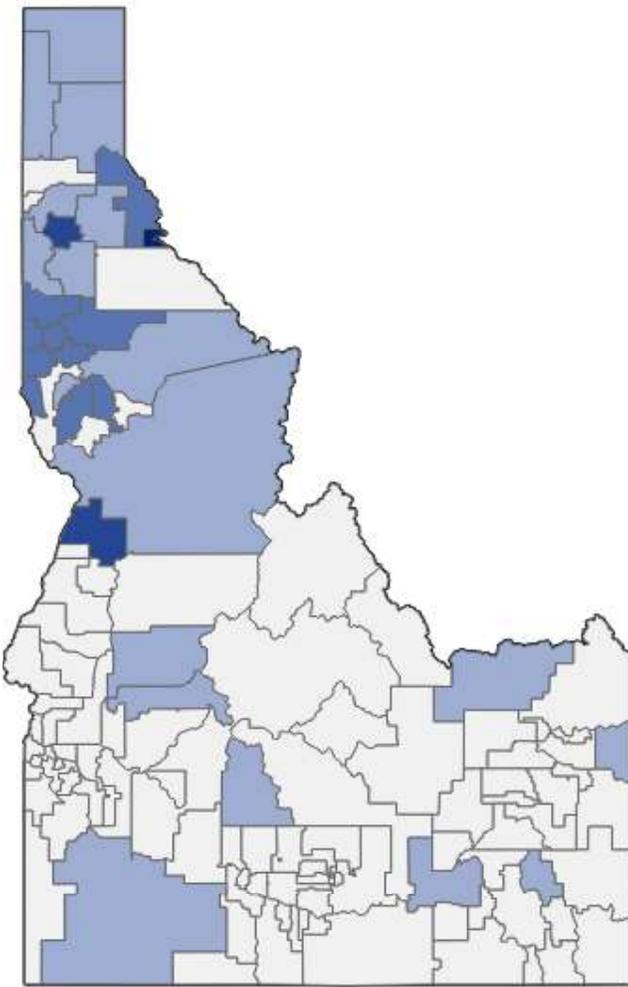




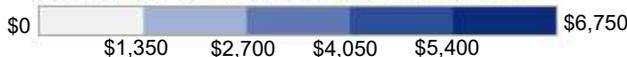
### Examining Idaho's Education Funding Over the Last Decade

Idaho has taken steps in recent years to restore education funding following the state's disinvestment during the Great Recession. Fiscal Year 2018 (FY2018) brought state education spending per student within striking distance of pre-recession levels and the FY2019 budget finally exceeds FY2008, after adjusting for inflation. To meet recommendations put forth by the Governor's Task Force on Improving Education, the state will still need to invest at least \$120 million additional dollars. This steady restoration of state school funding lies in contrast with uncertainty in other funding sources. Federal funding is notably variable, while supplemental levies are subject to ongoing voter approval.

Figure 1: FY2017 Supplemental Levy Funding per Student, by School District



Supplemental Levy Funding per Student



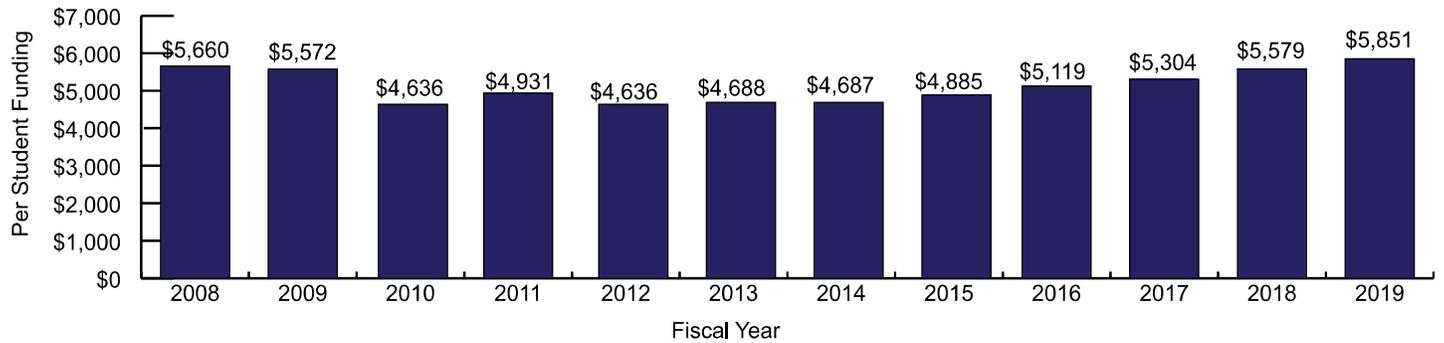
#### In this brief:

