Balancing Act

How States Can Address Local Wealth Inequity in Education Finance

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Bellwether

Executive Summary

The vast majority of funds for pre-K through grade 12 public schools in the United States — nearly $800 billion or over 90% — come from state and local funding sources.[1] School districts have wide latitude to generate money for their own local schools via property taxes. Because of this reliance on property taxes, wealthy communities can generate ample funds for schools relatively easily, while less wealthy communities struggle to keep up. These gaps often mean that students can't access the same educational opportunities and resources from district to district, a threat to the fundamental promise of public education. Local wealth gaps can be especially detrimental to students of color and low-income students, many of whom attend schools in communities with less property wealth.[2]

States, not school districts, are obligated to ensure that all students have access to the resources they need to succeed. Despite this, most state policies don't do nearly enough to close revenue gaps between districts in wealthy and less wealthy communities driven by local revenues. But even within the constraints of an inequitable, property tax-centric system, there are state policy solutions that can help.

States can take steps to reduce disparities between districts based on their property wealth. This brief outlines three broad ways that states can allocate state and local revenue more equitably, as well as examples from states that have enacted these policies. The three policy approaches are as follows:

1. **Accurately calculating and incorporating measures of local wealth into funding formulas**: Better estimating how much a local district can raise toward their total formula amount, which enables state funds to be allocated more efficiently and equitably.

   Strategy: Local fiscal capacity measure

2. **Allocating additional funding to less wealthy districts**: Guaranteeing similar revenue-generating powers for less wealthy districts or requiring districts to share money raised in excess of formula expectations with the state.

   Strategies: Equalization funds or compensatory funds; Sharing excess local revenue with less wealthy districts

3. **Exerting state control over property tax policy**: Replacing a local property tax with a statewide uniform property tax, distributed by the state, or placing a cap on local property taxes.

   Strategies: Statewide property tax; Cap on local property taxes

States can choose to implement one of these policy approaches or a combination of them. To design a set of policy solutions, policymakers should consider five design principles:

EQUITY

How well does the policy level the playing field between districts and taxpayers in wealthy and less wealthy communities?

TRANSPARENCY

Does the policy make it clear which government entities are responsible for education revenue?

FEASIBILITY

Is there local buy-in and a policy environment enabling effective implementation of the policy?

EFFICIENCY

Does the policy enable efficient use of state resources to fund all public schools?

STABILITY

Does the policy rely on a predictable funding source that is less susceptible to economic events such as recessions and that enables predictable planning over time?

In addition to these design principles, states should consider political and policy dynamics that are unique to their local context. Politically, wealthy communities benefit considerably from the status quo and may resist any proposed reform that limits their ability to directly generate additional revenue for their local schools. Policy-wise, these are complex issues with hefty price tags and deep histories in each state. Each policy move has trade-offs, and there isn't one uniform answer that achieves equity and adequacy for students while balancing political realities. However, a statewide uniform property tax, while politically fraught, offers the most potential to reduce funding disparities between wealthy and less wealthy communities.

Despite political and technical challenges, there's a far greater cost if state policymakers don't act. Districts hurt the most by funding inequities tend to enroll students with the greatest needs for educational support and resources. Right now, additional federal funds are papering over those gaps, but this is only a temporary fix.[3] Schools need resources to educationally recover from the COVID-19 pandemic and give their students the educational experiences they need and deserve. This brief offers states solutions to address revenue disparities between school districts based on their wealth as one starting point toward a stronger educational future.

Introduction

State school funding policies must provide **enough funding** (adequacy) to support education needs and goals and ensure that funding is distributed efficiently **where it's most needed** (equity).[4] In an equitable funding system, money would be apportioned to schools and districts based on students' educational needs, not on the wealth of the communities where they live (Sidebar 1). That's far from the current funding system, where nearly half of school funding on average comes from local property taxes.[5]

Most state school funding systems split the responsibility for school funding between the state and local school districts. Most school districts have wide latitude to generate money for their own local schools through property taxes, and state policies don't do nearly enough to close revenue gaps between districts based on property wealth. Thus, differences in the value of homes and commercial properties among communities translate to differences in funding for local schools.

As an illustration of these gaps, in 2015, districts ranking in the top 1% of funding per pupil had three times the per-pupil revenue of other districts, a difference that is largely fueled by local funds.[8] These highest-funded districts serve a student population that is more likely to be white and much less likely to come from low-income families.[9]

Revenue gaps like this mean that students in less wealthy districts don't have access to the same resources and opportunities as their peers in wealthier districts. This reality threatens the fundamental promise of public education.

