

Financing Education

in South Carolina

A Citizen's Guide



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JIM SELF
CENTER ON THE FUTURE

Strom Thurmond Institute of Government and Public Affairs
Clemson University

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About the Citizen's Guide Series

Other citizen's guides can be viewed at the Strom Thurmond Institute Website, www.strom.clemson.edu:

Local Governments and Home Rule in South Carolina: A Citizen's Guide (2004)

Paying for Government in South Carolina: A Citizen's Guide (revised 2007)

Managing Residential Growth in South Carolina: A Citizen's Guide (2008)

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The Jim Self Center on the Future serves South Carolina and its communities by promoting awareness of important issues and trends facing the state. The Center advances public and private commitment to policies and actions that support the state's well being through collaborative research and information exchange among the state's citizens and leadership.

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Landmark Developments in Financing South Carolina Public Education

- South Carolina law first established free public schools for elementary level children in 1811.
- The state's 1895 constitution called for a three-mill county levy on various kinds of property to be used to finance education. The three-mill levy did not produce sufficient revenue in counties with very low tax bases (taxable property) per pupil, either because the county had little taxable wealth or because the county's taxable property was under-assessed relative to market value. Under the 1895 constitution, each county's state senator and House members controlled the finances of the county's school districts from Columbia.
- Compulsory public education came to the state in 1921. In 1955, as a result of the *Brown v. Board of Education* decision that required desegregation of public schools, compulsory education in South Carolina was repealed. Compulsory public education was restored in 1967.
- The state's financial responsibility for education increased in the 1930s when the state mandated a six-month school year, doubling the days of education required.
- In 1977, the General Assembly passed the Education Finance Act (EFA), still in effect today, that created a defined minimum program for all K-12 students and committed the state to funding 70% of the cost of that program in the average district.
- In 1984, the Education Improvement Act (EIA) increased the state sales tax rate from 4% to 5% with the extra penny dedicated to raising student performance, emphasizing basic skills, evaluating the teaching profession, rewarding productivity, and constructing school buildings.
- In 1998, the Education Accountability Act (EAA) set up a performance accountability system for public education in order to improve teaching and learning.
- In 1994 and again in 2006, the General Assembly created property tax relief programs for homeowners that substantially altered the distribution of responsibility for education funding. The 1994 legislation provided relief from school operating taxes for homeowners on the first \$100,000 of property value. The 2006 legislation, Act 388, created another one-cent increase in the sales tax dedicated to full relief from school operating taxes for homeowners.

Public Education Today: Structure and Funding

- Oversight of the South Carolina public education system is housed in the Department of Education, led by an elected Superintendent of Education.
- The structure and fiscal powers of school districts have been established by a series of local legislation. As a result, districts vary greatly in their power over their own budgets, their ability to set the mill rate, the size and structure of their boards, and other aspects of school district governance.
- The number of school districts was reduced from more than 1,700 in the early 1900s to 120 in the 1950s. The size of early school districts was limited to seven square miles, presumably because no transportation was provided.
- School district consolidation in the 1950s was driven by an expanded state role in education, including statewide funding of school transportation and a three-cent sales tax to finance an extensive school building program, which consolidated rural schools.
- In 2009, the state has 85 school districts. Sumter County's two districts are scheduled to be consolidated in 2011.
- There are 29 counties with a single school district and 17 with two to seven districts each. Ten school districts also serve small parts of neighboring counties. Only five of the multidistrict counties have some kind of central oversight or coordinating authority for their districts.
- Total students in public schools statewide were 689,898 in 2008-09.
- The number of students served in individual school districts ranged from 68,840 in the Greenville County school district to 716 students in Marion 7 in 2008-09. The median district served 4,185 students.
- Total funding for preK-12 public education in 2006-07 was \$7.0 billion, of which \$3.3 billion came from local sources, \$3.0 billion from the state, \$694 million from federal sources, and \$33 million from other local governments.
- State funds are allocated to districts under the EFA, the EIA, general appropriations, the lottery, and through reimbursement for property tax relief.
- The structure of South Carolina's education funding attempts to ensure that the quality of a child's education does not depend solely on the tax base in that child's district by weighting the EFA portion of state aid more heavily to those districts with less tax capacity.
- The share of funding for current school operations coming from state aid in 2006-07 ranged from 14% to 76% of combined state-local funding, depending on a district's ability to pay and how much the district chose to spend. The average district received 48.2% of its combined state-local funding from the state.
- State property tax relief for homeowners and businesses provided 13% of state revenue to school districts in 2006-07, or \$388 million. Nearly 87% of this amount was relief for homeowners. With the implementation of Act 388, the state share of school operating revenue increased sharply in 2007-08 as \$565 million was sent to school districts for additional homeowner property tax relief. However, total school funding was not increased by this shift from property to sales tax revenues.

