

THIRTEENTH EDITION

FINANCING EDUCATION IN A CLIMATE OF CHANGE

Vern Brimley, Jr.

Brigham Young University

Deborah A. Verstegen

University of Nevada, Reno

Robert C. Knoeppel

University of South Florida



Director and Publisher: Kevin M. Davis
Executive Portfolio Manager: Aileen Pograd
Managing Content Producer: Megan Moffo
Content Producer (Team Lead): Faraz Sharique Ali
Content Producer: Deepali Malhotra
Portfolio Management Assistant: Maria Feliberty and Casey Coriell
Executive Product Marketing Manager: Christopher Barry
Executive Field Marketing Manager: Krista Clark
Manufacturing Buyer: Carol Melville
Cover Design: Pearson CSC
Cover Art: Kudryashka/123RF
Editorial Production and Composition Services: Pearson CSC
Full-Service Project Management: Pearson CSC, Jessa May Dales and Rajakumar Venkatesan
Printer/Binder: LSC Communications, Inc.
Cover Printer: Phoenix Color/Hagerstown
Text Font: Times New Roman

Credits and acknowledgments for material borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within the text.

Every effort has been made to provide accurate and current Internet information in this book. However, the Internet and information posted on it are constantly changing, so it is inevitable that some of the Internet addresses listed in this textbook will change.

Copyright © 2020, 2016, 2012 by Pearson Education, Inc. 221 River Street, Hoboken, NJ 07030. All rights reserved. Printed in the United States of America. This publication is protected by Copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please visit <https://www.pearson.com/us/contact-us/permissions.html>.

Library of Congress Cataloging-in-Publication Data

Names: Brimley, Vern, author. | Verstegen, Deborah A., author. | Knoeppel, Robert C., author.

Title: Financing education in a climate of change / Vern Brimley, Jr., Brigham Young University, Deborah A. Verstegen, University of Nevada, Reno, Robert C. Knoeppel, University of South Florida.

Description: Thirteenth Edition. | New York: Pearson Education, Inc., [2020] | Previous edition: 2016.

Identifiers: LCCN 2018028123 | ISBN 9780135180068 | ISBN 0135180066

Subjects: LCSH: Education--United States--Finance.

Classification: LCC LB2825 .B86 2018 | DDC 379.10973--dc23 LC record available at <https://lccn.loc.gov/2018028123>



Dedication

*To Dawn
To Michael and Nathan
To Kathleen*



CONTENTS

Preface *xiii*

Chapter 1 THE ECONOMICS OF EDUCATION 1

Education as Human Capital 2

Creation of Wealth and Education 3

Education: An Important Industry 4

A Public-Sector Responsibility 8

Economics and Social Progress 9

Education Produces Nonfree Services 11 • Education Stimulates Economic Growth 12 • The Scope of Educational Services 13 • The Marginal Dollar Principle 14 • The Point of Diminishing Returns 15

Economic Benefits of Education 16

Increasing Expenditures and the Economy 19 • Education Expenditures Benefit Individuals and Society 19

Noneconomic Benefits of Education 20

Education Produces External Benefits 21 • Exclusion or Free Rider Principle 22 • Externalities Justify the Ability Principle 22

Cost–Quality Relationship in Education: Does Money Matter? 23

Summary 27 • Assignment Projects 27 • Selected Readings 28 • Endnotes 28

Chapter 2 THE NEED FOR ADEQUATE FUNDS 31

Adequacy and the Factors Impacting It 31

Education Deserves High Priority 32

The Public wants Good Schools 33

The Increasing Costs of Education 34

Goals Have Increased 35

Spending on Education and the Size of the Enterprise 35

Impacts on the Cost of Providing an Adequate Education 41

Effects of Inflation/Deflation 41 • Scarcity and High Cost of Energy 43

What is the Cost of an Adequate Education? 44

A Failure to Provide Opportunity and Associated Costs 47

Illiteracy 47 • Unemployment 48 • Poverty and Low Income 49 • Military Service Incapability 51 • Prison Incarceration 52 • Health and Education 52

