

Oregon's property tax compression a minus for eighth-grade math

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Joe Stone, professor emeritus of economics at the University of Oregon, supervised a student project that explored how Oregon's complex property tax compression rules negatively impact eighth-grade math scores at a particular time of the state's budget cycle. Credit: University of Oregon

Oregon's complex property tax system sometimes computes to problems

for eighth-graders who rely heavily on teachers for shaping their skills as they enter advanced math courses.

A study led by two University of Oregon undergraduate economics students has found that math scores go down 5 percent in the first year of a budget cycle hit when tax-compression rules are triggered in local school districts. The problem is funding unpredictability that disrupts planning and teacher assignments.

"I was stunned," said co-author Joe Stone, professor emeritus, who supervised the research of Matthew Davis and Andrea Vedder in an honors economics course. "Because there is so much going on, how could you pull out this one thing from something that can barely be explained—tax compression? It is about timing of knowing how much money you have to work with."

Their paper in the winter 2016 issue of the *Journal of Education Finance* emerged from research based mostly on data collected from 2006 to 2012 by the Oregon Department of Education.

Tax compression is complicated and is tied to voter-approved measures in the 1990s. Measure 5 put a cap of \$5 per \$1,000 on property taxes based on real market value for education. Measure 50 set a 3 percent annual limit on the growth rate of properties' assessed values, which for many homes eventually created a gap between the taxable assessed value and true market value.

An example of a district facing tax compression, Stone said, is when voters approve a new tax levy for education, but if local taxes are already at one of the caps, local schools do not receive full funding from the levy. In short, only tax revenue up to one-half of one percent of a property's assessed value is collected and distributed to schools, no matter how high of a levy the voters approve or how much the property

might be worth on the market.

"There are multiple limits that apply in different circumstances," Stone said. "Basically, taxes are compressed when a local district is affected by one of those limits, revenues are curtailed and school districts receive less money than the public generally perceives."

Davis and Vedder initially found a correlation between tax compression and math test scores. Districts with the most-compressed taxes were the ones that had the lowest scores. Stone challenged his students to look deeper to find out why, since the preliminary analysis also showed that compression, overall, didn't affect district budgets over the whole cycle.

Davis and Vedder looked at each year of budget cycles to see if they could find the cause. They found it: School districts dealing with tax compression in the first year of a budget cycle don't know how much funding they will receive from the state until the school year is well underway.

State budgets are approved usually in early summer. Districts dealing with compression receive updates from the state from July to well into October, and they don't know their funding totals until calculations are completed.

"This is not much help in planning your school year," Stone said, and the allocations of district resources must be decided before school begins. His students found examples of district decision-making tied to these notifications.

In one urban school district, budget uncertainty prompted the reassignment of hundreds of teachers to outside of their subject areas to meet other needs to make an expected budget work. When final word on their allocation arrived, district administrators learned they had a better

budget than projected.

"In essence," Stone said, "the students found that [school districts](#) that are confident are better able to move forward with their planning, but those that are not confident must make decisions based on what information they have been given. It's the first year when this is important. By the second year, budgets are better settled."

More information: *Journal of Education Finance*, [DOI: 10.1353/jef.2016.0005](#)

Provided by University of Oregon

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