# America's Most Financially Disadvantaged School Districts and How They Got that Way

## How State and Local Governance Causes School Funding Disparities

By Bruce D. Baker    July 2014

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# Contents

# Introduction and summary

This report explores some of the most financially disadvantaged school districts in the country and identifies a typology of conditions that have created or reinforced their disadvantage. Financially disadvantaged districts are those that serve student populations with much greater-than-average need but do so with much less-than-average funding. The Education Law Center of New Jersey's annual report, "Is School Funding Fair? A National Report Card," uses a panel of the most recent three years of U.S. Census Bureau Fiscal Survey data on state and local revenues per pupil in order to determine which states achieve systematically greater funding per pupil in districts serving higher student poverty concentrations and which states maintain school funding systems where higher poverty districts have systematically fewer resources per pupil.[1]

The same data have been used in follow-up analyses to identify the local public school districts across states that are saddled with greater-than-average student needs and less-than-average state and local revenue.[2] As one might expect, numerous poorly funded local public school districts exist in the least fairly funded states. That is, where a state school finance system is such that higher-need districts on average have lower state and local revenue, there tends to be more high-need districts with lower state and local revenue. And as it turns out, there are unfairly funded districts in what are traditionally viewed as fairly funded states. In other words, poorly funded local public school districts exist in states where school finance systems are, on average, progressive. This report looks at why this happens—and what can be done about it.

First, this report lays out a typology of conditions that lead to severe fiscal disadvantage for local public school systems. It then provides examples of states, state policy conditions, and specific local public school districts identified as being severely financially disadvantaged. The causes of fiscal disadvantage are classified as follows:

- **Type 1. Savage inequalities:** How persistent disparities in local taxable property wealth continue to undermine equity in American education

- **Type 2. Stealth inequalities:** How dysfunctional, poorly designed, state school finance formulas fail to correct, and sometimes reinforce, disparities

- **Type 3. Some politics is still local:** How local tax policy and budgeting decisions may undermine state equity objectives

- **Type 4. Not-so-blurred lines:** How small, segregated enclaves embedded in population-dense metropolitan areas reinforce fiscal disparities

- **Type 5. Shift happens:** How the changing demography of exurban and smaller-city America leads to emerging fiscal disadvantage

The report concludes by providing policy recommendations. Approaches to reforming aid should address the following issues:

- **Organizational concerns.** America's public school districts remain highly geographically, demographically, and economically segregated. As long as this continues, leveraging state school finance policies as part of the solution to achievement gaps will be an uphill battle.

- **State policy leverage over local fiscal decisions.** The power of state school finance systems to resolve inequities in funding across local districts is limited. Local district and municipal taxing and spending decisions can—and, in many cases, do—undermine state school finance policy objectives.

- **More-nuanced measures of local capacity and need in state aid formulas.** The cases explored in this paper reveal some additional complexities to the economics and demography of local public school districts that likely require a closer look to determine the best methods for combining state aid and local revenues to overall adequate spending. Such policies could substantively improve equity in both taxation and the raising of revenue across communities that have disparate access to nonresidential tax bases without requiring them to raise and spend additional state aid.

- **Illogical state aid programs.** States must take a hard look at plainly illogical state school finance formulas. Clearly, Michigan and Arizona need to revisit their general state aid formulas so as to allocate more of their existing aid to districts with greater needs, which will mean allocating less aid to districts with fewer needs.

While substantively resolving any one of these problems would move the ball forward on equity, definitively resolving all four is required for making consistent progress across all states and local public school districts. Resolving these persistent disparities between districts remains a prerequisite condition for resolving internal disparities in the most fiscally deprived school districts. Doing so also serves as a prerequisite condition to resolve disparities in essential resources, including teaching quality, class sizes, and access to deep and broad curricular opportunities for all children regardless of the school or district they attend.

# Background

There have long been clear and large funding disparities in education. These occur when general state aid formulas fail by simply providing too little state aid to improve equity. Typically, funding disparities are caused by disparities in taxable property wealth, a primary source of local revenue that rears its ugly head in the form of substantial variation in local revenues raised by school districts and leads to substantial variation in total revenues. These disparities are what one might refer to as classic, or savage, inequalities, wherein rich neighborhoods have well-funded schools and poor neighborhoods have poorly funded schools.

A previous Center for American Progress report, "The Stealth Inequalities of School Funding: How State and Local School Finance Systems Perpetuate Inequitable Student Spending," noted that in several states, property tax revenue disparities remain the dominant contributor to local revenue disparities in states with the worst total funding disparities. In New Hampshire, for example, property tax revenue disparities explain 98 percent of local revenue disparities; and in large, diverse states such as Pennsylvania, New York, and Illinois, property tax revenue disparities explain about 92 percent of local revenue disparities.[3]

But these savage inequalities—a term first used by writer Jonathan Kozol[4]—are only part of the story. State school finance systems are purportedly designed to address both differences in student needs across districts and differences in local fiscal capacity to meet those needs.[5] In some cases, states simply fail to put up sufficient support to accommodate either or both; in other cases, states create aid formulas that measure imprecisely or inaccurately one, the other, or both—leading to some comparably needy districts being less well-funded than others. In the worst cases, states allocate the majority of their aid with little or no sensitivity to either local district need or capacity.

Elsewhere, state school finance systems have evolved to provide lumpy and unpredictable allocations, including through many categorical aid programs intended to provide additional need-based funding for some locations but not others that seem comparably needy.[6] These categorical programs are often ill-planned and poorly integrated with general aid formulas, and they may evolve into an illogical patchwork that does as much to undermine equity objectives as it does to advance them. In Connecticut, for example, the cities of Hartford and New Haven receive substantial aid to support magnet school programs, but other smaller cities with very high need, including Waterbury and New Britain, are left out.

Local and intermediate government financial decisions can also thwart state school finance system objectives. State laws vary with respect to the extent that states regulate local tax and spending behavior, and the success that state school finance systems have at achieving equity objectives depends on how well state aid blends with local resources. Thus, local taxing and spending decisions can substantially undermine equity. Districts may fall below formula-calculated funding levels because of local government failure to levy sufficient local taxes to support the school system or, in cases where local public school districts depend on municipal budgeting, the failure of municipal government to provide sufficient support for schools.

Additionally, the complex demography and geography of states and the organization of local public school district boundaries pose challenges to ensuring all districts and the children they educate have equitable funding levels. Several population-dense metropolitan areas in the United States remain carved into a racially and economically segregated mosaic of local public school districts, which in some cases enroll only a few hundred students[7] and lie immediately adjacent to other tiny local public school districts that can seem a world away.

Beyond more common patterns of metropolitan disparity, small cities and larger towns at the outer fringes of and beyond major metropolitan areas often appear left out of state school finance systems; these disparities are due perhaps in part to having less political leverage than larger cities but also because their local tax bases typically lack the higher value that the commercial and industrial tax bases of larger cities—and the residential value that the wealthy suburbs—have. Small cities and large towns in many states, including Reading, Pennsylvania; Dodge City, Kansas; and Lexington, Nebraska, have experienced dramatic demographic shifts in recent decades, as Hispanic immigration in particular has rapidly increased.

There's another important issue here—the nature of school governance. School governance has been described as a "layer cake" by some because our system of financing public education involves three layers—federal, state, and local—of geography, tax policy, revenue raising, and spending controls, and the adverse consequences are many. As is discussed below, district boundaries play a major role in reinforcing funding inequities. Stories behind the establishment of these boundaries and the use of the space within them range from the organization of communities divided by natural barriers such as rivers, lakes, and mountains to divisive, racially motivated urban planning and gerrymandering. The entire cake is built on this least equitable bottom layer of local jurisdictions, which are funded largely by local property taxes. Furthermore, affluent local jurisdictions likely wield disproportionate influence on the layers above, at times winning some extra frosting.

But the ground-up nature of our school system is not all bad. Even the much-maligned local property tax has its virtues. Most notably, property tax revenues have remained a relatively stable counterbalance[8] to ever-volatile state income tax revenues over the years.[9] The bottom layer of the cake, while irreparably uneven, is at least relatively stable. Policymakers may seek to either compensate for the problems that emerge from our layered system of local and state finance or disrupt its underlying features.

Currently, states' general equalization aid to schools, tax and expenditure limits, and federal targeted aid are largely compensatory, operating against the constraints of a system designed around centuries of unequal urban development. Targeted program interventions in lower-income communities, including reduced class sizes, fully funded early childhood programs, and teacher recruitment and retention incentives, are also compensatory. Disrupting the boundaries that reinforce inequality and thwart these compensatory policies is a very difficult task. School choice programs, which have the potential to create diffusion across boundaries, are often relegated to operate within existing boundaries, meaning that highly and less-disadvantaged schools are little more than sorted. State policies seeking to reduce mobility barriers across district lines face an uphill battle to gain suburban support.[10] Interdistrict choice programs have remained limited, though recent court rulings regarding Missouri's choice program may push those boundaries.[11] State incentives to promote consolidation among even subtly different neighboring districts face a similar uphill political battle.[12]

Nevertheless, having the conversation is better than remaining silent, and considering the costs and benefits of policies that attempt to compensate for persistent disparities versus those that may disrupt its underlying causes is worthwhile. In the end, the issue does not simply revolve around money, and we need to do more than work around structural issues to ensure that all students have a fair shot at a good education.

## Methodological note

Fiscally disadvantaged districts are those with higher-than-average student needs for their labor-market location and lower-than-average resources when state and local revenues are combined. Illinois and Pennsylvania persist in having what are among the worst savage inequalities. As a result, the cities of Chicago and Philadelphia are, year after year, the two most fiscally disadvantaged large urban districts in the nation.

Table 1 summarizes the report's typology and lists the exemplars discussed in later sections. Relative poverty ratios indicate the districts' Census poverty rates compared to the average for districts in the same labor market, and relative revenues indicate the districts' state and local revenues per pupil relative to the average for districts in the same labor market. As shown, Reading and Allentown, Pennsylvania, face the most extreme conditions, with nearly 2.5 times the area poverty rates and less than 80 percent of the average state and local revenue per pupil.

It is important to understand that the value of any given level of education funding, in any given location, is relative. That is, it does not matter whether a district spends $10,000 per pupil or $20,000 per pupil. It matters how that funding compares to other districts operating in the same regional labor market—and, for that matter, how that money relates to other conditions in the regional labor market. The first reason relative funding matters is that schooling is labor intensive. The quality of schooling depends largely on the ability of schools or districts to recruit and retain quality employees. The largest share of school districts' annual operating budgets is tied up in the salaries and wages of teachers and other school workers. The ability to recruit and retain teachers in a school district in any given labor market depends on the wage a district can pay to teachers relative to other surrounding schools or districts and relative to nonteaching alternatives in the same labor market.[13] The second reason is that graduates' access to opportunities beyond high school is largely relative and regional. The ability of graduates of one school district to gain access to higher education or the labor force depends on the regional pool in which the graduate must compete.[14]

Methods for identifying fiscally disadvantaged districts are provided in Appendix A, and full lists of fiscally disadvantaged districts can be found in Appendix B. Complete lists of considered cities, suburbs, and towns can be found in Appendix C.

TABLE 1
## Report typology and exemplar states

| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 1. Savage, inequalities | Illinois | Chicago, IL | 1.660 | 0.868 |
| | Pennsylvania | Philadelphia, PA | 2.131 | 0.879 |
| | | Reading, PA | 2.316 | 0.795 |
| | | Allentown, PA | 2.454 | 0.777 |
| Type 2. Stealth inequalities | Michigan | Hamtramck, MI | 2.099 | 0.803 |
| | Arizona | East Detroit, MI | 2.062 | 0.876 |
| | | Clintondale, MI | 1.906 | 0.869 |
| | | Sunnyside, AZ | 1.646 | 0.800 |
| Type 3. Some politics is still local | Connecticut | Bridgeport, CT | 2.618 | 0.802 |
| Type 4. Not-so-blurred lines | Illinois | Posen-Robbins Elem, IL | 1.748 | 0.687 |
| | Arizona | Lincoln Elem, IL | 1.713 | 0.747 |
| | [elementary districts] | Glendale Elem, AZ | 1.574 | 0.770 |
| | | Alhambra Elem, AZ | 1.964 | 0.795 |
| Type 5. Shift happens | Illinois | Waukegan, IL | 2.175 | 0.786 |
| | Pennsylvania | Aurora East, IL | 1.416 | 0.782 |
| | | Round Lake, IL | 1.966 | 0.769 |
| | | Reading, PA | 2.316 | 0.795 |
| | | Allentown, PA | 2.454 | 0.777 |

Source: See Appendix A.

## Exemplars of extreme fiscal disadvantage

This section first discusses the savage inequalities that currently exist in Illinois and Pennsylvania. While local taxation decisions play some role in increasing disparities, districts disadvantaged by savage inequalities really have no way to dig themselves out, no matter how high they might try to tax themselves. It then illustrates the role of state aid in reinforcing, or at the very least doing little to

correct, disparities in Michigan and Arizona, before exploring the more nuanced and complicated case of local budgeting undermining the financial condition of Bridgeport, Connecticut, schools and displaying the problems associated with extreme school district segregation in Chicago and Phoenix. Finally, it looks at the plight of predominantly Hispanic districts in Illinois and Pennsylvania.