Society Suffers the Effects of Poor Education 53

A Question of Priorities 53 • Equality and Adequacy Not Yet Attained 54 • Underinvestment Is Poor Economy 55
Summary 56 • Assignment Projects 56 • Selected Readings 57 • Endnotes 57

Chapter 3 FINANCING EDUCATION EQUITABLY 61

Inequalities in Financing Education 62

Equity Issue Revisited 63 • Quality and Fiscal Equity 65

Equity: An Objective of School Finance Reform 65

Equity for Children 67 • The Weighted-Pupil Approach 73 • Equity at the School Level 74 • Equity for Taxpayers 79 • Unequal Assessments 81 • General Classifications of Taxes 82

Measures of School District Wealth 83

Assessed Valuation per Pupil 83 • Assessed Valuation per Capita 84

Income Tax 84

Wealth Tax 85

Historical Influences on Equity 86

Local District Funding 86 • Flat Grants 87 • Equalizing Grants 88

The Equalization Principle 89

Improving State Equalization Practices 90

Foundation Programs and Variations 91

The Impact of Average Daily Attendance on Equity 95

The Changing Climate and Current School Finance Practices 95

Summary 97 • Assignment Projects 98 • Selected Readings 99 • Endnotes 100

Chapter 4 PATTERNS FOR SCHOOL FINANCE SYSTEMS 103

Developing Patterns 104

Determining the Best Finance Plan 104

Full State Funding 107

District Power Equalization 108

Property Reassessment and Local District Revenues 114

Emphasis on Weighting Factors 115

Principal Types of Weights 116

Sparsity Factors 116 • Density Factors 118 • Special Education Weightings 119 • Funding for Low-Income Students and English Language Learners 126 • Funding for English Language Learners 128 • Gifted and Talented Education Funding 129 • Funding for High-Cost Programs and Districts: Vocational, Career and Technical Education 130 • Other Individual Student Needs and Characteristics 131

Summary 131 • *Assignment Projects* 132 • *Selected Readings* 133 • *Endnotes* 133

Chapter 5 SOURCES OF REVENUE 135

Education—Financed By Government 136

The Taxation System 136

All Citizens Owe Taxes 137 • *Tax Equity* 137

Characteristics of a Good Tax System 138

Economic Efficiency 139 • *Administrative Simplicity* 139 • *Flexibility* 139 • *Political Responsibility: Impact and Incidence* 140 • *Fairness* 140 • *Adequacy of Yield* 141 • *Predictability* 141

Taxes for Education 141

Income Tax 150

Sales Tax 152

Property Tax 153

Assessment Practices 154 • *Unfairness of the Property Tax* 155 • *Other Criticisms of the Property Tax* 155 • *Personal Property Taxes* 157

Excise Tax 158

Severance Tax 158

Other Funding Sources 160

Lotteries 160 • *Private Foundations* 163 • *School–Business Partnerships* 164

Potential New Taxes 165

E-Commerce and Internet Sales 165 • *Sales and Excise Taxes on Marijuana* 166 • *Value-Added Tax* 167
Summary 167 • *Assignment Projects* 168 • *Selected Readings* 170 • *Endnotes* 170

Chapter 6 EDUCATION: A STATE FUNCTION 173

Early Development of State Responsibility 175

Development of Decentralized Educational Systems 176

Development of School Finance Policies 177

Land Grants and Other Nontax Funds 177 • *Early Taxation Patterns* 179

Developmental Stages of School Finance 180

Period 1: Emphasis on Local Responsibility 180 • *Period 2: Early Grants and Allocations* 181 • *Period 3: Emergence of the Foundation Program Concept* 183 • *Period 4: Refinement of the Foundation Program Concept* 185 • *Period 5: Power Equalization* 187 • *Period 6: Shift of Emphasis and Influence, and Special Needs Funding* 188 • *Period 7: A Focus on Adequacy* 189

The Varying State Programs 191
Arizona 191 • Florida 194 • Illinois 196 • Maryland 199

