

THE POSITION OF THE LEAGUE OF WOMEN VOTERS OF THE CHARLESTON AREA  
REGARDING PUBLIC SCHOOL FINANCE.

The members of the LWVCA believe that the fiscal constraints imposed by the 2006 Property Tax Valuation Reform Act of 2006 jeopardize the ability of South Carolina school districts to provide every child, regardless of race, color, gender, religion, national origin, age, sexual orientation, disability or economic status with the opportunity for an excellent education.

The LWVCA supports amendments to the Property Tax Valuation Reform Act of 2006:

a) to expand the reasons why voters in local school districts may override the millage cap to meet unexpected expenses and provide opportunities that its residents want for their children.

b) to allow school districts and local governments to seek alternative methods of raising and distributing revenue.

The LWVCA supports action by the S C General Assembly to:

a) assure timely flow of state funds to school districts so as to minimize their need to borrow money.

b) fully fund all State-mandated expenses, in particular teacher pay raises

c) conduct a comprehensive review of State education fiscal policy and redesign a funding system in which: allocation formulas are aligned with the actual costs of educating children to high standards; the greatest resources are targeted to the areas of greatest need; and resources are sufficient to provide the opportunity for every child to receive a quality education.

Action on behalf of this position will include:

Advocating for amendments to the Property Tax Valuation Reform Act.

Joining with state and local advocacy groups.

Creating public awareness through forums, position papers.

Monitoring implementation of the Property Tax Valuation Reform Act and its impact on the Charleston County School District.

*Approved by the members in May, 2007.*

*Adopted by the Board of Directors in August, 2007.*

SCOPE OF LWVCA STUDY ON PUBLIC SCHOOL FINANCE:

Members of the League of Women Voters of the Charleston Area at the May 2005 annual meeting voted to adopt a 2-year study on the financing of the Charleston County School District (CCSD).

The investigation's scope included:

- sources of revenue, law regarding allocation of state and local funds, the adequacy of funding;

- the budget preparation and decision making process, budget categories and expenditures, budget oversight, evaluation and accountability.

The LWVUS has long held that governments at all levels are responsible for providing equality of opportunity for education, employment and housing for all persons in the United States regardless of their race, color, gender, religion, national origin, age, sexual orientation or disability. However, in light of South Carolina's historic pattern of inequitably funding public education, our members agreed that an in-depth study of how local schools are funded was needed. With the passage of tax reform legislation in 2006 that radically revises

the way that public school funds are collected and distributed in South Carolina, this study has become even more timely.

#### HOW THE STUDY WAS CONDUCTED:

Over a two-year period a study committee reviewed CCSD budgets and accompanying explanatory material and became knowledgeable about the primary laws that determine how state funds are distributed to school districts. They hosted public forums, met with the CCSD chief financial officer and his staff about budget preparation and schedule, wrote substantial articles in the Voters Voice, reviewed articles and commentary by organizations e.g. SC School Boards Association and the Charleston Metro Chamber of Commerce, by legislators, by school personnel, in education newsletters, attended CCSD school board meetings and budget hearings, been part of the Superintendent's Citizen Advisory Committee and participated in the Charleston Education Alliance.

In May, 2007 the committee presented consensus questions to the members through a written survey and held a members meeting to discuss. The members gave overwhelming approval. Adoption of the position by the board enables LWVCA to take action based on our members' agreement on these issues.

#### INFORMATION PRESENTED TO MEMBERS OF LWVCA, 2006-2007

Excerpts from articles that appeared in the LWVCA newsletter, *The Voters Voice*.

#### CHARLESTON COUNTY SCHOOL DISTRICT: 2005-2006 BUDGET BASICS *Voters Voice*, April/May 2006

*Charleston County School District Fast Facts:*

- **\$515.3 million:** 2005-2006 budget
- **43,500:** student population
- **Third largest employer in the Charleston region:** between 5,300 and 5,900 people employed each of the past four year.<sup>1</sup>
- **Total fiscal independence:** one of 23 school districts to have the ability to set their own tax rates<sup>2</sup>
- **July 1 through June 30:** fiscal year

*Sources of funds:* Approximately 61%, \$319.2 million, comes from local real estate and personal property tax. CCSD receives \$126.6 million in State funds, equaling 25% of the budget. And 10%, \$51.3 million comes from the federal government. The remainder comes from small categorical programs and grants.<sup>1</sup> See chart.

