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# TAX REFORM IMPACT ON PUBLIC SCHOOL EDUCATION

## HEARING

BEFORE THE

## JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

FIRST SESSION

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TUESDAY, SEPTEMBER 3, 1985



## SUBMISSIONS FOR THE RECORD

TUESDAY, SEPTEMBER 3, 1985

# TAX REFORM IMPACT ON PUBLIC SCHOOL EDUCATION

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TUESDAY, SEPTEMBER 3, 1985

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
*Washington, DC.*

The committee met, pursuant to notice, at 2:01 p.m., in room 2118, Rayburn House Office Building, Hon. David R. Obey (chairman of the committee) presiding.

Present: Representative Obey.

Also present: Kent Hughes, Dena Stoner, and Paul Manchester, professional staff members.

## OPENING STATEMENT OF REPRESENTATIVE OBEY, CHAIRMAN

Representative OBEY. Good afternoon. This afternoon, most of the Nation's schoolchildren have returned to the classroom. I know that my oldest son has resumed classes at the University of Wisconsin today—he's a senior—and my youngest very unhappily left for his first day in the 9th grade this morning, and I very unhappily returned to Washington for the first day of Congress being back in town.

Because there is a school in every neighborhood, I think we tend to look at education in economic terms, in ways which very much underestimate the impact of education on the economy. I think we tend to forget that, collectively, the elementary and secondary public schools represent one of the major industries in the United States, representing about 4 percent of the total gross national product.

The U.S. Department of Education reported last week that public institutions will spend approximately $146 billion on elementary and secondary education this year and that private schools will spend an additional $13 billion. These figures do not completely illustrate the size of our national investment because they represent only operating costs for this school year. And yet, the Nation operates this vast enterprise in facilities that local communities have built and maintained over decades. Using the conservative square footage estimate from the Congressional Research Service, at a replacement value of about $50 a square foot, the national investment in school buildings alone totals around $280 billion. Overwhelmingly, the dollars for public education come from local and State governments. Less than 7 percent of the funds to operate the schools come from the Federal Government. And almost nothing comes from the Federal Government to maintain the physical structures to house the over 39 million public schoolchildren and 2½ million teachers.

The success of this educational enterprise will, in my judgment, determine to a significant degree our future economic well-being because as a nation, we are critically dependent upon the excellence, the creativity, and the knowledge of children now in school in order to keep us productive and competitive in the world economy. We are also dependent upon their future reasoning power to keep us at peace and, God forbid, if the awful eventuality should ever occur, we are dependent upon their courage and their resourcefulness to win a war.

All across the country, States have begun to direct increasing amounts of their public resources to education. Governors and State legislatures, in particular, have recognized that the quality of their educational systems is key to economic stability in a rapidly changing economic climate.

This year, State percentage for total spending for elementary and secondary education will increase from 32.8 in 1985 to 33.5 percent. The National Governors Association calculates that in addition to what has already been done at the State level, another $15.4 billion, plus inflation, will be needed by 1990 for services to a larger school-age population that is the result of a mini-birth boom now occurring. This year, 34 States have reported that education is the leading budget issue.

The capability of States to continue this support for educational investment is now, in my judgment, in serious jeopardy. The Reagan tax proposal eliminates the ability of taxpayers to deduct from the Federal return the amount that they pay in State and local taxes. This elimination is projected to raise about $33 billion in Federal revenues. The American Federation of Teachers calculated in a June 1985 study that public elementary and secondary education costs represent $16.5 billion of that amount.

Estimates vary as to the magnitude of the impact on local and State revenues. The National Governors Association admits that the change will not occur overnight, but that the effect will be slower growth in absolute dollars for State-funded activities. They estimate that the reduction will be between 10 and 15 percent. Testimony before this committee in the spring of this year confirms that estimate. We had before us the author of a U.S. Treasury study which the Treasury did not publish, indicating that the reduction would be about 13 percent. If that happened, if that was, indeed, an accurate estimate, that would be a heavy blow to educational quality in this country. It would be at least the equivalent of withdrawing all Federal support for education.

Our purpose this afternoon on the first day, or on the Nation's first day back at school and on Congress' first day back in town, at least on the House side of the Hill, is to explore the impact of the President's tax proposal on public elementary and secondary education.

I'm pleased to welcome the two witnesses we have with us today, from the National School Boards Association and the National Education Association. Mary Hatwood Futrell is president of the National Education Association and Nellie Weil is the first vice president of the National School Boards Association.

Could I ask each of you to submit your prepared statements for the record and take about 15 or 20 minutes to summarize them before we proceed to questions? And could I ask Ms. Futrell to start, please?

## STATEMENT OF MARY HATWOOD FUTRELL, PRESIDENT, NATIONAL EDUCATION ASSOCIATION, WASHINGTON, DC

Ms. FUTRELL. Thank you, Chairman Obey. I am Mary Hatwood Futrell, president of the National Education Association, representing 1.7 million educational personnel in the Nation's schools and institutions of higher learning. We appreciate the opportunity to present our views on the administration's tax reform plan as it affects education and education personnel.

NEA believes that tax reform is urgently needed. In our view, current law is unnecessarily complex and the burden of taxation is not fairly distributed in terms of ability to pay. Our views reflect a membership that is representative of middle-class America. On balance, NEA believes that the Reagan tax plan is a significant improvement over present law in many areas. But in other respects, the administration plan falls short of tax equity and is actually counterproductive for education at a time when excellence of instruction is a top national priority.

One of our principal concerns is a proposal to repeal the deductibility of State and local income, sales and property taxes. It would be, in the words of the New York Times, "a huge double-cross on the States and localities which bear the costs of education and other vital public services."

Let me put this issue in context. At the present time, total spending annually for public elementary and secondary education is approximately $125 billion per year. The direct Federal share is 6.2 percent. The States provide 49 percent. And the local governments provide 44.8 percent.

The States and the localities have clearly extended themselves to provide funding for education, both in terms of per capita expeditures and as a percent of expenditures for all functions. An estimated 36 percent of all State and local expenditures is ear-marked for education. The range of State-by-State percentages is from 18 percent to 47 percent. The repeal of deductibility would have a very direct impact on school revenues. To a voter, the decision to support or reject State sales tax for education is never based on "is this deductible or not." The voters' decision to support or reject education is based on a perception of State and local tax burden and the loss of the deductibility will dramatically increase the perception of burden.

The rosiest projections are for a softening of taxpayer support which would compound the difficulty of passing adequate appropriations for school support at the State level.

More realistic projections would show the seeds of a taxpayer revolt. There is a strong base for education funding at the State and local levels that should not be undermined by the Federal Government, which is the only partner in education not carrying its share of the load.

Federal budgets for education have failed to keep pace with inflation in recent years. While States have been doing their part, the Federal share of elementary and secondary education funding has fallen from 9 percent in 1980 to 6.2 percent this year. For example, more than half a million students have been dropped from eligibility and now are ineligible for Pell grants or other programs. Only 45 percent of the 11 million disadvantaged children who need services under chapter 1 receive them. In 1981, 55 percent received those services.

Estimates vary on the effect of deductibility on education expenditures by State and local governments. In a 1984 study, "Strengthening the Federal Revenue System—Implications for State and Local Taxing and Borrowing," the Advisory Commission on Intergovernmental Relations said State and local spending across the United States could be expected to fall by at least 7 percent.

ACIR went on to say that this was a conservative estimate.

The Congressional Research Service has estimated a reduction of 15 percent. Other estimates are even higher. Senator Moynihan, for example, has calculated an average nationwide loss of $605 per pupil. On a per-State basis, this loss would range from $231 in Mississippi to $1,069 in Wyoming.

Using the more conservative estimates of the loss, ranging from 7 to 15 percent, we estimate schools would lose between $4.8 billion, or $122 per child, and $10.1 billion, or $258 per child enrolled. It would have the same effect on education funding as repealing virtually all federally supported elementary and secondary education programs.

In view of the considerable damage that the repeal of deductibility would do to the important State and local initiatives to improve instruction in the public schools, we urge that this provision of the administration's tax proposals be rejected by the Congress.

Mr. Chairman, NEA supports tax reform and believes it must promote equity, fairness and balance. It must assure adequate revenues to finance education and other critical public services. It must be in accord with the national priorities, especially the drive for excellence in education. And it must result in a structure that is both workable and acceptable.

The administration's proposal to repeal the deductibility of State and local taxes would deal an unconscionable blow to education. While we are trying to inprove the schools, States and localities would find their funding base seriously undermined by the Federal Government. The result would be to jeopardize the condition of education, the well-being of our communities, and the economic future of our Nation. Thank you very much.

[The prepared statement of Ms. Futrell, together with an appendix, follows:]

## Prepared Statement of Mary Hatwood Futrell

Mr. Chairman and Members of the Committee:

I am Mary Hatwood Futrell, President of the National Education Association, representing 1.7 million education personnel in the nation's schools and institutions of higher education. We appreciate the opportunity to present our views on the Administration's tax reform plan as it affects education and education personnel.

Education is more than just the key to opportunity for millions of young Americans. It is a cornerstone of our nation's economic life. Thus it is particularly fitting for this Committee to be considering the impact of deductibility on both our fiscal and educational condition.

NEA believes that tax reform is urgently needed. In our view, current law is unnecessarily complex and the burden of taxation is not fairly distributed in terms of ability to pay. Our perspectives on this issue reflect a membership that is representative of middle-class America. The median age of NEA members is 39. Seventy-two percent are women, and about 73 percent of the total membership is married. Average salaries from school employment range from $17,998 in the Southeast to $23,128 in the West. Total average income, including that of a spouse, is $36,061. Nineteen percent of NEA members live in cities, 30 percent live in suburbs, and 51 percent live in small towns or rural areas.

For tax reform to succeed and be widely acceptable, NEA believes that current proposals to modify the tax code should be measured against the following criteria.

1. Tax reform must promote equity, fairness, and balance.

2. Tax reform must assure adequate revenues to finance education and other critical public services.

3. Tax reform must be in accord with national priorities, especially the drive for excellence in education.

4. Tax reform must result in a structure that is both workable and acceptable.

## The Administration Proposals - An Overview

On balance, NEA believes that the Reagan tax plan is a significant improvement over present law in many areas, but we think some of its provisions fall short of tax equity. It dampens progressivity. Indeed, some of its provisions are more regressive than current law. Since 1981 we have seen a drop in the top marginal rate from 70 to 50 percent, and a further drop to 35 percent is proposed. The top capital gains rate has been reduced from 40 to 20 percent, and a further drop to 17.5 percent is proposed. These lower rates are a boon to millionaires, but not to the average taxpayer. The Administration's own documents show that taxpayers earning more than $200,000 a year would receive a much larger tax reduction in dollar amounts than middle-income taxpayers. And while the Administration makes much of the fact that taxes for lower-income taxpayers would be reduced by as much as 35 percent, this reduction amounts to only $30 for a family of four with an income of $10,000. For the $200,000 income family the tax reduction would be $9,500. These, again, are the Administration's own numbers.

The Administration's proposal would continue indexing income tax brackets, the zero bracket amount, and the personal exemption to reflect annual increases in the Consumer Price Index. Indexing can only compound the difficulties of raising sufficient revenues to pay for government services. This is especially true in light of the estimated $750 billion reduction in taxes enacted in 1981. Retaining indexing at a time when the personal exemption and zero bracket amounts are increased and the marginal rate is reduced to 35 percent will spell trouble for the funding of education and other public services -- including the national defense -- in the future. At a time of ballooning deficits it is apparent that Congress has the obligation to come up with the money for the programs it enacts. The tax reform package cannot be revenue-neutral if indexing continues; tax rates will have to go up to keep the federal deficit from climbing ever higher.

The proposed changes in depreciation rates and the preferential rates on capital gains are touted as economic stimulants. However, we call the Committee's attention to "The Failure of Corporate Tax Incentives," a Citizens for Tax Justice study of the effects of the business investment incentives in the 1981 Economic Recovery Tax Act. The study showed that between 1981 and 1983 the 50 lowest-taxed corporations actually reduced their investment in new plant and equipment. The justifications for tax breaks for business, as consistently proposed by this Administration, are wearing thin. Increasing the purchasing power of individuals is a much more powerful stimulus to the economy, and a truly progressive system does just that.

This testimony will review in more detail the probable effects of this proposal on education.

## EFFECT ON EDUCATION

### A Critical Concern - The Repeal of Deductibility

One of the principal concerns of the NEA regarding the Administration's proposal is the repeal of the deductibility of state and local income, sales, and property taxes. We believe deductibility goes to the heart of the universally acclaimed effort to achieve educational excellence throughout the nation. Repealing the deduction would destabilize longstanding patterns of intergovernmental funding and raise new and unnecessary obstacles to educational improvement. The *New York Times* aptly terms this proposal a "huge double cross" on the states and localities which increasingly bear the costs and would then also find their funding base diminished.

Education is a critical element in our country's quest for a knowledgeable citizenry, an expanding economy, and a strong and secure nation. Now is the time we should be seeking new resources to enhance the quality of our schools, not playing with plans that would reduce financial support for public education. The stakes are very clear: education's contribution to our economic vitality, to our place in the international community, to our defense and security, to the lives and opportunities of millions of young men and women. Disinvestment in the education of America's human resources not only jeopardizes our future but threatens the nation's tax base.