- > For the first time since recession-era cuts, per student General Fund investment will be on par with pre-recession levels this coming school year.
- > Prior disinvestment by the state led many school districts to seek additional funding through supplemental levies. Today, 93 out of 116 Idaho school districts rely on local property wealth for funding (Figure 1).
- > Supplemental levies rely on unequalized property values, forcing districts with lower property wealth to ask their residents to pay a higher tax rate for the same amount of school funding that wealthier districts get with lower tax rates.
- > Idaho has made progress on recommendations set forth by Governor Otter's Task Force on Improving Education, but at least \$120 million in additional dollars will need to be dedicated to reach the state's goals.
- > Total per student education investment varies widely across school districts. Districts with medium to large student populations have funding that ranges from \$6,200 to \$17,300 per student.
- > Uncertain federal funding and variable local funding render continued state investment in education essential for the success of Idaho's children.

## Idaho’s General Fund Investment in Public Schools

In FY2006, Idaho replaced about \$260 million in property tax revenue for schools with \$210 million in revenue from an increase in the sales tax. The eliminated property tax revenue has since been valued at \$303 million in more recent years.<sup>1</sup> After the recession hit, Idaho faced difficult choices and further decreased public education investment, as seen in Figure 2. Figure 3 illustrates our state’s level of ‘effort’ in funding schools by showing education investment as a share of Idaho residents’ personal income. The portion of residents’ personal income dedicated to education rose during the recession in part because personal income declined from FY2008 to FY2010. Schools also faced deep cuts during that time.

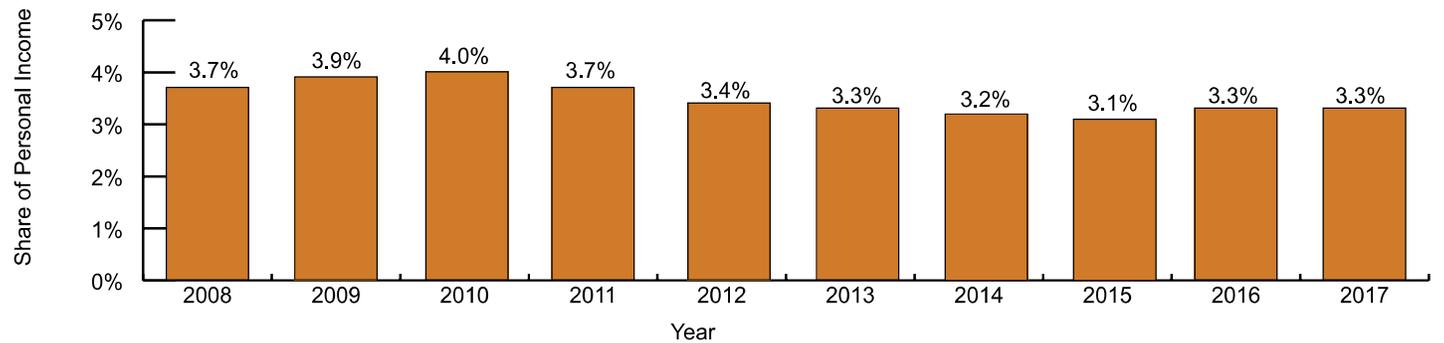
Figure 2: Per Student School Funding from General Fund, Inflation-Adjusted Constant 2017 Dollars



Source: Idaho Legislative Budget Books.