SIDEBAR 1

A Note on "Wealthy" School Districts

Throughout this brief, "wealthy districts/communities" refers to communities with higher property values than other communities. While higher property wealth within a district often correlates with higher-income residents (and therefore students), that is not always the case.[6]

For example, a city might be home to many low-income students and have high property values relative to the rest of the state. It's important for states to account for both relative community wealth, via the mechanisms described in this brief, and student need, via student-based funding formulas.[7]

Relying on property wealth to fund local schools creates problems for district-level funding equity as well as taxpayer equity:

- Lower-wealth districts have less access to local revenue in absolute terms.
- Lower-wealth districts must tax their residents at *much higher* rates to approach the levels of funding that wealthier districts can raise at *much lower* tax rates.

Because school district boundaries are often segregated by race and class, with substantial differences in property value across district lines correlating with these demographic differences, local funding inequities can then produce disparities in educational opportunities for students of color and students from low-income families.[10]

There are, however, major political hurdles to enacting policies that truly close local revenue gaps between wealthy and less wealthy communities. Many communities and interest groups across a spectrum of political and ideological views support the idea of local control of schools, including the ability to raise revenue via local taxes with local voter approval. Communities may oppose funding policies that limit their power to generate local tax revenue. Additionally, wealthy communities tend to wield strong political influence in statehouses, creating potential headwinds for policy change.

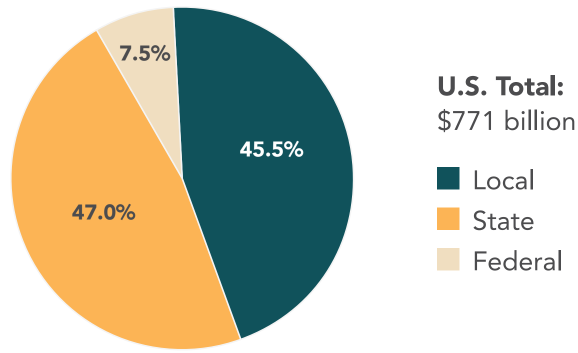
To better understand how state and local funding policies can exacerbate or fix disparities between schools, it's important to understand how state and local funding for schools is raised and distributed and how state policy solutions can help create a more equitable system. In this brief, we begin by explaining the role of local revenue sources, especially property taxes, in school funding and how relying on local property taxes can create equity challenges for school districts. Then, we share three types of state policy approaches by which states can address these challenges, with the ultimate goal of ensuring that all students — regardless of where they live — receive the educational resources they need to be successful.

How Is State and Local Revenue Distributed in Education Funding?

About 93% of the nearly $800 billion in the pre-K through grade 12 public school system comes from state or local tax revenue sources (Figure 1).[11] State policies play a large role in determining the allocation of those funds among school districts and charter schools.

Most state funding systems first determine how much total funding a district should receive based on factors such as enrollment, student need, etc.[12] Then, the state determines how much of that total will be funded by the state versus the district, often referred to as state or local "share." Those state and local share amounts are often based on how much the state estimates a local district can raise in local revenues, a calculation sometimes referred to as "local fiscal capacity."

FIGURE 1: REVENUE SOURCES FOR PRE-K THROUGH GRADE 12 PUBLIC SCHOOLS, 2019-20



Source: "2020 Public Elementary-Secondary Education Finance Data," U.S. Census Bureau.

States often cover a higher share of costs for districts with lower local fiscal capacity and few to no costs for districts with higher fiscal capacity. So, a less wealthy district might only cover 10% of its total formula funding with local revenue, while a wealthy district may be required to cover 90% or more of its total formula funding with local revenue. Many state policies also allow districts to raise more money than the formula determines they require.

Of the 46% of funds coming from local governments, the vast majority — 80% of local funds for schools nationally — comes from property taxes[13] (Sidebar 2). The main drawbacks of relying on property taxes to fund schools are widened revenue generation disparities among districts, heavier tax burdens for less wealthy communities, and school funding being tied to the health of the real estate market.

Another drawback of schools' reliance on local tax revenue is the way it can affect public schools outside a traditional district governance structure. Differences in funding between traditional school districts versus charter schools or other schools outside of district governance are often at least partially attributable to access to local tax revenues. While local governments raise a significant portion of education funding for district-run schools, non-district-run charter schools or other public schools outside a district structure might not receive any local funding. Many states create parallel funding systems to account for these differences among schools. This hurts the overall transparency of the system and means different public schools are funded by different rules. Similarly, differences in local funding from district to district can also complicate incentives schools have to enroll students who live outside the district boundaries, a policy known as "interdistrict open enrollment."