State Ability to Support Education 201
Summary 202 • Assignment Projects 203 • Selected Readings 203 • Endnotes 204

Chapter 7 ERODING LOCAL CONTROL 205

Changing Rural–Urban Influence On Education 207

Basic School District Administrative Units 209

The Administration of Local School Districts 213
Local Control by Contract 216 • Local Control Not Guaranteed 218 • Local Control and Tax Shifting 219 • Excessive Reliance on Property Taxes 220 • Municipal Overburden 221 • Local Nonproperty Taxes 222

Advantages of Local Control 223

Fiscal Independence of School Districts 223

Trends In Local Taxation Practices 224

Measures of Local Taxpaying Ability 224

Local, State, and Federal Tax Responsibility 225
Summary 225 • Assignment Projects 226 • Selected Readings 227 • Endnotes 227

Chapter 8 FEDERAL INTEREST IN EDUCATION 229

Federalism 230

Historical Role of The Federal Government 231

U.S. Department of Education 233
Education and U.S. Presidents 233

Constitutional Role 235
Evolution of Federal Interest 236

Block Grants, Categorical Aid, and General Aid 239
The Elementary and Secondary Education Act (ESEA) 241 • Individuals with Disabilities Education Act (IDEA) 243 • Race to the Top 245 • Carl D. Perkins Career and Technical Education Act 246 • Payments in Lieu of Taxes 247

Federal Expenditures 247

Fiscal Advantages and Disadvantages 250
Neutral Position 251

Increased Governmental Services 252

The Future of Federal Aid to Education 253
Summary 253 • Assignment Projects 254 • Selected Readings 254 • Endnotes 255

Chapter 9 THE INFLUENCE AND CLIMATE OF THE COURTS 258

Three Waves of School Finance Litigation 259

First Wave of School Finance Litigation 259

Serrano v. Priest 260 • San Antonio Independent School District v. Rodriguez 261

The Second Wave of School Finance Litigation 263

Robinson v. Cahill 264 • Washakie County School District v. Herschler 264 • Serrano II 264

The Third Wave of School Finance Litigation: A Shift From Equity to Adequacy? 265

Rose v. Council for Better Education 265 • Helena Elementary School District No. 1 v. State 266 • Edgewood v. Kirby 266 • Abbott v. Burke 267 • *Other Significant Court Cases* 268 • *Plaintiff Victories* 268 • *Defendant Victories* 272

Second-Generation Adequacy Cases 273

Impact of School Finance Litigation Over Time 275

Pressure for Reform 277

California's Proposition 13 278

Finance Reform or Tax Reduction? 279

Court Decision Guidelines 279

Summary 280 • *Learning Outcomes and Assignment Projects* 281 • *Selected Readings* 281 • *Endnotes* 282

Chapter 10 PUBLIC FUNDS AND NONPUBLIC SCHOOLS 287

History 288

Educational Choice 289

Charter Schools 291 • *Homeschooling* 292 • *Education Vouchers* 292 • *Tax Credits* 297

The Law and Church–State Relations 298

Legal Provisions for Separation 299 • *The Courts and the Child-Benefit Theory* 299 • *Other Court Action* 300
Controversy Not Solved 306 • *Summary* 306 • *Assignment Projects* 307 • *Selected Readings* 307 • *Endnotes* 308

Chapter 11 FINANCING SCHOOL FACILITIES 311

The Need 312

Early Capital-Outlay Programs 318

Capital-Outlay Court Decisions 319

State Support 322

Equity in Financing Educational Facilities 324

The Federal Government and Capital Outlays 325

Capital-Outlay Finance Plans 327

Pay-as-You-Go Financing 327 • Building Reserve: Sinking Fund 327

School Bonding Practices 328

Serial Bonds 330 • Straight-Term Bonds 330 • Callable Bonds (Redeemable Bonds) 330 • Registered Bonds 331 • Bonding Rates 331 • Bond Sales 331 • Bonding Power 332 • Bond Attorney 332 • Bonds Are Debentures 332 • Amortization Schedules 332 • Refunding Bonds 333 • Bonding Authorities 334