## The Education Partnership

Since the passage of the Northwest Ordinance in 1785, the federal government has provided crucial leadership and financial support to education as a critical national concern. At the present time, total spending annually for public elementary and secondary education is $125 billion per year.

* The direct federal share is 6.2 percent ($8.6 billion).
* The states provide 49 percent ($67.4 billion).
* Local governments provide 44.8 percent ($61.6 billion).

Funding patterns vary according to state laws governing the application of the revenue base to school financing, so these are average figures. The range of direct federal funding for elementary and secondary education in the states is from 3.2 percent to more than 17 percent; the state share, in school aid programs and other forms of support, ranges from eight percent to 91 percent. Reliance on local contributions range from 0.3 percent to 89 percent. A chart showing state-by-state school funding in dollars and percentages from the three levels of government appears as Table I in the appendix.

Over the past 12 years, there have been some interesting trends. The state share of education expenditures has increased from 40 percent to nearly half, while the local share has declined from 52 percent to 44 percent. These changes reflect increasing state commitment to education and limitations on the local property tax. Table II shows the trends of state and local revenues for public schools over the past 12 years.

## States Are Paying Their Share

The states have clearly extended themselves to provide quality education, both in terms of per capita expenditures and as a percent of expenditures for all functions. An estimated 36 percent of all state and local expenditures is earmarked for education. Education is the single largest expenditure by state and local governments and it is usually the only one on which taxpayers vote directly. The range of state-by-state percentages is from 18 percent to 47 percent, as shown in Table III.

On the average, four percent of personal income in the states is devoted to funding public education, with a range from 2.8 percent to 7.5 percent. The actual yield of this tax effort is in average per pupil expenditures, which range from $1900 to $6400, and average teacher salaries which range from $14,000 to $34,000 (the high rate is skewed by Alaska's cost of living). State-by-state comparisons of tax effort and per pupil expenditures are shown in Table IV.

In the last five years, total expenditures for elementary and secondary education have risen from $102 billion to the current $125 billion. The proposal to eliminate the deductibility of state and local taxes would be a serious disincentive in states striving to improve the quality of instruction. While the growth of expenditures is less than the inflation rate, the states have shown a good measure of commitment to education because during that same period enrollments in the public schools dropped from 41 million pupils to 39.3 million. A substantial part of the increase in state and local support is due to efforts to reduce class size, improve teacher training, and provide better instructional materials. Also, there are very persuasive data being developed that show that the "high" tax states are also the states which contribute substantially more to the federal government than they get in return.

School Revenue Base Threatened

For education funding the problem is very direct. The decision to support or reject a millage election or a state sales tax for education is never based on "Is this deductible or not?" The voters' decision to support or reject education is based on a perception of state and local tax burden, and the loss of deductibility dramatically increases the perception of burden.

Therefore, the school revenue base would be threatened by the repeal of deductibility. Most states have constitutional requirements that their budgets be balanced, and education takes the lion's share of those budgets. The rosiest projections are for a softening of taxpayer support which would compound the difficulty of passing adequate appropriations for school support at the state level. More realistic projections would show the seeds of a taxpayer revolt.

State and local taxes have stronger support at this time than at any time in the last 14 years. It makes no sense at all to tamper with revenue sources for education that are increasingly viable. The Advisory Commission on Intergovernmental Relations study, "Changing Attitudes on Government and Taxes," shows that 35 percent of the population believes the federal income tax is the least fair, while only 26 percent object to the local property tax and 11 percent to state taxes. This represents a major change over the past decade. In 1972, only 19 percent thought that the federal income tax was the least fair, and 45 percent felt that way about the local property tax. The opinion trends are shown year by year in Table VII.

The strong base for education funding at the state and local level should not be undermined by the federal government, which is the only partner in education not carrying its share of the load.

## Federal Role Diminished and Federal Support Cut

Despite intervention by Congress, the repeated cuts by the Administration have greatly diminished funding for schools. While states have been doing their part, the federal share of elementary and secondary education funding has fallen from nine percent in 1980 to 6.2 percent. Federal appropriations have been undercut by inflation losses and outright budget cuts, which severely limit the outreach capability of critical school programs for the disadvantaged, education of the handicapped, vocational education, and college student assistance. Fewer students are being served than in 1981. For example:

* More than half a million students have been dropped from eligibility and now are ineligible for Pell Grants or other programs;

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* Only 45 percent of the 11 million disadvantaged children who need services under Chapter 1 receive them; in 1981 it was 55 percent.

The current appropriation for federal programs for elementary, secondary, and postsecondary education is $17.9 billion, but more than $21 billion would be needed to provide services comparable to those offered in 1980. The actual losses to inflation since 1980 for major programs are shown in Table V in the appendix.

Deductibility of state and local taxes is an indirect but extremely powerful federal subsidy to state and local governments. It is a tax-efficient approach to school funding. Public education is placed in double jeopardy -- federal funding is cut while the revenue base is undermined through the loss of indirect contributions as well as public support.

## Impact of the Administration Proposal on Public Education

What would happen to school financing if Congress were to deal another blow by repealing the deductibility of state and local taxes? All of the studies we have seen predict a substantial reduction in state and local spending, with education a prime target. A June, 1985, study by Merrill Lynch, Pierce, Fenner & Smith, Inc., Municipal Bonds--Perspective, warns that local political pressures to reduce income tax and property tax rates could result in severe budgetary crises. The fact that the proposal would take immediate effect in the taxable year beginning January 1, 1986, increases the likelihood that such crises will occur immediately for issuers of general obligation bonds. The study also points out that with federal revenue sharing for local governments being eliminated at the same time, many states will be under pressure to increase aid payments to their local governments. The vulnerability to fiscal crises would not be limited to "high tax" states; some states with relatively low tax burdens are heavily dependent on income taxes for general budgetary purposes. The same local political and electoral processes that have kept their tax rates low may abruptly force them even lower if taxpayers cannot deduct local taxes paid. Given the tax revolt sentiments exemplified by California's Proposition 13 and Massachusetts' Proposition 2½, the deductibility issue could become a catalyst for new tax reduction political movements in the states.

Estimates vary on the effect of deductibility on education expenditures by state and local governments. In a 1984 study, "Strengthening the Federal Revenue System: Implications for State and Local Taxing and Borrowing," the Advisory Commission on Intergovernmental Relations said state and local spending across the United States could be expected to fall by at least seven percent. ACIR went on to say that this was a conservative estimate. The Congressional Research Service has estimated a reduction of 15 percent. And other authorities have estimated the reduction to be considerably more. Senator Moynihan, for example, has calculated an average nationwide loss of over $605 per pupil. On a per state basis, these losses would range from $231 in Mississippi to $1,069 in Wyoming.

Using the more conservative estimates of the loss (ranging from seven to 15 percent), we estimate:

*Schools would lose between $4.8 billion, or $122 per child, and $10.1 billion, or $258 per child enrolled.

*It would have the same effect on education funding as repealing virtually all federally supported elementary and secondary education programs!

Deductibility and Tax Fairness

Frequently education has been characterized as a national interest, a state responsibility, and a local commitment. In recent years we have seen more and more programs returned to the state and local level and it would seem that there is a concomitant responsibility not to destroy the funding base which is necessary to meet that reality.

Since 1913, taxes paid by individuals to state and local governments have been deductible from gross income. This provision, the most broadly used deductions in the tax code, has remained in the statute primarily because it helps to relate taxable income to the individual's ability to pay. In this sense it is a key element in a tax system based on the time-honored principle of progressivity. It is this principle of progressivity -- and basic fairness -- that generates a degree of public acceptance and cooperation that is almost unheard of in other major industrialized nations.

The Advisory Commission says the average taxpayer saved $410 in federal taxation in 1980 as a result of the deductibility of state and local taxes. State and local governments find revenue raising easier because there is greater acceptance due to the lessening of the federal tax burden. The state-by-state savings to taxpayers from the deductibility provision are shown in Table VI.

In sum, the deductibility of state and local taxes is clearly an incentive to states and local school districts to devote more of their tax resources to the improvement of the public schools. It would be a grave disservice to our nation's youth to write into the tax law any provision that dampens the widespread support of significant educational reform and improvement.

## CONCLUSION

Mr. Chairman, the National Education Association supports tax reform and believes that the tax code should be progressive and support the independence of the family. It should strike a fair balance between individual and family taxpayers as well as corporate taxpayers. For acceptability to the public, the tax code should be based upon a fair and progressive distribution scheme which does not unduly burden the poor or the middle class. Finally, the tax code should be simple for taxpayers and cost-effective to administer.

However, the Administration's proposal to repeal the deductibility of state and local taxes would deal an unconscionable blow to education. While we are trying to improve the schools, states and localities would find their funding base seriously undermined by the federal government. The result will be to jeopardize the condition of education, the well-being of our communities, and the economic future of our nation.

Thank you.

## APPENDIX

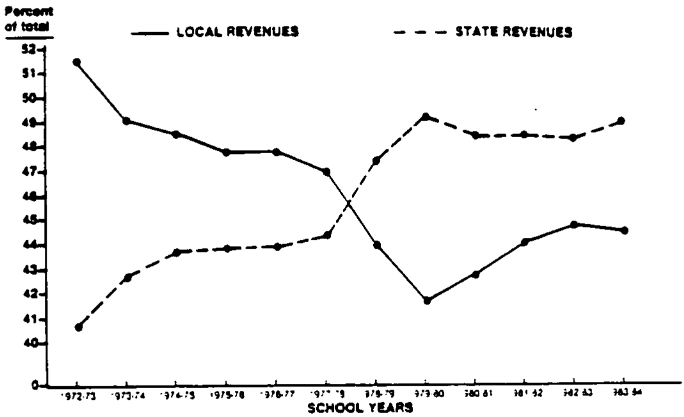
### Table I. Funding Patterns for Public Schools

