Education Funding and Taxation Policy

Great Schools Thriving Communities
Justin Silverstein
CSFP and APA
October 5, 2020
Revenue Mix

Background
• All states utilize a mix of state, local, and federal dollars to fund education
• Though there are strong federal laws around education, federal funding is a small share of overall K-12 funding
• The split between revenue sources varies widely across states and is not strongly linked to student equity of state funding systems

State Examples
• Vermont provides the highest level of state funding at nearly 90%
• Illinois relies the most on local revenue at over 67%
• Mississippi receives nearly 15% of funding from the Federal government
  • Federal funding based on need and state effort level
Colorado’s Education Funding

• State Revenue comes primarily from income and sales tax

• Local revenue comes primarily from property taxes
  • Combination of Gallagher and TABOR has resulted in the state realizing over $3 billion less annually

• State portion of funding has decreased from 44% of general fund to about 36%

• Overall funding of education compared to national average has declined since 1992
Local Share

Background
• Most states rely on property taxes as the main source of local revenue
• For states with independent districts and equalization formulas, a required local mill rate is often set
• In equalization formulas, lower local revenue requires higher state share or a reduction in funding
  • Colorado utilizes the BS factor lower the amount of state funding needed

Property Tax Stability
• Historically property taxes have been a stable revenue source
• During a recession, property tax declines may lag declines in other tax revenues
• Research showed that property tax did not decline as significantly as expected during the great recession
Progressivity of Taxation

• The reliance on property taxes means that a key component of school finance systems rely on a generally regressive tax.
• Other available taxes are also generally considered regressive, including sales taxes.
• Income taxes can be implemented in a progressive way, similar to the federal income tax:
  • Over 30 states have progressive income tax systems.
  • The level of progressivity varies across the states.
States Making Changes to Funding Systems

• Many states make marginal adjustments to their school finance systems without making tax policy adjustments.

• States that look to make major changes in school finance often recognize the need to also adjust tax policy.

• Maryland’s Kirwan Commission proposed an overhaul of the states education funding system. As part of the recommendations, wealthier local districts will be required to provide a larger share of their total funding.

• Utah is currently looking at the balance between local control and student equity in their funding system.
QUESTIONS