



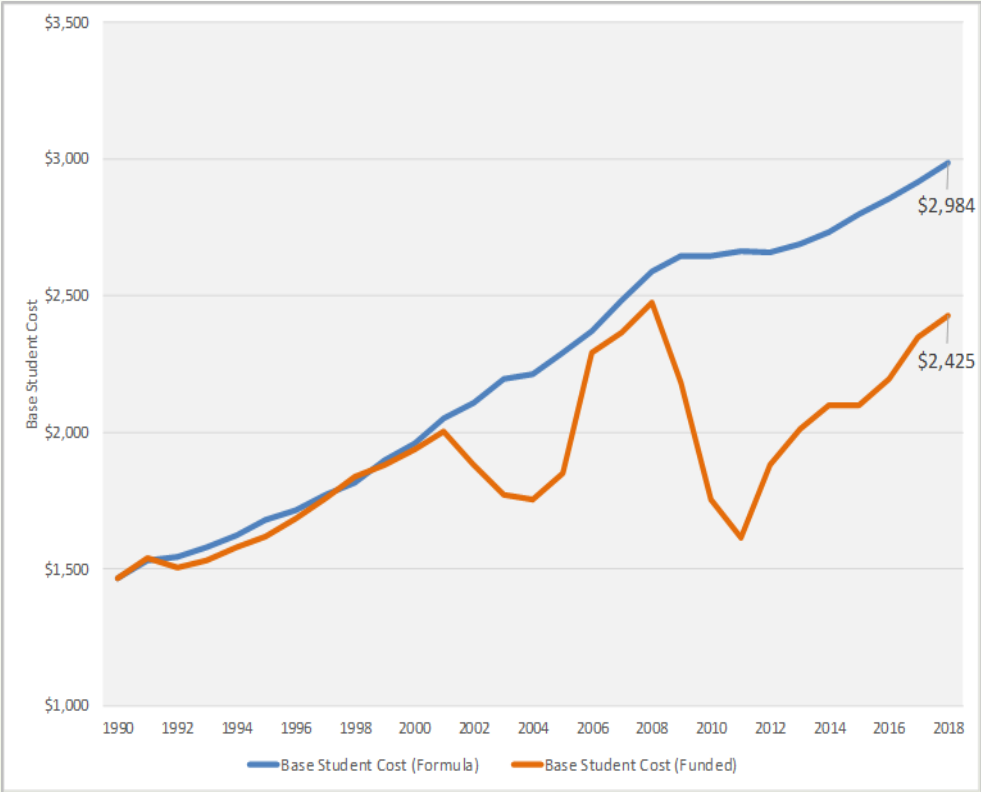
Education Funding: A Lawsuit and Two Catastrophes

Pre-K-12 Education Financing in South Carolina, 2000-2016

A Primer on EFA

- ▶ EFA is a formula funding program very similar to those in other states that determines the cost of educating one average student, adjusts the student count for non-average (special education, disabled, gifted, etc.) and multiplies the cost times the number of public students to determine how much a district needs.
- ▶ $BSC \times \text{adjusted head count} = \text{total EFA funding}$
- ▶ Funding is 70% state, 30% local, more or less depending on local ability to raise funds from property taxes.
- ▶ EFA is the main tool for sending more state aid to poorer districts than richer districts
- ▶ Hitch #1 Base student cost has not been updated except for inflation and is not fully funded in most years. The adjustments for inflation only accounts for a small share of the actual cost increase.
- ▶ Hitch #2 We use an outdated measure of local ability to pay. More and more states are going to using the value of a mill in some form as the measure.
- ▶ Hitch #3 There are a whole lot of education costs that are not included in the BSC definition, including transportation, school construction, and fringe benefits for school employees.

Base Student Cost



How Much Has the Real Cost Increased?

	Funded BSC 2015-16	Updated BSC for 2015-16	Difference
Base Student Cost	\$2,197	\$6,561	\$4,364
Statewide WPU	968,244	968,244	0
Total EFA (WPU*BSC)	\$2,127,232,925	\$6,352,651,443	\$4,225,418,518
% State (Total EFA*0.7)	\$1,489,063,047	\$4,446,856,010	\$2,957,792,963
% Local (Total EFA*0.3)	\$638,169,877	\$1,905,795,433	\$1,267,625,555

Source: SCDE, Office of Finance, *EFA Financial Requirements Report, FY 2015-16 135 Day Report* and author's calculations.



