Leveling the Landscape

An Analysis of K-12 Funding Inequities Within Metro Areas

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***Note**: Due to a source file error, an earlier version of this analysis included inaccurate data for the Texas fact base. This version corrects data points for all Texas metro areas; the updates did not affect any other metro area calculations or conclusions in this analysis.*

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Introduction

At their best, public K-12 school systems can be engines of social and economic mobility. Schools can give students the skills and knowledge they need to shape their own futures, regardless of their socioeconomic background. But in practice, school funding in the United States undermines this vision, deepening the very inequities public education aspires to overcome. The reality is that public school systems in the wealthiest communities are often funded at higher levels than school systems in nearby communities with less wealth.

These disparities are not inevitable. They are the direct result of policies, mainly at the state level, allowing wealthy communities to raise so much local revenue for their schools that it dwarfs efforts to level the playing field for less affluent communities.

This analysis takes a closer look at the scale and sources of education funding inequities within 123 large metro areas in 38 states, focusing on funding disparities among districts serving the same region (Appendix). Key findings include:

- **A majority of public school students (62%) live in large metro areas with more than five districts — a level of fragmentation that makes funding disparities more likely.** The more school districts in a region, the more difficult it is for policymakers to ensure equal funding across those districts.

- **Within fragmented metro areas, wealthy districts often generate much more local funding per student than less affluent districts.** This is due mainly to economic segregation and big differences in taxable property wealth that allow wealthy districts to raise revenue more easily compared to less affluent districts, often with lower tax rates.

- **State policies, despite their progressive tilt, rarely bridge this gap — and often do not even come close.** Most states allocate significantly more funding to less affluent districts, based both on student need and local wealth, but they top off already-high local funding in affluent districts, too. The result does not go far enough to make up for local funding disparities.

- **In 51 of the 123 large metro areas examined, school districts in affluent areas receive the most funding per pupil.** Districts in these metro areas serve 16.9 million students, which is more than half of the entire student population of the 123 metro areas included in this analysis.

- **Closing the state and local funding gap between districts within the metro areas examined would cost $28 billion in additional state funding per year** — a 23% increase over current state funding in the 51 metro areas with gaps, on average. This would only achieve equal funding, a first step toward truly equitable funding that would allocate proportionally more funding to less affluent districts, which typically serve students with greater educational needs.

- **More ambitious policies can greatly reduce or even eliminate funding disparities.** States seeking to level the playing field for students in less affluent districts should consider policies that include, but are not limited to, improvements in the state funding formula, such as district consolidation or caps on the amount of revenue individual districts can keep.

Some contend that a high ceiling of school funding, where wealthier communities are permitted to raise as much local revenue as their voters and property wealth will allow, is not problematic as long as funding for all districts meets a minimum standard of adequacy. Others argue that curtailing local revenue-generating powers could lead to a reduction in overall funding available for education.[1]

But none of these concerns changes the fact that current policies allow too many students to benefit from a concentration of resources and opportunities in their schools that their peers in neighboring districts do not have — often the result of high or practically nonexistent caps on district funding. State policy enables this inequitable funding and opportunity landscape. And state policy can be the tool that ensures greater fairness.

Why Focus On School Funding Within Metro Areas?

The goals of this publication are to better understand the scope and scale of inter-district school funding inequalities within metropolitan areas, highlight the policies that cause these inequalities, and examine solutions that hold promise. Policymakers and advocates can use this work to inspire new questions and deeper examinations of their own states' education finance status quo.

Metro areas are an underappreciated unit of analysis in education finance policy. Approximately 72% of students in traditional public school districts live within a large metro area with at least 50,000 other public school students. Many states contain several large metro areas, often with meaningful differences in the costs associated with operating public schools, which complicates attempts to assess the fairness of school funding policies at a statewide level. This analysis examines the impact of state school finance polices on the school funding landscape *within* large metro

areas across the country, where the specific impact of state funding policies on communities can be better understood.

Metro areas shape how families and educators consider public school systems. When families think about which school district might be the best fit for their child, they are more inclined to think about the options within their community than they would be to consider school systems in other parts of their state that may be hundreds of miles away. Additionally, school districts spend the vast majority of their budgets on personnel, primarily teachers. The labor market for teachers tends to be regional — most teachers prefer to work near where they live, went to college, and/or grew up.[2] Districts with more funding can be more competitive in the fight to hire and retain high-quality teachers.

The degree of variation in schools' per-pupil funding within metro areas is an under-examined and complex challenge. Creating a more level funding landscape within metro areas could have secondary and tertiary effects on a range of other important issues, from absolute education funding levels to real estate markets and, ultimately, student outcomes.

At the same time, it is important to remember that funding *does* matter in K-12 education: Districts that receive more funding are generally able to support better outcomes for students.[3] If public school systems within communities are funded at different levels, it is reasonable to ask whether those differences will also fuel long-term differences in students' opportunities and outcomes, especially in the context of research that indicates that social mobility is shaped in large part by the neighborhoods where children grow up.[4] Ideally, funding would consistently favor relatively under-resourced communities and students. However, the opposite holds true in many parts of the country: Public schools in the most affluent parts of metro areas often have the most funding per pupil.

If policymakers want to prioritize the fair allocation of public resources in order to support student achievement and social mobility, they should examine the role school funding policies play in accelerating — or as is too often the case, hindering — that goal.

Fragmented School Districts Enable Unfair Funding

Different metro areas present different kinds of challenges to education policymakers. Most large metro areas include many school districts, creating the conditions for uneven funding. There are more than 13,000 districts across the country today, nearly 5,000 of which are clustered in metropolitan areas.[5]

The way district boundaries carve up — or unify — metro areas has a direct impact on school finance equity. In states where metro areas contain dozens of school districts, it can be difficult for state policymakers to ensure fair and equitable funding levels across districts within those metro areas. Highly fractured district boundaries often create *extremely* varied levels of wealth and student need.[6] The more state school funding policies must account for a wide range of district characteristics and contexts, the more likely it is they will fall short of a fair or equitable funding outcome.

Conversely, when the number of school districts within a metro area is smaller, it can help smooth variation in property values within larger metro areas by relying on a broader base of property wealth within each district for local tax revenue for schools.

States differ greatly in their norms for dividing metro areas into school districts. For example, there are no large metro areas in Florida with more than five public school districts. The norm of large, regional, or county-level school districts in Florida and other Southern states is largely a product of court-ordered racial desegregation efforts.[7] This is in stark contrast to the norms in other parts of the country. The Chicago metro area in Illinois or the greater New York City metro area of New Jersey each include more than 300 public school districts. And metro-area school districts in some states have become increasingly fractured and segregated in more recent years: At least 73 districts in

20 states broke away from their neighbors from 2000 to 2019, the majority of which had higher property values, more white students, and less student poverty than the district they were leaving.[8]

This analysis examines the impact of state school funding policies in large metro areas within states that have at least 50,000 enrolled students in six or more districts (Table 1, Figure 1). These cut points were made to enable more robust inter-district comparisons within metro areas. Very small districts serving fewer than 350 students were also excluded from the analysis because these districts often had anomalous structures and contexts that prevent fair comparisons. For example, several are islands that need to transport students to school via boat. Further exclusions were made for outliers in the available federal dataset, most notably submissions from the entire state of Massachusetts, where there are significant differences between districts' reported state and local revenue and their reported current expenditures less federal revenue (Methodology).