Following the recession, per student funding from the General Fund stagnated and did not begin to pick back up until FY2015. Some policies directly reduced the General Fund revenue available for school investment as the economy began to recover. In 2012, the elimination of Idaho’s highest income tax bracket reduced revenue by \$35.7 million. A personal property tax exemption enacted in 2013 called for General Fund revenue to replace \$20 million in funding that local taxing districts lost from the exemption. The same year, Governor Otter’s Education Task Force released its recommendations on how to strengthen public education investment. Over the last three years, the state legislature dedicated funds to implementing many of these recommendations. General Fund investment per child will exceed pre-recession levels for the first time this year with the appropriation of the FY2019 budget.

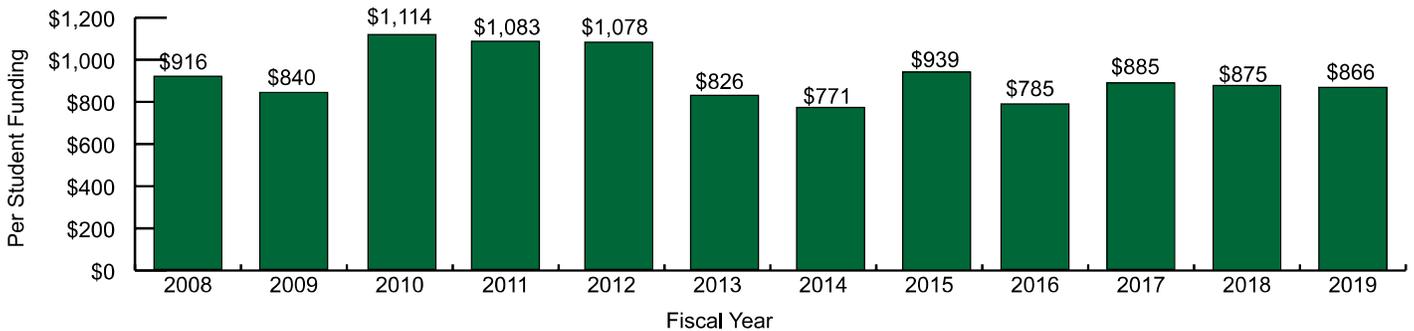
Figure 3: Share of Idaho Aggregate Personal Income Spent on State Education Funding



Source: Idaho Legislative Budget Books and Federal Reserve Economic Database.

Notably, personal income in Idaho has recovered more quickly from the Great Recession than public education investment (Figure 3). The share of personal income dedicated to school funding is still lower than it was before the recession hit Idaho in 2009. Meanwhile, federal education funding remains variable (Figure 4). Current national discussions do not indicate interest in increasing federal funding in the near term. The majority of federal funding is distributed through school nutrition programs and additional support for lower income students and students with disabilities, which cannot be used for general classroom costs.

Figure 4: Per Student Federal School Funding, Inflation-Adjusted Constant 2017 Dollars



