

# THE FUTURE OF U.S. PUBLIC SCHOOL REVENUE FROM THE PROPERTY TAX

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The property tax is a critical funding source for elementary and secondary schools in the United States. Figure 1 shows that local property taxes provided more than a third of all money used to finance public education in 2013–14, the latest school year for which we have data.<sup>1</sup> Reliance on the property tax varied tremendously across states, but in Illinois it was as high as 58 percent of total school revenues.

Nevertheless, the property tax is perpetually under attack, and several states have recently tried to reduce or even eliminate it as a source of school funding. In Pennsylvania, legislation to eliminate the school property tax failed to pass by a single vote in the state Senate in 2016.<sup>2</sup> Supporters have reintroduced the bill and claim increased support following the 2016 U.S. presidential election. A proposed constitutional amendment to eliminate the local property tax in North Dakota was defeated by voters in 2012. In 2008, the legislature in Georgia considered, but ultimately rejected, a proposal to eliminate the property tax.

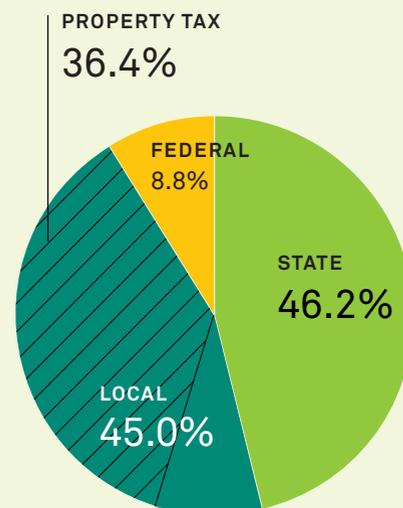
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Despite attempts by state legislatures to reduce the role of the property tax in the funding of public education, since 1980 school property tax revenues have continued to grow at about the same rate as all other sources of public school revenue. As a result, the share of public school funding coming from the local property tax has remained remarkably stable. With the exception of two years, the local property tax share has fluctuated between 33 and 37 percent.

Figure 1

## Source of U.S. Public Education Revenue by Level of Government, 2013-14

Local governments provided 45 percent of public school funding in 2013–14, and more than 80 percent came from the property tax. The federal government provided less than 9 percent of the total revenue of public schools, and state governments contributed 46 percent.



## Why Is Property Tax the Most Stable School Funding Source?

In the average state, local property taxes contributed 33.9 percent of total public school revenue in 2006–07. This percentage grew to 36.4 in 2013–14. During this period, the property tax grew in importance as a source of school revenues in 36 states (plus the District of Columbia). Both during and immediately after the Great Recession, state government tax revenues from the individual and corporate income taxes and from the sales tax all fell sharply. Figure 2 shows the annual percentage changes in revenues from these three taxes for the years between 2007 and 2014 and compares these variations to the changes in revenue from school property taxes. Property tax revenue increased every year, and the annual percentage changes remained modest compared with fluctuations in the three state taxes.

## Federal and State Aid

The share of total revenue from the property tax grew between 2007 and 2014 in part because of cuts to federal and state aid for education. Congress has reduced spending on public education since 2010, besides a large infusion of federal stimulus dollars for local school districts during and immediately after the Great Recession of 2007–2009. Between 2010 and 2016, the two primary sources of federal aid—Title 1 for high-poverty schools and special education aid—were cut by 8.3 and 6.4 percent respectively, after adjusting for inflation.<sup>3</sup>

In 31 states, 2013–14 state education aid per student was lower than in 2007–08 after adjusting for inflation, according to a survey conducted by the Center on Budget and Policy Priorities.<sup>4</sup> These state aid reductions averaged 9.6 percent. Initially cuts in state aid resulted from state legislative responses to sharp reductions in state tax revenue resulting from the Great Recession. More recently, state aid cuts resulted when legislatures and governors in some states decided to cut state income taxes.