Despite the drawbacks, there are benefits to using property taxes to fund schools. First, property taxes tend to be more stable than sales or income taxes (which make up many states' revenue sources) and tend to fare better through economic downturns.[14] It could also be argued that local funding for local schools, including local control over property tax, may result in more funding for schools overall because communities are willing to tax themselves to a greater degree if they see direct benefits to their schools.[15]

State policies can help balance the scales of local wealth disparities among school districts and create more equitable school funding systems. States may have the power to **limit or eliminate** districts' revenue-generating powers, or they may choose to **allocate additional funding** to less wealthy districts, either by directly filling in gaps with state funds or by **sharing excess funds** from wealthy districts. Some states do a combination of both.

Critics may argue that spending decisions are better left up to local communities and that efforts to reduce local discretion in property tax revenue could lead to less investment in education overall. If all schools are funded to a level of educational adequacy, does it matter if a wealthier community "chooses" higher property taxes to afford "extra" educational amenities or resources like additional staff or better-equipped extracurricular activities?

We believe it does matter. Families living in less wealthy communities would likely also support increased investments in their schools, but they simply don't have access to the same resources. And educational "extras" do affect students in less wealthy communities if they cannot access educational opportunities and enrichment, and their schools must compete for staff against district employers with much deeper pockets.

SIDEBAR 2

How Do Local Property Taxes Work?[16]

Local property taxes are typically collected on residential and commercial properties by school districts and/or local governments. Property taxes depend on two factors: **the assessed value of a property** and **the property tax rate** (often referred to as a "mill rate").

"**Assessed value of a property**" refers to the dollar value of a property and is based on several factors, including looking at comparable properties for a price comparison. A property's assessed value may differ from its market value for several reasons, including time passed between assessments and assessment practices. The "**mill rate**" refers to the tax rate levied per $1,000 on the assessed value.

(Assessed property value/1,000) x mill rate = Total property tax (in dollars)

For example, a $200,000 property with a tax rate of 20 mills would result in $4,000 in taxes [($200,000/$1,000) x 20 = $4,000].

There are a variety of potential levers for states to ensure that students in all communities — especially students of color and-low income students — have equitable resources they need to meet their educational goals.

How Can States Address Funding Inequities Caused by Disparities in Local Wealth?

There are several ways that states attempt to address inequities in local funding capacity among districts. These policies are not mutually exclusive; states often enact a combination of **three broad approaches**:

1. Accurately calculating and incorporating measures of local wealth into funding formulas.
2. Allocating additional funding to less wealthy districts.
3. Exerting state control over property tax policy.

The following tables highlight the definition, benefits, and drawbacks of each approach, as well as examples of states where these mechanisms are currently in use. These states illustrate how each policy approach can look in practice, depending on local context and environment, and are not necessarily exemplars.

Our analysis of each policy approach is based on five design principles for what makes an effective and equitable funding system as well as what may be possible politically.

EQUITY
How well does the policy level the playing field between districts and taxpayers in wealthy and less wealthy communities?

TRANSPARENCY
Does the policy make it clear which government entities are responsible for education revenue?

FEASIBILITY
Is there local buy-in and a policy environment enabling effective implementation of the policy?

EFFICIENCY
Does the policy enable efficient use of state resources to fund all public schools?

STABILITY
Does the policy rely on a predictable funding source that is less susceptible to economic events such as recessions and that enables predictable planning over time?

As state policymakers and advocates assess their own policies and decide which approaches to pursue, these questions should be on the agenda.

APPROACH 1

Accurately calculating and incorporating measures of local wealth into funding formulas

As explained above, most states have some kind of local fiscal capacity estimate as part of their education finance system. This measure estimates how much a local district can generate to fund their total formula amount (estimated total need) and thus helps the state allocate state funds efficiently and equitably to fill gaps in local revenue (Table 1).

There is, however, no single perfect measure of local fiscal capacity because relative local wealth, income, and taxation authority is complex. We provide one illustration of such a measure in Virginia. It's essential that local wealth measures accurately reflect real differences in revenue-generating abilities among communities.

TABLE 1: LOCAL FISCAL CAPACITY MEASURE

Overview	• Many states use a calculation of local fiscal capacity to estimate a local community's ability to raise money for schools. • States use this calculation to determine how much of a district's total formula amount will be paid by the state (state share) versus locally (local share), with more state money going to districts with lower local fiscal capacity. • Property wealth/valuation is the most common metric states use to gauge local fiscal capacity as it relates directly to how much property tax a locality might feasibly generate. Some states also consider factors such as residents' income, sales tax revenue, or historical funding levels.[17]
Benefits	• **Equity**: A well-designed local fiscal capacity measure should track closely with how much revenue local school districts will actually generate. This allows states to accurately allocate funds based on local districts' real ability to generate funding themselves. However, a poorly designed metric that doesn't accurately estimate local fiscal capacity can also contribute to inequity, as discussed below. • **Transparency**: This policy creates transparency around the share of the total cost of public education that will be covered by the state and local communities.