| REGION AND STATE | REVENUE RECEIPTS BY SOURCE (IN THOUSANDS) FEDERAL | STATE | LOCAL AND OTHER | TOTAL | PERCENT OF REVENUE RECEIPTS BY SOURCE FEDERAL | STATE | LOCAL AND OTHER | NONREVENUE RECEIPTS (IN THOUSANDS) | TOTAL RECEIPTS (COLS 5 AND 9) (IN THOUSANDS) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 50 STATES AND D.C. | $8,585,605 | $67,388,982 | $61,598,030 | $137,572,617 | 6.2 | 49.0 | 44.8 | $3,992,297 | $141,564,914 |
| NEW ENGLAND ....... | 401,064 | 2,966,617 | 4,153,083 | 7,520,764 | 5.3 | 39.4 | 55.2 | 29,064 | 7,549,828 |
| CONNECTICUT ..... | 105,720 | 851,178 | 1,173,215 | 2,130,113 | 5.0 | 40.0 | 55.1 | 400 | 2,130,513 |
| MAINE .......... | 47,525 | 318,583 | 258,532 | 624,740 | 7.6 | 51.0 | 41.4 | 15,000 | 639,740 |
| MASSACHUSETTS ... | 190,510 | 1,459,831 | 1,782,894 | 3,433,235 | 5.5 | 42.5 | 51.9 | 6,000 | 3,439,235 |
| NEW HAMPSHIRE ... | 15,647 | 39,567 | 437,986 | 493,200 | 3.2 | 8.0 | 88.8 | 1,364 | 494,564 |
| RHODE ISLAND .... | 20,741 | 184,196 | 295,356 | 500,293 | 4.1 | 36.8 | 59.0 | 0 | 500,293 |
| VERMONT ......... | 20,921 | 113,262 | 205,000 | 339,183 | 6.2 | 33.4 | 60.4 | 6,300 | 345,483 |
| MIDEAST............ | 1,144,409 | 12,175,271 | 15,291,950 | 28,611,630 | 4.0 | 42.6 | 53.4 | 1,236,426 | 29,848,056 |
| DELAWARE ........ | 30,800 | 272,660 | 89,200 | 392,660 | 7.8 | 69.4 | 22.7 | 10,600 | 403,260 |
| DIST. OF COLUMBIA | 43,529 | ... | 340,652 | 384,181 | 11.3 | ... | 88.7 | ... | 384,181 |
| MARYLAND ........ | 152,223 | 1,084,361 | 1,446,420 | 2,683,004 | 5.7 | 40.4 | 53.9 | 3,561 | 2,686,565 |
| NEW JERSEY ...... | 194,600 | 2,288,900 | 3,238,900 | 5,722,400 | 3.4 | 40.0 | 56.6 | 87,100 | 5,809,500 |
| NEW YORK ........ | 501,417 | 5,422,000 | 6,659,908 | 12,583,325 | 4.0 | 43.1 | 52.9 | 566,675 | 13,150,000 |
| PENNSYLVANIA .... | 221,840 | 3,107,350 | 3,516,870 | 6,846,060 | 3.2 | 45.4 | 51.4 | 568,490 | 7,414,550 |
| SOUTHEAST ......... | 2,489,784 | 15,175,380 | 9,354,247 | 27,019,411 | 9.2 | 56.2 | 34.6 | 743,159 | 27,762,570 |
| ALABAMA ......... | 195,000 | 1,182,119 | 255,000 | 1,632,119 | 11.9 | 72.4 | 15.6 | 80,000 | 1,712,119 |
| ARKANSAS ........ | 117,533 | 634,853 | 320,000 | 1,072,386 | 11.0 | 59.2 | 29.8 | 7,808 | 1,080,194 |
| FLORIDA ......... | 412,572 | 3,061,069 | 2,251,450 | 5,725,091 | 7.2 | 53.5 | 39.3 | 78,000 | 5,803,091 |
| GEORGIA ......... | 269,265 | 1,430,151 | 1,144,580 | 2,843,996 | 9.5 | 50.3 | 40.2 | 51,869 | 2,895,865 |
| KENTUCKY ........ | 171,000 | 1,160,500 | 359,000 | 1,690,500 | 10.1 | 68.6 | 21.2 | 75,000 | 1,765,500 |
| LOUISIANA ....... | 226,300 | 1,254,100 | 866,800 | 2,347,200 | 9.6 | 53.4 | 36.9 | 78,000 | 2,425,200 |
| MISSISSIPPI ..... | 182,015 | 578,926 | 260,126 | 1,021,067 | 17.8 | 56.7 | 25.5 | 27,682 | 1,048,749 |
| NORTH CAROLINA .. | 288,100 | 1,713,600 | 786,200 | 2,787,900 | 10.3 | 61.5 | 28.2 | 10,500 | 2,798,400 |
| SOUTH CAROLINA .. | 120,633 | 1,095,365 | 527,740 | 1,743,738 | 6.9 | 62.8 | 30.3 | 120,000 | 1,863,738 |
| TENNESSEE ....... | 193,310 | 976,177 | 788,700 | 1,958,187 | 9.9 | 49.9 | 40.3 | 132,500 | 2,090,687 |
| VIRGINIA ........ | 210,542 | 1,364,763 | 1,484,673 | 3,059,978 | 6.9 | 44.6 | 48.5 | 80,000 | 3,139,978 |
| WEST VIRGINIA ... | 103,514 | 723,557 | 310,178 | 1,137,249 | 9.1 | 63.6 | 27.3 | 1,800 | 1,139,049 |
| GREAT LAKES ....... | 1,231,771 | 9,736,556 | 13,372,164 | 24,340,491 | 5.1 | 40.0 | 54.9 | 712,915 | 25,053,406 |
| ILLINOIS ........ | 441,192 | 2,488,443 | 3,584,668 | 5,514,303 | 6.7 | 37.6 | 55.7 | 156,731 | 5,771,034 |
| INDIANA ......... | 120,000 | 1,524,000 | 1,211,000 | 2,855,000 | 4.2 | 53.4 | 42.4 | 73,500 | 2,928,500 |
| MICHIGAN ........ | 254,048 | 2,034,386 | 3,721,310 | 6,009,744 | 4.2 | 33.9 | 61.9 | 57,000 | 6,066,744 |
| OHIO ............ | 310,000 | 2,600,000 | 3,190,000 | 6,100,000 | 5.1 | 42.6 | 52.3 | 400,000 | 6,500,000 |
| WISCONSIN ....... | 106,531 | 1,089,727 | 1,565,186 | 2,761,444 | 3.9 | 39.5 | 56.7 | 25,684 | 2,787,128 |
| PLAINS ............ | 520,137 | 4,147,526 | 5,005,624 | 9,673,287 | 5.4 | 42.9 | 51.7 | 171,313 | 9,844,600 |
| IOWA ............ | 92,069 | 708,265 | 886,982 | 1,687,316 | 5.5 | 42.0 | 52.6 | 35,775 | 1,723,091 |
| KANSAS .......... | 68,900 | 681,319 | 761,478 | 1,511,697 | 4.6 | 45.1 | 50.4 | 24,546 | 1,536,243 |
| MINNESOTA ....... | 106,000 | 1,347,100 | 1,140,220 | 2,593,320 | 4.1 | 51.9 | 44.0 | 43,000 | 2,636,320 |
| MISSOURI ........ | 144,668 | 871,342 | 1,323,444 | 2,339,454 | 6.2 | 37.2 | 56.6 | 45,192 | 2,384,646 |
| NEBRASKA ........ | 45,000 | 232,000 | 548,000 | 825,000 | 5.5 | 28.1 | 66.4 | 15,000 | 840,000 |
| NORTH DAKOTA .... | 25,000 | 209,500 | 117,500 | 352,000 | 7.1 | 59.5 | 33.4 | 7,000 | 359,000 |
| SOUTH DAKOTA .... | 38,500 | 98,000 | 228,000 | 364,500 | 10.6 | 26.9 | 62.6 | 800 | 365,300 |
| SOUTHWEST ......... | 1,217,222 | 7,435,031 | 6,118,698 | 14,770,951 | 8.2 | 50.3 | 41.4 | 777,423 | 15,548,374 |
| ARIZONA ......... | 160,000 | 801,000 | 568,000 | 1,529,000 | 10.5 | 52.4 | 37.1 | 0 | 1,529,000 |
| NEW MEXICO ...... | 98,637 | 691,250 | 103,288 | 893,175 | 11.0 | 77.4 | 11.6 | 17,380 | 910,555 |
| OKLAHOMA ........ | 146,000 | 1,220,000 | 620,000 | 1,986,000 | 7.4 | 61.4 | 31.2 | 110,000 | 2,096,000 |
| TEXAS ........... | 812,585 | 4,722,781 | 4,827,410 | 10,362,776 | 7.8 | 45.5 | 46.6 | 650,043 | 11,012,819 |
| ROCKY MOUNTAINS ... | 249,900 | 2,136,886 | 2,368,379 | 4,751,165 | 5.2 | 45.0 | 49.8 | 176,906 | 4,928,071 |
| COLORADO ........ | 80,000 | 819,594 | 1,139,262 | 2,038,856 | 3.9 | 40.2 | 55.9 | 45,000 | 2,083,856 |
| IDAHO ........... | 34,000 | 325,000 | 143,000 | 502,000 | 6.8 | 64.7 | 28.5 | 10,000 | 512,000 |
| MONTANA ......... | 55,500 | 276,973 | 283,217 | 615,690 | 9.0 | 45.0 | 46.0 | 19,710 | 635,400 |
| UTAH ............ | 54,400 | 545,319 | 402,900 | 1,002,619 | 5.4 | 54.4 | 40.2 | 52,196 | 1,054,815 |
| WYOMING ......... | 22,000 | 170,000 | 400,000 | 592,000 | 3.7 | 28.7 | 67.6 | 50,000 | 642,000 |
| FAR WEST .......... | 1,335,318 | 13,615,715 | 5,933,885 | 20,884,918 | 6.4 | 65.2 | 28.4 | 145,091 | 21,030,009 |
| ALASKA........... | 20,149 | 501,748 | 161,518 | 683,415 | 2.9 | 73.4 | 23.6 | 23,527 | 706,942 |
| CALIFORNIA ...... | 1,011,350 | 9,937,825 | 3,866,000 | 14,815,175 | 6.8 | 67.1 | 26.1 | 70,000 | 14,885,175 |
| HAWAII........... | 51,600 | 527,000 | 1,500 | 580,100 | 8.9 | 90.8 | .3 | 0 | 580,100 |
| NEVADA .......... | 18,400 | 182,000 | 260,000 | 460,400 | 4.0 | 39.5 | 56.5 | 8,400 | 468,800 |
| OREGON .......... | 84,337 | 499,180 | 1,136,483 | 1,720,000 | 4.9 | 29.0 | 66.1 | 3,000 | 1,723,000 |
| WASHINGTON ...... | 149,482 | 1,967,962 | 508,384 | 2,625,828 | 5.7 | 74.9 | 19.4 | 40,164 | 2,665,992 |

Souce: <u>Estimates of School Statistics, 1984-85</u>
NEA Research

Table II. State and Local School Revenues, 1972-1984

**State and Local Revenue Receipts for Public Schools 1972-73 to 1983-84**




Source: Property Taxation
NEA Research, 1985

Table III. State Education Expenditures as a Percent of All Expenditures

4-3. STATE AND LOCAL GOVERNMENT EXPENDITURES FOR ALL EDUCATION AS PERCENT OF TOTAL GENERAL EXPENDITURES FOR ALL FUNCTIONS, 1981-82

| | | |
|---|---|---|
| 1. | UTAH | 47.49 |
| 2. | INDIANA | 44.12 |
| 3. | SOUTH CAROLINA | 44.10 |
| 4. | NORTH CAROLINA | 43.28 |
| 5. | OKLAHOMA | 42.11 |
| 6. | ARIZONA | 41.99 |
| 7. | TEXAS | 41.56 |
| 8. | COLORADO | 41.37 |
| 9. | NEW MEXICO | 40.86 |
| 10. | NEBRASKA | 40.58 |
| 11. | ARKANSAS | 40.32 |
| 12. | MONTANA | 40.31 |
| 13. | IOWA | 40.16 |
| 14. | ALABAMA | 39.96 |
| 15. | IDAHO | 39.67 |
| 16. | WISCONSIN | 39.08 |
| 17. | VERMONT | 39.00 |
| 18. | WASHINGTON | 38.94 |
| 19. | VIRGINIA | 38.80 |
| 20. | KANSAS | 38.70 |
| 21. | NORTH DAKOTA | 38.54 |
| 22. | WYOMING | 38.48 |
| 23. | MISSOURI | 37.54 |
| 24. | MICHIGAN | 37.50 |
| 25. | OREGON | 37.40 |
| 26. | WEST VIRGINIA | 36.96 |
| 27. | OHIO | 36.45 |
| 28. | DELAWARE | 36.29 |
| 29. | MISSISSIPPI | 36.11 |
| 30. | SOUTH DAKOTA | 35.81 |
| | UNITED STATES | 35.65 |
| 31. | KENTUCKY | 35.53 |
| 32. | MARYLAND | 35.44 |
| 33. | NEW HAMPSHIRE | 35.18 |
| 34. | NEW JERSEY | 35.04 |
| 35. | MAINE | 34.76 |
| 36. | TENNESSEE | 34.71 |
| 37. | ILLINOIS | 34.64 |
| | FLORIDA | 34.56 |
| 39. | LOUISIANA | 34.23 |
| 40. | MINNESOTA | 34.18 |
| 41. | CONNECTICUT | 34.15 |
| 42. | PENNSYLVANIA | 33.73 |
| 43. | CALIFORNIA | 33.72 |
| 44. | RHODE ISLAND | 32.93 |
| 45. | GEORGIA | 32.74 |
| 46. | NEVADA | 30.70 |
| 47. | MASSACHUSETTS | 29.75 |
| 48. | NEW YORK | 28.78 |
| 49. | HAWAII | 28.59 |
| 50. | ALASKA | 25.24 |
| 51. | DIST. OF COL. | 18.13 |

Computed from Bureau of the Census, *Governmental Finances in 1981-82*, pp. 15-31.

Source: Rankings of the States, 1984
NEA Research

# Table IV. State Tax Effort, Per Pupil Expenditures

F-4. STATE AND LOCAL REVENUE RECEIPTS FOR PUBLIC SCHOOLS IN 1981-82 AS PERCENT OF PERSONAL INCOME IN 1982

| | | |
|---|---|---|
| 1. | ALASKA | [illegible]57 |
| 2. | WYOMING | 6.88 |
| 3. | MONTANA | 5.96 |
| 4. | UTAH | 5.48 |
| 5. | NEW MEXICO | 5.46 |
| 6. | MICHIGAN | 5.10 |
| 7. | OREGON | 5.09 |
| 8. | VERMONT | 5.00 |
| 9. | WEST VIRGINIA | 4.96 |
| 10. | MINNESOTA | 4.79 |
| 11. | NEW YORK | 4.62 |
| 12. | IOWA | 4.60 |
| 13. | MAINE | 4.57 |
| 14. | INDIANA | 4.55 |
| 15. | NEW JERSEY | 4.52 |
| 16. | IDAHO | 4.51 |
| | WISCONSIN | 4.51 |
| 18. | SOUTH DAKOTA | 4.33 |
| 19. | PENNSYLVANIA | 4.32 |
| 20. | KANSAS | 4.29 |
| 21. | ARIZONA | 4.28 |
| 22. | OKLAHOMA | 4.27 |
| 23. | DELAWARE | 4.23 |
| 24. | MASSACHUSETTS | 4.19 |
| 25. | WASHINGTON | 4.18 |
| 26. | NORTH DAKOTA | 4.17 |
| 27. | COLORADO | 4.14 |
| 28. | TEXAS | 4.12 |
| 29. | MARYLAND | 4.11 |
| | UNITED STATES | 4.10 |
| 30. | RHODE ISLAND | 4.09 |
| 31. | LOUISIANA | 4.04 |
| 32. | SOUTH CAROLINA | 4.02 |
| 33. | NEW HAMPSHIRE | 3.97 |
| 34. | GEORGIA | 3.95 |
| 35. | ARKANSAS | 3.84 |
| | NORTH CAROLINA | 3.84 |
| 37. | OHIO | 3.83 |
| 38. | ILLINOIS | 3.82 |
| 39. | NEBRASKA | 3.78 |
| 40. | HAWAII | 3.72 |
| 41. | VIRGINIA | 3.69 |
| 42. | NEVADA | 3.68 |
| | CONNECTICUT | 3.68 |
| 44. | KENTUCKY | 3.65 |
| 45. | MISSOURI | 3.60 |
| 46. | MISSISSIPPI | 3.56 |
| 47. | TENNESSEE | 3.48 |
| | CALIFORNIA | 3.48 |
| 49. | FLORIDA | 3.36 |
| 50. | ALABAMA | 2.79 |
| | DIST. OF COL. | NA |

Computed from Bureau of Economic Analysis, *Survey of Current Business*, August 1983, p. 50; and NEA Research, *Estimates* data bank.