Other Alternatives 335

Impact Fees 335

Sales Taxes 336

Future Policies for School Facilities 336

Summary 337 • Assignment Projects 338 • Selected Readings 338 • Endnotes 339

Chapter 12 ADMINISTERING THE DISTRICT AND SCHOOL BUDGET 342

Evolution of Budgetary Practices 343

Budgeting Developed Slowly in America 343 • The Budget's Three Dimensions 344

Development of a Systems Approach to Budgeting 345

District and School Budgetary Approaches 346

Line-Item Budgeting 346 • Performance Budgeting 346 • Program and Planning Budgeting Systems (Program Budgeting) 347 • Zero-Based Budgeting 348 • Site-Based Budgeting 348 • Outcome-Focused Budgeting 349

District-Level Budgetary Practices 350

The Budget Calendar 350 • Setting Instructional Priorities 352 • Developing the District Budget 353 • The Budget Hearing 357

Administering the District Budget 357

Evaluation of the Budget 358

School/District Coordination 358

Budgeting at the School Level 359

Activity Funds 359

Challenge of Leadership 366

Summary 367 • Assignment Projects 367 • Selected Readings 368 • Endnotes 368

Chapter 13 ACCOUNTING AND AUDITING 370

The School Accounting System 371

Principles 372

The Changing Accounting Environment	374
Comprehensive Annual Financial Report	377
<i>Government-wide Statements</i>	378 • <i>Individual Fund Statements</i>
<i>379 • Notes to the Financial Statements</i>	379 • <i>State Reports</i>
<i>379 • Other Reports</i>	379
Characteristics of Governmental (Fund) Accounting	379
<i>Types of Funds</i>	380
Encumbrance Accounting	381
Cost Accounting	382
Accrual Accounting	382
Receiving and Depositing Funds	383
Expending School Funds	383
Auditing	384
<i>Purposes</i>	384 • <i>Kinds of Audits</i>
<i>385 • Selecting an Auditor</i>	387
Protecting School Funds	388
<i>Surety Bonds</i>	388
<i>Summary</i>	389 • <i>Assignment Projects</i>
<i>389 • Selected Readings</i>	390 • <i>Endnotes</i>
<i>390</i>	
Chapter 14 BUSINESS ASPECTS OF THE SCHOOL COMMUNITY	392
Increased Safety Hazards	393
The Business Office	395
Supplies and Equipment	397
Purchasing	398
<i>Policies Governing Purchasing</i>	400 • <i>Standardization</i>
<i>400 • Quantity Purchasing</i>	402 • <i>Bidding</i>
<i>402</i>	
Supply Management	402
<i>Supply Storage</i>	403 • <i>Distribution of Supplies and Equipment</i>
<i>404</i>	
Risk Management	404
<i>Insurance</i>	406 • <i>School Board Responsibility</i>
<i>406 • Basic Principles</i>	406 • <i>Main Types of Insurance</i>
<i>407 • Coinsurance</i>	408
Transportation	409
<i>Transportation Funding Methods</i>	411
School Food Services	413
<i>Summary</i>	416 • <i>Assignment Projects</i>
<i>417 • Selected Readings</i>	417 • <i>Endnotes</i>
<i>417</i>	

