



## **Real Estate Markets Thrive When PA Schools Work**

How equitable school funding can boost student performance and home values

## Acknowledgements

**Council for a Strong America** is a national, bipartisan nonprofit that unites five organizations comprised of law enforcement leaders, retired admirals and generals, business executives, pastors, and prominent coaches and athletes who promote solutions that ensure our next generation of Americans will be citizen-ready.

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**There is a mutually reinforcing relationship between school quality and home prices.**

**Real estate professionals know that school quality is a major consideration for many home buyers. Communities with good schools are often sought after by more buyers, resulting in higher real estate values. Higher home values in turn grow the local property tax base available for schools to offer more high-quality educational experiences for students and other community resources. What results is an upward spiral and a hot real estate market for sellers and brokers.**

Alternately, underperforming schools can deter potential buyers, suppress real estate values, and limit the amount of local property taxes available for education and other community investment. Inadequate state funding for K-12 education has only exacerbated this problem in struggling communities—placing even more pressure on local property taxes to fund education.

Rising property taxes in low-wealth communities paired with underperforming schools is a deadly combination for a real estate market.

New research confirms that home values rise and real estate markets benefit when school quality and student success improve. This relationship is most pronounced when improving student performance in communities with historically underperforming schools. Greater state investment in equitable public school funding can foster these positive outcomes for Pennsylvania’s students and communities.

**Rising School Quality = Higher Home Prices**

Recent home buyer surveys clearly show strong consumer demand for good schools. In 2015, the National Association of Realtors conducted a home buyer

survey that found 30 percent of all home buyers and 43 percent of home buyers under the age of 50 considered the quality of the school district when selecting a home.<sup>1</sup> A recent realtor.com survey found that 78 percent of homebuyers compromised on a home feature to be able to afford a home in their desired school district. These compromises included forgoing a garage, a large backyard, a remodeled kitchen, more bedrooms, and an outdoor living area.<sup>2</sup> Finding a home in the desired school district was important for 73 percent of respondents.<sup>3</sup>

As a result there is a mutually reinforcing relationship between school quality and home prices. National studies support this relationship. The Brookings Institution found that housing costs tend to be higher in areas where high-scoring schools are located. The study, which looked at the 100 largest metro areas in the country, found an average difference of \$205,000 in home prices between houses near high-performing and low-performing schools.<sup>4</sup> Additional research published in the Federal Reserve Bank of St. Louis Review noted that the value of homes with less than average quality schools is based “essentially on the physical characteristics [of the home]. In contrast, houses associated with higher-quality schools command a much higher price premium.”<sup>5</sup>

The Reinvestment Fund, a national community development financial institution, found that this relationship exists across Pennsylvania, in urban, rural and suburban markets.<sup>6</sup> In fact, a one percentage point increase in student achievement (measured by performance on state standardized tests in reading and math) was associated with an additional gain of \$513-\$620 in average home sale prices in following years.<sup>7</sup> Sales price gains were even larger when reducing

the proportion of students scoring below basic on state tests. A one percentage point reduction in students with the lowest scores led to a gain of \$756-\$775, suggesting that home value gains are potentially largest for districts starting with low to moderate student achievement.<sup>8</sup>

## **Adequate School Funding Boosts Student Success and Property Values**

In order to raise student achievement that will eventually lead to increased property values, our public schools must be funded adequately. Studies show that school finance reforms (SFRs) that invest in K-12 education over the long-term can have significant impacts on student achievement.<sup>9</sup> This is especially true when additional school funding is directed to underfunded



### **WAYNE FONTANA**

**PA STATE SENATOR,  
PA REAL ESTATE  
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I hear it over and over again from my colleagues, the difference in school milage rate and school performance between districts has a direct effect on home sales in the communities where the rates are high and the performance is weak. The surest way to level the playing field is to increase the state share of funding for our schools so there is less pressure on local taxes and in doing so we help struggling school districts boost their performance. That's the best long term approach we can take to boost the vitality of housing sales in every community in the state.



