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Monday, Aug 6, 2012

Posted on Sun, Aug. 05, 2012

Plan to equalize state's K-12 spending in development

If adopted, lawmakers would have to provide about $947 million more annually

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What they said…

"It's more equitable. More reasonable. Fair. It levels the playing field in terms of tax burden across the state. Somebody needs to tell me why we need to have different tax rates depending on geography. We have different allocations and levels of support based on geography. Those are absurd in this state." – *Harry Miley*

"We've got a funding lawsuit that's been languishing for at least a decade (since 1993), and everybody knows there are issues. What's being proposed here is not perfect, but it addresses so many of these issues that have been just out there forever and ever and ever. Now is the time to do it. We need the political will to do it. Timing is good because we're in a reform mode for tax reform. We just can't push this aside anymore. We can't patch it together on the Senate floor anymore. It's time to do something comprehensively. " – *Scott Price, South Carolina School Boards Association lobbyist, study group member*

"In South Carolina, our current system causes a lot of inequity, divisions, burdens on some communities that others don't have, and this plan simplifies that, it corrects a lot of problems and it simply has to be put in place for the future of South Carolina if we're going to move forward as one state into the 21st century." – *Molly Spearman*

'How do you finance that?'

The S.C. School Boards Association and the S.C. Association of School Administrators conducted in-depth looks at the school funding of 16 diverse districts in the state.

One of the districts studied was in Berkeley County, just north of Charleston and opposite of the state's newest industrial giant, airline maker Boeing. The Berkeley school district is experiencing intense growth in housing and business but is reaping little in tax benefits from housing – because Act 388 stymies funding from primary homes – and industry because of tax breaks used as incentives.

The study found that the district was missing out on taxing about $165 billion in fair market value to pay school bills.

"How do you finance that?" was the big question, study group member Bick Halligan said.

Student spending

Under the proposed state education funding plan, districts statewide would receive $5,295 per student unless voters agreed to pay more.

Midlands-area districts currently spending more per student include:

- Richland 1 at $7,525
- Richland 2 at $6,093

- Lexington 5 at $6,300
- Lexington 3 at $6,027
- Lexington 1 at $5,938

Those spending less:

- Lexington 2 at $5,066
- Lexington 4 at $4,615

A state school board group is proposing a $1 billion funding plan that would for the first time equalize state school spending for all students throughout South Carolina.

The S.C. School Boards Association plan, which has been under construction for two years, would establish a statewide tax rate on all existing tax-eligible property as the equal funding base for students in all school districts of the state, yet leave counties with the ability to levy additional school taxes if approved by local voters.

That means property owners would get a break in many cases – for automobiles, boats and second homes, for example. But taxes for primary homes – which already receive a huge tax break – could go up, if local voters choose.

If passed, the school boards plan would be the first comprehensive overhaul of public school funding in South Carolina since the state operated dual public school systems based on race, dating back to the 1950s.

Lawmakers would have to dedicate about $947 million in additional annual revenue, beyond what the districts generate, under the new plan – known as the S.C. Education Finance Restructuring Act – to provide equal funding to the state's 688,000 children in public schools in grades K-12. That would replace the existing hodge-podge of state monies that currently go to the school districts.

The plan also proposes a major funding shift for marquee industries such as Boeing and BMW, Continental and Amazon – entities that state residents have become familiar with over the years as much for the jobs they bring as the tax exemptions state leaders roll out to lure them here. The industries would no longer send their property taxes to the counties they are located in but to a new state pool for statewide student distribution.

That means, under the plan, every public school student in the state would be guaranteed at least the same basic weighted unit amount each school year – $5,295 – no matter what school district or what county they lived in in the state. A rural district with fewer resources, such as Allendale, would get the same amount of money per student as a wealthy district, such as Greenville.

Districts could spend more per student, as 29 of 83 districts currently do, if residents vote for additional taxes. Fairfield County, largely by virtue of the V.C. Summer nuclear plant located there, spends the most per student in the state, at $7,802. Most districts in Richland and Lexington counties – except Lexington 2 and 4 – spend more than the proposed state average.

The plan permits up to 8 percent of assessed property value in each district to be spent on students – more if approved by voter referendum.

The proposal leaves in place more than $604 million in existing tax relief for businesses, industry, vehicle and all other property tax relief on the books, while providing $335 million in transition funding and $612 million in balancing funds as school districts shift away from the existing school funding formula.

State leaders, education proponents and critics alike have long pointed out the numerous inadequacies embedded in South Carolina's antiquated school funding formula. But you would have to go back decades to the 1980s to find the last major school funding reform approved in the state, then back to the decade before that to find the next major piece of reform.

