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# Interstate variation in the use of fees to fund K-12 public education

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## Abstract

In this paper, we first offer economic arguments in support of greater consideration of user charges to fund public primary and secondary education. Second, to better understand why these economic arguments have not had further influence, a regression analysis shows the factors responsible for the observed variance in public school use of charges across the United States in 1991–92. Measures of matching grant activity, average district size, percentage population of school age, educational attainment, political ideology, institutional restrictions on property tax and fee usage, local tax deductibility, and unaccounted for regional variations all help to explain interstate variation in school district user fees. Based upon the regression findings, we offer suggestions on how to increase reliance on public school user charges. Our review of US school district data from 1991–92 suggests that as much as 30 billion dollars in expenditures on *auxiliary services*, or about 13% of all public school expenditure, could be funded through fees. © 2001 Elsevier Science Ltd. All rights reserved.

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## 1. Introduction

A major issue in the financing of public elementary and secondary schools in the United States is the search for alternate revenue sources to reduce or replace local property taxes. A common response illustrated by school finance reforms in California and Michigan is to replace local property taxes with increased state income or sales taxes. A local alternative, suggested by Strauss (1993), is to collect school district income taxes. Alternative revenue sources could not only replace local property taxes, but also increase the general level of spending on public

schools. Gold (1994) offers a number of broad-based tax options to supplement existing school revenues.

User charges as a funding alternative for public schools have been widely ignored.<sup>1</sup> In this paper, we explore the past, present, and possible future use of various forms of charges in the United States' system of primary and secondary public education. First we document the fact that user charges make up only a very small percentage of the revenue raised to support public schools. Second, we provide arguments for and against the greater use of charges in public schools. A regression model explores how economic, social, and institutional variables affect the use of different types of public school

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<sup>1</sup> Two exceptions to this are the work of Criz (1984) and Downing (1984).

charges across the fifty states and the District of Columbia. As Tannenwald (1990) points out, the degree to which a state relies on charges to finance its public schools should depend on its priorities and institutional restrictions concerning competing principles of taxation. Our empirical work sheds light on the statewide factors that help determine priorities regarding the use of charges in K-12 public education.

## 2. User charge reliance

Traditional user charges, or *current charges* as defined by the US Census Bureau, include direct charges for the use of a public facility or the consumption of a publicly provided service. State and local governments in the United States, in 1991–92, collected about \$137 billion in revenue from these forms of charges. School districts collected only about \$5.8 billion, or about 4% of these charges (Table 1).

With the exception of the federal government, the relative use of charges in the 1980s and early 1990s rose for all levels of government in the United States.<sup>2</sup> School districts have always received the smallest percentage of general revenue from current charges.<sup>3</sup> Considering the public's favorable disposition toward charges, and the fiscal problems that US school districts have faced, it is

Table 1  
US Government reliance on current charges by percentage of general revenue<sup>a</sup>

Fiscal year	Federal	State	All local	School district
1991–1992	10.5	8.7	14.6	4.2
1986–1987	11.5	7.6	13.2	2.8
1981–1982	9.3	6.4	11.4	3.0
1976–1977	8.8	7.1	10.7	3.2

<sup>a</sup> Sources: *Government Finances: 1991–92*, US Department of Commerce, Bureau of Census; and 1977, 1982, 1987 Census of Government, *Compendium of Government Finances*, US Department of Commerce, Bureau of Census.

<sup>2</sup> Bailey (1994) documents the increased use of local government charges in the United States and Western Europe during the 1980s and makes a case for even greater utilization. Tannenwald (1990) argues that other Census categories of finance are essentially user charges and that accounting for this between 22 and 25% of state and local revenue came from charges in 1986–87.

<sup>3</sup> These data underestimate the degree of user charge reliance because only direct charges collected by the district are included. Many schools or school-associated foundations also engage in fundraising from families to finance components of school spending. See Bruner and Sonstelie (1996) for a discussion of this in California.

interesting that user charges only provided between 3 and 4% of school district revenue between 1977 and 1992.<sup>4</sup>

Prior to the 1991–92 fiscal year, the US Census Bureau collected user charge data for school districts in three categories: (1) tuition and transport fees, (2) textbook, student activity, and other fees, and (3) lunch fees. In 1991–92 the Census Bureau collected user charge information in six categories: (1) tuition fees from students and parents, (2) transportation fees from students and parents, (3) textbook sales, rentals, and fines; (4) school lunch revenue from students, teachers, or adults; (5) student activity receipts, and (6) other sales and service fees including community service activities. Fig. 1 shows the distribution of these fees for all US school districts in 1991–92. Table 2 contains the national and state averages for total fees, and for each of the six fee categories, as a percentage of total local own-source revenue.<sup>5</sup>

Lunches represent the only public school spending category where fees substantially finance a service. Student fees and the federal school lunch program each finance about 45% of the total average statewide expenditure on food in K-12 public schools throughout the entire United States. The federal school lunch program, which began in 1946, operates as an entitlement program. Students with family income less than 130% of the national poverty threshold receive free meals. Students from families with incomes between 130 and 180% of the poverty thresholds receive reduced-price meals. A school district determines the eligibility of its students and submits a

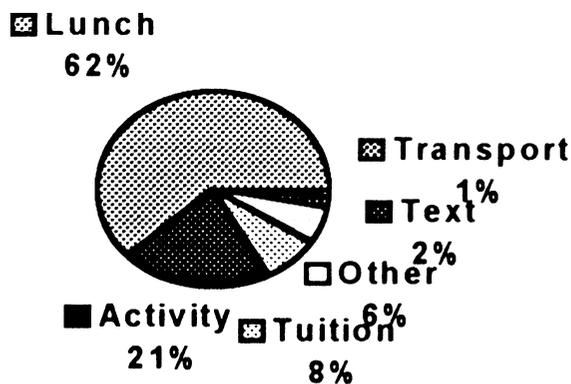


Fig. 1. 1991–92 distribution of school district user fees.

<sup>4</sup> In an ACIR (1987) survey, user charges were favored to finance improved services by 33% of respondents; as opposed to sales taxes (20%), no new taxes (17%), income taxes (9%), property taxes (9%), or do not know (12%).

<sup>5</sup> Data on the use of lunch fees in Rhode Island was not reported to the US Census Bureau in 1991–92. We called the appropriate state office and they could still not provide the desired information.

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