81[b]	Simulated State Aid per Pupil		
			Stage 1 Plan	Stage 2 Plan	Stage 3 Plan
1	Less than 1.209	$929	$1,038 (+109)	$ 965 (+36)	$ 980 (+51)
2	1.209–1.232	976	1,103 (+127)	1,033 (+57)	1,053 (+77)
3	1.233–1.251	974	1,130 (+156)	1,061 (+87)	1,079 (+105)
4	1.252–1.286	885	1,100 (+215)	1,042 (+157)	1,076 (+191)
5	1.287–1.470	834	1,152 (+318)	1,146 (+312)	1,279 (+445)
State Average[c]		917	1,106 (+189)	1,052 (+135)	1,098 (+181)
Big Five					
New York City		748	1,205 (+457)	1,258 (+510)	1,601 (+853)
Buffalo		982	1,337 (+355)	1,371 (+395)	1,592 (+610)
Rochester		724	1,148 (+424)	1,236 (+512)	1,596 (+872)
Syracuse		890	1,181 (+291)	1,159 (+269)	1,412 (+522)
Yonkers		$490	$ 793 (+303)	$ 862 (+372)	$1,091 (+601)

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Index is the ratio of Average Daily Attendance Total Aidable Pupil Units and Weighted Public Handicapped Excess Cost Pupils to Combined Adjusted ADA, 1980–81. Each quintile contains an approximately equal number of pupils, excluding New York City.
[b]Sum of Payable Operating Aid and Public Excess Cost Handicapped Aid, 1980–81. All pupil counts are Average Daily Membership TAPU plus Weighted Public Handicapped Excess Cost Pupils, 1980–81.
[c]Excludes New York City.

only a $36 per pupil increase in state aid over 1980–81 compared with a $109 per pupil increase under the Stage 1 plan. The highest-need districts receive on average $312 per pupil more, an amount comparable to their allocations under the first plan. The largest gains accrue to the Big Five districts. New York City, for example, receives $1,258 per pupil in aid under the Stage 2 plan compared with $1,205 under the Stage 1 plan. The Big Five together account for 72 percent of the new aid generated by the Stage 2 plan, sending the cities' share of the state aid pot up to 43 percent of total simulated state aid.

The final adjustment to the prototype plan, modifying the property wealth measure (Stage 3), goes the furthest in providing more state aid to districts with high levels of educational need. The three groups with the lowest need receive, on average, $50 to $100 per pupil more in aid than they did under the 1980–81 formula, while the districts with the greatest need receive $445 per pupil more. The distinction is heightened when one looks at the aid distribution to the Big Five districts. New York City receives $1,601 per pupil in education aid, more than double its allocation in 1980–81, and $400 per pupil more than the Stage 1 plan provides. The other Big Five districts do equally well under the simulation of the Stage 3 plan. Together, the Big Five receive 48 percent of the total state aid dollars.

Each successive stage of the prototype school finance plan results in a distribution of education expenditures more closely related to the districts' level of educational need. (See Table 8.5.) For example, when expenditures are simulated under the Stage 1 plan, the districts with the highest level of educational need show an increase in average spending of nearly $200 per pupil compared with an average increase of $83 per pupil for districts with the lowest need. As a result, expenditures for the former group rise from 103 to 106 percent of the state average. Under the Stage 3 plan, simulated expenditures for the districts with the greatest need grow to nearly 110 percent of the average. The prototype plan results in higher simulated expenditures in the Big Five districts as well. In spite of large increases in state aid, however, expenditures in New York City and Buffalo remain below the state average.

Evaluating the Political and Fiscal Feasibility of the Prototype Plan

The prototype school finance plan goes a long way in correcting inequities in New York's system of school finance. The first stage

TABLE 8.5

Prototype Formula:
Distribution of Expenditures by Quintiles of Educational Need and for the Big Five

Quintile	Educational Need Index[a]	Expenditure per Pupil 1980–81[b]	Simulated Expenditures per Pupil[c]		
			Stage 1	Stage 2	Stage 3
1	Less than 1.209	$2,230	$2,313 (+83)[c]	$2,275 (+45)	$2,284 (+54)
2	1.209–1.232	2,180	2,274 (+94)	2,237 (+57)	2,248 (+68)
3	1.233–1.251	2,326	2,426 (+100)	2,389 (+63)	2,401 (+75)
4	1.252–1.286	2,483	2,629 (+146)	2,598 (+115)	2,619 (+136)
5	1.287–1.470	2,406	2,602 (+196)	2,601 (+195)	2,680 (+274)
State Average[d]		2,329	2,455 (+126)	2,427 (+98)	2,454 (+125)
Big Five					
New York City		1,823	2,161 (+338)	2,195 (+372)	2,449 (+629)
Buffalo		2,011	2,190 (+179)	2,248 (+237)	2,377 (+366)
Rochester		2,526	2,781 (+255)	2,834 (+308)	3,050 (+524)
Syracuse		2,255	2,429 (+174)	2,416 (+161)	2,568 (+313)
Yonkers		$2,522	$2,704 (+182)	$2,745 (+223)	$2,882 (+360)

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Index is the ratio of Average Daily Attendance Total Aidable Pupil Units and Weighted Public Handicapped Excess Cost Pupils to Combined Adjusted ADA, 1980–81. Each quintile contains an approximately equal number of pupils, excluding New York City.
[b]Sum of Estimated Approved Operating Expenditures and Public Excess Cost Handicapped Aid, 1980–81.
[c]The methodology used to simulate expenditures is explained in Appendix E.
[d]Excludes New York City.

provides school districts with higher levels of resources generally and weakens the link between the property wealth of a community and educational spending. Adjustments made in the second stage also break the negative relationship between the level of educational need and the availability of resources. Stage 3, in addressing the problem of an unfair capacity measure, provides still more funds to urban and other high-need school districts.