Chapter 15 HUMAN RESOURCES AND SCHOOL FINANCE 420

The Expanded Role of Human Resources Administration 421

Teacher Compensation 422

Teacher Salary Issues 424 • Benefits 425

Certification 431

Pay-for-Performance—Merit Pay 434

Additional Issues 436

Teachers and School Finance 437

The Changing Assignments of Teachers 438

The Impact of Technology 439 • Teacher Turnover 439

Administrative and Supervisory Salaries 440

Noncertificated Personnel Salaries 441

Payroll Policies and Procedures 441

Governmental Influence 443

Summary 443 • Assignment Projects 444 • Selected Readings 444 • Endnotes 445

Chapter 16 THE ROAD AHEAD IN SCHOOL FINANCE 447

The New Finance 449

The Future of Public School Finance 455

Unresolved Issues 456

Some Characteristics of Educational Structure 457

School Finance Goals 458

The Challenge 459

Endnotes 460

Index 461

PREFACE

Change is a constant. The pace of change is not. Just since the last edition of this text, change has been accelerating at an alarming rate. The Great Recession that encompassed the country finally turned around, but school funding has been uneven. Some states have provided new money to elementary and secondary public schools, while schools in other states remain underfunded and struggling. Teachers have walked out of the classroom for better wages and working conditions in Kentucky, Arizona, West Virginia, Colorado, Oklahoma, and North Carolina. Illinois and Kansas have completely revised their school finance systems. More states are considering student centered funding, and the federal government has replaced the ESEA, Title I, *No Child Left Behind Act* with the *Every Student Succeeds Act*. A new wave of weighted funding systems has spread across the states.

U.S. elections in 2016 and 2018 brought many new directions to the nation at large and have impacted schooling. Stock markets initially soared but then experienced volatility. Unemployment fell to record lows. Passage of a broad income tax overhaul brought new brackets and additional changes, but a rising national debt and greater income inequalities followed. Wars continued in Afghanistan and Syria. Schools experienced major disruptions and losses. Natural disasters punctuated the decade, with hurricanes, flooding, fires, and drought. Mass shootings continued to plague education. The Parkland, Florida students rose up and were joined by others across the nation to demand gun control and additional safety measures for students and schools after a school shooting that resulted in many lives lost. A focus on school choice dominated the federal agenda, and Congress enacted legislation that allowed 529 college savings accounts to be used for private schooling, including religious education. Demographics and costs continued to change, as did goals and standards for the nation's schools. The list goes on. As Bob Dylan penned, "The times they are a changing."

Financing Education in a Climate of Change, 13th edition, reflects these and other changes while retaining its practical tone and superior presentation of finance concepts. It includes the most up-to-date information and material regarding funding education in a post-recession era. It provides readers with firm knowledge of all facets of financing education—along with a number of helpful pedagogical tools such as clear tables and figures, end-of-chapter assignment projects, key concepts, new to this edition, and learning objectives. This new edition adds information on classic and current topics such as the economics of education, recent court decisions, 50-state tables on key funding provisions, state taxes, and the ongoing debate about vouchers, tax credits, church–state issues, and charter schools.

This classic school finance book contains three major sections: the economics of education, education finance policy, and school business management. Cross-cutting themes of equity, adequacy, and efficiency are woven throughout the text.

NEW TO THIS EDITION

Financing Education in a Climate of Change provides future education leaders, policy-makers, concerned citizens, and others the basic concepts of school finance. Indeed, the dynamic nature of school finance brings about many changes in a brief period of time. This new edition reflects those great changes and other significant information, including the following:

- **A focus on adequacy, equity** and efficiency throughout the text emphasizes these continuing public policy priorities and the trade-offs inherent in their resolution.
- **Updated tables, figures, and references** throughout the book reflect new issues and information surrounding education finance as it is influenced by public demand, legislative action, and the courts. These elements highlight concepts and comparisons in a clear and understandable manner for the reader while using up-to-date research and information.
- **Current 50-state comparisons** throughout provide readers with contrast, similarities, and other information among all the states along key dimensions in school finance, including state taxes, the major state finance system, funding for high-cost students (that is, special education, English language learners, low-income students, gifted and talented students), funding for transportation, capital outlay, and small/sparse school districts.
- **Attention to issues concerning students with special needs** and new information on state funding mechanisms for English language learners across all 50 states.
- **The federal role** in education is discussed, and new information is given on federal programs including the *Every Student Succeeds Act* program and the *Carl Perkins Act* for career and technical education.
- **Budget procedures** focus on the interrelationship between the district and the local school in building and managing the budget, emphasizing the great responsibility associated with controlling large amounts of revenue in various program categories. New procedures are outlined, and actual examples of budgetary and purchasing procedures are included in this edition.
- **Expanded material and new information** on the following school finance issues are provided:
 - The economic benefits of education, especially related to a changing economy and the gender gap, with recent census tables providing facts and figures (Chapter 1)
 - The question of whether money matters in student outcomes, with recent research informing the discussion (Chapter 1)
 - Shifting demographics, including the increased number of children in poverty, a new majority-minority in the schools, and changing balances among different groups involved in the education sector (Chapter 2)
 - A focus on equity and adequacy, with an expanded section on horizontal and vertical equity (Chapter 3)

