

The Impact of Property Tax Limitations on Public Education

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QUESTION

In the United States, public education is largely funded through property taxes. Like most taxes, the property tax is highly unpopular and has thus been subject to a multitude of taxpayer-led reform initiatives that limited the amount of tax that could be levied by local governments. What effects do these limitations really have on the quality of local government services in general, and education in particular? Are policymakers truly bound by these limitations, or is there flexibility? Do policymakers, endeavoring to avoid being responsible for cuts to an important, highly visible policy, find ways to circumvent these funding constraints?

METHODOLOGY

An analysis of property tax limitations in Colorado and Massachusetts was conducted to assess the validity of two possible theories that flow from existing literature on this topic. Local government expenditures allocated for education were assessed before and after the limitations came into effect in order to determine if the limitations caused changes in overall spending, per-pupil spending, and teacher salaries. Teacher-student ratios, changes in staffing levels, and public opinion were also assessed to determine changes in education service provision. Further, test scores and graduation rates were examined to determine if the limitations had an impact on service quality.

CASES

Massachusetts: Proposition 2½

- Proposition 2 ½ passed as a ballot measure in 1980 with 59% of the vote. It was modeled on California's Proposition 13, which began the "tax revolt" of the 1980s.
- The statute limited local property tax collection in several ways:
 - It capped the annual property taxes raised by a municipality at 2.5% of the real value of all taxable property in the municipality.
 - It capped the tax rate at \$25.00 per \$1,000 of valuation.
 - It limited annual property tax increases to 2.5%.
- In response to concerns over anticipated cuts to services, the legislature amended the initiative to allow voters the ability to approve overrides to the stated limits.

Colorado: TABOR

- Approved by Colorado voters in 1992, the Colorado Taxpayer Bill of Rights (TABOR) amended the Colorado Constitution to restrict revenue for all levels of government.
- Colorado's TABOR tied increases in tax revenue to inflation and population growth, and limited state and local government from raising tax rates further without voter approval.
- One provision affected property taxation in particular: in 1982, the Gallagher Amendment was passed to limit property taxes, but local governments easily found loopholes in the weak regulations. TABOR made the restrictions on local governments much more stringent, thus ensuring property taxes no longer kept pace with inflation or population growth.

FINDINGS

Massachusetts

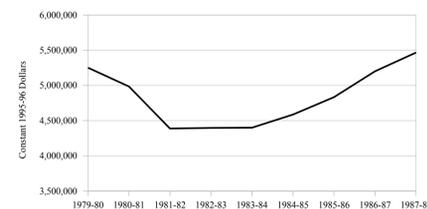
Paying the Bills:

- After Proposition 2½, overall education funding suffered immediately, but the effects were not sustained (see graph below).
- Per-pupil expenditures also suffered, dropping from \$5,611 in 1979-80 to \$5,243 in 1980-81, and further to \$5,151 in 1981-82.
- Teacher salaries also declined briefly, but soon recovered.
- There was an obvious change in funding sources: while in 1970-1980, local governments provided 59.82% of public education funding, by 1984-1985, local funding had dropped to 52.92%, while the state government filled the gap, increasing its contribution from 33.70% to 41.77%.

Inside the Classroom:

- Cuts to teaching staff were significant. In 1979, the number of teachers employed by the Massachusetts public school system peaked at 69,313. During the 1980s, it decreased to about 56,000. This, of course, meant that teacher-student ratios increased.
- Field trip funding, office supplies, and art and music programs were the first to be cut in order to maintain funding for traditional academic programs.

Massachusetts Public School Expenditures



Colorado

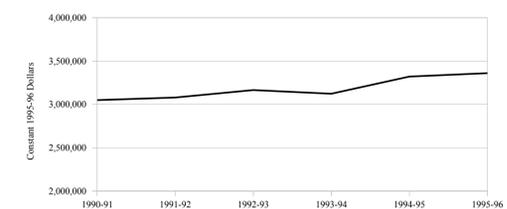
Paying the Bills:

- Overall expenditures dropped only slightly after TABOR (see graph below).
- However, expenditures did not keep up with population growth and increased enrollment in schools: after increasing steadily throughout the 1980s, per-pupil expenditures decreased after TABOR. From 1990-1995, per-pupil expenditures in Colorado dropped by 5.5%, while in the United States overall, per-pupil expenditures increased by 1.3%.
- Teacher salaries decreased from 1992-1997.
- As in Massachusetts, the state government began to fund a larger percentage of public education spending, increasing its contribution from 33.14% pre-TABOR to 43.54 post-TABOR.

Inside the Classroom:

- There was little change in the amount of teachers employed in Colorado after TABOR was passed. However, student enrollment outpaced staff increases: from 1990 to 1995, teacher-student ratios increased.
- Math proficiency scores of 4th and 8th graders, and SAT scores of high-schoolers in Colorado did not suffer, and remained higher than the national average.

Colorado Public School Expenditures



CONCLUSION

- In both Colorado and Massachusetts, overall expenditures, per-pupil expenditures, and teacher salaries decreased post-limitation. This indicates that these limitations are effective and binding, and force policymakers to adjust expenditures.
 - While there is evidence that art and music programs were sacrificed to solve budget shortfalls, there is little evidence that traditional academic performance was affected.
 - The effects of the limitations were clearly impermanent: expenditures rebounded to their old levels within years. This indicates that in the long term, policymakers were able to act strategically to avoid deep, lasting cuts that might have adversely affected the quality of education in their state (while likely also adversely affecting their electoral prospects).

NEXT STEPS

- The focus of this study was restricted to the state level: closer consideration of individual school districts and municipalities would reveal whether effects of property tax limitations were felt more acutely in specific districts, or whether they were evenly spread across the state.
 - Proposition 2½ and TABOR were enacted differently: the former via ballot measure and the latter via constitutional amendment. A closer assessment of how these two mechanisms function might reveal technical differences that have significant impacts on policymaking. Perhaps this would begin to explain why funding levels recovered so much more quickly in Massachusetts than in Colorado.