4-9. ESTIMATED CURRENT EXPENDITURES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS PER PUPIL IN AVERAGE DAILY ATTENDANCE, 1982-83 (REVISED)

| | | |
|---|---|---|
| 1. | ALASKA | $6,383 |
| 2. | NEW YORK | 4,434 |
| 3. | NEW JERSEY | 4,428 |
| 4. | DIST. OF COL. | 4,083 |
| 5. | WYOMING | 4,043 |
| 6. | CONNECTICUT | 3,666 |
| 7. | OREGON | 3,604 |
| 8. | DELAWARE | 3,524 |
| 9. | MARYLAND | 3,488 |
| 10. | MONTANA | 3,442 |
| 11. | MASSACHUSETTS | 3,406 |
| 12. | RHODE ISLAND | 3,389 |
| 13. | PENNSYLVANIA | 3,385 |
| 14. | WISCONSIN | 3,380 |
| 15. | HAWAII | 3,347 |
| 16. | MICHIGAN | 3,178 |
| 17. | MINNESOTA | 3,136 |
| 18. | VERMONT | 3,102 |
| 19. | KANSAS | 3,093 |
| 20. | IOWA | 3,055 |
| 21. | ILLINOIS | 3,018 |
| 22. | COLORADO | 2,961 |
| | UNITED STATES | 2,960 |
| 23. | FLORIDA | 2,923 |
| 24. | OKLAHOMA | 2,902 |
| 25. | WASHINGTON | 2,878 |
| 26. | NEW MEXICO | 2,841 |
| 27. | NORTH DAKOTA | 2,836 |
| 28. | TEXAS | 2,820 |
| 29. | LOUISIANA | 2,780 |
| 30. | VIRGINIA | 2,737 |
| 31. | CALIFORNIA | 2,735 |
| 32. | NEBRASKA | 2,708 |
| 33. | NEVADA | 2,698 |
| 34. | OHIO | 2,696 |
| 35. | MAINE | 2,624 |
| 36. | NEW HAMPSHIRE | 2,561 |
| 37. | INDIANA | 2,532 |
| 38. | ARIZONA | 2,512 |
| 39. | SOUTH DAKOTA | 2,472 |
| 40. | WEST VIRGINIA | 2,465 |
| 41. | MISSOURI | 2,396 |
| 42. | KENTUCKY | 2,368 |
| 43. | NORTH CAROLINA | 2,265 |
| 44. | GEORGIA | 2,155 |
| 45. | IDAHO | 2,106 |
| 46. | UTAH | 2,080 |
| | SOUTH CAROLINA | 2,080 |
| 48. | TENNESSEE | 2,061 |
| 49. | ALABAMA | 2,019 |
| 50. | ARKANSAS | 1,998 |
| 51. | MISSISSIPPI | 1,595 |

Computed from NEA Research, *Estimates* data bank.

Source: Rankings of the States, 1984
NEA Research

Table V. Diminution of Federal Support of Education, 1980-1985

Reagan Budget FY86 vs. Inflation Adjustment

National Table
Appropriations, Thousands of Dollars

| Program | Appropriations FY80 (School Year '80-'81) | FY86 Adjusted For Inflation (School Year '86-'87) Since 1980 | Reagan Budget FY86 (School Year '86-'87) | Difference Reagan Budget vs. Inflati Adjustment |
|---|---|---|---|---|
| Education Department | 14399100 | 21870264 | 15512708 | -6357 |
| SELECTED FEDERAL EDUCATION PROGRAMS: | | | | |
| ECIA Chapter I (ESEA Title I Basic Grants) | 3221099 | 4892409 | 3646615 | -1245 |
| State Block Grant (ECIA Chapter II) | 803501 | 1220411 | 531909 | -688 |
| Impact Aid (not forward funded) | 825000 | 1253603 | 543000 | -710 |
| Education for the Handicapped | 1049025 | 1593326 | 1306100 | -287 |
| Vocational Education | 801841 | 1214171 | 738462 | -475 |
| Adult Education | 100000 | 151886 | 100000 | -51 |
| Bilingual Education | 171763 | 260885 | 142951 | -117 |
| New Math and Science Bill | 0 | 0 | 100000 | 100 |
| Pell Grants | 2528000 | 3839686 | 2880000 | -359 |
| Supplemental Educational Opportunity Grants | 370000 | 561979 | 0 | -561 |
| College Work Study | 550000 | 835375 | 850000 | 14 |

NOTE: Figures for FY86 Adjusted for Inflation represent amounts required to maintain FY 1980 funding levels after accoun for inflation. Inflation (CPIU) is measured for the period of a Federal Fiscal Year (October 1 through September Inflation estimates for 1985 are derived from projections by Data Resources, Inc.

Source: Fiscal Planning Services, Inc.
Washington, DC

Table VI.

## FEDERAL TAX SAVINGS FROM DEDUCTIBILITY PROVISION, PER TAXPAYER,[a] BY STATE, 1980

| | (1) Deductibility of All State and Local Taxes | (2) Deductibility of Sales Taxes Only |
|---|---|---|
| Alabama | $273.64 | $ 74 41 |
| Alaska | 328.92 | 42.24 |
| Arizona | 322.68 | 75.65 |
| Arkansas | 312.36 | 45.45 |
| California | 591 37 | 89.45 |
| Colorado | 400.23 | 69.35 |
| Connecticut | 528.39 | 96.70 |
| Delaware | 614.45 | 7 68 |
| Washington, DC | 916.74 | 75.47 |
| Florida | 228.91 | 58.76 |
| Georgia | 392.94 | 60.20 |
| Hawaii | 564.14 | 83.88 |
| Idaho | 345.96 | 40.59 |
| Illinois | 432.31 | 88.44 |
| Indiana | 271.83 | 58.89 |
| Iowa | 413.47 | 43.03 |
| Kansas | 378.73 | 54.00 |
| Kentucky | 371.21 | 57 94 |
| Louisiana | 192.01 | 82.36 |
| Maine | 439.04 | 56.22 |
| Maryland | 640.19 | 67 89 |
| Massachusetts | 656.90 | 47.62 |
| Michigan | 553.47 | 59.02 |
| Minnesota | 584 38 | 45.21 |
| Mississippi | 277 23 | 76.56 |
| Missouri | 342.54 | 66.21 |
| Montana | 315.96 | 3.26 |
| Nebraska | 445.44 | 60.42 |
| Nevada | 192.89 | 49.02 |
| New Hampshire | 348.78 | 7 49 |
| New Jersey | 569 05 | 66.05 |
| New Mexico | 295.62 | 73.80 |
| New York | 892.12 | 105.01 |
| North Carolina | 417 11 | 50.93 |
| North Dakota | 251 24 | 37 71 |
| Ohio | 346.53 | 51.70 |
| Oklahoma | 335.65 | 57 37 |
| Oregon | 461.75 | 2.16 |
| Pennsylvania | 445.33 | 58.74 |
| Rhode Island | 547 65 | 60.89 |
| South Carolina | 341 30 | 54 48 |
| South Dakota | 230.15 | 72.00 |
| Tennessee | 203.03 | 89.16 |
| Texas | 232.78 | 75.57 |
| Utah | 329.37 | 62.41 |
| Vermont | 521 44 | 33.16 |
| Virginia | 477 91 | 58.60 |
| Washington | 234 82 | 85.68 |
| West Virginia | 344 22 | 50.32 |
| Wisconsin | 573.05 | 49 95 |
| Wyoming | 161.71 | 73.46 |
| U.S. Average[b] | $410 21 | $ 59 07 |

[a] Number of taxpayers was calculated by adding number of single returns itemizing state-local taxes to twice the number of joint returns itemizing state-local taxes. In 1980, 31% of all returns itemized state-local taxes. 96% of the returns itemizing some state-local tax itemized sales tax deductions. (Internal Revenue Service, *Statistics of Income—1980, Individual Income Tax Returns*, Washington, DC. U.S. Government Printing Office, 1982, Publication 79 (9–82), pp. 36, 56.)

[b] U.S. total excludes Puerto Rico and citizens abroad.

SOURCE: ACIR staff computations using unpublished 1980 IRS Individual Income Tax Model file.

Source: Strengthening the Federal Revenue System

Advisory Commission on Intergovernmental Relations, 1984

Table VII. Public Opinion on Taxation

**Which Do You Think is the Worst Tax—That is, the Least Fair?**

| | May 1983 | May 1982 | Sept. 1981 | May 1980 | May 1979 | May 1978 | May 1977 | May 1975 | April 1974 | May 1973 | March 1972 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Federal Income Tax** | 35 | 36 | 36 | 36 | 37 | 30 | 28 | 28 | 30 | 30 | 19 |
| **State Income Tax** | 11 | 11 | 9 | 10 | 8 | 11 | 11 | 11 | 10 | 10 | 13 |
| **State Sales Tax** | 13 | 14 | 14 | 19 | 15 | 18 | 17 | 23 | 20 | 20 | 13 |
| **Local Property Tax** | 26 | 30 | 33 | 25 | 27 | 32 | 33 | 29 | 28 | 31 | 45 |
| **Don't Know** | 15 | 9 | 9 | 10 | 13 | 10 | 11 | 10 | 14 | 11 | 11 |

SOURCE: *U.S. Advisory Commission on Intergovernmental Relations. 1983 Changing Attitudes on Governments and Taxes.* Washington, DC 20575.

Table VIII

Average Salaries of Instructional Staff, 1984-85
Showing Percent Increases over 1983-84
and Purchasing Power in 1967 Dollars

| | State | Average Salary of Instructional Staff | Percent of Increase Over 1983-84 | Purchasing Power in 1967 Dollars |
|---|---|---|---|---|
| 1. | Alabama | 20,834 | 14.3 | 6,282 |
| 2. | Alaska | 41,000 | 5.1 | 12,357 |
| 3. | Arizona | 25,838 | 8.0 | 7,268 |
| 4. | Arkansas | 19,575 | 11.8 | 5,885 |
| 5. | California | 27,580 | 5.9 | 8,175 |
| 6. | Colorado | 25,382 | 5.1 | 7,602 |
| 7. | Connecticut | 25,650 | 8.4 | 7,622 |
| 8. | Delaware | 24,134 | 11.3 | 7,243 |
| 9. | District | 29,770 | 3.5 | 8,897 |
| 10 | Florida | 22,480 | 8.0 | 6,546 |
| 11. | Georgia | 21,407 | 10.0 | 6,371 |
| 12. | Hawaii | 25,295 | 1.1 | 7,656 |
| 13. | Idaho | 20,420 | 9.5 | 6,124 |
| 14. | Illinois | 26,703 | 6.8 | 8,029 |
| 15. | Indiana | 23,882 | 7.2 | 7,177 |
| 16. | Iowa | 21,686 | 3.9 | 6,507 |
| 17. | Kansas | 22,564 | 9.5 | 6,592 |
| 18. | Kentucky | 21,300 | 2.2 | 6,248 |
| 19. | Louisiana | 20,110 | 7.0 | 6,121 |
| 20. | Maine | 18,935 | 5.8 | 5,698 |
| 21. | Maryland | 26,782 | 7.3 | 8,039 |
| 22. | Massachusetts | 28,000 | 5.0 | 7,495 |
| 23. | Michigan | 29,610 | 5.0 | 8,828 |
| 24. | Minnesota | 26,500 | 6.4 | 8,057 |
| 25. | Mississippi | 16,519 | 1.0 | 4,965 |
| 26. | Missouri | 21,362 | 5.9 | 6,357 |
| 27. | Montana | 22,440 | 4.9 | 6,747 |
| 28. | Nebraska | 21,529 | 7.3 | 6,265 |
| 29. | Nevada | 23,550 | .7 | 7,000 |
| 30. | New Hampshire | 19,276 | 6.9 | 5,775 |
| 31. | New Jersey | 26,310 | 8.0 | 7,810 |
| 32. | New Mexico | 23,240 | 7.3 | 6,859 |
| 33. | New York | 29,700 | 6.2 | 9,015 |
| 34. | North Carolina | 21,357 | 13.0 | 6,432 |
| 35. | North Dakota | 20,480 | 3.3 | 6,186 |
| 36. | Ohio | 23,682 | 6.8 | 7,068 |
| 37. | Oklahoma | 19,520 | 1.9 | 5,884 |
| 38. | Oregon | 25,974 | 7.5 | 7,737 |
| 39. | Pennsylvania | 25,113 | 7.6 | 7,596 |
| 40. | Rhode Island | 25,253 | 8.1 | 8,512 |
| 41. | South Carolina | 20,770 | 13.9 | 6,155 |
| 42. | South Dakota | 18,048 | 5.3 | 5,395 |
| 43. | Tennessee | 20,450 | 12.1 | 6,242 |
| 44. | Texas | 23,500 | 12.0 | 7,025 |
| 45. | Utah | 24,475 | 6.5 | 6,623 |
| 46. | Vermont | 19,640 | 8.0 | 5,910 |
| 47. | Virginia | 22,400 | 9.5 | 6,694 |
| 48. | Washington | 26,727 | 5.1 | 7,961 |
| 49. | West Virginia | 20,451 | 11.9 | 6,081 |
| 50. | Wisconsin | 25,160 | 8.6 | 7,703 |
| 51. | Wyoming | 26,935 | 6.0 | 8,302 |

Source: Estimates of School Statistics, 1984-85
NEA Research

Representative OBEY. Thank you very much. Ms. Weil, would you proceed with your statement?