Drawbacks	• **Equity — potential for error**: Local fiscal capacity estimates are based on easily available information, like total taxable property value and average resident income. These metrics don't always capture the complexities of an individual community. Additionally, in some cases, local fiscal capacity calculations aren't based on actual tax levies, which can also lead to either understating or overstating what local communities can contribute. Underestimates or overestimates are both problematic.
	    • **Inefficiency**: An *underestimate* of local fiscal capacity means that state dollars are spent inefficiently on districts that can self-fund to a higher degree.
	    • **Taxpayer burden**: An *overestimate* of local fiscal capacity could strain taxpayers and result in underfunded schools without the resources to provide a quality education.
	• **Efficiency**: Local fiscal capacity calculations often only apply to the formula amount for a district, not any other elements of total funding, including additional local funding raised, state categorical aid, or federal allocation. When local fiscal capacity calculations are limited to just the formula amount, they often don't take a comprehensive view of all funding sources available locally.

STATE PROFILE: VIRGINIA[18]

Virginia's state constitution requires the Board of Education to determine the basic set of standards that all public schools in the state must meet.[19] These standards, known as the Standards of Quality (SOQ), form the basis for determining how much total funding is needed to ensure that the SOQ are being implemented. In fiscal year 2022, the Virginia General Assembly allocated about $8 billion in total funding for the SOQ.[20] The state requires all local school districts to match a portion of this total funding, also known as "required local effort."[21]

The state uses a calculation called the "Composite Index" to determine a district's ability to pay its share of total funding. The Composite Index relies on three indicators[22]:

- True value of real property (weighted 50%).
- State adjusted gross income (weighted 40%).
- Taxable retail sales (weighted 10%).

The index is updated every two years and adjusted to ensure that the average statewide local share for each district is 45% and the overall state share is 55%.[23] The overall index is calculated as a weighted average of measures of prosperity relative to the state average on both a per-student (two-third) and a per-total-state population (one-third) basis.[24] The state also contributes at least 20% of funding for every district, including those with the ability to fully self-fund.[25]

Virginia's example is a relatively complex local fiscal capacity formula, which makes the impact of different elements difficult to assess, but there are some clear equity weaknesses that favor wealthy districts. For example, the formula likely underestimates true revenue capacity for wealthy districts, which are permitted to raise more than the required local effort.[26] And the state guarantee of 20% of funding provides disproportionate benefit to the wealthiest districts. These challenges underscore the importance of developing a fiscal capacity measure that accurately assesses a local community's ability to raise funds.

Allocating additional funding to less wealthy districts

In addition to using a local fiscal capacity estimate to allocate state funds, some states, such as Georgia, layer on an additional revenue stream specifically for less wealthy districts (Table 2). This can come directly from the state, as in the case of equalization or compensatory funds. The state can also mandate that a portion of local funds raised by wealthy districts in excess of formula expectations be paid back into the state system and shared, as is the case in Texas (Table 3).

TABLE 2: EQUALIZATION FUNDS OR COMPENSATORY FUNDS

Overview	• States can provide additional revenue boosts to local communities with a lower fiscal capacity, with the goal of guaranteeing a minimum level of revenue-generating power for all districts. • Less wealthy districts that choose to tax themselves at a higher rate get a revenue boost from the state, rewarding higher levels of local effort and narrowing revenue gaps between wealthy and less wealthy districts.
Benefits	• **Equity**: Targets state funds toward districts in greater need of state aid, leveling the playing field for funding. • **Feasibility**: This policy may not face the same political barriers as other policies that limit the abilities of wealthier school districts to raise revenue.
Drawbacks	• **Efficiency**: This policy may strain state budgets. States are rarely able to fully equalize funding between districts if wealthy districts are allowed to raise local revenues without limitation. • **Transparency**: While this policy enables districts to add discretionary dollars on top of the base amount needed to provide a quality education, it still encourages significant differences in funding between districts. These differences may not be visible in an otherwise equitable state system.

STATE PROFILE: GEORGIA

The Quality Basic Education (QBE) Act of 1985 created Georgia's foundation funding formula.[27] The QBE also led to the implementation of the state's equalization grant, which is intended to close the gap between wealthy and less wealthy school systems.

