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Vast Inequality in Wealth Means Poor School Districts Are Less Able to Rely on Local Property Taxes

By Jason Bailey

The same local property tax increase yields over 10 times more funding per student in the richest Kentucky school districts than in the poorest districts—meaning cuts in state and federal education funding and the resulting shift toward local revenue are bound to increase already substantial inequality between rich and poor schools.

For the last six years, the state has essentially frozen funding for the Support Educational Excellence in Kentucky (SEEK) program, the state's main funding formula for local schools. After adjusting for inflation and growth in student population, that's a 9.9 percent cut.[1] The budget has included even deeper cuts in state funding for textbooks, afterschool programs and teacher professional development. Also, federal budget cuts—including those that occurred through sequestration—are reducing funding for schools.

In response, some school districts are raising local taxes. According to a *Louisville Courier-Journal* story, 93 of Kentucky's 173 school districts have raised local property tax rates to generate 4 percent more revenue—the maximum increase that districts usually can make while avoiding the possibility of voter recall.[2] A growing number of school districts are also passing resolutions calling on the General Assembly to restore state funding.

Estimated Additional Per Pupil Revenues Associated with 4% Increase in Property Tax Revenues

Top 10	
Anchorage Independent	$457
Silver Grove Independent	$217
Southgate Independent	$211
Fayette County	$188
Jefferson County	$180
Covington Independent	$179
Newport Independent	$177
Fort Thomas Independent	$160
Campbell County	$155
Bellevue Independent	$154
Bottom 10	
Bath County	$24
Dawson Springs Independent	$23
Pineville Independent	$23
Whitley County	$22
Owsley County	$22
McCreary County	$22
Wolfe County	$20
Cloverport Independent	$19
Jackson Independent	$14
East Bernstadt Independent	$14

Source: KCEP analysis of Department of Education data

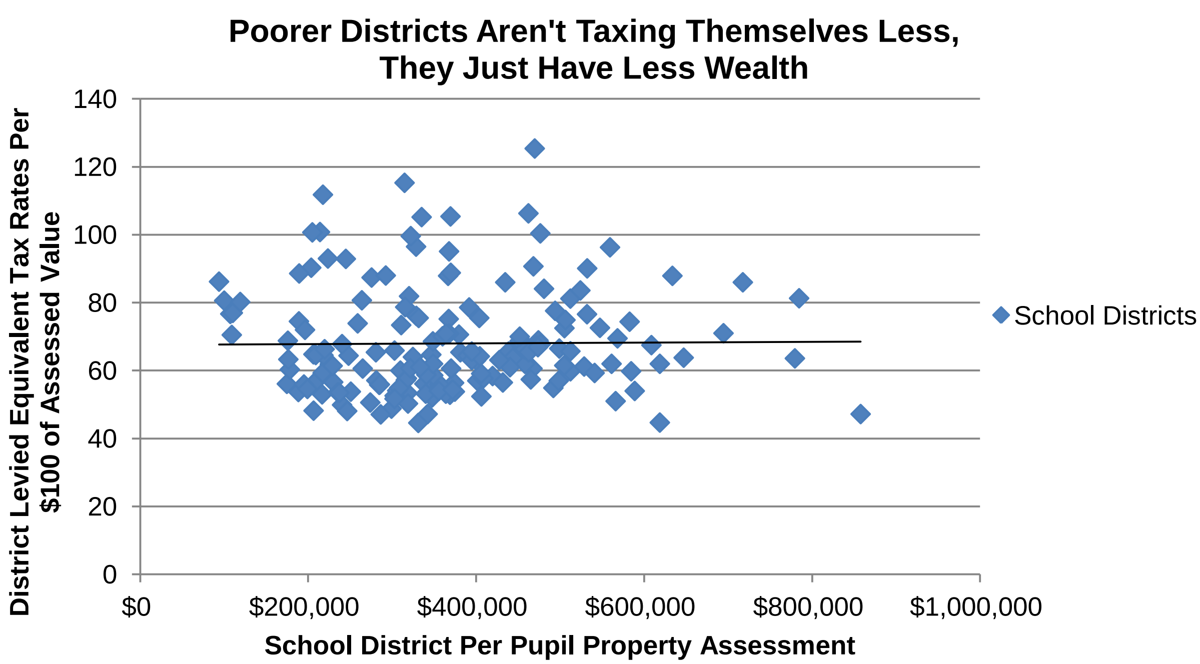
This trend toward greater reliance on local property taxes will exacerbate inequality between districts. The SEEK formula takes local wealth into account, and allocates more resources per student to those poorer districts less able to generate revenue from local sources. The federal education cuts also disproportionately hurt poorer schools because they affect programs like Title 1 designed to help them.