Any proposal(s) for reform must meet other tests as well. Each change made in the school aid formula must be measured in terms of its effect on the existing system of school finance—a system built on years of political compromise. An alternative which drastically changes the distribution of state aid within the state or limits the freedom of wealthy school districts to tax themselves for education will face strong political opposition. Similarly, a program that grants massive increases in state aid to a large number of school districts may be viewed as fiscally irresponsible and might generate resistance for that reason.

New York's current school aid formula reflects years of political compromise among socially and economically diverse constituencies. In order to illustrate the political limits of reforms, we examine state aid distributions that result from our simulations of the prototype plan in light of the following political criteria: (1) A substantial number of districts should gain aid; (2) the effects of school districts losing aid should be minimized; and (3) the interests of various regions of the state (urban, rural, upstate, suburban) should be recognized. In Tables 8.6, 8.7, and 8.8, we show the number of school districts that gain or lose aid, the magnitude of these losses, and the location of the "winners" and "losers" for each stage of the prototype formula.

Districts are first grouped by New York's two traditional geographic and political divisions: "downstate" (New York City and Nassau, Suffolk, Westchester, Putnam, and Rockland counties) and "upstate" (the rest of the state). The downstate districts are further divided into New York City, other downstate cities, and the downstate suburbs. The unique problems of New York City have been discussed throughout the book; the primary interests of their representatives will be to increase significantly the level of state aid allocated to the city. The four downstate counties, which have emerged in the last two decades as a third, distinct political region,[8] have been united in their efforts to prevent reductions in state education aid in the face of declining enrollments and gubernatorial proposals to reallocate save-harmless and minimum aid.

Although upstate New York is often viewed as a politically homogeneous area, it encompasses a heterogeneous mix of communities—large cities, small cities, metropolitan suburbs, rural towns, and vacation communities—each with its own interests and problems. Upstate cities are characterized by above-average concentrations of special-needs students and fiscal stress. The larger cities tend to have greater property wealth, however, and thus receive less state aid. Upstate suburbs, like their downstate counterparts, have fewer educational and fiscal problems than their neighboring central cities. Unlike downstate suburbs, however, their lower property valuations and educational costs make them eligible for state equalization aid. Rural towns generally have low measures of both property and income wealth. Yet, in vacation areas, high property valuations limit the flow of state aid in spite of concentrations of low-income residents. To address this diversity in our analysis, we have grouped the 524 upstate school districts into four categories: the Big Five cities, smaller cities, suburban communities, and rural towns.

Under Stage 1, the basic plan, 541 school districts educating 90 percent of the state's students gain $1.143 billion in aid, while the other 163 districts lose a total of $84 million. (See Table 8.6.) Eighty percent of the aid increases go to downstate districts, with 55 percent of the new dollars going to New York City. The downstate suburban districts also absorb nearly three-quarters of the aid losses. Looking at the table from another perspective, the city school districts, with 47 percent of the students, receive 65 percent of the aid increase, while the state's suburban districts, with 40 percent of the students, receive 30 percent of the increase.

Table 8.7 shows the districts that gain and lose aid under the Stage 2 plan. New York City receives nearly 30 percent more in aid than under Stage 1, while the other Big Five and downstate cities receive about the same number of dollars. However, because of their low concentrations of special-needs students, this version of the prototype drives less aid into upstate and downstate suburban and nonmetropolitan districts. As a result, the number of districts with aid losses increases from 163 to 221. More than 30 percent of the state's school districts, enrolling about 15 percent of the students, lose $108 million under this stage of the prototype.

A simulation of Stage 3 of the prototype reveals that more districts lose aid (196) than under the Stage 1 plan (163), but fewer than under Stage 2 (221). As shown in Table 8.8, the aid gains are substantially larger than under either prior stage of the plan. The

TABLE 8.6

Prototype Formula Stage 1: Political Considerations

	Aid Gains			Aid Losses		
	Number of Districts	Number of Students	Dollars (in millions)	Number of Districts	Number of Students	Dollars (in millions)
Downstate[a]						
New York City	5[b]	884,186	$ 634.2	—[b]	—[b]	$ —[b]
Other Cities[c]	5	41,065	20.3	3	16,475	4.6
Suburbs	93	453,882	265.8	74	156,518	57.4
Upstate						
"Big Five"	3	98,164	47.4	—	—	—
Other Cities[d]	25	144,665	45.5	1	4,639	2.4
Suburbs[e]	186	521,018	72.6	29	56,928	9.1
Nonmetropolitan[f]	224	321,250	57.5	56	37,810	10.8
Total	541	2,464,230	$1,143.3	163	272,370	$84.3

Source: Simulated data generated by Educational Testing Service, Princeton, N.J.
[a]New York City and Nassau, Suffolk, Rockland, Putnam, and Westchester counties.
[b]Borough of Manhattan loses $54.5 million, but the loss is offset by gains in the other boroughs.
[c]Districts classified as cities by the state of New York in the downstate counties.
[d]Districts classified as cities by the state of New York. Nonmetropolitan cities with enrollments of under 5,000 students are not included.
[e]All noncity districts in the seven upstate Standard Metropolitan Statistical Areas (SMSAs).
[f]All districts outside the seven upstate SMSAs, except cities with 5,000 or more students.