Georgia uses two main components to determine the amount of funding that districts can receive through the grant: assessed value of property and local millage. The state ranks all school districts by property wealth per student from highest to lowest and calculates the state average after excluding the top and bottom 5% of districts. For districts with less property wealth per student than the average, the difference between their wealth and the average is multiplied by the number of students and the property tax rate to determine the total amount of equalization funding earned.[28] Approximately 75% of Georgia school districts receive additional funding through the equalization grant.[29]

One of the challenges with the equalization program is that the money appropriated by state lawmakers is significantly less than the earnings calculated by the equalization formula.[30] This underfunding of the equalization program has led to a proration in formula earnings without any regard given to the wealth rankings of a community, which means that less wealthy systems still receive the same percentage of the grant as communities that rank higher in wealth.[31] These concerns underscore the need for a simpler, more transparent formula to calculate how equalization funds are being distributed.

TABLE 3: SHARING EXCESS LOCAL REVENUE WITH LESS WEALTHY DISTRICTS

Overview	• In instances where wealthier school districts raise funds far in excess of the amount the state's formula anticipates, state policies can collect some or all excess revenue and redistribute it to districts that need more resources.
Benefits	• **Equity**: This policy reduces disparities in funding based on property wealth by limiting the ability of high-wealth districts to raise money far in excess of the amount needed based on their enrollment and student needs, and ensuring that districts with additional needs receive adequate resources. • **Feasibility — local control**: This policy preserves local taxation authority but "takes a cut" from districts with very high local property values and the ability to generate funds locally.

Drawbacks	• **Feasibility — state and local buy-in**:
	  • Many state policy environments may oppose this type of policy.
	  • Local communities may be more likely to oppose local property tax increases since this additional funding is not fully benefiting their local schools.

STATE PROFILE: TEXAS

Texas state law requires certain school districts to share their excess local tax revenue to fund formula allocations for other, less property wealthy school districts — a mechanism often referred to as "recapture." If a district can generate more local revenue than is required to fully fund what the state funding formula determines it should receive based on enrollment, student characteristics, and other factors, some of the additional funds are recaptured by the state and used to fund state aid to other districts. Local fiscal capacity is based on the amount of local property tax revenue generated per student and local tax rates.[32]

About 250 Texas districts are affected by this provision. About $3 billion from these districts is recaptured by the state to assist with financing public education for all school districts.[33]

Texas's school finance system includes two "tiers," one in which all districts are required to participate and one that is discretionary. Recapture applies in both tiers, though it's applied slightly differently.

In addition, the discretionary tier is intended to allow local districts to levy higher local property tax rates with voter approval to raise supplemental funding for their schools. But the state ensures a minimum guaranteed level of revenue regardless of property value by providing supplemental state funds to less wealthy districts that choose to raise local property tax rates. This mechanism enables a less wealthy district to generate a similar amount of revenue at the same tax rate as a wealthier district, creating more equity for taxpayers and more equitable access to funding while enabling local discretion. Recapture also applies in this tier, tied to higher tax effort, which limits the abilities of very high-wealth communities to generate disparate discretionary funding and serves as a disincentive to raise local tax rates above a certain level. This equalization mechanism provides another example of "additional funding to less wealthy districts" and demonstrates how these policies can be combined.

The system in Texas results in a high level of equity in access to funding, particularly in the Tier One portion of the formula in which all districts are required to participate. However, the recapture system does create disincentives for local voters in higher-wealth communities to approve local tax increases. And it's worth noting that in some cases, "high-wealth" communities also serve high proportions of low-income students.

APPROACH 3

Exerting state control over property tax policy

State constitutions place the primary responsibility on states, not school districts, to ensure that all students have access to a high-quality education. This responsibility puts the burden on states to proactively determine how resources are distributed across and between districts.

States can use two primary methods to exercise more control over property taxes and reduce disparities between wealthy and less wealthy districts: replacing a local property tax with a statewide property tax (Table 4) and placing a cap on local property taxes (Table 5). Only a few states, including Vermont and Nevada, use a uniform statewide property tax rate that pools funds and then apportions this funding to districts. Other states, such as Kansas and Michigan, have laws that cap local property taxes.

