TAX EQUITY AND EDUCATIONAL EQUALITY

Robert T. Capeless

It comes as a little jolt after all these years to confront NESDEC as a group of people, rather than as a mathematical formula for the distribution of state aid. Like the late Dean Acheson, I can claim to have been "In at the creation" – of the formula, that is, not the association of people. The NESDEC formula was first advanced publicly early in 1963, in Governor Endicott Peabody's tax message which, I am proud to say, I had a hand in writing.

It is amusing now to look back and recall the violently adverse public reaction to what by today's needs and standards was a modest step forward toward the goals of equal educational opportunity and tax reform. Modest or not, when adopted a few years later, the NESDEC formula was a positive step in the right direction, and a practical means of dealing with the needs and political realities of that period.

It may well be that a revised and expanded NESDEC formula is the best we can look for in the changed conditions of the 1970s, but I hope not. With the new dimension of threatened judicial mandate, perhaps the time has finally come when it is politically possible to carry out the large-scale change which tax equity and educational equality so obviously demand.

Because you are NESDEC, there is no need to delineate the problem we are talking about today. Its causes, its dimensions, the obstacles to its solution are painfully evident to all of us. There is a need for me, however, to set forth caveats about my principles and my approach to a solution, as to which we may not be fully agreed.

First, as a member of the Massachusetts Special Commission to Develop a Master Tax Plan, my primary concern is overall tax equity, which has as its goal equal taxes for equal levels of service in all areas of government, not education alone.

Second, like equality of educational opportunity, tax equity cannot be realized in isolation from overall equity.

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Third, the power to set spending levels and the responsibility to tax must be placed at the same point as a simple matter of fiscal sanity, a consideration which virtually rules out massive state aid tied to individual local expenditures independently determined.

Fourth, a balanced revenue structure, without overdependence on any one tax, is necessary to any plan of tax equity and educational equality.

In the light of these principles it seems to me that really only two general approaches are open to us: the first, a restructuring of the functions of government, and the second, a restructuring of our revenue arrangements. Let me now comment briefly on the first and both explain and comment on the second.

Function Restructuring

The approach of function restructuring involves complete state financing of the cost of education and, as an absolutely necessary consequence, complete state determination of the levels of spending for education. After a horrendous interim period of reconciling the differences between high spending-high quality systems and low spending-low quality systems, this approach should achieve complete equality of educational opportunity or as near thereto as can be achieved. It would mean almost certainly an end to the absurdity of over 300 independent local systems in Massachusetts, and their replacement by a monolithic central agency or more probably by a system of large, sensibly balanced, and comparatively equal regional groupings. It would mean certainly an end to determination by local or regional groups of their own levels of spending. Local autonomy, if any, would be preserved only as to management and spending of funds allocated centrally on an equal basis.

Despite its vast revenue implications, such an approach is essentially one of educational policy, the thrust for which must come from those primarily concerned with public education and responsible for its quality in the Commonwealth. On that account, it is not a plan that should be advanced by the Master Tax Plan Commission. It is a plan, however, which this member of the Commission, at least, can certify as being wholly consistent with the Commission's program of revenue reform, and in fact one which cuts in half the problem to which revenue reform is directed. It is one which as a private citizen I tend to favor, a point of view no doubt influenced by past service as mayor of a city, bugged by the autonomy of the local school committee.

While a great step toward revenue reform, state assumption of the costs of education would still leave the local communities wholly dependent on their grossly unequal local property tax bases for support of at least 50 percent of the present cost of local government. In the case of the larger communities with limited property tax bases, the percentage would be substantially higher. Whether or not this other half of needed tax reform would be indefinitely postponed would depend in large part on the revenue sources chosen to support the state take-over of educational financing.

The take-over would require about $800 million more than the $500 million now provided in state aid. Therefore it seems to me to be politically impractical to look to present state-wide taxes alone for such additional support. With a present yield of about $1.4 billion, state taxes would have to be increased by about 60 percent. This includes all business taxes, already claimed to be unduly high. If the income tax and the sales tax alone were to be utilized to finance the increased state payments, both these major sources of revenue would require near doubling. Under these circumstances, therefore, it seems likely that this function restructuring change is possible only as part of revenue restructuring, proposed here as the alternative to it.

Revenue Restructuring

This alternative is exemplified in the tentative plan of the Master Tax Plan Commission. While wide variations on the plan are possible, their strengths and weaknesses can probably best be put in focus by analysis of the Commission's own plan.

The Plan

The plan entails a statutory commitment by the Commonwealth to support, by taxes imposed on a state-wide basis, not only 100 percent of the cost of state government but 80 percent of the aggregate costs of local government as well. The unequal local property tax bases would then support on the average only 20 percent of local spending, instead of the present 80 percent. Even 20 percent average local support would entail a residue of inequity, and the ideal solution would involve state support of 100 percent, a plan which is not as impractical as it might seem at first.

Financing the Plan

A commitment to finance 100 percent of the cost of state government and 80 percent of the aggregate cost of local government obviously is far too great to be met from existing state revenue sources. As noted above, assumption of the cost of education alone would entail a politically unrealistic increase of 60 percent in state taxes. The increase required to finance 80 percent of all local costs would be an unrealizable 110 percent.

Even if it were politically practical, there is serious question as to the wisdom of such a move from the standpoint of sound revenue policy. It would be a continuation of the present policy under which the use of specific revenue sources has mainly coincided with the placement of government functions, an arrangement which has resulted in the property tax situation we are now attempting to cure. The property tax is excessively high and grossly inequitable today because it is a local tax, supporting functions assigned to local government, which are far more expensive than those assigned to the state.