TABLE 8.7

Prototype Formula Stage 2: Political Considerations

	Aid Gains			Aid Losses		
	Number of Districts	Number of Students	Dollars (in millions)	Number of Districts	Number of Students	Dollars (in millions)
Downstate[a]						
New York City	5[b]	884,186	$809.7	—[b]	$ —[b]	—[b]
Other Cities[c]	5	41,065	23.9	3	16,475	5.3
Suburbs	83	433,699	227.4	85	176,701	68.7
Upstate						
"Big Five"	3	98,164	53.2	—	—	—
Other Cities[d]	25	144,665	36.4	1	4,639	2.4
Suburbs[e]	160	413,164	38.4	54	164,782	18.3
Nonmetropolitan[f]	203	296,386	37.8	78	62,674	13.7
Total	484	2,311,329	$1,226.8	221	425,271	$108.4

Source: Simulated data generated by Educational Testing Service, Princeton, N.J.
[a]New York City and Nassau, Suffolk, Rockland, Putnam, and Westchester counties.
[b]Borough of Manhattan loses $54.5 million, but the loss is offset by gains in the other boroughs.
[c]Districts classified as cities by the state of New York in the downstate counties.
[d]Districts classified as cities by the state of New York. Nonmetropolitan cities with enrollments of under 5,000 students are not included.
[e]All noncity districts in the seven upstate Standard Metropolitan Statistical Areas (SMSAs).
[f]All districts outside the seven upstate SMSAs, except cities with 5,000 or more students.

TABLE 8.8

Prototype Formula Stage 3: Political Considerations

	Aid Gains			Aid Losses		
	Number of Districts	Number of Students	Dollars (in millions)	Number of Districts	Number of Students	Dollars (in millions)
Downstate[a]						
New York City	5	884,186	$1,110.8	—	—	$ —
Other Cities[b]	5	41,065	36.6	3	16,475	5.4
Suburbs	86	433,754	232.2	81	176,646	66.6
Upstate						
"Big Five"	3	98,164	88.5	—	—	—
Other Cities[c]	25	144,665	51.2	1	4,639	2.4
Suburbs[d]	163	429,463	47.4	52	148,483	17.5
Nonmetropolitan[e]	221	309,941	60.3	59	49,119	11.1
Total	508	2,341,238	$1,627.0	196	395,362	$102.9

Source: Simulated data generated by Educational Testing Service, Princeton, N.J.
[a]New York City and Nassau, Suffolk, Rockland, Putnam, and Westchester counties.
[b]Districts classified as cities by the state of New York in the downstate counties.
[c]Districts classified as cities by the state of New York. Nonmetropolitan cities with enrollments of under 5,000 students are not included.
[d]All noncity districts in the seven upstate Standard Metropolitan Statistical Areas (SMSAs).
[e]All districts outside the seven upstate SMSAs, except cities with 5,000 or more students.

gains are concentrated in New York City ($1.111 billion) and downstate suburbs ($232 million). Suburban districts are also the principal "losers." The inclusion of the poverty index returns the number of nonmetropolitan districts with aid losses from 78 to 59 (the Stage 1 plan), but the number of upstate suburban "losers" remains as high as in the Stage 2 formula (52). It appears that the use of a poverty index for rural districts offsets the disadvantage to them of increasing the pupil weightings.

A final concern in evaluating school finance reform plans is one of economics. How much will the reform package cost and how will it be funded? Our basic plan, Stage 1, costs slightly over $4 billion, or $1.067 billion more than 1980–81 operating aid. We have assumed, however, that part of this aid increase will be used by school districts to reduce local school taxes. The tax relief assumptions incorporated in the simulations would lower local property taxes by $332 million.

The second stage of the prototype formula is nearly identical in cost to the basic formula, $3.997 billion versus $4 billion, reflecting a trade-off in aid between the urban and nonurban, and high educational and low educational need districts. This occurs for the following reasons. The change in the pupil weightings, especially the addition of the concentration factor for PSEN, lowers the per pupil wealth and expenditure parameters used in the equalization aid formula, thereby reducing the fiscal capacity measures for many of the districts. For example, Rochester's per pupil wealth drops from $69,300, which is 104 percent of the state average under the Stage 1 plan, to $63,700, or 100 percent of the average, when the new weighting scheme is utilized. This change makes Rochester eligible for more state aid. On the other hand, districts not affected by the concentration factor look relatively wealthier for state aid purposes since their pupil wealth measures do not decrease as rapidly as the state average. This change makes them eligible for less aid under the Stage 2 plan than under the basic plan.

The final stage of the prototype adds nearly $500 million to the prototype state aid package, driving the total cost up to $4.457 billion. This sum represents more than a 50 percent increase in state support for elementary and secondary education over 1980–81. The level of projected property tax relief is also higher, however, than under the other alternatives: $393 million.

In summary, the prototype plan presented in this chapter has political and economic ramifications of concern to policy-makers. For example, by removing minimum aid and save-harmless provi-

sions, the various stages of the prototype take education aid away from 165 to 220 school districts located in both upstate and downstate regions of the state. Although the redistribution of their aid enhances the educational equity of the system, representatives of these communities will be hard pressed to support legislation which denies their school districts state funds they have received for years. The prototype plan is also costly. Although it would provide substantial tax relief to property owners in lower-wealth communities, the most equitable of the stages, Stage 3, would cost the state an additional $1.52 billion. As we saw in chapter 3, the state cannot fund this large an increase from current revenues.