**TABLE 2**
## Type 1. Savage inequalities

How disparities in local property wealth undermine equity in American education

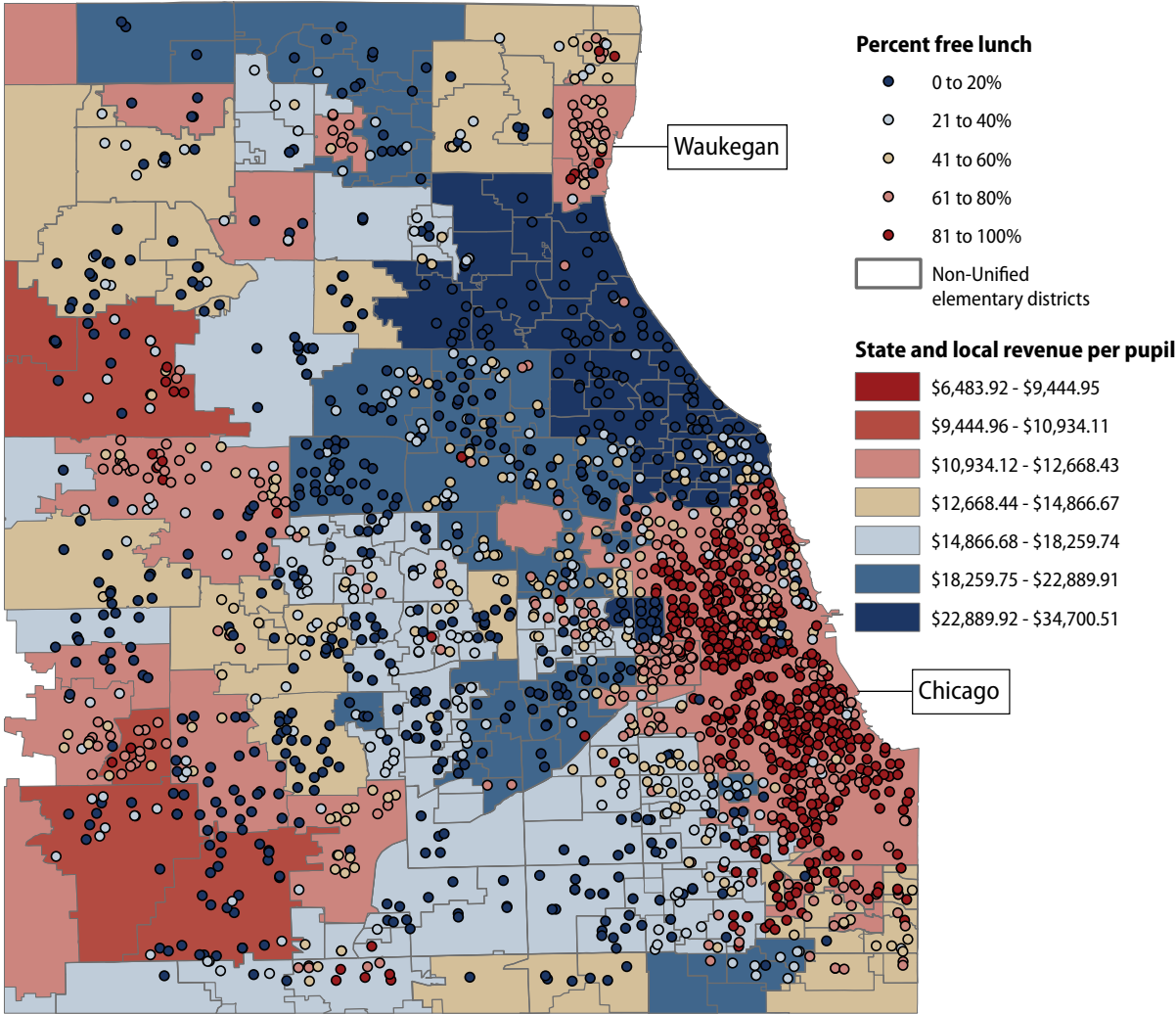| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 1. | Illinois | Chicago, IL | 1.660 | 0.868 |
| Savage inequalities | Pennsylvania | Philadelphia, PA | 2.131 | 0.879 |
| | | Reading, PA | 2.316 | 0.795 |
| | | Allentown, PA | 2.454 | 0.777 |
| | Other contenders: New York | Utica, NY | 1.826 | 0.836 |

Source: See Appendix A.

Savage inequalities are characterized by affluent suburbs with big houses on tree-lined streets, palatial high schools, top-notch lacrosse and fencing teams, and elite orchestras contrasted with nearby urban ghettos replete with overcrowded and crumbling schools, high crime and considerable dropout rates. Sadly, this carica-ture of American education persists as a stark reality in many parts of the country. It is perhaps nowhere better illustrated than in the Philadelphia and Chicago metropolitan areas.

Figure 1 displays a classic spatial pattern of inequality. Chicago, Illinois, has rela-tively low per-pupil revenue but is surrounded by leafy suburbs with high-spend-ing public school systems. Background shading indicates state and local revenue per pupil of school districts. Circles indicate schools with shares of low-income children indicated by the circle's color. Savage disparities such as those in the Chicago metropolitan area are represented by red circles on yellow-to-red back-grounds adjacent to blue circles on blue backgrounds.

The city of Chicago is shaded yellow for revenue, highlighting its large numbers of very high-poverty schools. The leafy suburbs have both very high spending and low-poverty schools. To the south of Chicago are additional modest to poorly funded districts with very high-poverty schools. Two additional high-poverty districts with particularly low revenue appear to the north and west—Waukegan and Round Lake.

**Percent free lunch**

- 0 to 20%
- 21 to 40%
- 41 to 60%
- 61 to 80%
- 81 to 100%
- ☐ Non-Unified elementary districts

**State and local revenue per pupil**

- $6,483.92 - $9,444.95
- $9,444.96 - $10,934.11
- $10,934.12 - $12,668.43
- $12,668.44 - $14,866.67
- $14,866.68 - $18,259.74
- $18,259.75 - $22,889.91
- $22,889.92 - $34,700.51

Waukegan

Chicago

The larger areas shaded in blue actually conceal additional disparities among the many smaller elementary school districts that serve smaller neighborhood areas. Figure 1 displays revenue aggregated across collections of nonunified elementary and secondary school districts, but additional and substantial disparities exist across the underlying elementary districts due to their independent local taxing authority.

Legend:
- State special aid
- State general aid
- Local charges/other
- Local tuition/transfers
- Local property tax

Y-axis: $0, $5,000, $10,000, $15,000, $20,000, $25,000

Categories:
- City of Chicago
- Round Lake CUSD
- Waukegan
- Deerfield
- Lake Forest
- New Trier HSD
- Evanston HSD

High poverty/Low spending (City of Chicago, Round Lake CUSD, Waukegan)

Low poverty/High spending (Deerfield, Lake Forest, New Trier HSD, Evanston HSD)

Sources: U.S. Census Bureau Fiscal Survey of Local Governments (http://www.census.gov/govs/school/) & U.S. Census Small Area Income and Poverty Estimates (https://www.census.gov/did/www/saipe/data/schools/data/index.html

Figure 2 illustrates the extremes of fiscal disparity in the Chicago metropolitan area, the root of which can be found in disparities in access to local property wealth. Property tax revenues per child in affluent high schools or unified districts far outpace those of poorer districts. Furthermore, state aid levels barely make a dent in these disparities. The relative position of the city of Chicago is strengthened only by the fact that it possesses a stronger local property tax base than outlying low-income districts, such as Round Lake, Waukegan, or even inner-urban fringe districts on the South Side of Chicago.

Figure 3 displays the variations in operating tax levies in relation to operating expenses per pupil for the 2011-12 school year. What the figure shows generally is that while significant variation exists in operating tax levies, higher tax levies are not necessarily associated with higher spending—whether state, local, or federal sources. Affluent high school districts have especially low operating levies but very high spending per pupil. Elementary districts in the same locations also have below-average operating levies and relatively high per-pupil spending. The City of Chicago Public Schools levies comparable taxes but comes in slightly below elementary district spending for affluent suburbs.

In Figure 3, Waukegan is represented as having a very high local tax levy and relatively high spending. But prior years of data from federal sources indicate that Waukegan's state and local revenue per pupil is much lower. Round Lake has a relatively high local tax levy and relatively low spending; it has more than double the tax rates of the New Trier, Evanston, and Lake Forest High School Districts but less than half the per-pupil spending.

**FIGURE 3**

**Illinois tax rates and spending per pupil**



Source: Illinois Department of Education 2011-12. Operating Tax Rate from 2010.
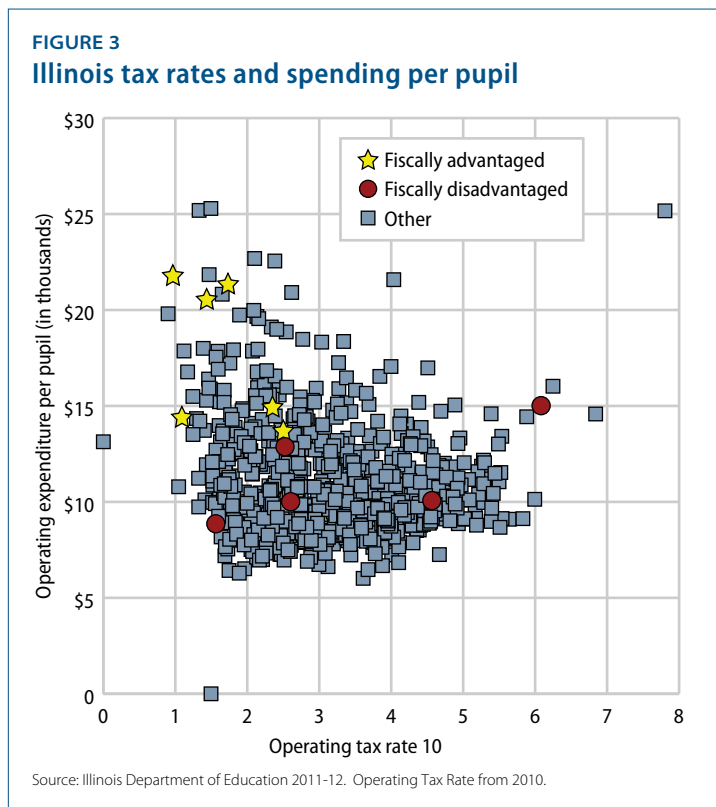
FIGURE 4

**Distribution of state and local revenue by district and low-income students by school in Pennsylvania**



**Percent free lunch**

- 0 to 20%
- 21 to 40%
- 41 to 60%
- 61 to 80%
- 81 to 100%

**State and local revenue per pupil**

- $9,037.84 - $10,924.09
- $10,924.10 - $12,142.68
- $12,142.69 - $13,431.95
- $13,431.96 - $14,966.18
- $14,966.19 - $17,411.67
- $17,411.68 - $22,303.40
- $22,303.41 - $31,982.97
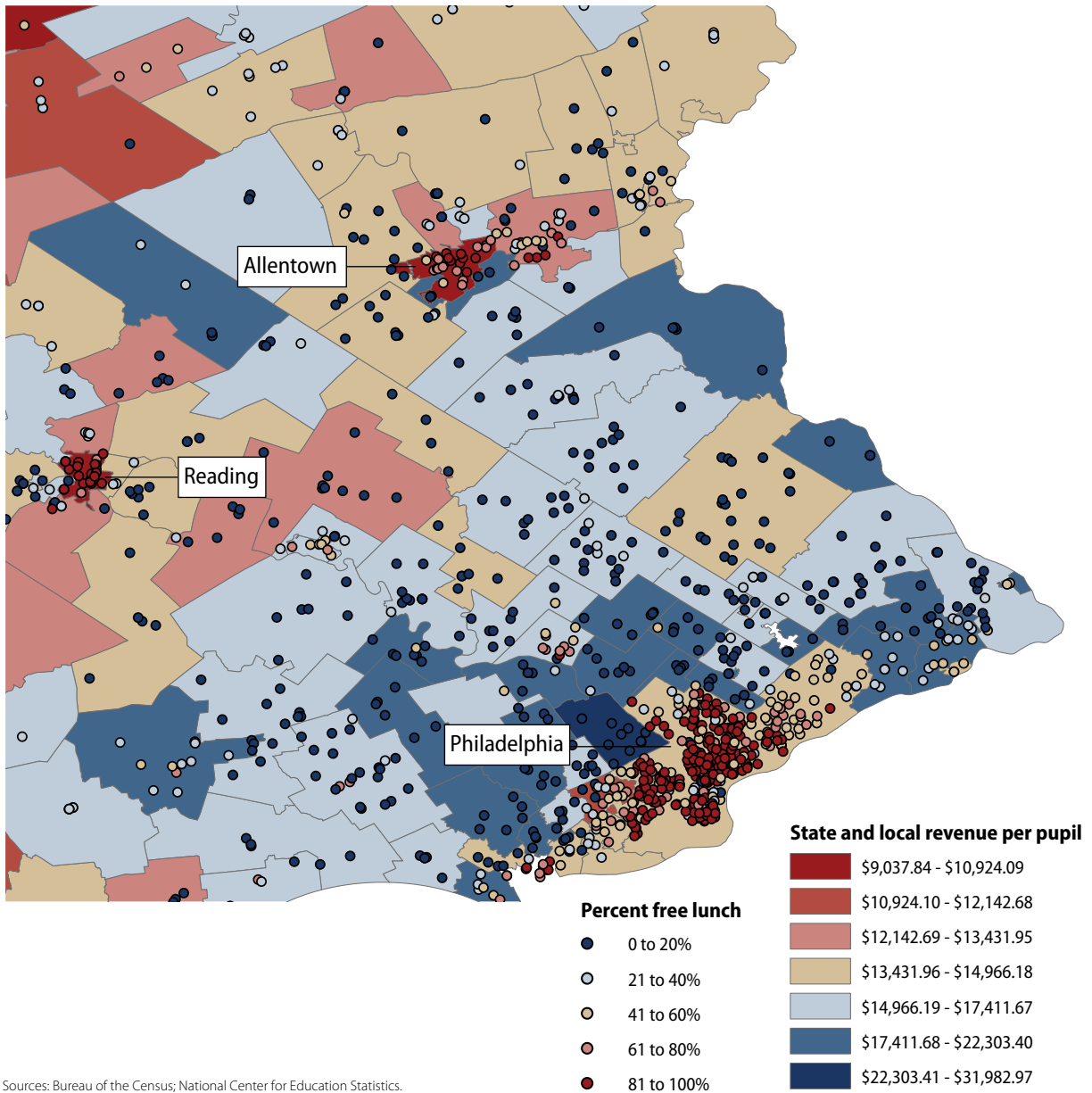
Sources: Bureau of the Census; National Center for Education Statistics.

