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It's Elementary

A Monthly Column by EFAP Director John Yinger

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The Impact of School-District Consolidation on Property Values

School-district consolidation continues to be an important issue in New York and many other states. My May 2007 column reported on a study of the impact of consolidation on the cost of education. This column updates the findings from that study and describes evidence from a new study of the impact of consolidation on property values.

The revised study of consolidation and education costs, like the original, finds evidence that operating costs per pupil decline as the enrollment in a rural school district goes up.¹ This is called economies of size. The study also finds that consolidation involves large adjustment costs in operating spending. These adjustment costs phase out over time, however, and are not large enough to eliminate the savings due to economies of size. The operating cost savings are largest when consolidation combines two very small districts, but even two 1,500-pupil districts can cut their operating costs by at least 20 percent through consolidation. This study finds no evidence of economies of size in capital spending.

¹ William Duncombe and John Yinger, "Does School District Consolidation Cut Costs?" *Education Finance and Policy*, Forthcoming.

For operating and capital costs combined, consolidation results in savings ranging from 44 percent when two 300-pupil districts combine to 14 percent when two 1,500-pupil districts combine. These results imply that New York State's aid programs for school district "reorganization" (i.e. consolidation) appear to be appropriate, at least for rural districts.

One cannot observe all the effects of consolidation by looking at school-district spending alone. Consolidation usually reduces the number of schools and therefore increases driving time for students and parents. Moreover, by increasing the size of a district and often of the schools in the district, consolidation alters the connection between parents and schools and may leave parents feeling they have less contact with school officials and less choice about the type of school their children attend.

Effects of this type can be uncovered by examining the link between school district consolidation and property values. A finding that consolidation increases property values in a school district indicates that, in the view of home buyers, the benefits from consolidation outweigh the costs. This benefit-cost calculation covers all effects of consolidation, not just the effects on a school district's budget.

A recent study by Dr. Yue Hu and me examines the impact of consolidation on property values in rural New York State between 1990 and 2000.²

This study finds that consolidation boosts housing values by about 25 percent in very small school districts and that this effect declines with district enrollment, as one would expect based on economies of size. Consolidation has no impact on house values for districts with more than about 1,700 pupils before consolidation.

This study also finds that some of this positive impact of consolidation on property values is due to the state aid increases that accompany consolidation, not to consolidation itself. The study's estimates imply that if these aid increases were eliminated, consolidation would boost property values only for districts with pre-consolidation enrollments of 1,000 or below. This finding indicates that state aid for the consolidation of relatively large rural districts may not be warranted.

This study also finds a strong link between the property-value impact of consolidation and the income of a neighborhood (as defined by a census tract). To be specific, consolidation has a large positive impact on property values in low-income neighborhoods and a large negative impact on property values in high-income neighborhoods. The most plausible explanation for this result is that high-income households place a high value on the personal contact with teachers and school officials that is sometimes lost through consolidation and/or a high value on the time lost because of the increased driving times often associated with consolidation. For high-income households, therefore, the negative impacts of consolidation outweigh the benefits of cost savings and aid increases.

Overall, this evidence implies that consolidation yields net benefits to the average household in a small rural school district, but that consolidation is not popular with high-income households anywhere in rural New York.

² Yue Hu and John Yinger, "The Impact of School District Consolidation on Housing Values," Unpublished Manuscript, Syracuse University, July 2007.