

# From Pandemic to Progress

Eight Education Pathways for COVID-19 Recovery

FEBRUARY 2021

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## *Prioritizing Equity in School Funding*

Inequitable access to funding is a foundational driver of inequity in schools. Reliance on local property taxes, which account for a significant portion of school funding in most states, is a root cause of this inequity. This common funding structure ties school dollars arbitrarily to the local real estate market rather than the needs of students and schools — which often means that lower property values in some districts translate to less funding for their schools compared to districts with more valuable property.

Relying on local property tax for school funding has a long history, inextricably linked to commonly held beliefs that local communities should have some say in how local schools operate. But we are long overdue in acknowledging that allowing local real estate conditions to significantly determine funding for local schools doubles down on the impact of decades of housing and zoning policies and community preferences that break along racial and economic lines. The current reality disadvantages communities who need more, not less, support to ensure equitable opportunities. The bottom line is that providing students with

**In the wake of COVID-19, as we recommit to closing equity gaps that were amplified by the pandemic, school funding should be decoupled from the real estate market, with local property taxes playing a minimal or vastly different role in the funding of school operations.**

*From Pandemic to Progress* puts forth eight ambitious but achievable pathways that leaders and policymakers can follow to rebuild education – and student learning and well-being – as the country begins to emerge from the COVID-19 pandemic. To read more from this series, visit [www.bellwethereducation.org/pandemictoprogress](http://www.bellwethereducation.org/pandemictoprogress).

equitable educational opportunity requires ensuring equitable access to basic resources to support their success. Doing so requires states to break the connection between local property values and school funding. It is a necessary, if not sufficient, step — and won't be easy, but there are options:

#### OPTION 1

States could transition to a predominantly state-funded public education system, replacing local property tax funding with state funding, distributed equitably through formulas that connect funding to students' educational needs, or

#### OPTION 2

States could allow local property tax to continue to play a role but use state dollars and policies to level the playing field so that communities with lower property values aren't systematically disadvantaged.

### Where does school funding come from, and what drives inequity?

Public schools receive a mix of federal, state, and local funds, with each source making up 8%, 47%, and 45% of total school funding, [respectively](#). While these percentages hold true on average nationally, there is wide variation in this distribution across sources between and within states. For example, New Hampshire relies on local revenues for over 62% of total school funding, whereas neighboring Vermont's schools get nearly 90% of their dollars from the state. As of 2016-17 (most recent data available), in 39 states, local revenue accounted for at least a third of school [funding](#).

Local public school funding comes almost exclusively from property taxes. In 2016-17, property tax revenues provided 82% of local funds for schools on average [nationally](#).<sup>1</sup> Unlike federal and state dollars for schools, which primarily flow through formulas that consider both the number of students and their educational needs across districts, local property tax revenues are entirely dependent on the value of real estate within district boundaries. Because local property values vary significantly from district to district, local school districts have access to very different levels of funding through these taxes, even when they adopt similar tax rates. The result can be big differences in funding per student among districts.

Nearly all states require that local school districts pitch in some portion of funding for schools. Most states then provide more or less state funding in response to the amount of local funding each district can [generate](#). The method for calculating that local funding requirement varies. Most commonly, states apply a formula to determine how much total funding a school district should receive. Imagine that a school district's total funding is a cup — the formula determines the size of that cup.

Once the size of the cup is established, state and local revenues combine to fill it up. One common method states use to determine how much local revenue goes in is based on an assumed local property tax rate. The amount of local funding each district contributes is whatever amount that assumed tax rate produces in each district. Because of variation in the value of taxable property, that calculation will produce different amounts of revenue from district to district. But whatever that amount, it goes into the cup.

After local funding, the state pours in whatever state revenue is needed to fill the cup, up to the total funding amount determined by the state formula. This type of funding structure can be highly equitable in that every district receives a comparable formula-determined level of funding, and the mix of local and state funds adjusts for variation in local property tax [value](#).

The equity challenge emerges when districts generate *more* revenue locally than is required to fill the cup and are permitted to retain that revenue for local schools, effectively increasing the size of their cup. This can happen for two reasons: (1) Local property values are high enough to produce more than the formula-determined funding level for schools, and/or (2) local voters opt to levy a higher tax rate to generate additional funds for their local schools.