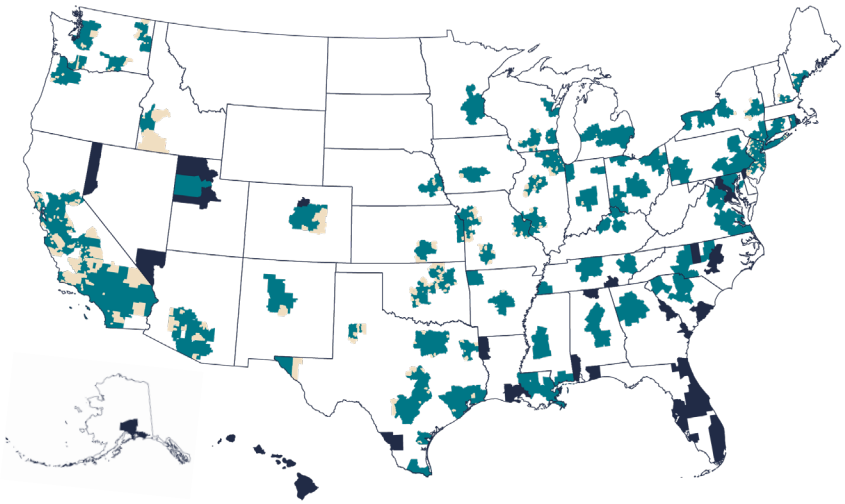
Metro areas shape how families and educators consider public school systems.

TABLE 1: U.S. METRO AREA SAMPLE SUMMARY

Sample Description	States	Metro Areas Within States	Districts	Enrollment (School Year [SY] 2020-21)	Enrollment as % of Raw Data Enrollment
Raw Data From SY20-21	51	1,042	13,009	46,282,615	100%
Data After Initial Exclusions	51	997	9,597	43,611,646	94.2%
Large Metro Areas (Enrollment > 50,000)	44	159	4,965	33,419,243	72.2%
Exclusions from large districts to arrive at final analysis data					
Large Metros With < 6 Districts	15	32	104	4,741,737	10.3%
Large Metros In Massachusetts	1	4	256	792,000	1.7%
Small Districts (Enrollment < 350) In Large Metros With 6+ Districts	27	71	464	88,003	0.2%
Final Analysis Data	**38**	**123**	**4,141**	**27,797,503**	**60.0%**

Approximately 62% of traditional public school students live in metro areas that feature more heavily fractured district boundaries — only 10% live in large metro areas within their state that include five or fewer districts.

FIGURE 1: U.S. METRO DISTRICTS INCLUDED IN ANALYSIS



Districts included in this analysis are shown in teal. Excluded districts appear in navy or cream. Navy districts are in large metros with five or fewer districts. Cream districts are too small for analysis (< 350 students).

Defining Relative District Wealth

Districts are categorized in this analysis based on their relative wealth compared to other districts in their metro area. Each district is compared to their metro area's average on two metrics: median household income (MHI) and median property value (MPV). Those differences are then compared to the standard deviation (SD) for each of those metrics across all large metro districts in their state. This calculation provides a reasonable proxy for community wealth within school district boundaries. School districts are grouped with income and property wealth far enough outside their metro area's average — either positively or negatively — into discrete categories because those districts will have very different abilities to generate local revenue. Districts that fall more than 0.5 SD beyond their metro average for *both* MHI and MPV are classified as:

- **Economic Elite** districts (both MHI and MPV 0.5 SD above the metro average).
- **Opportunity Outsider** districts (both MHI and MPV 0.5 SD below the metro average).

All other districts are classified as **Middle Class Majority** districts (Table 2).

There are limitations to this approach. This analysis only considers differences in *relative* wealth within metro areas instead of absolute measures of wealth. An Economic Elite district in a metro area of one state might be categorized as a Middle Class Majority district in another part of the country. Some Opportunity Outsider districts may not be among the nation's most impoverished on an absolute scale. But these groupings do provide a reasonable way to assess how well state school funding policies produce fair — or unfair — differences in per-pupil funding for districts within geographic regions that share a common labor market.

> This analysis examines state and local revenue. Federal funds play an important but limited role in public school funding, mostly through programs dedicated to provide *additional* supports for students with particular needs related to poverty, special education, homelessness, and nutrition.

TABLE 2: DEFINING DISTRICT WEALTH GROUPS

District Wealth Groups	Criteria	Number of Districts	Enrollment in Wealth Category	Enrollment as % of Analysis Population
Economic Elite	District MHI and MPV are both 0.5 SD or more *above* the metro area average.	751	4,689,671	16.9%
Middle Class Majority	District MHI and MPV do not both fall 0.5 SD above or below metro average.	2,854	19,772,638	71.1%
Opportunity Outsider	District MHI and MPV are both 0.5 SD or more *below* the metro area average.	536	3,335,194	12%

Case Studies: Local Revenue Outweighs Progressive State Policies

In metro areas across the country, districts' capacity to generate local revenue for their own schools is highly varied. State revenue does some work in favor of Opportunity Outsider districts, but that rarely ensures higher levels of total funding based on student need.

Four metro areas with an array of geographic contexts and state funding policies illustrate this point: Bridgeport-Stamford, Connecticut; Philadelphia, Pennsylvania; Columbus, Ohio; and San Francisco-Oakland, California. These four metros represent how state school funding policies produce disparities between Economic Elite districts and Opportunity Outsider districts from the East Coast to the Midwest and along the West Coast. It is a challenge that is not constrained to one political context; these metro areas operate within progressive, moderate, and conservative state politics. The cases highlighted here are chosen to illustrate the breadth of this challenge, not to highlight the most severe gaps.

BRIDGEPORT-STAMFORD METRO AREA, CONNECTICUT

Southwest Connecticut is home to some of the most affluent communities in the country along with some pockets of highly concentrated poverty. The socioeconomic divides across school districts in this metro area are stark, as are the differences in their ability to access local revenue (Figure 2). Economic Elite districts like Greenwich, Darien, New Canaan, and others have a combined child poverty rate of only 3.6% and public schools raise an average of $24,922 in local revenue per pupil — $18,325 more than the Opportunity Outsider districts in their metro area (Table 3).

The Opportunity Outsiders of Bridgeport and Danbury combine for an average child poverty rate of 20.6% and only raise $6,587 in local revenue per pupil. Their capacity to generate local revenue is significantly lower than nearby Economic Elite districts. Bridgeport has about $802,000 in taxable property per pupil compared to $5.8 million in Greenwich.[9] Even though the tax rate in Bridgeport is significantly higher than in Greenwich (54 mills versus 12 mills, respectively), their local revenue per pupil is more than $18,000 less than the nearly $25,000 per pupil Greenwich generates.[10]

This means that the residents of Bridgeport are taxed at a much heavier rate in relation to their property wealth, and yet they do not yield nearly as much resources for their high tax effort.

Despite the state's aid formula that provides Opportunity Outsider districts in this metro area with $6,763 more per pupil compared to the state funding sent to Economic Elite districts, Opportunity Outsider districts in Southwest Connecticut generate $11,548 less in total per-pupil funding compared to Economic Elite districts.

What is a "mill"?
Property tax rates are commonly referred to in terms of "mills." The value of 1 mill is the value of taxing $1 for every $1,000 in assessed property value.

FIGURE 2: BRIDGEPORT-STAMFORD METRO AREA, CONNECTICUT

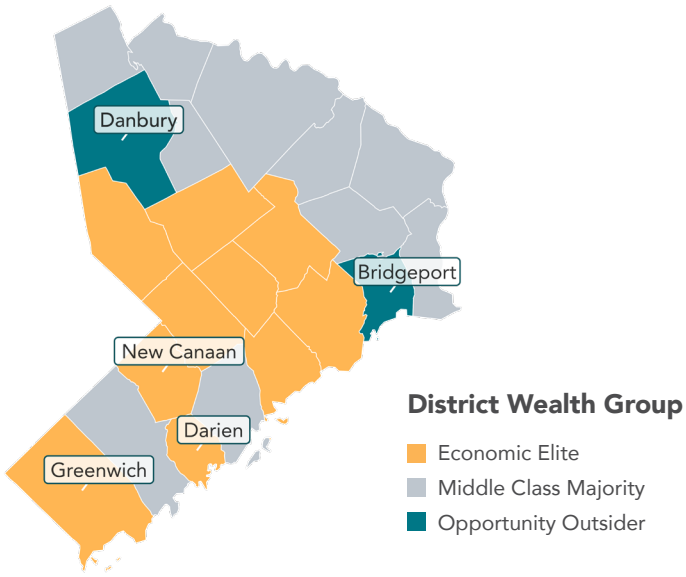


TABLE 3: METRO AREA DETAIL — BRIDGEPORT-STAMFORD, CONNECTICUT

District Wealth Group Demographics and Revenues	Opportunity Outsider Districts	Economic Elite Districts	Difference (OO - EE)
Enrollment	31,089	45,342	-14,253
Average Poverty Rate	20.6%	3.6%	+16.9 percentage points
Average Local Revenue Per Pupil	$6,602	$24,913	-$18,311
Average State Revenue Per Pupil	$10,749	$3,986	+$6,763
Average Total State and Local Revenue Per Pupil	$17,351	$28,899	-$11,548

PHILADELPHIA METRO AREA (PENNSYLVANIA ONLY)

Philadelphia is another northeast metro area with stark inequities between Opportunity Outsider and Economic Elite districts near one another (Figure 3). While the New Jersey portion of the Philadelphia metro area (not included in the map) features more enrollment skewed toward Middle Class Majority districts, the Pennsylvania side of this metro area is strongly bifurcated by wealth. The poverty rate in districts like Philadelphia and Chester-Upland is nearly *five times* the poverty rate in Main Line suburbs like Lower Merion and Radnor.