Governance

- Governance refers to the structure of school district governing bodies, including how the governing bodies are created, how many members they have, how those members are selected, and what their responsibilities are.
- Governance also includes the division of responsibilities for decision-making between the state and local governing bodies.

Structure

- South Carolina school districts are governed by school boards of trustees.
- Most districts directly elect school board members. However, board members are appointed in seven of the 85 districts. In Clarendon 1, five board members are elected and four appointed.
- School district boards vary in size from five to 12 members. Some districts elect their board members by single-member districts or numbered seats. Others elect all members at large. Still other districts elect their boards using a combination of single-member districts or numbered seats and at-large members.
- In five multidistrict counties, a county board of education or other coordinating body has some responsibility for education.
- In Clarendon County and Dillon County, the legislative delegations appoint county boards of education that make appointments to two of the three school boards in Clarendon County and to the three Dillon County school boards. Marion County and Anderson County have elected county boards of education with fiscal authority over school districts, but Marion County's board appoints school board members and in Anderson County school board members are elected. Orangeburg County has a commission with limited fiscal authority over the county's three districts.
- All school boards appoint a superintendent to administer board policies and manage day-to-day operations of the school district.
- In seven states, including North Carolina, Tennessee, and Virginia, schools are a county responsibility. Municipalities or townships are responsible for public schools in eleven states. In other states, including South Carolina, school districts are often independent but may not have fiscal autonomy.

School district responsibilities

- School districts are expected to provide education from kindergarten through twelfth grade and to support adjunct services such as vocational education, adult education, transportation, and school lunches. Minimum standards are set by the state.
- School boards review and approve district budgets, including the type and level of enhanced educational services provided above minimum state standards with local and grant funds. A district's fiscal authority (see below) may limit the school board's ability to set the local property tax rate to fully fund its recommended budget.
- Teacher qualifications, minimum teacher pay and benefits, curriculum standards, instructional days, and time requirements for classes are set by the state. However, school boards have some discretion in setting teacher salaries over and above state minimums.
- Pre-kindergarten programs for four-year-olds are available in all districts but not for all children, funded in part by the state. Priority in using state funds is given to low income and special needs children.
- School boards can decide whether to offer locally funded after-school care.
- When state funding is insufficient to meet state standards, local school boards may be granted more flexibility in determining class size and other factors that affect their costs.
- Because school districts have few alternative revenue sources, reductions in state funding often trigger higher fees for extracurricular activities, more use of fund-raising activities by volunteers, and reduction or elimination of optional educational services.
- School boards plan and implement school construction programs, including financing.

Fiscal authority

- Fiscal authority for school districts is the power to set the budget and the mill rate. Some school districts have full fiscal authority, while in others this power may belong to county council, a county board of education, or the legislative delegation.
- Starting in 2007-08, Act 388 changed the fiscal authority of many school districts by limiting the maximum annual increase in millage to district population growth plus inflation. If a district has a more restrictive millage cap under local law, it remains in place.
- Twenty-three districts in 13 counties have full fiscal authority within the Act 388 millage cap:
Aiken, Berkeley, Charleston, Cherokee, Chester, Darlington, Edgefield, Georgetown, Horry, Lexington 1, 2, 3, 4, and 5, Marlboro, Spartanburg 1, 2, 3, 4, 5, 6, and 7, and Union.

- Twenty-six districts have no fiscal authority:

In Dillon 1, 2, and 3 the legislative delegation approves the budget.

In Florence 2, 3, and 5 the budget is approved in town meetings.

Fourteen county councils approve budgets of twenty school districts:

Beaufort, Calhoun, Clarendon 1, 2 and 3, Colleton, Greenwood 50, 51, and 52, Hampton 1 and 2, Jasper, Lee, McCormick, Oconee, Richland 1 and 2, Saluda, and Sumter 2 and 17.

- Thirty-three districts have limited fiscal authority.

Special legislation has given these districts the ability to raise taxes by formula or up to a limited mill increase:

Allendale, Anderson 1, 2, 3, 4 and 5, Bamberg 1 and 2, Barnwell 19, 29 and 45, Chesterfield, Dorchester 2 and 4, Fairfield, Florence 4, Greenville, Lancaster, Laurens 55 and 56, Marion 1, 2 and 7, Newberry, Orangeburg 3, 4, 5, Pickens, Williamsburg, and York 1, 2, 3, and 4.

To exceed limitations, these districts must seek approval through referendums, county council, the legislative delegation, or the county board of education.