TABLE 4: UNIFORM STATEWIDE PROPERTY TAX

Overview	• States can enact a uniform statewide tax rate that is levied on residential property, commercial property, or both. • States collect revenue from property taxes that is then distributed to school districts using the state funding formula. This eliminates the need for local school districts to contribute a separate share of revenue toward schools while increasing and stabilizing the pool of state-level tax revenue. • States may choose to partially move toward a statewide property tax and reduce local property taxes but not eliminate them.
Benefits	• **Equity**: States could improve funding equity by pooling revenue collected by the state and redistributing it to districts based on enrollment and student needs. • **Equity — for taxpayers**: This policy could improve taxpayer equity by lessening the need for less wealthy communities to tax themselves at a higher rate to keep up with revenue generated by wealthier communities. • **Equity — school type**: A statewide property tax system could create a more consistent way of allocating funds to public schools based on enrollment and student need rather than on governance structure. Reduced reliance on variable local property tax policies could improve equity for charter schools or for open enrollment between districts where there are significant differences in local funding between a student's district of residence versus another district where the student may prefer to attend school. • **Stability**: Preserving a mix of revenue sources, including stable revenue such as property taxes, makes schools less vulnerable to economic recessions. State property tax also improves predictability of funding since the property tax rate and funding for schools doesn't vary based on local taxing decisions and community wealth.

Drawbacks	• **Feasibility**:
	  ◦ This policy lessens local control over revenue, thus potentially making taxpayers less supportive of state taxes that wouldn't benefit their schools as directly.
	  ◦ This policy might face constitutional challenges in some states, making it less politically feasible as a policy mechanism.

STATE PROFILE: VERMONT

Vermont collects property tax revenue at the state level and then distributes it to local school districts via a student-based formula, eliminating the need for local districts to collect their own revenues in addition to reducing inequity in school funding from district to district. Vermont is currently one of two states that uses a uniform property tax rate.[34]

In 1997, the Vermont legislature passed a law that eliminated the use of local property taxes to fund schools.[35] The law passed shortly after the Vermont Supreme Court declared that the state's funding system was inequitable and unconstitutional because its dependence on local property taxes created disparities between wealthy school districts and less wealthy school districts.[36] These disparities were especially magnified in the state due to the presence of extremely wealthy ski communities, many of which opposed the law because of its perceived negative impact on their school districts.[37]

The 1997 law to reform the funding system created a statewide property tax for all "non-homestead" properties, meaning any property that is not considered a principal residence, such as vacation homes.[38] The statewide tax rate for all non-homestead properties is $14.66 for every $1,000 of assessed property value.[39] Local communities also use a property tax rate for homestead properties, and the proceeds are pooled together and redistributed to districts.[40]

Any equity gain from moving toward a statewide property tax is only as effective as the mechanism used to allocate funds to districts, and Vermont has some room for improvement. In 2019, for example, researchers found that the state's funding weights didn't adequately meet the needs of several student groups, including rural and low-income students.[41] This study has received some criticism for the way it accounted for the costs of educating student subgroups. In May 2022, Gov. Philip Scott signed a law that revises student weights and creates a new funding system for English learner students.[42]

TABLE 5: CAP ON LOCAL PROPERTY TAXES

Overview	• States can restrict how much money local communities can raise by capping local property tax rates, capping dollars generated in local revenue, or limiting localities to a percentage generated in excess of what the state's funding formula anticipates the district needs. • In many cases, these caps can be overridden with local voter approval. Twenty-seven states have policies that require some form of voter approval in order to generate revenue above the limit imposed by the state.[43] Some of these states do limit additional revenue to specific purposes such as transportation or school facilities.
Benefits	• **Equity — taxpayers**: This policy can improve taxpayer equity by keeping the highest possible local tax rates within reasonable bounds and reducing the need for less wealthy districts to tax at higher rates to keep up with wealthier districts. • **Efficiency**: This policy allows states to better anticipate local revenue-generating capacity and allocate state dollars accordingly. • **Feasibility — local control**: This policy preserves taxation authority of localities up to the cap and allows for greater flexibility than a mandated statewide tax rate.

Drawbacks	• **Efficiency**: When a cap is set too low or isn't paired with adequate state funds, it can contribute to funding inadequacy.
	• **Feasibility — local control**: This policy could face opposition from local communities at the time of passage because of perceived lack of local control over school funding, but communities also tend to adjust to these caps over time.
	• **Efficiency**:
	    • A capped tax rate would generate inconsistent local revenue results based on wealth — other policy mechanisms, like a local fiscal capacity estimate and/or equalization grants, are still needed.
	    • Local communities could make changes to assessment policies to get around caps on tax rates. This could lead to the state needing to step in to ensure that assessment of properties is being conducted fairly and equitably across communities.