The Lawsuit, 1993-2016

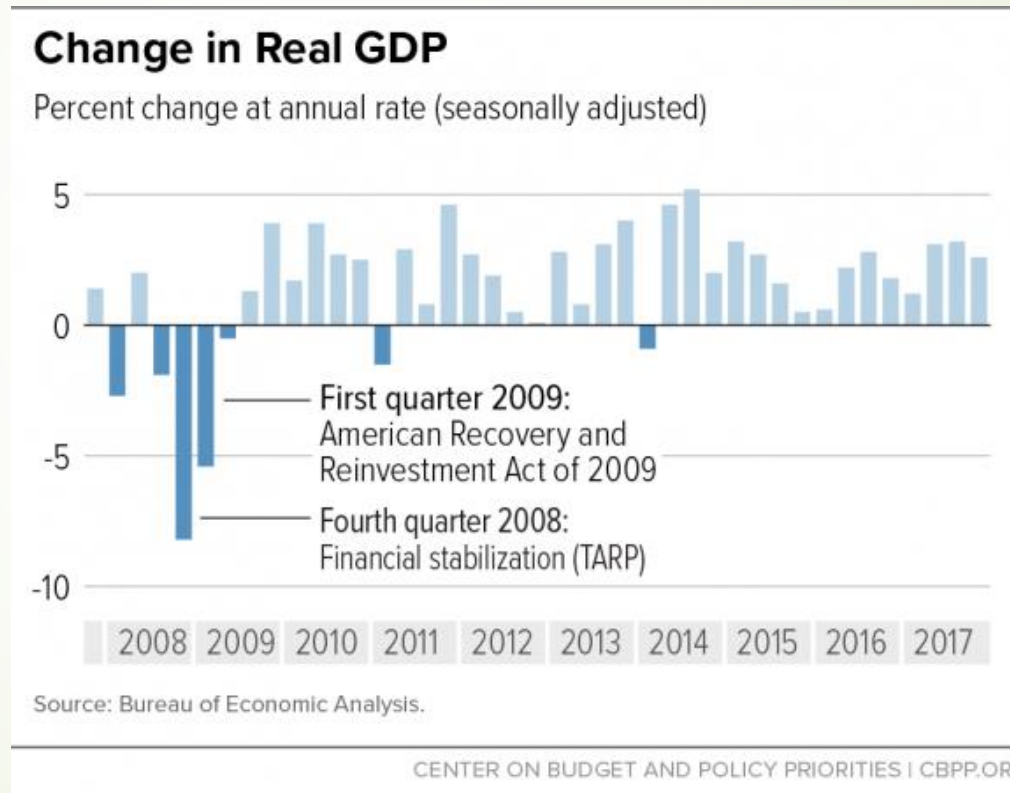
- Abbeville case was filed by 34 districts, eventually 7 (including some consolidations)
- Claimed inequity and inadequacy in distribution of state aid to school districts—case focused on adequacy
- Went to Supreme Court SC multiple times, got some relief for pre-K
- 2014 decision ordered districts and legislature to work it out and bring back a solution
- New judges vacated Court's authority and it ended with no outcome and no avenue for relief



The First Catastrophe: Property Tax Relief

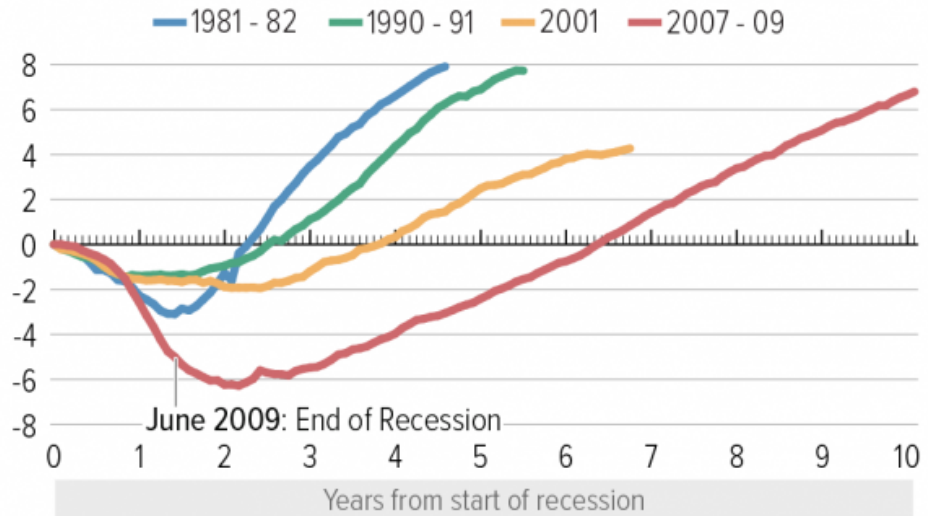
- ▶ 1995 expanded property tax relief for homeowners fully funded by state
- ▶ That was a burden on the general fund to the tune of about \$100 million + a year
- ▶ 2006 Act 388 raised the sales tax by one cent and dedicated the money to relief from school operating taxes for homeowners only
- ▶ Replaced those taxes with state funds that would grow only with school population and inflation, slowing growth of overall school revenue
- ▶ Guaranteed the funding from general revenue if the penny didn't raise enough, which it didn't
- ▶ Reductions in EFA and other state aid meant that total state aid was redistributed among school districts, favoring districts with more high-priced residential property
- ▶ Encouraged conversion of property to owner-occupied, further reducing local property tax revenue