The Economic Elite districts of the Philadelphia metro area raise more than double the local revenue per pupil raised by Opportunity Outsider districts.

State revenue helps narrow that gap by a net of $3,527 per pupil, leaving a state and local revenue gap of $6,295 between these groups of districts (Table 4).

FIGURE 3: PHILADELPHIA METRO AREA (PENNSYLVANIA ONLY)

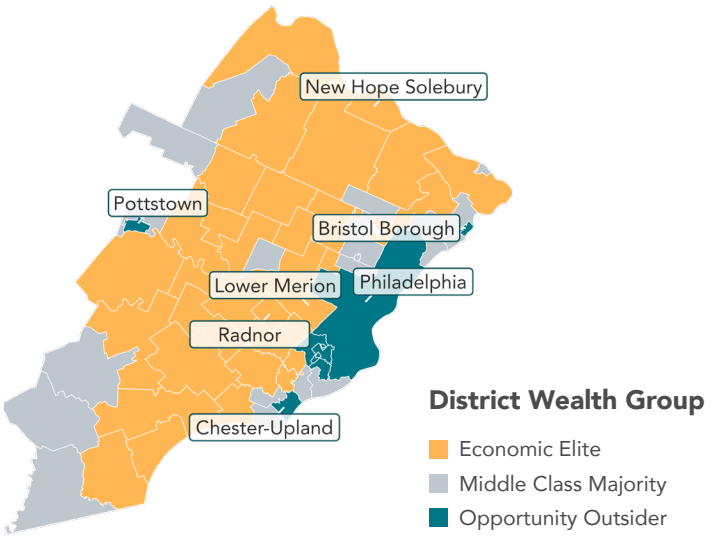


TABLE 4: METRO AREA DETAIL — PHILADELPHIA (PENNSYLVANIA ONLY)

District Wealth Group Demographics and Revenues	Opportunity Outsider Districts	Economic Elite Districts	Difference (OO - EE)
Enrollment	152,539	217,559	-65,020
Average Poverty Rate	25.0%	5.3%	+19.7 percentage points
Average Local Revenue Per Pupil	$7,376	$17,199	-$9,822
Average State Revenue Per Pupil	$7,731	$4,204	+$3,527
Average Total State and Local Revenue Per Pupil	$15,107	$21,402	-$6,295

COLUMBUS METRO AREA, OHIO

Similar trends are found in the Midwest, including in the greater Columbus, Ohio metro area (Figure 4). This metro area is home to affluent districts like Bexley and Upper Arlington that raise an average of $13,477 in local revenue per pupil. Meanwhile, districts with less local revenue capacity, like Columbus and Lancaster, are only able to raise an average of $9,129 per pupil in local revenue (Table 5). Again, there are clear socioeconomic differences between these groups of districts: The poverty rate in the Columbus metro's Economic Elite districts is more than *four times* lower than the poverty rate of Opportunity Outsider districts.

State dollars sent to Opportunity Outsider districts in Columbus help to close the gap in local revenue. **But despite the progressive nature of state funding, Economic Elite districts still end up with a $1,333 per-pupil advantage.**

FIGURE 4: COLUMBUS METRO AREA, OHIO

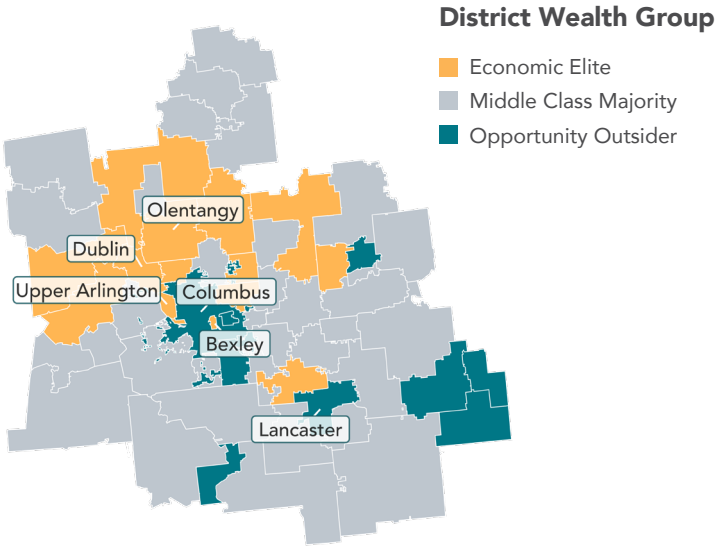


TABLE 5: METRO AREA DETAIL — COLUMBUS, OHIO

District Wealth Group Demographics and Revenues	Opportunity Outsider Districts	Economic Elite Districts	Difference (OO - EE)
Enrollment	73,205	86,142	-12,937
Average Poverty Rate	23.0%	5.4%	+17.6 percentage points
Average Local Revenue Per Pupil	$9,129	$13,478	-$4,348
Average State Revenue Per Pupil	$5,536	$2,521	+$3,015
Average Total State and Local Revenue Per Pupil	$14,666	$15,999	-$1,333

SAN FRANCISCO-OAKLAND METRO AREA, CALIFORNIA

Disparities between affluent and lower-wealth districts also appear in the Bay Area of California (Figure 5). While the state's strict constitutional cap constrains local property taxes for many California districts, Economic Elite districts manage to work around those constraints by leveraging other permitted local fees.[11]

Opportunity Outsiders like Antioch, Hayward, and West Contra Costa raise just under $7,000 per pupil in local funding — less than half of what is raised by affluent districts like Piedmont and San Mateo-Foster.

Once again, state dollars provide more targeted aid to Opportunity Outsider districts, but they are not enough to make up the difference in local revenue, leaving Economic Elite districts in the Bay Area with a $2,379 per-pupil funding advantage (Table 6).

FIGURE 5: SAN FRANCISCO-OAKLAND METRO AREA, CALIFORNIA

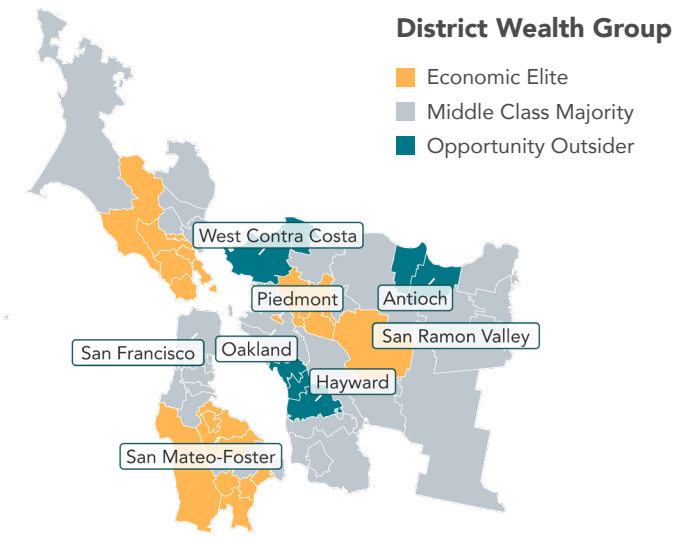


TABLE 6: METRO AREA DETAIL — SAN FRANCISCO-OAKLAND, CALIFORNIA

District Wealth Group Demographics and Revenues	Opportunity Outsider Districts	Economic Elite Districts	Difference (OO - EE)
Enrollment	92,690	107,123	-14,433
Average Poverty Rate	15.0%	3.5%	+11.5 percentage points
Average Local Revenue Per Pupil	$6,751	$15,202	-$8,451
Average State Revenue Per Pupil	$9,668	$3,596	+$6,072
Average Total State and Local Revenue Per Pupil	$16,419	$18,798	-$2,379

In each of these metro area case studies in Connecticut, Pennsylvania, Ohio, and California, state education funding does help to level out funding disparities across districts. Districts with low local revenue in these areas receive thousands more per pupil in state revenue than districts with high local revenue. However, even after state dollars are added, the gap created by the *local* dollars raised by Economic Elite districts still persists.