*Primary sources of State funding:* The **Education Finance Act (EFA)** of 1977 authorized funding that the district can use for general operating expenses.

EFA established minimum standards for a basic elementary and secondary education program known as the Foundation Program. The Act also defined a formula to determine the base student cost to implement the foundation program, i.e. classrooms, teachers, supplies, other needs to provide the quality of education desired by state in 1977. Twenty-nine years later the formula has never been revised, despite higher standards and increasing demands on the school districts. In 1977, the base student cost was calculated to be \$791. Adjusted for inflation, the base student cost in 2005-2006 is \$2,290.<sup>2</sup>

EFA identifies the cost of educating different student populations taking into consideration their educational needs, e.g., grade level, learning disabilities, physical and emotional disabilities, homebound, vocational students. This translates into a weighted pupil unit for

each type of student. Each district's allocation of EFA funds is determined by the number of weighted pupil units rather than the number of students.

Financial support is required from each school district based on its fiscal capacity as measured by the market value of real and personal property. An index of tax paying ability is computed by comparing a district's fiscal capacity with the capacity of the state as a whole. On average, the state contributes 70% of the base student cost and the district makes up the remaining 30%. Wealthy districts receive less than 70% and poorer districts receive more.<sup>1, 2</sup>

Charleston County has the highest property value in state; 13% of the state's wealth is here. Because of its comparative wealth, Charleston has seen constant reductions in the state's portion of the EFA Foundation Program. In 2005-2006, Charleston will receive \$42.6 million in state funds, 36% of the base student cost. The district is responsible for the remaining 64%, \$76.9 million. In 2006-2007, the state contribution is anticipated to drop to just over 30%. CCSD has had to raise the real and personal property tax to meet its growing share.<sup>1, 3</sup>

More often than not since 1977, the South Carolina Legislature has appropriated less EFA money than required to fully fund the inflation-adjusted base student cost. In 2004-2005 EFA was funded at 80% of the amount needed. Some of that gap was augmented with special revenue funds (See EIA below). When the Legislature fully funded EFA for the 2005-2006 year, all school districts received an increase in funds with the exception of Charleston and Beaufort. Due to the shift back to EFA funds and increases in the real property value, these two counties experienced a significant decrease in state funding. In a one-time adjustment, the Legislature last spring partially offset Charleston's loss with a hold-harmless appropriation of \$7.6 million. It is doubtful whether the Legislature will repeat the appropriation and CCSD faces the potential loss of \$4 million in the 2006-2007 budget.<sup>3</sup>

The **Education Improvement Act (EIA)** of 1984 added one cent to state sales and use tax. These are special revenue funds restricted to specific programs that raise student performance, strengthen teaching and testing of basic skills, improve management and fiscal efficiency, reward schools on measurable progress and implement quality control. EIA requires school districts to increase the local tax revenue effort on a per-pupil basis by (not less) than the annual inflation rate. This year Charleston will receive \$21.6 million in EIA funds from the state.<sup>1, 2</sup>

**Other state money:**

The state purchases school buses and textbooks for all districts.

The state reimburses school districts for the revenue lost due to two state property tax relief measures: the Homestead Exemption for persons over 65 or disabled and the Property Tax Relief Exemption. The reimbursement is capped, however, and does not equal the total loss to the district due to exempted taxes.

Elementary and secondary schools receive less than 2% of their budget from the South Carolina Education Lottery. Lottery proceeds are dedicated primarily to higher education.

*Primary sources of federal funding:* Federal funds are tied to specific uses and are categorized as special revenues by the CCSD.

