

AN EVALUATION OF OKLAHOMA'S SCHOOL AID FORMULA:
POLICY ISSUES AND RECOMMENDATIONS RELATED TO H.B. 1236

By

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Kent McGuire
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Prepared for the Oklahoma State Department of Education

January 1982

Education Finance Center
Education Commission of the States
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The authors of this report are staff members of the Education Finance Center (EFC) of the Education Commission of the States (ECS). John Augenblick is the director of the EFC. Robert Palaich is a political scientist, E. Kathleen Adams is an economist and Kent McGuire is a policy analyst. Several other staff members of the EFC provided assistance in undertaking the activities that resulted in this report. Patty Flakus and Van Dougherty provided research assistance, particularly in gathering comparable data from numerous states and in reviewing the questionnaires returned by school district interviewees. Anna Likens and Gretchen Perez typed the manuscript and tables, coded and entered data into computer files and helped to make travel arrangements for numerous trips to Oklahoma. Walter Grant, Ken Hunter and Thomasene Wind were responsible for the computer analysis of data required in completing the studies of school finance equity and the relationship between school district size and expenditure levels.

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The conclusions and recommendations made in this report do not represent the positions of the Education Commission of the States or the Oklahoma Department of Education. Any errors made in analyzing data or presenting results are solely the responsibility of the authors.

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INTRODUCTION

In June 1981 the Oklahoma Legislature passed and Governor Nigh signed into law, H.B. 1236, the new school finance system. The law defines a set of procedures for allocating state aid to school districts that is designed to recognize both the varying education needs of the 617 school districts and their different capacities to share in the cost of providing education services. The framework of the new system resembles that of the system used since 1972 although it makes a number of fundamental changes designed to promote greater fiscal equity among all school districts. State aid is allocated in three "tiers": a foundation program, a salary incentive aid program and a component that in 1981-82 provided direct salary increases to teachers and other personnel. Within the first two tiers, state aid is distributed on the basis of the number of "weighted" pupils; weights are designed to reflect the costs of providing education services to pupils with special needs or to school districts with special characteristics.

The new state aid system is complex; there is almost no way to avoid complexity if the different characteristics of 617 school districts are to be considered appropriately. Many educators do not fully understand the new approach and it was unclear how well the system would accomplish its objectives. In the interest of providing better information about H.B. 1236, the Oklahoma State Department of Education was commissioned to undertake an evaluation of it. In August 1981 the Department contracted with the Education Finance Center at the Education Commission of the

States (ECS) to undertake such an evaluation. ECS is an interstate compact among 48 member states, including Oklahoma, designed to facilitate interaction among state level policy makers concerned with education.¹ ECS staff agreed to undertake an analysis of Oklahoma's school finance system between September and December 1981. The final report summarizing the analysis was to be issued in January 1982.

It is extremely difficult to analyze the impact of a new school finance system, particularly within the first few months of its operation. In order to focus the final report and increase both the depth of analysis and its value to policy makers, three issues were chosen for study:

- The level of equity achieved by the school finance system.
- The additional costs of providing education services in small school districts and the extent to which H.B. 1236 compensated small school districts for such costs.
- A comparison of the weights used in H.B. 1236 with those used in other states.

These three issues were important components of the debate about H.B. 1236. First, a primary objective of the new law was to improve the equity of the school finance system. In order to evaluate the degree of improvement, it was critical to determine the level of equity achieved by the school finance system that

¹Each member state has seven commissioners. In Oklahoma, the commissioners are: The Honorable George Nigh, Governor of Oklahoma; Mary R. Cherry, Citizens Commission on Education; E.T. Dunlap, Chancellor, State Regents for Higher Education; Leslie R. Fisher, Superintendent of Public Instruction, State Department of Education; State Representative Jim Fried, Chairman, House Common Education Committee; State Senator James F. Howell, Chairman, Senate Education Committee; and Obra Hulsey, Superintendent, Caddo-Kiowa Area Vocational-Technical School.

H.B. 1236 replaced. It was also important to ascertain the contribution of different components of the state aid system to equity in order to improve the efficiency of the use of state funds. Second, the weights used in the new formula were intended to reflect the different costs of providing different education services. These were not based on an analysis of the actual costs of providing such services in Oklahoma. Such analysis is difficult to complete and requires a great deal of information, much of which is unavailable. However, other states have implemented pupil weighted formulas and it is appropriate to compare the weights used in H.B. 1236 to those used in other states' school aid systems. Third, a major concern of state and local policy makers was that the use of a pupil weighted approach might not provide sufficient resources to small school districts. H.B. 1236 contains a specific factor designed to provide additional support to school districts with less than 500 pupils. This factor was not based, however, on an analysis of the economics of providing education services in school districts.

ECS staff determined that, in addition to undertaking an analysis of data related to these issues, it would be beneficial to discuss them with state policy makers and local school district educators. The purpose of such discussions would be to learn more about the following: how the school finance system is perceived; the most important problems surrounding education in Oklahoma; the attitudes of educators toward H.B. 1236 and its goals and objectives; and the regional variations in education needs found across the state. In order to gather this information, ECS staff

arranged to meet separately with 18 state policy makers in September 1981. In October 1981, ECS staff visited 18 school districts located throughout the state that differed in terms of their size, wealth and revenue levels. Joint meetings were arranged with superintendents, teachers and school board members in order to obtain a broad perception of how well the school finance system was serving local school districts.

This report is organized into eight chapters designed to provide background information and directly address the three major issues. The first chapter summarizes the major policy issues, the results of analysis and the recommendations. This chapter, together with several tables that appear in other chapters of the report, has also been published as an independent report. The second chapter provides a brief historical overview of school finance in Oklahoma and also discusses the changes that have occurred throughout the country in the approaches other states have taken to providing aid for elementary/secondary education. In the third chapter, comparisons are made between Oklahoma and a set of states, six contiguous to Oklahoma and three that have implemented school finance systems based on the weighted pupil approach. These comparisons focus on state revenue and expenditure systems and characteristics of the elementary/secondary education system. The fourth chapter describes H.B. 1236 and explains how its various components function. Examples are used to describe the effects of different components on school districts with different characteristics. In the fifth chapter a summary of the interviews with state policy

makers and school district educators is presented.