Act 388, a controversial piece of property tax reform passed in 2006 is the most recent major law passed impacting school funds. It set an exemption on 4 percent owner-occupied houses in the state and limited to 15 percent the rate of increase property could appreciate for sale over five years.

The act has been heavily criticized for worsening the plight of school financing in the state, particularly as the economy eroded since its passage, leaving schools more dependent upon sales taxes to survive.

Fairness, equality and simplicity are the core objectives of the new proposal, according to members of the study group working on it. The concept of a uniform school operating tax rate is not new. Skeletal legislation promoting such an overhaul was introduced this spring in the General Assembly through a bill in the House, sponsored by Rep. Jenny Horne, R-Dorchester, and in the Senate by Sen. Paul Campbell, R-Berkeley.

Neither was debated. They were put forward to begin a dialogue among legislators about an overhaul.

"If you've got schools that don't have adequate funding, at the expense of schools that have too much funding, then that's not an equitable system," said Horne, an attorney. "We have got to give the districts adequate resources to provide a free public education, which is what we have in our constitution."

Horne said she has spoken to legislators on both sides of the aisle and in both chambers of the General Assembly. "It's something I'm cautiously optimistic we're gonna get it done this legislative session," she said. "We all know we've got to do something … so we can move forward.

"Our system of education doesn't even resemble what it looked like 30 years ago," Horne said.

South Carolina's education funding problem will be back in the state Supreme Court on Sept. 18, when attorneys on both sides in the landmark school funding case, Abbeville County School District vs. State of South Carolina, have been ordered to re-argue the case before the court. The historic case could well change education funding in the state. Originally filed in 1993, the case eventually was ruled on in 2005, when Circuit Court Judge Thomas Cooper found the state provided poor school children a "minimally adequate" education.

In 2007, the case was appealed to state Supreme Court, which heard oral arguments in 2008, and has not issued a ruling. The historic case itself could well change education funding in the state.

Part of the rationale behind the association proposal is that jobs in the state, whether generated at Boeing in Charleston, Amazon in Lexington or nuclear power plants in Fairfield County or Rock Hill in the Upstate, should no longer be considered merely as "local" jobs.

A $100 million Boeing plant that physically sits in Charleston County may draw large numbers of its employees from nearby Dorchester or Berkeley counties, where those workers would send their children to school. But those districts draw no support from Boeing to help offset those district's costs for educating Boeing employees' children, said Bick Halligan, an attorney with Childs & Halligan in Columbia and a study group member.

"They don't get any money," he said. Under the association proposal, state money attaches to the child.

"That's a whole new paradigm shift in South Carolina," said Molly M. Spearman, South Carolina Association of School Administrators executive director, another study group member.

The Boeing plant, mentioned as an example in discussions with the study group, was given a 100 percent tax break for 15 years by the state as a recruitment tool, so that the company actually pays no property taxes in the county or the state for that entire period of time – yet districts still are responsible for educating employees' children.

"If the state's going to provide incentives, have employees driving 50 miles across county boundaries (to work), then there really should be some kind of state investment in terms of that asset," said Harry W. Miley, a former State Budget and Control Board executive director, former Board of Economic Advisors member and leader of the study group. "That asset, that manufacturing plant – Boeing, the electric plant, Amazon – is really a state asset."

The recent Amazon distribution center deal was negotiated in Lexington County with the promise of at least 2,000 jobs and a minimum $125 million in capital investment, for five years of exemptions in collecting sales taxes from their customers, Miley noted, but the plant might employ workers from across more than 25 different school districts.

Under the school board association proposal, property tax payments would flow to a state pool for equal distribution back to all students in the state, those per pupil payments would follow the student to whatever school district they enroll in, the group said, rather than accrue to the county the plant is located in.

The 100 mill-tax assessment per district would be expected to generate $1.2 billion for school students off of the $13 billion of property statewide that is eligible for taxation under all existing laws, according to the group's 2010-11 study results. But more than $7 billion in statewide assessed housing values would remain exempt from school tax collections under Act 388.

Homeowners got a huge tax break on their primary residences under Act 388, freeing them from school operating millage. No one else did.

"This plan, which lowers millage rates across the state – only three school districts have millage rates below 100 at present – if we lower millage rates from what they currently are down to 100, that lowers taxes on everybody in South Carolina, whether it's your dry cleaners, or it's your second home, whether it's your apartment building, your manufacturing building, your car, boat – whatever you have.

"Your taxes are going to go down with this plan," Miley said.

However, if voters in individual districts approve additional funding, the money raised would have to come from all local properties, including those currently exempt under Act 388.

