NEW PUBLISHING COLLABORATION

Property Tax and the Financing of K–12 Education

A Special Issue of *Education Finance and Policy*

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IN THE AFTERMATH OF THE GREAT RECESSION, the financing of U.S. public elementary and secondary education has become particularly challenging, given the close link between school finance and property taxation. Across the nation, the sharp drop in housing prices that triggered the recession led to reductions in property tax revenues. Public schools derive more than 80 percent of their local own-source revenue from the property tax (McGuire, Papke, and Reschovsky 2015), and nearly half of total property tax dollars collected in the United States are used to finance public elementary and secondary education (U.S. Census Bureau 2014, U.S. Census Bureau 2013).

As a means of encouraging new research on these issues, the Lincoln Institute of Land Policy organized a conference on "Property Tax and the Financing of K–12 Education" in Cambridge, MA, in October 2013. The Fall 2014 issue of *Education Finance and Policy* features five of the conference papers along with two additional works submitted as part of the journal's call for papers for the special issue, which underwent the journal's peer review process. We served as guest editors, working closely with the journal's editors, Thomas A. Downes and Dan Goldhaber. Thanks to funding from the Lincoln Institute, the special issue is available for free downloading until January 2016 from the website of the Association of Education Finance and Policy (www.aefpweb.org/journal/free-fall-2014).

CHALLENGES FOR FUNDING K-12 EDUCATION

Using revenue data from the National Center for Education Statistics (2014), we determined that in real per pupil terms, total revenues devoted to public education fell by 6.2 percent from September 2008 to June 2012. Although comprehensive figures are not yet available for the most recent years, existing evidence points to a continued decline in financial support for public education. Data from the U.S. Census Bureau's *Quarterly Summary of State and Local Tax Revenue* indicate that per capita real local government property tax revenues (for school and nonschool purposes) were 2.7 percent lower at the end of fiscal year 2014 than they were at the end of fiscal year 2011. And a survey conducted by the Center on Budget and Policy Priorities found that, in at least 35 states, real per-student state education aid was lower in fiscal year 2014 than in fiscal year 2008 (Leachman and Mai 2014).

Many school districts around the country responded to reduced revenues by laying off employees. In fact, the U.S. Bureau of Labor Statistics (2013) reports that between the employment peak in June 2009 and the trough in October 2012, education employment by local governments fell by 357,400—a decline of 4.4 percent. During this same period, public school enrollment grew by 0.9 percent (National Center for Education Statistics 2013).

Current projections signal significant increases in both K–12 enrollment and cost per pupil. The National Center for Education Statistics (NCES 2013) projects that per pupil expenditures will increase from an average of $10,518 in the 2009–10 school year to $12,530 in 2021–22. The NCES also projects substantial increases in public school enrollment,

although growth projections for specific states vary and are generally much higher for the southern and western states (8.9 percent and 12.7 percent from 2010 to 2021) than for the Northeast and Midwest (2.2 percent and 2.4 percent). Although public policies and priorities can change, based on current policies and revenue projections, it is unlikely that revenues in support of public education will grow fast enough to match the projected growth in student enrollment and in costs.

National data indicate that in 2011–12, 10 percent of total public education revenue came from the federal government, with the rest split fairly evenly between state and local government sources (U.S. Census Bureau 2014). Federal government programs in support of education are classified as domestic discretionary expenditures. While to date Congress has done little to rein in the growth of spending on entitlement programs, it has mandated strict limits on the growth of domestic discretionary expenditures through the Budget Control Act of 2011 and the fiscal year 2014 Congressional budget agreement. The Congressional Budget Office (2013) predicts that, relative to GDP, domestic discretionary spending will decline through at least 2023. Given these overall spending caps, along with competition from other pressing domestic needs, reductions in real per pupil federal education support appear likely.

School funding systems vary tremendously across states, and future trends in state support for public education will differ greatly across states as well. However, many state governments face several long-run structural problems that are likely to constrain future state funding for public education. On the revenue side, many states have narrow sales tax bases that exclude many services and, as a result, fail to grow proportionally to their economies. The revenue problems are exacerbated by the inability of states to collect sales taxes on many Internet and mail order purchases. In the past few years, a number of states have adopted individual income tax cuts. These tax cuts have generally been enacted with no offsetting revenue increases, or they have been funded using revenue from one-time state budget surpluses.