The sixth chapter focuses on school finance equity; it examines alternative definitions of equity and, using several different approaches, measures the level of equity achieved by the system in 1981-82 and compares that to the level achieved in 1978-79. The relationship between school district size and the cost of providing education services is the subject of the seventh chapter. Using data for the 1978-79 school year, the analysis indicates how much more it costs to provide education services in school districts of different size and how much more state aid is provided under H.B. 1236 to school districts with fewer than 500 pupils. In the eighth chapter an examination of the weights used in other states' school finance systems is undertaken.

This study was undertaken to evaluate Oklahoma's new school finance system as embodied in H.B. 1236. Many people do not understand the new system. Few educators know precisely why they are receiving the amounts of state aid being distributed in 1981-82; very few policy makers understand how the system will affect school districts with different characteristics in the future. However, many people feel that it is appropriate to give the system a chance to operate, perhaps for several years, before changing it in any major way. Given some of the changes that education is facing (such as continued declining enrollments and major modifications in the federal role), it would be helpful to those who actually provide education services at the school district level to be able to depend on a stable state funding mechanism. The recommendations proposed in this report build on

the structure outlined in H.B. 1236. It should be recognized that even though this is the first year of the new school finance law, it is a critical one; structural modifications can be made more easily at this point and several issues that H.B. 1236 left open for debate should be resolved as soon as possible. If the recommended changes are made, the school finance system is monitored properly and important new information is gathered, the structure of H.B. 1236 could provide a strong base of support for many years.

I. SUMMARY OF POLICY ISSUES AND RECOMMENDATIONS

The purposes of this chapter are to identify the critical issues associated with school finance in Oklahoma, to summarize the findings of this study relevant to those issues and to recommend actions that should be taken by policy makers to resolve them. Three points should be kept in mind by those who review these recommendations:

- The precise impact on individual school districts of some of the recommended changes in the state school aid formula are not known. It would be appropriate to evaluate the proposed changes after simulating them and examining their impact on the flow of state funds, the availability of total revenues and the tax rates of school districts.
- Numerous changes in the method of allocating state school aid are proposed. In some cases an individual recommendation may lose its importance or may be inappropriate if separated from the remaining proposed actions.
- The political strategy for implementing the recommendations has not been considered. The proposed changes result from an evaluation of the structure and impact of H.B. 1236 in light of the goals and objectives of a school finance system as expressed by educators and education policy makers in Oklahoma.

Five major aspects of school finance policy are covered: the property tax system, teacher salary levels, state support for capital outlay, the state aid formula and the goals of the school finance system. Within each area, background information is presented followed by discussion of and recommendations concerning specific components.

The Property Tax System

The most crucial school finance issues identified by Oklahoma education policy makers are those related to the reliance of local school districts on property tax revenues. In 1981-82 approximately 38 percent of all state and local revenues for education will be derived from local school districts, including property taxes and numerous "chargeables" (gross production tax, school land earnings, auto license tax, and so on) against the cost of the foundation program. Of the \$360 million considered to be local revenues, \$228 million, or 63 percent, are property tax revenues. While reliance on local revenues has decreased in Oklahoma, from 37 percent of all education revenues (local, state and federal) in 1975-76 to 29 percent in 1980-81, and while such reliance is somewhat lower in Oklahoma than in most neighboring states (see Tables III-1 and III-4) there is no reason to believe that Oklahoma will not continue to use local property taxes as a significant source of education funds. In fact, the future of support for education in Oklahoma, as in most other states, is dependent on continued use of diverse tax bases.

Oklahoma differs somewhat from other states in the way the property tax system operates. The amount of variation in assessment practices is relatively high in Oklahoma. The level of intra-area dispersion (the extent to which property of similar market value is not assessed at the same level within an assessment jurisdiction) was nearly 40 percent higher in Oklahoma than in all states in 1976 (see Table III-2). Compared to six neighboring states, Oklahoma's level of intra-area dispersion was

exceeded by only one state. The assessment to sales price ratio in Oklahoma was about 40 percent lower than the national average assessment/sales price ratio in 1976 (see Table III-2). Among the six neighboring states, only one had an assessment/sales price ratio lower than Oklahoma's. Finally, Oklahoma is one of a very few states in which property tax rates are nearly uniform among all school districts (611 of 617 districts had operating tax rates at the maximum 35 mill level in 1980-81). While this situation may contribute to improving school finance equity, the revenues generated by the same mill levy will vary with the property wealth of the district. This situation can threaten the provision of adequate revenues and limit the extent of local control.

Three recommendations are made in regard to the property tax system. These deal with property assessment procedures, assessment levels and property tax rates:

- A fundamental assumption of the equalization approach used in distributing state aid to school districts under H.B. 1236 is that property assessment procedures result in comparable property assessments across all school districts. Available information and the perceptions of Oklahoma education policy makers suggest that assessment practices differ dramatically across the state, contributing to a hidden inequity for taxpayers and pupils. The problem of unequal assessments is clearly not unique to Oklahoma; but because uniform assessment is a basis for the success of H.B. 1236, this issue must be addressed. It is recommended that the state promulgate assessment standards to be used throughout the state so that properties of similar value are assessed at similar levels. It is also recommended that county property assessors not be elected by popular vote but rather be appointed to office. In addition, professional standards should be used to determine that individuals are qualified for appointment.
- An important determinant of both the amount of local property tax support and the interdistrict equity of the property tax system is the assessment level. In 1978, assessment levels varied from below 5 percent to over 20

percent of the market value of property. This 15-percentage point variation results in a four to one ratio in the amount of revenue that can be obtained from property tax bases of similar market value, given similar tax rates. It should be noted that a difference of 15 percentage points in assessment levels would be of less consequence if assessment levels were higher, for instance between 60 and 75 percent of full market value. In that case, the ratio of the tax yield, based on the same property tax rate, would be 1.25:1.

The court has mandated that the disparity in assessment levels not exceed a variation between 9 and 15 percent of full market value. However, even this improvement results in a yield ratio of 1.67:1 assuming similar market values and similar tax rates. For the purposes of distributing state education aid, the state has been moving toward the use of assessments between 9 and 12 percent. In some counties, however, the actual assessment rate exceeds 12 percent. The allocation of state aid should be based on a uniformly applied assessment ratio. It is recommended that in calculating the flow of state aid to school districts, an assessment/sales price ratio of 15 percent be used. The 15 percent level is chosen because it is slightly higher than the highest county assessment level in actual use. This action will increase the property tax yield per mill of school districts currently using an assessment/sales price ratio of less than 15 percent. If no other action were taken, this would result in a decrease in the amount of state aid allocated under the foundation program. The loss of state aid under the foundation program would be equal to the increased contribution of the property tax to the total chargeables.

