

# Property Taxes for Schools: Where Next?

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**A**N EDUCATIONAL concept has meaning only when educators and educational policy makers mean something by it. The meaning is valid only if what they intend by it becomes actual. Like truth, beauty, and justice, it is difficult to define equality of educational opportunity in operational terms. Because of the decision of the California Supreme Court in *Serrano v. Priest* and the numerous similar decisions nationwide which are likely to follow, the functional ambiguity of the concept of equality of educational opportunity will be reduced—intentions of equality are one step closer to becoming actualities.

The predicted "domino effect" of *Serrano* proved true as federal courts in Minnesota and Texas agreed in the fall and winter, respectively, of 1971, and a New Jersey state superior court judge agreed in January 1972, that the traditional system of school finance based mainly on local property taxes is weighted in favor of the rich.<sup>1</sup> A nationwide campaign to knock down reliance on local

property taxes has been mounted by 140 lawyers representing 23 states.<sup>2</sup> President Nixon seemed stunned by the inequities pointed out in *Serrano* and repeated again the possibility of a national value added tax (VAT) as a partial substitute for the local property tax.<sup>3</sup>

The fact that the property tax continues to be a major support for local government is documented by Tax Foundation research that in fiscal 1970 the tax accounted for 38 percent of all state and local tax revenue. In nine states, collections exceeded one billion dollars each.

The property tax has been criticized over a long period for a number of deficiencies.<sup>4</sup> First, it is alleged to be a poor measure of either ability to pay or benefits received.

<sup>2</sup> *Education Recaps*. Princeton, New Jersey: Educational Testing Service, Vol. 11, No. 2; November 1971. p. 2.

<sup>3</sup> "Alternate Sought for School Tax Rejected in Texas." *The Wall Street Journal*, December 27, 1971. p. 2.

<sup>4</sup> *State Aid to Local Government*. Washington, D.C.: Advisory Commission on Intergovernmental Relations, April 1969. p. 35.

<sup>1</sup> *Serrano v. Priest*, 5 Cal. 3d 584,487 p. 2d 1241 (1971); *Van Duzart v. Hatfield*, No. 3-71 Civil 243 (d. Minn.), October 12, 1971; *Rodriguez v. San Antonio School District*, No. 68-175-SA (W.D. Texas), December 25, 1971; *Robinson v. Cahill*.

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Second, it is inadequately administered in several states. Third, it results in tax overburden on some individuals and groups, particularly the aged and low-income.

Advantages of the property tax are its productivity, its visibility, and linkage between services provided and their cost.<sup>5</sup>

### The Empirical Test in Public School

Thirty-four states currently use the "Strayer-Haig Mort" equalization program type, including California and five of six states with "post-Serrano" court decisions—Minnesota, Texas, New Jersey, Wyoming, and Illinois.<sup>6</sup> The formula for distribution of state funds and for the determination of local district contribution is:

$$S_i = e_i U_i - r^* V_i$$

$S_i$  = state support for any district ( $i$ )

$e_i$  = an educational program in dollar terms (dollars for teacher salaries, other current expenses, etc.)

$U_i$  = number of units of educational need (number of pupils or classrooms)

$r^*$  = local district qualifying tax rate (the \* indicates a constant in that each district will have the same tax rate for the minimum program)

$V_i$  = nonexempt assessed valuation in any district.

Although the formula provides equalization of resources per unit within the program, it is the leeway for additional funding at the local level that results in inequities. In Florida, for example, reasonable equalization is effected. However, districts are permitted

<sup>5</sup> *Ibid.*

<sup>6</sup> The 34 states are: Alabama, Alaska, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, North Dakota, Ohio, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Virginia, Washington, West Virginia, and Wyoming.

to levy 4 mills beyond the 6-mill qualifying rate. In Gadsden County, 1 mill will raise \$7 per pupil, while in Glades County, a mill produces \$89 per pupil. Thus, the 4-mill option produces \$356 per pupil in Glades County and only \$28 per pupil in Gadsden County.

The empirical test is the best test, and the differences in high and low current expenditures per pupil within a sample of states in the 1969-70 school year were dramatic as a manifestation of inequities. Examples are shown in Figure 1.

The purpose of Figure 1 is not to degrade Strayer-Haig, but to present an example of the kind of legal problem that probably must be faced by all 50 states with the possible exception of Hawaii.