## Funding Makes a Difference

When schools are adequately funded, they are equipped with the necessary resources to provide a quality education that leads to positive outcomes for students and their teachers. Below is a comparison of these outcomes:

### Sufficient funding

- Smaller class sizes so teachers can focus more on each student;
- Access to skilled teachers and critical lab, computer, and other equipment for STEM education;
- Increased learning time for students;
- Increased opportunities for full-day kindergarten; and
- Increased opportunities for diverse academic offerings and other specialty programs such as Career Academies

### Insufficient funding

- Teacher layoffs that lead to larger class sizes and decreased instructional time;
- Cuts in academic courses and other programs; and
- Insufficient or outdated technology, science equipment, library resources, or even textbooks



public schools to help those students most in need, is reliably available each year, and is allocated to improving the classroom and direct services to children.<sup>10</sup> In short, money (and how you spend it) does impact student success.

In addition, the National Bureau of Economic Research documented a connection between additional school funding and overall property values. According to their data, “a **\$1.00 increase in per pupil state aid increases housing values by about \$20.00.**”<sup>11</sup>

## **Pennsylvania School Funding Shortchanges Many Students, Homeowners and Communities**

Unfortunately, not all schools in the Commonwealth have adequate funding to ensure student success. In fact, Pennsylvania is home to the widest per-pupil spending

gap in the nation between wealthy and poor school districts. This gap has a very real impact on students and property values.<sup>12</sup>

Pennsylvania’s wealthiest districts spend 33.5 percent more than its poorest school districts, a gap significantly higher than the national average of 15.6 percent.<sup>13</sup> Additionally, an evaluation by the American Institutes for Research of Pennsylvania’s School Finance system found that Pennsylvania “ranks third overall in the statewide percent of children attending severely financially disadvantaged districts, behind only Illinois and New Hampshire.”<sup>14</sup>

Pennsylvania’s over-reliance on local property taxes to fund public education has severely limited these poorer communities’ ability to adequately fund their schools. On average, states across the country cover 47 percent of school funding costs, but Pennsylvania’s state contribution to education funding is less than 37 percent, ranking 47th in the nation.<sup>15</sup>

In Pennsylvania, local property taxpayers cover more than 56 percent of public education funding on average—one of the highest rates in the nation. Poorer school districts often struggle to fund their schools adequately—no matter how high they raise taxes—because of depressed property values. Educational opportunity is limited for students in these communities, and the community as a whole is less attractive for prospective home buyers.

## **Greater State Investment Boosts Student Performance And Property Values**

Providing sufficient resources for all schools in the Commonwealth can improve student



**TODD  
POLINCHOCK**  
PA STATE REPRESENTATIVE,  
PA REAL ESTATE CAUCUS  
MEMBER

Realtors know that buyers are not just looking for a house, they are looking for a community. Buyers constantly ask me about the quality of a school district when inquiring about homes they want to see. Good schools not only build demand for higher sales prices in a community, but they also insulate a housing market against economic downturns and falling prices. When we invest in schools and they improve, it’s a win for students, it’s a win for home values, and it’s a win for communities.



performance and help seed a much-needed upward trend for many Pennsylvania real estate markets. Improving school quality not only adds to home values, but it also grows local property tax revenues available for further education and community investment. Based on Pennsylvania data, the Reinvestment Fund projected that for a modest sized community of 15,000 households, improving school performance by 5 percentage points could generate

over \$519,000 per year in new property tax revenues from increased home prices.<sup>16</sup>

State leaders have made significant progress toward full and fair school funding by enacting a more equitable way to distribute education dollars based on student and community needs such as student enrollment and the percentage of students living in poverty. The new formula also takes into account district size, wealth, and the local tax effort. (See appendix for more detail.)

**“Improving school quality not only adds to home values, but it also grows local property tax revenues available for further education and community investment.”**