It is recommended that raising assessment levels not reduce state aid provided under the foundation program portion of H.B. 1236. In order to avoid that possibility, the state should adjust the foundation level so that the state incurs the same liability for aid that existed when local assessments were allowed to vary. In addition, local school districts with assessment/sales price ratios less than 15 percent should not obtain a windfall in local revenue under the salary incentive aid portion of H.B. 1236. A rollback provision should require school districts to reduce tax rates below 35 mills (reducing the 20 mill rate that most districts levy under the salary incentive aid portion of the formula) to a level that will yield, at a 15 percent assessment level, the same amount that a 35 mill tax on the old assessment level produced. Whatever the new millage is, the first 15 mills would be applied in the foundation program and the remaining mills would be equalized under the salary incentive aid program. The voters of a school district should be allowed,

however, to approve increased revenues from the property tax by approving up to the full 35 mill rate with a simple majority vote.

- A severe constraint on the availability of school district revenues derived from property taxes is the constitutionally defined 35 mill tax limitation. Almost all school districts tax themselves at the limit. The only source of new property tax revenues for school districts is annual increases in assessed value, a factor over which legislators, educators and the public have little control. Wide support exists among Oklahoma educators for the establishment of local tax leeway, both to increase the level of support for education and to provide additional local control. The only mechanisms available to achieve this goal are an increase in the 35 mill limit or an increase in the uniform assessment/sales price ratio. Given this choice, it is recommended that the assessment level be increased by one percent per year over a three-year period. This would increase the uniform assessment level defined above by 20 percent, from 15 percent to 18 percent, a level well below the national average but consistent with three of six neighboring states (see Table 3). The same procedure, holding the property tax yield constant, outlined in the previous recommendation could be used to assure that neither the state nor local school districts benefit at the expense of taxpayers.

Education Personnel Salary Levels

A major concern of education policy makers in Oklahoma is the salary levels of education personnel, particularly teachers. In 1980-81 the average teacher salary level in Oklahoma was 15 percent below the average for all teachers in the United States. Compared to six neighboring states, the average teacher salary in Oklahoma is 10 percent above that of one state and between 3 and 16 percent below that of the other five states. Between 1975-76 and 1980-81, teacher salaries in Oklahoma increased by 51 percent, greater than the national average increase of 37 percent over the same period and exceeding the 34 to 46 percent increases that occurred in six neighboring states (see Table III-3). In 1980-81

only eight states had average teacher salary levels below that of Oklahoma. Between 1979-80 and 1980-81, only four states increased average teacher salaries at an annual rate above that of Oklahoma.

Oklahoma is nearly unique among the 50 states in the mechanism used to increase teachers' salaries. While several states use minimum salary schedules to assure that all teachers throughout the state are paid at or above a specified level, only one other state (Delaware) provides actual annual salary increases to all teachers directly through legislative action. Oklahoma's system has been designed to assure rapid, uniform increases; it also has become a necessary component of the state aid system given the constraints facing local school districts in the amount of funds they can raise. In the absence of state support explicitly provided for salary increases, districts would either not be capable of providing them or they would have to readjust their education priorities by increasing class size and/or decreasing staff. Oklahoma educators indicate that if they had the flexibility to generate more local revenues, much of it would be used to increase teacher salaries.

Salary levels have become an important issue at this time for two reasons. First, H.B. 1236 changed the approach used by the state to guarantee the availability of aid to pay for salary increases enacted during the past eight years. A save harmless provision is the primary mechanism that assures that every district has sufficient support. In addition to the foundation program and the salary incentive aid program, the new state aid system provided for a single year salary increase without

explicitly specifying whether, in the future, additional annual salary increases would be placed in the formula or would be kept separate. Second, there is a concern about the adequacy of teachers' salaries. There is a feeling that in some locations, or for some types of teachers, competition between teaching and other job opportunities has increased, resulting in increased difficulty in attracting new teachers or holding experienced teachers. This problem is perceived by many educators to be exacerbated by the implementation of H.B. 1706, which imposes controls on access to the teaching profession. Higher teacher salaries may be required to maintain the attractiveness of teaching to individuals with superior qualifications.

Four recommendations are made in regard to teacher salary levels. These deal with the mechanism of providing state aid for salary increases and the need to obtain more information about the teaching profession in Oklahoma.

- A basic characteristic of the system used to provide the 1981-82 teacher salary increase in H.B. 1236 is that a similar amount is provided to each teacher. This approach assumes that all teachers are equally valuable. As a result of this approach, teachers with relatively higher levels of training and experience receive relatively lower percentage increases in salary. While numerous approaches could be used to allocate a salary increase based on the characteristics of teachers, the value of a particular teacher is determined in the context of the needs of local school districts. It is recommended that a state salary increase be mandated by the state each year and that the amount be a fixed percentage of the salary specified by the statewide salary schedule for the teacher with average training and experience levels in each district. This amount should be multiplied by the number of teachers in each school district and distributed to each district as a lump sum. The state should specify that the entire lump sum must be distributed to teachers in the form of salaries and/or benefits. However, school districts should allocate the lump sum among individual teachers consistent with the needs of the district (such as a need

for certain teaching specialties, a need for new teachers, a need to retain experienced teachers, etc.) and not inconsistent with the statewide salary schedule or existing bargaining agreements.

- One of the results of H.B. 1236 was the incorporation of numerous years of cumulative annual salary increase into the formula. An important policy question is whether that approach should be continued after 1981-82 under H.B. 1236. On the one hand it is appropriate for the state to assure that the funds needed to support salary increases that it mandates are available to local school districts. On the other hand, such an approach reduces the proportion of total state support flowing through the equalization components of the formula. Cumulative annual salary increases have been referred to as "flat grants" because approximately the same amount of funds per student flow to districts without regard to school district wealth. Such funds are not inherently disequalizing; but they also do not serve to promote interdistrict fiscal equity. Assuming approximately 20 students per teacher, a \$2,000 salary increase for all teachers provides a \$100 per student flat grant. While other states have attempted to eliminate flat grants at that level, such funds are not allocated to meet explicit state mandates in those states. It is recommended that the state provide funds to assure annual salary increases in order to raise the adequacy of teachers' salaries. Such annual salary increases should not be allowed to accumulate outside of the formula. However, the state should assure that sufficient state funds are available to guarantee prior increases. The save harmless mechanism contained in H.B. 1236 should be adjusted annually to provide this assurance.
- It is recommended that when the average teacher salary reaches a level considered appropriate by state policy makers and when there is sufficient local flexibility to raise revenues, the state should not distribute any funds outside of the formula for the purpose of providing annual salary increases. Once an adequate salary level is reached, however, the state should upgrade the minimum teacher salary schedule to reflect the impact of inflation.
- Given the amount of state aid provided between 1973 and 1981 to explicitly increase teacher salaries, which accounts for over half of the average teacher salary level, and given the existence of mechanisms to assure the availability of such funds to school districts, the state has an interest in the status of the teaching profession in Oklahoma. Given this interest, the state should acquire the information needed to monitor the profession. It is recommended that information about access to the teaching profession, the qualifications of those entering