Pennsylvania reveals a pattern of savage inequalities rivaled only by that of Illinois. As can be seen in Figure 4, Philadelphia schools—like Chicago schools—are almost uniformly high in poverty concentration, while district per-pupil revenue is low by comparison to surroundings. Quite possibly, the nation's most fiscally disadvantaged local public school districts of significant size lie to the north and west of Philadelphia, in the districts of Reading and Allentown. These districts sit at the bottom of the revenue distribution and serve very high-need student populations.

Figure 5 shows the relationship in Pennsylvania between local property tax rates and current spending per pupil. On average, districts with higher tax rates do tend to have higher per-pupil spending. But regardless of their tax rates, some districts—including Reading, Allentown, and Philadelphia—are highly unlikely to rise to the top in spending. They simply cannot generate the local revenue. Philadelphia's local property tax rates are relatively average, but its spending for its metropolitan area is low. Reading's local property tax rate is actually quite high, yet as evidenced in Figure 4, it can hardly generate sufficient local revenue per pupil. Meanwhile, Radnor and Lower Merion have relatively low local property tax rates and, despite receiving very little state aid, manage to substantially outspend most districts in the state.

**FIGURE 5**

**Pennsylvania tax rates and spending per pupil**
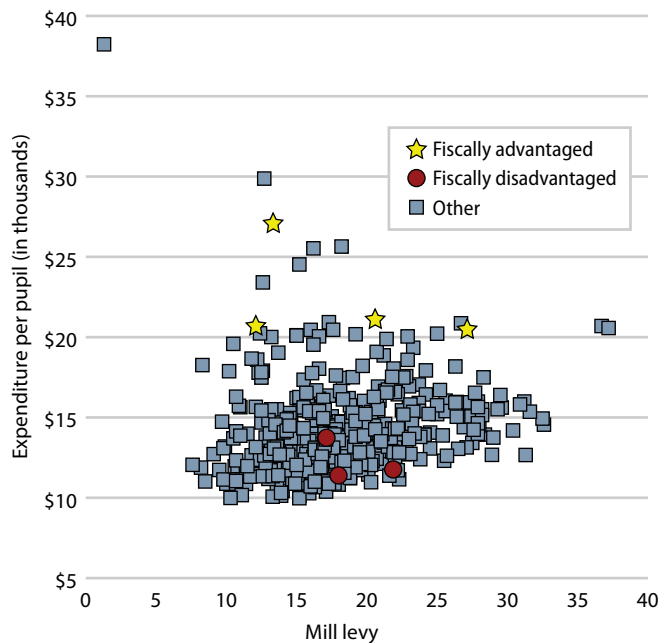


Source: Mill rate data; per-pupil spending data from Pennsylvania Department of Education, available at http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123706_1335925_0_0_18/Finances%20AFR%20ExpDetail%200102-1112.xlsx; Equalized mill rate data from Pennsylvania Department of Education, available at http://www.portal.state.pa.us/portal/http://www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123706_1285614_0_0_18/Finances%20SelectedData%202010-2011.xlsx.

TABLE 3
## Type 2. Stealth inequalities

How dysfunctional state school finance formulas do not help and sometimes hurt

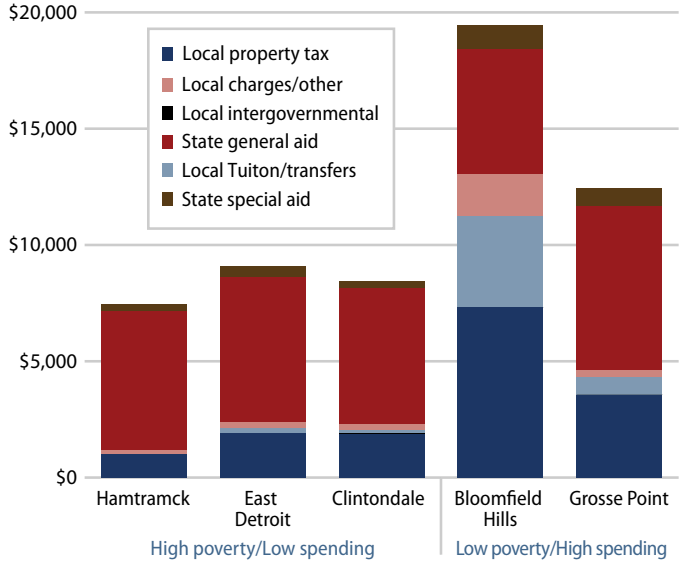| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 2. Stealth inequalities | Michigan | Hamtramck, MI | 2.099 | 0.803 |
| | | East Detroit, MI | 2.062 | 0.876 |
| | | Clintondale, MI | 1.906 | 0.869 |
| | Arizona | Sunnyside, AZ | 1.646 | 0.800 |

Source: See Appendix A.

In some states, state aid plays a much greater role in financing local public school districts, but even larger shares of such funding do little to advance equity or accommodate student needs. Michigan and Arizona are two egregious examples. Figure 6 conveys the pattern of revenue disparities for Michigan school districts. Since the early 1990s, Michigan has been touted as a model of state school finance reform, attempting to dramatically reduce—and, originally, to entirely eliminate—the role of property taxes for school funding and promising to pay the bulk of education costs through a statewide formula. The promise of Michigan's school finance reforms was never realized, largely because the state found that it could not raise sufficient revenue from other tax sources to provide adequate funding for all districts.[15] Instead of rethinking the original plan and better targeting the revenue that was raised to the districts that needed it most, however, the state moved forward with a plan that continued to flatly allocate aid regardless of need or local capacity to supplement.

Figure 6 reveals that the primary source of disparities in total revenues per pupil between fiscally disadvantaged and advantaged districts remains different in local property tax revenues. Instead of remedying these disparities, however, Michigan's school finance reforms simply layer relatively constant shares of state general aid on top of them. It seems foolish and wasteful, much like other stealth inequalities identified in the previously mentioned CAP paper, "The Stealth Inequalities of School Funding," to provide thousands of dollars per pupil in state aid to districts such as Bloomfield Hills and Gross Point while others, such as Hamtrack, East Detroit, and Clintondale, are only able to raise and spend half as much.

Figure 7 displays the revenue breakdown for disadvantaged and advantaged Arizona school districts. Clearly, the largest disparities are created by differences in access to local property wealth. Property tax revenues per pupil are several times higher in low-poverty, high-spending districts than in high-poverty, low-spending ones. But a notable feature of Figure 7 is that despite the fact that the low-poverty, high-spending districts raise more than three times as much money in local revenue, they still receive significant state aid per pupil. Much like general state aid in Michigan, state aid in Arizona could be allocated far more equitably to eliminate property-wealth-related disparities in revenues.

**FIGURE 6**

**Revenue decomposition (2009–11) of advantaged and disadvantaged school districts in Michigan**



Source: See Appendix A.

**FIGURE 7**

**Revenue decomposition (2009–11) of advantaged and disadvantaged school districts in Arizona**
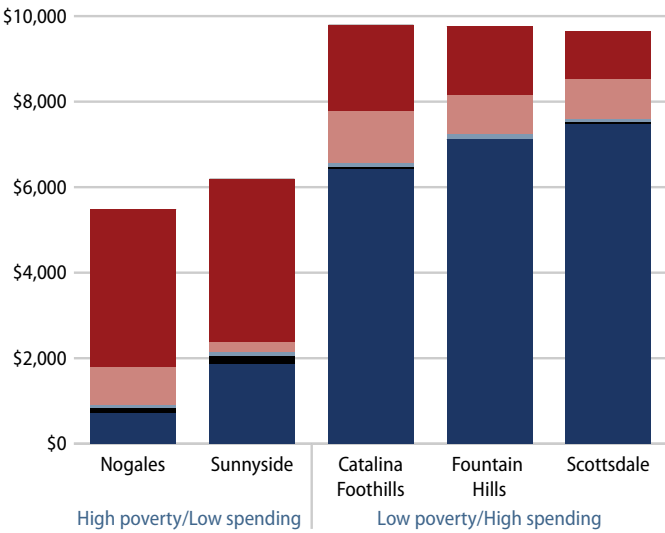


Source: See Appendix A.

TABLE 4
## Type 3. Stealth inequalities

How dysfunctional state school finance formulas do not help and sometimes hurt

| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 3. Some politics is still local | Connecticut | Bridgeport, CT | 2.618 | 0.802 |
| | Other contenders: Rhode Island | Woonsocket, RI | 2.035 | 0.776 |

Source: See Appendix A.

The revenue breakdown analysis in the previous figures reveals that disparities in local revenues continue to play a significant role in determining which local public school districts remain most fiscally disadvantaged. Local tax revenues per pupil depend on the strength of the tax base per pupil and the tax rate levied on those properties. As shown previously, variations in local tax rates can lead to additional disparities.

While states often hold the constitutional responsibility for ensuring equitable and adequate financing of local public school systems, municipalities and local communities still retain control over where they set their local property tax rates in many states. Definitions of property types and methods of property valuation, as well as mechanisms for determining tax rates, are often established in state statutes or constitutions. Furthermore, many states set caps on either total tax rates, revenue to be generated from local taxes, or growth in property tax rates or revenues.[16]

Yet even with these controls, states have not been able to fully overcome disparities in local district revenues caused by variations in local tax and budgeting policies. State school finance systems often base their aid calculations on assumptions of equal or fair local taxation, but these same systems do not always require local public districts to actually raise their local fair share or their parent municipalities to spend the equivalent of the local fair share on schools. Beyond providing only soft minimum local taxing requirements, many states permit wide variation above and beyond minimum requirements. In some cases, states adopt controls such as tax and spending limits, which serve to codify current disparities by, for example, limiting future growth in tax levies but starting from and proportionately building on an inequitable baseline. A constant tension exists between state aid formulas and local taxing and spending decisions.

Figure 8 shows southwestern Connecticut, which contains two of the state's persistently most fiscally disadvantaged districts: Waterbury and Bridgeport. Both are shaded orange, indicating relatively low—but not the lowest—state and local revenue per pupil. There are certainly lower revenue districts in the state, but as can be seen in the figure, many of the lower revenue districts also serve fewer poor children. Each of the three fiscally disadvantaged districts in the area includes numerous high-poverty schools.

Another peculiar feature of Connecticut is the other districts that are home to high-poverty schools with higher expenditure levels—notably New Haven, in light blue to the east of Bridgeport, and Hartford, in light blue to the northeast of New Britain. A significant share of the additional funding in these districts involves state aid targeted to magnet programs.

**FIGURE 8**
**Distribution of state and local revenue by district and low-income students by school in Connecticut**



Percent free lunch
- 0 to 20%
- 21 to 40%
- 41 to 60%
- 61 to 80%
- 81 to 100%

State and local revenue per pupil
- $10,632.71 - $13,117.21
- $13,117.22 - $14,722.82
- $14,722.83 - $16,177.46
- $16,177.47 - $17,784.23
- $17,784.24 - $19,916.08
- $19,916.09 - $23,957.04
- $23,957.05 - $29,304.35

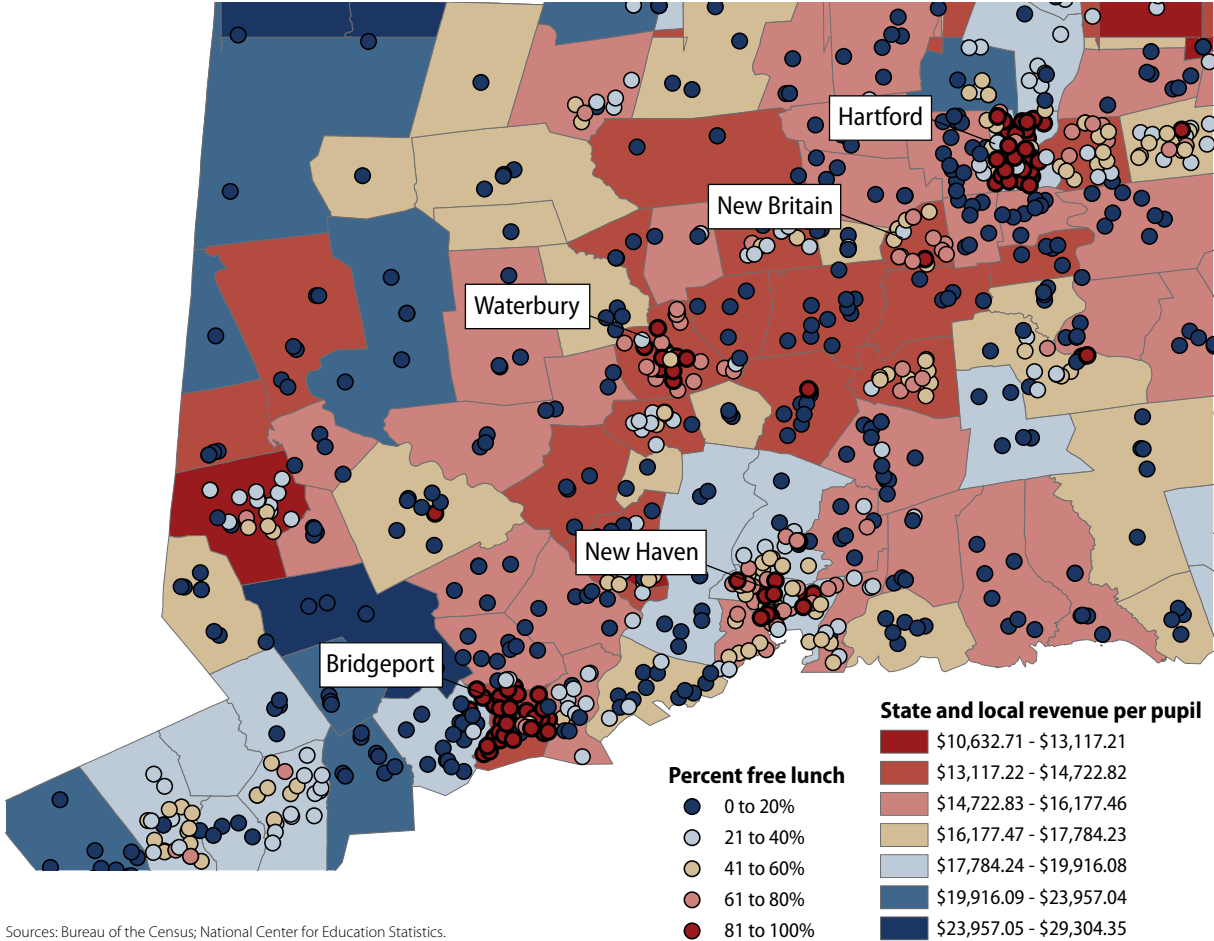Sources: Bureau of the Census; National Center for Education Statistics.

