

Your Question:

How do states – specifically Nebraska, Colorado, Wyoming, South Dakota, Iowa, Missouri, and Kansas – use property tax to fund public education?

Our Response:

Property tax, along with sales tax and income tax, is often used as a local funding source for public education. Local sources, coupled with state and federal dollars, form the complete picture of school funding across the states.

Reliance on the property tax varies across the U.S., with the heaviest reliance in New England. In contrast, local governments in the East South Central region (Alabama, Kentucky, Mississippi, and Tennessee) rely on property taxes for less than one quarter of their general revenues, lower than the U.S. average of 30 percent.

Trends in Using Property Taxes for Education (Three State Examples)

California

In 1971, the California Supreme Court ruled in *Serrano v. Priest* that using local property taxes to fund public education resulted in vast inequities between districts based on wealth. In 1978, California passed Proposition 13, which severely limited the amount of local property tax that can be levied. These two events shifted the authority for funding education from being largely at the local level to being largely at the state level. The California case was part of a nationwide movement toward centralization at the state level and a shift away from local tax reliance.

Michigan

In 1994, Michigan centralized its school finance system through Proposal A, which greatly reduced property taxes and substituted income and sales tax to fund education. Michigan does not permit local districts to seek additional tax revenue for school operations. Because of this model, Michigan has one of the most centralized school funding systems in the country. In Michigan, a property tax on nonhomestead property, such as vacation residences and second homes, is dedicated to the state school aid fund. This is not formally a statewide property tax, but districts that do not impose the tax do not obtain full state funding of their education grant.

New Hampshire

New Hampshire is the only state in the nation without either a statewide sales tax or a general income tax, leaving the property tax as an essential mainstay of public services. The state imposed a statewide property tax on real property at a rate of .66 percent, based on locally assessed values equalized by the New Hampshire Department of Revenue Administration. This system was ruled unconstitutional by the [State Supreme Court in 1997](#).

Additional data & links

School Finance and Property

Taxes from the Lincoln

Institute of Land Policy:

<https://www.lincolinst.edu/publications/articles/school-finance-property-taxes>

Significant Features of the

Property Tax from the Lincoln

Institute of Land Policy:

<http://datatoolkits.lincolinst.edu/subcenters/significant-features-property-tax/>

Frequently Asked Questions on

the Property Tax from the

National Conference of State

Legislatures:

<http://www.ncsl.org/research/education/funding-approaches-the-property-tax-and-public-ed.aspx>

Descriptions of State Property Tax Systems

The following chart describes the property tax system in Nebraska, Colorado, Wyoming, South Dakota, Iowa, Missouri, and Kansas. All descriptions are summarized from [Significant Features of the Property Tax](#) from the Lincoln Institute of Land Policy.

State	Description of Property Tax System
<i>Colorado</i>	<p>Historically, Colorado relied primarily on local property taxes to fund public education, with state aid accounting for a small share of total education funding. However, policy decisions by the General Assembly prior to 1992 and the interaction after 1992 between the School Finance Act and the local property tax limit in the Taxpayer’s Bill of Rights (TABOR) resulted in the ratcheting down of school property tax mill levies and a shift in the responsibility for funding schools onto the state general fund.</p> <p>The property tax is the most limited of all taxes in Colorado, restricted by both the TABOR and Gallagher Amendments to the state constitution. The Gallagher Amendment requires an adjustment of the residential assessment ratio such that the residential share of total assessed value does not exceed 45 percent. The result is that residential property in Colorado is currently assessed at 7.2 percent of market value, whereas other classes of property are assessed at 29 to 87.5 percent of market value.</p>
<i>Iowa</i>	<p>Iowa imposes property tax rate limits on counties and cities and requires school districts to make minimum property tax contributions (\$5.40 per \$1,000 of assessed value). The state’s counties and cities may have additional property tax levies to fund services specified in the Iowa Code, while school districts may have separate property tax levies for unemployment benefits, libraries, and capital expenses.</p> <p>The state divides property into six different classes and since 1978 has implemented a complex system of statewide assessment limitations, also known as rollback provisions.</p>
<i>Kansas</i>	<p>Almost three-fourths of total general property tax revenue goes to support school and county functions; the state receives only one percent of the total.</p> <p>Property is classified into 14 different classes with different assessment ratios. Seven of these classes are for real property, and six are for personal property. Residential property receives an assessment ratio of 11.5 percent. Thus, homeowners multiply the stated property tax rate by \$11,500 if their home’s market value is \$100,000 (\$100,000 x 0.115).</p> <p>Kansas does tax tangible personal property other than business inventories or household goods but has reduced its reliance on this source by exempting commercial and industrial machinery and equipment purchased or leased after 2006. A locally assessed intangibles personal property tax is imposed by some counties, by a few cities, but mostly by townships.</p>
<i>Missouri</i>	<p>Property taxes represent 26 percent of local general revenue; but for many local governments, this is the predominant source of funds for the most important services such as education and public safety.</p> <p>The degree of reliance on property taxes varies considerably from county to county depending on their ability to impose sales taxes and other forms of charges and taxes. The tax bases of schools, libraries, and some fire districts are supported entirely by property taxes. The cities of St. Louis and Kansas City are also authorized to impose income taxes.</p>