Unless state policy intervenes, this ability for some districts to generate and retain more local revenue than others creates two types of inequity: (1) Students attending school in districts with less access to local revenue attend lower-funded schools, and (2) taxpayers in different districts experience inequity in their ability to generate funds for schools. Taxpayers in districts with less valuable property must tax themselves at a higher tax rate to generate the same amount of funding for their schools compared to their more property-wealthy neighbors.

As a result, the value of local property plays a determinant role in how much funding is available to community schools, reflecting disparities across districts and often resulting in fewer resources in schools serving the most resource-constrained communities. These disparities may translate to less money to pay teachers and invest in learning resources, fewer opportunities for specialized academic and enrichment programs, and comparatively less flexibility to customize programming and supports.

## **What are states doing now to address local funding inequity, and how can they go further to decouple school funding from local property values?**

Some states mitigate the impact of variation in local property wealth by limiting local tax rates, effectively capping the amount of inequitable funding. Other states provide supplemental funding to account for differences in local taxable value — essentially ensuring a minimum amount of revenue will be generated at a given tax rate, though those structures are less common. The majority of states place limits on local property taxes, but even so, inequities persist because no state currently addresses the problem entirely.<sup>2</sup>

The solution lies in decoupling school funding from the value of local real estate. Making this move won't completely solve school funding challenges — it won't address inequities that may be baked into state funding formulas, and it won't address situations in which overall funding levels are inadequate to drive the student outcomes we seek. But it would be a significant step forward for equity.

There are essentially two ways to shift to a school funding system that is significantly less dependent on local property wealth.

## OPTION 1

### **Eliminate local property tax as a funding mechanism for school operations, and transition to a predominantly state-funded system.**

The most equitable approach would eliminate local revenues from school funding entirely. This requires swapping state dollars for local ones and distributing all school funding through state formulas. State lawmakers would need to identify a source of state revenue — either enhancing an existing state tax or creating a new one. For example, states could opt to replace local property taxes with a new state property tax or enhance other common state taxes, such as income or sales taxes.

Leaders could design a “revenue neutral” policy, simply swapping funds and resulting in neither a substantial increase nor a decrease to school funding statewide. But if the goal is improving equity, any solution will necessarily change the distribution of revenues among districts, enhancing funding in districts previously at a local funding disadvantage and constraining funds in higher taxing and/or more property-wealthy districts. Unless this type of change is coupled with an influx of new funding, allocated equitably but ensuring that all districts are at least kept whole, it will result in “winners” and “losers.” Political leaders may be loath to support a policy change that reduces funding for the schools in their political districts, a challenge exacerbated where constituents in the affected school districts, which would tend to include more affluent communities, exert significant political influence. Providing sufficient new revenue to ensure that no district receives less revenue under a revised system can be one (expensive) solution. Phasing in change over a defined period to allow state systems and local districts to adjust is another strategy. Regardless, a meaningful change of this magnitude for equity will require an investment of political capital, courage, and possibly new dollars for schools.

## OPTION 2

### **Allow for some continued local discretion, but enact policies to help ensure that all districts can access similar levels of revenue locally.**

Many places across the country hold a strong belief that local communities should have a say in local funding and operations. The primacy of this value of “local control” of schools presents a substantial political barrier to addressing all kinds of inequities that emerge among schools and school districts, including funding inequity. So if shifting to completely state-funded schools — the strategy that guarantees equitable funding across districts — isn’t practically or politically feasible, the second best option is to contain inequity by compensating for differences in local districts’ capacity to raise revenue. These types of policies can allow for some local discretion while evening the playing field.

Two policy options allow states to prioritize local control while making school funding more equitable:

### OPTION 2A

**Cap local property taxes for schools to limit the degree to which local revenue decisions can create inequity across districts.**

Multiple states already cap local property tax rates, both as a means of promoting equity and in an effort to mitigate the overall tax burden for [taxpayers](#). Capping tax rates doesn't address all inequity created by varying tax behavior and values across districts, but it does limit the degree to which local jurisdictions can choose to increase it. Policymakers can extend these caps to further decrease the ability for local districts to generate excess revenue above what's required to "fill their cup."