## STATEMENT OF NELLIE C. WEIL, FIRST VICE PRESIDENT, NATIONAL SCHOOL BOARDS ASSOCIATION, ALEXANDRIA, VA

Ms. WEIL. Thank you, Mr. Chairman. I'm Nellie Weil, first vice president of the National School Boards Association [NSBA] and I am pleased to submit this testimony to the Joint Economic Committee.

The National School Boards Association is the only major educational organization representing school board members who govern the Nation's public school districts. Nationally, about 95,000 of these individuals are association members. They, in turn, are responsible for the education of more than 95 percent of the Nation's public schoolchildren.

And you correctly point out, Mr. Chairman, today is the traditional back-to-school day for America's youth. We in Alabama have been in school for approximately a week now.

Following the administration's own report for "A Nation at Risk," the President and the Department of Education devoted 2 years encouraging the American people to raise education above the so-called tide of mediocrity. We now find it particularly ironic, and disappointing, to be discussing an administration tax plan which would seriously undermine the revenue-raising capacity of State and local government, rather than being invited here to discuss a plan to help us move forward.

As the committee knows, the tax code contains over $400 billion of deductions and credits to stimulate socially recognized purposes, ranging from education, to special tax shelters, to the three-martini lunch. Of all these credits and deductions, State and local deductibility constitutes about 11 percent of the total. Yet, it is singled out to pay for over two-thirds of the cost of the tax reform by its elimination.

Since 40 percent of State and local revenues are committed to education, what kind of a message is the administration really sending in terms of how it wishes the American people to perceive education and to value it, particularly the public schools, as a social purpose?

In our prepared statement, we look at State and local deductibility from the standpoint of history, public policy, and practical implications. First, we have historical experience in which the Founding Fathers debated and created three levels of Government through which local government in particular, because of its closeness to the people, is viewed as the actual provider of most public services.

On a much broader plan, local government is also the method by which our people participate in, learn about, and value representative government.

On this point, Alexis de Tocqueville observed the following—that he believed, and I quote, "provincial institutions were useful to all nations, but nowhere do they appear to me to be more indispensable than amongst the democratic people." He went on to say, "that the only nations which deny the utility of provisional liberties are those which have fewest of them."

In other words, those who are unacquainted with the institutions are the only persons who pass a censure upon it.

Unlike other deductions, State and local deductibility is not really a Federal subsidy. It is, rather a statement of noninterference by the Federal Government in the revenue collection activities of State and local government. As such, this proposal disrupts the historical and functional balance between the three levels of Government. For a taxpayer in the 25-percent Federal bracket, the elimination of deductibility will effectively increase the cost of providing the same State and local services by 25 percent, as will each new dollar of services he is asked to vote upon.

Even if the tax package as a whole does not increase a particular individual's total Federal tax obligation, he will begin to look at State and local services as a more expensive commodity, and one which is not as preferred an expenditure as that which will deliver a Federal tax deduction.

In effect, eliminating deductibility is a tax on local revenue-raising capacity and diminishes that very local government that de Tocqueville found to be so crucial. The scope of the deductions for State and local taxes has been narrowed on only two occasions in the 72-year history of the Tax Code. First, in 1964, Congress eliminated deductions for taxes on tobacco, alcohol, selective sales, auto and driver's license fees, and certain local improvement taxes. And it's instructive to note that the House Ways and Means Committee report found that retention of the deduction for State and local income taxes was necessary to balance the very heavy burden which would be placed on those who were taxed on their income on the Federal, State and local levels.

Second, in 1978, Congress repealed the deduction for State and local gasoline and motor fuel taxes. The House Committee on Ways and Means report directs itself solely at the narrow issue of the repeal of the taxes imposed on motor fuel and gasoline and does not even speak to the broader issues raised by other components of the State and local tax deduction.

It is unfortunate that there is no extant detailed discussion articulating the basis for a discussion for the payment of State and local taxes. However, the absence of such discussion is, of course, beneficial and instructive. It is an unambiguous indicia that Congress has traditionally realized the necessity of Federal tax neutrality in the choice between State and local taxes, as well as the adverse impact double and/or triple income taxation would have on citizen taxpayers.

It's been suggested that repeal of the deduction for payment of State and local taxes is in response to the public demand for tax reform. The publicized public demand for tax reform is based on two complaints—the Tax Code is too complicated and the tax system generated inequities which result in those who are perceived as best able to pay contributing little or nothing in tax payments.

It is ironic that a proposal which advertises itself as a simple tax plan would focus primarily on a repeal of the deduction of State and local taxes as the major means of achieving its purpose.

For two reasons. First, the deductibility of State and local taxes is at once simple and incapable of engendering transactions which are without viability. Second, repeal of the deduction would signal a radical departure from the Federal balance struck between the 16th amendment making Federal taxation of personal income constitutionally permissible and the deduction allowed for State and local taxes, the collection of which, as I noted previously, is a traditional function of State and local government.

Now this is not to say that because something is and has always been that it must always be. However, it behooves Congress to recognize the dramatic impact which repeal of this deduction will have on State and local units of government, particularly school districts, and to be cognizant of the fact that the demise of this deduction will herald a significant shift in the attitude of the Federal Government toward State and local communities and the citizens of this country.

To advance this proposal under the guise of tax simplification is a strange use of the tax system. In truth, a cynic might say that the overall objective is to move Government back to the localities. However, there is an inexplicable irony in that notion. While economic analysts differ in their assessment of the impact the repeal of this deduction will have when offset by lower tax rates, it is increasingly clear that lowering tax rates will not compensate for the overall loss to States and local units of government.

The single most publicized concern of the public in the area of tax reform has been generated by synthetic deductions and credits which are unavailable to the average taxpayer. Nonetheless, manipulation of the Tax Code by utilization of these legally permissible credits and deductions has resulted in a disparity between those who can afford to invest their money to avoid taxation and those who have no option but to pay taxes or go to jail.

Thus, while there is some rationale for the repeal of certain tax credits and deductions, the purpose for singling out the deductions for State and local taxes for repeal is clearly for reasons other than that which the public has been led to believe. The deduction for State and local taxes is unique. Unlike every other deduction or tax credit presently allowed under the Tax Code, this deduction is not the result of free choice. It does not represent a direct, tangible monetary or personal benefit to the individual. And yet, it is the only thing other than Federal taxes which consistently benefits the Nation, the State, and local units of government.

Those who have argued successfully for retention of the charitable contributions have articulated their position on behalf of those who feel that they can afford to be generous. However, doesn't the deduction for State and local taxes represent a contribution from each wage-earner in this country for services which inure to the benefit of the Nation, and which, absent the deduction, many could ill-afford to pay?

Only 28 percent of the adults in this country have children attending public schools. Each of this Nation's 16,000 school districts rely on State taxes and local property tax for operation. The committee must not be remiss in noting that payment of State and local taxes for the benefit of public education is nothing more than a charitable contribution with no benefit of a corresponding deduction for the 72 percent of the adult taxpayers who have no children in the public schools.

In my own State of Alabama, 48½ percent of the State's taxpayers itemize their deductions. Those individual taxpayers are responsible for the payment of over 77 percent of the total taxes paid by Alabamians. The average itemized return in Alabama deducts $442 for State and local taxes. To ask an Alabama taxpayer to donate even 10 percent more of that amount for public education would increase his net loss to approximately $500.

NSBA submits to you that a taxpayer with no children may find it more attractive to oppose such a tax increase and donate where he will realize at the least a deduction for his investment.

NSBA is in the process of conducting a survey of our members in order to ascertain the impact which the tax proposal will have on school districts across the United States. The survey will not be completed until September 15, but we believe that the committee would be interested in preliminary data collected from States represented by this committee.

The to-date factual information relating to this committee was gathered from responses to the tax survey by NSBA members who are representative of the more than 3,200 school districts, and combined student enrollment of over 2.1 million children, located in communities with a total general population of over 20 million U.S. citizens, in which the congressional and Senate districts represented by this committee cover.

These school districts, on an average, receive 45 percent of their funding from local property taxes, 50 percent from State revenue, and 5 percent from Federal sources. Over 50 percent of the NSBA members responding to the survey residing in States with members on this committee found that repeal of this deduction would have a severe negative impact on the voter response to support public education through an increase in taxes. A mere 5 percent of the respondents believe that repeal of this deduction would have no impact on voter response.

We submit to you that the administration is incorrect when it alleges that there will be no impact on local government, particularly school districts, should Congress repeal this deduction for State and local taxes. Ninety-five percent of the school board members responding to the NSBA survey in your State have found that adoption of this proposal will negatively impact education funding at the polls.

We have been asked today to testify on the proposed elimination of State and local taxes. But I would like to point out that equally pernicious proposals have been made with regard to the treatment of tax-exempt local school bonds. Specifically, under the proposed 1-percent limitation on the use of facilities by private interests, we are concerned that civic and church organizations will be shut out of school facilities. With only 28 percent of the households having children in school, we need these groups to maintain support for school funding.

Further, their involvement is a good use of school facilities.

We have just in the past 2 or 3 days had a hurricane in my area of the country. Our school facilities were open to those who left their homes. We wonder if this will come under the 1-percent limitation.

Likewise, our tax-exempt status is challenged by limitations placed on service contracts given to private companies to operate school cafeterias. Where we choose to use private service providers, it's because it's the most efficient use of taxpayer funds, rather than provide the services with our own personnel.

Additionally, the proposal virtually eliminates arbitrage income. Therefore, school districts will have to donate to the U.S. Treasury all income earned on the investment of bond proceeds. This would end an important hedge on inflation and will cause school systems to assume 100 percent of the risk of their cash management activities, yielding the Federal Government 100 percent confiscatory profits. This proposal seriously limits the advanced refunding of bonds as a means of obtaining new terms and conditions on funds borrowed on a less favorable basis.

Finally, the proposal creates a disincentive for banks to invest in tax-exempt securities, thereby putting upward pressure on public bonds in order to keep them attractive in the marketplace.

In perspective, a 1-percent shift in interest which a school district can earn on bond proceeds or the amount which it has to pay out equals $100,000 annually on a $10 million bond. Generally, $100,000 can purchase five science labs, reroof one school, result in hiring several science teachers, or provide a 5-percent salary increase to a system of 100 teachers in order to help the marketplace competitiveness in wages.

In Alabama, we have critical capital construction needs which simply must occur. They may be preempted over our program needs.

Governor Wallace, in seeking a State bond issue—and we have a special session right now in the State of Alabama for this purpose—has identified over $1 billion of capital construction needs; $74 million of these dollars are in my own school system.

Placed in this perspective, the administration's bond proposal will result in adding major additional local taxpayer costs of obtaining new dollars.

In summary, I would like to tell you that Governor Wallace has heeded the call of looking to excellence. And I brought with me a proclamation from the Governor in opposition to ending State and local tax deductibility.

Local school boards have little flexibility in their budgets. Service increases are rarely measured by more than 1 percentage point.

As schools open today, the drive for educational excellence is going to be as much of a struggle as it has been in the past, and it will be a struggle over nickles and dimes, as well as dollars.

I'm not here today to ask for more Federal funds, though I think I could make a good case for that. But, rather, I'm here to advise you that you've been given a proposal which will make it very difficult for school districts to even continue what they are currently doing, and which, over a number of years, could cause us to regress under that tide of mediocrity to which the administration gave the Nation such a sobering warning.

In conclusion, the National School Boards Association urges the Congress and this committee to weigh the proposal to repeal the deduction for State and local taxes carefully, to examine in detail the severe negative impact that adoption of this proposal will have on State, local government, and the education of children and the very future of this country.

We urge you to vote against this proposal and thereby for the future of America. Thank you.

[The prepared statement of Ms. Weil, together with an attachment, follows:]

## PREPARED STATEMENT OF NELLIE C. WEIL

INTRODUCTION

I am Nellie C. Weil, First, Vice-President of the National School Boards Association (NSBA). I am pleased that we can submit this testimony to the Joint Economic Committee. The National School Boards Association is the only major education organization representing school board members who govern the nation's public school districts. Throughout the nation, approximately 95,000 of these individuals are Association members. These people, in turn, are responsible for the education of more than 95 percent of the nation's public school children.