The Second Catastrophe: The Great Recession 2008-??



Employment and the Great Recession

Percent Change in Nonfarm Payroll Employment Since Start of Recession



Source: CBPP calculations from Bureau of Labor Statistics data.

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Housing Prices and the Great Recession/Recovery

Metropolitan Statistical Area	Change in Home Prices 2016 vs. 2006
Austin-Round Rock, Texas	62.90%
Raleigh, N.C.	33.20%
Nashville-Davidson--Murfreesboro--Franklin, Tenn.	26.60%
Atlanta-Sandy Springs-Roswell, Ga.	7.30%
San Diego-Carlsbad, Calif.	-6.10%
Virginia Beach-Norfolk-Newport News, Va.-N.C.	-8.90%
Tampa-St. Petersburg-Clearwater, Fla.	-11.60%
Las Vegas-Henderson-Paradise, Nev.	-25.20%

Where The Money Comes From

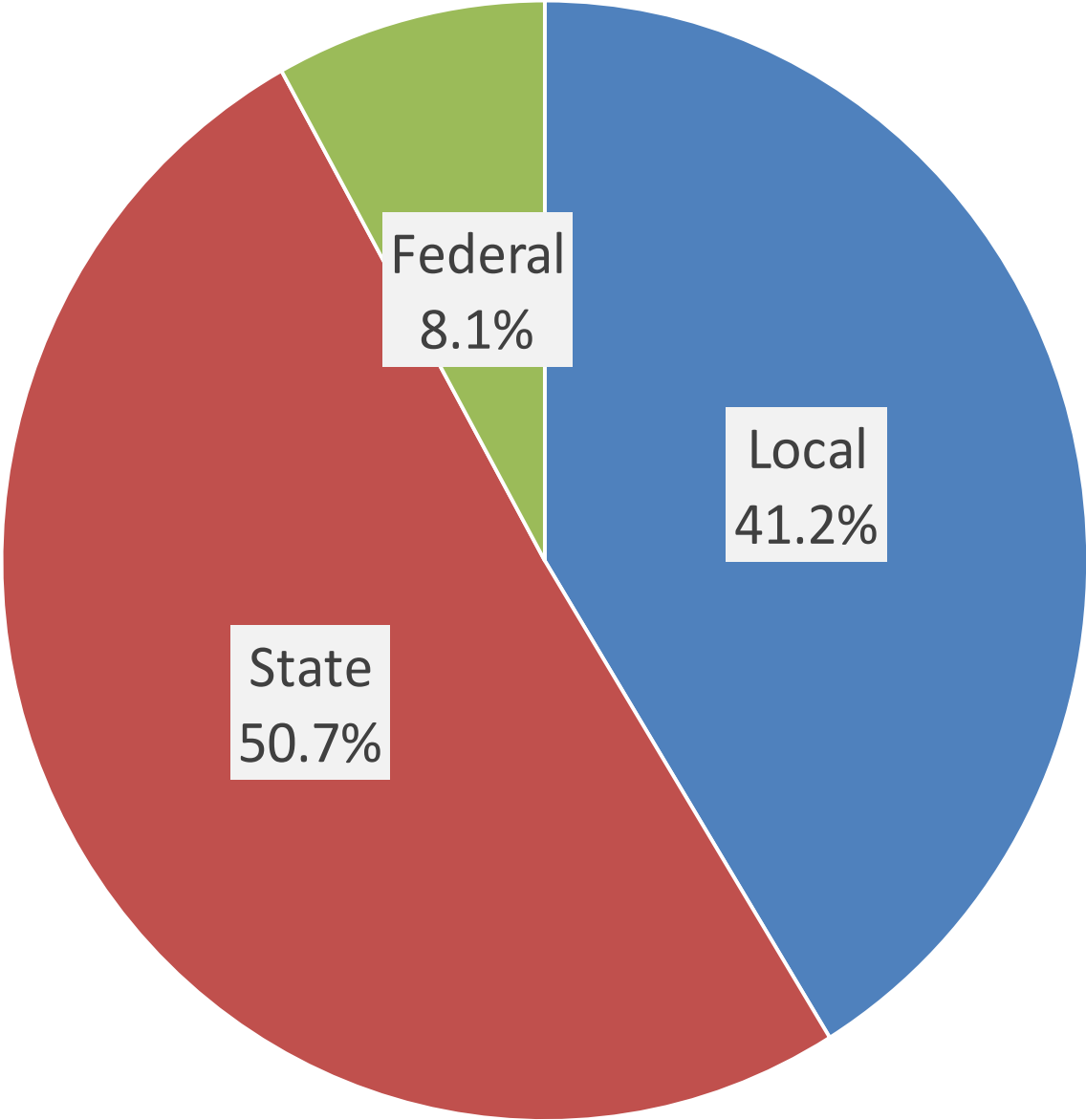
	Local	State	Federal	Total
FY 00	\$2.03	\$2.50	\$0.40	\$4.92
FY 01	\$2.16	\$2.80	\$0.43	\$5.38
FY 02	\$2.37	\$2.75	\$0.49	\$5.61
FY 03	\$2.37	\$2.64	\$0.55	\$5.56
FY 04	\$2.55	\$2.62	\$0.63	\$5.80
FY 05	\$2.72	\$2.72	\$0.65	\$6.09
FY 06	\$2.96	\$2.90	\$0.68	\$6.53
FY 07	\$3.27	\$3.01	\$0.69	\$6.97
FY 08	\$3.09	\$3.81	\$0.71	\$7.60
FY 09	\$3.24	\$3.58	\$0.75	\$7.57
FY 10	\$3.27	\$3.26	\$1.07	\$7.61
FY 11	\$3.30	\$3.22	\$1.07	\$7.59
FY 12	\$3.39	\$3.46	\$0.86	\$7.71
FY 13	\$3.47	\$3.63	\$0.83	\$7.93
FY 14	\$3.56	\$3.72	\$0.83	\$8.12
FY 15	\$3.75	\$3.92	\$0.86	\$8.53
FY 16	\$3.96	\$4.02	\$0.87	\$8.85