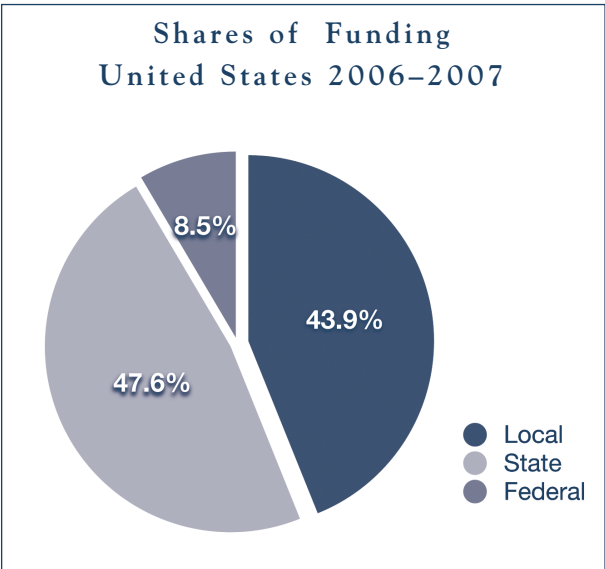
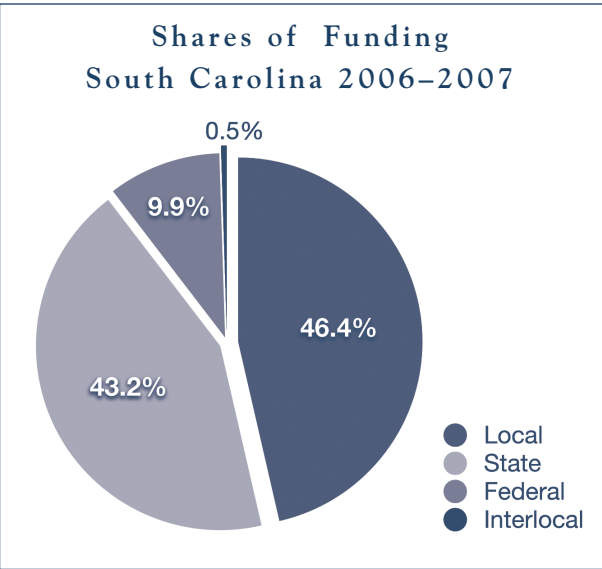
- Three districts have fixed statutory millage caps:

Abbeville (cap is current millage) and Kershaw (74 mills) need county council approval to exceed their caps.

Florence 1 must hold a referendum to increase millage from its current level.

Sources of Funding for School Districts

- Like most states, South Carolina relies on a partnership between the state and school districts to finance the operations of public schools. State and local revenues provide the two largest shares of funding for school operations in both South Carolina and nationwide (see figures below).
- School districts also rely primarily on the property tax to fund debt service for capital expenditures. While there is occasional state aid for school construction, most of the cost of building schools falls on local taxpayers.
- Federal aid accounted for about 9.9% of total education funding in 2006-07, higher in districts and schools with a larger percentage of children with special needs or from low income households.
- School districts in other states may receive revenue from local sales tax revenue, wage taxes, income taxes, and construction impact fees in addition to state and federal aid and property taxes. South Carolina school districts are not authorized to use most of these revenue tools.
- Local funding had been absorbing an increasing share of the rising cost of education. But beginning in 2007-08, Act 388 shifted that state-local balance back to the state when \$565 million in homeowner property tax relief was included as a state share.



Local Funding for Education

- School districts rely heavily on revenue from taxing real and personal property to fund their share of the operating cost of public schools. Other local revenue sources include tuition, food sales, activity fees, rental income, and earnings on investments.
- Most school construction costs are covered by local bond issues with no assistance from the state. Districts rely almost exclusively on revenue from property taxes to pay the debt service on these bonds.
- The state's EFA formula for distributing funds to districts on a per pupil basis establishes a minimum required local share of funding that is based on a district's ability to raise revenue from the property tax. A district must raise at least its required local share in order to receive state EFA funds.
- Local revenue raised for funding education in 2006-07 was almost \$3.3 billion statewide, with 23% used for the EFA local share.
- Districts may—and do—provide enhancements beyond EFA's defined minimum program by using local tax revenues, but Act 388 now prevents districts from imposing operating millage on owner-occupied residential property. Owner-occupied residential property is still subject to taxes for school debt service.
- The legislature has authorized a one-cent local school sales tax in 17 counties by special legislation. Cherokee, Chesterfield, Clarendon, Darlington, Jasper, Lee and Lexington counties are using this tax to provide property tax relief on current capital outlays and/or the debt service on general obligation bonds used to fund capital improvements. Only in Lexington County may this tax also be used for tax relief on school operations.
- Unlike municipalities and counties, school districts do not have access to sales taxes (except for construction), accommodations taxes, hospitality taxes, business licenses and franchise fees to help to pay for education.