## Conclusion

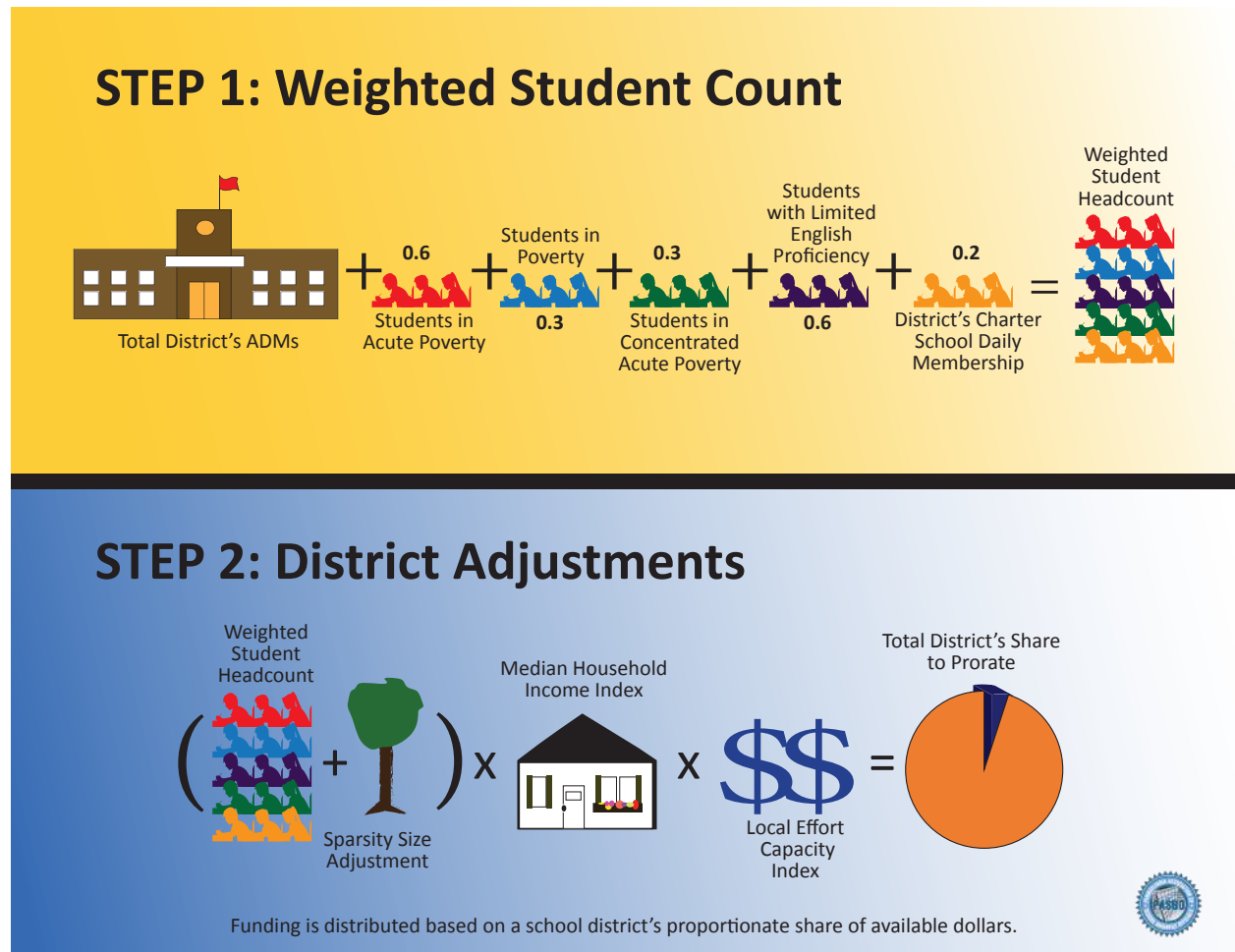
It is in the best interest of Pennsylvania to adequately fund its public schools. Lawmakers must now approve greater long-term funding through the Fair Funding Formula to ensure that all Pennsylvania students can attend a quality school, regardless of zip code. In the short run, our students will be better served with increased education opportunities and neighborhoods will improve. In the long run, students will have increased achievement rates, improved college and career prospects, and families will build equity from increased property values.

