

South Carolina's Education Funding Puzzle



**THE LEAGUE OF WOMEN VOTERS
OF SOUTH CAROLINA**

P.O. BOX 8453

COLUMBIA, SC 29202

Phone: 803-251-2726

Website: www.lwvsc.org

Email: info@lwvsc.org

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**Putting It All Together
The Education Finance Act Piece**

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South Carolina's education finance system is incredibly complicated. The most cynical observers suggest that this is done on purpose to obscure what is really going on. More likely, however, the complexity is a product of a piecemeal cobbling together of the education funding mechanism over time. Regardless of the cause, this paper attempts to simplify one of the most complex pieces of the puzzle, the Education Finance Act.

So, since Act 388 the ITA just can't measure how much a school district can raise to cover its share of the EFA funds.



How to fix it: One bill in 2010 would have taken owner-occupied property out of the *ITA*, but that wasn't a good solution. Taking homeowner property out redistributes EFA funds very unevenly. Districts with a lot of owner-occupied property would gain, and those with very little owner-occupied property would lose. Some losing districts are poor, and some are not, so it's not just a matter of rich and poor. Sometimes the simple solution is not the best one!

A better answer is to let the Department of Revenue fix the *ITA* in the same way that they fixed it to take account of flat fees paid by new or expanding companies instead of property taxes. A bill to explore that solution almost made it through the General Assembly in 2010 and will probably come up again in 2011.

What Next?

South Carolina has a lot of issues with funding public schools. The biggest one is just not enough money. But any big problem has to be tackled one piece at a time. EFA is a good place to start.

ITA and Act 388

The biggest challenge to the ITA came in 2006 with *Act 388*, which:

- eliminated property taxes for school operations on owner-occupied homes, and
- replaced that revenue with a property tax relief check from the state, funded by an increase in the sales tax.

With the passing of Act 388, school districts no longer get any operating funds from homeowner property. Instead, school districts get a property tax relief check from the state. This check is based on the value of owner-occupied homes and mill rates in 2006. Each year the amount is adjusted, but only for growth of population and inflation.



If all school districts had about the same percentage of owner-occupied homes in their tax base, it wouldn't matter. The average district has about 30% of its tax base in owner-occupied property. But there are big differences--from only about 7% (York 4) to more than 46% (Abbeville). A district with a below-average share of owner-occupied property gets less property tax relief money from the state but can raise more money with an increase in the mill rate. A bedroom-type district with lots of homeowners gets a bigger than average property tax relief check from the state, but an increase in the mill rate doesn't bring in much more money.

The Education Finance Act

The Education Finance Act (EFA) passed in 1977 remains the foundation of today's financial support from the state for public education in South Carolina. Its passing in 1977 was focused on two goals:

1. To provide a basic level of support for school operations in all districts, and
2. To distribute a larger share of the funds to poorer districts.

While local property taxes are the largest single source of funds for our public schools, EFA funds come in a close second. In an average year, the state share of EFA provides about 30% of total operating funds for our state's schools. So it's important for legislators and citizens to have a basic grasp of how EFA works and how it could be improved.

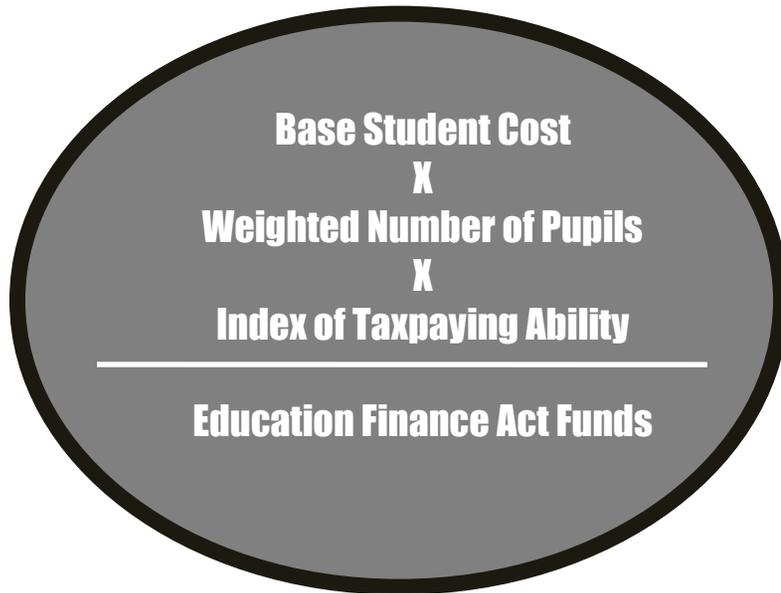
Funds distributed by the EFA formula provide 30% of all operating funds for our state's public schools."

The EFA Formula

How EFA works: The distribution of EFA funds to school districts is determined by a formula with three parts:

1. the base student cost,
2. the weighted number of pupils, and
3. the index of taxpaying ability.

For each district, the EFA funds are supposed to be allocated according to the district's base student cost multiplied by the weighted number of pupils.



