Cities May Actually Be the Culprit in Underfunding Schools

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Education funding is a hot topic in several states, with lawsuits alleging that state governments are failing to meet their constitutional duties to provide adequate resources. While the issues regarding state funding are important, it's often the cities that are leeching money away from local school districts.

According to National Center for Education Statistics, just under half (46.6%) of aggregate local school district funding comes from states. Forty-five percent comes from local sources, including 36.4 percent from local property taxes. Those local property taxes are the source of much consternation between cities and school districts.

Across the country, municipal economic development policies such as abatement or tax-increment financing (TIF) allow cities to freeze, reduce or redirect property taxes to developers in order to offset the risks of their investment. In short, the practices permit one political body—cities—to divert the funds of another political body—school districts! And the loss of revenue to schools can be in the millions each year. A story from the *St. Louis Post-Dispatch* put the cost at $18 million per year for a single district:

> *The school district relies far more heavily on property taxes, collecting about 61 cents on each tax dollar paid. That means the district, which has little to no say over whether property taxes are abated on real estate projects, missed out on about $18 million in revenue last year.*

The Kansas City Public School District (KCPS) estimates that it loses about $26 million *each year*. Chicago public schools claim a much higher cost to their schools from TIF—as high as $177 million in 2015 alone.

Proponents of these economic development subsidies claim that the funds redirected from schools come only from the increase in property tax—the increment—due to the new development. Without the subsidy, they claim, there would be no new development and so no increase in property tax in the first place. But studies of TIF, such as those conducted on Chicago, St. Louis and Kansas City by UNC–Chapel Hill professor William Lester conclude that there is little if any economic development resulting from TIF. Research shows that areas without TIF grow at the same rate as those with TIF—suggesting that TIF itself plays little to no role.

Part of the reason is that one of the standards for determining the appropriateness of TIF subsidies, often called the “but-for test,” is so weak as to be meaningless. The St. Louis Development Corporation (which oversees TIF in St. Louis) issued a report on its own programs in 2016 that found that due to poor quantitative measurement, one “cannot readily determine what may or may not be deemed a project worthy of consideration for a City tax incentive.” But developers have learned how to game the system, and city politicians are often all too willing to oblige so that they can point to new construction as evidence of their political success. Even worse, these developments are often subsidized in already economically vibrant parts of the city—further evidencing the lack of need for a subsidy.

California was the first state to adopt TIF in 1952, but subsequent policies required the state to reimburse school districts for funds lost due to municipal TIF policy. As a result, California became the first state to end TIF in 2012. While states have differing TIF policies, the basic impact on school districts is the same. Tax revenue that would have gone to support education is diverted to subsidize development—development that research suggests may have happened anyway.

Missouri is considering several reforms to its TIF policy, including narrowing the circumstances under which TIF may be used, strengthening the criteria a project must meet in order to qualify for TIF, and requiring any economic impact analysis to be conducted by a third party. Last year the Illinois legislature mandated a study of its TIF policies that is due to be released soon.

Parents and educators are right to look to governors, state legislators and school boards to make sure education funding is sufficient and that the funds are spent wisely. They should also make sure that the new local housing development, shopping mall or office building isn’t being underwritten by funds diverted under the noses of those same political bodies.

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