Dr. Holley Ulbrich

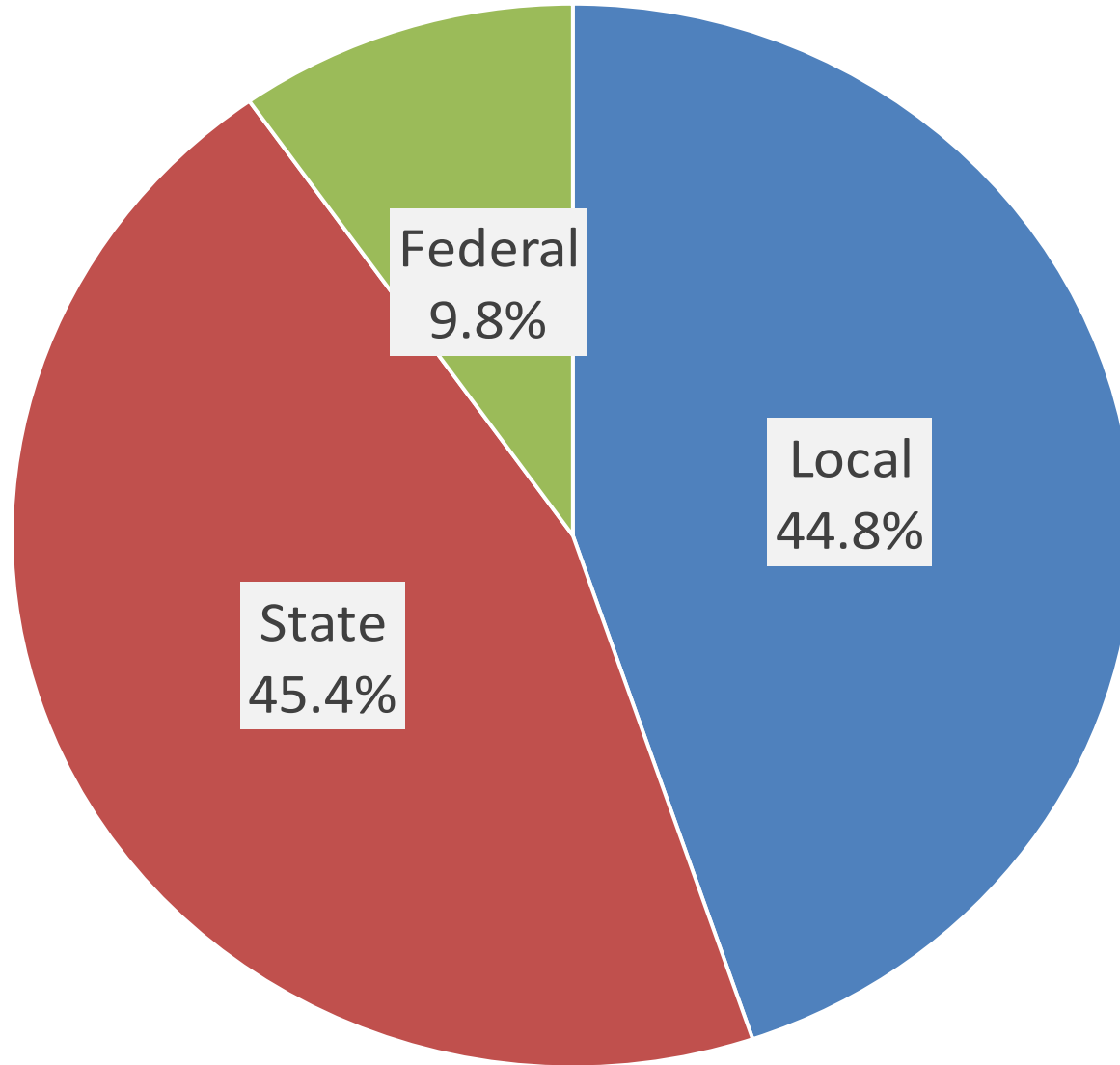
WV HHI and Bluffton Education Funding Forum 3/14/18