STATE PROFILE: KANSAS

In 1992, the Kansas state legislature passed the School District Finance and Quality Performance Act (SDFQPA).[44] One of the provisions of the SDFQPA was that it established a statewide uniform property tax levy of 32 mills per district, meaning that a tax of $32 was levied for every $1,000 of assessed local property wealth.[45] The legislature sets this uniform levy every two years.[46] Over the years, the legislature has changed the uniform levy, and it currently stands at 20 mills.[47] In 2014, Kansas lawmakers required all revenue from the uniform levy to be remitted to the state treasurer and then distributed to school districts as part of their state foundation aid.[48] The following year, the SDFQPA was repealed in response to a state Supreme Court ruling around the lack of equity in the system and replaced with the Classroom Learning Assuring Student Success Act.[49]

State law requires districts to supplement state aid with a local option budget (LOB) equal to at least 15% of a district's total foundation aid.[50] Local school boards are permitted to exceed this amount and adopt an LOB equivalent to up to the statewide foundation aid average from the preceding school year.[51]

Since 1997, Kansas law has required the first $20,000 of assessed value to be exempted from the uniform mill levy. A recent legislative proposal would increase this exemption to nearly $100,000, which would reduce revenue by about $150 million.[52] This means that state policymakers would have to find an additional source of funding to cover this revenue gap. Additionally, since the levy is set every two years, it can negatively impact the ability of state policymakers and school districts to accurately predict the amount of funding being allocated through the uniform property tax levy. While the levy has stayed relatively stable at 20 mills for more than two decades, there is always a possibility that this levy could be increased or decreased by Kansas legislators.

STATE PROFILE: MICHIGAN

Before the passage of Michigan's Proposal A, local property taxes accounted for nearly 70% of revenue for public schools in the state.[53] With the enactment of Proposal A, the state/local funding split changed considerably, with state revenues now accounting for more than 80% of total revenue. The law caps local property tax at 18 mills per district on non-homestead properties, meaning that a tax of $18 is levied for every $1,000 of assessed property value.[54] This revenue is used to fund the state's foundation allowance, which is the minimum amount of per-pupil aid that each school district receives.[55]

Michigan does allow a "hold harmless" provision, which enables school districts to increase the mill rate only to maintain the previous year's level of funding.[56] This increase in the millage rate must be approved by local voters. In addition to the local property taxes levied on non-homestead properties, all property owners also pay a state property tax rate of 6 mills, known as the State Education Tax (SET).[57] The revenue from the SET is one of the sources of funding for the state's foundation aid.[58]

In this case, a hold harmless provision helped increase support for Proposal A by ensuring that no school district's funding level was negatively impacted by moving toward a uniform mill rate. However, since wealthy communities were able to maintain both their historically higher revenues as well as overall spending, the funding gap between wealthy and less wealthy districts continues to grow in Michigan.[59] To improve equity in the state, policymakers must explore opportunities for less wealthy districts to increase their revenue levels, such as by equalizing supplemental operating levies in these districts.[60]

Conclusion

States can and should take a much more active role to close revenue gaps between wealthy and less wealthy districts driven by disparities in access to local funding. Even within the constraints of a system dependent on local property tax and divided into economically and racially segregated districts, there are paths forward to reduce funding inequities based on local wealth. Depending on the equity goals being pursued by policymakers, each of the three policy approaches discussed above offers its own set of benefits and drawbacks:

1. Accurately calculating and incorporating measures of local wealth into funding formulas
2. Allocating additional funding to less wealthy districts
3. Exerting state control over property tax policy

These policies can work even better in combination. But as the state examples illustrate, crafting and passing equity-driven policies, then implementing them well, is not a straightforward task. Many relatively equitable and feasible policies are complex and expensive as they attempt to compensate for local taxation variance without suppressing the ability of wealthy districts to generate revenue.

As states consider these policy approaches, five design principles should guide this work:

EQUITY
How well does the policy level the playing field between districts and taxpayers in wealthy and less wealthy communities?

TRANSPARENCY
Does the policy make it clear which government entities are responsible for education revenue?

FEASIBILITY
Is there local buy-in and a policy environment enabling effective implementation of the policy?

EFFICIENCY
Does the policy enable efficient use of state resources to fund all public schools?

