



**reason**  
FOUNDATION



# EQUALIZE: PUT ALL KIDS ON A LEVEL PLAYING FIELD

By Aaron Smith and Christian Barnard

October 2020

## BRIEFS IN THIS SERIES

Reason's series of policy briefs on the *Student-Centered Funding Roadmap for Policymakers* includes:

- *Student-Centered Funding Roadmap for Policymakers*
- *Streamline: Allocate Education Dollars Strategically*
- *Equalize: Put All Kids on a Level Playing Field*
- *Empower: Put Families and School Leaders in the Driver's Seat*
- *Inform: Give Stakeholders the Information They Need to Make Sound Decisions*

## EDUCATION DOLLARS SHOULD BE EQUALIZED TO ENSURE THAT FUNDING IS BASED ON STUDENTS, NOT PROPERTY WEALTH OR ZIP CODE.

Public education is funded primarily by state and local revenue streams. Because local dollars are largely derived from property taxes, districts with greater property wealth often raise more revenue than those with less. As a result, kids are funded unfairly and educators don't operate on a level playing field. This also makes it difficult to implement open enrollment programs since districts that are less reliant on state funding sometimes have little or no financial incentive to enroll transfer students. Additionally, charters in most states don't have access to local mill override and bond levies, which can make it difficult for them to offer competitive wages and pay for facilities.

Most states have mechanisms in place to equalize local dollars, but they often don't go far enough. The most common approach is a foundation formula, which sets a revenue entitlement for each district that is funded by a combination of state and local dollars such that property-wealthy districts are less reliant on state funding. While this is a solid framework, districts are often allowed to retain and raise dollars beyond what state formulas provide, giving some a substantial advantage over others.

Depending on a state's school finance formula, there are several ways policymakers can equalize funding more effectively. In some cases, this might only involve tweaks to a state's existing funding system, and hybrid solutions are also possible. Note, that each approach has both advantages and disadvantages and that a good equalization system must be accompanied by a fair way to allocate dollars, such as weighted student funding.

## EQUALIZING LOCAL EDUCATION DOLLARS

### Option #1 Centralize to Decentralize

Centralizing funding at the state level can help promote both funding equity and portability. Under this scenario, the state assumes responsibility for at least a portion of what's currently raised locally, or the state funding formula is changed so that it's responsive to local revenue amounts raised by each district. There are several ways to accomplish this that don't necessarily require tapping into new or existing state-level revenue streams.

## Statewide Property Tax

Barring any legal restraints, local property tax assessments could be replaced by a statewide levy that pools revenue. For example, education funding in Vermont is raised almost entirely at the state level using this approach. Districts are still permitted to increase their budgets with voter approval, but additional dollars are pegged to specific tax rates, with the state retaining any excess revenue raised above these levels (a form of recapture). Interestingly, Vermont also has a surtax on districts that spend at a certain threshold beyond their previous year's per-pupil expenditures, which discourages excessive spending by property-wealthy districts.

## Tax Swap

Dollars that are currently raised locally could be replaced with state revenue sources, as was the case in 2008 when Indiana eliminated local operating dollars and in 1994 when voters in Michigan passed Proposition A.

## Recapture

Several states employ some form of recapture in which at least a portion of local dollars is remitted to the state. Wyoming's provision, which recaptures all local dollars collected beyond what the state's formula provides, is the strongest. Texas' recapture mechanism, which is less stringent, has distinct recapture thresholds and still gives districts some discretion over local property tax rates. Although recapture can be controversial and perhaps present legal challenges, it doesn't necessarily require the state to collect local revenue. For example, a state could potentially "recapture" dollars by reducing a district's state revenue entitlement by a commensurate amount for any excess dollars raised.

## Option #2: Contain Local Dollars

Policymakers can limit district access to local revenue. California school districts aren't permitted to raise additional operating revenue from property taxes. And Texas, which caps local tax rates, now requires efficiency audits before asking voters to approve new funding. These publicly available reports will help voters assess the degree to which additional operating dollars are necessary.

### Option #3: Local Dollars Follow the Child

This option attaches a per-pupil share of local dollars to students, which could include both charter students and inter-district enrollment students. The basic idea is simple: convert local revenue stream(s) to per-pupil terms and compensate receiving charters and districts accordingly. For example, all districts in Colorado must distribute a per-pupil share of any additional mill levy revenue raised to charters, and in Florida charters are eligible to receive a per-pupil share of local capital funding under certain conditions. Importantly, the focus here is on local dollars that are raised outside of a state's primary equalization formula, as opposed to mechanisms in which local dollars merely contribute to charters' state revenue entitlement.

### BENEFITS

- ✓ **Increased equity:** A greater share of education dollars can be allocated based on students' needs when revenue is pooled together.
- ✓ **Education dollars are more portable:** Funding equity provides all districts with a financial incentive to offer open seats to transfer students and puts charter schools on a level playing field.
- ✓ **Greater efficiency:** Limits the ability of property-wealthy districts to spend excessively while other districts struggle to generate funding.
- ✓ **Tax fairness:** A unified and simpler tax structure is more transparent.

### ABOUT THE AUTHORS

**Aaron Garth Smith** is director of education reform at Reason Foundation. He can be reached at: [aaron.smith@reason.org](mailto:aaron.smith@reason.org).

**Christian Barnard** is an education policy analyst at Reason Foundation. He can be reached at: [christian.barnard@reason.org](mailto:christian.barnard@reason.org).