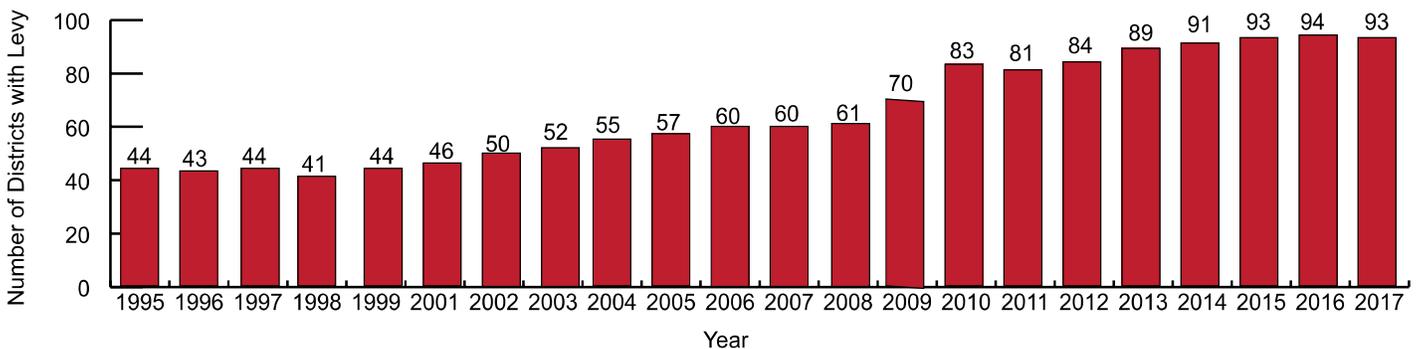
Source: Idaho Legislative Budget Books.

### Idaho’s Increased Reliance on Unequalized Property Taxes for School Funding

Changes to the property tax component of public school funding over the last couple of decades have three important components. First, the property tax revenue that was exchanged for sales tax revenue in FY2006 had been based on equalized property value. Prior to FY2006, maintenance and operations (M&O) levies adjusted for property wealth disparities across the state, which helped maintain equity in school funding. The elimination of equalized M&O levies resulted in state school funding coming exclusively from General Fund revenue.

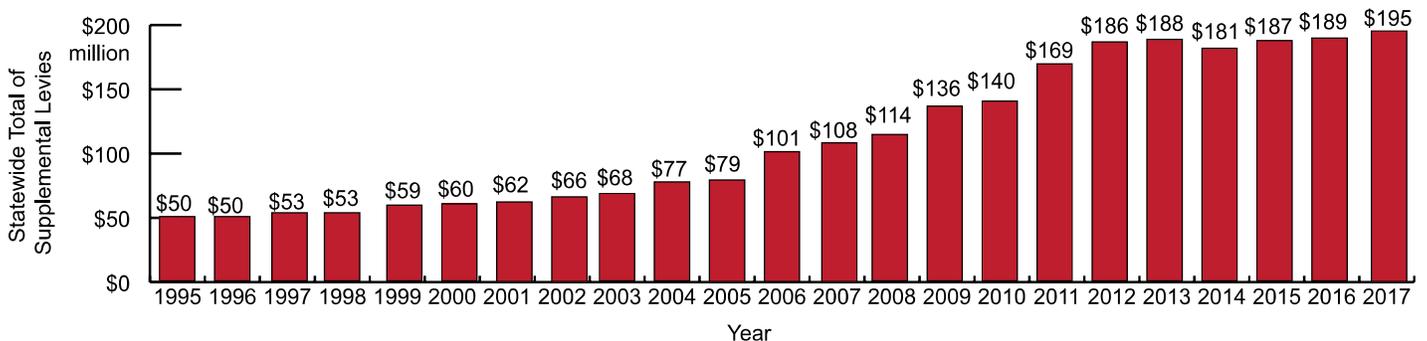
Second, in response to the elimination of equalized M&O levies and corresponding reduction in state funding, communities that had the interest and financial resources to increase their local school funding voted more frequently for supplemental levies. Before the elimination of equalized M&O levies in 2006, the majority of school districts did not have supplemental levies and by FY2017, 93 out of 116 school districts relied on them, as seen in Figure 5. The total amount of supplemental levies in FY2017 was \$195 million, as seen in Figure 6.

