

# Holley Hewitt Ulbrich

## Direct Examination

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# “Analysis of South Carolina County and School District Revenue Tax Rates and Revenues”

by Jessica Weijia

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That during the decade of the 90's, state spending for public education in SC has not kept pace with expenditures, shifting more of the burden to local revenue sources. As a result, undeveloped (rural) districts have experienced an increase in the mill rates. In contrast, developed counties have held mill rates fixed because assessed property values grew as did revenue from local sales taxes. These observations are based on a study of 29 single school district counties in S.C., during the years from 1990 to 1998. Data from “Ranking of counties and school districts of South Carolina” and “Local Government Finance Report” were used in the analysis.

# Holley Hewitt Ulbrich

## Direct Examination

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I.Examination of the state revenue system.

II.Examination of educational revenue.

III.Inequity of the state educational funding system.

### Key Ideas:

(1) Additional resources could be available to fund education;

(2) The current system places the burden of paying for education on those with the least ability to pay.

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## Direct Examination

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- I. Examination of the state revenue system.
  - A. Tax revenue.

# South Carolina State and Local Tax Revenue, 2000 (\$ Millions)

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Overall own source tax revenue	\$9,543
State tax revenue	\$6,381
Local tax revenue*	\$3,162

*\*Includes school districts.*

*Source: Bureau of the Census*

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## Direct Examination

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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.

# Sources Of SC State and Local Revenue

<u>Share</u>	<u>\$\$ millions</u>	<u>%</u>
Individual and corporate income tax	\$2,673	17%
Sales and excise taxes	\$3,480	23%
Fees and charges	\$4,270	28%
Property taxes	\$2,680	17%
Miscellaneous	\$2,247	15%

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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.
  - C. How do we compare to the national average.



# Per Capita Own Source Revenue, 2000

	<u>South Carolina</u>	<u>U.S. Average</u>
Overall revenue	\$3,826	\$4,439
State revenue	\$2,228	\$2,529
Local revenue*	\$1,598	\$1,915

*\*Includes school districts.*

*Source: Bureau of the Census*

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## Direct Examination

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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.
  - C. How do we compare to national average.
  - D. Comparison to other states.

# Comparison to Other States, 1999-2000

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- Per capita state and local revenue