Source: SC Revenue & Fiscal Affairs Office and SC Dept. of Education. Bond and special district revenue excluded.

SC Regular School District Revenue Shares, FY 2000



SC Regular School District Revenue Shares, FY 2016

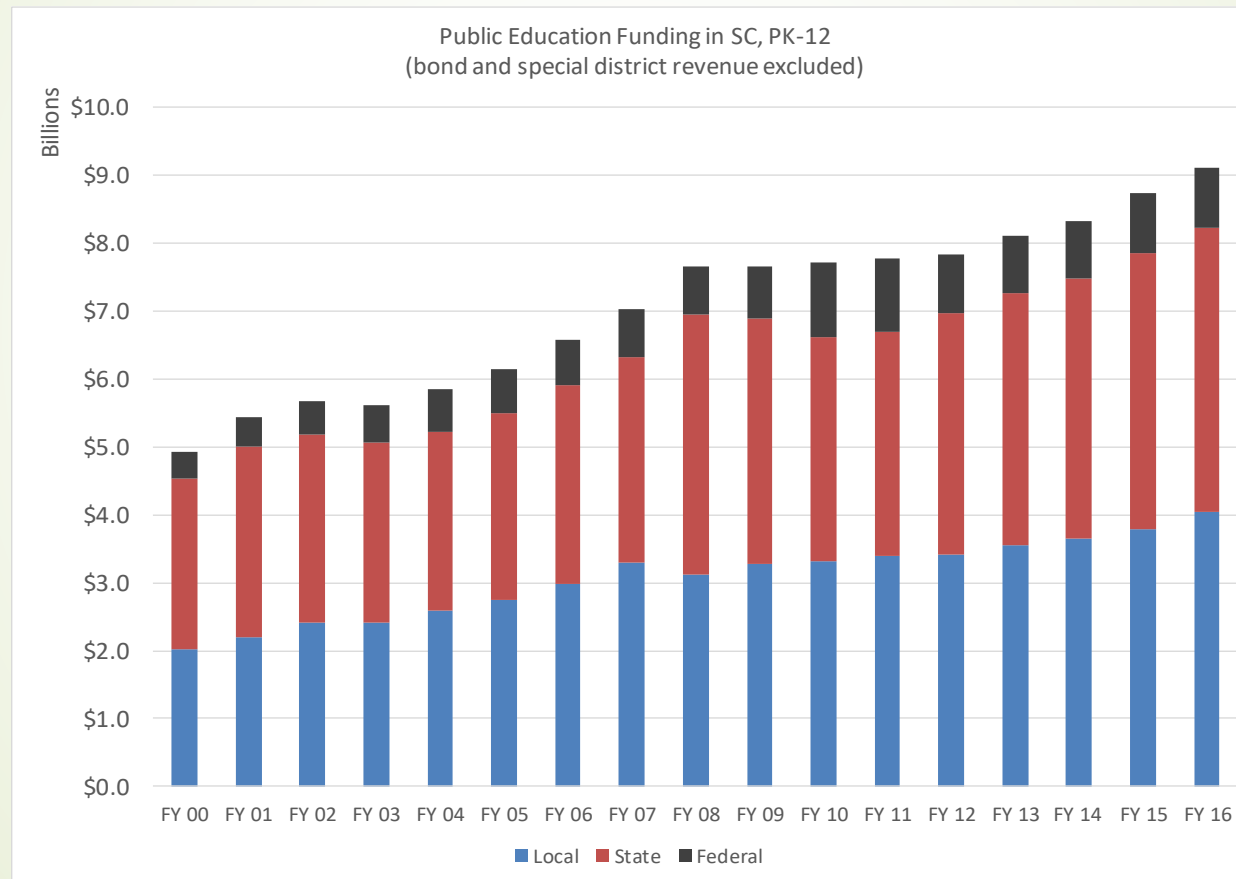




Real Per Pupil Spending Growth for Education in SC 2000-2016