A four percent increase in local property tax revenue can yield substantially more revenue per pupil in richer districts than in poorer districts. The table on page 1 shows the winners and losers. Ten of the state's wealthier districts (located in central and northern Kentucky) can generate between $154 and $457 more per pupil for a 4 percent increase in local property tax revenues. But the ten poorest districts—which are located in rural eastern, south central and western Kentucky—can generate only between $14 and $24 more per student for the same increase (see Appendix for full list of districts).

Greater reliance on local revenue will accelerate already-growing inequality between school districts.[3] The legislature's Office of Education Accountability reported that the gap in per pupil state and local spending between the richest 20 percent of Kentucky school districts and the poorest 20 percent was 40 percent higher in 2010 than it was in 2000.[4] Inequity in funding was the major factor leading to the 1989 Supreme Court ruling that spurred the Kentucky Education Reform Act in 1990.

It's also important to note that the gap in funding between rich and poor districts is not for lack of effort on the part of poor districts. The state SEEK formula requires school districts to put forward a minimum tax effort to qualify for matching funds. And as the graph below shows, there is no correlation between a district's property wealth per student and its school district tax rates. Poor districts tax as much as rich districts do; they just don't have the wealth to generate nearly as much revenue from those taxes.

The cuts in state funding for education are hitting poor, rural districts of Kentucky much harder than wealthier districts. Students growing up in poverty already face substantial challenges outside of the classroom. Their chances of succeeding in life are further diminished when they have access to fewer educational resources than those students growing up in wealthier areas of the state.



Source: KCEP analysis of Department of Education data

The Kentucky Center for Economic Policy is a non-profit, non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED). For more information, please visit KCEP's website at www.kypolicy.org.

Note on Methods: This brief produces simplified estimates of additional revenues from a 4 percent property tax revenue increase from real and tangible personal property taxes. The method calculates the 2012-2013 real and personal property tax revenue for a district based on that year's assessments and rates. It then calculates how much additional revenue would be generated for each district based on a 4 percent increase in real and tangible personal property tax revenues. Note that this method does not exclude new property from the calculation of a 4 percent increase, which would slightly increase available revenues (especially for those districts with more newly-developed property). It does not take into account the ways in which the calculation of the compensating rate and 4 percent rate incorporate the relationship between real and tangible personal property tax assessments at the local level, which can lead to slightly more complex results for particular districts. The method calculates per pupil estimates using average annual daily attendance. Analysis based on data from the Kentucky Department of Education.

Tax effort is based on each district's levied equivalent rate, which is calculated by the Kentucky Department of Education and is a district's total tax revenue from all sources (property taxes but also permissive taxes such as utility taxes, occupational taxes and excise taxes) divided by its total assessment, which includes property and motor vehicles. Anchorage Independent is excluded from the graph because it is an outlier.

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[1] Jason Bailey, "Kentucky Among States that Have Substantially Cut Funding for Schools," Kentucky Center for Economic Policy, September 11, 2013, http://kypolicy.org/kentucky-among-states-substantially-cut-funding-schools/. Michael Leachman and Chris Mai, "Most States Funding Schools Less Than Before the Recession," Center on Budget and Policy Priorities, September 12, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=4011.

[2] Mike Wynn, "Kentucky Teachers Could Face Large-Scale Layoffs," *Louisville Courier-Journal,* December 4, 2013, http://www.courier-journal.com/article/20131204/NEWS01/312040100/Kentucky-teachers-could-face-large-scale-layoffs.

[3] Jason Bailey, "Budget Cuts Further Widen Education Funding Gaps," Kentucky Center for Economic Policy, October 21, 2013, http://kypolicy.org/budget-cuts-widen-education-funding-gaps/.

[4] Marcia Ford Seiler, et al., "2011 School Finance Report," Legislative Research Commission Office of Education Accountability, http://www.lrc.ky.gov/lrcpubs/RR389.pdf.