Table 2 explores spending variations induced by local tax policy among high-poverty urban Connecticut districts. It uses data from the municipal financial reporting system of the state of Connecticut to parse more precisely municipal revenues, municipal expenditures, and state aid across these cities. Table 2 shows that the Net Current Expenditures per Pupil in Average Daily Membership, or NCE/ADM, are significantly higher in Hartford and New Haven than in Bridgeport and Waterbury.

Looking at municipal revenue as a whole, it would appear that intergovernmental revenues—state aid to the municipalities and perhaps some county revenues—are higher in Hartford and New Haven; this may include magnet school aid. As shown in the taxes column, total taxes collected per capita are actually quite comparable, with Hartford being marginally higher. Thus, intergovernmental transfers seem to explain the difference in total local revenue per capita.

But in a state with fiscally dependent school districts, total municipal revenue differences per capita do not necessarily translate to school revenues per child. City governments make spending decisions across their public services and may or may not favor their public school systems. Looking at expenditures in the bottom section of Table 2, we see that municipal expenditures on education per pupil are comparable between Bridgeport and New Haven, lowest in Waterbury, and highest in Hartford.

Furthermore, the percent of total spending allocated to schools varies widely, with the highest percent allocated to Hartford. Unexplained by Table 2 is how New Haven ultimately has per-pupil expenditures more comparable to Hartford than to the other disadvantaged cities. Its tax collections are low, and its share of total expenditures allocated to schools is the lowest. Intergovernmental transfers are higher for New Haven than for Bridgeport or Waterbury, but not by much. Nonetheless, it is readily apparent that a multitude of decisions can substantially influence local school funding disparities that in turn affect total available revenues in ways currently beyond the direct control of state school finance policies.

TABLE 5
## Fiscal profiles of select Connecticut cities

| | Bridgeport | Waterbury | Hartford | New Haven |
|---|---|---|---|---|
| 2011 population | 145,638 | 110,189 | 124,867 | 129,585 |
| **School district net current expenditures** | | | | |
| NCE 2010-11 | $281,873,864 | $256,533,397 | $379,784,614 | $326,302,162 |
| ADM 2010-11 | 20,949 | 17,594 | 20,985 | 17,720 |
| **NCE/ADM (current spending per pupil)** | **$13,455** | **$14,581** | **$18,098** | **$18,414** |
| **Revenue** | | | | |
| Intergovernmental revenue | $207,535,677 | $153,659,000 | $272,915,000 | $227,634,807 |
| Intergovernmental revenue per capita | $1,425 | $1,395 | $2,186 | $1,757 |
| Tax revenue (municipal) | $272,206,146 | $218,483,000 | $274,013,000 | $218,720,737 |
| Total revenue | $500,218,709 | $391,619,000 | $562,686,000 | $485,922,103 |
| Total revenue per capita | **$3,435** | $3,554 | $4,506 | $3,750 |
| **Taxes** | | | | |
| Mill rate | **39.65** | 41.82 | 72.79 | 43.90 |
| Equalized net grand list (taxable property wealth) | $9,790,215,961 | $7,056,499,043 | $7,713,607,784 | $7,748,069,515 |
| EGL/population | $67,223 | $64,040 | $61,775 | $59,791 |
| Total taxes collected | $269,003,160 | $215,843,000 | $263,161,000 | $216,276,372 |
| Collection rate (compliance) | **87.6%** | 92.2% | 88.9% | 96.2% |
| Collections per capita | $1,847 | $1,959 | $2,108 | $1,669 |
| **Expenditures (municipal)** | | | | |
| Total expenditures | $500,020,343 | $343,602,000 | $523,968,000 | $490,946,113 |
| Education | $229,559,379 | $168,429,000 | $304,370,000 | $193,103,792 |
| Education expenditures per pupil (municipal) | $10,958 | $9,573 | $14,504 | $10,897 |
| Education share | 45.9% | 49.0% | 58.1% | 39.3% |

Source: Data from 2012 Connecticut Fiscal Indicators database, available at http://www.dir.ct.gov/opm/IGP/munfinsr/FI2008-12V2000.mdb.

TABLE 6
## Type 4. Not-so-blurred lines of segregation

How small, segregated enclaves in densely populated areas reinforce fiscal disparities

| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 4. Not-so-blurred lines | Illinois | Posen-Robbins Elem, IL | 1.748 | 0.687 |
| | Arizona | Lincoln Elem, IL | 1.713 | 0.747 |
| | [elementary districts] | Glendale Elem, AZ | 1.574 | 0.770 |
| | | Alhambra Elem, AZ | 1.964 | 0.795 |

Source: See Appendix A.

Despite substantial reductions in the number of local public school districts nationwide over the past several decades, some states and metropolitan areas still have large numbers of holdouts, including large numbers of nonunified elementary and high school districts that are highly racially and economically segregated.[17] This carving up of diverse metropolitan areas into tiny segregated enclaves exacerbates disparities between districts.

Figure 9 shows the area of Phoenix, Arizona, which includes a diverse mix of schools by low-income concentration overlaying that have significant revenue variation. The figure shows the aggregated variation in revenues for high school districts. But this aggregation masks substantial variation in resources across underlying nonunified elementary school districts. The area identified as Glendale Elementary School District has a high concentration of high-poverty schools and is part of a diverse, relatively low-revenue, consolidated high school district.

FIGURE 9

**Distribution of state and local revenue by district and low-income students by school in Arizona**



**Percent free lunch**
- 0 to 20%
- 21% to 40%
- 41% to 60%
- 61% to 80%
- 80% to 100%

**State and local revenue per pupil**
- $3,858.39 - $6,393.06
- $6,393.07 - $7,795.76
- $7,795.77 - $9,686.81
- $9,686.82 - $12,257.14
- $12,257.15 - $16,593.02
- $16,593.03 - $24,840.91
- $24,840.92 - $43,857.14
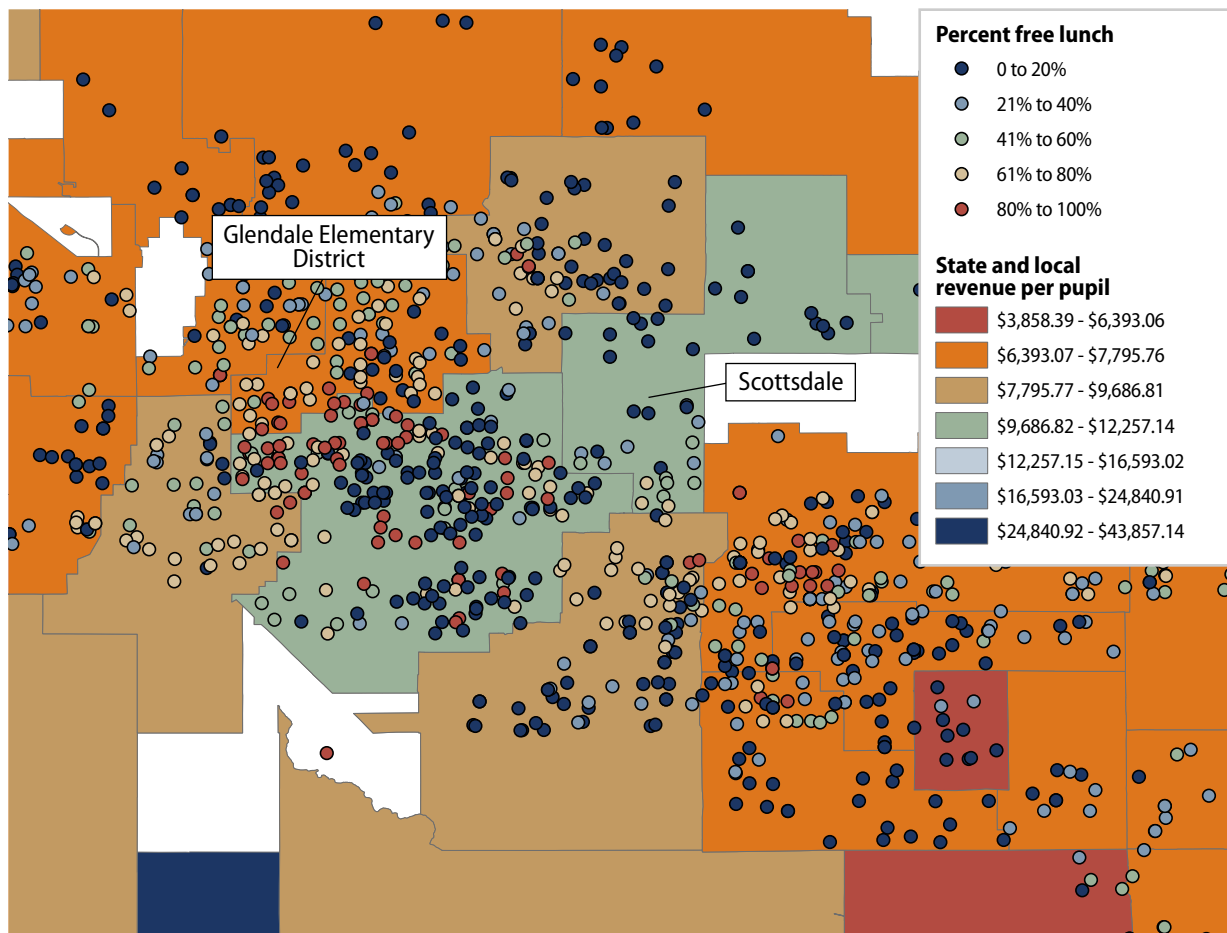
Sources: Bureau of the Census; National Center for Education Statistics.

Figure 10 displays the variation in per-pupil spending across underlying elementary districts. Glendale, in particular, has very low per-pupil spending and very high relative poverty. Recall from Table 1 that Glendale has 1.57 times the area poverty rate and 77 percent of the area's average state and local revenue. Alhambra is in a worse position in terms of poverty, at 1.96 times the metropolitan area average, and an only slightly better position in terms of revenue, with 79.5 percent of the metropolitan area average.

