How Do Local Taxes Affect School Finance Equity?

#6 IN THE SERIES • OCTOBER 2021 *(updated October 2023)*

Property taxes are the most common mechanism to generate local revenue for public school systems but are also a long-standing source of inequity. Policymakers and advocates should be aware of the challenges created by local funding mechanisms in their states and consider potential policy solutions to produce more equitable education funding.

How Property Taxes Fund Schools

The largest share of funding for public schools (47%) is generated by taxes at the local level.[1] Property taxes are the most common source of local tax revenue for public schools in large part because they provide a stable revenue stream compared to taxes on sales or income.[2] These taxes can be set by counties, towns, or school boards, depending on state policy.[3]

Property taxes are typically collected based on two variables: assessed value of property and property tax rate, sometimes called the "mill" rate. The **assessed value** of a property is the dollar value used by a local government to determine how much a particular property is worth. The assessed value of a property may not always match the *market value*. Some local governments use an assessment rate to translate the market value of a property into taxable value.[4]

The **mill rate** is the number of dollars per $1,000 in assessed value that property owners will owe each year. The mill rate multiplied by assessed value equals local property tax bills, calculated as follows:[5]

$$\left(\frac{\text{Assessed value}}{\$1{,}000}\right) \times \text{Mill Rate} = \text{Local Property Tax Bill}$$

Example

$$\left(\frac{\text{Home valued at } \$200{,}000}{\$1{,}000}\right) \times \text{Mill Rate of 30} = \$6{,}000 \text{ in Property Tax}$$

In some instances, state policy directly shapes or limits property taxes. Some states include caps on how much mill rates can grow each year; other states limit the growth in the assessed values of properties over time.[6]

How Property Taxes Produce Education Finance Inequities

School districts generate revenue from the local property tax associated with property located within districts' geographic boundaries. When school districts have significantly different levels of property wealth producing those tax revenues compared to one another, a massive barrier to equitable educational finance results.

Example

The taxable property wealth in Bridgeport, Connecticut, is equivalent to more than $500,000 per pupil.[7,8] However, neighboring Fairfield, Connecticut, has nearly $2 million in taxable property wealth per pupil — more than *three times* that of Bridgeport.

For these two communities to generate the same dollar amount of per-pupil funding for their local public schools, Bridgeport would need to tax itself at a significantly higher rate than Fairfield. Bridgeport's 2022-23 mill rate (43.45) is significantly higher than Fairfield's (27.42),[9] but it is not enough to overcome the massive gap in wealth between these two communities. This story repeats in many parts of the country.

Making Local School Funding More Equitable

The way school district boundaries are drawn and the way school funding formulas account for differences in tax capacity among districts can reflect, amplify, or mitigate property wealth inequality. In addition to crafting state funding mechanisms that direct funds toward districts serving students with the highest needs, state policymakers can also implement policies that directly address local funding inequity by constraining runaway local taxation by wealthier districts, compensating for local revenue differences with state funds, and/or redistributing some of those funds:[10]

- **Capping local revenue**: State policymakers can set a limit on the amount of per-pupil revenue local communities can generate for their public schools.

- **Supplementing local tax revenues in lower-wealth districts to equalize their ability to generate funding**: States can provide additional funding to lower-wealth districts who choose to set a higher tax rate to ensure they get the same revenue for their tax effort that wealthier districts get.

- **Implementing redistributive mechanisms for exceeding local revenue caps**: If communities wish to generate more revenue for their local school system above the cap, policymakers can set a rule that for every additional dollar generated above the cap, another dollar must be allocated to a state fund for schools in lower-wealth communities.

- **Enacting a statewide property tax**: Moving from many locally collected taxes to a single, statewide property tax is the most direct way to address property wealth inequities among school districts. Vermont is the only state to implement a state-level property tax system for financing education.

Questions for Advocates

- *How do property wealth per pupil and mill rates vary by school district in your state?*

- *Do school districts in your state have non-property tax local revenue sources?*

- *Does state policy work to compensate for differences in local revenue capacity among districts? If so, how?*

- *What policies might help improve the equity of local funding in your state?*

Endnotes

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9 State of Connecticut (2022), FY 2022-2023 Mill Rates, https://portal.ct.gov/-/media/OPM/IGPP-Data-Grants-Mgmt/FY-22-23-ADM_MillRates-882022.pdf.

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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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Any errors in fact or analysis are the responsibility of the authors alone.

ABOUT THE SERIES

Splitting the Bill is a crash course in the essentials of school finance equity for advocates and others interested in reforming state education finance systems. Learn more and read the other briefs in this series here.