On the spending side, funding for K–12 education must compete with other priorities. In many states, spending on Medicaid will grow faster than state tax revenues, a trend influenced in part by the aging of the population. Many states are also facing large and growing unfunded pension liabilities. Addressing these unfunded liabilities will undoubtedly require substantial increases in state government pension contributions. Although polls indicate that voters favor increased spending on education over spending in other areas, unless state governments make politically difficult decisions to increase taxes, states' growing Medicaid and pension obligations may crowd out spending on K–12 education (Pew Research 2011).

With diminished prospects for growth in funding from federal and state governments, local school districts will likely play an increasingly important role in funding public education. Increasing local government funding for public education will require the politically difficult step of increasing property taxes, or, if that proves impossible, the development and widespread adoption of alternative sources of local government revenue. Neither strategy will be easy to implement.

This rather bleak picture of the prospects for public education funding raises a number of research questions. For example, can state governments adopt policies that would make the property tax more publicly acceptable? What role do alternative local sources of revenue play in funding public education? Can their role be increased? Is it possible to design state education aid systems that result in a more steady flow of state aid during economic downturns? Can state policies aimed at providing property tax relief be made more effective? Can state aid systems be reformed in ways that increase the educational opportunities of all students? The *Property Tax and the Financing of K–12 Education* considers these and other questions.

CONCLUSION

Three central themes emerge from this special issue. The first is the potential for unintended consequences to arise from state legislation. Eom et al. find that New York's prominent property tax relief program, STAR, induces voters to increase school spending and raise property taxes, thereby undercutting much of the intended property tax relief. Jeffrey Zabel finds that property tax overrides in Massachusetts have led to increased racial segregation. And Phuong Nguyen-Hoang finds that the use of TIFs in Iowa has led to modest reductions in education spending.

A second theme is the potential for state school finance and property tax policies to provide greater advantages for high-wealth or high-income school districts than for low-wealth or low-income districts. In some cases, this pro-wealthy tilt is an explicit program feature. For example, the sales price differential adjustment factor in STAR channels a disproportionate amount of property tax relief to the wealthiest school districts. Likewise, Michigan's state aid system sends about 7 percent more state aid per pupil to the wealthiest districts. In other cases, the tilt toward wealthier districts arises in more indirect ways. Chakrabarti et al. find that high-wealth school districts are likelier to increase property tax revenues in response to cuts in state aid. Zabel notes that higher income towns are more likely to pass property tax overrides.

Nguyen-Hoang finds that TIFs have a greater negative effect on school spending in low-income or low-wealth districts than in high-income or high-wealth districts. Finally, Nelson and Gazley find that well-off districts are more likely to receive revenue from school-supporting nonprofits, and their per-pupil contributions tend to be higher.

A third theme is the enduring importance of the property tax as a funding source for public education in the United States. Papers by both Nelson and Gazley and by Downes and Killeen demonstrate that non-tax revenue plays a relative minor role in the funding of public schools. And no evidence suggests that the share of revenue from student fees and charges, school-supporting nonprofits, or from miscellaneous non-tax revenues has increased during or after the Great Recession.

These findings suggest that in order to ensure sufficient funding for public education into the future, efforts should be made to make the property tax a more appealing source of revenue. These property tax improvements might include the expansion of well-designed targeted property tax relief programs, such as circuit breakers, the adoption of property tax deferral programs for taxpayers facing high property tax burdens or rapid increases in their property tax bills, and improvements in tax administration that focus on increased transparency.

Given the great diversity in school finance and property tax systems across the U.S. and the fiscal challenges ahead, the papers in this special issue cannot possibly provide insights into the full range of policies needed to assure adequate and equitable funding for public education. However, it is our hope that these papers will be thought-provoking for both policy makers and researchers, and also inspire additional research on property taxation and school funding.

CONTENTS

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