

EDUCATION FUNDING

An Overview of the Funding Formula for South Carolina Schools

VisionSC

Palmetto Promise Institute | November 6, 2015

Funding Components

A high level view of education funding in South Carolina.

Make-up FY13

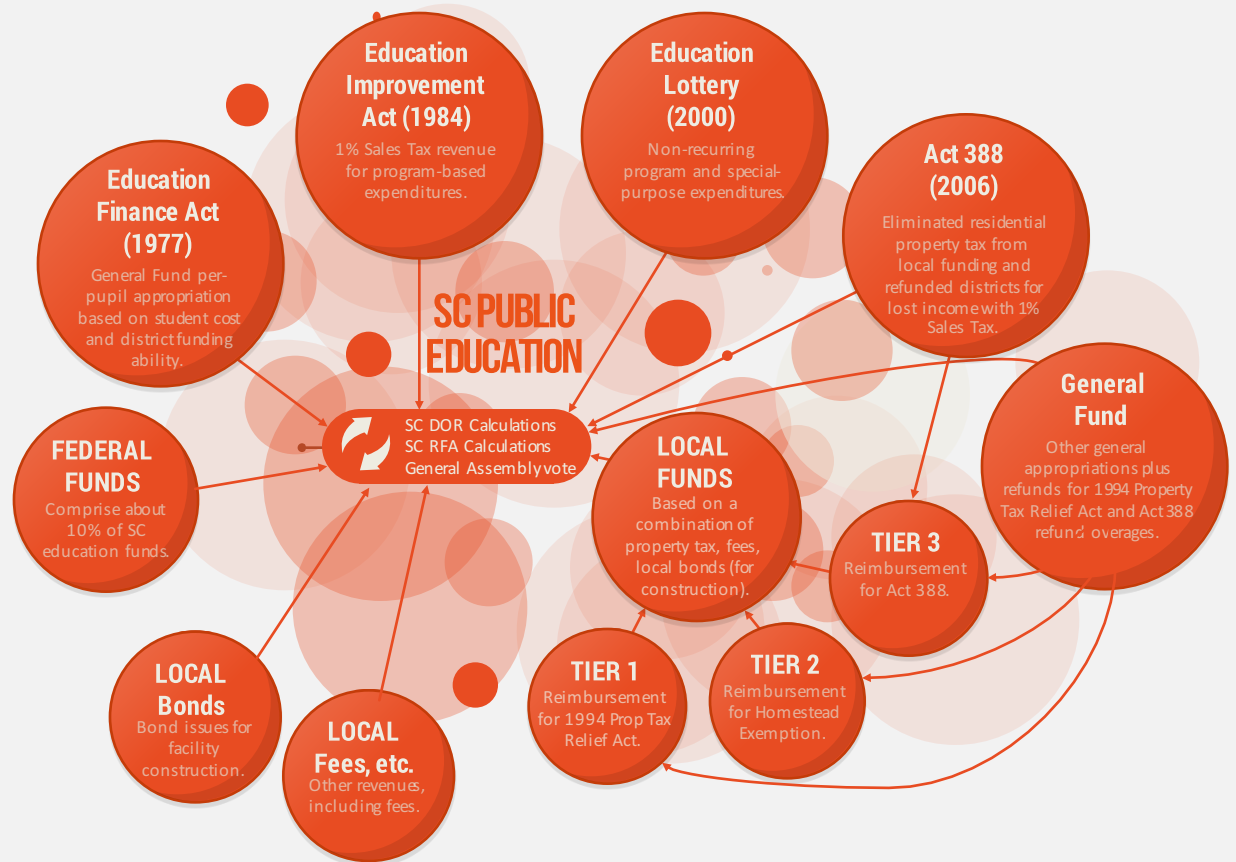
Federal



State

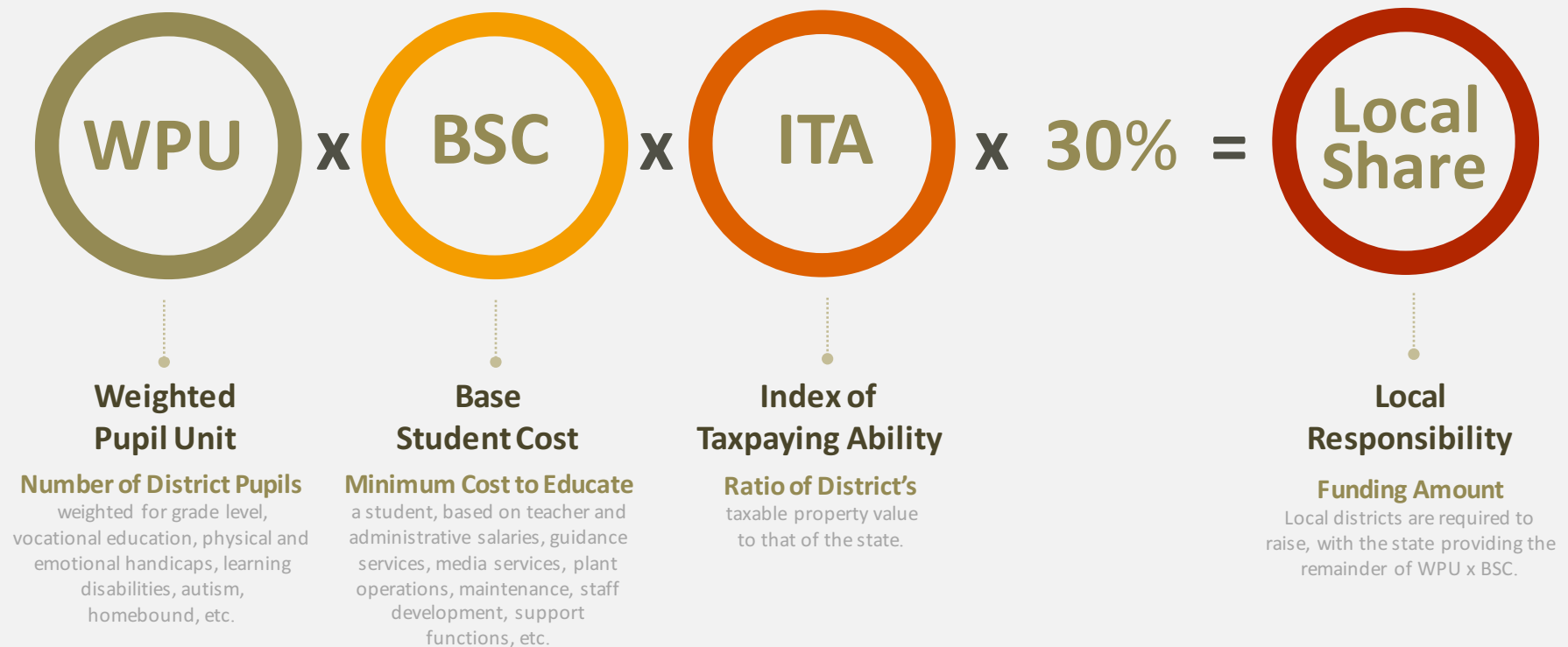


Local



How Does the EFA Work?

The math behind the 1977 Education Finance Act.



So What's Wrong?

Problems with the SC Funding Formula.



Size

The EFA was originally designed to be the primary funding source for students, but its base is low and its share of total education funding has shrunk over time.



Calculations

The 38-year old WPU and BSC need updates to account for technology, regional cost of living differences, disadvantaged backgrounds, etc.



Consistency

Since 1978, the General Assembly has only appropriated full EFA funds 8 times. In FY14, RFA calculated the EFA at \$2,771 per pupil, yet only \$2,101 was appropriated.



Variable Funding, Fixed Spending

EIA funds limited to 1% sales tax revenue. Earmarked for specific programs, needed or not. Lottery revenues were \$102m in FY05 and \$31m in FY12, yet fund K-8 STEM programs.



Complexity

So many funding sources and mandates increase complexity, remove transparency, making it difficult and costly to track and review funding.



Administrative Cost

Calculation of multiple funding mandates: Education Finance Act (EFA) inflation factor, Southeast teacher salary supplements, Tiers 1, 2, and 3 property tax reimbursements, EIA and Act 388 revenues/shortfalls, imputed assessed value of FILOT agreements, Index of Taxpaying Ability, county millage increase caps, etc.