\$1,513

Rank 45

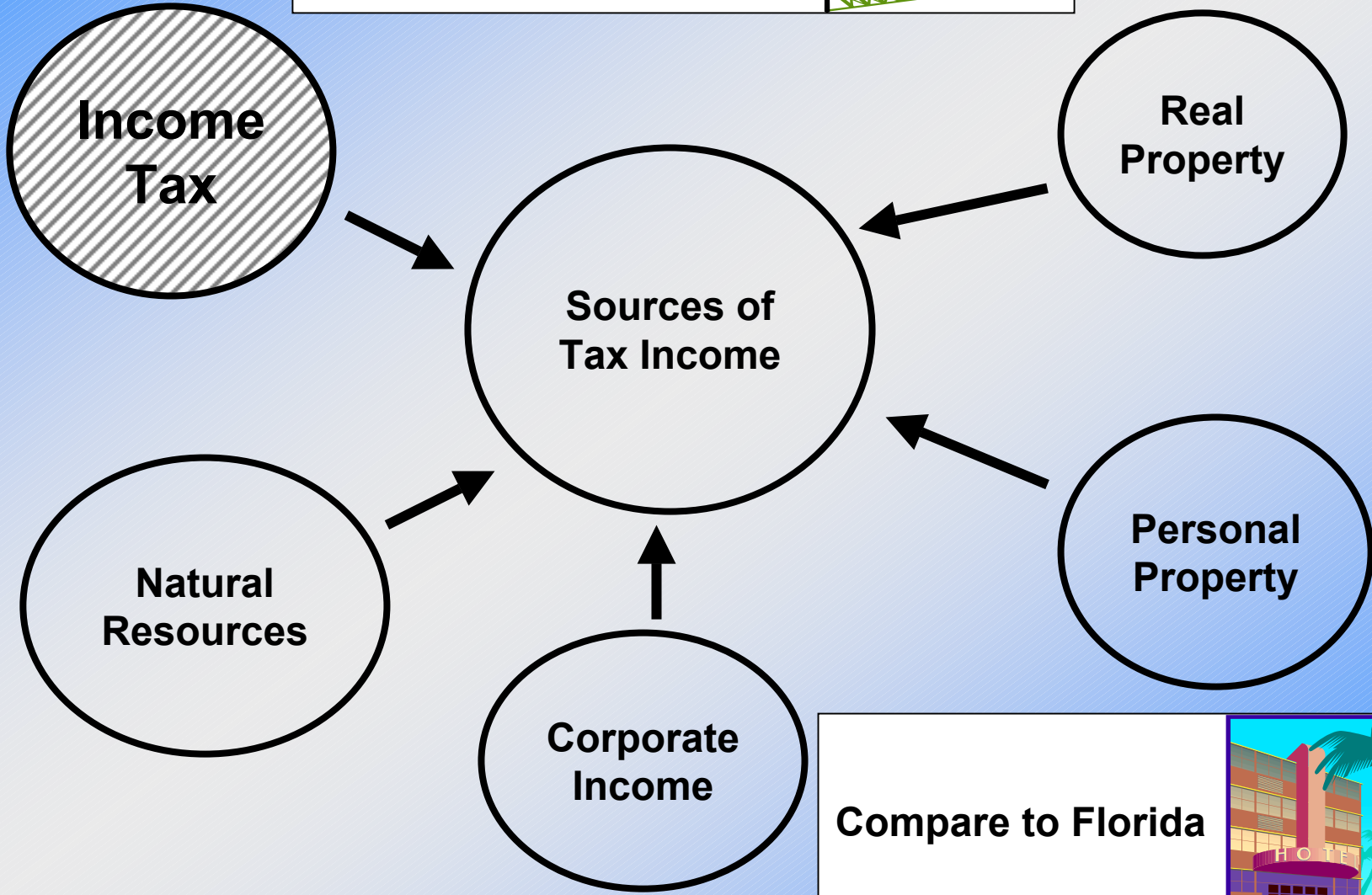
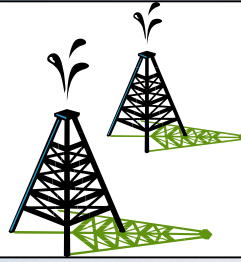
- State and local revenue as a percent of personal income

10.5%

Rank 40

*Source: Governing Magazine*

**Compare to Alaska**



**Compare to Florida**



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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.
  - C. How do we compare to national average.
  - D. Comparison to other states.
  - E. State fiscal need verse tax capacity and tax effort.

# Fiscal Need, Tax Capacity, and Tax Effort

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- Fiscal Need = an index of whether it costs more to serve your citizens than the average state because of urban concentration, climate, poverty, etc.
- South Carolina's fiscal need index is 101
- Tax capacity = the amount of revenue a state could raise using a typical or average group of taxes at typical rates and exemptions, with the US average = 100
- South Carolina tax capacity = 85
- Tax effort = the percent of what you could raise that you actually do raise
- South Carolina tax effort = 89
- 89% of 85% is only 76%

*Source: First Federal Reserve Bank District Review*

# Fiscal Need, Tax Capacity, and Tax Effort

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Fiscal Need:

Tax Capacity:

Tax Effort:

EDUCATION

The diagram consists of three main text elements on the left: 'Fiscal Need:', 'Tax Capacity:', and 'Tax Effort:'. A large right-facing curly bracket groups 'Fiscal Need:' and 'Tax Capacity:'. A second, smaller right-facing curly bracket groups 'Tax Capacity:' and 'Tax Effort:'. To the right of the first bracket is the word 'EDUCATION'. To the right of the second bracket is the phrase 'POLITICAL WILL'.