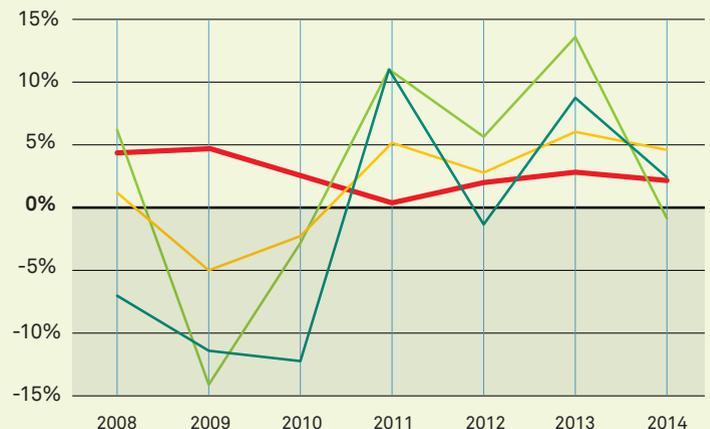
Figure 2

### Annual Percentage Change in U.S. Tax Revenue

Between 2007 and 2014, local property tax revenue increased every year, and the annual percentage changes remained modest compared with fluctuations in the three state taxes (general sales tax, corporate income tax, and individual income tax).



### % Change in Tax Revenue



Fiscal Year

## Local User Fees and State Income, Sales, and Business Taxes

Given reductions in federal and state aid, the only way for local school districts to reduce their reliance on the property tax is to adopt new sources of local government revenues. Recent research has demonstrated that school districts around the country have failed to utilize user fees and other forms of non-tax revenues as a means of substituting for property tax revenue.<sup>5</sup> While significantly more nonprofit organizations are providing financial support to schools, the revenues they raise remain very low on a per-pupil basis.<sup>6</sup>

Federal aid to education is likely to continue declining over the next decade. President Trump's fiscal year 2018 budget proposals and the House budget resolution call for very large cuts in non-defense discretionary spending over the next decade. Given that nearly all federal spending on education comes from discretionary programs, it is highly likely that federal grants for public education will continue to be reduced.

Another alternative to the property tax is for state governments to take over much of the financing of public schools. In most states, state funding of public education would require large, and politically unpopular, increases in state income, sales, and business taxes. Also, state funding would dramatically reduce local control of education. Local citizens, through their school boards, or via school finance referenda, would no longer have the power to increase property taxes as a means of paying for new courses, smaller class sizes, or other educational initiatives.

## The Future of Public School Funding

Maintaining support for public schools will depend on public acceptance of the property tax as a fair and efficient means of financing education.

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Predicting future trends in state education aid is more difficult. While public education is a legislative priority in most states, state governments continue to face competing demands from rising unfunded pension liabilities, unmet infrastructure needs, and rising health care costs for both public employees and for the needy. If Congress enacts proposals to restructure the Medicaid program as a means of reducing federal Medicaid spending, states will face great pressure to increase their healthcare expenditures.

If funding from the federal government and/or state government fails to keep up with rising costs, local school districts will face the difficult decision of cutting spending or raising local taxes, which in most places means increasing property taxes. In some states, state-imposed property tax limitations prohibit property tax increases; in other states, tax increases above the limits require voter approval, sometimes with super-majorities.

Where property tax increases are allowed, local school boards' decisions about whether to increase property taxes will have to weigh the educational needs of their students against taxpayers' opposition to increases in property taxes.

# Policies to Improve the Property Tax

One way to increase acceptance of the property tax as a source of public school funding is to improve it by addressing criticisms from taxpayers.

One frequent complaint is that using the property tax to fund public schools is unfair because property-wealthy school districts can raise much more money than other districts while using the same tax rate.<sup>7</sup> As a result, property-wealthy school districts will be able to spend much more per pupil than property-poor districts. Another complaint is that some taxpayers, especially the elderly, face high property tax bills relative to their incomes, creating substantial hardships. Other criticisms include tax bills that vary dramatically for similar houses in the same jurisdiction, the daunting size of annual or twice-annual tax payments, and big year-to-year changes in some home owners' tax bills.