Refining the Prototype: The Trade-offs Between the Cost of Reform and Equity

In order to attract the political support necessary for a major reform of New York State's school funding law, one must at a minimum assure that there are no aid "losers." Reinstating a "total aid" save-harmless provision in the prototype plan would cost relatively little money: $103 million.[9] These funds would make the distribution of aid slightly less equitable. However, since we have assumed that high-wealth districts will raise local taxes in the face of state aid cuts in order to maintain their previous expenditure levels, reinstating minimum aid would have little negative impact on expenditure equity.

There is a much greater trade-off, however, between equity and the cost of reform. Stage 3 of our prototype plan raises state support of education from 39 to 52 percent of state and local education expenditures. However, many policy-makers will consider the expenditure of $1.52 billion new state dollars too large a price to pay for equity. In response to this concern, we have refined Stage 3 of our prototype plan to reflect an increased cost of $700 million, the amount of new money that Governor Carey proposed to raise with a one-cent sales tax in his 1982–83 education budget message. An assumption underlying the selection of this dollar figure is that the annual growth in state education aid—$275 million to $375 million—is too small to have any meaningful impact on the equity of New York's education finance system. Any larger increase will require tapping a new source of revenue, such as an increase in the sales tax, or developing a plan for phasing in the program, so that fewer new dollars are needed in the early years of the reform. The

analysis that follows is designed to make two points. First, reducing the cost of reform reduces the equity and decreases the political viability of the prototype school finance program. Second, the way in which the prototype is scaled down also has consequences for the equity of the reform plan.

Three different ways to contain the cost of the plan are presented here: prorating state aid that districts would receive under a fully funded formula, decreasing the state's share of education expenditures, and scaling down the size of the student need and urban adjustments in the state aid formula. No minimum aid or save-harmless provisions are included. Although each refinement costs a total of $3.633 billion ($700 million more than 1980–81), we shall see that each approach has substantially different ramifications for the equity of the system.

Refinement 1 retains all the provisions of the Stage 3 prototype but provides districts with only a *proportion* of the aid generated under the Stage 3 plan. A $700 million increase over the 1980–81 appropriation would provide 81.5 percent of the funds needed to fully fund the prototype plan. In this refinement, therefore, each district, regardless of wealth or need, receives 81.5 percent of its Stage 3 allocation.

Refinement 2 keeps the various parameters of the prototype formula intact—the aid ceilings, pupil weightings, and fiscal capacity adjustments—but decreases the state share ratios. The state share for Tier 1 drops from 49 to 36 percent, while the state share for Tier 2 drops from 20 to 2 percent. Decreasing the state share has the effect of limiting the number of districts eligible for equalization aid. With a state share of 49 percent, districts with per pupil wealth of up to $125,000 qualify for aid; this level drops to $99,600 with a state share of 36 percent. Similarly, in Tier 2, the wealth of districts qualifying for aid would decrease from about $80,000 per pupil to slightly over the state average wealth per pupil—$65,000.

Refinement 3 scales down the size of the poverty adjustment to the wealth measure, cuts the cost of education index in half, and reduces the state share for the two expenditure tiers. By reducing the magnitude of the wealth and cost adjustments, more money is driven into the property-wealth-equalizing portion of the formula. As a result, the state share ratios are reduced to only 43 percent in Tier 1 and 12 percent in Tier 2.

Tables 8.9 and 8.10 evaluate aid distributions resulting from these three refinements in terms of our equity criteria of reducing disparities based on wealth (fiscal neutrality) and relating the distri-

TABLE 8.9

Refinements to Prototype Plan:
Reducing Disparities in Wealth

Property Wealth per Pupil[a]	Operating Aid per Pupil, 1980–81[b]	State Aid per Pupil, Prototype	State Aid per Pupil, Refinement 1	State Aid per Pupil, Refinement 2	State Aid per Pupil, Refinement 3
Less than $37,996	$1,229	$1,580	$1,288	$1,445	$1,450
$38,017–43,832	1,141	1,423	1,160	1,252	1,287
44,057–48,633	1,111	1,308	1,066	1,111	1,180
48,634–52,175	1,041	1,407	1,147	1,202	1,221
52,186–59,444	993	1,135	925	897	995
59,461–64,883	913	1,234	1,006	953	1,016
64,897–70,326	850	1,158	943	837	915
70,367–84,493	743	821	669	477	614
84,553–101,670	619	683	557	285	433
$102,027–882,558	481	140	114	4	32
State Average[c]	$ 917	$1,098	$ 894	$ 857	$ 924

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Full Value per Resident Average Daily Membership Total Wealth Pupil Unit, 1979–80.
[b]Sum of Payable Operating Aid and Public Excess Cost Handicapped Aid, 1980–81. All pupil counts are Average Daily Membership Total Aidable Pupil Units and Weighted Public Handicapped Excess Cost Pupils, 1980–81.
[c]Excludes New York City.