POLITICAL WILL

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## Direct Examination

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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.
  - C. How do we compare to national average.
  - D. Comparison to other states.
  - E. State fiscal need verse tax capacity and tax effort.
  - F. Examples of lost revenue.



# Losses in the State Revenue Stream

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Homeowners' school property taxes	\$251 million
Homestead exemption for the elderly	\$26 million
Business location incentives	\$200 million
Expanded pension exemptions	\$49 million
Failure to revise the sales tax cap on cars	\$94 million
<b>Total</b>	<b>\$620 million</b>

# **Homestead Exemption Sec 12-37-251(F) (2002)**

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“This exemption allowed by this section is conditional on full funding of the Education Finance Act and on an appropriation by the General Assembly each year reimbursing school districts an amount equal to the Economic Research Section of the Budget and Control Board estimate of total school tax revenue loss resulting from the exemption in the next fiscal year.”

# Losses in the State Revenue Stream

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Homeowners' school property taxes	\$251 million
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Expanded pension exemptions	\$49 million
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<b>Total</b>	<b>\$620 million</b>

# Losses in the State Revenue Stream

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- **\$620 million = 11% of the budget**
- **\$620 million = \$310 million for education based on current pro rata share**

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## Direct Examination

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- I. Examination of the state revenue system.
  - A. Tax revenue.
  - B. Sources of SC state and local revenue.
  - C. How do we compare to national average.
  - D. Comparison to other states.
  - E. State fiscal need verse tax capacity and tax effort.
  - F. Examples of lost revenue.

### Key Ideas:

- (1) South Carolinians are not taxed more than other states;
- (2) If South Carolinians were taxed at national average, there could be additional funds available for education.

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## Direct Examination

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II. Examination of educational revenue.

A. How much goes to education.

# How much goes to education

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**Total flow of funds to school districts from the state equals \$2,577 million.**

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## Direct Examination

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II. Examination of educational revenue.

A. How much goes to education.

B. Where the money comes from shows lack of coherence in system.



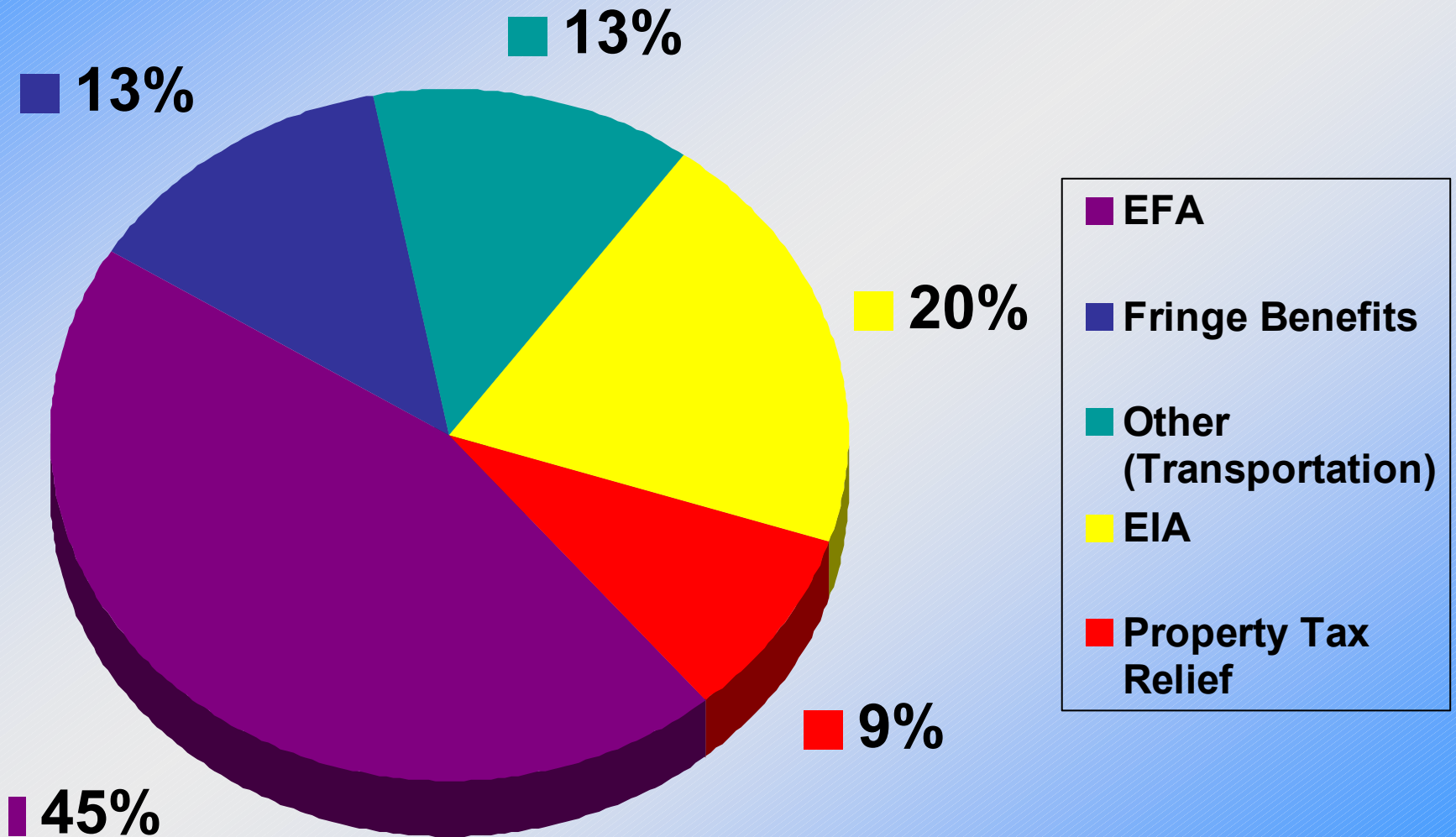
# Major State Sources of Education Funding, 2001