Currently marking its forty-sixth year of service, NSBA is a federation of state school board associations, with direct local school board affiliates, constituted to strengthen local lay control of education and to work for the improvement of education. Most of these school board members are elected public officials. Accordingly, they are politically accountable to their constituents for both education policy and fiscal management. As lay unsalaried individuals, school board members are in the rather unique position of being able to judge legislative programs purely from the standpoint of public education, without consideration to their personal professional interest.

I. THE PURPOSE OF THE FEDERAL GOVERNMENT IS THE PUBLIC GOOD.

Because Americans treasure representative democracy, democracy is often perceived as the purpose of government. However, the word "democracy" is descriptive in nature and, denotes the form of American government.

Rather, the purpose of the American democratic system is found in the oft utilized synonym for the "United States" -- the Republic.

The word Republic is a proud word. It has its origin in the Latin words Res - Publica, literally translated as the "public thing" or "public good". Thus, the Republic of the United States is ". . . no other than Government established and conducted for the interest of the public, as well individually as collectively".[1/]

II. THE FEDERAL AND STATE/LOCAL GOVERNMENT SERVE SEPARATE BUT EQUAL FUNCTIONS FOR THE PURPOSE OF THE REPUBLIC.

Prior to establishment of the United States there were autonomous Republican States. Their purpose in joining together to form a single nation was not the casting aside of their autonomy. Their purpose was the ". . . creation of a more perfect Union . . ." which could accomplish for all that which was difficult or impossible for one State, acting alone, to do.

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[1/] Paine, Thomas; Rights of Man; p. 174.

The Constitution sets forth in detail the functions of the Federation of States as well as explicitly reserving to the States all manner of functions which were unrelated to international or inter-State concerns.

Thus, the Federal government was charged by the Constitution with certain tasks, e.g. making foreign policy, regulating commerce between the States and defending all the States from foreign attack. Moreover, the States continued to be responsible for all functions of government which were not delegated to the Federal government: education of its people, the building of roads, keeping the peace, and the plethora of governmental responsibilities which promote the political, social and esoteric needs of local communities.

## III. THE ABILITY TO FULFILL THE REQUIREMENTS OF GOVERNANCE IS DEPENDENT ON RAISING REVENUES

> Money is, with propriety, considered as the vital principle of the body politic; as that which sustains its life and motion, and enables it to perform its most essential functions.[2/]

No man argued more strenuously for the imposition of a direct, Federal tax on the people of the United States than did Alexander Hamilton. Hamilton recognized that the power to govern was inextricably tied to the ability to raise revenues

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[2]/Hamilton, Alexander; The Federalist No. XXX, p. 175.

providing for the pecuniary wants of the citizens. The absence of Federal freedom to collect those revenues directly from the people was a constant source of fear to Hamilton who warned that the result would be one of two evils: ". . . either the people must be subjected to continual plunder . . . or the government must sink to atrophy, and, in a short cause of time, perish."

Hamilton's arguments bore no fruit during his lifetime. The opposition to direct Federal taxation of the people was too strong.

The basis for the opposition was twofold: a fear of a too-powerful central government which would encroach upon the autonomy of the States and, the fact that it would result in double taxation by virtue of the fact that the Federal government would be exacting a tax on property (real and/or personal) which was already subject to State taxation.

It was not until 1909, more than 125 years after the United States came into being that the States ratified the 16th Amendment providing for a direct Federal taxation of its citizens.

## IV. THE HISTORY OF THE DEDUCTION FOR STATE AND LOCAL TAXES

A deduction for payment of any and all taxes paid by individuals was allowed in the Civil War tax on incomes. (Act of August 5, 1861, Pub. L. No. 40, 49, Ch. 45, 12 Stat. 292). Unfortunately, the deduction was added in Conference without published Congressional discussion on the reasoning for allowing the deduction.

The Tax Code which was adopted in response to the 16th Amendment contained a deduction for ". . . all nations, State, county, school and municipal taxes paid within the year . . ." but, excluded those assessed against local benefits. (38 Stat. 167). However, once again, the deduction was non-controversial and not the subject of discussion or debate.

The scope of the deduction for state and local taxes has been narrowed on only two occasions in the 72-year history of the Tax Code.

A. 1964

In 1964, Congress eliminated deductions for taxes on tobacco, alcohol, selective sales, auto and drivers' license fees, and certain local improvement taxes. (Pub. L. No. 88-272, §207(a), 78 Stat. 40-42). It is instructive to note that the House Ways and Means Committee Report found that retention of the deduction for State and local income taxes was necessary to balance the heavy burden which would be placed on those who were taxed on their income on the Federal, State and local levels. Furthermore, the Report goes on to note that a repeal of the deduction of local property taxes was unthinkable as it would result in a material shift in the apportionment of the Federal tax burden between homeowners and non-homeowners. Finally, the Report argued that it was incumbent upon the Federal government to provide tax neutrality in the choice of State and local taxes through retention of the deduction for sales tax.

B. 1978

In 1978, Congress repealed the deduction for State and local gasoline and motor fuel taxes. (Pub. L. No. 95-600, §111, 92 State. 2777). The House Committee on Ways and Means Report directs itself solely at the narrow issue of the repeal of taxes imposed on motor fuel and gasoline and does not speak to the broader issues raised by other components of the State and local tax deduction. (H. Rep. 95-1445, 95th Cong. 2nd Sess., 41-42 (1978).

It is unfortunate that there is no extant, detailed discussion articulating the basis for a deduction for the payment of State and local taxes. However, the absence of such discussion is at once beneficial and instructive for it is an unambiguous indicia that Congress has traditionally realized the necessity of Federal tax neutrality in the choice between State and local taxes as well as the adverse impact double and/or triple income taxation would have on citizen taxpayers.

V. REPEAL OF THE DEDUCTION FOR STATE AND LOCAL TAXES IS UNRELATED AND UNRESPONSIVE TO THE PUBLIC DEMAND FOR TAX REFORM

It has been suggested that repeal of the deduction for payment of State and local taxes is in response to the public demand for tax reform. The publicized public demand for tax reform is based on two complaints: the Tax Code is too complicated and, the tax system generates inequities which result in those who are perceived as best able to pay, contributing little or nothing in tax payments.

It is ironic that a proposal which advertizes itself as a "simple tax plan" would focus primarily on a repeal of the deduction of State and local taxes as the major means of achieving its purpose. This is so for two reasons. First, the deductibility of State and local taxes is at once simple and incapable of engendering transactions which are without viability. Secondly, repeal of the deduction would signal a radical departure from the Federal balance struck between the 16th Amendment making Federal taxation of personal income Constitutionally permissible and the deduction allowed for State and local taxes, the collection of which, as I noted previously, is a traditional function of State and local governments.

This is not to say that because something is and has always been that it must always be. However, it behooves Congress to recognize the dramatic impact which repeal of this deduction will have on State and local units of governments, particularly school districts and, to be cognizant of the fact that the demise of this deduction will herald a significant shift in the attitude of the Fedeal government toward States, local communities and the citizens of this Country.

To advance this proposal under the guise of tax simplification is a strange use of the tax system. In truth, a cynic might say that the overall objective is to move government back to the localities. However, there is an inexplicable irony in that notion. While economic analysts differ in their assessment of the impact which repeal of this deduction will have when offset by lower tax rates, it is increasingly clear that lowering tax rates will not compensate for the overall loss to States and local units of governments.

The single most publicized concern of the public in the area of tax reform has been generated by synthetic deductions and credits which are unavailable to the average taxpayer. Nonetheless, manipulation of the Tax Code by utilization of these legally permissible credits and deductions has resulted in a disparity between those who can afford to invest their monies to avoid taxation and, those who have no option but to pay taxes or go to jail.

Thus, while there is some rationale for the repeal of certain tax credits and deductions, the purpose for singling out the deduction for State and local taxes for repeal is clearly for a reason other than that which the public has been led to believe.

## VI. RAMIFICATIONS OF REPEAL OF THE DEDUCTIBILITY OF STATE AND LOCAL TAXES

The deduction for State and local taxes is unique. Unlike every other deduction or tax credit presently allowed under the tax code, this deduction is not the result of free choice. It does not represent a direct tangible monetary or personal benefit to the individual and yet, it is the only payment -- other than Federal taxes -- which consistently benefits the nation, the States and local units of government.

Those who have argued successfully for retention of the charitable contribution have articulated their position on behalf of those who feel they can afford to be generous. However, does not the deduction for State and local taxes represent a contribution from each wage earner in this country for services which inure to the benefit of the nation and which, absent the deduction, many could ill afford to pay?

Only 28% of the adults in this country have children attending public schools. Each of this nation's 16,000 school districts rely on State taxes and local property taxes for operation. This Committee must not be remiss in noting that repeal of this deduction, coupled with a request by the school district to increase taxes to meet school district obligations becomes, in effect, a charitable contribution absent a corresponding deduction for the 72% of the adult taxpayers who have no children in public schools.

In my own State of Alabama, 48.5% of the State's taxpayers itemize their deductions. Those individual taxpayers are responsible for payment of over 77% of the total taxes paid by Alabamans. The average itemized return in Alabama deducts $442 for State and local taxes. To ask an Alabama taxpayer to "donate" even 10% more of that amount for public education would increase his net loss to approximately $500. NSBA submits to you that a taxpayer with no children may find it more attractive to oppose such a tax increase and "donate" where he will realize, at the least, a deduction for his investment.

VII. 95% OF THE SCHOOL DISTRICTS IN STATES REPRESENTED BY MEMBERS ON THIS COMMITTEE RESPONDING TO NSBA TAX SURVEY WOULD BE NEGATIVELY IMPACTED BY REPEAL OF THE DEDUCTION FOR STATE AND LOCAL TAXES

NSBA is in the process of conducting a survey of our members in order to ascertain the impact which the tax proposal will have on school districts across the United States. Although the survey will not be completed until September 15, NSBA believed that this Committee would be interested in the preliminary data gathered from States represented by this Committee only.

The "to date" factual information relating to this Committee was gathered from responses to the NSBA Tax Survey by NSBA members responsible for over 3,200 school districts with a combined student enrollment of over 2.1 million located in communities with a total general population of over 20 million U.S. citizens.

These school districts, on an average, receive 45% of their funding from local property taxes, 50% from State revenues and, 5% from federal sources. Over 50% of NSBA members responding to the survey residing in States with Members on this Committee, found that repeal of this deduction would have a severe negative impact on the voter response to support public education through an increase in taxes. A mere 5% of the respondents believed that repeal of this deduction would have no impact on voter response.

NSBA submits to you that the Administration is incorrect when it alleges that there will be no impact on local government, particularly school districts, should Congress repeal the deduction for State and local taxes. Rather, 95% of the school board members responding to the NSBA survey in your States have found that adoption of this proposal will negatively impact education funding at the polls in your States.

## VIII. CONCLUSION

In conclusion, NSBA urges the Congress and this Committee to weigh the proposal to repeal the deduction for State and local taxes carefully and, to examine in detail the severe negative impact adoption of this proposal will have on States, local government and the education of the children and future of this country. NSBA urges you to vote against this proposal and, thereby, for the future of America.

STATE OF ALABAMA

# PROCLAMATION

BY THE GOVERNOR

WHEREAS, the Federal deduction for State and local property, income and sales taxes is essential to the economic well-being of moderate income Americans; and

WHEREAS, the deduction for State and local taxes has been part of the Tax Code since 1913 when the current Federal income tax was enacted; and

WHEREAS, the purpose of the deduction for State and local taxes is to protect individuals from double taxation of their incomes; and

WHEREAS, the financial health of State and local governments would be compromised if State and local taxes were no longer deductible from Federal tax returns; and

WHEREAS, the tax base of State and local governments declines, essential welfare, education, health, and infrastructure programs will be cut; and

WHEREAS, eliminating the Federal tax deduction status of State and local taxes will make it all but impossible for states to raise or even maintain current revenues to support education and represents, in my opinion, double taxation of our citizens:

NOW, THEREFORE, I, George C. Wallace, Governor of the State of Alabama, do hereby proclaim the opposition of the State of Alabama to the elimination of the Federal deduction for State and local taxes from the Federal income tax.

GIVEN UNDER MY HAND, and the Great Seal of the Governor's Office at the State Capitol in the City of Montgomery on this the 30th day of August, 1985.

George C. Wallace

GEORGE C. WALLACE
GOVERNOR

Representative OBEY. Thank you both very much. I will try to keep my questions to about half an hour—my questions and your answers to about half an hour.

Before I start, let me simply confess that I very obviously do have a bias on this issue. I don't pretend to be objective. I think that the idea that we ought to eliminate the deduction of the State and local taxes from your Federal return is harebrained. I think it violates every principle of a Federal, as opposed to a unitary, system of Government. I think it does substantial damage to progressive government at the State level. I think it does substantial damage to support for quality education at the State and Federal level.

The problem, however, is that what I think doesn't count very much. And so the purpose of this hearing, very frankly, is to give people who know a lot more about these subjects than any individual Member of Congress an opportunity to actually spell out what the specific problems are associated with any of the recommendations that we have to deal with, this being the one that we're focusing on for the moment.

So I just want to put that on the table to make it clear that I do have a bias and I agree with much of what you've said.

However, I do have to play devil's advocate in order to try to build into the record specific tough responses to arguments made by the administration in support of the elimination of this deduction.