FIGURE 10

## Distribution of current spending for elementary school districts and low-income students by school in Arizona



**Percent free lunch**
- 0 to 20%
- 21% to 40%
- 41% to 60%
- 61% to 80%
- 80% to 100%
- Unified districts

**Current spending per pupil**
- $5,791.00 - $7,000.00
- $7,000.01 - $8,000.00
- $8,000.01 - $9,000.00
- $9,000.01 - $10,000.00
- $10,000.01 - $11,000.00
- $11,000.01 - $15,000.00
- $15,000.01 - $23,917.00

Glendale Elementary District

Alhambra Elementary District
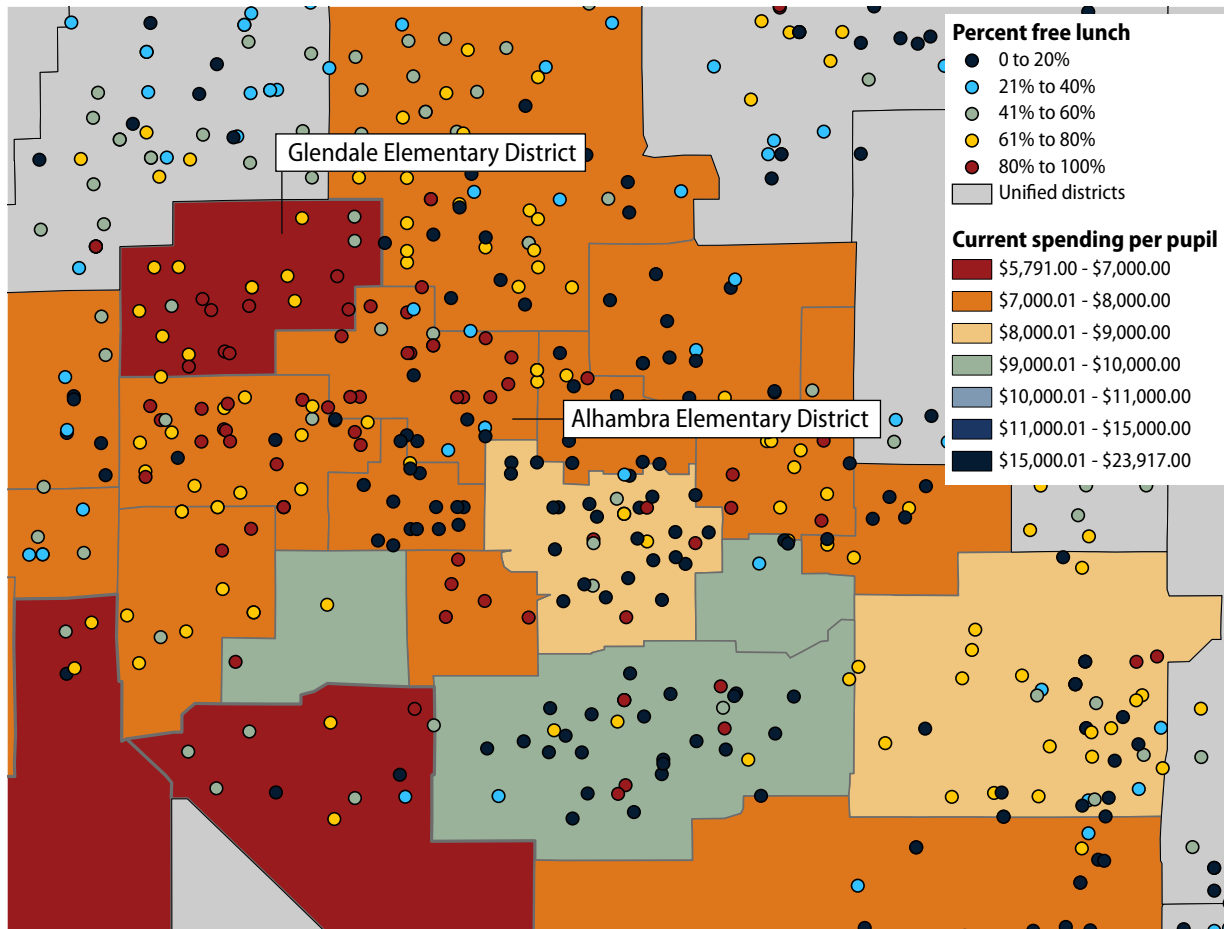
Sources: Bureau of the Census; National Center for Education Statistics.

Recall from Table 1 that the city of Chicago had 1.66 times its metropolitan area poverty rate and 86.8 percent of the average state and local revenue per pupil. As with the Arizona maps, the previous Chicago metropolitan area map (see Figure 1) masked underlying elementary district disparities. Figure 11 uncovers these disparities. While there are many to choose from, the Posen-Robbins School District 143½ and Lincoln Elementary District 156 both have greater than 1.7 times the average poverty rate and only around 70 percent of average state and local revenue per pupil. These districts are both in an area south of the city that is home to several high-poverty school districts. Among those high-poverty districts, however, state and local revenues and resulting current spending vary widely. One only needs to go a few miles to the west to find low-poverty and higher-spending elementary school districts.

## Distribution of current spending for elementary school districts and low-income students by school in Illinois



**Percent free lunch**

- 0 to 20%
- 21 to 40%
- 41 to 60%
- 61 to 80%
- 81 to 100%

Unified districts

**Current spending per pupil**

- $6286 - 8000
- $8001 - 9000
- $9001 - 10000
- $10001 - 12000
- $12001 - 14000
- $14001 - 18000
- $18001 - 27000

Posen-Robbins
Elementary District

Lincoln
Elementary District
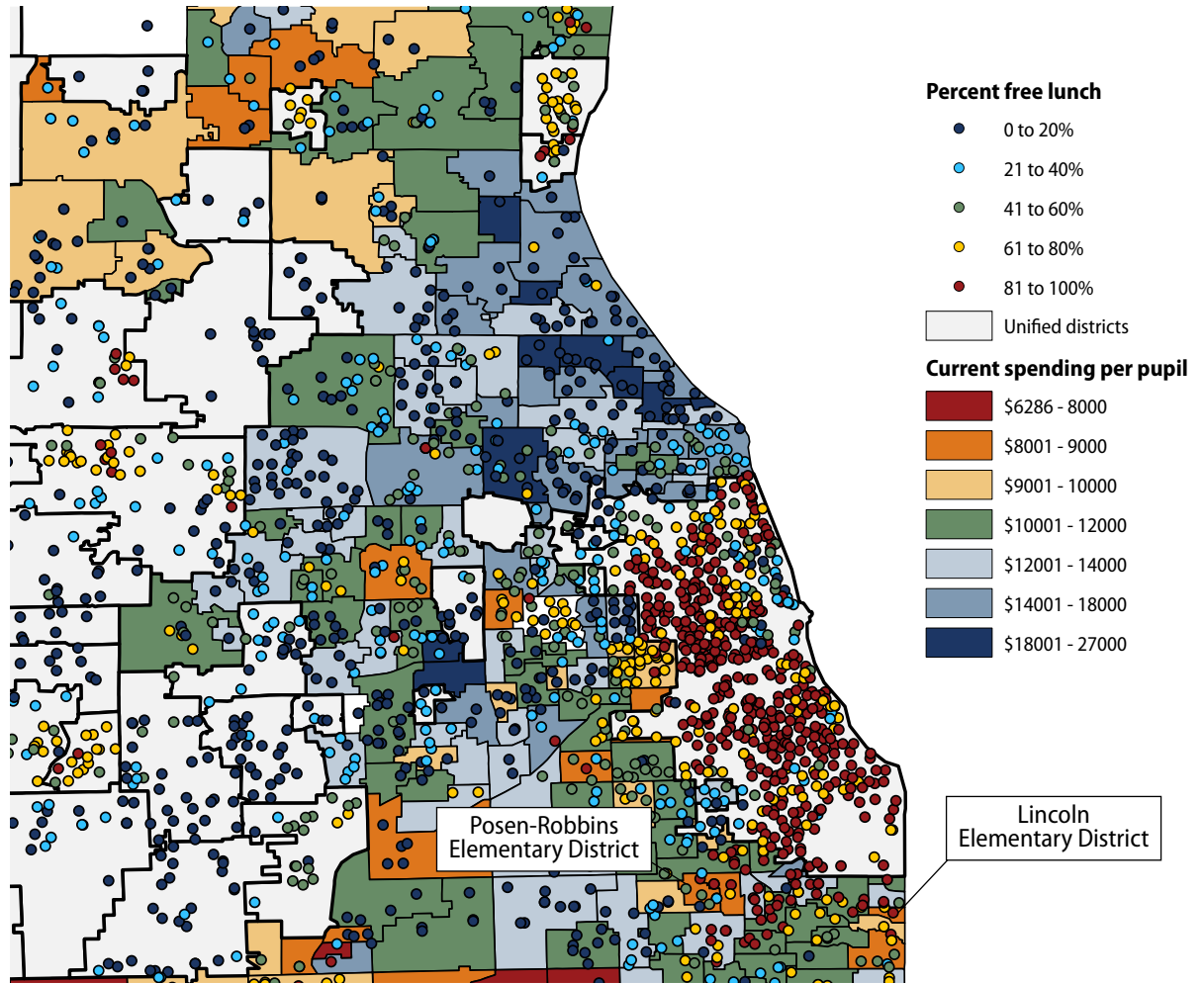
Sources: Bureau of the Census; National Center for Education Statistics.

TABLE 7
## Type 5. Shift happens

How demographic shifts are creating new patterns of funding inequity

| Typology | Exemplar states | Severely disadvantaged districts | Relative poverty | Relative revenue |
|---|---|---|---|---|
| Type 5. Shift happens | Illinois | Waukegan, IL | 2.175 | 0.786 |
| | Pennsylvania | Aurora East, IL | 1.416 | 0.782 |
| | | Round Lake, IL | 1.966 | 0.769 |
| | | Reading, PA | 2.316 | 0.795 |
| | | Allentown, PA | 2.454 | 0.777 |

Source: See Appendix A.

A seemingly peculiar finding regards the disparate racial distribution of fiscal disadvantage. Predominantly Hispanic school districts outside of major cities, including midsized and smaller cities and large towns, appear more frequently on the fiscally disadvantaged list. Is there something substantively different about the demography, local economics, and/or state aid of these communities in particular? This question warrants further exploration beyond the scope of this paper. They include Utica, New York; Reading and Allentown, Pennsylvania; and Waukegan, Illinois. They also include a number of population-dense cities, boroughs, and towns in otherwise progressively funded states such as New Jersey—Union City, West New York, Passaic, and New Brunswick—and Massachusetts—Everett, Lowell, and Revere.

Figure 12 provides a statistical analysis of the relationship between racial composition and the likelihood of a district being classified as fiscally disadvantaged within any given state and labor market and being of similar geographic locale, be it urban, suburban, or rural. Figure 12 is based on a regression that also controls for the extent to which a district is dependent on state aid, sorting out the extent to which racial composition predicts fiscal disadvantage among districts that receive comparable shares of state aid.

It shows that for every 1 percent increase in share of revenue from state aid, a district is 5.8 percent more likely to be identified as fiscally disadvantaged. That is, districts more dependent on state aid are more likely to be fiscally disadvantaged, which should come as no surprise. For every 1 percent increase in a district's black

population, it is 1.8 percent more likely to be fiscally disadvantaged. For every 1 percent increase in a district's Hispanic population, it is 3.3 percent more likely to be fiscally disadvantaged. The likelihood of being fiscally disadvantaged also increased between the base year of 2009 and 2011. Districts were nearly 40 percent more likely to be fiscally disadvantaged in 2010 than they were in 2009; they were 28 percent more likely to be fiscally disadvantaged in 2011 than they were in 2009. Finally, suburban and town districts appear more likely than urban districts to be identified as fiscally disadvantaged, among unified K-12 districts that enroll more than 2,000 pupils.

**FIGURE 12**
**Relative odds of fiscal disadvantage**



Note: If K-12 = 1 and enrollment > 2,000, includes state fixed effect.
Sources: Odds ratio estimated by author by logistic regression analyses where dependent measure is "fiscally disadvantaged" status, and independent measures are identified along horizontal axis in Figure 12; Bureau of the Census; National Center for Education Statistics; Population density based on county location of school district, with data from the U.S. Census Bureau, available at http://www.census.gov-/popest/data/maps/2011/maps-county2011.xls.
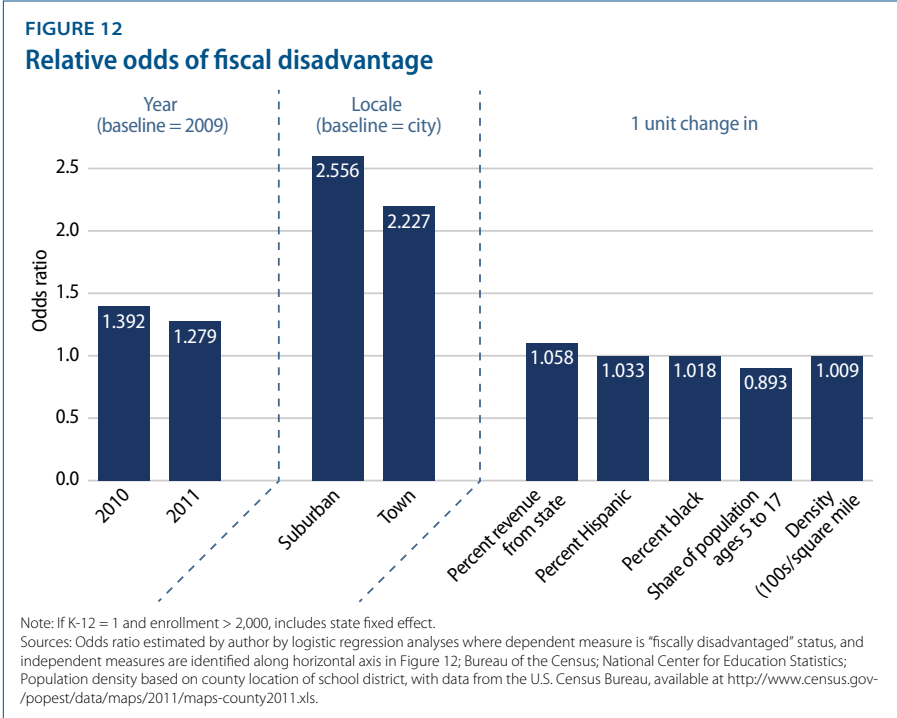
Figure 13 displays the relationship across Chicago-area school districts between the percent of the population that is Hispanic and the relative state and local revenue per pupil, with fiscally disadvantaged districts shaded orange. Waukegan, Aurora East, and Round Lake each have very high Hispanic population concentrations and are among the most fiscally disadvantaged districts.

**FIGURE 13**

**Relative state and local revenue and percent Hispanic in Chicago metro area**
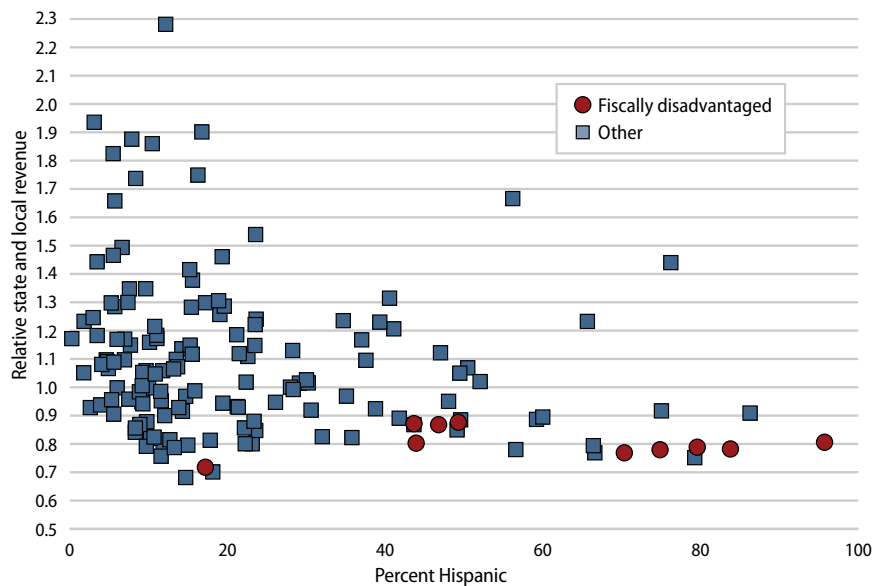


Source: See Appendix A. Student demographic data from the National Center for Education Statistics.

