

# Education Funding and Taxation Policy

Great Schools Thriving Communities

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October 5, 2020

COLORADO SCHOOL FINANCE PROJECT

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# 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

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