Emily Brixey
ebrixey@ecs.org
Eric Syverson
esyverson@ecs.org

Your Question:

You asked for information on school finance equalization.

Our Response:

This information request covers school finance equalization (SFE), a policy tool used to redistribute financial resources across school districts in a state. The first portion of this information request addresses key questions around SFE and draws on research findings to discuss the implications of SFE policies. The second portion of this information request provides state SFE policy examples.

What is school finance equalization and how does it work?

School finance at the local level is highly dependent on property tax values, with property values often comprising the largest portion of the tax base. As a result, school districts with lower property values spend fewer dollars per student than school districts with higher property values. School finance equalization (SFE) is a policy tool utilized in some states to ameliorate these funding gaps by redistributing resources more equally. This approach is sometimes called district power equalization because it allows each district to tax and spend as if they had the same, or more equalized, local property tax base. SFE policies can help eliminate the inequities that foundation funding can produce by providing additional levels of funding to school districts with higher tax efforts rather than distributing solely based on student characteristics. Education finance has a history of inequity, and SFE policies can be used to help reduce funding disparities between school districts.

Financial ***equality*** in education spending, often defined as equal resources for each student, is a goal commonly associated with school finance equalization policies. However, some researchers propose a movement toward financial ***equity***, defined as providing the necessary resources to obtain equal outcomes for students. Achieving financial equity would mean providing more resources for students with greater needs. For example, research shows that additional funds can be used to provide student support services and help close the opportunity gap between students from underserved communities and students in wealthier communities.

Key Terms

This box contains quick definitions of finance terms highlighted in this information request.

Base Amount: An established minimum level of per pupil funding.

Leveling-down: When adjustments to financial policy result in greater spending equality among school districts but a lower average spending.

Leveling-up*:* When adjustments to financial policy result in both greater spending equality among school districts and a higher average spending.

Tax Base: The total value of taxable assets, such as property, income and certain financial transactions.

Tax Effort: The level of taxation needed to generate the same amount of tax revenue as another governmental entity. Because some governmental entities have wealthier tax bases, they can tax a smaller percentage and still generate the same level of resources as an area with a smaller tax base.

Does money impact education outcomes?

A pressing question in public education finance is the extent to which money plays a role in student experiences and outcomes. In general, the results of empirical analyses that examine this association are mixed. **Some research** finds that increases in per pupil spending are associated with an increased likelihood of graduation, especially for students from low-income families. **Other research** finds that additional financial resources increase reading scores, but not math or ACT scores. In terms of cuts, **one study** that analyzed reduction in spending as a result of performance audits, found no impact on academic quality measurements. These mixed results **may occur** because both input and output variables in education finance questions are complex and challenging to measure. While adequate financial resources are necessary to improve student outcomes, they must also be utilized effectively in order to achieve measurable increases to educational outcomes. The type of additional support services that will be most beneficial for increasing educational outcomes is dependent on the specific needs of the student population.

Are there potential drawbacks to school finance equalization?

While the intention of SFE policies is to close funding gaps among districts and balance tax efforts, adjustments to tax structures sometimes have unforeseen financial consequences. One potential complication with SFE policies is that changes to tax structures at the state level may lead to leveling-down at the local level. **Some school finance equalization policies result** in leveling-down while others result in leveling-up. **Research** indicates that equalization programs that result in fewer districts benefiting from the redistribution are more likely to lead to leveling-down.

Beyond finance, equalization may also impact the level of local control and public school enrollment. School finance policy is built around the notion that it is desirable to allow district residents to make choices on district funding levels based on their education service preferences. SFE limits the extent to which residents control education funding. Equalization programs can drastically change financial incentives and shift the preferences of individuals, so these are often **one of a few tools** states use to redistribute money for education. For example, SFE can **lead to lower public school enrollment** if families are unsatisfied with the education service and funding changes that result from equalization.

State Policy Examples:

Arizona

Arizona employs **school finance equalization** to target state assistance to low-wealth districts. First, the state determines **a property tax rate** that serves as a baseline for finance calculations. A district's net assessed property values are multiplied by this tax rate to calculate the anticipated local revenue. If a district lacks the fiscal capacity to cover annual costs through local tax effort alone, then they receive equalization assistance in the form of revenue derived from a **statewide property tax or direct state appropriations**. While most districts in Arizona receive equalization assistance, some high-wealth districts can cover annual costs without equalization assistance.

Georgia

Since 1985, Georgia has used **Equalization Grants** to balance school funding **between low and high wealth school districts**. First, the state orders school district by property wealth per student from highest to lowest and calculates the state average after **excluding** the top and bottom five percent of districts. For districts with less property wealth per student than the average, the difference between their wealth and the average is multiplied by the number of students and the property tax rate to determine the total amount of equalization funding earned.

Kentucky

Kentucky uses school finance equalization to account for both differences in property wealth as well as student characteristics. Every two years, **Kentucky's school funding formula** requires the legislature to set a base amount of per pupil funding. Districts are required to levy a minimum property tax of $0.30 on every $100 of taxable property to demonstrate local tax effort. Since most school districts cannot raise enough revenue from this tax to meet the state base, the state covers the remaining costs for the district. The state also provides increased per pupil funding for **special student populations** who need costly services. While many school districts levy higher property tax rates than the $0.30 minimum, the state will only equalize funds raised from higher tax rates up to 15% of what the district receives from the base amount.

Montana

To equalize school funding in Montana, the state sets an **equalized range**, requiring school budgets to be between the base amount for school equity and the highest budget allowed. Montana uses a guaranteed tax base aid model to ensure that all districts meet the BASE budget minimum. Montana collects **state** and **county** equalization levies to support the guaranteed tax base aid and other state education funding programs. The guaranteed tax base is the state revenue source used to equalize property tax bases across districts by supplementing BASE tax levy dollars to ensure all districts meet BASE funding levels.