Figure 5: Number of Annual Idaho School District Supplemental Levies



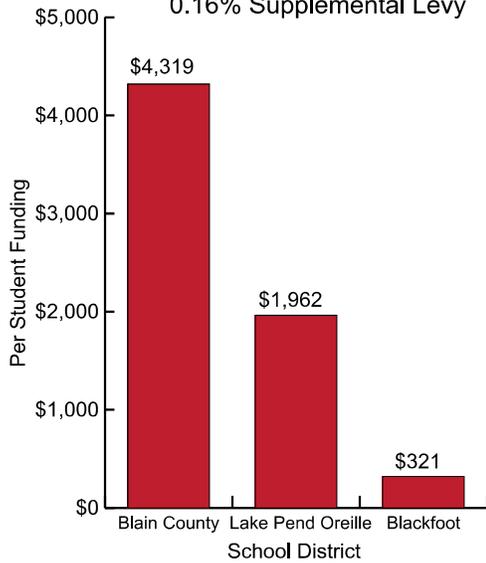
Source: Idaho State Department of Education and Idaho State Tax Commission. Data from the year 2000 not available.

Figure 6: Dollar Amount of Idaho School District Supplemental Levies, Inflation-Adjusted Constant 2017 Dollars



Source: Idaho State Department of Education and Idaho State Tax Commission.

Figure 7: Potential Funding Generated with a 0.16% Supplemental Levy



Source: ICFP analysis using market values provided by Idaho State Department of Education.

Third, supplemental levies have created disparities across geography. The supplemental rate is the percentage that is levied on the market value of a qualifying property and Figure 7 shows that three school districts with comparable enrollment would generate vastly different amounts of funding per student while using the same supplemental levy tax rate. Blaine County School District would generate more than 13 times the amount of revenue than Blackfoot School District if they both used a supplemental levy rate of 0.16 percent. Instead, Blaine County School District passed a supplemental levy rate (0.027 percent) in FY2017 that is less than one tenth the size of the supplemental levy for the Blackfoot School District (0.331 percent) and generated the same amount of money to support its schools (\$2.6 million). An area with high property values can levy a relatively low tax rate to generate needed funding, while Idahoans in areas with lower property wealth must pay a higher rate to generate the same amount (Appendix A). At the same time, the average resident in the Blackfoot School District earns 18 percent less than in Blaine County School District and Idahoans that live in similar areas of lower property wealth often end up putting a higher share of their earnings towards schools.<sup>2</sup>

All told, total funding per student varies greatly by school district. The most recent figures show that per student funding ranges from \$6,200 to \$39,800 across all school districts<sup>3</sup>. Some Idaho school districts are rural and have fewer students, which makes it difficult to take advantage of what economists call *economies of scale* - meaning whether there are five or 30 students, schools still need to pay certain fixed costs (property expenses, heating costs, a teacher’s salary, etc.). Larger schools are able to absorb fixed costs more easily, while, on a per student basis, costs are higher for small schools.

Even when looking at schools with comparable enrollment, there is more than an \$11,000 range in dollars per student depending on a child’s address. Once small schools with fewer than 150 students are removed from the analysis, the highest total funding per student is \$17,300 in the Blaine County School District, which has approximately 3,400 children.

### Progress on Task Force Recommendations

Governor Otter established the Task Force for Improving Education in 2013. Diverse education stakeholders served on the Task Force and crafted a total of 20 recommendations with the goal of better preparing Idaho students to compete and succeed in today’s workforce, while strengthening our state economy.

Some recommendations have been funded through existing resources, but others required new appropriations. The state legislature started devoting funding to these objectives in FY2015. In 2017, a previous version of this report showed progress on meeting Task Force recommendations. Since then, the FY2019 General Fund budget continued this trend of investment. In total, \$81.6 million new dollars were appropriated this year, in addition to on-going funding, as seen in Figure 8. The budget incorporated Task Force recommendations on teacher career ladder initiative commitments, which encompassed the majority of new investments.

Five years ago, Task Force recommendations were projected to require at least an additional \$350 million of new appropriations, but the total cost of some line items were still unclear at the time. Today, at least \$120 million in new dollars will be required to complete recommendations put forth by the Task Force, inclusive of FY2019 appropriations, as seen in Figure 9.