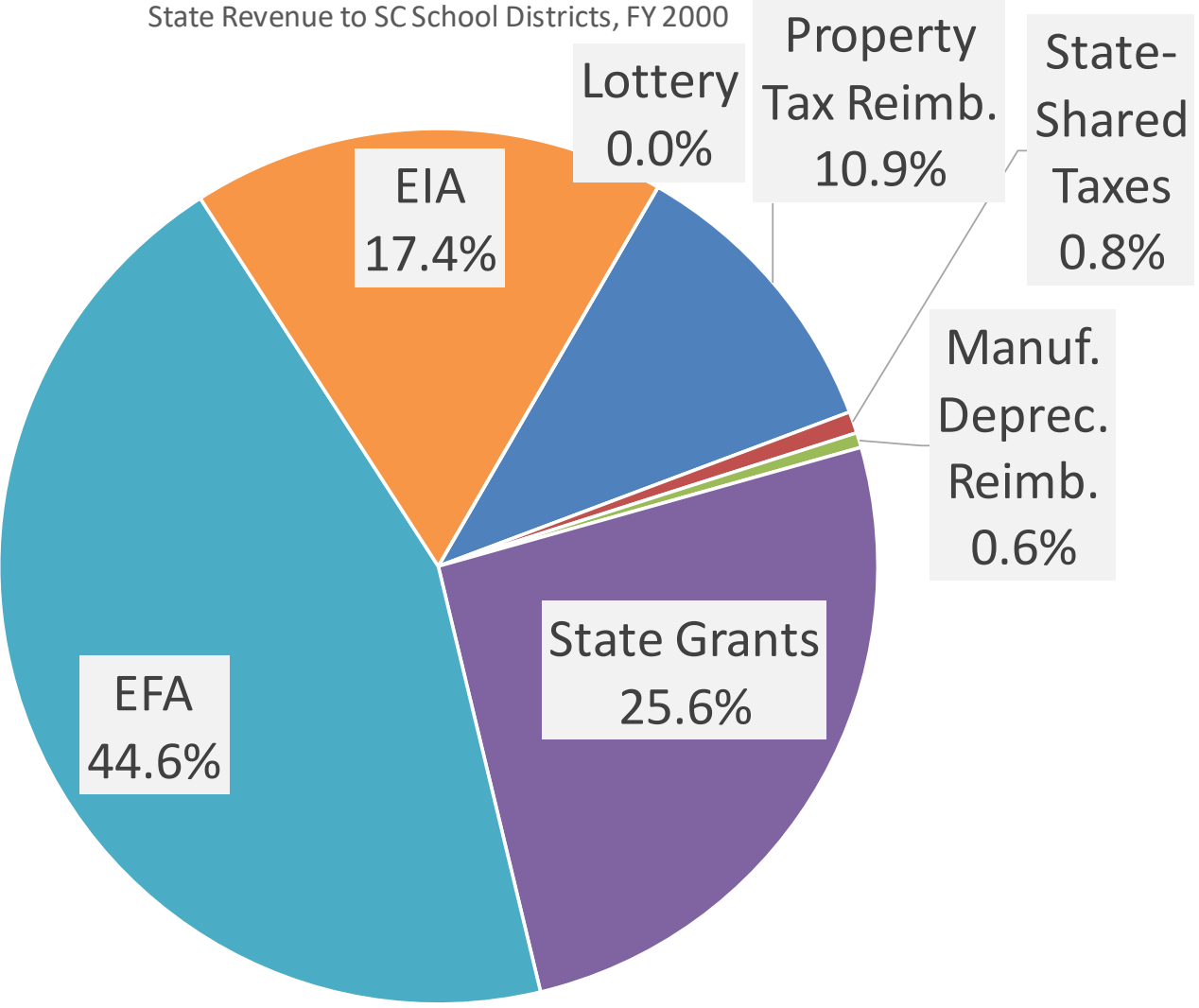
- Growth from 2000-2016
- Total dollars 3.7 percent a year
- State and local dollars 3.6 percent
- Combined inflation and student population growth 5.9 percent
- Growth from 2007-2016
- Total dollars 2.6 percent a year
- State and local dollars 2.7 percent
- Combined inflation and student population growth 5.5 percent