schools of education, teacher mobility patterns, variations among school districts in their needs for teachers with different qualifications, practices used by districts to attract and hold teachers, and salary levels in other related professions be gathered and analyzed. Teaching is not a monolithic profession in any state. Different school districts have different needs. The state should encourage the implementation of state policies designed to foster appropriate minimum standards for teachers without requiring uniformity in the treatment of teachers across all districts.

State Support for Capital Outlay

An issue of increasing importance in Oklahoma is the condition of the physical facilities within which educational programs are provided. While declining enrollments obviate the need to expand facilities in most districts, it is widely believed by educators that years of deferred maintenance have resulted in the existence of less than adequate facilities. At a minimum there is a wide variation in the quality of education facilities. Additionally, little information about the actual status of those facilities is available.

There is no state support system for capital outlay in Oklahoma. The five mill building levy that school districts may impose raises widely varying amounts of local revenue. In some cases the amount of funds generated may be so low that the imposition of the levy is not justified. In some school districts operating funds are used to fund capital projects. Finally, the state does not provide any aid for capital outlay. While 14 other states also do not provide such funds, the remaining 35 states have some system of supporting the capital outlay and debt service expenditures of school districts. In seven states, loans are provided to school districts, while in 28 states some form of a

state grant system operates. Such grants are provided in the form of flat amounts per pupil or per classroom unit, as a percentage of the cost of a project, or in the form of equalization aid designed to recognize the ability of local school districts to provide their share of support.

Four recommendations are made with regard to the provision of state support for capital outlay. Two of these deal with the establishment of a state grant system, one suggests that a facilities needs analysis be undertaken, and one deals with school district qualifications to obtain such funds.

- It is recommended that Oklahoma initiate a system of providing support for the capital outlay expenditures of school districts. At a minimum, this system should guarantee that any school district willing to impose all or part of the five mill building levy can raise the same amount of revenue per pupil per mill of tax effort. No provision should be made to determine if districts have made maximum effort to raise local funds, in terms of mill levy or bonded indebtedness, in prior periods. There should be a minimum revenue guarantee, in terms of total revenues rather than per pupil revenues, to assure that small school districts generate sufficient funds to justify the imposition of a building mill levy. Such a system could be structured to guarantee to all districts twice the yield of the district of average wealth per pupil in average daily membership (ADM). Assuming an average district wealth of about \$12,000 per pupil in ADM, the state would guarantee that the five mill building levy would yield \$120 per pupil (\$24 per pupil times 5 mills). The total annual cost to the state in a year in which there was full participation (every district levying the full 5 mills) in the program would be about \$30 million. The system should also guarantee that every school district could raise a minimum total of \$10,000 annually using a 5 mill tax levy.
- Unlike a state support system for current operating expenditures, a state aid system for capital outlay must consider the influence of time, and the cost of borrowing funds, on the total cost of a capital project. The initiation of a state capital support system at a particular point in time could consider the current obligations of past school district decisions, even when such decisions were made independent of the state aid

system. Given the complexity of evaluating past decisions, however, it is easier, if not necessarily more equitable, not to reimburse districts for prior commitments. It is recommended that debt service expenditures for projects initiated prior to the implementation of the state capital aid system not be eligible for support. It is also recommended that state aid received for capital outlay projects be utilized solely to pay for capital outlay and debt service expenditures associated with new projects. Such aid should not provide support for current operating expenses.

- It is recommended that an analysis of the facilities needs of school districts be initiated and that the state establish a system for monitoring the status of such needs on a district by district basis. This analysis should include the creation of a statewide inventory of buildings, building condition, safety standards, future construction needs, and regional construction costs.
- Support for capital outlay can become an expensive consumer of available state support. Given the other needs that have been identified to provide adequate education support, it is particularly important that newly-created programs of state aid be supported in an efficient manner. It makes little sense to provide enough support to recondition every school building in the state of Oklahoma if every building is not being fully utilized. It is recommended that not every school district be eligible to receive state capital support. State support for capital purposes should only be provided to efficiently organized school districts. Criteria should be established to determine which school districts have legitimate, unduplicated needs for state capital support.

Modifications in the State School Aid Formula

In June 1981 the Oklahoma Legislature passed H.B. 1236, the new school finance system. The new allocation system went into effect immediately and school aid for 1981-82 is allocated according to the mechanisms embodied in that law. H.B. 1236 defines a complex system of counting and weighting pupils to reflect costs attributable to special programs or special characteristics of school districts. While the structure of the aid allocation system remains similar to the one used in 1980-81,

a number of changes in the method of calculation were made.

All school districts were given an indication of the amount of state aid they should expect to receive if H.B. 1236 were passed. School districts have now obtained information about the actual state funds they will receive in 1981-82. In many cases the expected amounts and the actual amount of state aid are somewhat different. The complexity of the formula and the variation between expected and actual state support have resulted in a lack of understanding of the new system and what impacts it will have on school districts in the future. However, despite some discomfort with the formula and a lack of detailed knowledge about its components, educators support its continued use in the immediate future. Close monitoring over time by educators and by interested observers will lead to a better understanding and permit a "fine tuning" of the formula in the future. It should be noted that, in general, no state aid system lasts without modification more than a few years. Changing circumstances inevitably require that components of a formula be modified in order to assure that it achieves its goals and objectives efficiently.

There are several fundamental differences between H.B. 1236 and the mechanism used to allocate state aid prior to its passage. First, the new formula uses weighted pupil counts in measuring school district needs for revenue and in assessing the relative wealth of school districts, with the weighted pupil count used in the foundation program being different from that used in the salary incentive program. Second, the minimums and maximums that

previously existed in the salary incentive aid program have been eliminated. Third, caps on increases in state aid and provisions to guarantee no loss of state aid in 1981-82 relative to amounts received in 1980-81 are included. Finally, a much greater proportion of all state aid flows through the formula rather than being distributed as support for salary increases.