Figure 8: New FY2019 Task Force Investments<sup>i</sup>

| Task Force Recommendation                             | FY2019              |
|---|---------------------|
| Literacy Proficiency                                  | \$1,800,000         |
| Advanced Opportunities                                | \$8,000,000         |
| Educator and Student Technology Devices <sup>ii</sup> | \$13,500,000        |
| Restore Operational Funding                           | \$16,000,000        |
| Career Ladder Compensation                            | \$41,700,000        |
| Job-Embedded Professional Learning                    | \$600,000           |
| <b>Total</b>  | <b>\$81,600,000</b> |

<sup>i</sup>Table does not include recommendations that did not receive new dollars in FY2019. These figures represent the difference between FY2019 and FY2018 appropriations for each item. HB 589 would provide an additional \$1.4 million in new dollars towards mastery-based education (recommendation #1) should it be fully appropriated following the release of this report.  
<sup>ii</sup> Includes \$2.1 million one time appropriation for last five years.

Figure 9: Cumulative Funding of Task Force Recommendations, FY2015 to FY2019, and Funding Remaining

| Task Force Recommendation                                | Funding To Date        | Projected Cost       | Funding Remaining    |
|--|------------------------|----------------------|----------------------|
| 1 Mastery-Based System                                   | \$1,400,000            | Undetermined         | Undetermined         |
| 2 Idaho Core Standards                                   | Met w/existing dollars |                      |                      |
| 3 Literacy Proficiency <sup>i</sup>                      | \$13,200,000           | \$21,000,000         | \$7,800,000          |
| 4 Advanced Opportunities                                 | \$15,000,000           | Undetermined         | Undetermined         |
| 5 Accountability for Student Outcomes                    | Met w/existing dollars |                      |                      |
| 6 Empower Autonomy                                       | Met w/existing dollars |                      |                      |
| 7 Strategic Planning                                     | Combined with #18      |                      |                      |
| 8 Statewide Electronic Collaboration                     | \$3,000,000            | Undetermined         | Undetermined         |
| 9 Bandwidth/Wireless Infrastructure                      | Combined with #10      |                      |                      |
| 10 Educator and Student Technology Devices <sup>ii</sup> | \$47,000,000           | Undetermined         | Undetermined         |
| 11 Restore Operational Funding <sup>iii</sup>            | \$99,895,500           | \$83,895,500         | \$0                  |
| 12 Career Ladder Compensation <sup>iv</sup>              | \$176,700,000          | \$224,700,000        | \$48,000,000         |
| 13 Enrollment Model of Funding <sup>v</sup>              | \$0                    | \$57,000,000         | \$57,000,000         |
| 14 Tiered Licensure                                      | Combined with #12      |                      |                      |
| 15 Mentoring Program                                     | Combined with #16      |                      |                      |
| 16 Job-Embedded Professional Learning <sup>vi</sup>      | \$21,600,000           | \$29,400,000         | \$7,800,000          |
| 17 Site-Based Collaboration Teachers/Leaders             | Met w/existing dollars |                      |                      |
| 18 Training Admins, Superintendents, School Boards       | \$652,000              | Undetermined         | Undetermined         |
| 19 Enhanced Pre-Service Teaching Opportunities           | Met w/existing dollars |                      |                      |
| 20 Recommendations for Teacher Preparation               | Met w/existing dollars |                      |                      |
| <b>Total</b>   | <b>\$378,447,500</b>   | <b>\$415,995,500</b> | <b>\$120,600,000</b> |

<sup>i</sup> The Literacy Subcommittee recommended \$21 million over five years beginning with FY17.  
<sup>ii</sup> Includes \$2.1 million one time appropriation for last five years. Recommendation was to reach \$60 million in a multi year phase in for line 10, but now projected cost is undetermined because it has been combined with line 9.  
<sup>iii</sup> Adjusted for inflation, the cost of this recommendation is \$127.9 million.  
<sup>iv</sup> Projected cost revised in 2018 to \$224.7 million based on updated estimates.  
<sup>v</sup> Estimated by School Funding Formula Committee.  
<sup>vi</sup> Goal is to reach three professional development days per year.