If state lawmakers wanted to bring all districts in a metro area close to the per-pupil funding of their wealthiest near neighbors, it would require a huge infusion of state funds to bring the Opportunity Outsiders up, or limitations on local revenue to constrain the Economic Elite. Closing the gaps between Economic Elite districts and their peers in Opportunity Outsider and Middle Class Majority districts with added state funds alone would require an investment of hundreds of millions of dollars *in each of these metro areas* (Table 7).

School finance policies in these states all attempt to create a more level landscape of school funding. These policies are typically designed to allocate more state funds to districts that serve student populations with higher levels of need and to account for differences in local capacity to contribute local tax revenue to schools. But none of these states goes far enough to level the landscape. Multiplied across metropolitan areas, the scale of the problem emerges in greater clarity.

> For more on the nuts and bolts of how state funding formulas work, refer to Bellwether's Splitting the Bill series.

TABLE 7: COST TO CLOSE GAP BETWEEN ECONOMIC ELITE DISTRICTS AND ALL NEIGHBORING DISTRICTS, SELECT METRO AREAS

Metro Area	Current Metro Area State Revenue	Additional State Dollars Needed to Close Gap With Economic Elite Districts	Cost to Close Gap With Economic Elite Districts as % of Current State Revenue
Bridgeport-Stamford, Connecticut	$826,102,722	$717,151,632	87%
Philadelphia, Pennsylvania	$2,521,557,628	$1,089,564,071	43%
Columbus, Ohio	$1,388,154,268	$380,024,685	27%
San Francisco-Oakland, California	$3,676,583,274	$898,802,941	25%

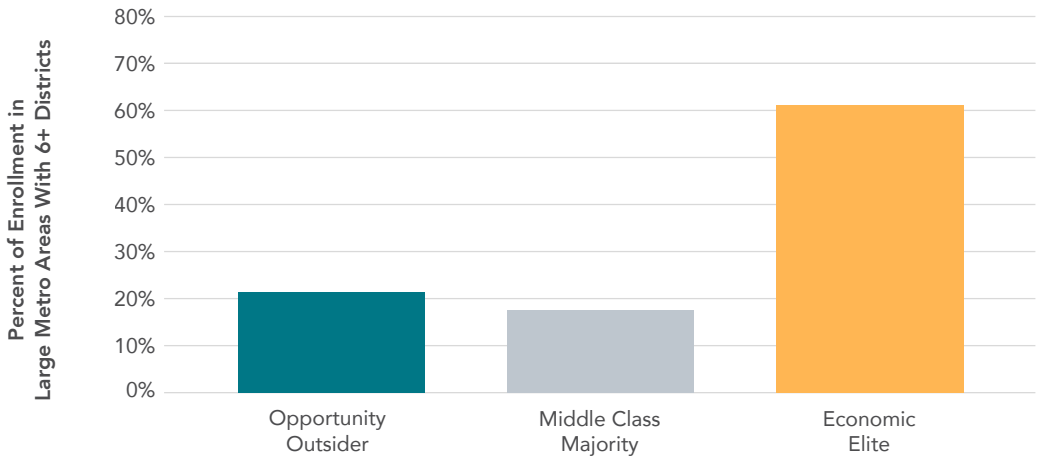
Metro Area Disparities on a National Scale

The few metropolitan areas highlighted above are not outliers — in many states, they are closer to the norm. Economic Elite districts are much more likely to generate substantial levels of local revenue, topped off by additional state revenue. In 51 of the 123 metro areas examined, spanning 26 states, Economic Elite districts have the highest level of combined state and local funding per pupil (Table 8). More than half of the 27.7 million students in this analysis live in one of these metro areas where the wealthiest communities get the most resources for their students (Figure 6, Figure 7).

TABLE 8: DETAIL ON METRO AREAS BY HIGHEST-FUNDED DISTRICT WEALTH GROUP

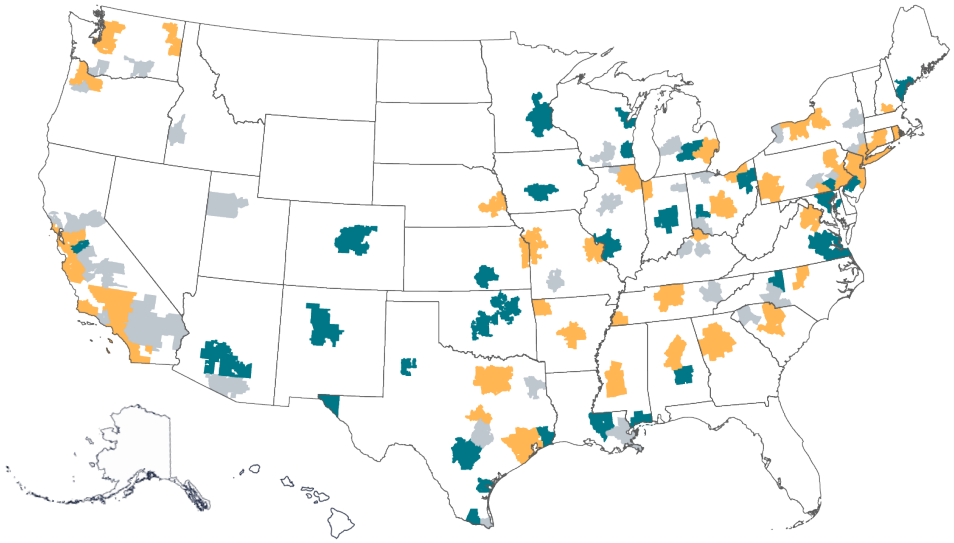
District Wealth Group With Highest State and Local Per-Pupil Funding In Metro Area	States	Metro Areas	Districts	Enrollment	Enrollment as % of Analysis Sample Enrollment
Economic Elite	26	51	2,393	16,934,930	61%
Middle Class Majority	20	36	747	4,877,130	18%
Opportunity Outsider	23	36	994	5,917,183	21%

FIGURE 6: LARGE METRO ENROLLMENT BY HIGHEST-FUNDED DISTRICT WEALTH GROUP, NATIONWIDE



Most students in large metro areas with 6+ districts live in an area where Economic Elite districts receive the highest levels of combined state and local revenue per pupil.