## Endnotes

- 1** Norton, M.H., & Rosch, J. (2017, August). Report: The Relationship Between School Quality and Home Values Across the Keystone State. Reinvestment Fund. [https://www.reinvestment.com/wp-content/uploads/2017/08/ReinvestmentFund\\_PA\\_District\\_Perf\\_Report.pdf](https://www.reinvestment.com/wp-content/uploads/2017/08/ReinvestmentFund_PA_District_Perf_Report.pdf)
- 2** De Vita, S. (n.d.) Forget a Garage—Buyers Won’t Budge on High-Rated Schools. RISMedia. <http://rismedia.com/2018/07/24/forget-garage-buyers-wont-budge-high-rated-schools/>
- 3** Ibid.
- 4** Rothwell, J. (2012). Report: Housing Costs, Zoning, and Access to High-Scoring Schools. Brookings Institute. <https://www.brookings.edu/research/housing-costs-zoning-and-access-to-high-scoring-schools/>
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- 7** Ibid.
- 8** Ibid. Note: School quality is only one of many factors that influence home prices. This study accounted for the following differences between school districts to isolate the relationship between school performance and home sale prices: historical home values, income levels of district residents, population growth, unemployment rates, the geographic region, rapid population changes.
- 9** Brookings. (2017). It’s not nothing: The role of money in improving education. Brookings Series: Evidence Speaks. <https://www.brookings.edu/research/its-not-nothing-the-role-of-money-in-improving-education/>
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- 11** Barrow, L. & Rouse, C.E. (2002, July). Using Market Valuation to Assess Public School Spending. NBER Working Paper No. 9054. <http://www.nber.org/papers/w9054>
- 12** Brown, E. (2015). In 23 states, richer school districts get more local funding than poorer districts. The Washington Post. [https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm\\_term=.f25abc077189](https://www.washingtonpost.com/news/local/wp/2015/03/12/in-23-states-richer-school-districts-get-more-local-funding-than-poorer-districts/?utm_term=.f25abc077189)
- 13** The Campaign for Fair Education Funding. (2017). Fact sheet: Investing in Pennsylvania’s Public Schools So Every Student Can Achieve. [https://drive.google.com/file/d/0B2keBm\\_09kgQV0dNTUZJZjZZVThJN2dSZWNyNWUxOVRNU1o0/view?usp=sharing](https://drive.google.com/file/d/0B2keBm_09kgQV0dNTUZJZjZZVThJN2dSZWNyNWUxOVRNU1o0/view?usp=sharing)
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## I. Pennsylvania's Fair Funding Formula Explained:



Source: Pennsylvania Association of School Business Officials <http://archive.pasbo.org/BEF%20graphic.pdf>

The formula starts with the number of students in each school district. Since it is difficult to predict how many students may be in a district throughout any given year, this is based on the average daily enrollment of students over the last three years.

### Student-Based Factors

Because research shows that children facing certain challenges require greater support, the formula would apply extra funding weights based on certain student factors (poverty, English language learners) to account for the degree to which each factor drives up the cost of educating a student.

A weight is also applied for students enrolled in charter schools because school districts must pass on funding to charter schools for each child enrolled, but are unable to reduce their costs by an equal amount (e.g., schools may have the same costs of heating a

building even when some students transfer to charter schools). This charter school factor is based on the average daily membership of students attending charter schools in that district.

### **School District-Based Factors**

The formula also includes three school district-based factors that reflect student and community differences throughout Pennsylvania's school districts.

Sparsity-Size Adjustment, which accounts for the unique cost differences incurred by small rural school districts. Median Household Income Index, which is based on a school district's median household income compared to the statewide median household income. Local Effort Capacity Index, which calculates a school district's ability to generate local tax-related revenue compared to the statewide median. All these factors are applied to the student count to determine how much funding should be allocated to each school district.

## **II. The Reinvestment Fund research methodology:**

The Reinvestment Fund research cited in this report utilized two measures of school performance to measure school quality. These measures, provided by the Pennsylvania Department of Education, included reading and math performance, measured by the share of students scoring proficient or advanced on state tests in grades 3 through 8 for school years 2008-09 to 2013-14.

To measure home prices, Boxwood Means provided Reinvestment Fund with the count and aggregate transaction value of all arms-length residential property sales occurring in each census block group in Pennsylvania between 2010 and 2015. District averages were calculated by averaging each block group contained in the district, weighted by the number of sales in each block group and the share of each block group located inside the district's boundary. All property values were adjusted to 2014 dollars using the Consumer Price Index.

For average home sales prices in 2010-11 a natural log transformation was used to normalize the distribution of average home values observed in school districts across the state. A three-year lag was used to assess the relationship between school performance and home prices since home buyers who care about school quality will likely not have access to the most current school performance levels, and will tend to rely on prior performance when considering the quality of schools.

School quality is only one of many factors that influence home prices. This study accounted for the following differences between school districts to isolate the relationship between school performance and home sale prices: historical home values, income levels of district residents, population growth, unemployment rates, and the geographic region. The analyses were designed to ensure that rapid population changes between 2010 and 2015 in any district would not unduly influence the relationship between district performance and changing home sales prices. After accounting for these differences

between districts, school performance was significantly and positively associated with changes in home sale prices across the state.

For more information, visit: ([https://www.reinvestment.com/wp-content/uploads/2017/08/ReinvestmentFund\\_PA\\_District\\_Perf\\_Report.pdf](https://www.reinvestment.com/wp-content/uploads/2017/08/ReinvestmentFund_PA_District_Perf_Report.pdf))

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