Table 3 shows the dynamics of property wealth change, operating levy change, and operating expenditures per pupil in the Chicago metropolitan area in the years leading up to the fiscal disadvantage measures constructed in this report. Districts that were majority Hispanic in 2003 are compared with those that were not, and figures are weighted by school district enrollments. Among those districts that were not majority Hispanic, 40 percent of students were enrolled in districts that were majority black. Most of the schools in this figure are Chicago Public Schools.

Property wealth per pupil increased in both majority Hispanic and other districts in the Chicago metropolitan area but grew more slowly in majority Hispanic districts. As a result, these districts, which had 52 percent of the taxable property wealth of other districts in 2003, had only 45 percent of the wealth of other districts by 2009. As property wealth grew, property tax rates declined. But those rates declined more slowly in majority Hispanic districts, and as a result, while operating levies were 13 percent higher in majority Hispanic districts in 2003, they were 25 percent higher in 2009. One might expect the increased gap in property tax rates to offset growing per-pupil spending gaps, but, as Table 3 shows, from 2003 to 2009, operating spending per pupil in majority Hispanic districts relative to other districts lost ground. In 2003, operating spending in majority Hispanic districts was 87 percent of other districts' spending, and by 2009 that figure had declined to 82 percent.

While the causes of these disparities remain elusive and in need of further exploration, including whether they are specifically related to Hispanic immigration patterns, the disparities and their trends are quite clear.

## Dynamics of taxable property wealth, tax rates, and operating spending for majority Hispanic districts in Illinois

| | Property wealth per pupil | | | Operating levy (in percent) | | | Operating expenditure per pupil | | |
|---|---|---|---|---|---|---|---|---|---|
| Year | Other* | Majority Hispanic** | Ratio | Other | Majority Hispanic | Ratio | Other | Majority Hispanic | Ratio |
| 2003 | $208,396 | $108,193 | 52% | 3.24 | 3.65 | 113% | $9,065 | $7,896 | 87% |
| 2004 | $228,764 | $121,728 | 53% | 3.11 | 3.68 | 118% | $9,462 | $8,289 | 88% |
| 2005 | $241,316 | $124,675 | 52% | 3.00 | 3.64 | 121% | $9,701 | $8,604 | 89% |
| 2006 | $261,704 | $128,270 | 49% | 2.96 | 3.62 | 122% | $10,202 | $9,004 | 88% |
| 2007 | $288,442 | $145,957 | 51% | 2.88 | 3.46 | 120% | $10,745 | $9,249 | 86% |
| 2008 | $310,062 | $146,679 | 47% | 2.81 | 3.49 | 124% | $11,280 | $9,629 | 85% |
| 2009 | $341,365 | $153,429 | 45% | 2.70 | 3.37 | 125% | $12,187 | $9,974 | 82% |
| Percent change | 64% | 42% | | -17% | -8% | | 34% | 26% | |

*"Other" includes 34 majority black districts enrolling approximately 40 percent of students not in majority Hispanic districts in the Chicago metro area.

** Includes 11 districts. Hispanic enrollment increased from 21 percent to about 25.5 percent in "other" districts, and from 66 percent to 77 percent in majority Hispanic districts.

Sources: Property wealth and operating expenditure data from ILEARN, FS files (FS0203.xls – FS0809.xls) available for year-by-year download at Illinois State Board of Education, "ILEARN," available at http://webprod1.isbe.net/ilearn/ASP/index.asp (last accessed March 2014); Percent Hispanic from Illinois State Board of Education, "Fall Enrollment Counts: District Summary Files," available at http://www.isbe.state.il.us/research/htmls/fall_housing.htm (last accessed March 2014).

Finally, Table 4, which includes the entire commonwealth of Pennsylvania, summarizes the seven-year trends in Pennsylvania for majority Hispanic districts versus others. The only sizable majority Hispanic districts in 2004 were Allentown and Reading, which began at an average of 58 percent and grew to 70 percent over the period. By 2009, Lebanon also became majority Hispanic in this timeframe. As with majority Hispanic districts in the Chicago metropolitan area, property wealth, or market value, per pupil in average daily membership stagnated, while property wealth statewide climbed.

As a result, taxable property wealth in majority Hispanic districts fell behind, starting at 48 percent of other districts' average and ending at only 35 percent. Tax rates and expenditure trends during this period absorbed the effects of short-term state aid increases under then-Gov. Ed Rendell's (D-PA) education plan, a short-lived state school finance reform that would have infused substantial additional aid into higher-need, lower-wealth districts such as Allentown and Reading. As that aid was infused from 2009 to 2010, mill levies—local property tax rates that are

expressed in 1/1000s of taxable assessed property wealth—dropped, and per-pupil spending gained some ground. But mill levies remain higher in Allentown and Reading than in other districts; per-pupil spending is also still much lower. As state support plummets in the future, stagnant property wealth will take its toll.

**TABLE 9**

## Dynamics of taxable property wealth, tax rates, and operating spending for majority Hispanic districts in Pennsylvania

| Year | Market value per ADM | | | Mill levy (1/1000) | | | Expenditures per pupil | | |
|---|---|---|---|---|---|---|---|---|---|
| | Other | Majority Hispanic* | Ratio | Other | Majority Hispanic | Ratio | Other | Majority Hispanic | Ratio |
| **2004** | $239,118 | $115,394 | 48.3% | 21.96 | 27.30 | 124.3% | $10,333 | $7,883 | 76.3% |
| **2005** | $260,301 | $117,700 | 45.2% | 21.50 | 26.97 | 125.5% | $10,900 | $8,525 | 78.2% |
| **2006** | $266,393 | $115,652 | 43.4% | 22.41 | 27.67 | 123.5% | $11,544 | $8,808 | 76.3% |
| **2007** | $293,071 | $120,873 | 41.2% | 20.84 | 25.18 | 120.8% | $12,113 | $9,243 | 76.3% |
| **2008** | $300,143 | $122,266 | 40.7% | 21.29 | 24.70 | 116.0% | $12,787 | $9,902 | 77.4% |
| **2009** | $343,229 | $137,772 | 40.1% | 19.01 | 19.72 | 103.7% | $13,197 | $10,832 | 82.1% |
| **2010** | $353,216 | $124,843 | 35.3% | 19.18 | 20.81 | 108.5% | $13,734 | $11,635 | 84.7% |
| **Percent change** | **48%** | **8%** | | **-13%** | **-24%** | | **33%** | **48%** | |

\* Includes three districts, including Allentown, Reading, and nonoperating Bryn Athyn. Hispanic enrollment increased from 5 percent to about 7 percent in "other" districts and from 58 percent to 70 percent in majority Hispanic districts.

Source: Market value and mill levy data available at Pennsylvania Department of Education, "Financial Data Elements," available at http://www.portal.state.pa.us/portal/server.pt/community/financial_data_elements/7672 (last accessed March 2014). Market values under "Aid Ratios Files" and mill rates under "Miscellaneous." Per-pupil spending data from Pennsylvania Department of Education, available at http://www.portal.state.pa.us/portal/http;//www.portal.state.pa.us;80/portal/server.pt/gateway/PTARGS_0_123706_1335925_0_0_18/Finances%20AFR%20ExpDetail%200102-1112.xlsx.

# Policy recommendations

Findings in this report highlight that financially disadvantaged local public school districts exist in both states with perceived progressively financed state school finance systems and in states with highly regressive state school finance systems. Certainly, the latter are more common, with Illinois and Pennsylvania providing some of the most egregious cases. If nothing else, the eclectic mix of high-poverty school districts discussed herein and scattered across the American landscape raises serious concerns about the lack of a cohesive systematic approach to financing the country's public education. Quite simply, it's a mess, and many schools and districts that serve very high-need student populations are falling through the cracks.

In Illinois, more than a quarter of students attend districts with low funding and high poverty, while many other children attend highly segregated, affluent, and predominantly white school districts flush with resources. Huge disparities persist in Michigan partly because of the design of school finance reforms adopted in the 1990s that allocated state resources more flatly but failed to substantively reduce the reliance on local property taxes. These problems know no political boundaries, and while they are significantly rooted in the failures of state school finance formulas, they are not uniformly so. The problems are deeper, more complex, and seemingly intractable. The path forward must begin by addressing at least the following four major issues.

## Organizational concerns: Boundaries and segregation

Our public school districts remain highly geographically, demographically, and economically segregated. High-poverty schools remain concentrated in high-poverty districts that often have less access to local revenue-raising power. In many cases, densely populated major metropolitan areas such as Chicago, as well as the states of New Jersey and Connecticut, are home to inefficiently small local public school districts that remain separate governance units largely because of economic, racial, and ethnic differences with their nearest neighbors. Voluntary

consolidation policies are unlikely to increase integration, for which agreement by all parties is required. Notably, even when the state of Missouri in 2013 closed the 100 percent low-income and minority district of Wellston, its remaining students were absorbed not by nearby affluent districts but rather by other comparably poor and minority districts. Only a few years earlier, the state passed a special law permitting the remaining predominantly white corner of Kansas City to vote itself out of the predominantly minority Kansas City Public Schools district and into the neighboring predominantly white Independence Public Schools district.[18]

The strong influence of racial and economic housing segregation on severe fiscal disadvantage can be seen in several cases presented herein, including in the cities of Philadelphia and Chicago and among their suburbs. While these locales are illustrative of historically more common urban, black-white disparities, this report also reveals an emerging school funding problem facing communities increasingly populated by Hispanics, the economic causes of which require further investigation. But as long as our local public school districts are allowed to remain so racially and economically segregated, leveraging state school finance policies to help solve achievement gaps will be an uphill climb. Past housing policies were part of the problem,[19] and future housing policies need to be part of the solution.

## State policy leverage over local fiscal decisions

The importance of relative spending illuminates concerns over the intractable school finance problem of raising the absolute level of spending through state aid to needy districts. Such spending may be immediately offset if neighboring affluent suburbs choose to ratchet up their spending to continue outpacing their less-advantaged, more aid-dependent peers. One might argue that students attending fiscally disadvantaged districts in a labor market with higher absolute spending are still better off in the broader national context. For example, even if children attending New York City schools have fewer resources than children from the Scarsdale or Long Island districts, they are better positioned than children attending public schools in Alabama and Mississippi. These larger disparities are certainly cause for concern, but patterns of graduate mobility and teacher sorting continue to operate largely at the local and regional levels.

The cases presented in this report reveal the limited power of state school finance systems to resolve inequities in funding across local districts. Local district and municipal taxing and spending decisions can—and, in many cases, do—undermine state school finance policy objectives. In some cases, local decisions undermine equity at the high end of the distribution—in affluent, leafy suburbs—and in other cases, they undermine it at the low end—in poorly funded cities such as Bridgeport, Connecticut.

A delicate balance exists in regulating local taxing and spending decisions through state policy. Reasonably imposed tax and expenditure limits may be used to regulate interdistrict equity. But states should not, as New York and others have done, impose limits that reinforce and codify disparities, limiting local revenue growth at a fixed, inequitable point while disproportionately reducing state aid to higher-need districts. Furthermore, as explained in the previously mentioned CAP report on stealth inequalities, New York state actually subsidizes the suburban spending race by providing disproportionate property tax relief to its most affluent districts.

At the low end of the distribution, states must have some authority to ensure that local public school districts raise—and allocate to their schools—the local share of funding necessary to achieve overall adequate resources. In Texas, where the constitution prohibits state imposition of statewide property taxation, courts have accepted the state's authority to establish a uniform statewide minimum tax rate to support the foundation formula as long as that statewide minimum permits "meaningful discretion"[20] above and beyond the minimum. Even in states where many local public school districts operate under municipal governance, states must have available tools sufficient to ensure that municipalities provide appropriate resources for their schools.

## More-nuanced measures of local capacity and need in state aid formulas

The cases explored herein reveal some additional complexities to the economics and demography of local public school districts, which likely require a closer look to determine the best methods for combining state aid and local revenues to achieve and maintain overall adequate spending. Both predominantly and emerging Hispanic communities such as Round Lake, Waukegan, and Reading—along with residential inner-urban fringe and small-city communities, such as Reading, Allentown, and Waukegan—appear to lack local revenue-raising capacity more than larger urban centers such as Philadelphia and Chicago. State aid and existing local effort requirements are failing to make up the difference.

School finance literature from the 1990s provides useful insights into possible solutions, including regional or statewide sharing of property tax revenues derived from commercial and industrial properties.[21] Such policies could substantively improve equity in both taxation and revenue raising across communities that have disparate access to nonresidential tax bases without the need for them to raise and spend additional state aid.

