



PO BOX 8453, COLUMBIA, SC, 29202, (803) 636-0431, WWW.LWVSC.ORG

**Education Funding Issues: A Framework for Achievable Reform
Prepared for the Senate Education Funding Reform Committee**

December 9, 2019

Holley Ulbrich

Alumni Distinguished Professor Emerita of Economics, Clemson University

Since the demise of the Strom Thurmond Institute, I no longer have the staff support to generate kind of detailed reports that we produced on education finance and other state issues for more than 30 years. What I do have, based on those decades of work, is the ability to raise questions and suggest possible solutions for which RFA can provide more precise data.

The issues of “rollup” (combining all state aid to education into a single stream through the EFA formula) and the local match are inseparable. EFA has become an increasingly smaller share of state funding for public education. In 2017, EFA was 35% of state funds and less than 20% of all state and local funding for school operations. As a result, the required average EFA local match of 30% was only about 10% of total state aid, most of which flowed outside of the EFA formula.

Because of the wide gap between state funding for base student cost (\$2350) and actual estimates of the cost of the required inputs and services that go into base student cost (about \$6500), the local property tax had to make up the difference. In 2017, local property taxes covered more than 48% of the cost of school operations. Districts have had to make up this gap between base student cost in the formula and the actual cost of required educational inputs to meet the state’s minimum standards. That was much more difficult for some districts than others.

From our conversation on December 4th I have identified several goals that you would like to achieve in revising the education funding system. The goals I perceived were as follows:

1. Reduce the burden on the property tax in districts with limited tax bases by shifting more of the funding through EFA. Simplifying the system so that it is easier to understand, explain, and implement.
2. Being responsive to the concerns of districts whose state support for education might fall under a revised system.
3. Retaining some degree of ability to legislate for particular programs that will enhance educational quality and student performance.
4. Adjusting the per pupil weights so as to better reflect differential costs.
5. Address the disparity in property tax burdens by property class.

I believe that the present system can be tweaked to address those goals with minimal disruption in the flow of funds to school districts and their students. Revolution is not necessary. The RFA report laid out a useful framework, and a few modifications of the proposed changes in the RFA report could enable you to address those goals.

1. Roll up all funding resources into a single package except EIA, which would retain its approximately \$363 million for particular program enhancements and innovation. Pass the rest of state aid, including property tax relief, through the EFA distribution formula.
2. Use EIA funds as they were originally intended to encourage innovation and support or expand programs and services that improve educational outcomes. These funds were counted toward basic educational costs in the RFA proposal. EIA funded programs are not a part of the cost per student calculated either by the SDE 2017 report or by RFA. So additional funds would be needed to reach the goal of about \$7500 per pupil that provides the required inputs as defined in previous legislation.
3. Provide additional funding per pupil to funding higher teacher salaries and reduce the upward pressure on local mill rates by increasing the state share. This year's revenue projections offer a substantial opportunity to do so.
4. Consider a minimum guarantee of state funding per student to all districts, which would be preferable (and less expensive) than hold harmless. RFA can develop cost estimates.
5. Set a required minimum millage for the local match, to be collected at the local level. With more funds in the system, and more of the funding subject to a local match, the target percentage paid by local property taxes should be reduced to about 20%, which RFA can translate into a required local millage. It will probably be more than 75 mills because local match would now have to include fringe benefits and transportation as well as other state grants. Ask RFA to consider several scenarios for the local match.
6. Reconsider the poverty rate measure used in student weights. Add a weight for sparsity.
7. To address the disparity in tax burdens between owner-occupied and other types of property, consider recapture of some of the revenue foregone on owner occupied property, which would then permit local school districts to lower their operating mill rates on other property.

Possible approaches:

- A cap on the amount of property value entitled to the homestead exemption from taxes for school operations. This will have virtually no impact in poor districts but will help districts that have more higher-valued homes, offsetting some of the revenue loss in the 26 districts that would receive less state funding under the RFA plan.
 - A statewide property tax levy of some amount – maybe ten mills – only on owner occupied property. Returned to the district of origin to count as part of their local match. This is an end run around Act 388 but would be a good way to address the disparities among classes of property.
8. Proposals for tax reform will be competing with education for additional available funds. There is some degree of urgency in having a plan to offer to consider at the same time.

I would be happy to assist you in any way I can with further exploration of these ideas.