FIGURE 7: METRO AREAS INCLUDED IN ANALYSIS BY HIGHEST-FUNDED DISTRICT WEALTH GROUP, NATIONWIDE



District Wealth Group With Highest Average State and Local Revenue Per Pupil

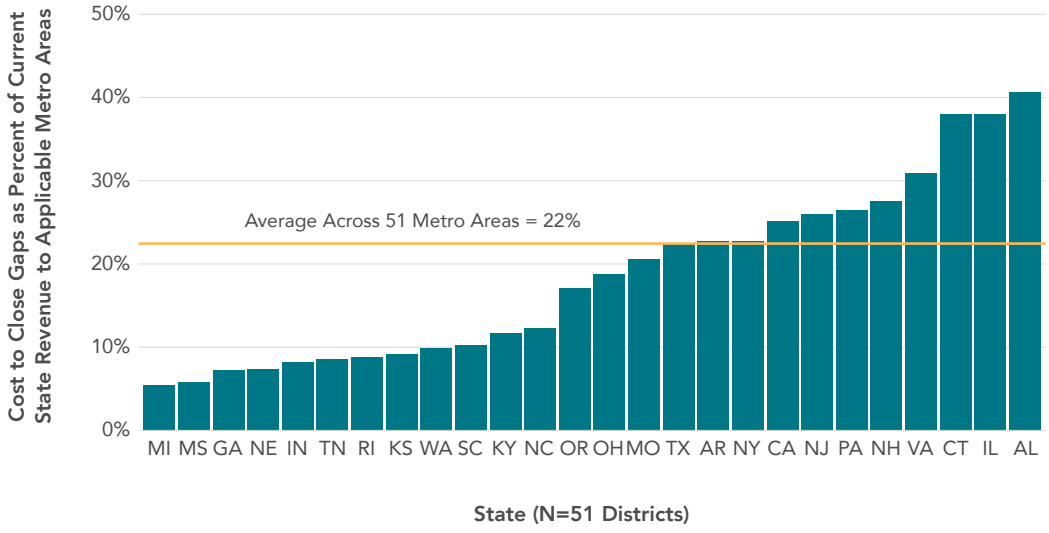
- Economic Elite
- Middle Class Majority
- Opportunity Outsider

Twenty-four states have at least one metro area where Economic Elite districts receive the highest levels of combined state and local revenue per pupil.

It would require more than $28 billion to close gaps in state and local revenue per pupil between Economic Elite districts and Opportunity Outsider districts while also ensuring equal funding for Middle Class Majority districts. This is a substantial sum, but the amount required to close these gaps looks different in each state.

In Michigan, Mississippi, or Georgia, non-Economic Elite districts in metro areas with gaps would need the equivalent of a less than 10% increase in their state revenue.[12] Conversely, closing gaps in other states would require more substantial increases. In Connecticut and Illinois, non-Economic Elite districts in areas with gaps would need the equivalent of a 38% increase in state revenue, while similar districts in Alabama would require an increase of 40% (Figure 8).

FIGURE 8: INCREASE IN STATE FUNDING REQUIRED FOR NON-ECONOMIC ELITE DISTRICTS IN THE 51 LARGE METRO AREAS WITH GAPS



The relative cost of closing funding gaps in metro areas where Economic Elite districts raise the most revenue varies across states.

***Note**: This figure represents the increase in state revenue only in the subset of metro areas where Economic Elite districts have the most state and local funds, not the increase in total state revenue.*

There are also a significant number of regions bucking the trend in favor of greater equity: 36 metro areas tilt the scales in *favor* of the Opportunity Outsiders.

Economic Elite districts are strongly overrepresented (in orange) among those districts raising the most local revenue for schools. Conversely, Opportunity Outsider districts tend to generate less local funding (Figure 9).

State policies try to counterbalance local revenue. Opportunity Outsiders, overrepresented among districts with lower local revenue capacity (in teal), receive substantially more state funding than their near neighbors (Figure 10).

FIGURE 9: RELATIVE LOCAL REVENUE BY DISTRICT WEALTH GROUP, NATIONWIDE

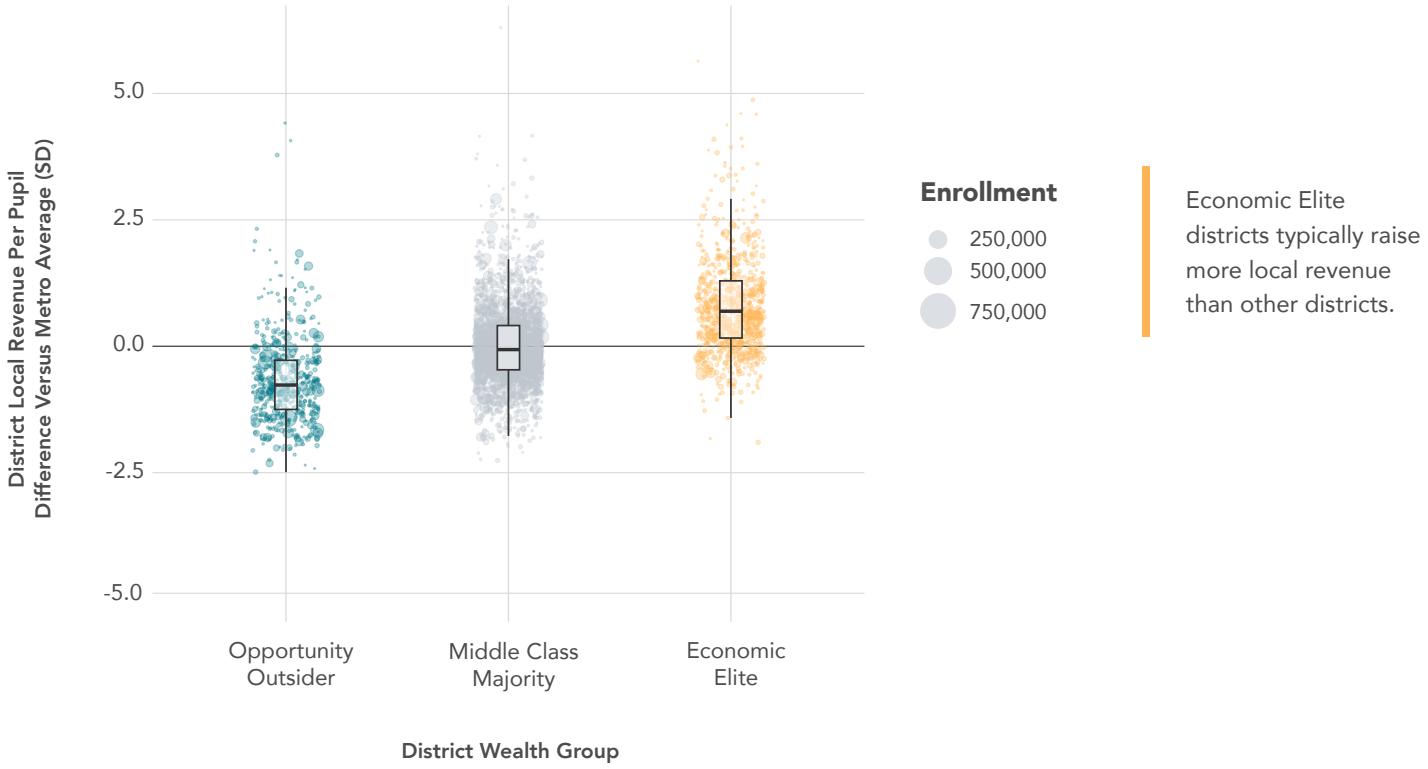
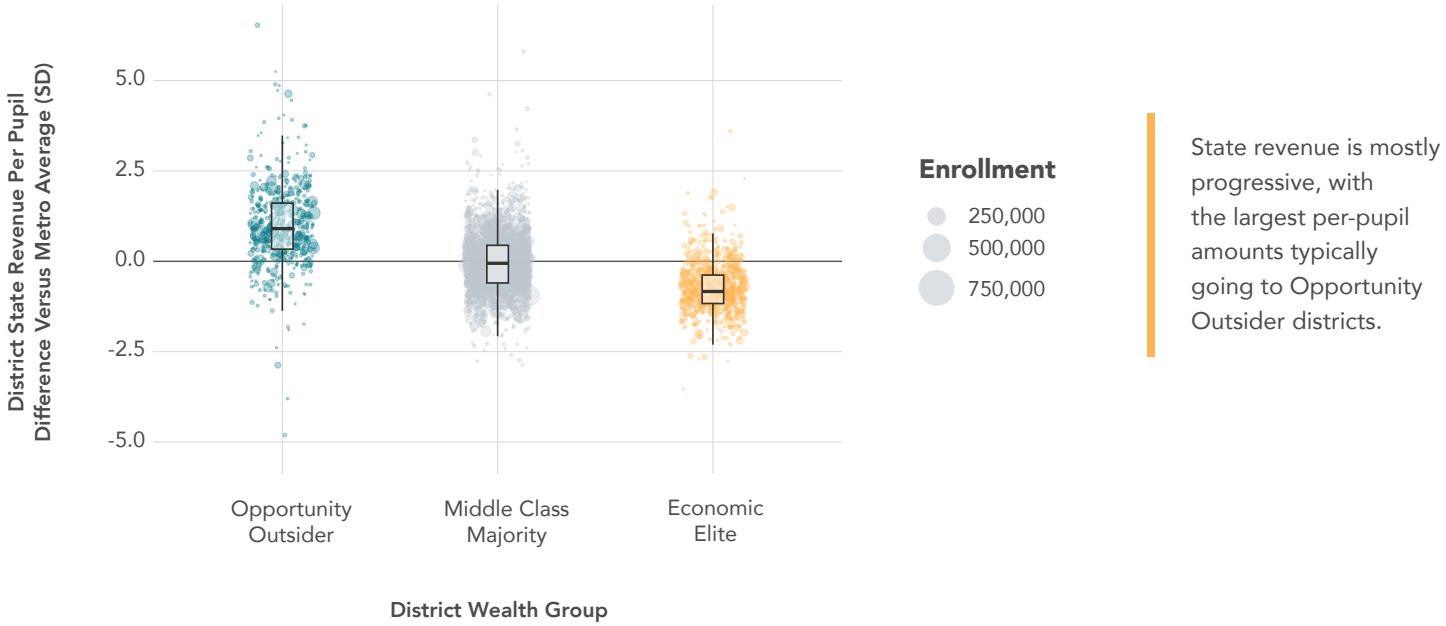