Federal-State-Local Shares

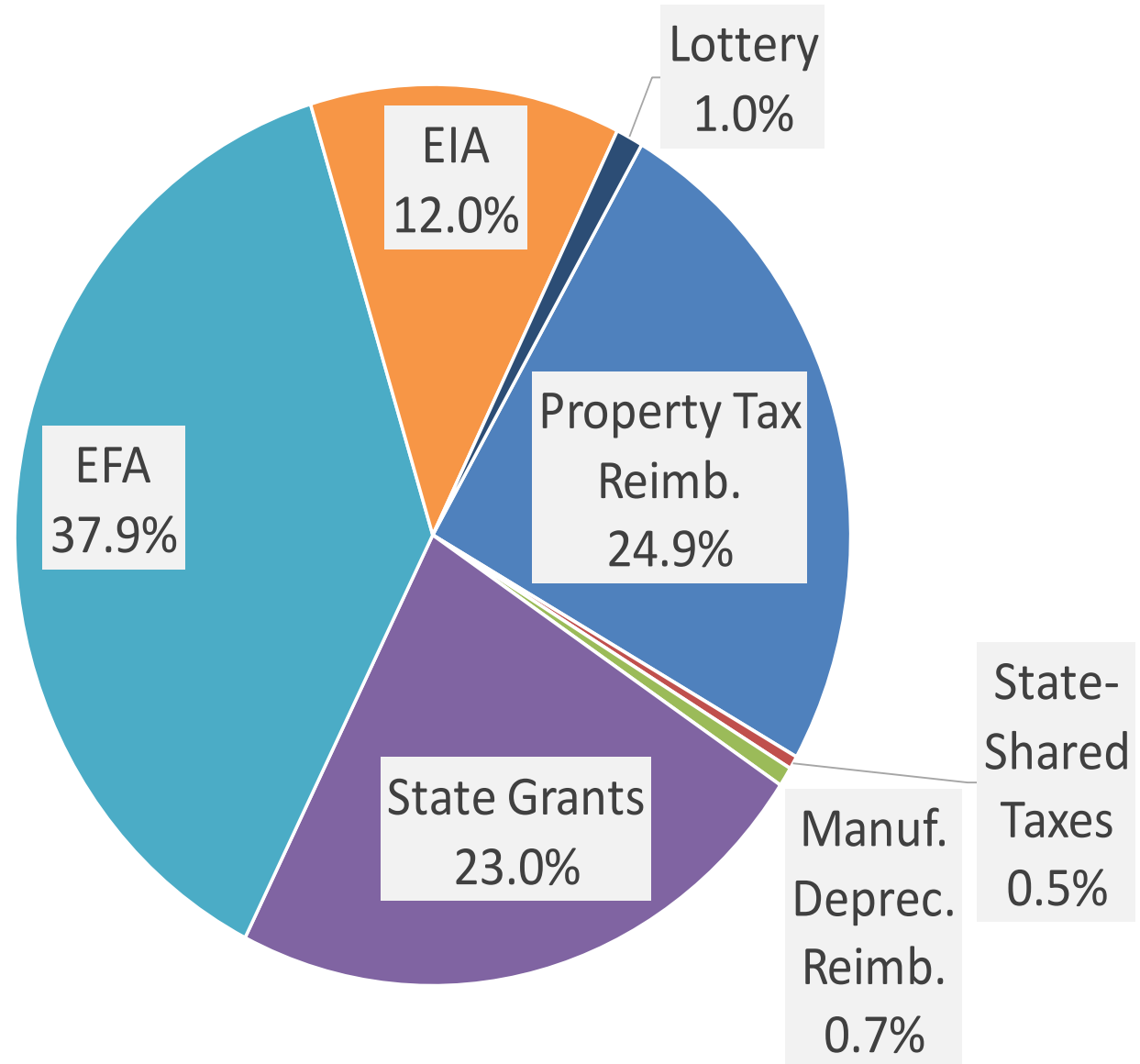


	FY 00	FY 10	FY 16
Reimbursements for Property Tax Relief	\$273.0	\$968.3	\$1,041.2
State-Shared Taxes (Aid to Subdivisions)	\$20.0	\$19.4	\$19.8
Manufacturer's Depreciation Reimbursement	\$13.7	\$27.7	\$29.2
State Grants	\$640.1	\$721.5	\$965.4
Education Finance Act (EFA)	\$1,114.3	\$1,111.0	\$1,586.0
Education Improvement Act (EIA)	\$435.5	\$423.7	\$502.9
Education Lottery	\$0.0	\$40.3	\$44.0
Total	\$2,496.5	\$3,311.9	\$4,188.4
Reimbursements for Property Tax Relief	10.9%	29.2%	24.9%
State-Shared Taxes (Aid to Subdivisions)	0.8%	0.6%	0.5%
Manufacturer's Depreciation Reimbursement	0.6%	0.8%	0.7%
State Grants	25.6%	21.8%	23.0%
Education Finance Act (EFA)	44.6%	33.5%	37.9%
Education Improvement Act (EIA)	17.4%	12.8%	12.0%
Education Lottery	0.0%	1.2%	1.0%
Total	100.0%	100.0%	100.0%

State Revenue to SC School Districts, FY 2000



State Revenue to SC School Districts, FY 2016





Effects of Act 388 on Districts

- Forty school districts experienced declines in combined local and state funding per pupil between 2006-07 and 2009-10, including 16 out of 26 districts classified as poor based on their property tax base. Dillon 1 lost the most, \$1,674 per pupil.
- Forty-five districts gained funding per pupil between 2006-07 and 2009-10. Ten gainers were classified as poor. Nine districts gained over \$1,000 per pupil.
- Changes in total state aid per pupil favored property tax rich districts over poorer districts. Thirty-nine districts had lower state funding per pupil in 2009-10 than in 2006-07, including 19 districts classified as poor.
- District funding from Act 388 property tax reimbursement alone ranged from \$198 per pupil in Orangeburg 4 to \$2,152 per pupil in Beaufort and \$3,034 in McCormick.



Act 388 meets EFA

- ▶ The Great Recession led to reduced funding of Base Student Cost from the formula \$2,687 per pupil to an actual \$1,756 in 2010.
