

## **Move School Operating & Welfare Costs to State Budget**

**Public School Operating Costs:** Beginning several decades ago, the state has, over the years, taken on as part of the state general fund budget more and more of the operating “classroom” costs of Indiana’s K-12 public schools. This shift from property tax to state income and sales taxes as funding sources has been driven in large part by the federal courts requirement that funding for schools be equitable and by the trend to limit increases in property taxes.

In the early 1970s, the state provided about 33% of public school operating costs and the property tax provided about 67%. Beginning with the Bowen Property Tax Reforms in 1973, the share of public school operating costs started to shift to the state. By the late 1980s, the shares had roughly reversed, with the state now paying 2/3 of the cost while the property tax covered the remaining 1/3.

The last major shift from the property tax to state taxes occurred in 2002, when state support for local public schools increased as part of the major tax restructuring package in response to the move to market value property tax assessment. As a result, now more than 85% of school operating costs are paid by state income and sales taxes. Property taxes and other local revenue sources make up the remaining 15%. Property taxes are still the major revenue source for school capital projects – whether current or paid through debt service of bond issues. In addition, school transportation expenditures are paid via the local property tax.

The state legislature enacts the operating funding formula that allocates state support. That formula includes a maximum property tax rate that may be imposed by the school corporations, as well. In other words, the state determines completely what resources are to be available for local public school operating expenditures. Given that the state makes the determination of funding levels, and the purpose is equitable funding across all corporations, it follows that the state should provide all of the funding, leaving property tax imposition decisions to local schools for those things that they determine.

The amount of the property tax levy for the purpose of funding public school operating costs is approximately \$750 million in 2007. If the state would have paid that amount in 2007, property taxes statewide would have been reduced by approximately 12.5%.

**Welfare Costs:** Welfare costs – as administered through the Family and Childrens’ Fund – are funded via the local property tax, as well. This is essentially a state program developed and provided by state employees. However, a significant portion of the revenue for the program comes from local (county) property tax levies.

The rationale for welfare programs is that families and children in poverty should receive some assistance from government, that assistance being aimed at providing very basic survival needs (food and shelter – medical care is provided via the Medicaid program) and encouraging activities and behaviors that will lead the family out of poverty.

In Indiana, the need is somewhat localized – primarily in central urban cores of urban counties – but there is need in rural counties, as well. The benefit to society is better educated, more productive citizens that are not drains on governmental resources. Those benefits accrue broadly, as a better educated, productive workforce enables more economic expansion and keeps overall tax rates lower.

Decisions about welfare program activities should, then, be made at the state, rather than the local, level. Therefore, the tax revenue to support the programs should be derived from state, not local, taxes.

In recent years, the cost of welfare borne by the property tax has been just under \$250 million. If the state would have paid that amount in 2007, property taxes statewide would have been reduced by approximately 4%.