FIGURE 10: RELATIVE STATE REVENUE BY DISTRICT WEALTH GROUP, NATIONWIDE



Despite state funding generally favoring Opportunity Outsiders, when local and state revenue are combined, Economic Elite districts come out with an edge in general, earning more per-pupil revenue than their neighbors in 51 of the 123 metro areas in this analysis (Figure 11).

Of course, property wealth and median income, the factors that determine this analysis' categories, are not perfectly correlated with student need. Some Economic Elite districts may still serve significant numbers of students with high needs, and 44 states additionally have policies to drive more funding toward low-income students.[13] However, higher-poverty districts across large metro areas do not consistently receive more combined state and local funding than lower-poverty districts in their same metro areas (Figure 12).

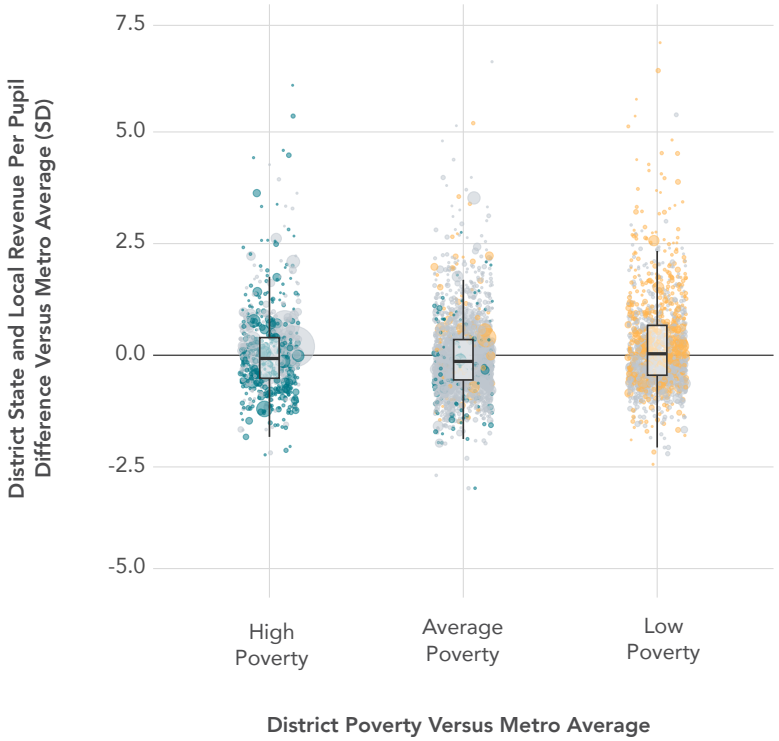
Despite research showing that low-income students need more resources to succeed, more often than not, their school systems get the same or less. This accords with broader analyses outside of relative metro-area comparisons; for example, analysis from EdTrust indicates that high-poverty districts receive 5% less state and local funding than low-poverty districts nationwide.[14]

School finance inequities within metro areas are real and significant in many places, but they are not the norm in every part of the country. There are states and metro areas where Economic Elite districts receive less funding per pupil than Opportunity Outsider districts. Those instances are not an accident — they are the result of intentional policy choices. If state leaders are interested in leveling the school finance landscape in the communities they serve, there are steps they can take with a track record of success in achieving those outcomes.

FIGURE 11: RELATIVE STATE AND LOCAL REVENUE BY DISTRICT WEALTH GROUP, NATIONWIDE

Even after state revenue is combined with local revenue, many Economic Elite districts end up with more revenue than less-advantaged districts.

FIGURE 12: RELATIVE STATE AND LOCAL REVENUE BY RELATIVE DISTRICT POVERTY, NATIONWIDE



Poverty rates do not have a clear relationship with the amount of state and local revenue that districts receive.

Addressing Disparities Created By Differences in Local Revenue

State policymakers have substantial power to address funding disparities across districts. They have a direct role in allocating state revenues to districts, and they also determine how local funds are raised for school districts. **In many states, it would be politically difficult or fiscally impossible to address the scale of the disparity through increased state education funding alone — meaning that real solutions will require bold action on multiple fronts.**

Policy solutions in this realm are not without trade-offs, however. Changing school funding mechanisms may affect local real estate markets as well as the dynamics of local educator labor markets. There could be other unforeseen consequences, but one thing is crystal clear: If the policy status quo persists, so, too, will the disproportionate advantages for affluent communities in many states' public school systems.

State Funding Formula Improvement Is Necessary But Not Sufficient

Formula Reform

State funds currently address some of the challenges created by significant differences in local revenue generation. Opportunity Outsider districts generally receive much more state revenue per pupil than Economic Elite districts. But these progressively distributed funds rarely make up the difference in local revenue generation between Economic Elite and Opportunity Outsider districts. In most states there is substantial room to improve equity within funding formulas that allocate state funds. One of the strongest ways to do so is with a weighted student-based funding formula that includes a sufficient base amount per student, plus generous additional weights for students in poverty and those with additional learning needs.[15]

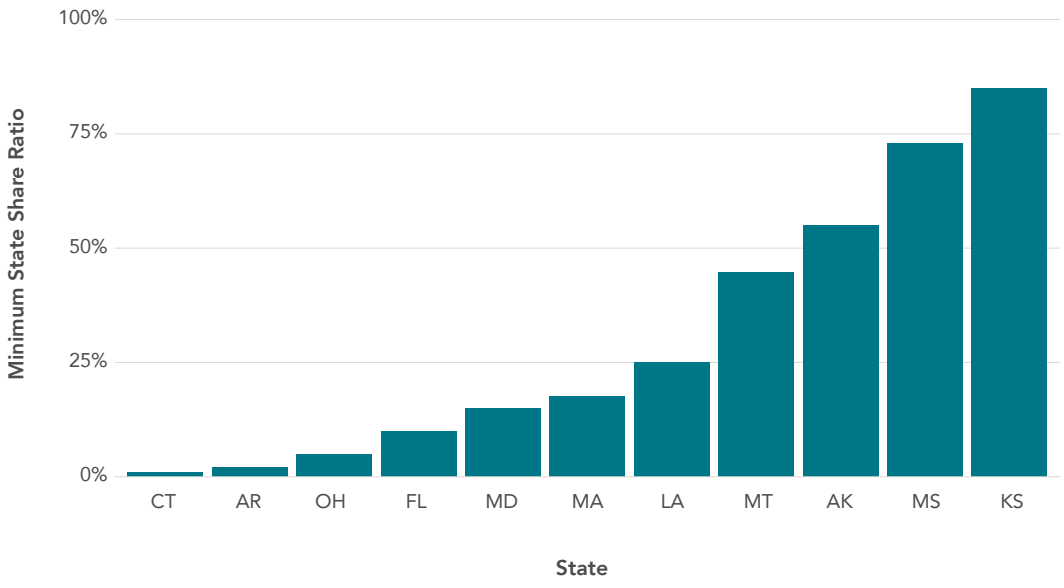
After calculating each district's full formula amount based on enrollment and student need, many states then deduct a local share amount that is based on property wealth metrics. The calculations that split the total formula cost between the state and districts are a powerful policy lever. When structured well, those calculations can help allocate state dollars efficiently to close local revenue gaps across communities with different levels of property and income wealth.