Numerous recommendations are made to simplify the formula, to make it consistent, to eliminate unnecessary components and to make it more sensitive to district revenue needs. The first set of recommendations deals with the approaches used in the state aid formula to weight pupils.

- The weighted pupil approach is a progressive way for a state aid formula to recognize the added expenditures required to provide education services to pupils in special programs and/or districts with special characteristics. This approach also encourages equity by requiring that districts capable of supporting those extra costs do so. In this way the pupil weighted approach is different from the categorical approach, which provides a similar amount per pupil or a similar percentage of the total extra costs to all districts, without regard to their ability to support such costs. The concept has been successfully implemented, in whole or in part, in numerous states.

It is recommended that the weights used to adjust pupil counts be similar in both components (foundation and salary incentive aid) of the formula. This action will simplify the formula although it requires that the basic method of counting pupils, average daily membership (ADM) or average daily attendance (ADA), be resolved. It is recommended that the basic pupil count either be ADM or the average of the ADM and ADA counts. In addition to simplifying the formula, the use of a common weighting system will allow the formula to accurately reflect the extra costs of providing special services. As it stands now, for instance, the costs of providing special education programs are only reflected in the foundation program. Applying the special education weights to only a portion of the revenues cannot possibly result in appropriate reimbursement for the full extra cost of providing such services.

- It is recommended that in establishing weights for special education, the weights should not be based on how pupils are classified but rather they should reflect the costs of the actual treatment provided, such as small class size, at-home instruction, one-to-one counseling, and so on. Since some pupils do not receive such special services on a full-time basis, the pupil count system should be based on full-time-equivalency (FTE). In addition, it is recommended that the costs of providing bilingual education services be reflected in the formula. In particular, the weights for learning disabled and physically handicapped categories are extremely low when compared to other states that have comparable categories. An analysis of the cost of providing these services should be undertaken immediately. Cost studies of all weighted categories should be undertaken periodically. Such studies should use comparable information obtained from all school districts. When analyzing this information, special attention should be paid to cooperative district efforts to provide special education.
- One of the weighting factors used in the formula is designed to reflect the additional costs to districts of employing teachers with relatively high levels of training and experience. On one hand, this is an appropriate mechanism to recognize higher costs that may not be under the control of educators, particularly in times of declining enrollments. On the other hand, wealthy districts tend to be the ones that employ teachers with more expensive credentials since such districts can more easily provide salary increments beyond the annual increases paid by the state. In 1981-82, \$4.5 million will be provided under the salary incentive aid program to 195 districts employing teachers with relatively high levels of training and experience. The average wealth of such districts is near the statewide average. It is recommended that the use of the training and experience factor be continued for another year. However, this factor should be studied carefully to determine if the primary beneficiaries of its existence are wealthy school districts. If this is the case, the use of the factor should be discontinued.
- Most educators recognize that the cost of providing similar services in different regions of a state may vary. Analyses of geographic cost-of-education indices in several states suggest that the variation may be 20 to 30 percent. Cost-of-education indices can be constructed for different components of education expenditures (teacher salaries, transportation, energy costs, administration, and so on). It is recommended that cost-of-education indices be calculated in Oklahoma to reflect regional variations in the cost of providing similar education

services. Once calculated, the indices should be used in the state aid formula to adjust the allocation of state aid in light of conditions beyond the control of school district administrators.

- The basis for counting pupils in the formula is not the number of pupils enrolled in the current year but rather the highest of the enrollment levels for a three-year period. The purpose of this method is to provide a "cushion" to districts facing declining enrollments. It has been shown in other states that school districts cannot reduce their per pupil costs as rapidly as the pupil population declines. It must also be recognized that counting "phantom" pupils increases the state revenues flowing to districts both because of the inflated number of aidable pupils and because the relative wealth of districts is lowered. The highest three-year count approach delays the impact of declining enrollment rather than smoothing the impact over time. It is recommended that the average enrollment level of a three-year period be used. This approach will also count phantom pupils but it will smooth the transition and not have as great an impact on the relative wealth of a district with declining enrollment.

Some school districts in Oklahoma face the opposite problem: they have rapidly increasing enrollments. While districts with small increases in enrollment should not face fiscal problems, since the marginal cost of adding a few students is small, districts facing rapid growth cannot respond as quickly as is necessary. It is recommended that the state provide extra support to school districts in which annual growth in ADM pupils exceeds 10 percent. In such cases the state should weight pupils above a 10 percent increase twice as much as other pupils.

- Under the pupil weighted system, economically disadvantaged pupils receive an additional weight. Typically, in other states, economically disadvantaged students are used as a substitute to count students in need of compensatory education. It is appropriate to provide additional weighting to such students because the cost of providing additional compensatory education services is relatively high. However, it is important that such students be identified carefully. Under H.B. 1236 the count of such pupils, since no actual counts of pupils needing compensatory education exist, is the number of pupils receiving free and reduced price lunches under federal school lunch guidelines. This number may or may not be related to the actual number of pupils in need of compensatory services. If the actual pupils in need of such services cannot be counted, there is little reason to expect that the additional support to which they are entitled will be provided to them. It is therefore

recommended that the state generate uniform guidelines, applicable to all school districts, in order to identify pupils in need of compensatory education. Such guidelines should be based on the results of standardized tests administered throughout the state.

- One of the most important weighting factors used in the state aid formula is designed to reflect the higher per pupil cost of providing education services in small school districts. The approach utilizes a formula that provides "phantom" pupils to districts with less than 500 ADA pupils. A district with 400 ADA pupils receives 4 percent additional pupils (a total of 416 weighted pupils). A district with 100 ADA pupils receives 16 percent additional pupils (a total of 116 weighted pupils). While both districts receive the same number of additional pupils (16), a proportionately larger increase is provided in relatively smaller districts (see Tables IV-3 and VII-5). The effects of counting additional pupils in small school districts are to reduce the wealth of those districts relative to larger districts and to increase the number of pupils eligible to receive state aid.

Analysis of 1978-79 data for all school districts in the state reveals that the cost of providing services in relatively small districts increases as size decreases. Analysis shows that districts with over 5,000 ADA have the lowest average cost. Relative to those districts, the cost in districts with less than 100 ADA is 34 to 42 percent higher, the cost in districts with between 100 and 200 ADA is 24 to 26 percent higher, the cost in districts with 200 to 300 ADA is 13 to 14 percent higher, the cost in districts with 300 to 500 ADA is 10 to 12 percent higher and the cost in districts with 500 to 2,500 ADA is 4 to 7 percent higher (see Table VII-4).

