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# The effects of state funding on property tax rates and school construction

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**Abstract**

In response to concerns over funding for school construction, the state of Texas has implemented two programs to assist school districts with construction-related debt. This paper examines whether these programs have accomplished their objectives of reducing property taxes (the Existing Debt Allotment (EDA) program) and increasing capital outlays (the Instructional Facilities Allotment (IFA) program). I find that school districts receiving EDA funds have reduced their debt tax rates more than non-EDA districts, but they have used the opportunity to increase their operating tax rates. Overall, EDA districts *have not* experienced greater property tax relief. For the IFA program, I find that IFA districts *have* increased their capital outlays more than non-IFA districts. I also examine the IFA program's impact on the equitable distribution of capital outlays. I find that poor school districts have increased capital outlays because of IFA funding, while rich districts have increased capital outlays by increasing tax rates. Middle-wealth school districts do not receive significant IFA funding, nor do they have a rich tax base. Therefore, their capital outlays remain essentially unchanged. Overall, capital outlay equity has decreased.
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## 1. Introduction

There is widespread concern over the level and distribution of funds spent on school facilities in the US (Brunner & Rueben, 2001). While approximately $19.5 billion was spent on school construction and modernization in 1999, the National Education Association (2000) estimates that $322 billion would be required to repair, construct, and modernize school buildings. Of that total, $268 billion would be used for school infrastructure, and $54 billion would be used for education technology. Estimated costs for requisite school construction vary widely across states, from $333 million for Vermont to $50.7 billion for New York. The median state cost estimate is about $3.7 billion (more than $4800 per student), and 20 states have estimated cost requirements that exceed $5 billion.

Historically, local school districts have been responsible for funding school construction. Local funding for school construction comes mainly from voter-approved bond issues, and property tax revenues are used to cover the debt service costs (i.e., principal and interest) associated with these bonds. This leads to disparity in

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the funding abilities and tax burdens of school districts with different levels of property wealth. A poor school district must have a higher tax rate in order to generate the same level of funds as a wealthier school district. Alternatively, if the tax rates are the same, then the poor school district will have less available funding for school facilities. Consequently, recent lawsuits in at least 10 states have challenged the constitutionality of local funding because of inequities in school facilities across school districts.[1]

Because of the enormity of estimated funding requirements, existing or threatened litigation, and equity concerns, states are taking an increasingly active role in funding school facilities (National Governors' Association, 2000). Once a state has decided to increase its role in school construction, policymakers must consider different funding options. To help evaluate the effectiveness and likely consequences of different options, policymakers can learn from the experience of other states. However, few studies have examined state funding for school construction, most likely because equity concerns over facilities funding and the related reform measures have occurred fairly recently (National Research Council, 1999, p. 200).

The purpose of this paper is to examine one state's funding programs, namely Texas', and determine whether the state's programs have been effective in accomplishing their objectives of reducing property taxes and increasing capital outlays. I also examine the programs' impacts on the equitable distribution of capital outlays across school districts. Texas is a useful state to study for several reasons. Texas has a large public school system, with 1034 school districts and nearly 4 million K-12 students. Similar to most states, Texas school districts issue bonds to fund school construction, and use property tax revenues to finance the related debt service costs. Also, like for most states, the estimated cost to construct and repair Texas school facilities is quite large. A 1998 study by the Texas State Comptroller's Office estimates that almost $14 billion of school facilities construction is required, with about 90% of that amount most likely being financed by bond elections.[2]

In response to concerns over the level and equity of facilities funding, Texas has recently implemented two programs to assist school districts: the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. For the 2000–2001 biennium, the state of Texas distributed $400 million of IFA funds and $930 million of EDA funds to qualifying districts. Over $1.5 billion was authorized for these programs for the 2002–2003 biennium. Neither the IFA nor the EDA program directly funds school construction. Instead, both programs provide school districts with funds to help cover debt service costs associated with bonds issued for school construction. The main objective of the IFA program is to increase school facilities construction, while the EDA program's main objective is to reduce property taxes in districts that receive EDA funds (House Research Organization, 1999, p. 2).

In summary, this study's results are as follows. I first examine the change in property tax rates from 1996 to 2000 to determine whether the EDA program has helped reduce property tax rates. Texas school districts can impose two separate tax rates: one for maintenance and operations (M&O), and another for debt (the I&S tax rate where revenues fund an 'interest and sinking' fund for bonded debt). I find that, relative to districts without EDA funding, districts receiving EDA funds have decreased their I&S tax rate by about 0.0003 points per student dollar of EDA funding. However, this is offset by an increase in their M&O tax rate of about 0.0003 points. This evidence suggests that EDA districts reduced their I&S tax rates, consistent with EDA program objectives, but that they used the opportunity to increase M&O tax rates. Overall, EDA districts have not experienced greater property tax relief than non-EDA districts.

I next examine the change in capital outlays from 1996 to 2000, and find that districts receiving IFA funds have increased their capital outlays more than non-IFA districts by an average of $1.77 per student dollar of IFA funding. This is consistent with the primary objective of the IFA program. I then examine whether capital outlays have become more equitably distributed across school districts of different wealth levels. I divide districts into quintiles based on property value per student, and examine the distribution of capital outlays across quintiles. Results suggest that the poorest school districts (those in Quintile 1) increased their capital outlays because of significant IFA funding they received,

[1]States with recent litigation include Alaska, Arizona, Colorado, Michigan, New Hampshire, New Jersey, New Mexico, New York, Ohio, and Texas. Crampton, Thompson, and Hagey (2001) also examine school infrastructure funding requirements for all 50 states and find similar results to NEA (2000).

[2]In 1998, the Texas State Comptroller's Office issued the report, *Current and Future Facilities Needs of Texas Public School Districts*. The report was based on a survey in which responding school districts represented 65% of the state's student population and 59% of its school districts. The superintendents from these districts identified over $9 billion in anticipated facilities spending, and projected that $8 billion (88.9%) of that would be sought in the form of bond elections. Projecting that number statewide provides an estimated $14 billion in required facilities spending. This amount does not include an estimated $4.2 billion for education technology (NEA, 2000).

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