### OPTION 2B

**Use state funds to supplement local property tax revenues to enable local taxpayers to realize similar revenues at similar tax rates.**

Imagine two school districts with the same voter-approved property tax rate of 0.01% but property tax bases with different total values. Absent state intervention (Scenario 1), the district with the larger property tax base pulls in more funding, even though the rate is the same. The state can improve equity by augmenting District X's revenue to meet the revenue in District Y (Scenario 2). This structure enables District X's taxpayers to have the same revenue-generating power for the same level of tax effort as District Y.

#### Scenario 1 > With a Local Property Tax Rate of 0.01% for Both Districts

	Total Property Tax Base	Property Tax Revenue
District X	\$100 million	\$100,000
District Y	\$200 million	\$200,000

#### Scenario 2 > With a Property Tax Rate of 0.01% for Both Districts, Plus Supplementation

	Total Property Tax Base	Property Tax Revenue
District X	\$100 million	\$100,000
State Supplement		+ \$100,000
		<hr/> \$200,000
District Y	\$200 million	\$200,000

Policymakers need to design such a policy carefully to avoid creating incentives to raise local tax rates excessively. For example, pairing it with a tax rate cap or other structures could make rate increases beyond a certain level impossible or at least less appealing. For example, Texas’s school funding system includes a mechanism that provides decreasing supplemental funds at higher tax rates, reducing the financial incentive to raise [taxes](#).

Because this type of structure allows local districts to set different rates, essentially opting in to higher revenues, it does not guarantee that schools in districts that make different taxing choices are funded the same. But it can ensure that taxpayers get the same revenue bang for their tax rate buck regardless of their local property values.

The fundamental goal of both options is to shift school funding in the direction of equity, but they are not equivalent. Option 1 presents a more complete solution to the inequity of locally funded schools. While it may seem radical given the long history of local funding of schools, it could be phased in to ease transition and could help taxpayers by leveling tax burden across communities. Nevertheless, Option 1 may simply be infeasible in some places. Option 2, which builds on strategies many states already employ, can move the needle on equity, but doing so will require policymakers to take these policies much further than they go today.

### **Without meaningful reform, current funding practices will perpetuate inequity.**

Funding alone will not ensure equitable outcomes for students, but absent funding equity, local education leaders in lower-funded districts have little hope of providing the same opportunities afforded students in more affluent districts. Students deserve access to the same resources for their schools to support their educational success regardless of how much the homes, businesses, and land in their communities are worth, and communities deserve relief from the compounding effects of deriving school revenue from property values shaped by decades of inequitable and discriminatory policies and practices.

Disparities in access to revenues have been at the heart of many school finance lawsuits over the years, with local funding playing a central role. While court-mandated remedies have often provided temporary relief, they have rarely addressed the root cause of the problem: reliance on an inherently inequitable revenue source. Decoupling school funding from local real estate markets, in whole or in part, would be a major political undertaking in many states but a worthy one. Proactively enacting a permanent solution by removing that link would be a massive blow to decades of systemic inequity embedded in how we fund education.

To read more from this series, visit [www.bellwethereducation.org/pandemictoprogress](http://www.bellwethereducation.org/pandemictoprogress).

## Acknowledgments

Thank you to the Walton Family Foundation for their financial support of this project, to Super Copy Editors, and to Five Line Creative for graphic design. Any errors in fact or analysis are the responsibility of the author alone.

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## About Bellwether Education Partners

Bellwether Education Partners is a national nonprofit focused on dramatically changing education and life outcomes for underserved children. We do this by helping education organizations accelerate their impact and by working to improve policy and practice. Bellwether envisions a world in which race, ethnicity, and income no longer predict opportunities for students, and the American education system affords all individuals the ability to determine their own path and lead a productive and fulfilling life.

## Endnotes

- 1 Other local revenue sources include a mix of local sales and use taxes, fee revenues, and tuition.
- 2 Hawaii is the exception because it operates as a single statewide district and therefore does not leverage local district-generated revenues.