There are other policies on the edges of state formulas that can undermine otherwise strong and equity-driven formulas by allocating funds to districts without regard for student need or wealth. Two examples are 1) minimum aid percentages and 2) "hold harmless" provisions.

Minimum Aid Percentages

Minimum aid percentages guarantee that a certain percentage of each district's state-determined formula funding amount will be covered by state aid, no matter how much local revenue the district is capable of generating. So, even if a district already generates more funding by itself than the state deems to be sufficient, the state will top off local funding with state aid. At least 11 states have these policies, which can range from 1% in Connecticut[16] to 73% in Mississippi[17] and 85% in Kansas[18] (Figure 13).

FIGURE 13: MINIMUM STATE SHARE RATIO, BY STATE



The minimum state share ratio in school funding formulas varies widely across states.

Source: *EdBuild, "FundEd: Local Share," accessed October 2023.*

Minimum aid percentages ensure some amount of state funding effort for every district in the state. This could create political buy-in to the formula, shared among all districts, or function as a policy commitment to the state's shared role in school funding. However, minimum aid percentages are regressive by their very nature — they direct state dollars to affluent districts that otherwise would receive little or no funding based on the state aid formula. These policies have the effect of amplifying local funding disparities and decreasing the overall pool of state dollars available to districts with greater need.

Hold Harmless Provisions

Hold harmless provisions are another policy that can introduce inequities into otherwise well-designed funding formulas. States may pick a point in time and say that no district will fall below a certain total (or per-pupil) funding level from the state during that budget year.

There can be good reasons to have a hold harmless policy as part of state funding reform. For example, a temporary hold harmless provision might provide districts with time to make changes after a major funding policy change or sudden shock to enrollment. The districts that tend to benefit most from hold harmless policies, however, are those with long-term declines in enrollment, or wealthy districts being buffered from an equity-driven funding reform. Hold harmless policies come at a cost: Less state funding is available for districts with lower wealth and/or higher levels of student need. To minimize long-term inequities and inefficiencies, these policies should 1) have very clear eligibility criteria, and 2) be time-limited.

Improving formula efficiency and equity through formula reform and closing loopholes is valuable, and these steps might realign and increase state revenue toward Opportunity Outsider districts.

However, formula reform alone is unlikely to be sufficient. **As the above analysis shows, disparities in local funding are so massive in so many metro areas that few states will have the ability to raise and deploy enough state dollars to overcome the disparities created by their current school funding policies** — let alone ensure that districts serving the highest levels of student need have more funding per pupil. Thus, states seeking to level the landscape of funding must look beyond the allocation of state aid, closer to the root of the problem: the structure and rules around local revenue and fragmented, segregative district boundaries.

Hold harmless policies come at a cost: Less state funding is available for districts with lower wealth and/or higher levels of student need.

Leveling Education Funding Requires Different Approaches to Local Revenue

State policymakers should consider directly addressing rules surrounding local revenue generation by districts. This could involve rethinking the role of district boundaries or how state policy shapes local revenue decision-making (Table 9).

These issues are often viewed as political "third rails" in state policy circles. Few local leaders welcome state interference in their taxation authorities or school budgets, and property-wealthy areas can deploy considerable resources and political clout in support of their "local control" over district boundaries or revenue for schools. Those arguments are not without merit — there is value in empowering local communities to make decisions that will directly affect the services provided to students in local school systems. But seemingly intractable political challenges should not deter advocates and policymakers from envisioning, discussing, and advancing solutions to address the yawning gaps in school funding that exist in far too many metro areas across the country.

District Consolidation

One option for policymakers is to strategically consolidate school districts. This approach is consistent with historical precedent.[19] In 1940, there were more than 117,000 school districts nationwide. Over time, school systems merged and produced the approximately 13,000 districts across the country in operation today. If more metro areas had geographically larger districts that include a range of economically diverse areas, it would significantly reduce funding inequities within those metro areas and prevent high-wealth areas from gaining disproportionate advantages.

TABLE 9: POLICY MECHANISMS TO ADDRESS LOCAL REVENUE DISPARITIES

Policy Mechanism	District Boundaries	Local Revenue Authority
District Consolidation	Merge Districts Within Large Metro Areas	Newly merged districts would retain ability to raise local revenue.
Revenue Caps	Keep As Is	Local revenue decision-making would be constrained by caps in the context of a student-centered funding formula that sufficiently accounts for student learning needs and varied levels of community wealth.
Revenue Power Equalization and Recapture	Keep As Is	Local revenue decision-making would be constrained by caps that redistribute excess revenue based on state policy.
Decouple Taxation and Governance	Partial Change In Authority	Local revenue authority would be pushed to metro, county, or state government.

Some states have taken this approach to address racial segregation, resulting in large county-level school districts that encompass a more diverse tax base and simplify the task of equitable funding among districts.

However, many communities have strong attachments to districts as they are currently constituted.[20] People may also prefer smaller school systems because of the smaller scale of the district bureaucracy, making it easier to navigate student needs or build relationships. Research on the effects of school district consolidation show mixed effects on student achievement, but it would certainly help communities reduce variation in local revenue capacity across local school systems.[21] If state policymakers are interested in reducing funding disparities between districts but also want to maintain smaller districts, there are other approaches that might substantially reduce funding inequities between school districts within metro areas.

Local Revenue Caps

States can cap the amount of local revenue that districts can raise above the state formula amount. This approach constrains the ability of property-wealthy communities to out-raise other school systems when such policies are well designed to achieve those ends. When revenue caps are set at a particular per-pupil dollar amount, it can set a firm ceiling that affluent districts cannot breach. However, if revenue caps are implemented as a maximum tax rate, wealthy districts would still be able to out-raise other districts in their area because of their relatively higher property values.

Twenty-seven states have some form of a ceiling on local revenue generation that can be overridden with a local referendum.[22] A handful of states have hard caps on local revenue without the option for voters to override the state policy[23] or have replaced local property taxes entirely with a statewide property tax.[24] Michigan is one example of the former — local revenue for school districts is capped at $18 per $1,000 of non-homestead property value.[25] And Vermont replaced local property taxes to fund education with a statewide property tax in 1997.[26]

However, this solution is likely to be politically unfeasible in most places and would only function if the state formula were fully adequate and aligned with student needs. Few, if any, states meet this high bar. Local revenue caps should be considered as a tool to help limit funding inequities, but they are not sufficient on their own to guarantee fair funding for school systems of varied economic conditions.

Revenue Power Equalization and Recapture

If firm local revenue caps are not politically feasible, policies that equalize the ability of communities to generate revenue despite variation in the value of their tax base or that work to redistribute revenue from local resources to smooth the impact of that variation may be options. These types of policies are sometimes referred to as "revenue power equalization" or "recapture" policies.[27] With revenue power equalization policies, state funds are used to ensure that when communities make similar efforts to raise local revenue, they are able to generate similar amounts of revenue. With recapture or redistributive policies, when local revenue generated with a set tax rate exceeds an established threshold, a portion or all of the excess revenue is "recaptured" by the state and redistributed to fund lower-wealth districts.

- **Revenue Power Equalization**: Policies that ensure districts that levy similar tax rates can generate similar levels of per-pupil revenue through additional/matching state revenue.

