

COMMENTS

“THE PROSPECTS FOR SCHOOL PROPERTY TAX REVENUE IN THE WAKE OF THE ‘GREAT RECESSION,’” BY AMIEL, KNOWLES, AND RESCHOVSKY

John E. Anderson, University of Nebraska-Lincoln

MY FIRST COMMENT IS THAT THIS PAPER addresses an important policy issue facing school districts as they deal with the effects of the 2008-09 recession and its impacts on one of their major revenue sources — the property tax. The authors want to examine the prospects for school districts using property tax revenue in the wake of the Great Recession. Operationally, they are trying to explain the share of districts’ allowable property tax levy that districts are actually using. District use of the property tax is limited by state policy that establishes allowable levy limits, in conjunction with state aid — the other major source of district revenue. The difficulty in this modeling situation is that to properly explain the share of allowable levy actually levied, the dependent variable, requires explaining, at least implicitly, both the allowable levy and the actual levy used.

My second comment is that there are clear problems of endogeneity. The allowable levy is set by state policies with regard to a revenue limit and general aid to school districts. Under an equalization aid formula regime, aid is presumably determined, in part, by district tax effort and measures of need, which are in turn explained by a number of the socio-economic and fiscal variables used in the authors’ model. Furthermore, one can

imagine that state policy changes are not fully exogenous. The more districts that face a binding levy constraint, the more likely the state may be to change the global constraint.

My third comment is that a two-stage or simultaneous equations estimation strategy is needed. This is needed because there is a serious censoring issue, with many districts levying the full amount permitted under the allowable levy. Hence, their share is one. There is a selection problem, with districts fully utilizing their allowable levy limit probably being systematically different from those not fully utilizing. To model the share of allowable levy actually used requires conditioning on being at the limit or not. One option is a two-stage selection model estimation approach where the first stage is a probit/logit model explaining whether districts are at their allowable limit. The second stage equation would then explain how far short of the allowable limit the district is, conditional on its being below its limit. Another approach would be to estimate a simultaneous equations Tobit (SET) model. A system could be developed where a measure of the state’s fiscal stringency and district allowable limits are jointly explained and used in explaining the Tobit estimation of district levy shares.