

THE ECONOMICS OF COMMUNITY INVESTMENT

THE RELATIONSHIP BETWEEN SCHOOL INFRASTRUCTURE AND RESIDENTIAL PROPERTY VALUATION

In high-demand residential markets like Clayton, the quality of the local school district is a primary driver of home equity. This white paper examines the **capitalization of investment** argument—the economic principle that **public investment in school facilities is directly captured in private property values**. Utilizing longitudinal data and peer-reviewed research, we demonstrate that **Proposition O** represents a strategic capital improvement project which will **ensure economic stability and enhance the community's collective balance sheet**.

I. **The Mechanism of Capitalization**

Capitalization occurs when the market price of an asset (a home) reflects the value of its surrounding amenities. In Clayton, the school district is the foundational amenity. When a school district invests in its physical plant—modernizing facilities, upgrading core building systems, and enhancing athletic facilities—the market perceives a decrease in future risk and an increase in long-term desirability.

Economic research indicates that homebuyers are not just purchasing a dwelling; they are purchasing a "bundle" of services. **High-quality school infrastructure is the most heavily weighted component of that bundle.**

II. **The Return on Investment Multiplier: \$1.00 to \$1.60**

The foundational research regarding the impacts of school bonds utilizes a regression discontinuity design: comparing districts where bonds narrowly passed versus those where they narrowly failed. Thus, researchers isolate the specific effect of the investment on home prices.

The consensus among economists is that **school facility investments are equity-positive**. For every \$1.00 of per-pupil spending authorized for facility improvements, aggregate property values in the district typically increase by **\$1.50 to \$1.60** [1].

This multiplier effect suggests that the community's total wealth increases by significantly more than the cost of the bond itself. Because Proposition O is structured as a **tax-rate neutral** (also called zero-tax-rate-increase) measure, the net gain to the homeowner is maximized.

III. The "Amenity Effect" vs. Test Scores

A common misconception is that property values only rise if test scores rise. However, data indicates that **76% of the increase in property values** following a school bond is attributed to the amenity effect [2].

Homebuyers prioritize districts that demonstrate:

- **Modernity:** Facilities that reflect current technological and environmental standards (e.g., the flexible learning lab wing at CHS and the Glenridge renovation).
- **Stewardship:** A community that actively maintains its assets rather than allowing them to deteriorate.
- **Civic Vitality:** Athletic and communal spaces that serve as the "neighborhood's living room" (e.g., the Gay Field improvements).

Even for residents without school-age children, these amenities signal a stable, high-status neighborhood that maintains high demand and resilient pricing.

IV. The Risk of Deferred Maintenance

Failing to pass a facility bond is equivalent to deferred maintenance on a private home. In a competitive region like St. Louis, where peer districts are also modernizing, a decision to delay infrastructure updates can lead to **relative depreciation**. As facilities age, the gap between the district's academic reputation and its physical reality grows.

Furthermore, reactive maintenance—fixing systems only after they fail—is estimated to be significantly more expensive than proactive modernization [3]. When infrastructure reaches the end of its useful life, the cost to remediate failures grows exponentially compared to planned replacement.

V. Conclusion

Proposition O is a disciplined deployment of capital designed to protect Clayton's most **valuable shared asset**. By utilizing existing debt capacity, the community can capture the "capitalization of investment" dividend without an increase in the tax rate. This represents an optimal intersection of fiscal duty and strategic growth.

Notes

1. **Cellini, S. R., Ferreira, F., & Rothstein, J. (2010).** "The Value of School Facility Investments: Evidence from a Dynamic Regression Discontinuity Design." **The Quarterly Journal of Economics**, 125(1), 215–261.

This landmark study found that passing a school bond referendum directly translated to marginal homebuyers' willingness to pay consistently above \$1.50 for each \$1 of capital spending, reflecting significant home value appreciation.

2. **Lafortune, J., & Schönholzer, D. (2022).** *"The Impact of School Facility Investments on Students and Homeowners."* **NBER Working Paper #32040.**

This updated research highlights that 76% of home value appreciation is due to the capitalization of "non-test score improvements," suggesting that the physical state of the school matters as much to property values as the instruction within it.

3. **National Forum on Education Statistics. (2003).** *"Planning Guide for Maintaining School Facilities."*

This report details the fiscal impact of "run-to-failure" maintenance cycles, noting that emergency repairs consume significantly more of a district's operating budget over time than proactive capital planning.