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Total flow of funds to school districts \$2,577 million:

- EFA \$1,160 million
- Fringe benefits \$338 million (est.)
- Other (transportation) \$335 million
- EIA \$506 million
- Property tax relief \$238 million

# Where The Money Comes From Shows Lack Of Coherence In System.



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## Direct Examination

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- II. Examination of educational revenue.
  - A. How much goes to education.
  - B. Where the money comes from shows lack of coherence in system.
  - C. Failure to fully fund EFA.

# Factors In The EFA Formula

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- Weighted pupil units: how many students do you have with adjustments for special needs.
- Basic student cost: determined in 1976 the cost of defined minimum program.
- Index of tax paying ability.

# Funding Issues Within EFA

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- Failure to keep BSC in line with inflation
- Failure to revisit BSC to account for mandated quality changes
- Failure to consider changes in employers' expectations

# Holley Hewitt Ulbrich

## Direct Examination

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- II. Examination of educational revenue.
  - A. How much goes to education.
  - B. Where the money comes from shows lack of coherence in system.
  - C. Failure to fully fund EFA.
  - D. Shifting responsibility to local districts.

# Sources of Revenue for School Districts

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	<u>2001</u>	<u>1980</u>
Property taxes	42.8%	28.3%
State aid	49.2%	56.8%
Federal aid	7.9%	14.9%

*Source: Bureau of the Census*

# Local Property Taxes

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- Median taxes per pupil \$2,540
- Median school mill rate 162.5 mills

Sources; SC Department of Commerce, Clemson research based on Local Government Finance Report, Office of the Budget



# Local Property Taxes

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- Difference in effective mill rate between most developed districts and less developed districts, 30.6 mills
- Average increase in the mill rate in least developed districts 1990-98, 3.52 mills
- Average increase in the mill rate in more developed districts, 1990-98, 1.11 mills

Sources; SC Department of Commerce, Clemson research based on Local Government Finance Report, Office of the Budget

# Changes In The Revenue Stream: Tax Changes And School District Revenue

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Change in the assessment rate on cars	\$75 million
School district share of homeowner exemption	\$30 million
<b>Total</b>	<b>\$105 million</b>

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## Direct Examination

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- II. Examination of educational revenue.
  - A. How much goes to education.
  - B. Where the money comes from shows lack of coherence in system.
  - C. Failure to fully fund EFA.
  - D. Shifting responsibility to local districts.

