

# Education Cost Top Problem For Local Gov't

By [ADAM B. SCHAEFFER](#) Posted 02/02/2011 06:55 PM ET

State and local governments face financial difficulties in 2011 and 2012 more severe than they have seen in generations. Pessimists predict major municipal or even state bankruptcies. Optimists insist that, while serious budget problems will increase rather than ease, governments will skirt default by sharply increasing taxes and cutting deeply into services.

Unfortunately, while the threat of increasing Medicaid costs has received significant attention, politicians, analysts, the media and the public seem largely to have missed the \$600 billion elephant in the statehouse.

The key structural problem in state and local finances is education, not health care. And a fundamental shift in our K-12 investment strategy is the only way to avoid defaulting on the promise of a public education.

The proportion of resources devoted to education has ballooned over the past two decades. Education spending as a share of tax revenue jumped 90% from 1992 to 2011 at the state level and 73% at the local level. This means governments have few options in responding to our current fiscal crisis.

In 2011, state and local governments will spend 46 cents out of every tax dollar they raise on public K-12 education. Medicaid/ CHIP spending pales in comparison at just 17 cents of every tax dollar. Public education, in other words, consumes a shocking 2 1/2 times the resources devoted to Medicaid at the height of recession-driven health care increases.

### **Spending Surge**

Add in payments needed to meet the approximately \$800 billion in underfunded commitments to teacher pension plans over the next 30 years and K-12 education gobbles up 50% of all state and local tax revenue.

Compounding the problem, a massive surge in federal education spending (the "stimulus") will recede this year while the recession drags on. Troubled local governments and school districts will call for more state aid to fill their budget gaps, but it's unlikely states will be willing or able to rescue distressed municipalities as they have in the past. States face a huge reduction in the federal share of Medicaid funding while enrollment in the program expands.

If there is a spike in municipal bankruptcies in 2011 and 2012, a primary cause will be the massive costs public schooling was already imposing when the Great Recession hit.

We face a situation analogous to that of a large number of American families who have been struggling with unsustainable budgets: a house payment that was excessive even at the best of times, the loss of income when a spouse becomes unemployed and rising health care costs.

When a budget doesn't come close to adding up, the biggest expenditure usually has to give. That has meant foreclosure for many homeowners; and it means a serious restructuring of K-12 education spending for public officials. State and local governments need immediate relief from the financial demands of public schooling, and a long-term solution to the system's profligacy.

Teacher pension plans should be based on defined contributions rather than defined benefits to alleviate growing and unsustainable commitments. Public school employees must share a substantial portion of their own health-care costs. And school district finances must be made more transparent so waste can be identified and eliminated.

## **Tax Credits**

While these measures would lessen the immediate pain, they would do nothing to reverse the system's propensity for increasing real spending over time. Inflation-adjusted expenditures per student have more than doubled to around \$12,000 over the last three decades, about 50% more than the typical private school spends. The extra

resources have delivered no increase in student achievement by the end of high school.

We need a more effective and efficient means of investing in education.

Nine states have begun using education tax credits to encourage more private spending in lieu of government funds we simply do not have. Unlike vouchers, tax credit programs encourage individuals and businesses to invest their own funds, rather than government money, in K-12 education.

Like all private-school choice programs, these tax credits save large sums — more than \$500 million a year in Pennsylvania, up to \$180 million in Arizona, and potentially billions of dollars over the first five years for many states if they adopt a broad-based education tax credit program. They are also a proven way to increase academic achievement in public schools.

Citizens and businesses want to invest directly in the effort to educate the public, and we should encourage them to do so through K-12 education tax credits. Given our state and local financial outlook, we have no promising alternative.

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