The property tax is a critical funding source for elementary and secondary schools in the United States. Nevertheless, it is perpetually under attack, and several states have recently tried to reduce or even eliminate it as a source of school funding.

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.
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.\(^3\)

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.\(^4\) 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.
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. While significantly more nonprofit organizations are providing financial support to schools, the revenues they raise remain very low on a per-pupil basis.

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.

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.
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.\(^7\) 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.\(^8\)

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.\(^9\)

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.

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NOTES


7 Reliance on local sales or income taxes to fund schools would also lead to large spatial inequities in funding.


10 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.