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TESTIMONY TO THE SENATE EDUCATION REFORM STUDY COMMITTEE

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December 4, 2019

I have reviewed the work of the staff of the Department of Revenue and Fiscal Affairs and find much to be commended in their excellent work. It parallels in many ways the work of the Task Forces organized by the Department of Education in 2007-8 to examine options for education funding. SDE convened a group of academic experts and representatives of business, education, and state government to examine both the funding and the cost dimensions of providing our children an adequate education to prepare them for 21st century challenges. Most of my work was with the revenue side, but in 2016-17 the State Department of Education commissioned a further study by myself and my colleague Ellen Saltzman to bring student cost up to date. That report is available at the SDE website.

The core consensus recommendations from the 2007-8 work were that we should combine all streams of state funding into a single flow distributed through an updated EFA formula, and that the local match should be the revenue stream from a specific required level of millage.

Since that time, the Abbeville case has drawn to an inconclusive conclusion and we have more than 10 years' experience with the effects of Act 388. The intention of EFA to give more state aid to poorer districts has been subverted by the distribution of Act 388 funds which favored those districts with tax bases that consisted of more owner-occupied high-value residential property. One result of that Act was to put upward pressure on mill rates for school operations, because the tax base now excluded residential owner-occupied property.

Also, since that time, partly in connection with moves toward district consolidation and partly in response to issues about rural districts raised in the Abbeville case, a new issue has arisen concerning the appropriate distribution of state funds. We have learned that 28 other states who, like South Carolina, use weights for special needs and circumstances, have also added a weight that takes into account the challenge of sparsity—a low density of student population that results in higher per-student costs.

So, I would like to address five issues that need consideration as you move forward with this recommendation. They deal with sparsity, funding levels, mill rates, state property, and hold harmless.

Sparsity. Sparsity can be measured in a number of ways. Pupils per square mile is a common one. Average school population is another. Number of pupils in a district does not capture the geographic nature of sparsity, because a district may have a large number of pupils but they are spread over a very large number of square miles. Some states handle the issue with a grant, others with a district weight, or equivalently, a weight that applies to every pupil in the district. A sparsity factor would be helpful for some of our rural districts, especially those that have been losing population.

Increased funding. At your previous meeting, you asked questions about increased funding. RFA treated that as a separate question, but the two are linked. Additional funding will be needed to recruit and retain teachers with higher salaries, to address increasing maintenance costs and mandated services. These were addressed in our report on base student cost, which is similar to the RFA report but limited to those services presently included in EFA, which do not include transportation, fringe benefits, or other expenses. In the absence of full funding for EFA in the past, districts have been forced to increase millage to cover basic needs. Additional funding would permit local districts to reduce millage rates. Increased funding will also be necessary if you feel a need to protect some districts through hold harmless provisions or other transition strategies.

Mill rates. In our work in 2007-8 we found that mill rates for school operations ranged from 96 mills in Charleston to 243 in Hampton 2. The most recent available mill rates, for 2016, show a dramatic increase. The lowest rate is now 110 mills in Georgetown and the highest is 321 mills in Richland 2. These mill rates, combined with a six percent assessment for rental and commercial property and automobiles, mean that the tax for school operations only—not counting millage for school debt service and for city and county purposes—is 0.66 percent of the property's value in Georgetown County but almost 2 percent in Richland 2. The median millage for school operations in 2016 of 188 mills, which would come to 1.12% of market value for non-homeowner residential and commercial property. The national median property tax as a percentage of market value is 1.08%, which includes these other taxes for debt service and city and county operations. Simply put, much of the cost of supporting our state's public schools has dramatically shifted to commercial property. This increase has further handicapped those school districts that lack the high-value owner occupied residences that generated Act 388 property tax relief, forcing them to raise mill rates in order to generate enough revenue from a limited commercial and industrial tax base. Rural South Carolina does not need this additional obstacle to attracting commercial and industrial development.

A second issue pertaining to mill rates is setting the appropriate rate for the local match, which RFA suggested might be 75 mills. It could probably be higher, since the lowest rate currently is 110 mills. Two serious concerns about the required local millage as the EFA match were raised during our discussions 11 years ago. One is that fear that the required match might become a state property tax. We already have the infrastructure and the sense of local ownership of the property tax as part of our admittedly limited home rule for local elected governments. If this approach is adopted—as I would certainly recommend—it needs to be clear that it is still a tax that is levied

and collected locally. The other concern is whether local school districts can levy millage in excess of that amount. I see no reason for school districts to provide additional educational resources if they choose. That issue, however, spills over to my fourth and final issue, which is hold harmless or other transition strategies.

State property. Richland 2 as the district with the highest mill rate for school operations flagged another low visibility issue, the concentration of tax-exempt state property in certain areas. These properties require city and county services, and some of them generate public school students as well. Even if they don't generate students, they occupy large stretches of land that might otherwise be available for uses that are subject to property tax. Some states have a program similar to the federal program for military bases and other properties with a PILOT (payment in lieu of taxes) to compensate for the services they require. Government facilities benefit all our residents, but the cost falls disproportionately on the school district, city or county that is the host to those facilities. Some consideration should be given to a PILOT program for local governments.

Hold harmless. Twenty-six school districts would receive lower funding as a result of this proposal. That will make it difficult to win the necessary political support, but it will also make it more expensive. If additional funding is provided, that would help lessen the pain. Hold harmless might be phased in by counting any additional revenue from increased funding of base student cost against the hold harmless losses, and/or by stepping down the compensation for those losses over a period of years.

These four issues are not separate. They are closely intertwined as you attempt in good faith to distribute state funds so that every child has an equal opportunity for an adequate education. Additional funding, which is fortunately likely to be available in the next year or two based on revenue forecasts, will ease the pain of transition. More funding to poorer districts will enable them to reduce their mill rates for school operations and be more competitive in economic development and job creation.

I look forward to your careful consideration of the educational needs of all our children and the best and fairest ways to distribute state funding for that purpose.

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