- ▶ Twenty-one districts gained 20 percent or more in combined Act 388 and EFA funds between 2006-07 and 2009-10. Only three were poor districts—McCormick, Allendale, and Lee. All three districts benefited from Act 388's \$2.5 million minimum funding per county. Seven districts who gained most in combined Act 388 tax relief and EFA funds were in the top 20 school districts in tax base per pupil.



What Needs Fixing PK-12?

If I were dictator for a day....

- ▶ We need to overhaul EFA—update and fund Base Student Cost, redo the way we measure local ability to pay
- ▶ We have too many streams of funding—EFA, EIA, lottery (a little), state grants, school bus purchases, property tax relief
- ▶ A better “Recipe”: into a revenue “bottle,” each district pours the proceeds (per pupil) of a 100 mil tax levy, state adds in property tax relief and then fills the bottle with other state aid to reach to a statewide per pupil funding target
- ▶ We need to adjust for district level problems—sparsity (the opposite of density) and poverty in particular
- ▶ We need a systematic way to help fund school construction
- ▶ We need to give school boards uniform fiscal autonomy and more of it
- ▶ We need more state-sponsored sharing of resources, programs and services across districts, including better use of on-line resources



Ask Your Candidates, Tell Your Legislators

- How are growing districts supposed to pay for new schools?
- How are districts losing population going to maintain their infrastructure and raise their local share of education costs?
- What role does funding play in addressing the pending teacher shortage? How are we going to attract more people into teaching?
- When are you going to fully fund base student cost?
- What good does it do to merge poor rural districts when the combined districts still don't have an adequate property tax base and the area is still thinly populated with small schools, small, classes and high transport costs BECAUSE IT'S RURAL?
- How can we make higher education affordable?