The District anticipates \$16.2 million this year from the **Title I Program**, authorized by the Elementary and Secondary Education Act to improve education service for children in poverty and at risk academically. These funds must be used to supplement rather than replace other funding sources.<sup>1, 2</sup>

The **USDA National School Lunch and Breakfast Program** will contribute approximately \$12 million to the district's \$18.5 million school food service program.<sup>1</sup>

Other federal funds are targeted to vocational and technical education programs, language instruction under English to Speakers of Other Languages (ESOL), support services for migrant children, children who are neglected, delinquent or at risk.<sup>2</sup>

*How the money is spent:* Just over 72% of the budget is spent on instruction, i.e., face to face teaching, classroom materials and instruction support, such as guidance, library, student health services, curriculum and program development and pupil personnel. Almost 19% supports operations, primarily transportation and food services, facilities maintenance and business operations. Approximately 9% goes to principals, school office, senior administration, school board and legal expenses.

*Capital expenditures:* CCSD maintains a School Building Fund to construct and purchase new facilities, purchase equipment and undertake major repairs and renovations. The Fund is financed primarily through general obligation bond issues and government grants. After years of neglecting aging buildings, CCSD instituted the first phase of a \$432 million school building program for the period of 2000-2005. The 2005-2006 budget includes \$380 million for phase two to be completed by 2009. A third phase will be necessary to upgrade the remaining substandard facilities.<sup>1</sup>

*Reserves:* CCSD is putting funds equal to 1% of each year's budget into the district's reserve account until that account reaches 5%. As a result of the district's reserve policy, its bond rating is improving. Bond advisors recommend that the district should maintain a reserve of 5-10% of the previous year's budget.<sup>3</sup>

*Per-pupil expenditure:* In Charleston County, the per-pupil expenditure in 2005-2006 is approximately \$9,250. This number represents the total budget (excluding debt service and capital expenditures) divided by the number of pupils in the district.

*Budget development:* The district's budget process calls for the Board and the Administration to establish budget strategy and priorities in the fall. Public input is solicited in January and February. A preliminary budget goes to the Board in April followed by public hearings in May. Final approval by the Board takes place in June.<sup>1</sup>

*What can we expect in the future?* The trend toward greater reliance on local funding is likely to continue because: 1) State and federal funds have been either diminishing or rising more slowly than expenses. Charleston, in particular, is losing EFA funds as discussed above. 2) There are increasing but unfunded demands on the school system in terms of higher standards and federal and state mandates. 3) The cost of educating our children today has risen faster than the inflation rate. 4) CCSD cannot delay investing in facilities that must be replaced or extensively renovated to remain in service.

All predictions hang on the outcome of the current debate within the South Carolina Legislature about whether to dramatically change the State's tax structure. A significant number of legislators support a proposal to limit or eliminate the local property tax and substitute an increased state sales tax as the primary source of funding for public schools. This change would move budget decisions from the local to the state level. What would be the consequences for the CCSD? As Terri Shannon stated, it will depend on questions that have yet to be answered, e.g. how will the State distribute the funds? Who will decide? Will a local contribution be required?<sup>3</sup> What control will local districts have if funding is shifted exclusively to a state sales tax? How stable are the revenues?

[N.B. The South Carolina League of Women Voters supports a state revenue system that consists of a mix of property, sales and income taxes and fees for public services. It advocates “shared responsibility for financing education between state and local resources” and “maintaining a significant local role.” For further information, go to the LWVSC website at <http://www.lwvsc.org>. Look at “Our Positions” and go to the publications archives to read “What Does Tax Reform Look Like, League Style” in the summer 2005 edition of SC Voter.]

Sources of information for this article:

- (1) Charleston County School District 2006 budget documents. Available at [www.ccsdschools.com](http://www.ccsdschools.com).
- (2) Ulbrich, Holley and Ada Louise Steirer, *Financing Education in South Carolina*, the Strom Thurmond Institute of Government and Public Affairs, Clemson University, June 2005. Available at [www.strom.clemson.edu](http://www.strom.clemson.edu).
- (3) Interview with Terri Shannon, Director of Finance, Charleston County School District, December 20, 2005 by LWVCA members Barbara Zia, Laura Hammond, Jayroe Wurst and Peggy Huchet

### OUR PUBLIC SCHOOLS AND THE NEW PROPERTY TAX RELIEF LAW, PART I *Voters Voice*, February/March 2007

Last winter, homeowners in South Carolina, especially those in areas where real estate values have soared, were clamoring for the government to “do something” about steeply rising property taxes. The SC Legislature responded with the Property Tax Revaluation Reform Act of 2006, (A388) that dramatically changes the funding and consequently the future of public schools across the State. Here is an abbreviated look at the primary provisions, followed by comments.