TABLE 8.10

Refinements to Prototype Plan:
Equalizing for Educational Need

Educational Need Index[a]	Operating Aid per Pupil, 1980–81[b]	State Aid per Pupil, Prototype	State Aid per Pupil, Refinement 1	State Aid per Pupil, Refinement 2	State Aid per Pupil, Refinement 3
Less than 1.209	$929	$ 980	$ 798	$ 746	$ 842
1.209–1.232	976	1,053	858	828	916
1.233–1.251	974	1,079	879	837	926
1.252–1.286	885	1,076	877	820	890
1.287–1.470	834	1,279	1,042	1,032	1,034
State Average[c] 1.250	917	1,098	894	857	924
Big Five					
New York City	748	1,601	1,304	1,376	1,248
Buffalo	982	1,592	1,297	1,457	1,368
Rochester	724	1,596	1,301	1,375	1,234
Syracuse	890	1,412	1,151	1,254	1,169
Yonkers	$490	$1,091	$ 889	$ 714	$ 721

Sources: Base year data from New York State Education Department; simulated data generated by Educational Testing Service, Princeton, N.J.
[a]Index is the ratio of Average Daily Attendance Total Aidable Pupil Units and Weighted Public Handicapped Excess Cost Pupils to Combined Adjusted ADA, 1980–81. Each quintile contains an approximately equal number of pupils, excluding New York City.
[b]Sum of Payable Operating Aid and Public Excess Cost Handicapped Aid, 1980–81. All pupil counts are Average Daily Membership TAPU and Weighted Public Handicapped Excess Cost Pupils, 1980–81.
[c]Excludes New York City.

bution of resources to educational need. With regard to fiscal neutrality, reducing aid equally for all districts (refinement 1) is the least equitable means to limit the cost of the reform plan. (See Table 8.9.) This refinement gives all districts 81.5 percent of their entitlement under the Stage 3 plan and results in little change from 1980–81 aid distributions. The most equity is achieved by lowering the state share ratios (refinement 2). This option drives relatively more aid into the lower-property-wealth districts and relatively less aid into the wealthier districts. The third refinement (limiting cost, fiscal capacity, and student need adjustments) is also reasonably wealth-neutral, but does not reduce aid to wealthier districts as drastically as in Refinement 2.

When examined in terms of educational need (Table 8.10), refinement 2 best meets the criterion that districts with greater needs receive higher aid. Districts in the highest-need quintile are allocated aid that is 120 percent of the state average. This refinement also drives the most funds into the Big Five districts. As would be expected, refinement 3 is the least beneficial to districts with high educational needs since the urban formula adjustments have been toned down.

Lowering the state share (refinement 2) is the approach that goes the furthest both in achieving fiscal neutrality and in equalizing educational need within a $3.633 billion budget. This is done at the expense of the wealthier and less needy districts, however. While this refinement is more fiscally responsible than our prototype plan, its political consequences are severe. By limiting the cost of reform, while trying to satisfy our equity criteria, 491 districts lose aid. To guarantee these districts at least the aid they received in 1980–81 would increase the cost of refinement 2 by about $371 million, for a total of $4 billion. The save-harmless costs for refinement 1 and refinement 3 would be $252 million and $223 million, respectively.

Refining our prototype formula demonstrates the tensions that exist in designing a reform plan that is equitable, politically feasible, and fiscally responsible. First and foremost, equity is expensive. Our Stage 3 prototype plan costs $4.45 billion, an increase in state education aid of 50 percent. Cushioning the effects of aid losses on districts under this plan, thus making it politically more viable, can be accomplished with another $100 million. To realistically address the cost issue requires compromise on both equity and political issues. Our refinements, which would reduce the cost of reform to $3.633 million, or a 25 percent increase over 1980–81 operating aid,

are fiscally more acceptable, but increase the political costs and limit the equity of the system. One refinement would require a save-harmless provision costing over $300 million, almost half of the increased cost of the refined reform plan itself. And, while a scaled-down version of the prototype plan distributes aid more equitably than the current formula, the new aid dollars generated are still insufficient to offset the wealth-based expenditure disparities which result from the existing system.

Achieving Reform

In this chapter we have demonstrated that school finance formulas can be designed in New York State which address the issues of fiscal neutrality and educational need, while meeting the special needs of the state's largest cities. A foundation formula with a reasonably high guarantee level will ensure that all districts provide an appropriate education for their students. A second tier, which provides districts of below-average wealth with additional resources when they spend above the foundation level, can break the linkage between wealth and education spending, while protecting the school district's right to choose that level of spending appropriate for the community. This basic plan does not go far enough, however, in addressing those special educational and fiscal problems facing urban school districts that were of concern to the courts. Formula adjustments which recognize the higher costs of educating urban students and the phenomenon called "municipal overburden" can be used to drive additional aid dollars into the state's city school districts.

There are many technical solutions to the *Levittown* problem. The prototype plan developed in this chapter chose from among a wide variety of policy options. But any change in New York's school finance structure challenges a system built on years of political compromise.

> [While] the courts may set the standards of compliance, . . . they cannot forge the coalition necessary to bring it about. . . . [L]egislative provision of increased school finance equity [can] result only from a political process of bargaining, negotiation, and compromise. And, in the legislative arena, promotion of a response consistent with judicial mandate rests largely on the ability of leadership to fashion a coalition to support reform.[10]

Areas of compromise exist in developing a new funding formula. Higher aid ceilings provide new aid dollars to rural school districts, while a substantial cost-of-education adjustment, coupled with a high second tier ceiling, helps fiscally burdened downstate suburbs. Adjustments that recognize the limited fiscal capacity of both small and large urban school districts and the high concentrations of pupils in need of special educational services in the Big Five would attract the support of city school districts in all parts of the state. A relatively small save-harmless provision would protect the interests of high-wealth districts. The cost of this type of comprehensive reform package is high, however, and will require the creation of a strong and determined coalition to attract the attention of the state's legislative and executive leaders. Leadership from these two branches of government is also essential if the new state revenues needed to fund such a reform program are to be forthcoming.

