State School Finance Reforms and Neighborhood Change

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Abstract

• Between 1990 and 2011, school finance reforms in 26 states substantially increased average real spending per student, particularly in low-income districts.

• I use the quasi-random implementation of these reforms to estimate effects on home prices (from Zillow) and neighborhood income (from HMDA loan application records) in low relative to high-income school districts.

• Reforms increased home values in low relative to high income school districts. Home price effects persisted more than ten years after the reform date and were driven by reforms that led to larger redistribution of capital spending. I do not find any effects on the income of new homebuyers in low income districts.

Background

Starting in 1990, a series of state school finance reforms (SFRs) dramatically increased spending in low-income school districts. Most reforms resulted from successful lawsuits against state governments, typically filed by school districts, organizations of teachers and administrators, or advocacy organizations. While research has shown that these reforms significantly reduced test score gaps between high and low-income districts, little is known about their broader effects on low-income neighborhoods at a time when socioeconomic segregation was increasing (Bischoff and Reardon 2014; Lafortune, Rothstein, and Schanzenbach 2016).

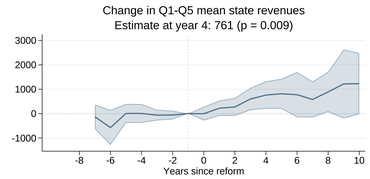
Motivation

Previous research shows that the quality of local schools affects housing demand (Nguyen-Hoang and Yinger 2011). Increased state spending on schools can decrease home price disparities and income segregation across districts, as middle income households move into low-income neighborhoods (Chakrabarti and Roy 2012). These neighorhood changes can impact the welfare of low income households. Increased home prices may redistribute wealth towards low income households, but may also increase housing costs. In addition, research has shown that income segregation has long-run negative effects on children (Chetty et al. 2014; Chetty, Hendren, and Katz 2016). The entry of middle income households into low-income districts can also increase the tax base, leading to higher provision of local public goods (Bischoff and Reardon 2014).

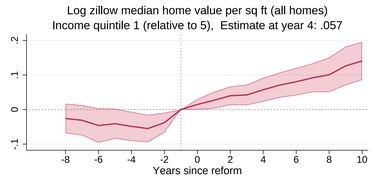
Hypotheses

I expect that school finance reforms decreased home price and neighborhood income gaps between low income and high income school districts. I expect larger effects of reforms that had higher impacts on the distribution of state revenues and district spending.

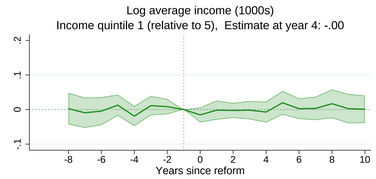
State Revenue Effects



Home Price Effects



Income Effects



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Variation in Home Price Effects

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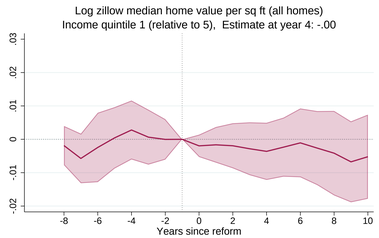
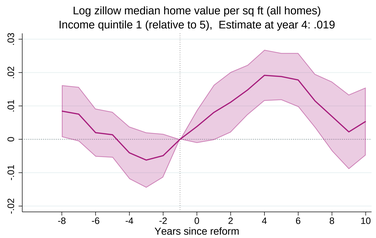
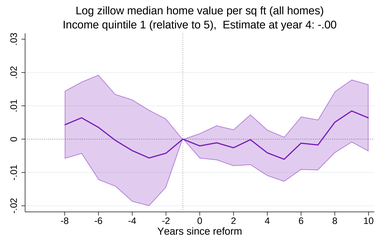
State Revenue Impact



Capital Spending Impact



Instructional Spending Impact



Results

State Revenue Effects: Reforms redistributed funding towards low income districts. By four years after the reform date, per pupil state revenues had increased by $761 more in the lowest income districts than in the highest income districts.

Home Price Effects: Home price gaps narrowed significantly after reforms were implemented. By ten years after the reform date, prices in the lowest income districts had grown by more than 10 percent relative to the highest income districts.

Income Effects: Reforms did not affect the average income of mortgage applicants in high income or low income districts.

Variation in Home Price Effects by Reform Impact: Some reforms were highly effective at redistributing per pupil resources, while others had only small impacts on revenues and spending. The bottom row of graphs shows how the effect on home prices varies with three types of resource impacts: state revenues, capital spending, and instructional spending. Larger impacts on capital spending are associated with larger effects on home prices; this is not the case for instructional spending impact or state revenue impact.

Conclusion

Redistribution of school funding, particularly capital spending, narrowed home price gaps between high and low income districts. However, this redistribution was not sufficient to socioeconomically integrate neighborhoods. While entry of higher income households could have produced spillover benefits in low income neighborhoods, the lack of socioeconomic integration implies that the direct benefits of school spending were captured by low income households. Given Lafortune, Rothstein, and Schanzenbach's (2016) finding that reforms increased student test scores, it is likely that reforms increased the welfare of families using public schools. However, renters may have been hurt by higher housing costs. More research is needed to determine the effect of reforms on the total welfare of low income households.

References

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