Members of the association drafting the plan say Act 388 has been a major disruption – though not the only hitch – in an already-broken education funding formula that is decades old and obsolete.

The state is operating under the Education Finance Act, the major funding driver in state education financing passed in 1977. This statute primarily uses state dollars to pay for teacher and district administrator salaries and other district office expenses.

Three major drivers in school funding currently include:

• The EFA includes a complicated formula that takes into account such factors as state-mandated base student cost and the ability of each district to pay taxes to determine how much money to provide in a given school year. In the 2010-11 school year, when the association conducted the study, the EFA formula provided about $1 billion, the group said.

• The Education Improvement Act passed in 1984 provided a 1 cent state sales tax increase primarily to pay for education programs, benefits and other needs such as insurance for employees and transportation. In the 2010-11 school year, the EIA provided nearly $600 million under the state formula.

• The "index of taxpaying ability" is another formula that allows local school districts to raise taxes and fees as needed to supplement state education dollars, based on the value of taxable property in that district as compared to the overall value of taxable property in the state.

Under the funding formula, counties are audited by the State Department of Education so that those having abundant taxable property such as businesses and industry can be expected to pay more. The state typically would send a higher number of dollars per student to counties lacking large taxable bases as sort of an equalizer – with the General Assembly-set base student cost as its goal.

One of the biggest impacts the antiquated school funding formula may have on school finances is the quick-on-the-draw, highly-competitive use of incentives to attract industry in the 21st Century, the group said. When the EFA was passed in 1977, the traditionally agricultural state was not using as many tax incentives to lure businesses. Today, incentives are part of virtually every big deal that comes to the state, the group said.

The Restructuring Act accomplishes several needed improvements in education financing, the group says, including simplification, equal state funding for every student no matter where they live or what public school they attend, and ends South Carolina's piecemeal approach.

State funding streams flowing into school districts would be reduced to 12 – from 70 – if the act is passed in its current form. And 55 of 83 existing school districts representing 60 percent of students in public schools in South Carolina would get increased funding, according to the group.

All other school districts would maintain existing state funding.

Among the biggest challenges facing education financing in the state is the lay of the financial landscape. South Carolina is a state of extreme tax rates and extreme revenues. Sixteen county financial directors participating in the study almost all see state financing differently and all have different tax bases.

“We don’t have one education system in this state, (we’ve) got eighty-something districts,” Miley said, “because depending on your tax base at the local level, your mix of student base, your demographics, your tax base, you’re a different entity than the district adjoining you. You’re not the same. You do not get the same dollars. It’s all kind of differences.”

Someone who owns a $20,000 automobile in Allendale, for instance, will pay three times more property taxes on that vehicle than someone with the same $20,000 vehicle across the county line in Hampton or a couple of counties away in Beaufort.

The plan has to be a package deal in order to work, its supporters said: All or nothing and better for the state.

“We came to the conclusion there is no perfect 100 percent solution, but we feel like we got it about as close as it can be, and it is a total package,” said Molly M. Spearman, school administrators association executive director and also a study group member.

The proposed plan represents “a major shift” for the state and its residents, Spearman said.

Getting a “total package” through the Legislature won’t be a walk in the park, however, Spearman noted. The group hopes to have the final draft of the legislation ready for pre-filing in November or December and first reading in January.

“When you make a change in the property tax system at the legislative level, you’re not just changing the local revenue and what’s produced, you’re changing the distribution of the state revenue,” Halligan said.

“With that key concept, you can see why the school districts felt we need a different system.”

Efforts to reach Gov. Nikki Haley last week for reaction to the proposal were unsuccessful.

In the 2010-11 study year, 29 school districts spent more than the targeted $5,295 base student cost educating their pupils. In terms of millage, 36 districts had tax rates higher than the state average of 171.7 mills in the study year. The lowest millage rate in the state that year for a school district was in Beaufort, at 90.3 mills. The highest tax rate was in Hampton 2, which levied 302 mills.

The EFA of 1977 is solely funded with dollars from the General Fund of the annual state budget, but there are problems.

“School funding has not gone down because of Act 388,” said Jay Ragley, State Education Department spokesman. “It has gone down because of the EFA.”

The General Fund has been reduced because in a shrinking economy, there was less money left after the state paid the cost of its first two obligations: all property tax relief, first, then any lottery-funded scholarships that state lottery proceeds were unable to fund.

While the EFA dropped drastically two years ago, as the economy struggled, both the EFA and the EIA have been rising the past two years, Ragley said. “The General Assembly has covered the promised costs of Act 388 each year since it became law,” he said.