The percent of revenue received on the average from federal, state, and local sources for public elementary and secondary schools was 6.9, 41.1, and 52.0 respectively. In the past ten years, the federal government has added only 8.7 percent of the total new revenue. During the same period, new state revenues accounted for 41.8 percent of the new revenue for new schools, and local sources accounted for 49.5 percent of the new revenue.<sup>7</sup> Of the new revenue generated in FY 1971, the federal share was \$125.9 million, new state revenue \$1.6 billion, and new local revenue \$2.0 billion—or 3.4, 42.7, and 53.9 percent, respectively.

Spatial or geographic spillovers of educational benefits, and the shortcomings of the property tax, among several reasons, dictate greater future contributions of state and federal governments. No breakthrough in educational finance is likely to occur, however, until the nation's top priorities are reordered. Meanwhile, public schools face increasing competition for resources within

<sup>7</sup> Committee on Educational Finance. *Financial Status of the Public Schools*. Washington, D.C.: National Education Association, 1971. p. 36.

	High	Low	Average
Alabama	\$ 581	\$344	\$ 463
California	2,414	569	753
Georgia	736	365	589
Florida	1,036	593	717
Illinois	2,295	391	872
Minnesota	903	370	818
New Jersey	1,485	400	1,016
New York	1,889	669	1,245
Oklahoma	2,566	342	560
South Carolina	610	397	615
Texas	5,334	264	608
Wyoming	14,554	618	884

Source: Senate Select Committee on Equal Educational Opportunity.

Figure 1. Expenditures Per Pupil

the public sector from other "good" services—public safety, health, and anti-pollution, for example.

Phyllis Myers cited a list of reform possibilities opened up by *Serrano*: overall property tax reform; the redrawing of school districts to encourage socioeconomic and racial integration; massive extra resources to poor students; extensive research into effective education; and the ending of intradistrict discrimination against the poor within cities, as well as federal intervention in and disparities among states.<sup>8</sup> However, she suggested that just a few months into the "post-Serrano" period, "the mood has changed from elation to extreme caution. For while *Serrano* may hold out the promise of the resurrection of American education, it also holds out the possibility of equity without fairness."<sup>9</sup>

Analysis of recent data on urban school financing indicates that cities do not necessarily lack a relatively satisfactory fiscal base, but rather have excessive needs because of higher teacher salaries, higher land and construction costs, high vandalism and insurance costs, and higher cost programs for teaching disadvantaged children.<sup>10</sup> Unless state school-aid formulas include weightings for needs of urban education, *Serrano* may not provide

<sup>8</sup> Phyllis Myers, "Second Thoughts on the *Serrano* Case." *City*, National Urban Coalition, Winter 1970, p. 38.

<sup>9</sup> *Ibid.*

<sup>10</sup> *Ibid.*, p. 40.

the added assistance to urban schools which was anticipated. The Lawyers Committee for Civil Rights Under Law in Washington, D.C. was expected to carry on the urban school finance crisis. Ideas of the National Urban Coalition School Finance Project included modifying the district wealth standard used in *Serrano* from solely relying on property wealth as the standard to taking into account other forms of wealth and attempting again to introduce a special needs factor for urban districts.

## Restoring Fiscal Balance

The personal income tax is the nation's prime revenue source and by far the most responsive to economic growth. The federal government collects 64 percent of the tax dollars. State and local governments collect 36 percent of the tax dollars, but make 70 percent of the outlays for domestic programs.

To attack the state-local fiscal crisis, we concur with recommendations of the Advisory Commission on Intergovernmental Relations to effect federal takeover of welfare costs, state assumption of nearly all non-federal public education expenses, and state-local tax reform. In the case of property tax reform, eight state courts have rendered decisions to provide public action in the reassessment of all real property at full or at least uniform value; decisions have been rendered to eliminate exclusionary or snob-zoning such as permitting only one-family homes; and a new approach in Minnesota provides that every local government in the Twin Cities area will have access on a per capita basis to 40 percent of the net growth of the commercial-industrial tax base of the entire community.

The property tax will continue to play a major role in the financing of public education. However, it does not offer the potential revenue that state and federal non-property taxes will provide, assuming that the nation's priorities are reordered. It is essential that there be a shifting of certain governmental financing from lower to higher levels of government. □

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