### Key Ideas:

(1) Under current tax system you are placing burden of paying for education on local property tax;

(2) As a result, you place the burden on individuals with the least ability to pay.

# Holley Hewitt Ulbrich

## Direct Examination

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III. Inequity of state educational funding system.

A. State not doing enough to equalize funding.

# Index of Tax Paying Ability

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$$\text{Index} = \frac{\text{Taxable wealth in district}}{\text{Taxable wealth in state}}$$

**Result: The more tax wealth you have in a district, the less state aid you get.**

# Funds Distributed According to the Index

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•EFA	\$1,160 million (2000)
•Employee Fringe Benefits	\$ 338 million (1999)
•Other (Trans)	<u>\$ 40 million (2000)</u>
Total amount through index:	\$1,538 million

Total flow of funds from State: \$2,577 million

Percentage of the total funding for education that is indexed: **60%**

## Key Idea:

The amount of funding that comes through equalizing channels is only 60% of overall state funding.

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## Direct Examination

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III. Inequity of state educational funding system.

A. State not doing enough to equalize funding.

B. Inequities result from shifting funding responsibilities down to local level.

# Differences Between Districts: Operating Revenue Per Pupil, 2001

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- Highest Dillon 1 \$15,651
- Lowest Dillon 2 \$ 6,032
- Median \$ 7,918

*Source: SC Department of Education*



# Differences Between Districts: State Aid Per Pupil, 2001

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- Highest Marion 4      \$6,143
- Lowest York 2      \$2,050
- Median      \$4,518

*Source: SC Department of Education*

# Assessed Valuation Per Pupil 2000-01

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- York 2 \$51,494
- Hampton 2 \$8,876
- Median \$17,519

*Source: SC Department of Education*

# Total Tax Levy Mills 2000-01

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- Allendale 201.00
- Horry 116.40
- Median 176.00

*Source: SC Department of Education*

# Holley Hewitt Ulbrich

## Direct Examination-Summary

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I.Examined the state revenue system.

II.Examined educational revenue.

III.Reviewed the inequity of the state educational funding system.

### Key Ideas:

(1) Resources are available to increase funding to education;

(2) The current system places the burden of paying for education on those with the least ability to pay.

# Why Public Education?

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- Public and private benefits.

# Governor Ransome J. Williams 1947

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The children of South Carolina are her most valuable investment and priceless resource. They are the very foundation of our future, and we can make no better investment than to see that the children of our State are kept healthy, and are properly educated to cope with the problems of tomorrow. I need not call to your attention the gravity and the immensity of the problem of education.

# Abbeville v. State

515 S.E.2d 535, 539 (S.C. 1999)

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The purpose of providing a public education is to benefit not just the individual receiving it, but also the public at large.

# Why Public Education?

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- Public and private benefits.
- Competencies for citizens, workers and consumers.



# Governor Richard W. Riley

## 1984

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Industrial development truly begins in the classroom. Being 50<sup>th</sup> in support of education sends a message: it tells potential industries that we don't expect much from ourselves or our future. It says that Georgia and North Carolina have more confidence in their children than we do.

# Why Public Education?

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- Public and private benefits
- Competencies for citizens, workers and consumers
- Equality of opportunity

# Abbeville v. State

515 S.E.2d 535, 539 (S.C. 1999)

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We define this minimally adequate education required by our Constitution to include providing students adequate and safe facilities in which they have the **opportunity** to acquire:

1) the ability to read, write, and speak English language, and knowledge of mathematics and physical science;

2) a fundamental knowledge of economic, social, and political systems, and of history and governmental processes; and

3) academic and vocational skills.