Such policies could also substantively change the governance of the local property tax by decomposing the local property tax base, shifting commercial and industrial property taxation to the state while retaining local residential property taxation. Shifting control over components of local tax bases also clarifies the state's role in promoting and encouraging thoughtful, equitable distribution of commercial and industrial economic development.[22]

## Illogical state aid programs: Stealth inequalities

Finally, states must take a hard look at plainly illogical state school finance formula components, including but not limited to stealth inequalities. Michigan and Arizona must revisit their general state aid formulas in order to allocate more of their existing aid to districts with greater needs. This will mean allocating less aid to districts with fewer needs. This may mean taking on long-protected special aid programs, such as property tax relief programs or "outside the formula" grants, and allocating these funds more fairly. Alternatively, at the very least, any new aid in future years must be allocated through those parts of the formula that most improve, rather than erode, equity.

# The way forward: Balancing compensatory and disruptive policies

As the economy has appeared to be slowly rebounding, interest has re-emerged in support of more traditional and more thoroughly researched strategies for improving the educational opportunities of low-income children. Specifically, the recently released report from the Equity and Excellence Commission, "For Each and Every Child,"[23] laid out five priorities to guide education policymaking, including equitable school funding; improving the quality of teachers, administrators, and curricula; and expanding early childhood education.

The commission's first major recommendation focused specifically on state school finance policies:

> *The time has come for bold action by the states—and the federal government—to redesign and reform the funding of our nation's public schools. Achieving equity and excellence requires sufficient resources that are distributed based on student need, not zip code, and that are efficiently used. …*

> *Accordingly, this commission believes the time has come for bold action by the states—and the federal government—to redesign and reform the funding of our nation's public schools. The deep inequities in school funding documented by another federal commission more than 40 years ago … remain entrenched across our nation's states and school districts at a time when more than 40 percent of all American public school children are enrolled in districts of concentrated student poverty.[24]*

Addressing just one of these major issues would not be easy, and addressing all four of them seems almost impossible. But they are—and likely will continue for the foreseeable future to be—the most persistent underlying causes of inequity in America's educational system. It is in our national interest to answer them thoroughly, consistently, and sooner rather than later.

# Appendix A:
# Methodological appendix

To identify individual districts whose resources are inequitable, this report generally applies the following two filters:

- **State and local revenue per pupil** from the U.S. Census Bureau Fiscal Survey's three-year average, which is less than the average for districts in the same labor market[25]*

- **Adjusted Census poverty rates for 5- to 17-year-olds** from the Census Small Area Income and Poverty Estimates' three-year average[26]—that is greater than the average for districts in the same labor market

* Where labor market is defined as it is in the National Center for Education Statistics Education Comparable Wage Index—as, essentially, a core-based, statistical area for all districts in metropolitan or micropolitan areas.[27]

In order to identify fiscally disadvantaged school districts, this report refers to a three-year panel of data that combines the U.S. Census Bureau's Fiscal Survey of Local Governments 2009-2011 with the U.S. Census Bureau's Small Area Income and Poverty Estimates, or SAIPE, which provides annually updated estimates of the percentages of school-aged children in families living below the federal income threshold for poverty. It also uses data from the National Center for Education Statistics that identify the labor market within which each local public school district is located and the locale codes for those districts. Labor markets herein are defined as in the development of the National Center for Education Statistics Education Comparable Wage Index, and essentially represent metropolitan statistical areas, micropolitan statistical areas, or rural areas. These classifications are based on the U.S. Census Bureau Core Based Statistical Area classifications. Locale codes are used for identifying city, suburban, and town districts.

By comparing local public school districts' poverty rates and expenditures to other districts in the same labor markets, the analysis effectively controls for the differing value of the education dollar across broad regions and more local labor markets. Furthermore, this approach also effectively controls for the insensitivity of poverty income thresholds across labor markets. That is, poverty rates of each local public school district are compared only to poverty rates of other districts in their immediate surroundings.[28]

The empirical strategy for identifying fiscally disadvantaged districts herein is relatively straightforward. The first step was to estimate the average state and local revenue per pupil for all districts in each labor market within the same year. The focus was on state and local revenues per pupil because these figures captured the full influence of state and local policy and set aside all federal revenues except impact aid, which serves as a replacement for lost local revenues. The next step was to estimate the average poverty rate across all districts in each labor market. After that, the strategy called for taking each district's state and local revenues and dividing them by, or expressing them as a ratio to, the labor-market average; the same was done for each district's poverty rate with respect to labor-market averages. A fiscally disadvantaged district is one in which the state and local revenue per pupil is lower than the labor-market average while the child poverty rate is higher than the labor-market average. To achieve a manageable list of school districts for further exploration, somewhat arbitrary cutoffs were applied.

**Fiscally disadvantaged =**
State and local revenue per pupil < 90 percent labor-market average
and
U.S. Census poverty rate > 125 percent labor-market average

Only those districts enrolling at least 2,000 pupils were considered, as these are the districts that should be able to operate with efficiency of scale. Nonrural districts were given particular attention. These districts are in either metropolitan areas—based around a population hub of 50,000 or more residents—or micropolitan areas—based around population hub of 10,000 to 50,000 residents.

# Appendix B:
# General findings by state

Table B1 summarizes the number of districts, their total enrollments, and enrollments as a share of statewide enrollment. Illinois is home to the largest share of children attending fiscally disadvantaged school districts. Notably, a large share of these children attend a single school district—Chicago Public Schools. The case is similar in Pennsylvania, where the School District of Philadelphia is among the state's most fiscally disadvantaged. Perhaps surprisingly, it is not generally the case that the largest urban districts are most likely to be fiscally disadvantaged as empirically identified herein. Like Philadelphia and Chicago, New York City also appears below average in state and local revenues per pupil relative to its labor market, as well as higher in poverty, but to a lesser degree.

Other generally inequitable states such as New Hampshire also make the list, as they have high shares of children in fiscally disadvantaged districts. Two very low average spending states, Arizona and Utah, also have significant shares of children attending some even less well-funded, high-poverty districts. The relatively high spending and progressively funded—higher funding in higher-poverty districts—states of New Jersey and Massachusetts are surprisingly high on the list, revealing irregularities in their funding that selectively disadvantage certain districts. Other New England states, including Connecticut, Rhode Island, and Vermont, are also relatively high on the list.

## Percent of enrolled children attending fiscally disadvantaged districts by state, 2010-11

| State | Total enrollment | Fiscally disadvantaged | Total districts | Fiscally disadvantaged | Percent of enrollment | Fairness ratio |
|---|---|---|---|---|---|---|
| Illinois | 2,074,286 | 531,854 | 844 | 42 | 25.60% | 0.81 |
| New Hampshire | 193,262 | 34,407 | 170 | 18 | 17.80% | 0.77 |
| Pennsylvania | 1,674,152 | 246,980 | 498 | 18 | 14.80% | 0.91 |
| Utah | 511,682 | 70,087 | 40 | 1 | 13.70% | 1.24 |
| Connecticut | 544,586 | 73,870 | 166 | 8 | 13.60% | 1.03 |
| Vermont | 91,128 | 10,630 | 269 | 32 | 11.70% | 0.78 |
| Arizona | 945,003 | 109,555 | 216 | 18 | 11.60% | 0.96 |
| Rhode Island | 148,356 | 16,049 | 36 | 2 | 10.80% | 0.96 |
| New Jersey | 1,471,312 | 127,334 | 549 | 21 | 8.70% | 1.07 |
| Montana | 140,751 | 9,804 | 411 | 22 | 7.00% | 1.02 |
| Wyoming | 88,165 | 5,394 | 48 | 3 | 6.10% | 0.95 |
| Maine | 141,408 | 7,947 | 191 | 11 | 5.60% | 0.94 |
| Massachusetts | 947,801 | 50,455 | 294 | 8 | 5.30% | 1.13 |
| Missouri | 892,054 | 44,047 | 520 | 27 | 4.90% | 0.94 |
| North Dakota | 93,042 | 4,495 | 172 | 6 | 4.80% | 0.78 |
| Michigan | 1,455,965 | 64,353 | 549 | 35 | 4.40% | 0.95 |
| Texas | 4,796,368 | 196,685 | 1,028 | 37 | 4.10% | 0.88 |
| Colorado | 835,589 | 33,024 | 178 | 7 | 4.00% | 0.96 |
| California | 6,006,435 | 224,609 | 937 | 45 | 3.70% | 1.09 |
| Ohio | 1,719,744 | 62,538 | 614 | 22 | 3.60% | 1.20 |
| South Carolina | 702,715 | 22,396 | 82 | 6 | 3.20% | 1.03 |
| Nebraska | 293,333 | 8,216 | 239 | 5 | 2.80% | 0.93 |
| Kentucky | 672,955 | 16,292 | 174 | 9 | 2.40% | 1.10 |
| Washington | 1,042,980 | 20,992 | 295 | 8 | 2.00% | 0.97 |
| Alaska | 131,703 | 2,538 | 53 | 2 | 1.90% | 1.98 |
| Kansas | 477,839 | 7,948 | 277 | 1 | 1.70% | 0.99 |
| New York | 2,792,345 | 47,902 | 681 | 11 | 1.70% | 0.84 |
| Virginia | 1,251,311 | 21,187 | 134 | 6 | 1.70% | 0.95 |
| Oklahoma | 660,966 | 10,842 | 521 | 15 | 1.60% | 1.04 |
| Alabama | 745,234 | 10,704 | 131 | 4 | 1.40% | 0.92 |
| Mississippi | 489,485 | 6,819 | 149 | 4 | 1.40% | 0.95 |
| Louisiana | 651,860 | 8,733 | 68 | 2 | 1.30% | 1.21 |
| West Virginia | 282,128 | 3,605 | 55 | 2 | 1.30% | 1.04 |
| Idaho | 264,398 | 3,230 | 113 | 3 | 1.20% | 0.89 |
| Georgia | 1,676,340 | 17,904 | 180 | 4 | 1.10% | 1.13 |
| North Carolina | 1,448,119 | 13,892 | 115 | 3 | 1.00% | 0.71 |
| Tennessee | 986,386 | 9,774 | 135 | 5 | 1.00% | 1.10 |
| Minnesota | 794,216 | 7,299 | 333 | 6 | 0.90% | 1.28 |

| State | Total enrollment | Fiscally disadvantaged | Total districts | Fiscally disadvantaged | Percent of enrollment | Fairness ratio |
|---|---|---|---|---|---|---|
| Arkansas | 473,660 | 2,384 | 237 | 3 | 0.50% | 1.07 |
| Florida | 2,636,410 | 13,088 | 67 | 2 | 0.50% | 1.05 |
| Iowa | 491,006 | 1,237 | 350 | 1 | 0.30% | 0.92 |
| South Dakota | 123,667 | 275 | 147 | 1 | 0.20% | 1.27 |
| Wisconsin | 861,542 | 1,857 | 420 | 3 | 0.20% | 0.99 |
| Oregon | 568,971 | 636 | 194 | 1 | 0.10% | 1.02 |
| Delaware | 113,078 | 0 | 16 | 0 | 0.00% | 1.00 |
| Indiana | 1,023,548 | 0 | 290 | 0 | 0.00% | 1.14 |
| Maryland | 851,976 | 0 | 24 | 0 | 0.00% | 0.90 |
| Nevada | 429,606 | 0 | 17 | 0 | 0.00% | 0.69 |
| New Mexico | 331,374 | 0 | 89 | 0 | 0.00% | 1.07 |

Sources: Fiscally disadvantaged districts identified as explained throughout this report, using a three-year panel of data combining measures from the Census Bureau Fiscal Surveys on school district revenues (school district level: http://www.census.gov/govs/school/), NCES Common Core of Data on school district demographics and enrollments (district level data: http://nces.ed.gov/ccd/pubagency.asp and school level data: http://nces.ed.gov/ccd/pubschuniv.asp), and labor-market classifications based on the NCES wage index (district level data linked to labor-market classifications: http://bush.tamu.edu/research/faculty/Taylor_CWI/). Funding fairness ratios from Bruce D. Baker, David Sciarra, and Danielle Farrie, "Is School Funding Fair? A National Report Card" (Newark, NJ: Education Law Center, 2012), available at http://www.schoolfundingfairness.org/National_Report_Card_2012.pdf.

Figure B1 compares the shares of children in fiscally disadvantaged districts to the relative progressiveness of the state school finance system as a whole. Notably, more regressive states such as Illinois, Pennsylvania, and New Hampshire have larger shares of children attending fiscally disadvantaged districts. But marginally progressive states such as Connecticut, as well as more progressive states such as New Jersey and Massachusetts, have noticeable shares of children in fiscally disadvantaged districts as well. Utah presents an awkward case where overall spending is extremely low.

**FIGURE B1**



Source: Data from Table B1.