The renewed national and state interest in public schools, triggered by the reports of numerous national commissions, can provide education reformers with a new opportunity to present their case before the public and before decision-makers in Albany. The Board of Regents and the Commissioner of Education have called for reforms of the educational system designed to enhance educational quality. Many of these proposals will require school districts in New York to expand educational programs. Yet, as we have shown throughout this book, it is basic inequities in New York's school finance system that prevent many districts from providing their children with a high-quality education. Advocates of educational equity must link the current call for excellence with the imperative of school finance reform.

Notes

[1]1980–81 is used as the base year throughout this chapter. Simulations of school finance reform proposals were conducted using 1979–80 data, the same data used to calculate operating and special education aid for the 1980–81 school year in New York State.

[2]Several reform plans have incorporated "active enrollment" as the student count. This measure counts students appearing on a school register *and* attending within the preceding thirty days. Since accurate figures on active enrollment were not available, we used average daily membership as a proxy.

[3]This step was taken to simplify the simulations and the presentation of the results.

[4]Gaughan and Glasheen, *Research Report of the Study on Special Pupil Needs.*

[5]The Stage 2 formula is detailed in appendix C.

[6]The poverty adjustment is described in greater detail in appendix D.

[7]The methodology used to simulate expenditures is explained in appendix E.

[8]"City's Suburbs Emerge from Political Shadows," *New York Times*, August 29, 1983, p. 81. In the last twenty years, New York's four suburban counties have increased their share of Assembly members from 16 to 34 of 150 assemblymen, and their share of state senators to 13 of 61 senators. In addition, in the November 1982 election, the suburbs produced 25 percent of the statewide vote, compared with 31 percent for New York City.

[9]A "total aid" save-harmless provision guarantees that no district will get less in aggregate state aid than it received in 1980–81. The $103 million figure does not include save-harmless aid for Manhattan Borough since the other boroughs of New York City receive large increases in aid under the prototype formula.

[10]Richard Elmore and Milbrey McLaughlin, *Reform and Retrenchment: The Politics of California School Finance Reform*, pp. 306–7.

APPENDIX A

Mathematical Explanation of New York State Education Aid Formulas

The mathematical formulas used to calculate operating aid, low-income supplemental school aid, public excess cost (handicapped) aid, diagnostic screening aid, limited English proficiency aid, and gifted and talented aid in the 1981–82 school year are presented below.

Operating Aid

The following parameters were used to calculate operating aid in 1981–82:

State Average 1979 Full Value/TWPU:	$72,700
State Average Adjusted Gross Income/TWPU:	29,700
Tier I Ceiling:	1,650
Tier II Ceiling:	1,885

Source: New York State Division of the Budget, Education Unit, *Description of 1981–82 New York State Aid Programs Relating to State Support for Public Schools*, August 21, 1981.

District's Selected Full Value/TWPU: the lesser of 1979 District Full Value or 120% of 1977 District Full Value divided by 1979–80 TWPU

Tier I Aid

$$\left[1 - .51\left(\frac{\text{District Selected Full Value/TWPU}}{\$72{,}700}\right)\right] \times \$1{,}650 \times \text{District Selected TAPU for 1981–82 Aid}$$

Tier II Aid

$$\left[1 - .80\left(\frac{\text{District Income/TWPU}}{\$29{,}700}\right)\right] \times \$235 \times \text{District Selected TAPU for 1981–82 Aid}$$

Total Formula Aid is the greater of Tier I + Tier II Aid or a *flat grant* equal to $360 times the District Selected TAPU for 1981–82 Aid.

Minimum Aid Provisions. Total formula aid is subject to two minimum aid provisions: special aid and total save-harmless aid.

$$\text{Special Aid} = \text{Total 1980–81 Operating Aid} \times 108\% \times \frac{\text{Growth Adjusted 1980–81 TAPU}}{\text{Growth Adjusted 1979–80 TAPU}}$$

This amount may not exceed total 1980–81 Operating Aid.

$$\text{Amount Due to Special Aid Provision} = \text{Special Aid} - (\text{Total Formula} + \text{Growth Aid})$$

If the sum of total formula aid, growth aid, and amount due special aid is less than the district's 1980–81 payable operating aid, the district may receive *total save-harmless aid.*

$$\text{Amount Due to Total Save-Harmless Provision} = \text{District's 1980–81 Operating Aid} - \left(\begin{matrix}\text{Total} \\ \text{Formula} \\ \text{Aid}\end{matrix} + \begin{matrix}\text{Growth} \\ \text{Aid}\end{matrix} + \begin{matrix}\text{Amount} \\ \text{Due Special} \\ \text{Aid}\end{matrix}\right)$$

Low-Income Supplemental School Aid (LISSA)

$$\text{Low-Income Supplemental School Aid} = \left(\frac{\$29{,}700}{\text{1979 District Gross Income/TWPU}}\right) \times \$7 \times \text{District Selected TAPU for 1981–82 Aid}$$

Excess Cost Aid for Public School Programs

Basic Public Excess Cost Aid. Handicapped children are weighted as follows: special class, 1.70; resource room, 0.90; and speech or other special instruction, 0.13.

$$\text{Allowed Expense per Pupil} = \frac{\text{District Base Year AOE}}{\text{Base year TAPU including weighted handicapped pupils}}$$