- Weighted student funding, also called student centered funding, which is discussed in greater detail for states, districts, and schools (Chapter 3)
 - A new analysis of funding for English language learners, with a 50-state table depicting allocation methods together with tables for low-income, special education, and gifted and talented funding provisions across the states (Chapter 4)
 - Updated information on the tax structure for state governments, including taxes for education in all 50 states, that highlights the public finance side of education support (Chapter 5)
 - New developments in state finance systems, including the new funding model in Illinois and detail on finance plans in Arizona and Maryland (Chapter 6)
 - The influence of the courts and legislatures on states and local districts, including a comprehensive overview of recent cases restructured into three major “waves” and its aftermath (Chapter 9)
 - The most current information on the volatile church–state issue, with recent court decisions discussed, as well as the continuing evolution of public charter schools, education savings accounts, and vouchers (Chapter 10)
 - A focus on business management of schools, with examples of budgetary, accounting, and purchasing procedures (Chapters 10, 13, 14)
 - The new salary schedules for teachers, as well as the actual cost of school personnel when benefits are added to salaries (Chapter 15)
 - Issues related to the State Standards and future funding for elementary and secondary public schools, including the New Finance (Chapter 16)
- Restructuring of Chapters 6 and 7, with the state role now examined in Chapter 6 following the discussions in Chapters 3, 4, and 5 on state funding and taxes
 - New ancillary material is provided for each chapter, including PowerPoint slide presentations and a test bank. This material is available from Pearson’s instructor resource center at pearsonhighered.com. The assignment projects at the end of the chapters are continued in this edition and can serve as topics for projects, papers, and discussion; key concepts are highlighted in each chapter.

Financing Education in a Climate of Change is a user-friendly education finance text for graduate students in education administration, public finance, and business administration. The text is also of interest to policymakers and citizens who are concerned with funding schools. It discusses foundational concepts and current issues related to the debate over funding schools, including the following: How do states pay for schools? Does money matter in producing student outcomes? Where does the money come from and where does the money go? How are high-cost students and districts supported? What are the strengths and weaknesses of the property tax for funding schools? How are charter schools funded and operated? What are the developments of the church–state issue? How have the courts and the federal government influenced education support?

ACKNOWLEDGMENTS

Many people were involved in the development and production of this text, and we thank them wholeheartedly. First, it is a special pleasure to welcome author Robert C. Knoeppel, professor and dean, University of South Florida. Dr. Knoeppel brings a wealth of knowledge and experience to the team, and provides invaluable conceptual, practical and scholarly contributions to the text.

We would like to acknowledge the finance scholars, leaders, and experts who provided the epigraphs that open each chapter. We are also grateful to our reviewer, Daniel Wayne Eadens from Northern Arizona State University for excellent suggestions and thought-provoking comments. Importantly, much gratitude is expressed to Misty Soles, attorney and doctoral candidate, Clemson University, who carefully, and with attention to the recent court decisions, revised Chapter 10. We appreciate Blake Haselton, superintendent-in-residence and dean, University of Louisville, for his contributions to Chapter 7. Particular appreciation is expressed to Kevin Davis, and others at Pearson including Aileen Pogran, Faraz Sharique Ali, Jessa May Dales, Rajakumar Venkatesan, and Maria Feliberty. Their expertise and assistance are valued.

Finally, we deeply regret the passing of Rulon Garfield and thank him for his contributions to the 4th through 10th editions of the text. Continued gratitude is extended to Percy Burrup, who made the foundation of this work possible. His influence still remains.

*Deborah A. Verstegen
Vern Brimley, Jr.
Robert C. Knoeppel*