For example, a district with 2,000 weighted pupils and a base student cost of \$2,200 would be funded through EFA at \$4.4 million. The state funds 70% of that amount through a payment from the SC Department of Education and the school district is required to make up the additional 30% through property taxes. If the district numbers used above were for an average South Carolina school district, it would get \$30.8 million from the state and have to raise \$13.2 million in property taxes just for the EFA part of its operating funds.

Index of Taxpaying Ability (ITA)

What is it? The most complicated and least understood part of the EFA formula is the *index of taxpaying ability (ITA)*. The ITA, or the district's share of the assessed value of the state's total taxable property, is calculated every year by the Department of Revenue. The ITA is used to determine whether the state sends a particular district more or less than 70% of the EFA funds it is supposed to have. Districts with high ITAs, meaning a larger share of the state's taxable property, get less than 70%, and districts with low ITAs get more than 70%.

What are the problems with ITA? Back in 1977, the ITA was a pretty good measure of a local school district's ability to raise more money by increasing the mill rate, or property tax rate. It isn't any more.



The first problem surfaced with the ITA when counties started negotiating with new business firms to make a flat annual payment, called a fee in lieu (of taxes), in place of property taxes. State officials had to figure out how the ITA could account for that source of revenue. A new plant did provide more school revenue, but if the mill rate went up, that plant didn't generate any more revenue. The Department of Revenue figured out how to fix that problem with a process called capitalization.

Preschool and lower elementary students get higher weights because of required smaller class sizes. Additional weights are given to students with disabilities, physical, mental, emotional because they require more individual attention. Vocational education and gifted and talented programs call for extra weights. And so forth.



How to fix it. The *weights* probably need to be re-examined. Children from poor homes and poor communities come into the school system with a disadvantage that requires help in catching up. Some communities have a larger number of children for whom the first language is not English. That drives up the cost of education too. A task force at the State Department of Education in 2007 came up with some recommendations for adjusting the weights to reflect the actual difference in cost for educating different kinds of students. Those recommendations deserve to be looked at as part of the total EFA picture.

Seventy percent is the average, but most districts get more – or less – than 70% depending upon their *index of taxing ability (ITA)*.



The *index of taxing ability* measures the district's taxable wealth, or assessed property values as a share of the total taxable wealth in the state. Districts with above average wealth get less and districts with below average wealth get more.

Addressing EFA Piece by Piece

What about EFA needs fixing? Of the three pieces, the biggest controversy in recent years has been over base student cost. The least pressing is the weights part of the weighted number of pupils. The most urgent one to fix is the index of taxing ability. Let's look at each of these three pieces separately.

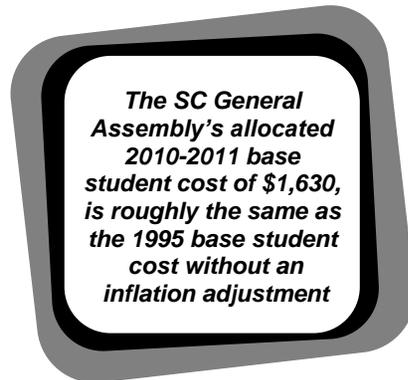
Base Student Cost

What is it? *Base student cost* was established in 1977 to reflect the cost of teachers, materials, and other operating expenses required per pupil to provide a basic education. For many years, the SC General Assembly adjusted the 1977 level of *base student cost* for inflation.

Unfortunately, when there isn't enough money in the state budget to meet the inflation-adjusted *base student cost* (as has been the case in recent years), the General Assembly started setting an arbitrary figure to fund.

In 2009-10, the arbitrary chosen amount for *base student cost* was \$2,334 - several hundred dollars less than the 1977 inflation adjusted *base student cost* of more than \$2,700 per pupil.

In 2010-2011, with a very tight budget and a lack of federal stimulus funds, the SC General Assembly chose \$1,630 per pupil, as the *base student cost*. The 2010-2011 base student costs of \$1,630 per pupil is roughly the same as the 1995 level of funding without any adjustment for inflation or acknowledgement of changing needs in classroom technology.



Just imagine trying to buy your week's groceries or pay your rent with only the amount you had budgeted for them in 1995! Without an adjustment for inflation, using the 1995 *base student cost* in 2010 is actually giving schools less than they were given in 1995.

How to fix it: The calculation of *base student cost* probably should be updated, not only to reflect changing educational inputs such as technology, but even more important to reflect the changing dollar cost of education over time impacted by inflation. 1977 was before computers and the Internet. A dollar in 1977 would buy almost a gallon and a half of gas and the average income was \$15,000. Even with tight budget years ahead, the state needs to make a commitment to getting *base student cost* back on track over a period of several years, starting in the next budget year.

Weighted Pupils

What is it? An average pupil count is determined by the SC State Department of Education based on a school's average daily membership (ADM) or students in attendance. ADM is used to determine a district's number of pupils sitting at desks. But what's a *weighted pupil*? A pupil with a weight of one would be an upper elementary student (generally grades 4-5) with no special needs—no learning disabilities, no lack of English proficiency, and not eligible for gifted and talented programs.

Students in higher grades get bigger weights because it's more expensive to provide the diversity of courses needed to educate high school and even middle school students.