## **The Future of Idaho's Public School Investments**

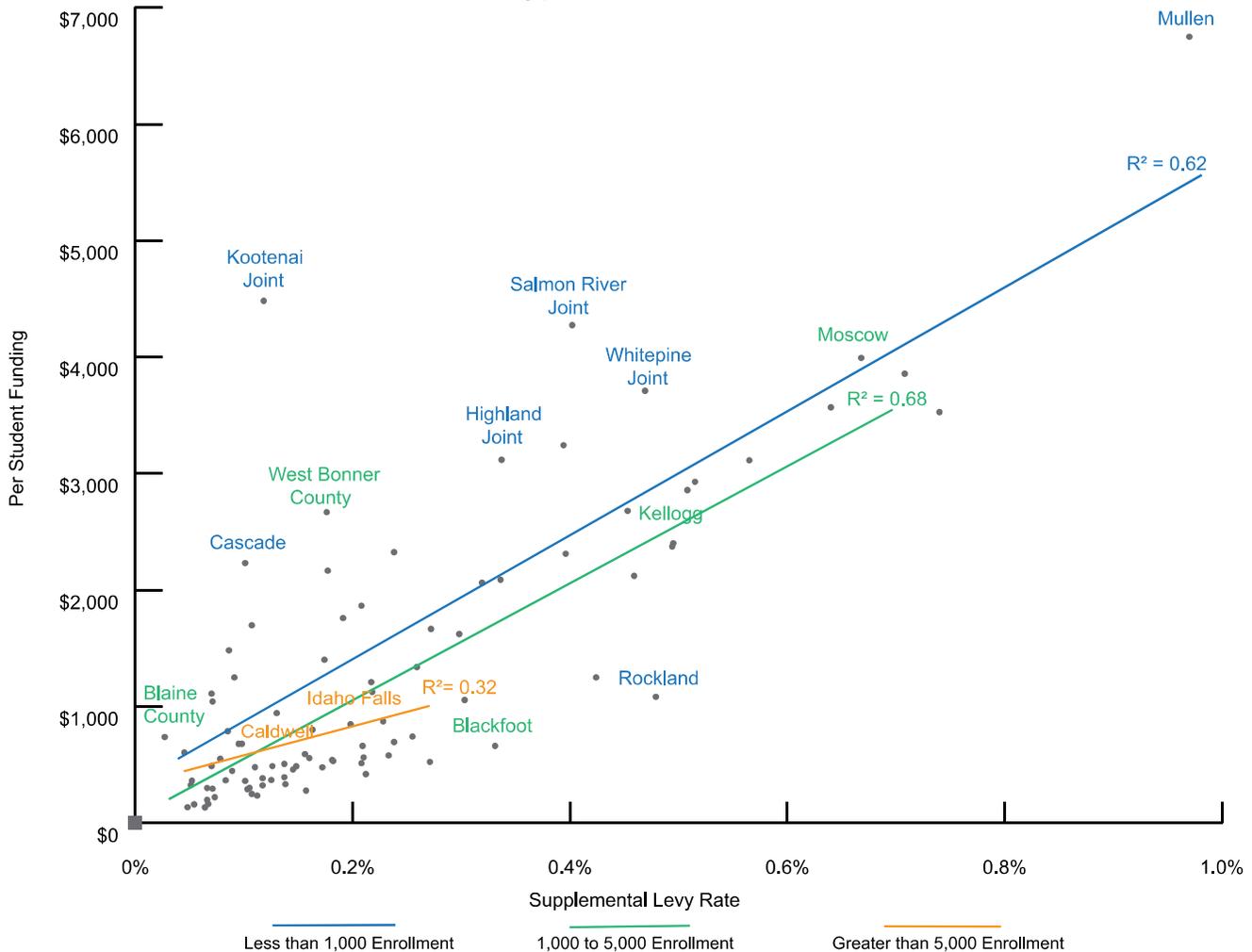
Idaho's per capita tax collection is ranked 48<sup>th</sup> in the nation and last among 11 western states.<sup>4</sup> Compared with 2003, teacher pay dropped by 11 percent when accounting for inflation in 2016, meaning Idaho teachers are faring worse than during the two most recent economic downturns.<sup>5</sup>