- **Revenue Recapture**: A revenue threshold is set so that if more property-wealthy districts raise local funds above a certain level, those dollars are sent to the state and are redistributed to fund districts with lower revenue capacity.

Revenue power equalization and recapture help to prevent situations like what exists in Southwestern Connecticut, where Bridgeport's local tax rate is more than four times greater than Greenwich, but Greenwich is still able to generate much more revenue per pupil because of its significantly greater community wealth.

Revenue power equalization policies allow communities that levy similar tax rates to generate similar revenue for their schools, which could help keep tax rates lower in low-wealth communities or better reward them for extra tax effort, enhancing equity for taxpayers across different communities. On the other side of the equation, revenue recapture disincentivizes wealthy communities from raising local revenue far above their own schools' needs and directs surplus funds back into the state formula.

State Spotlight: Texas

Texas is one of the best examples of a state that uses robust revenue power equalization and recapture policies to reduce funding disparities across districts. These policies establish a firmer funding "floor" for Opportunity Outsider districts while also placing a "ceiling" on funding in Economic Elite districts — a trend that becomes clear when comparing relative district funding in large Texas metro areas with other large states that also have highly fractured district boundaries. A consistent trend appears in five of the country's largest states: Economic Elite districts generally receive higher levels of state and local revenue per pupil when compared to Middle Class Majority and Opportunity Outsider districts (Figure 14). Texas is an outlier among these states: its Opportunity Outsider districts tend to receive similar funding per pupil when compared to more affluent districts.

FIGURE 14: DISTRICT FUNDING DIFFERENCES VERSUS METRO AREA AVERAGE BY DISTRICT WEALTH GROUP IN SELECT LARGE STATES, NATIONWIDE

Many states' funding policies advantage Economic Elites, but Texas is a notable exception. In Texas, Opportunity Outsider districts tend to receive similar funding when compared with other districts in large Texas metro areas.

Decoupling Taxation and Governance

Another approach is for state policymakers to separate school governance and local revenue-raising authority. This would allow local school boards to continue their work overseeing and setting policy for the school systems they govern, while the responsibility of raising and distributing local revenue would be pooled at a higher level of government, such as a metro, county, or state government.[28] Funding could then be collected and distributed as if districts had been consolidated while leaving governance authority over schools intact.

This approach is not without precedent. Many schools are governed by boards that do not have the ability to raise local revenue — the same is true of some magnet schools. In New England states like Connecticut and Massachusetts, local tax authority lies with municipal governments, not school boards. Moving the authority to levy local taxes for schools to higher levels of government would not be a stretch from a policy perspective, but the political challenges of doing so are not insignificant.

Many schools are governed by boards that do not have the ability to raise local revenue.

Conclusion

America's public school systems should provide an equal opportunity for students to apply their talents and work hard to become thriving members of their communities. **But as long as metro areas contain wide variations in school funding that are divorced from student and community needs, the opportunities available to students across public school systems, even within the same geographic regions, will be anything but equal**. And more state funding alone will not solve these inequities.

The reality on the ground in many large metro areas is frustrating. Families know there are public schools in their communities that provide vastly different opportunities, but they may not be able to afford to buy or rent housing that will permit their children access to those public institutions.[29] Communities with lower property wealth often tax themselves at higher rates than more affluent communities, only to end up generating less revenue per pupil. And instead of higher-need students getting more funding for their learning needs, the resources to support their education vary significantly based on where they live.

It does not have to be this way. If state policymakers are interested in ensuring that public schools in lower-wealth communities have similar funding per pupil — or more — than schools in affluent areas, there are policy tools they can apply. Education funding policies are largely created by state law. **State policymakers have the ability to change those laws to make state funding more effective in addressing local revenue disparities and to reshape how local and state revenues are allocated**. Many states have tried to allow wealthy communities a high ceiling for school district funding while raising the floor for less-wealthy areas, but that approach has not produced equitable funding in many metro areas across the country.

Creating a more equitable system of school funding requires effort to raise the funding floor while also considering mechanisms to support greater fairness in funding across districts, such as district consolidation, changing how local revenues are collected, and developing policies to equalize and/or recapture local revenues. Those solutions will not be easy, but they will be necessary if public education is to be the engine of opportunity that communities need and families deserve. ✦

If state policymakers are interested in ensuring that public schools in lower- wealth communities have similar funding per pupil — or more — than schools in affluent areas, there are policy tools they can apply.

Methodology

Data Sources

The U.S. Census Bureau's Public Elementary-Secondary Education Finance Data (F-33) from fiscal year (FY) 2021 was used in this analysis.[30] The authors cleaned F-33 state and local revenue data by starting with EdBuild's methodology.[31] That data was then adjusted for payments to other school systems (Q11) by subtracting proportionally from state and local revenue after accounting for the percentage of federal revenue a district received, similar to the approach of the authors of "Funding Flows: Which Students Are Receiving a Greater Share of School Funding?"[32]

Data from the NCES CCD Directory Data for SY21 was accessed via the Urban Institute's `educationdata` R package.[33] Metro area and school district shapefiles, median household income, and median property values were sourced from the American Community Survey five-year estimates from 2021 via the `tidycensus` R package.[34] These datasets were merged with F-33 finance data using the `tidyverse` collection of R packages.[35]

Large Metropolitan Area Definitions

Metro areas in this analysis were determined using Census-defined Core Based Statistical Areas (CBSAs), including both micropolitan and metropolitan statistical areas. Metro areas within states with total student enrollment less than 50,000 are excluded from this analysis, as are metro areas with fewer than six school districts. Small school districts with fewer than 350 students were also excluded from this analysis.

Exclusions

Massachusetts districts were entirely excluded due to irregularities in the cleaned FY21 F-33 data. Massachusetts districts showed extreme variation when comparing combined state and local revenue to current expenditures minus federal revenue. There are 20 districts serving 64,379 students where current expenditures (less federal revenue) exceeded state and local revenue by more than $8,000 per pupil. Because these variations were not easily explained, no Massachusetts districts were used in this analysis. Two Texas districts with near 50/50 splits between federal and state revenue and very low local revenue were excluded: Randolph Field Independent School District (NCES ID: 4836450) and Fort Sam Houston Independent School District (NCES ID: 4820160).

Limitations

The authors recognize that the financial and socioeconomic indicators used in this analysis serve as proxies for wealth and not as direct measures of it. This distinction is crucial, as proxies can capture trends and associations related to wealth distribution and educational equity but may not fully encapsulate all its nuances. However, the reliance on such proxies is necessary due to the complexity of measuring wealth directly, especially at the granularity of school districts and metropolitan areas. Additionally, the authors acknowledge that the analysis is subject to any limitations present in the source data. While efforts have been made to adjust for known discrepancies and to apply methodological rigor in the analysis, it is important for readers to interpret the findings with an understanding of these underlying limitations.

Appendix

U.S. STATES WITH METRO AREAS INCLUDED IN ANALYSIS

1. Alabama (AL)
2. Arizona (AZ)
3. Arkansas (AR)
4. California (CA)
5. Colorado (CO)
6. Connecticut (CT)
7. Georgia (GA)
8. Idaho (ID)
9. Illinois (IL)
10. Indiana (IN)
11. Iowa (IA)
12. Kansas (KS)
13. Kentucky (KY)
14. Louisiana (LA)
15. Maine (ME)
16. Maryland (MD)
17. Michigan (MI)
18. Minnesota (MN)
19. Mississippi (MS)
20. Missouri (MO)
21. Nebraska (NE)
22. New Hampshire (NH)
23. New Jersey (NJ)
24. New Mexico (NM)
25. New York (NY)
26. North Carolina (NC)
27. Ohio (OH)
28. Oklahoma (OK)
29. Oregon (OR)
30. Pennsylvania (PA)
31. Rhode Island (RI)
32. South Carolina (SC)
33. Tennessee (TN)
34. Texas (TX)
35. Utah (UT)
36. Virginia (VA)
37. Washington (WA)
38. Wisconsin (WI)

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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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