What About Property Tax?

Changes in property tax funds over time.

Property Tax Relief (1994) and Act 388 (2006)

Combined, these tax laws have eliminated property tax on owner occupied homes from school district taxes, replacing it with 3 "Tiers" of property tax reimbursement to counties from a 1% state sales tax.

Shifted Tax Burden

The 1977 local funding share formula based on district taxable property has been eroded by tax exemptions, shifting the local property tax burden to fewer properties, particularly rental and commercial.

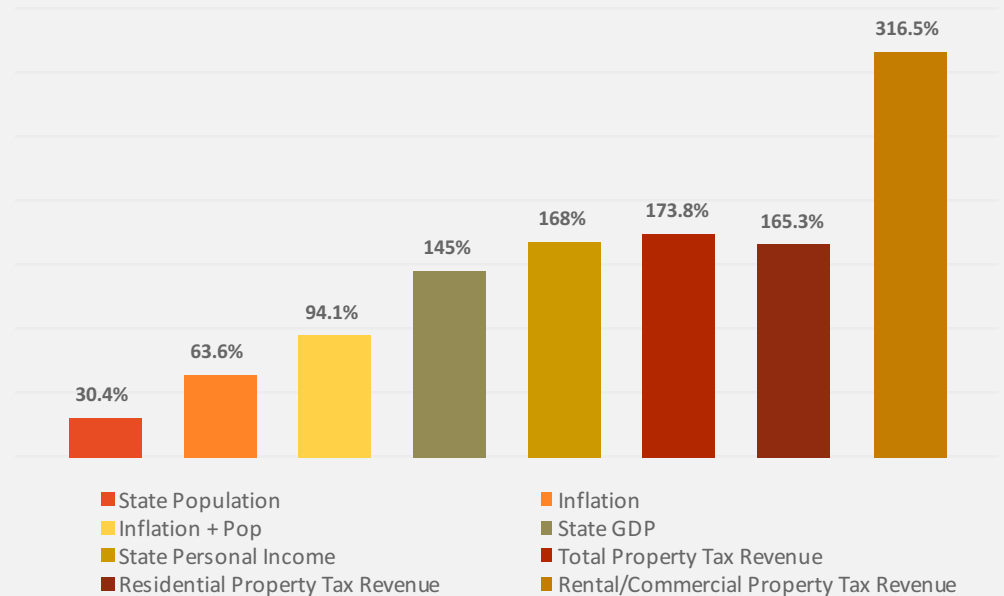
Insufficient Sales Tax Swap

Act 388 1% sales "tax swap" has fallen short of required tax reimbursements in excess of \$110m annually since FY10.

Failed to Stop Property Tax Increases

Despite multiple property tax relief laws, district property taxes have increased 50% since FY03 & 22% since FY08. Annual school district millage growth rates have more than doubled since the passing of the cap in 2006 than in the 13 years before it.

Property Tax Growth, FY93 – FY13



Ideas

Mechanisms to raise and distribute funds to **students**.



01

Student-Centric Funding Model

- Reform the outdated 1977 EFA formula (and replace the 1984 EIA), which together no longer appropriately measure the true cost to educate at a constitutionally required level.

02

Redefine State and Local Cost Sharing

- Develop effective means to achieve “ability to pay” for lower wealth districts, which draw on a large property tax base, yet at a low tax rate, to prevent shifting costs to specific property owners.
- *Example:* Set the minimum local contribution factor based on a standard millage (i.e. – 150, 175, 200,, etc.) that all districts must impose, with the state financing the remainder.

03

Simplify and Stabilize Funding Sources


- Eliminate volatility in funding due to direct ties to fluctuating revenue sources, like sales tax or lottery revenues.
- Remove mandates associated in numerous programs, which increase administrative burden and decrease transparency.





Questions?

Thank you!

Rebecca Gunnlaugsson, Ph.D.
Acuitas Economics

 acuitasecon.com

 [acuitas-economics](https://www.linkedin.com/company/acuitas-economics)

 rmg@acuitasecon.com