Recent policy decisions at the federal and state level could make it more difficult for Idaho to implement Task Force recommendations. The state legislature recently passed legislation, House Bill 463, to fully conform Idaho's tax code to federal changes. All told, the tax bill will reduce General Fund revenue by an estimated \$105 million to \$179 million. Should conformity bring less revenue than projected, a potential consequence of unpredictable business tax changes like the new pass-through deduction, the cost could be greater.

A trailer tax bill to increase the new child tax credit will further increase General Fund cuts by an estimated \$25 million. The legislation is expected to decrease tax bills for some families, but also decrease the amount of critical resources available for Idaho's public education system.

Executive budget proposals from the White House in the past two years have recommended severe cuts in federal funding streams, which make up about one-tenth of all public school funding. While these cuts have not been reflected in enacted budgets, they indicate uncertainty in this source of funding. Further reductions in Idaho's General Fund revenue only adds to concern about the future of public school investment. More than 9 out of 10 Idaho school children use the public education system.<sup>6</sup> To sustain progress and fully implement Task Force recommendations, Idaho must prioritize investments in our public schools.

Appendix A: Similar Supplemental Levy Rates Result in Varied Amounts of Funding per Student, FY2017



Source: Idaho State Department of Education.

Note: For purposes of clarity, not all school districts are labeled.

This graph represents the relationship between supplemental levy rates and the amount that is raised by the rate per student among school districts in Idaho. The districts are grouped by size of student population; small (in blue), medium (in green) and large (in orange). Each line has a value at the top labeled  $R^2$  which indicates how much of the variation in per student funding between districts can be attributed to the rate itself. The maximum possible value of  $R^2$  is 1, which would indicate that all of the variation could be explained by the actual levy rate. Instead, the values for all three categories of school districts are much smaller than 1 (0.32 for large districts, 0.68 for medium districts, and 0.62 for small districts), which indicates there are other factors that also explain the variation, like property wealth in the school district. Supplemental levy rates predict just 62 percent of the variation in supplemental levy funding per student among schools with less than 1,000 students. The relationship is weakest among large districts with more than 5,000 students, where the supplemental levy tax rates predict just 32 percent of the variation in supplemental levy funding per student.

<sup>1</sup> Richert, K. *Tax Shift of 2006 Adds up to Tax Increase*. Idaho Ed News. Retrieved from: <https://www.idahoednews.org/news/tax-shift-2006-adds-tax-increase/>

<sup>2</sup> Census Bureau. (2017, September 14). *American Community Survey 5 year estimates*. Retrieved from [factfinder.census.gov](https://factfinder.census.gov)

<sup>3</sup> Census Bureau. (2017, June). *Annual Survey of School System Finances: Revenue of Public Elementary-Secondary School Systems*. Retrieved from [factfinder.census.gov](https://factfinder.census.gov)

<sup>4</sup> Idaho State Tax Commission. (2017, October 24). *State and local tax burden analysis*. Retrieved from [https://tax.idaho.gov/reports/EPB00074\\_10-24-2017.pdf](https://tax.idaho.gov/reports/EPB00074_10-24-2017.pdf)

<sup>5</sup> Chang, A. (2018, March 09). *Your state's teacher's are underpaid: Find out by how much*. Vox. Retrieved from <https://www.vox.com/policy-and-politics/2018/3/9/17100404/teacher-salary-underpaid-database>

<sup>6</sup> Census Bureau. (2017, September 14). *American Community Survey 1 year estimates*. Retrieved from [factfinder.census.gov](https://factfinder.census.gov)