Missouri has the third highest level of personal property taxes per capita in the nation (Virginia and Rhode Island rank higher). In addition, the state has a classified property tax system, with eight different classes having varying assessment ratios. Residential property is assessed at 19 percent of market value, so a \$100,000 home would be assessed at \$19,000.

Nebraska

Nebraska local governments rely on the property tax for 36 percent of local general revenue, compared to a 24 percent share from state aid.

Nebraska has a classified property tax system that treats agricultural property differently from all other property types. Agricultural property is assessed at 75 percent of market value, while all other types of property are assessed at full market value.

As a general rule, assessed values are based on market values. This valuation method is unusual among agriculturally oriented states that generally value agricultural land in its current agricultural use, not its highest and best use. Nebraska allows this kind of use-value assessment for agricultural land only in relatively urbanized counties.

Nebraska has three types of property tax limitations: tax rate caps, which vary by type of government; revenue and expenditure limitations; and local-option levy limits.

South Dakota

South Dakota is one of seven states with no state individual income tax, and one of four states with no general corporate income tax. Because of the state government's limited resources, the state provides relatively low amounts of state aid (almost all for education), leaving local governments, especially counties, to rely heavily on the property tax.

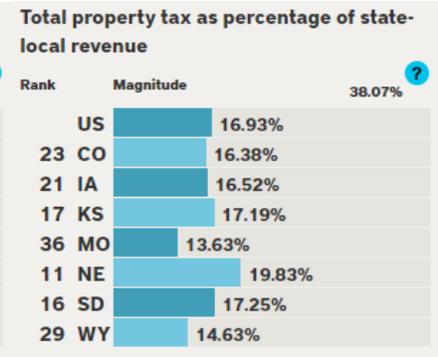
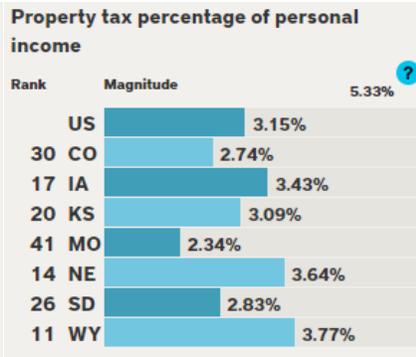
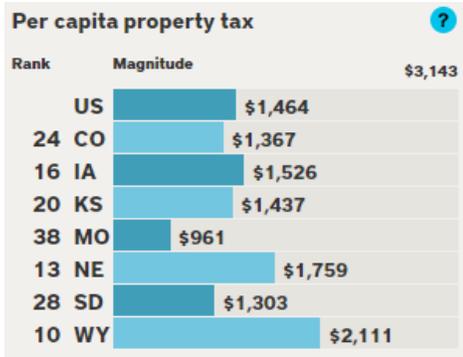
The state taxes agricultural property at a preferentially low rate through two mechanisms. First, agricultural property is given a favorably low value for tax purposes through the system of productivity value, a type of use value. Second, school district property tax rates for agriculture are lower than for other types of property. Together, these provisions result in a lower effective tax rate for agriculture than for owner-occupied homes or commercial, utility, and non-owner-occupied residential property.

Wyoming

Mineral production (predominantly natural gas, coal, and oil) dominates Wyoming's property tax base, accounting for more than 50 percent of the property tax base in 2016. The state also levies a severance tax, which raises about 80 percent of the amount received from the mineral portion of the property tax, and which helps account for Wyoming's higher than average state aid as a proportion of local general revenue.

Wyoming's classified property tax system assesses mineral production at 100 percent of market value, more than 10 times the 9.5 percent at which counties assess residential property values. Sixty-eight percent of Wyoming's property tax revenue supports public schools.

The following three charts compare Colorado, Iowa, Kansas, Missouri, Nebraska, South Dakota, and Wyoming on different measures of property tax reliance.



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