While higher-poverty districts in the state have, on average, higher spending than lower-poverty districts, neither type has very much.
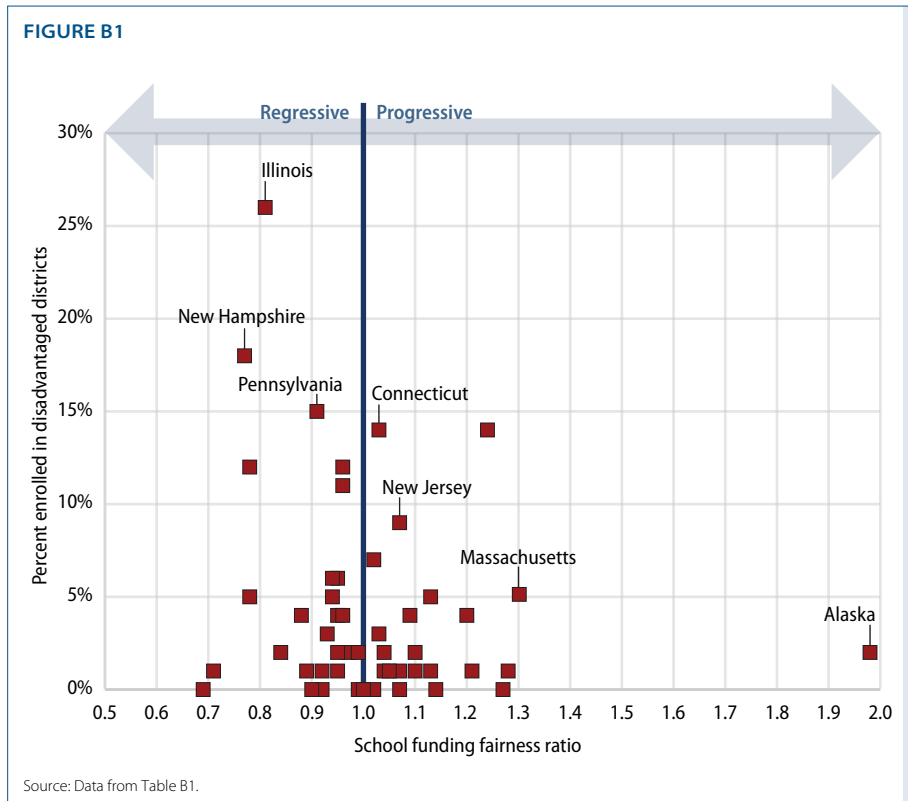
# Appendix C: Complete lists

## Cities' revenue gaps

| State, district | Relative revenue | Relative poverty | GAP |
|---|---|---|---|
| Arizona, Sunnyside Unified School District | 0.800 | 1.646 | 0.846 |
| California, Compton Unified School District | 0.867 | 1.347 | 0.480 |
| California, Hayward Unified School District | 0.874 | 1.319 | 0.445 |
| Colorado, Greeley-Evans School District 6 | 0.891 | 1.326 | 0.435 |
| Connecticut, Bridgeport Public School District | 0.802 | 2.618 | 1.817 |
| Connecticut, Danbury Public School District | 0.748 | 1.439 | 0.691 |
| Connecticut, East Hartford Public School District | 0.877 | 1.668 | 0.790 |
| Illinois, Chicago Public School District | 0.868 | 1.660 | 0.792 |
| Michigan, Godfrey-Lee Public School District | 0.882 | 1.899 | 1.017 |
| Michigan, Niles Community School District | 0.810 | 1.286 | 0.476 |
| New Hampshire, Manchester School District | 0.816 | 1.866 | 1.050 |
| New Jersey, New Brunswick Public School District | 0.855 | 3.097 | 2.242 |
| New York, Lansingburgh Central School District | 0.888 | 1.889 | 1.001 |
| New York, Utica City School District | 0.836 | 1.826 | 0.990 |
| Ohio, Elyria City School District | 0.855 | 1.423 | 0.567 |
| Pennsylvania, Allentown City School District | 0.777 | 2.454 | 1.677 |
| Pennsylvania, Lebanon School District | 0.882 | 2.178 | 1.297 |
| Pennsylvania, Philadelphia City School District | 0.879 | 2.131 | 1.252 |
| Pennsylvania, Reading School District | 0.795 | 2.316 | 1.521 |
| Texas, Bryan Independent School District | 0.775 | 1.250 | 0.474 |
| Texas, Irving Independent School District | 0.891 | 1.478 | 0.587 |
| Texas, San Antonio Independent School District | 0.880 | 1.719 | 0.839 |

Source: See Appendix A.

## Suburbs' revenue gaps

| State, district | Relative revenue | Relative poverty | GAP |
|---|---|---|---|
| Alabama, Bessemer City School District | 0.885 | 2.178 | 1.293 |
| Alabama, Fairfield City School District | 0.879 | 1.556 | 0.677 |
| Arizona, Flowing Wells Unified School District | 0.875 | 1.323 | 0.448 |
| California, Gilroy Unified School District | 0.883 | 1.269 | 0.387 |
| California, Ravenswood City School District | 0.795 | 1.725 | 0.931 |
| Colorado, Mapleton Public School District | 0.848 | 1.466 | 0.618 |
| Connecticut, New Britain School District | 0.895 | 2.437 | 1.542 |
| Connecticut, Waterbury Public School District | 0.885 | 1.804 | 0.919 |
| Illinois, East Aurora School District | 0.782 | 1.416 | 0.634 |
| Illinois, Collinsville Community Unit School District 10 | 0.869 | 1.323 | 0.455 |
| Illinois, Granite City Community Unit School District 9 | 0.870 | 1.472 | 0.602 |
| Illinois, North Chicago Community Unit School District 187 | 0.868 | 2.374 | 1.506 |
| Illinois, Round Lake Area School District 116 | 0.769 | 1.966 | 1.197 |
| Illinois, Waukegan Public School District 60 | 0.786 | 2.175 | 1.389 |
| Kentucky, Erlanger-Elsmere School District | 0.859 | 1.595 | 0.736 |
| Louisiana, St. Bernard Parish Public School District | 0.872 | 1.290 | 0.419 |
| Massachusetts, Brockton Public School District | 0.821 | 1.353 | 0.532 |
| Massachusetts, East Bridgewater Public School District | 0.890 | 1.342 | 0.451 |
| Massachusetts, Everett Public School District | 0.820 | 2.252 | 1.432 |
| Massachusetts, Lowell Public School District | 0.856 | 2.294 | 1.438 |
| Massachusetts, Revere Public School District | 0.815 | 1.748 | 0.933 |
| Michigan, Clintondale Community School District | 0.869 | 1.906 | 1.037 |
| Michigan, East Detroit Public School District | 0.876 | 2.062 | 1.186 |
| Michigan, Hamtramck Public School District | 0.803 | 2.099 | 1.296 |
| Michigan, Inkster Public School District | 0.864 | 1.607 | 0.743 |
| Michigan, Mt. Morris Consolidated School District | 0.872 | 1.383 | 0.511 |
| Michigan, Port Huron Area School District | 0.776 | 1.708 | 0.932 |
| Michigan, Westwood Community School District | 0.891 | 1.282 | 0.391 |
| Missouri, Belton School District | 0.862 | 1.315 | 0.452 |
| Missouri, Jennings School District | 0.833 | 2.236 | 1.404 |
| Missouri, Riverview Gardens School District | 0.848 | 2.132 | 1.283 |
| New Hampshire, Rochester School District | 0.829 | 1.842 | 1.013 |
| New Jersey, Belleville School District | 0.771 | 1.262 | 0.490 |

| State, district | Relative revenue | Relative poverty | GAP |
|---|---|---|---|
| New Jersey, Carteret School District | 0.854 | 1.789 | 0.935 |
| New Jersey, Dover Public School District | 0.787 | 1.601 | 0.814 |
| New Jersey, Irvington Public School District | 0.846 | 2.061 | 1.215 |
| New Jersey, Passaic School District | 0.831 | 1.478 | 0.647 |
| New Jersey, Paterson School District | 0.761 | 1.388 | 0.627 |
| New Jersey, Plainfield Public School District | 0.864 | 1.720 | 0.857 |
| New Jersey, Union City School District | 0.794 | 1.354 | 0.560 |
| New Jersey, West New York School District | 0.741 | 1.289 | 0.547 |
| New York, Brentwood Union Free School District | 0.815 | 2.154 | 1.339 |
| North Carolina, Kannapolis City School District | 0.774 | 1.487 | 0.714 |
| Ohio, Fairborn City School District | 0.798 | 1.316 | 0.518 |
| Ohio, Groveport Madison Local School District | 0.890 | 1.350 | 0.460 |
| Ohio, Hamilton City School District | 0.858 | 1.544 | 0.687 |
| Ohio, Hamilton Local School District | 0.649 | 1.318 | 0.668 |
| Ohio, Painesville City Local School District | 0.801 | 1.631 | 0.829 |
| Ohio, Struthers City School District | 0.861 | 1.266 | 0.405 |
| Pennsylvania, Belle Vernon Area School District | 0.819 | 1.269 | 0.450 |
| Pennsylvania, Connellsville Area School District | 0.872 | 1.994 | 1.122 |
| Pennsylvania, Greater Nanticoke Area School District | 0.868 | 1.320 | 0.452 |
| Pennsylvania, Highlands School District | 0.887 | 1.548 | 0.661 |
| Pennsylvania, Laurel Highlands School District | 0.818 | 1.480 | 0.663 |
| Pennsylvania, Uniontown Area School District | 0.867 | 2.003 | 1.136 |
| Rhode Island, Pawtucket School District | 0.785 | 1.619 | 0.835 |
| Rhode Island, Woonsocket School District | 0.776 | 2.035 | 1.259 |
| South Carolina, Lexington School District | 0.824 | 1.324 | 0.499 |
| Texas, Duncanville Independent School District | 0.861 | 1.285 | 0.423 |
| Texas, Grand Prairie Independent School District | 0.878 | 1.251 | 0.373 |
| Utah, Granite School District | 0.868 | 1.245 | 0.377 |
| Virginia, Fredericksburg City Public School District | 0.763 | 2.140 | 1.377 |
| Virginia, Manassas Park City Public School District | 0.803 | 1.276 | 0.473 |
| Washington, Clarkston School District School District | 0.855 | 1.278 | 0.424 |
| Washington, Franklin Pierce School District | 0.882 | 1.529 | 0.647 |

Source: See Appendix A.

## Towns' revenue gaps

| State, district | Relative revenue | Relative poverty | GAP |
|---|---|---|---|
| Arizona, Page Unified School District 8 | 0.806 | 1.265 | 0.459 |
| Arizona, Whiteriver Unified School District 20 | 0.795 | 1.344 | 0.549 |
| California, Calexico Unified School District | 0.878 | 1.298 | 0.420 |
| Colorado, Montezuma-Cortez School District Re-1 | 0.813 | 1.313 | 0.500 |
| Connecticut, Windham Public School District | 0.894 | 2.032 | 1.139 |
| Florida, Okeechobee County School District | 0.877 | 1.329 | 0.452 |
| Georgia, Griffin-Spalding County School District | 0.893 | 1.434 | 0.541 |
| Kansas, Geary County Schools USD 475 | 0.874 | 1.536 | 0.662 |
| Kentucky, Bardstown City School District | 0.788 | 1.385 | 0.597 |
| Maine, Sanford School Department | 0.602 | 1.369 | 0.768 |
| Michigan, Imlay City Community School District | 0.782 | 1.262 | 0.480 |
| Michigan, Ionia Public School District | 0.895 | 1.587 | 0.693 |
| Minnesota, Hibbing Public School District | 0.871 | 1.582 | 0.711 |
| Mississippi, Clarksdale Municipal School District | 0.884 | 1.298 | 0.414 |
| Missouri, Potosi R-III School District | 0.693 | 2.141 | 1.447 |
| Missouri, Sedalia 200 School District | 0.876 | 1.276 | 0.401 |
| Nebraska, Hastings Public School District | 0.822 | 1.417 | 0.595 |
| Nebraska, Scottsbluff Public School District | 0.852 | 1.303 | 0.451 |
| New Hampshire, Claremont School District | 0.821 | 1.272 | 0.451 |
| New Hampshire, Laconia School District | 0.799 | 1.288 | 0.489 |
| New York, Jamestown School District | 0.851 | 1.322 | 0.471 |
| New York, Malone Central School District | 0.858 | 1.425 | 0.568 |
| New York, Olean City School District | 0.821 | 1.270 | 0.449 |
| North Carolina, Asheboro City School District | 0.785 | 1.380 | 0.595 |
| Ohio, Alliance City School District | 0.883 | 1.654 | 0.771 |
| Ohio, Celina City School District | 0.874 | 1.407 | 0.533 |
| Pennsylvania, Mifflin County School District | 0.894 | 1.341 | 0.447 |
| South Carolina, Marion County School District | 0.826 | 1.411 | 0.585 |
| Texas, Gonzales Independent School District | 0.847 | 1.293 | 0.446 |
| Texas, Hereford Independent School District | 0.627 | 1.298 | 0.671 |
| Texas, Jacksonville Independent School District | 0.717 | 1.267 | 0.550 |
| Texas, Mexia Independent School District | 0.721 | 1.282 | 0.560 |
| Texas, Pecos-Barstow-Toyah Independent School District | 0.583 | 1.526 | 0.943 |

| State, district | Relative revenue | Relative poverty | GAP |
|---|---|---|---|
| Virginia, Shenandoah County Public School District | 0.895 | 1.279 | 0.383 |
| Virginia, Warren County Public School District | 0.623 | 1.306 | 0.683 |
| Washington, Centralia School District 401 | 0.878 | 1.267 | 0.388 |
| Washington, Omak School District | 0.845 | 1.347 | 0.503 |
| Wyoming, Fremont County School District | 0.785 | 1.546 | 0.761 |
| Wyoming, Park County School District | 0.876 | 1.355 | 0.479 |

Source: See Appendix A.

## About the author

**Bruce D. Baker** is a professor in the Department of Educational Theory, Policy and Administration at Rutgers, The State University of New Jersey in New Brunswick, New Jersey. He specializes in the economics of education and state school finance policies and is lead author of the national school funding report "Is School Funding Fair?" Baker blogs at schoolfinance101.wordpress.com.

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22 A frequent argument against shifting toward regional sharing of commercial and industrial property tax revenues comes from municipalities that argue that they spent much time and effort to lure those businesses and should reap the rewards. In part, the businesses may have been lured by promises of property tax abatements or alternative valuation of their properties reducing their tax burden. Of course, this argument cuts both ways in many states because when a municipality or county decides to grant such an abatement—which reduces overall taxable property value—state aid formulas end up compensating for this reduction. That is, in many states, the state pays the cost of at least part of the abatement by granting more aid to schools than would exist if the property was fully valued and taxed.

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