A break with this pattern is a first and fundamental requirement of revenue reform. Revenue source and function placement need to be divorced as fully as possible, consistent with principles of fiscal autonomy and fiscal responsibility. The Master Tax Plan Commission proposes to achieve this by adoption of a balanced structure of classes of taxes and their proportional contributions to total revenue, designed without regard to the level of government where such revenue will be spent.

So far as we know, no other state has ever considered such an approach. Elsewhere, as here in Massachusetts, the revenue structure has developed by happenstance and not by design, as the results clearly indicate. Certainly, given a clean slate to write on, no state would consciously select a revenue structure in which property taxes, and particularly local property taxes, would be called upon for 54 percent of total revenue and all state-wide taxes combined for only 46 percent. This is the Massachusetts situation.

If not 54 percent, what proportion should property taxes bear, and if not 14 percent and 16 percent, what share should consumer excises and the personal income tax contribute? There is no correct answer to those questions. When the Commission tentatively suggests that the property tax input be set at 40 percent, there is ample ground for reasonable men to argue that even 40 percent is too high,

and that 35 percent or even 25 percent would be more reasonable. It does not seem, however, that an input as low as 10 to 15 percent can be justified. That is the figure that would result from the plan proposed, if the state were to assume 80 percent of the aggregate cost of local government *and* the property tax remained a purely local tax.

Accordingly, the Commission is proposing:

1. A basic revenue policy providing for an input to state and local revenues from property taxes of 40 percent.
2. Power in the State Tax Commission to set the rates of state taxes annually at levels that will produce the required state revenue for state expenditures and 80 percent local aid, in the proportions for each tax group established by the basic revenue policy.
3. Adoption of a form of state property tax at the level required to bring property taxes, state and local combined, to the 40 percent support level.

The State Property Tax

Initially at least the state property tax would take a form which makes the use of that name somewhat inaccurate and misleading. The state property tax would be assessed not on individual property owners but on each city and town according to its equalized valuation. In effect it would be a revival of the old State Tax which the Commonwealth used to employ to meet its own deficits. In its revival it would be crucially different in its purpose, which would be to eliminate the gross inequities of a large-scale *local* property tax.

The fairness of such a tax-equalizing assessment, as it more properly should be called, would rest on an enormous improvement in the accuracy of the equalized valuation list. There exists no formula, method, or plan to guarantee such a result. It will develop, if at all, from the employment of more money, people, and skill in the development of the list. In this connection it should be noted that such a reform is going to be necessary in any plan for eliminating imbalance in property taxes among the various cities and towns. Equalized valuation will be a paramount factor, whether an expanded NESDEC formula, or its predecessor the foundation-type program, or any variation on them is used. Any large-scale program of state aid to localities has imbedded in it the equivalent of a statewide property tax, no matter how artfully camouflaged.

Methods of Distribution

Having substantially equalized tax contributions by using state-wide taxes to meet 80 percent of aggregate local costs, the Commonwealth could distribute the massive local aid fund so created solely with regard to local government needs, as measured by objective criteria uniformly applied. Specifically the Master Tax Plan Commission proposes the elementally simple method of distributing school aid on the basis of school child population and general government aid by total population.

It is conceded that such a distribution is too rough to be a completely fair one. Admittedly there are other variables not utilized in the formula which affect the level and cost of local government services, and therefore are a part of the measure of governmental need. However, two crucial questions would have to be posed and answered satisfactorily before writing any such factors into the distribution formula. First, is there an accurate and usable method of determining and gathering the data relevant to the factor? Second, is it practical to measure the amount such a factor adds to the cost of local government?

For example, an influx of non-resident workers in Boston, and one of non-resident summer visitors in Chatham, add something to the government costs of those two communities that is not reflected in their resident population figures. But how much for each worker and visitor, in proportion to total population and total government cost? And even if we know the amount with any degree of accuracy, how do we determine the numbers of workers or visitors not only for Boston and Chatham but for 349 other cities and towns as well? Various school factors evoke the same kind of questioning, most notably that of the number of children culturally deprived and otherwise affected by community poverty.

It seems to me that an enormous exercise of effort is involved in answering these questions, for a result that is significant only in a handful of cases. Far better then to treat these variations from the norm under special programs, and this is what the Commission proposes. Let general aid be as simple as possible; let highly specific aids for unusual situations continue to operate as they do now, as a supplement to the general aid program to correct the gross distortions which any such program necessarily will produce.

Local Autonomy

Beyond the level of state support averaging 80 percent of total costs, local governments including school committees would retain virtually complete autonomy as to their levels of spending. Of equal significance, they would retain it under conditions making them totally responsible for the relatively small residual local property tax they would require for expenditures above the level of state support. Under this plan, no single local decision to spend or not to spend would affect, except to a negligible degree, the amount of state aid to be received. At the same time, state aid in the aggregate would keep pace with rising local costs since 80 percent of the state-wide cost of local government would be the basis for the size of the local aid fund.

Local autonomy would of course have to be limited to some degree by state-wide standards relating to the scope and quality of local governmental services, particularly education. Such standards should be set for schools by the Department of Education. Hopefully the standards would be enforceable, and not established on the basis of aid or no aid, as they have been in the past.

Conclusion

The program just outlined, it seems to me, goes as far as can reasonably be expected toward equalizing tax sacrifice on the one hand and access to equal governmental service on the other, consistent with retention of local autonomy. It does not carry with it encouragement to spend, for education or anything else, except in the case of low quality school systems, which would be in a position to afford and would be compelled by standards to bring themselves up to the state-wide norm. For good reasons I do not regard this lack of encouragement to spend as a flaw in the system. To those who disagree, I would respectfully suggest that massive state aid with retained local autonomy is inconsistent with such encouragement.