The size adjustment factor used in the formula provides supplemental state support that is slightly lower, on average, than is needed to meet the extra costs identified. While the percentage increases in state aid due to the size factor are appropriate, state aid distributed through the formula accounts for less than half of all revenues available to school districts. Since the districts are unable to increase their own revenues, as has been discussed previously, the increase in state aid is insufficient to cover the full extra costs attributable to size. For districts with less than 200 pupils, a substantial "need" for additional funds (see Table VII-5), is found among low wealth districts. This is a combination of need for their higher cost and lower wealth.

It is recommended that the size factor formula be modified to increase the extra support provided to very small

school districts and to provide aid to districts with up to 2,000 ADA pupils. The current formula adds weighted pupils as follows:

$$(.2) (500 - ADA/500) (ADA) = \text{Additional Weights}$$

The following formula would provide more appropriate weights:

$$(.2) [(2,000 - ADA/2,000)^2 + (100/ADA)] (\text{Weighted Pupils}) \\ = \text{Additional Weights}$$

Under this formula, districts with less than 100 ADA should be treated as if they had 100 ADA in the second component of the new formula (i.e., 100/100 if ADA is less than 100). For all districts with ADA greater than 2,000, the additional weights would be equal to zero. The formula would also add weights based on weighted pupils, after all other weights have been determined. This would reflect the fact that all services cost more to offer in very small school districts. The recommended formula should be simulated to determine if it would provide appropriate state aid. It is impossible to analyze the impact of a formula without the use of a simulation since the size factor affects the relative wealth of all districts.

Three additional concepts deserve study in reviewing the size factor. First, analysis has indicated that school district utilization of space is an important determinant of cost. Utilization decreases for smaller districts (see Table VII-3). It is recommended that utilization be studied in regard to both current operating costs and capital fund needs. Second, school size, not school district size, may be an important determinant of education costs. Districts may not have much control over the organization of schools and large districts may face high costs because they must operate small schools. At least one other state (Wyoming) uses an individual school size adjustment factor. It is recommended that an examination of school size be undertaken to determine if it is an appropriate factor to be considered in the state aid formula. Third, analyses in other states have generally shown that very large school districts incur relatively high costs. While such costs may not be as high as those of very small school districts, they may be between 10 and 15 percent higher than the costs of the lowest cost districts. It is recommended that the cost of providing education services in very large districts, those over 10,000 ADA, be studied to determine if they should receive additional state aid.

The state aid formula is divided into two sections, the foundation program and the salary incentive aid program. These sections specify guaranteed state funding levels given local school district tax rates and variations in school district wealth. Other features of the formula, particularly the 8 percent cap and the hold harmless provision, also affect the flow of state aid. The following recommendations deal with these sections and features of the formula.

- The foundation program portion of the formula operates in a straightforward manner. A total foundation program cost is established for each school district by multiplying a number of weighted pupils by a fixed amount (\$616 in 1981-82). From this amount is deducted the yield of 15 mills of local property tax and several other local "chargeable" revenues. The difference, if positive, is the amount of state aid which a district is eligible to receive. If the difference is negative, indicating that locally available revenues exceed the total cost of the program, no state support is provided. In 1981-82 the state will provide \$209 million under the foundation program while school districts will provide \$230 million. A total of \$8.5 million above the foundation level will be raised by 80 school districts enrolling 25,500 ADA which have sufficient local revenues so that no state aid is earned under the foundation program (see Table IV-2). In those districts, local revenues provide \$872 per pupil, about 40 percent more than districts receiving state aid are guaranteed. Assuming that all districts had the statewide average amount of "chargeables" per pupil, the foundation program would guarantee the availability of \$616 per weighted ADA pupil to all districts with assessed property value per weighted ADA pupil up to 3.06 times the average. Only districts with higher wealth levels would, theoretically, obtain greater revenues. The distribution of chargeable local revenues is not even among all school districts; some districts receive much more from one source than others. However, even if such revenues could be distributed more evenly across all school districts, they would not provide much revenue (see Table IV-1). If, for instance, gross production taxes were allocated equally to every pupil, they would provide about \$38 per weighted ADA pupil. It is recommended that the structure of the foundation program not be changed. The foundation level should be increased both because as the base of the state aid system the foundation level should define an amount of revenues considered adequate and because a

higher level will result in fewer districts being ineligible for state aid (or conversely, fewer districts will raise revenues in excess of the foundation level). Two alternative approaches are suggested for setting the foundation level. First, the level could be set at a point such that, in terms of total revenues, an explicitly determined state share of all foundation revenues is realized, for instance 50 percent. Second, the foundation level could be set to provide a specific level of guaranteed revenue per pupil per mill of tax effort relative to that provided in the salary incentive aid program. It is recommended that the second approach be used; the foundation level should be established by policy makers to assure a specific amount per weighted pupil per mill of tax effort relative to that provided in the salary incentive aid program. If assessment levels are increased and greater local leeway is introduced into the system, it will be critical to set an appropriate, adequate foundation level.

- The salary incentive aid portion of the formula is defined in complicated terms using a local support factor, a district wealth ratio and a state support ratio. In reality, these terms are not necessary and most of the calculations used by school districts to determine state support are superfluous. The salary incentive aid program is simply a guaranteed tax base program that assures that every district will be able to generate the same revenues per pupil as those raised by a key district. The only policy factor that must be specified is the wealth of the key district. Under H.B. 1236 the key district is the one having wealth 3.058 times greater than the statewide average (1.000 divided by the local support factor, which is .327 in 1981-82). In 1981-82, using this level results in over 98 percent of all pupils being in districts that qualify to receive state support (see Table IV-2). This year the state will provide \$271 million and local school districts will provide \$130 million to support the salary incentive aid program. The program guarantees that every district can raise \$26.63 per weighted ADM pupil per mill of tax effort. The key wealth district has \$26,633 of assessed property wealth per weighted ADM pupil (3.058 times the statewide average of \$8,709). Assuming that almost every district will use a tax rate of 20 mills, the program guarantees, in effect, \$533 per weighted ADM pupil. Together, then, the foundation program and the salary incentive aid program guarantee about \$1,150 per weighted pupil. If weighted pupils are about 135 percent of unweighted pupils (see Table IV-3), these two programs, in effect, guarantee \$1,553 per unweighted pupil.