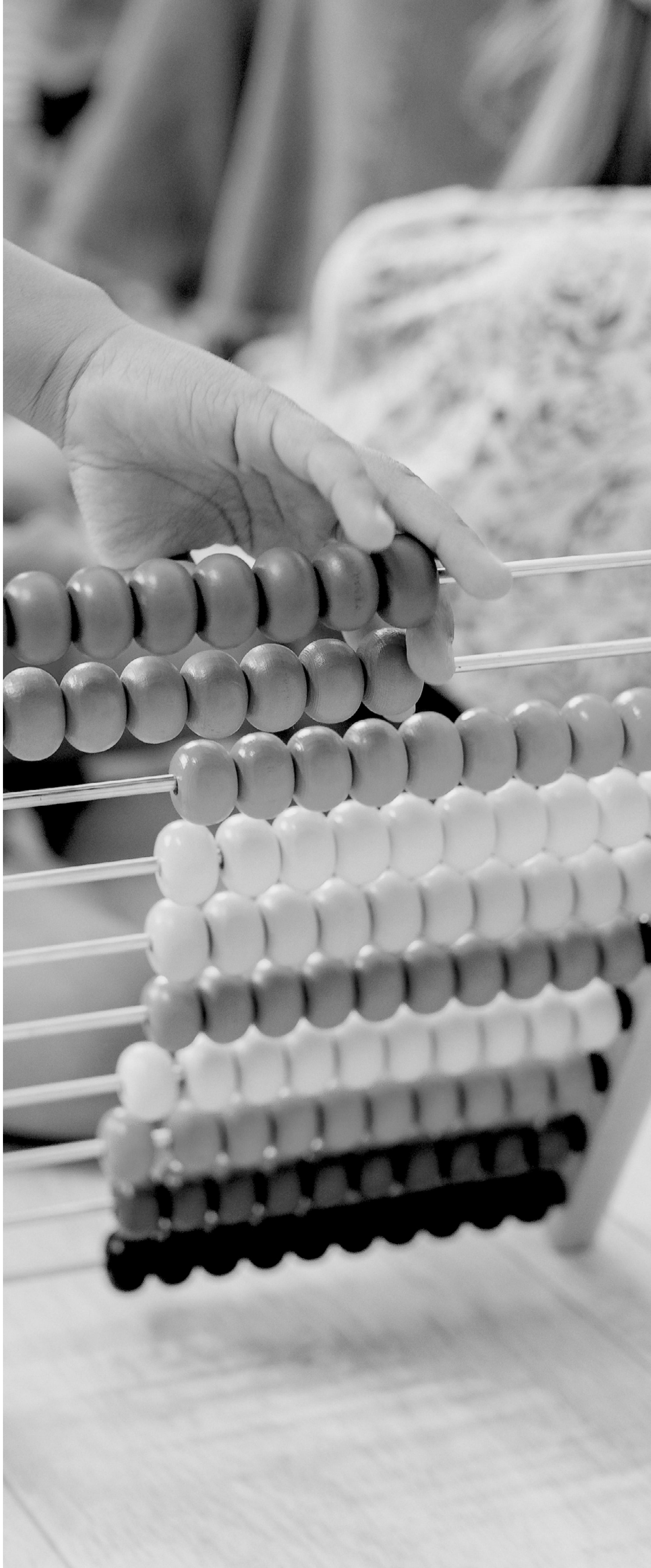
STABILITY
Does the policy rely on a predictable funding source that is less susceptible to economic events such as recessions and that enables predictable planning over time?

Based on these principles, **a statewide uniform property tax offers the most potential** to reduce funding disparities between wealthy and less wealthy communities. By setting a consistent rate and taking local variance out of the property tax game, all taxpayers are asked to contribute the same proportional share. And to the extent that states then allocate that revenue across districts through well-designed formulas based on enrollment and need, students in all communities are ensured a higher likelihood of attending schools that are adequately and equitably resourced.

A statewide uniform property tax also increases transparency and predictability of school funding and local taxes. And in the context of increasingly prevalent and varied forms of public school choice, a single system for funding public schools — whether they are charter schools or district schools, or whether students attend school within the district where they live or in another district — offers transparency, consistency, and equitable access to revenues.

However, enacting a statewide uniform property tax will require enormous political will in most states. Significant work must be done to convince local communities benefiting from the status quo to support changes to their taxes that don't exclusively benefit their own schools. A statewide uniform property tax may not be feasible for states that are politically or constitutionally committed to local tax as a funding mechanism for schools. But policies that fall short of that can still make significant progress toward ensuring equitable access to resources. States could pursue some form of equalization on tax effort to reduce the wealth disparities between school districts. Policymakers may also decide to enact a combination of various policy mechanisms, depending on local context and their goals.

Property taxes will continue to be a big piece of the revenue picture for districts and schools. Unchecked reliance on property tax, combined with segregated districts and existing gaps in educational outcomes and opportunities, is a recipe for continued inequity. Following the educational shocks of the past few years, policymakers must think more creatively to reduce disparities between districts based on property wealth. Acting on some of these policy approaches has the potential to disrupt the negative impact of property taxes and ensure that students in the least wealthy districts receive the resources they need to get a great education.



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About Bellwether

Bellwether is a national nonprofit that exists to transform education to ensure systemically marginalized young people achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we work hand in hand with education leaders and organizations to accelerate their impact, inform and influence policy and program design, and share what we learn along the way. For more, visit **bellwether.org**.

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