Minimum Allowed Expense: Operating Aid Tier I Ceiling ($1,650)

Maximum Allowed Expense: Average State Operating Expense per Pupil ($2,300)

$$\text{Total Basic Excess Cost Formula Aid} = \text{Allowed Expense per Pupil} \times \text{Tier I Operating Aid Ratio (but not less than 0.250)} \times \text{Weighted Handicapped Pupils}$$

High-Cost Excess Cost Aid. A district is eligible for this aid if the cost of the program for a handicapped student exceeds the lesser of $10,000 or four times the district allowed expense per pupil.

$$\text{High Cost Excess Cost Aid per Pupil} = \left[\text{Approved Cost of Program} - \left(3 \times \text{Allowed Expense per Pupil}\right)\right] \times \text{Tier I Operating Aid Ratio (but not less than 0.250)}$$

Total Public Excess Cost Aid is the greater of the sum of Basic Public and High-Cost Excess Aid or base year (1980–81) public excess cost aid.

Diagnostic Screening Aid

$$\text{Diagnostic Screening Aid} = \$8 \times \text{1980–81 K–6 ADA}$$

Half-day kindergarten students are weighted at 0.5.

Limited English Proficiency (LEP) Aid

$$\text{LEP Aid} = \text{Estimated 1981–82 Pupils in Approved LEP Programs} \times \text{Selected 1981–82 Operating Aid} \times 0.05$$

Gifted and Talented Aid

Gifted and Talented Aid = \$40 × 3% of 1980–81 Combined Adjusted ADA

TABLE A.1

Pupil Weightings for Measurement of Wealth and Operating Aid, 1980–81 and 1981–82

Pupil Category	1980–81 School Year Aid Payments		1981–82 School Year Aid Payments	
	Pupils for Wealth Measure (1978–79 TWPU)	Pupils for Operating Aid (1979–80 TAPU)	Pupils for Wealth Measure (1979–80 TWPU)	Pupils for Operating Aid (1980–81 TAPU)
All pupils (including public and private handicapped pupils)				
Half-day kindergarten	.50	.50	.50	.50
Kindergarten through 12th grade	1.00	1.00	1.00	1.00
Additional Weightings				
PSEN (K to 12, including handicapped)	.25	.25	.25	.25
Secondary (including PSEN and excluding handicapped)	.25	.25	.25	.25
Summer school	—	.12	—	.12
Evening school	—	.50	—	.50
Handicapped pupils in public schools (including BOCES)				
Special class	1.00	—	1.70	—
Resource room (eligible for 2.0 in 1979–80 school year)	1.00	—	.90	—
Other resource room	—	—	.90	—
Speech impaired	—	—	.13	—
Handicapped pupils in private schools [Sec. 4402]	1.00	—	1.70	—

Source: New York State Division of the Budget, Education Unit, *Description of 1980–81 New York State Aid Programs Funded in the General Support for Public School Appropriation* (April 29, 1980; revised July 22, 1980), Table 4.

APPENDIX B

The Basic Prototype Formula

Tier 1

$$\text{Tier 1 Aid} = \left[1 - .51\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\text{Tier 1 Ceiling}\right]$$

State Share = 0.49
Key Wealth District = $66,400 (state average, 1979–80)
Expenditure Ceiling = $1,864 (state average expenditure, 1979–80)
Requirement to Spend: Districts are aided as though they spend at the expenditure ceiling

Tier 2

$$\text{Tier 2 Aid} = \left[1 - .80\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\begin{matrix}\text{AOE/Pupil}- \\ \text{Tier 1 Ceiling}\end{matrix}\right]$$

State Share = 0.20
Key Wealth District = $66,400 (state average)
Expenditure Ceiling = $2,495 (90th percentile expenditure, 1979–80)

Requirement to Spend: Districts are aided on the amount that they spend above the Tier 1 expenditure ceiling, up to the Tier 2 ceiling

District Wealth

Equalized Property Valuation

Pupils

Pupils in Average Daily Membership (in residence for wealth measure, in membership for expenditure and aid payment) weighted by the following factors:

Secondary:	0.25
PSEN:	0.25

Handicapped

Special Class:	1.70
Resource Room:	0.90
Speech:	0.13

Cost-of-Education

Aid payments adjusted by the following factors:

Downstate Districts:	120%
Upstate Central Cities:	110%
All Other Districts:	100%

Eligible Districts

Tier 1: Districts with per pupil district wealth greater than $130,200.

Tier 2: Districts with per pupil district wealth greater than $83,000, and AOE per weighted pupil greater than $1,864.

APPENDIX C

Prototype Formula: Stage 2

Tier 1

$$\text{Tier 1 Aid} = \left[1 - .51\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\text{Tier 1 Ceiling}\right]$$

State Share = 0.49
Key Wealth District = $63,760 (state average, 1979–80)
Expenditure Ceiling = $1,793 (state average expenditure, 1979–80)
Requirement to Spend: Districts are aided as though they spend at the expenditure ceiling

Tier 2

$$\text{Tier 2 Aid} = \left[1 - .80\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\begin{matrix}\text{AOE/Pupil}- \\ \text{Tier 1 Ceiling}\end{matrix}\right]$$

State Share = 0.20
Key Wealth District = $63,760 (state average)
Expenditure Ceiling = $2,474 (90th percentile expenditure, 1979–80)

Requirement to Spend: Districts are aided on the amount that they spend above the Tier 1 expenditure ceiling, up to the Tier 2 ceiling