So let me start by quoting the President last night. The President said last night, on his way back to Washington when he made a stop for a speech, that he has come back to Washington and he was going to lead the fight for tax reform. Obviously, within that proposal is this item.

He indicated that all of the special interests of the country were going to be out there fighting him tooth and nail, but, by golly, he was going to be looking forward to the fight.

I want to ask you a specific question that the administration would ask. What makes you different? What makes this deduction different? Why is it different for Governors, for legislators, and for you to come to the Congress and say, look, boys and girls, this deduction is different than the others that we're looking at. This is something special. It's in a separate category. You shouldn't knock it out.

Why is it unique? Why is it different? Why are the Governors and the legislators and yourselves not part of a "special interest group" when you raise your voices in opposition to the elimination of this deduction?

Ms. FUTRELL. First of all, Mr. Chairman, I would say that the children of America are special. We have at least 40 million of them attending the elementary and secondary public schools in this country. I don't know about anyone else, but they're very special to me. I think that we have an obligation, a commitment to make sure that each and every last one receives a quality education.

It doesn't matter whether the child lives in Alabama or Virginia or Michigan or California or where, that they deserve an opportunity to get that education.

And when we look at the challenges which have been placed on the doorstep of the schoolhouse, we have been challenged to educate those children and we have been told over the last 2 years that there are some serious problems. We've been given many, many recommendations to upgrade the quality of the education that those children will receive.

Ninety-three percent of the funding that we get will come from the State and/or the local levels of our government.

If we repeal the deductibility, in my opinion, basically what we will be doing is pulling the future away from those children. And we will be saying to many of them, you do not deserve the right to receive a quality education.

And if we repeal that deductibility, we will discourage many people in America who are supporters of education from supporting it. By saying that you will be taxed twice on money on which you've already been taxed, it will serve as a disincentive for them to support bond referendums and to support increasing the taxes to build stronger schools.

I think that it will mean that we will see class size increase. It will mean that we will not have the up-to-date textbooks. We will not be able to complete the job that we started of updating the curriculum. It also means, in my opinion, that we perhaps will not be able to attract and to keep the many good teachers that we will need to teach those children as we look at the future of this country.

And so when people ask about a special interest, I would have to say, yes, we do represent a special interest. And the special interest, in my opinion, will be the children and the future of this country. And if we have repealed the deductibility of the State and local taxes, then we will do grave harm to the public schools in America.

Ms. WEIL. I agree with everything that has been said here. And first of all, I make no apologies whatsoever coming to my local government and coming to my State Governor, coming to the national level, to lobby on behalf of children.

We can give Congress the kind of information that you need, so that you can provide the leadership to provide more equity and opportunities for excellence in our public schools.

As we've said before, 90 percent of the Nation's children are in these public schools.

One of the things that we have found at the local level is that instead of taking up the additional burden of Federal cutbacks, our local governments are following the Federal Government in cuts.

I attended a meeting just this past week of my county commission, which controls the apportioning of sales tax revenues, and was told that their budget was not balanced. Now we've been a very fiscally sound school system and we were told that we would suffer a cut, because the county will redirect its sales tax revenues away from education.

We had thought 10 years ago a tax had been passed for education, a half-cent sales tax. And now to balance the county budget, that tax is going to be frozen. We will be given no growth and an additional tax that was appropriated for education will not be put on it.

So whatever we can do insofar as education is concerned, whether it's lobbying or whatever word it's called, we are a special interest. And as I said, I make no apologies for that. In the Montgomery, AL, public schools, when we look at the clientele, we provide special funding for 11 exceptionalities. So, other government policymakers are the kinds of individuals that we look to for the future and what we're doing day to day in public education.

Representative OBEY. Frankly, what I was hoping you would point out is the statement you had in your prepared statement. There you point out that the deduction for State and local taxes is unique in this sense, that if you and I, for instance, and everyone else in this room, has an opportunity to determine to some degree what we pay in interest on our houses—we can decide if we're going to live in a bigger house or a smaller house, more expensive or less expensive, we can decide within reason how often we're going to visit the doctor and run up medical bills. Sometimes you get into a tough spot, but a lot of spending, even for health, is discretionary.

You can decide how much you're going to contribute to charity. But you can't decide how much you're going to pay for taxes. And then the Government tells you how much you're going to pay for taxes and you pay it.

In that sense, it is not a discretionary expenditure on the part of an individual. I think the point that you made, Ms. Weil, in your prepared statement is a very effective answer to the President.

I would also suggest that there's a second reason why it's unique and that is that Uncle Sam over the last 5 years has told State and locals, look, we're not going to support education very much any more. We're going to shove more of that responsibility back to you. You do your job. We aren't going to do it for you.

And then what they do, by taking away this deduction is to take away one of the tools that you need to keep in place in order for State and local governments to do their jobs on education.

Let me ask you another question. People will say, well, these numbers that you produced to draw these horror stories about what will happen to education, they're just numbers. Anybody can put numbers together.

How do you know they're really real numbers? How do you know that you will have a significantly negative impact on education if this deduction is eliminated?

How do you really tie that down?

Ms. Futrell. Well, I think that we have to use some of the same basic projections that we would use as we looked at any economic situation, as we forecast what our economy is going to be like, as we forecast the impact that certain legislation will have on, let's say, education or whatever.

We have worked with economists. We have looked at a variety of sources in analyzing this particular situation. For us, the National Education Association, as I indicated in my testimony—we have used the most conservative projections in determining what we think wouldn't happen. But we've also looked at the Advisory Commission on Intergovernmental Relations and what their projections have said. We have looked at the Congressional Research Service. We've looked at and worked very closely with Senator Moynihan with reference to what his economists or his analysts are saying. And they all fall within the same ballpark.

And so, as we look at the most conservative to the most liberal projections, we try to pick the ones that we thought would be the most realistic. And we said, well, let's take the conservative number rather than take the ones that would be the most far afield.

And even when we look at the most conservative, it's very frightening as to what this could do if it passes. And as I indicated in my comments, even the most conservative, we're talking about losing somewhere in the neighborhood of $122 per child nationwide. We cannot afford to lose those kinds of revenues, especially in this day and time when we're being told to upgrade the quality of education.

I have a great deal of faith that the ACIR and the CRS and Senator Moynihan, that they have done a good job of analyzing the bill, the proposal, a good job of projecting what the impact will be based on revenues that are being spent, based on children who will be in the schools.

So I have faith that these are accurate reflections of what will happen if this passes.

Representative OBEY. Let me make an observation, then ask a question.

Two years ago Congress returned from its summer recess. These books were the only books that people were talking about. We had "A Nation at Risk." Lots of publicity given to it by everybody from the White House right on down, which pointed out the need, or which pointed out the dangers to this country in maintaining our economic position around the world if we didn't substantially increase our search for excellence and our support for excellence in education.

We had—this was, incidentally, the National Commission on Excellence in Education, appointed by the President.

We had the "Task Force on Education for Economic Growth," put out by the education commissions of the States. We had "Making a Grade," a report to the 20th Century Fund, Task Force on Federal Elementary and Secondary Education Policy.

We had "High School—a Report on Secondary Education in America," put out by the Carnegie Foundation for the Advancement of Teaching, edited by Mr. Ernest Boyer, former commissioner of education.

We had "Educating Americans for the 21st Century," a report to the American People and the National Science Board. And a variety of other reports, all indicating that it was necessary for us to provide greater support for excellence in education.

The administration said it wasn't the Federal responsibility. We are supposed to point out the problem, point the way, and that the States would do the rest.

A lot of the States have made significant progress. Tennessee has done a lot. Texas has done a lot. Wisconsin had done a lot. A lot of States have done a lot since then.

Now you're telling us that the incentives which the Feds built in by issuing those reports, along with other people, that those incentives are going to be threatened by the elimination of this deduction.

I'd like to get into the specifics of that concern, if I could.

Let me ask each of you—if that reduction of somewhere between 7 and 13 percent occurred at the State and local level, what areas of the average school district budget do you believe would be hit the hardest and why? Why do you reach those conclusions?

Would we be talking about capital improvements that would see reductions? Would we be talking about maintenance reduction? Would we be talking about reductions in programs that require more teacher support and support staff, such as vocational education, gifted and talented?

Which areas do you think would be hit the hardest, quickest, and why do you say that?

Ms. WEIL. I think we're going to find that if we have a cut this severe, we're going into the classroom and we're going to see services cut.

In my local area, we have a fully accredited school system which is not inexpensive. We have in each of our schools, elementary schools also, PE teachers. We teach art. We have accredited libraries that are terribly expensive. And when we talk about cuts, and we know traditionally what is coming along. We're pretty good predictors of the kind of money that we're going to have coming in.

We know, to begin with, what it's going to cost us for our teacher units. We know, to begin with, what you said, capital outlay, is going to be cut drastically.

Part of the $74 million in critical needs that we have identified in my system is due to a number of years of prorating. In the State of Alabama if enough taxes are not gleaned from the public coffers, then we suffer from prorating—by whatever percentage amount that it comes down.

Our salaries are paid 100 percent, and salaries equal about 85 percent of our budget, which means that we have approximately 15 percent of the budget left in which to absorb whatever amount is prorated. And it could be 50 percent of that 15 percent that we have left.

So, we know that we must let school buildings leak. Our school buildings are not air conditioned. And this may seem frivolous, but the temperature yesterday—and school has already been in session for several days—was over 91. And that temperature is reached early in the morning and it's very difficult for students to learn. But that's not one of the great priorities. We run our buses. We have 35,000 students in our system. We transport 15,000 of them every day. We run 192 buses and every one of them runs over two routes every day, morning and afternoon. We know that maintenance is going to have to be cut.

So, we are going deeply into our budget and our services. And if we should lose our accredited school system, then we will lose the enthusiasm that the public has for public education, which because of these reports that you pointed out, we are desperately trying to show the public that we are doing excellent work in the public schools.

With the special exceptionalities that we have and with the additional money that their education costs us, we are not just frightened—we're hysterical about what might happen to the funds that might not be coming to us so that we can provide the services for boys and girls.

Ms. FUTRELL. I would have to agree with Ms. Weil. I think that when we look at the situation we're facing and projecting what will happen, we have to understand that the neglect that we've seen in our schools did not occur overnight. That neglect occurred over a certain period of time. And so the deterioration that we are trying to correct is going to take a while to do so.

We've seen 300 reports so far, local, State, and national. And if we just look at the "Nation at Risk" report by itself, we have projected that it will cost $14 billion to implement that one report alone. We have received very little help from the Federal Government.

The Federal Government, for the last 5 years, has been cutting back. As I indicated, the funding has been cut back by about one-third. And more and more of the responsibility has been sent to the States and to the localities.

If the repeal of the deductibility of the local and State taxes, if that goes through, I think you will see the reform movement come to a standstill. I think that's the first thing that we will see.

I think we will no longer be in a maintenance mode, but we will actually be in a mode where we are retrogressing. And the progress that we have seen over the last several years, we will lose that progress.

As I look at the future, if this goes through, we will actually cut programs and services. And especially for the children who need those programs and services the most.

I look at the fact that, for instance, we've raised the standards in the schools. And yet, we have not built in remediation programs to help the children who are marginal. We know that we're losing a million children a year. If we have to cut back on the programs, that number will go up. That number will definitely go up.

So we are probably looking at maybe 1½ to 2 million children dropping out of school every year because we will not have the programs and services to provide.

We are looking at a situation where we have an aging profession. We are trying to keep the good teachers we have and attract new ones to come in.

If this deductibility goes through, if the repeal of the deductibility goes through, I don't think we will have the resources to upgrade the training programs, to attract new teachers into the profession, or to keep the good ones we have. I don't think we will have the resources to do that.

In many of our schools we hear complaints about outdated textbooks. I think those textbooks will stay in place because we will not have the money to buy new textbooks.

We talk about many schools, and I visited a school last year where they did not have one piece of equipment in the physics lab. I think we will see that become commonplace throughout the Nation, where the equipment will continue to be outdated and/or labs will be ill equipped or without any equipment at all.

I think we will find that the changes we are trying to make in the curriculum, we will not have the resources to make those changes.

And so what we have described as the rising tide of mediocrity, I think, will become the rule rather than the exception. And the progress that we're beginning to make, I think it will just evaporate.

And so I think it will have a very, very detrimental effect on the schools. I understand that if it goes through, if this piece of legislation goes through, it will become effective immediately. And so it will have an immediate impact on the schools. It will not be that you will have 2 or 3 years to build it in, but it will become effective immediately and we will feel the impact immediately in the schools.

And so I think that the public schools will stand in danger of being in jeopardy if this goes through.

Representative OBEY. The numbers that you cite, do they take into account the fact that the administration, and now the Congress in its budget resolution, are now all planning for the elimination of local-share, revenue sharing?

Ms. FUTRELL. They take, in part, some part of that. In my prepared statement, I do make reference to the fact that we are going to do away with the revenue sharing and that there is a proposal to do away with it.

So that is addressed in my prepared statement, so we are taking that into effect wherever it would be applicable.

Ms. WEIL. May I comment on the revenue-sharing part? This is one of the domino effects that we're having now because of the threat and the loss of money to our cities and to our counties. Then we are being asked to give up appropriations that would come to the school system in order to take up the slack for the money that is not going to the county or the city.

