



School Referenda in Indiana: A Rural Perspective

Introduction

Public school funding in the United States is always an important issue. The Great Recession of 2007-2009 and the slow recovery since then have slowed the growth or even decreased state funding for local education across the United States. In Indiana, the 2008 property tax reforms provided property tax relief by replacing the property tax for school district general funds with additional state aid. This made school budgets more dependent on state aid just as the recession reduced state revenues. In addition, the reforms established property tax caps, which were voted into the state's Constitution in 2010.

Many Indiana school districts have turned to referenda to ask their taxpayers for additional funding. From November 2008 to May 2014, there were 54 referenda asking for approval of added property taxes for general purposes, and 31 passed (57%). The 2008 reforms also required that school districts ask voters for approval of debt service property taxes for large capital projects. From November 2008 to May 2014, there were 48 capital referenda proposed, and 21 passed (44%). In all, 76 different school districts have held at least one referendum since November 2008. The vast majority of school districts have not held a tax or capital referendum.

In this publication, we look at the history of referenda proposals in Indiana and discuss the factors that influence whether they pass or fail. We pay particular attention to the results for referenda in rural and urban school districts. We finish by discussing the implications of these results for the future of rural school districts.

Schools and the Property Tax Reform

In 2008, the Indiana General Assembly passed the biggest property tax reform and relief bill in decades. The law had three important effects on school district finances.

First, the law replaced the general fund property tax for school districts with added state funding. Effective January 1, 2009, there are no local property tax revenues used for school general funds. School districts are dependent on state revenues and the state school aid formula for money to fund teacher pay and other operating costs. Unfortunately, the recession caused shortfalls in sales and income tax revenues just as the state funding began.

Second, the law required referenda to approve large debt-financed construction projects. The referenda replaced Indiana's unique petition-and remonstrance process, which allowed residents to circulate petitions to challenge school capital projects. The referendum requirement moves the decision to the voting booth, requiring voter approval for debt-financed construction projects.

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The Rural Indiana Issues Series

Audience: Local and state leaders who work with rural communities

Purpose: To offer information about issues of concern to rural communities and to interpret that information in ways that aid decision-making.

Method: U.S. Census data analyzed across the county groupings – rural, rural/mixed, urban; Indiana Department of Education data on school district characteristics; Authors' data on school referenda results.

Potential Topics: Demographic changes, business development, health, health care, local government, taxes, education, agriculture, natural resources, leadership development, etc.

Outcome: Better, more informed decisions by rural decision-makers.

Third, the law capped the tax bills of property taxpayers, and in 2010, Indiana voters approved an amendment placing these caps into the state Constitution. Taxpayers whose bills exceed their caps receive a credit, and the revenue is lost to local governments. Though the property tax no longer provides revenue for the general fund, schools receive property taxes for transportation, capital projects, and debt service. School districts are still the largest users of property tax revenue, receiving more than 40% of all property taxes statewide. Indiana school districts lost about \$250 million in property tax revenues in 2014 due to the property tax caps.

Referenda Results

Referenda were rare before 2008. Capital projects were not subject to referenda, and schools seldom resorted to tax referenda to raise new money for operating costs. Since 2008, however, referenda have become common. Referenda are now required for big capital projects. But tax referenda have become much more common, too. This may be due to slow growth in state aid and revenue losses to the property tax caps.

One hundred and two school district referenda were posed to voters from the passage of the property tax reforms through May 2014. Of these referenda, 53 were proposed by school districts in Indiana counties classified as urban, 30 were proposed in counties classified as rural/mixed, and 19 were proposed in counties classified as rural. (See Ayres, Waldorf, and McKendree, 2012 for an explanation of the grouping of Indiana’s 92 counties into urban, rural/mixed and rural categories. Cross-county school corporations are classified based on their primary county as identified by the Indiana Department of Education.). Table 1 gives a breakdown of referenda results by county classification.

Two facts stand out in Table 1. First, a majority of referenda have taken place in counties classified as urban (53 of 102 or 52.0%).

Only 17 of 92 counties are classified as urban, and 94 of 292 school districts are primarily within those urban counties. More than half of the referenda have been offered in less than one-third of the school districts.

Second, a larger share of referenda have passed in urban county school districts than in rural county school districts. In urban counties, 60.4% of referenda have passed. In rural/mixed and rural county districts, 47.4% and 36.7% have passed, respectively. Urban counties are more likely to try referenda and more likely to pass the referenda they try.

It may be that urban districts propose more referenda because they have a greater expectation of success. But why would referenda in urban districts pass more frequently? Two factors that help explain why urban referenda pass are per capita income and the percent of assessed value in agriculture. Table 2 shows that rural and rural/mixed counties have lower incomes per person than urban counties. It also shows that (for obvious reasons) rural and rural/mixed counties have a larger share of the assessed value of property in agriculture.

Average per capita incomes are lower in rural areas than in urban areas. The percentage of assessed value in agriculture (for property tax purposes) is much greater in rural areas than in urban areas. Table 3 shows that these two variables also split significantly in referenda results. Only 42.9% of referenda in counties with per capita incomes less than \$35,000 passed. People with higher incomes have a greater ability to pay taxes and may be more willing to vote for school referenda. People in rural counties have lower incomes, on average. Only 40.0% of referenda in counties with assessed value shares in agriculture of greater than 10% passed. People in agriculture own lots of taxable property and often pay substantially more when property tax rates go up. Of course, people in rural counties own more agricultural property.

Table 1. Referenda Results by County Classification

Referenda Results	Rural	Rural/Mixed	Urban	Total
Number Passed	9	11	32	52
Number Defeated	10	19	21	50
Total	19	30	53	102
% Passed	47.4%	36.7%	60.4%	51.0%

Source: Center for Evaluation and Education Policy (CEEP), 2013; Authors’ Calculations.

Table 2. County Averages for Per Capital Income and Percent of Assessed Value in Agriculture

	Rural	Rural/Mixed	Urban
Per Capita Income	32,694	34,195	35,468
Percent of Assessed. Value in Agriculture	28.9%	17.0%	4.0%

Table 3. Referenda Results by County Per Capita Income and Percent Share in Agriculture

	Passed	Defeated	Total	Percent Passed
Per Capita Income >35,000	34	26	60	56.7%
Per Capita Income < 35,000	18	24	42	42.9%
% AV in Agriculture <10%	42	35	77	54.5%
% AV in Agriculture >10%	10	15	25	40.0%

What Does This Mean for Rural Indiana?

A look at referenda proposals by county classification shows that a larger percent of proposals succeed in urban counties than in rural counties. There may be many reasons, including greater ability to pay in urban areas and aversion to property taxes by agricultural property owners in rural areas.

If rural residents are less likely to pass referenda, rural school districts may find themselves with smaller budgets and older facilities. This may become a statewide equity problem over time. It's possible that some smaller school districts may have to consider consolidation with neighboring districts. But here is an exception to the rural referenda trend.

There have been 11 referenda proposed by school districts with enrollments of less than 1,000—among the smallest school districts in Indiana. All are in rural or rural-mixed counties. Nine of the 11 have passed, with an average yes-vote of 65%. The campaigns for some of these referenda have suggested that consolidation was a possibility without added funding. It may be that, when really threatened with the prospect of consolidation, rural residents are willing to pay for the survival of their local school districts.

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