District Wealth

Equalized Property Valuation

Pupils

Pupils in Average Daily Membership (in residence for wealth measure, in membership for expenditure and aid payment) weighted by the following factors:

Secondary:	0.25
PSEN:	0.25, plus concentration factor

PSEN Concentration Factor

Range in PEP Percentage	Adjustment for Concentration
≤ 0.20	0.0
0.201–0.25	0.05
0.251–0.30	0.10
0.301–0.35	0.15
0.351–0.40	0.20
> 0.40	0.25

Bilingual: 0.40

Handicapped:

Special Class:	1.70
Resource Room:	0.90
Speech:	0.13

Cost-of-Education

Aid payments adjusted by the following factors:

Downstate Districts:	120%
Upstate Central Cities:	110%
All Other Districts:	100%

Eligible Districts

Tier 1: All districts with per pupil district wealth greater than $125,000.

Tier 2: Districts with per pupil district wealth greater than $79,700 and AOE per weighted pupil greater than $1,793.

APPENDIX D

Prototype Formula: Stage 3

Tier 1

$$\text{Tier 1 Aid} = \left[1 - .51\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\text{Tier 1 Ceiling}\right]$$

State Share = 0.49
Key Wealth District = $63,760 (state average, 1979–80)
Expenditure Ceiling = $1,793 (state average expenditure, 1979–80)
Requirement to Spend: Districts are aided as though they spend at the expenditure ceiling

Tier 2

$$\text{Tier 2 Aid} = \left[1 - .80\left(\frac{\text{District Wealth/Pupil}}{\text{Key Wealth District}}\right)\right]\left[\begin{matrix}\text{AOE/Pupil}- \\ \text{Tier 1 Ceiling}\end{matrix}\right]$$

State Share = 0.20
Key Wealth District = $63,760 (state average)
Expenditure Ceiling = $2,474 (90th percentile expenditure, 1979–80)

Requirement to Spend: Districts are aided on the amount that they spend above the Tier 1 expenditure ceiling, up to the Tier 2 ceiling

District Wealth

Equalized Property Valuation × Poverty Adjustment

Poverty Adjustment

$$1.20 - \left[\left(\frac{\text{District Estimated Poverty \%}}{\text{State Average w/o NYC (16\%)}}\right) 0.2\right]$$

Range of adjustment is 0.75 to 1.0.

The District Estimated Poverty percentage is the ratio of District Estimated Poverty to Estimated Enrollment. These numbers are drawn from James M. Gaughan and Richard J. Glasheen, *Research Report of the Study on Special Pupil Needs.*

The state average District Estimated Poverty percentage excludes New York City because its number—44.2 percent—is at the high end of the range. Including New York City would thus skew the state average. The average with New York City is 24 percent.

Pupils

Pupils in Average Daily Membership (in residence for wealth measure, in membership for expenditure and aid payment) weighted by the following factors:

Secondary:	0.25
PSEN:	0.25, plus concentration factor

PSEN Concentration Factor

Range in PEP Percentage	Adjustment for Concentration
≤0.20	0.0
0.201–0.25	0.05
0.251–0.30	0.10
0.301–0.35	0.15
0.351–0.40	0.20
> 0.40	0.25

Bilingual: 0.40

Handicapped:

Special Class:	1.70
Resource Room:	0.90
Speech:	0.13

Cost-of-Education

Aid payments adjusted by the following factors:

Downstate Districts:	120%
Upstate Central Cities:	110%
All Other Districts:	100%

Eligible Districts

Tier 1: All districts with per pupil district wealth greater than $125,000.

Tier 2: Districts with per pupil district wealth greater than $79,700 and AOE per weighted pupil greater than $1,793.

APPENDIX E

Simulation of School District Expenditures

The first step in measuring the equity of a new school finance formula is to examine the allocation of state aid that results from that formula. Policy-makers are ultimately concerned, however, with the distribution of expenditures that result from these changes in the state aid system. The ability of simulations to predict individual school district expenditures relies on assumptions about school district fiscal response: How much of the aid gain (or loss) is applied to increasing education expenditures and how much is used to provide property tax relief?

Research has shown that there are differences in this behavior across states and among districts within a state. A study prepared for the Rubin Task Force found that school districts in New York State tend to use 60 cents of each additional dollar of state aid for increased spending, with low-wealth, low-income districts tending to use more of additional dollars of aid than high-wealth, high-income districts for this purpose.* This study, however, measures behavior in response to small, incremental changes in state aid, as

*E. Kathleen Adams, "Fiscal Response in the New York Simulations," prepared by the Education Finance Center, Education Commission of the States, for the New York State Task Force on Equity and Excellence in Education (August 1980).

there have not been any large scale changes in the state's school funding formula in the last decade. Adams's fiscal response model, therefore, may not be totally applicable to a major reform effort.

We have used Adams's study as the basis for our behavioral model. The simulated expenditures shown in Tables 8.3 and 8.5 reflect the following assumptions.

1. Low-wealth (20th percentile), low-expenditure (20th percentile), school districts use 75 percent of any aid gain to increase expenditures.

2. High-expenditure (80th percentile) and high-tax-rate (80th percentile) school districts use 50 percent of any aid gain to increase expenditures.

3. All other districts that receive new school dollars apply 60 percent of the increase to expenditures.

4. School districts that lose less than $200 per pupil in education aid will raise local taxes in an amount equal to the aid loss.

5. School districts that lose more than $200 per pupil in education aid will raise enough new local tax revenues to offset 80 percent of the loss.

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