To address these perceived problems with the property tax, some states have adopted the policy proposals listed below.<sup>8</sup>

## ALLOCATE STATE AID USING FORMULAS THAT ACCOUNT FOR DIFFERENCES IN PROPERTY WEALTH AND COSTS

States can reform their state aid system by increasing the share of school funding that comes from the state, and by ensuring that school districts with lower property values per pupil and/or higher costs of education receive the largest amount of per-pupil state aid.

## PROVIDE CIRCUIT BREAKERS

States can provide circuit breakers, which are a form of tax credit designed to reduce high property tax burdens on those with modest incomes.<sup>9</sup>

## ALLOW TAX DEFERRAL

Allow taxpayers who face high property tax burdens or rapid rate increases to defer payment, by effectively lending them money to pay their taxes.

## ALLOW MONTHLY OR QUARTERLY PAYMENTS

To ease the pressure on taxpayers to pay property taxes in one or two large payments, establish installment plans that allow smaller, but more frequent payments.

## REASSESS FREQUENTLY

To ensure that neighbors with similar houses pay the same amount of property tax, municipalities should frequently assess properties to reflect changes in housing values.<sup>10</sup>

## SHOW TAXPAYERS HOW FUNDS ARE USED

To increase the willingness of taxpayers to pay higher property taxes in support of public education, local government officials should do more to inform citizens about how their property taxes are being used. For example, local officials might indicate that a three percent increase in property taxes will pay for three new elementary school teachers and a new high school course on economics.

## NOTES

- <sup>1</sup> National Center for Education Statistics, *National Public Education Financial Survey Data, 2013–14*, v. 1a, <https://nces.ed.gov/ccd/stfhis.asp>. The calculated share of total revenue from the property tax does not include property tax raised directly by state governments.
- <sup>2</sup> See Denise Marie Ordway, "Drastic Measure: The Bill That Would Eliminate School Property Tax in Pennsylvania," *Land Lines*, April 2016.
- <sup>3</sup> Michael Leachman, Kathleen Masterson, and Marlana Wallace, "After Nearly a Decade, School Investments Still Way Down in Some States," Washington, DC: Center on Budget and Policy Priorities, October 2016.
- <sup>4</sup> Michael Leachman, Nick Albaers, Kathleen Masterson, and Marlana Wallace, "Most States Have Cut School Funding, and Some Continue Cutting," Washington, DC: Center on Budget and Policy Priorities, January 2016. Data were unavailable in five states.
- <sup>5</sup> Thomas A. Downes and Kieran M. Killeen, "So Slow to Change: The Limited Growth of User Fees in Public Education Finance, 1991–2010," *Education Finance and Policy*, Fall 2014.
- <sup>6</sup> Ashlyn Aiko Nelson and Beth Gazley, "The Rise of School-Supporting Nonprofits," *Education Finance and Policy*, Fall 2014.
- <sup>7</sup> Reliance on local sales or income taxes to fund schools would also lead to large spatial inequities in funding.
- <sup>8</sup> For detailed descriptions of each state's property tax system, see the Lincoln Institute's "State-by-State Property Tax at a Glance Narratives" at <http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/state-by-state-property-tax-at-a-glance>.
- <sup>9</sup> John H. Bowman, Daphne A. Kenyon, Adam Langley, and Bethany Paquin, *Property Tax Circuit Breakers: Fair and Cost-Effective Relief for Taxpayers*, Policy Focus Report, Cambridge, MA: Lincoln Institute of Land Policy, May 2009.
- <sup>10</sup> In some states, such as California, state law limits annual assessment increases and allows assessed values to reflect true market value only when a property is sold.