It is recommended that the description of the salary incentive aid program and the calculations used to determine the flow of state aid within the program be

simplified. The state should focus its attention on the selection of a key district in the salary incentive aid program. If assessment levels are increased and greater local leeway is introduced into the system, it will be critical to establish the guaranteed wealth of the key district carefully so that proper incentives are provided to districts and the state can afford to support the program.

- In 1981-82 the state will pay \$27 million to support transportation services. This amount is not as high as the expenditures districts must incur in providing such services. While the state utilizes a density factor as a measure of district need for transportation support, other factors, such as road conditions, also affect need. The state does not recognize each district's ability to provide its share of transportation support. It is recommended that the full costs of providing transportation services be better established and that such costs be added into the foundation program cost for each school district. The purpose of including transportation costs in the foundation program is to provide state support in relation to the wealth of school districts. By better recognizing variations in actual transportation costs and by considering school district ability to pay, a more equitable distribution of state aid will be achieved. The analysis of transportation costs could be included in the previously mentioned analysis of cost differences.
- Under H.B. 1236 in 1981-82, there is an 8 percent cap on the increase in state support for which school districts would otherwise be eligible under the formula. This provision saved about \$13.5 million that would have been distributed to 294 school districts enrolling 156,200 pupils (see Table IV-1). These districts tend to be small; 231 of the 294 districts have enrollments below 500 pupils. They also tend to be relatively poor; the average wealth of capped districts is substantially below the statewide average wealth (see Table IV-5). On average, districts lost about \$64 per weighted pupil because of the 8 percent cap. Prudence dictates that changes in the state aid allocation mechanism that provide windfall funds to districts be monitored and, perhaps, controlled. The fact that the 8 percent level is generally below the rate of inflation and the relatively small magnitude of the average windfall suggests that the cap is too severe. It is recommended that the 8 percent cap be modified to the 25 percent level.
- An important component of H.B. 1236 is the hold harmless provision, which assures that districts will not receive less total state aid in 1981-82 than was received in 1980-81. This provision cost the state nearly \$26

million; 178 school districts enrolling 136,000 pupils receive hold harmless funds (see Table IV-2). These districts tend to be small; 133 of the 178 districts have enrollments below 500 pupils. They also tend to be relatively wealthy; the average wealth of hold harmless districts, particularly small districts, substantially exceeds the statewide average wealth (see Table IV-5). On average, hold harmless funds provide \$145 per weighted pupil to districts receiving them. If the state continues to mandate annual teacher salary increases and if assessment levels are not modified, there will continue to be justification for the existence of a hold harmless provision; in fact, the level of the hold harmless will need to be modified on an annual basis. If, however, assessment levels and average salary levels are increased to adequate levels over time, the hold harmless provision should be phased-out of use after a few years. No recommendation is made concerning the hold harmless provision since it is contingent on other, more important decisions.

- H.B. 1236 included a minimum revenue guarantee provision. This was defined in per ADA pupil terms and was inconsistent with the formula, which was based on weighted pupils. A minimum revenue guarantee would not be required if it were defined in weighted pupil terms because such a guarantee would be provided directly in the equalization formula. It is recommended that the minimum revenue guarantee be eliminated.

Establishing Goals for the School Finance System

One of the primary objectives of H.B. 1236 was to improve the equity of Oklahoma's school finance system. Equity as a concept is difficult to define; a school finance system may appear to be equitable using one definition and inequitable using another. It is clear that all educators and education policy makers in Oklahoma do not agree on a single definition of equity. This means that even though many Oklahomans agree that equity is a legitimate objective of the school finance system, agreement does not exist about whether H.B. 1236 is the best approach to achieve it.

Of equal importance is the fact that school finance systems may have other objectives that are as important to achieve as equity. Educators in Oklahoma consistently identified the provision of adequate resources and the promotion of local control as two important goals of the school finance system. A state aid plan that achieved one of these goals to the exclusion of others would not be viewed as appropriate. In fact, many educators ranked adequacy of resources as the most important goal or they were willing to trade off low levels of inequity against improvements in adequacy. Achieving the desired balance among these often conflicting goals is a challenging task.

One of the most important activities that a state legislature can undertake with regard to school finance is the establishment of the goals and objectives of the state aid system. Education is a function of the state and, given limited resources, it is the state's responsibility to establish education priorities. The school finance system is the mechanism used to support those priorities. As many states have discovered, the courts have an easier time finding school finance systems unconstitutional when the legislature cannot identify a relationship between the finance mechanisms and the objectives of the system. It is crucial that the state have a rationale for the education aid distribution system it uses.

It is also important that the legislature periodically review a state's school finance system. It is possible that, over time, the goals and objectives of the state may change, necessitating a modification of the school finance system. It is also possible

that conditions may change in such ways that the school finance system does not accomplish its objectives. Even if these changes do not occur, it is important that a state measure its progress toward achieving the objectives that have been established.

The following recommendations deal with alternative objectives of Oklahoma's school finance system. Equity, adequacy and local control are each discussed.

- In order to determine the specific definition of equity, three issues must be addressed: (1) the group for which equity is to be provided must be identified, (2) the object which is to be distributed equitably to that group must be defined and (3) one of several alternative distributional principles must be selected. An equitable school finance system could be one that assured equal revenues per pupil to all school districts. It could also be one that permitted unequal revenues as long as the causes of inequality were legitimate, related to the different education needs of school districts. Another system that could be considered equitable is one that assured equal per pupil revenues to all districts if they had equal tax rates; under this approach, variations in revenues related to variations in tax rates would be acceptable. In determining the equity of a state school finance system, it is appropriate to analyze the per pupil revenues of school districts, the tax rates of districts and the influence of district wealth on district revenues.

In 1981-82, Oklahoma's school finance system appears to achieve a high level of equity. Property tax rates do not vary at all, although actual tax burdens differ due to assessment variations, the amount of variation in per pupil revenues is relatively small. While there is a strong relationship between school district wealth and revenues, wealth does not cause great variations in the revenues of districts. The elimination of the hold harmless provision and the 8 percent revenue cap would make the system even more equitable. H.B. 1236 improved the equity of the school finance system compared to that achieved prior to its use, although a high level of equity was attained in the past (see Table VI-11).

While the equity of Oklahoma's school finance is high, one price paid to accomplish that goal is a severe limitation on the ability of local school districts to generate their own support for education. H.B. 1236 defines a "three-tiered" system. The first tier, the foundation program, assures every district a minimum revenue level.