#### **Provisions of the law:**

**Sales Tax Increase:** On June 1, 2007, there will be a one-cent increase in the state sales tax. The sales tax on groceries was reduced from five to three percent as of October 2006.

**Property Tax Relief:** Homeowners (but not businesses) are exempt from paying property taxes for school operating purposes beginning with the 2007 tax year. Property taxes can still be imposed on residences for general obligation debt, e.g, county operations.

**School District Revenue:** Revenue from the added penny sales tax will go into a newly created Homestead Exemption Fund (HEF) to reimburse school districts for the lost property taxes. Beginning in FY 2008-2009 each school district will receive in reimbursements from the HEF the amount it received in FY 2007-2008 plus an annual “inflation factor” equal to the increase in the Southeastern Consumer Price Index (CPI) plus growth in population of its county. If the HEF is not sufficient to pay the reimbursements, the general fund must cover the difference.

**Millage cap:** Local governments, including school boards may increase the millage rate for operations based on the CPI for the preceding calendar year plus the increase in population. This cap may be exceeded only in a few extraordinary circumstances.

**Limits on property tax valuation:** The increase in fair market value of property for taxation purposes may not exceed 15 percent in a five year period beginning in 2007 unless an assessable transfer of interest such as a sale occurs. This provision required a constitutional amendment, which was approved by the voters on November 7, 2006.

#### **Comments:**

- LWV supports tax measures that are equitable and progressive, such as the personal income tax. The sales tax is regressive. As incomes rise, households consume more goods and therefore pay more sales tax but the **share** of household income paid for taxes decreases. Consequently, lower income households will be hit harder by the one-cent increase.

- LWV also supports home rule, whereas this law transfers control of revenue from the local school district to the State.
- Businesses facing higher taxes as a result of the law are caught between supporting public schools and holding the line on costs. Businesses claim they will be paying more than their fair share for education, and that this will reduce job growth in the state.
- Bond rating agencies are concerned about the limits placed on the ability of school districts to raise revenue and the removal of fiscal control to Columbia. The possible result is that school districts will experience a rise in the cost of borrowing funds.
- Dr. Paul Krohne, Executive Director of the SC School Boards Association, has written: “The ... law places nearly all education funding in the hands of the General Assembly, and at the same time, replaces a generally stable source of funding with a much more volatile and less predictable source, sales tax. That combination troubles anyone familiar with the Legislature’s record of cutting education funding when times get rough. In past years, the General Assembly has resolved budget constraints by diverting lottery revenues to other sources and drastically under-funding school transportation. Even if the legislature defies history and meets its obligations under the new law every year, growth limits and revenue restrictions in the law will still make it much more difficult, if not impossible, for schools to maintain high-quality programs or invest in long-term improvement. Without the flexibility to raise local revenues, schools that are faced with large cost increases---from high student population growth or other conditions beyond their control---will be forced to deplete their reserves or cut programs.”
- Attempts in other states to restrict revenue growth by formula have had a negative impact on schools and services. The primary reason: no existing measure of inflation correctly captures the growth in costs of the kinds of services purchased in the public sector. Education and health care costs, for example, are rising at twice the rate of the CPI.

**OUR PUBLIC SCHOOLS AND THE NEW PROPERTY TAX RELIEF LAW, PART II**  
*Voter Voice, April/May 2007*

The South Carolina Property Tax Valuation Reform Act (A388) of 2006 exempts homeowners from real property tax for school operations and caps the rate at which the property tax can rise. To compensate, the State will collect an extra penny sales tax and distribute the revenue to the school districts. As the State makes the transition to this new funding scheme, the Charleston County School District (CCSD) is feeling the crunch. Read on...