So it's having an effect upon us as we think all of this will. As it impacts each governmental entity, it's going to impact on the school system because we are the big users of local taxes.

Representative OBEY. Let me ask you this. One of the arguments that the administration makes is that this deduction should not be retained because it, in the main, benefits high-income taxpayers and that it really doesn't provide significant support programs for poor people, and that, therefore, it is elitist, as some people have said, if you are for the retention of this deduction.

I'd like to ask what your response is to that argument, and in giving that response, I would like to ask you if there are any demographic differences between the population that represents the taxpaying public at the local level—in other words, the people that are paying the tax—versus the demographics of the student population in those schools?

Ms. FUTRELL. Well, we do not believe that the statement made by the administration is an accurate statement, that the high tax States are the ones who will benefit the most from this.

We believe that there is no clear relationship between high taxes and high levels of State spending. We have not been able to find data that would support what the administration is saying.

We believe that the States tax the people at the local and the State level to provide essential programs and services for the people within their communities, whether we're talking about the State community or the local community.

We would be happy to try to pull together some demographics with reference to the difference between the high and the low States, the high tax States and the low tax States. We will pull that together for you and do some additional research and send it to you, if you——

Representative OBEY. But that's a different question. I agree with you. I think this committee has examined a number of reports which have been submitted which indicate that there is a slight negative correlation, actually, between taxing levels and spending levels of the States.

In fact, if you take a look at the five States in the Union which are the lowest taxing States, it's interesting to note that four out of five have higher spending levels on a per capita basis than do the five highest spending States in the Union because a lot of the high taxing States do not have the ability to export a portion of the cost of their public services by taxing coal, oil, gas, you name it.

But what I'm looking at is a different question. The administration says that this tax deduction primarily benefits individuals who are in the higher bracket areas and therefore, we shouldn't be bleeding in terms of our concern about those people, that they can take care of themselves and that there will be no significant impact on the middle class or on poor people if that deduction is eliminated.

I'm wondering what the demographics show in terms of the difference between families who are paying the taxes and families who have kids in school.

Ms. FUTRELL. We can get that information, as I said. I'm a tax expert, but based on my readings, it seems as though from what I've read that the middle class will be the group that will have to absorb most of what happens with that tax package. And that's one of the reasons that we have some of the concerns that we have voiced.

We will try to get that information for you, not based just on what we've read in the newspapers, but an analysis of the proposal and how it will impact low, middle, and upper income citizens in this country.

But we can get that for you.

Representative OBEY. What I'm trying to get at is that, at least at the State level, forgetting property taxes for the moment, at least at the State level on individual income taxes, that very low-income people don't really pay much by way of State taxes because they're exempted usually until you hit a certain amount; whereas, if you take a look at the school age population, you have a substantial proportion of the school-age population from families that are in poverty.

To me, at least, I think that indicates that there is a serious potential for eroding the willingness of middle-class taxpayers to foot the bill for poor people if they're losing the last break that they get from the Government for living up to their responsibilities.

Ms. FUTRELL. I think that that analysis is correct because if they do not feel that they will personally benefit from this proposal, they will be unwilling to put the money in.

However, I think that what people have to understand is that, as we look at the future, more and more of the people are falling into the category called poverty. And unless we help the young people who are in that category today, we will pay a much, much higher penalty, let's say 10, 20, 30 years down the road.

These are the young people who will support Chairman Obey and Mary Futrell when we retire. They are the ones who will be earning the funds that will go into, let's say, the Social Security Program. They're the ones who will be paying the taxes, et cetera.

And so we have to make sure that we help those young people, even though right now it might appear as though we, as middle-class citizens, are paying more of the burden.

But I think that people need to look at it from the long-range perspective as opposed to just the immediate pocketbook perspective.

Representative OBEY. Ms. Weil.

Ms. WEIL. In the State of Alabama, and we are one of the lowest-spending States so far as per pupil, and what goes into the schools, but we have to look at the State level—$2 out of every $3 that comes to the State of Alabama goes for education.

In my own community, we have twice the national average currently attending private schools. About 20 percent of our children are in private schools.

It would seem to me that the benefit of public education will accrue to a far broader segment of the population, even though that benefit may be paid by a fewer amount of individuals.

And when you take away the incentive of individuals to add on to those taxes, then you reduce the number of services that are going to boys and girls, and also our adults because we can't leave out those who are enrolled in adult basic education.

But one of the things that we're going to find translated, if individuals who do not get to deduct their Federal and State taxes have to increase their burden, this is going to be translated to the now non-tax-paying individuals. And they are going to be perceived as having to pay this burden.

It may be shed by one, but it's going to be shared by all.

So that the burden is going to be passed on down to a lower category of those who may not now be included in that tax-paying part and they're going to be taxed in a very regressive way rather than in a progressive way that we're now doing.

So we're trying to protect the amount that is being paid. This may be the carrot and the stick. But public education, unfortunately, is the one that's going to be beaten with it.

Representative OBEY. Let me ask one last question. Ms. Futrell, I'm sure some people will say, well, it's no surprise in the NEA opposing this deduction. They're just trying to protect anything that will protect teachers' salaries. This really is just another special interest pressure on the Treasury.

What do you tell people when they raise that with you?

Ms. FUTRELL. Well, first of all, I'd say to them that we are in favor of tax reform. As a matter of fact, we voted in 1984, as part of our educational reform report, we were one of the 300—we voted that there should be reform because we believe the way that the schools are currently supported places an undue burden on the property owner and that there is a need to try to come up with a package which would more evenly distribute the base of support. So that all people are supporting the schools because all of us benefit.

And second, we say to them, you are correct, that the teachers will benefit if we are successful in opposing the repeal of the deductibility. But the teachers are the key to any kind of quality, any kind of reform that we will have in the schools.

And if we are to attract and to retain well-qualified teachers in the profession and make sure that every child is taught by a well-trained teacher, then we must have in place training programs that will prepare them, certification requirements that will assure the public that they meet the highest standards. And we also must have in place a salary schedule in this country, or salary situation which will allow us to compete with other professions and to attract young people into the profession who are intellectually capable of teaching and to keep the good teachers that we already have.

And so, yes, we will benefit from that perspective.

We will also benefit from the perspective that, hopefully, the working conditions will improve, the conditions under which our members work and under which children learn. And if the conditions can be made more conducive for both, then I think the public will get a better product and the public will be more pleased with the quality of the education that the children in this country receive.

And so we indicate that if this proposal does not go through, the schools will benefit and the members of the profession will benefit. But more than that, the public as a whole will benefit.

Representative OBEY. Well, what it seems to me you're saying is that, look, the Feds do so little now to support education. Most of that effort is borne by the State and local governments.

It seems to me what you're saying is if the Feds are not going to increase their share of support for education, at least they shouldn't muck up the playing field for people who are trying to meet their responsibilities in supporting education.

Ms. FUTRELL. Well, basically, what I'm saying is the Federal Government should not be allowed to get off the hook. I think the Federal Government does have a role to play. It is a partner in the move to improve the schools in this country. It must assume its proper role. And that is that it must pay for certain aspects of education, just like we expect the States and/or the local government to pay.

But it certainly is detrimental for the Federal Government to say, well, these are the changes that you should make in the schools, but don't look to us for any help. Not only should you not look to us for help, but we're going to cut your funding base. We're going to take away your funding base.

You can't have your cake and eat it, too. I think you have to decide whether you want to support the schools and whether you want a good educational system, or whether or not we're just saying to the public that we want good schools, but we really don't mean it.

So I think they must pay their share and they also should be willing to support the funding base at the local and the State level so we have assurances of adequate and a stable funding base there.

Representative OBEY. Let me ask, Ms. Weil, the concern that you expressed about the 1-percent limitation of funding, is that a real problem or is that just one of these niggling little problems that bond councils often come up with which can easily be taken care of by a little old technical amendment, as people often say around here?

Ms. WEIL. I'm not sure that anything that's coming down to the public schools these days is a niggling problem or a glitch. I think everything has the opportunity to grow and expand and I think anything that threatens the viability of the funds that we have coming into the schools—we have to use so many creative ways to gain income. There is a limit to money, we know. And with the State putting in the investment that it's putting in now in an increasing amount, with our city and county putting in decreasing amounts, with the Federal Government adding—and I realize that the Federal Government feels that they are conscious-raising, and when we create an awareness to something that we as board members are supposed to solve the problem. And we do our best.

But there is nothing that costs no more money. We've done everything that we could. If it doesn't mean but $1,000 or $100,000, it's important to us.

So even if the problem is a small one, when it comes to dollars and cents—and as I said in my testimony, we're fighting for nickels and dimes—everything is going to count for us.

So even if it's the short term, it's going to have a tremendous impact. One of the big impacts that it's going to have on us is the public's perception to invest. And if individuals feel that the dividend is not going to be worth their investment, they can certainly go find a better investment somewhere else, and we are going to be lost that amount of money that would accrue to us to help us educate boys and girls.

Representative OBEY. Thank you both very much for being here today. We appreciate your time and your coming.

Ms. Weil. Thank you for the opportunity.

Ms. FUTRELL. Thank you.

[Whereupon, at 3:12 p.m., the committee adjourned, subject to the call of the Chair.]

[The following information was subsequently supplied for the record:]

NSBA
FEDERAL RELATIONS

Dr. Mack J. Spears
President

Thomas A. Shannon
Executive Director
Michael A. Resnick
Associate Executive Director
Lynne Glassman
Director, Network Operations
Katharine L. Herber
Legislative Counsel
Edward R. Kealy
Director, Federal Programs

September 23, 1985

RE: September 3 Hearing
Extension for the Record

The Honorable David R. Obey
Chairman, Joint Economic Committee
U.S. House of Representatives
2217 Rayburn House Office Building
Washington, D.C. 20515

Dear Representative Obey:

On behalf of the National School Boards Association, I wish to thank you for the opportunity to express the opposition of local school boards to the elimination of state and local tax deductibility from the tax code. I have heard from a number of people in local areas who either watched the broadcast of the hearing or read about it, and who believe that your Committee is providing an important dimension to the public debate.

You raised several points during the hearing, upon which I would like to offer further explanation for the record.

First, you asked what distinguishes state/local tax deductions from other deductions (and credits in the tax code). We find the following distinguishing characteristics:

1) The payment of taxes is not voluntary, whereas the decision to make other tax deductible expenditures is solely within the discretion of the taxpayer. If one purpose of a tax deduction is to provide relief to the individual for certain kinds of expenses, the case for easing the burden of mandatory public purpose expenses should be viewed as more compelling than are discretionary expenses.

2) The purchases made by state/local tax dollars are available as services to all eligible members of the public. Other deductions are made

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serving American education through school board leadership

either for a wholly private purpose (e.g., the three martini lunch), or for a publicly recognized purpose which can be limited to serve only those who meet privately determined rules of eligiblity (e.g., membership in a church).

3) The purpose of state and local deductibility is to maintain a neutral federal policy on the capacity of state/local government to tax income, whereas the purpose of other deductions is to subsidize the taxpayer for certain kinds of expenditures.

Second, you asked whether the numbers used by Mrs. Futrell and myself are "real" numbers. That is, how do we know that there will be "a significantly negative impact on education if this deduction is eliminated?" Mrs. Futrell referred to the economic forecasting of several reputable research agencies, to which I will add the weight of several private forecasters including Merrill Lynch and Moody's. Additionally, any economic forecast should be supported by a nation-wide prediction, on a community by community basis, of probable taxpayer reaction toward supporting state and local tax increases -- if deductibility is eliminated. As locally elected officials, local school board members are in the best position to make those types of predictions. Turning to our survey, 80% of the local school board members indicated that they expected a negative voter impact and only 3% predicted no reaction at all in their own community. While the Administration states a "belief" that loss of deductibility will not have a significant impact, on what assessment of local voter behavior do they form that judgement? Given the potential magnitude of the Administration's proposal on school finance, we believe that the Administration has not met its burden of proof.

Third, you asked whether the Administration's proposal to limit the private use of any public facility constructed by tax exempt bonds was simply a technical problem. The 1% rule needs to be placed in perspective. Because a violation of the rule would result in the loss of tax-exempt status (thereby defeating the investment purpose of the bondholder) the public would be unwilling to purchase these bonds unless a) the restriction was high enough that it could not be exceeded or b) the school system simply agrees not to make the facility available for any private use. In other words, we do not envision a technical solution, but rather a substantive one to eliminate the limit entirely or to raise it high enough that it would not apply to local school district funding.

Elimination of private use of facilities would have serious deleterious affects. According to our survey, fully 61% of our responding school districts state that the public schools are the only facilities available to their community for any number of private purposes. For some communities, for example, this would even include the availability of bathing and shower facilities. But, in addition to the exclusivity of certain activities within the public schools, as a matter of policy school boards don't want to close the door to public purpose activities sponsored by private groups. In the case of a natural disaster, such as flood or earthquake, do federal law-makers really want the school boards to say "no" to a Red Cross request to use facilities -- because of the 1% rule?

I hope that these observations are useful in your consideration of this legislation. We greatly appreciate the efforts which both the Committee, and you personally, have made to shed light on this proposal.

Sincerely,

Nellie C. Weil

Nellie C. Weil
First Vice President

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