The second tier, the salary incentive aid program, provides districts with an equal opportunity to raise revenues at similar tax rates. The third tier, salary increase aid, provides districts with sufficient funds to raise personnel salaries by a specified amount. In fact, however, the system operates as a large foundation program with some adjustment in recognition of the size of school districts. The recommendations outlined above will introduce some variation into the school finance system by allowing district tax rates, and thus district revenues, to vary. The amount of variation will reflect differences in districts' tastes for education, although every district with the same tastes will be capable of generating the same revenues, regardless of district wealth. In order for the state to be sure that every pupil receives the benefit of similar revenues, at least at an adequate base level, an appropriate balance between support for the foundation program and the salary incentive aid program must be achieved.

It is recommended that a majority of state funds be allocated through the foundation program. Currently the foundation program guarantees about \$41 per weighted pupil per mill of local tax effort (\$616 divided by 15 mills is about \$41) while the salary incentive aid program provides about \$27 per weighted pupil per mill of tax effort. It is recommended that the foundation program provide a guarantee twice as large as that provided in the salary incentive aid program. This would necessitate a guarantee of \$54 per mill or \$810 for the full 15 mills required. In the future, for every additional dollar guarantee provided in the salary incentive aid program, there should be a two dollar guarantee in the foundation program. This, combined with recommended assessment increases, will assure that while districts have some control over their revenue levels, the state will provide an adequate level of revenues for all students and the incentives to generate additional revenues will not be so large as to result in large variations in per pupil revenues among districts.

- The adequacy of any school finance system is difficult to assess. The perception of educators in Oklahoma is that the funds available to support needed services and those mandated by the state are inadequate. One result of inadequate funding is low teacher salaries. It is difficult to explicitly link the salary problem to inadequate education programs but there is little doubt that the future quality of the education system is related to both the quality of the teaching staff and a sufficient quantity of teachers.

In the long run, the state aid formula should assure adequate funding within the foundation program. In the

short run, the state should act to increase teacher salary levels. In order to accomplish both of these objectives, it is recommended that the state directly support teacher salary increases during a transition period of four years after which direct support for salary increases should be terminated and the foundation program should function at a high level. In 1982-83 the state should provide a 20 percent salary increase using the approach outlined previously. In 1983-84 the salary increase should be reduced to 15 percent. By reducing the salary increase by 5 percentage points each year, the state would provide no salary increase in 1986-87 or thereafter.

One way to begin to understand the adequacy of Oklahoma's education system is to evaluate the accomplishments of the programs being provided. Today the focus of discussion among education policy makers tends to be on "inputs," the resources used in providing education services. It is important that the discussion be modified to include a focus on "outputs," the accomplishments of pupils and of the education system. The ultimate intention of providing state education funds is to help pupils acquire knowledge, skills and attitudes. The ability to assess how well that intention is being met requires that information be gathered concerning the progress of pupils. It is recommended that the state create a system to collect data concerning the educational progress of pupils. The obligation of determining how such progress will be measured lies with educators throughout the state. No explicit link between information about pupil achievement and the provision of state aid should be made. However, such information could be valuable in evaluating the utility of particular state aid programs. It could also be used in the provision of state technical assistance to school districts. In establishing a system of measuring pupil progress, the state should be sensitive to the individual education differences of pupils and to differences in education objectives among school districts.

- The issue of "local control" is also difficult to define. The obligation of providing education lies with the state. However, education services are provided within local school districts under the guidance of boards of education. Clearly, local control is valued by local school districts. Yet the state is the major source of funding in most school districts. There will always be some tension between local and state interests in education. The state will likely continue to mandate certain activities. Its interest in promoting interdistrict fiscal and programmatic equity will conflict with local interest in providing services and organizing them to meet local needs and desires.

As far as school finance is concerned the local control issue is divided into two components: (1) the extent of the control local districts have in determining how much will be spent on education, which involves setting local tax rates and (2) the extent of the control local districts have in determining how whatever funds are available will be spent. In some states, local control is primarily related to the level of funding. In other states, local control is primarily related to the allocation of funds. In some cases, both aspects are important in the perception of local control. At the present time, Oklahoma school districts have little control over their tax rates and the amount of local revenues they generate. Educators have expressed a desire to increase their control over the generation of education revenues. With the exception of the annual teacher salary increase and some program mandates, local school districts in Oklahoma have a good deal of control over how available funds are used. Under H.B. 1236 the funds provided to pay for high cost services are distributed in what amounts to a "block grant" approach. In some states it is expected that at least a certain portion of such funds will be spent in the areas for which they were generated and an audit is undertaken to assure compliance. Under H.B. 1236 the state does not even require the existence of a program for every function for which state aid is provided. Districts can use the funds generated to support that function or other functions. Educators would like to be given even more flexibility, particularly in regard to the allocation of salary aid, than currently exists. Thus, the perception of educators is that more local control should be provided. This is in some conflict with the perception at the state level. The desire to improve school finance equity and to assure that every teacher receives appropriate compensation requires a limitation of local control.

It is recommended that local control be expanded in some areas and that state control be more explicitly defined in other areas of the education system. Local school districts should be able to determine, above a state defined adequate level, the amount of resources they desire to provide for education. If the level of assessments is increased this should give local districts the leeway they need to reduce their tax rates below the maximum level. In order to promote expenditure equity, however, it may be necessary for the state to set a minimum required tax effort in the salary incentive aid program since there are legal constraints on the 15-mill levy required under the foundation program. A 10-mill required levy under the salary incentive aid program could be set, for instance, in order for school districts to receive any state aid.

It is also recommended that the state specify minimum program requirements for all programs receiving extra support through the pupil weighted system. If, for instance, pupils in need of compensatory education are eligible to receive extra funds due to their being weighted above 1.00, the state should specify how pupils in need of compensatory education are to be identified and some definition of what a compensatory program should include. It would be valuable if the state could use outcome standards rather than resource input standards in establishing the state's interest in these programs.

- The most important activity that the state must undertake in defining its school finance system is balancing the objectives of equity, adequacy, quality and local control. It is recommended that the state explicitly evaluate the components of H.B. 1236 and the interaction among these components in light of these objectives. Whatever information needs to be collected to perform this evaluation should be gathered on a routine basis. The State Department of Education should produce an annual report of its evaluation of the school finance system in terms of these objectives. Before modifying the school finance system in any major way, the legislature should define these objectives and measure the extent to which they are being met. Any proposal to change the system should be evaluated not just in terms of the flow of funds to school districts or the cost to the state, but in terms of the likely impacts of any change on these objectives.