In January, Donald Kennedy, CCSD Chief Financial Officer, projected a \$17 million shortfall for the 2007-2008 budget. To narrow the gap, he was orchestrating a search for redundant, ineffective or underused district programs and activities that could be eliminated. However, on March 12<sup>th</sup>, Mr. Kennedy announced to the School Board that the deficit would be between \$25 and \$32 million. What’s going on here?

Mr. Kennedy based his initial projection on two reasonable assumptions: 1) Under the new law, the district would receive approximately the same amount of State money as in the current year. 2) There would be budget increases beyond the district’s control, i.e., State mandated but unfunded increases in teacher salaries and benefits; a rise in allocation to charter schools, also mandated by the State; and the cost of the added penny sales tax on goods and services. What he didn’t count on was that the State would cut CCSD’s revenue by \$15 million. (This amount has been subsequently revised downward to \$11.4 million.)

The Education Finance Act of 1977 (EFA) defines a minimum amount of per pupil funding and allocates funds to school districts accordingly. Each district contributes a portion of EFA funds based on the district’s assessed property values and its ability to raise local funds; the State funds the remainder. Charleston, ranked at the top of the index of taxpaying ability, has

seen a steady decline of State EFA funds since fiscal year 2001 and has raised local taxes to compensate. On March 9<sup>th</sup>, Mr. Kennedy learned that the State lowered its allocation to CCSD for 2007-2008 even though CCSD can no longer fill the gap with local revenue. EFA has not been repealed or amended, so the State has continued to calculate the district's obligation based on its ability to raise revenue while A388 has placed the source of that revenue off limits. Ouch!

The combination of reduced revenue and higher expenses creates a deficit exceeding \$25 million in the CCSD 2007-2008 General Operating Budget of \$300+ million. A reduction of this magnitude will put new programs on ice and will require substantial cuts in existing programs and services. The CCSD Board and Administration have met with members of the Charleston legislative delegation to enlist their support and have urged the Legislature to keep Charleston's allocation for 2007-2008 at the current year's level. In the long term, they recommend that the State update funding formulas to ensure fairness and adequacy. As of this writing, the Legislature has not addressed Charleston's dilemma. [LWVCA supported the school district in a letter to the Charleston delegation that was published in the Post and Courier on March 27<sup>th</sup>.]

CHARLESTON COUNTY SCHOOL DISTRICT UPDATE:  
*Voters Voice*, April/May, 2008

On February 8<sup>th</sup>, 2008 Professor Holley Ulbrich, SC tax policy expert and tax policy director for the board of the LWVSC, spoke in Charleston about the impact of the 2006 SC tax reform on public schools. The new law exempted owner-occupied residential property from property taxes for school operations, increased the SC sales tax to reimburse school districts for the lost revenue, capped the allowable property assessment rate and capped the annual millage increase on non-owner-occupied property. Holley portrayed an impending "train wreck" based on the following factors: Sales tax is more volatile than property tax and is not a long-term growth revenue source. The annual increase in State funds is not sufficient to meet the needs of school districts, especially those with a rapidly growing population. Districts are still receiving State funds based on the Index of Taxpaying Ability, i.e., the assessed value of real estate, even though they no longer tax owner-occupied property. Districts are severely limited in their ability to raise revenue.

LWVCA is on record favoring amendments to the 2006 law to relieve some of the short term problems and a comprehensive review and revision of State education fiscal policy to provide long term adequate and equitable resources statewide.

The Charleston County School District budget is awash in red ink again this year, \$20 million according to the most recent projection. And that is without adding any new programs. Reasons: Increases in teacher salaries and in payments to charter schools; rising cost of electricity and gasoline; reduced State revenue because Charleston is at the top of the Index of Tax Paying Ability (see above); reduction in federal funds. There is optimism but no assurance that the SC Legislature will authorize an emergency allocation of \$10 million as they did last year. In recent years, declining State revenue has prompted serious "belt tightening." Currently the Administration is considering possible ways to reduce expenses, such as renegotiating vendor contracts, delaying some salary increases, using a portion of the district's reserve funds, redirecting some special revenue to the general operating fund and even increasing class sizes.

Last update: September 1, 2008