Property tax

- The property tax is the primary local revenue source for both operations and debt service for school districts. It provided 82% of local school district revenue in 2006-07, before implementation of Act 388's full exemption of homeowners from school operating taxes beginning in 2007-08.
- School district taxes accounted for over 60% of the property tax bill for many homeowners prior to Act 388. Now only about 10% of total property taxes paid by homeowners are for schools.
- Property taxes owed are determined by multiplying a property's assessed value by the mill rate.
- Counties administer the property tax on behalf of school districts and other local governments.

Assessed value

- For more than seventy years, county tax assessors ignored the constitutional requirement that personal and real property be assessed at 100% of market value.
- In the early 1970s, the legislature was faced with lawsuits from owners of state-assessed business and industrial property, claiming that they were carrying an unfair share of the tax burden compared to county-assessed residential and commercial property.
- The legislature proposed constitutional changes that were approved by voters, creating an assessment system based on market value with different assessment ratios for different classes of property.
- The major assessment classes and ratios are 4% for owner-occupied residential and noncommercial agricultural property, 6% for commercial and rental property, corporate agricultural property, and personal vehicles, 9.5% for business personal property and 10.5% for manufacturing and utility property. For tax purposes, agricultural real property is usually valued at its much lower value in agricultural use.
- An owner-occupied home with a market value of \$100,000 has an assessed value of \$4,000, while a rental property with the same market value would be assessed for \$6,000 and an industrial property for \$10,500.
- Much of the state's newer industrial property is subject to a fee in lieu of taxes (FILOT) agreement negotiated by the county, which gives the firm the equivalent of a 4% or 6% assessment rate and a fixed amount to be paid each year for a specified number of years.
- Manufacturing and utility real and personal property is assessed by the state. County assessors value residential, commercial, agricultural and personal property. They are required to reassess property every five years.
- In 2006, the legislature proposed and citizens ratified a change in the constitution that limits the increase in the value of property at the time of reassessment to no more than 15%. If the property has been sold during the interim, it is assessed on the basis of the sales price. This assessment cap will limit future growth in the property tax base for school districts and other local governments.
- The taxable wealth of a local government—school districts included—is determined by applying the assessment ratio to the market value of the property in each class and combining these assessed values.
- Assessed value per pupil in a school district is a measure of that district's ability to support education.
- In 2006-07, Beaufort County's assessed value was \$85,809 per pupil, the highest of all districts. York 2, Orangeburg 3, Georgetown, McCormick, Charleston, and Horry County had assessed value above \$40,000 per pupil.
- Clarendon 3 (\$6,504) and Lexington 4 (\$8,384) had the lowest assessed value per pupil in 2006-07.
- Greenwood 50, with an assessed valuation per pupil of \$16,889, was the median district.

The mill rate

- The mill rate is the tax rate that is applied to the assessed valuation to determine the amount of revenue that will be raised from the property tax. It is expressed as cents per \$1,000 of assessed value. For example, a tax rate of 125 mills would mean a tax of \$125 on \$1,000 of assessed value.
- School districts levy separate mill rates for operations and for debt service. The millage for debt service applies to all classes of property, but under Act 388, the mill rate for operations applies only to property classes other than owner-occupied residential.
- In 2006-07, Marlboro had the median combined mill rate for a school district at 185.3 mills. This rate covered both operations and debt service. Hampton 2 had the highest combined rate in 2006-07 at 312 mills. Charleston had the lowest combined rate at 105.4 mills.
- Act 388 limits mill rates in school districts (and other local governments) to a maximum annual increase of inflation plus district population growth.

Local revenue and property tax relief

- The General Assembly exempted owner-occupied residential property—about one-third of the tax base statewide—from all school operating taxes in Act 388, passed in 2006. This legislation incorporates and supersedes the 1994 legislation exempting the first \$100,000 in market value of owner-occupied residential property from taxation for school operations. It also incorporates the reimbursement to school districts for revenues lost because of the \$50,000 homestead exemption for the elderly.
- The state's reimbursement to districts for the two earlier forms of homeowner property tax relief was \$328.8 million in 2006-07, funded by state individual and corporate income tax revenue. Funds for the additional reimbursement authorized by Act 388 come from an increase in the state retail sales tax from 5% to 6%, effective June 2007.
- Beginning with the 2007-08 fiscal year, school districts received their Act 388 property tax relief reimbursement of \$534.9 million based on revenue they would have collected under prevailing mill rates. Reimbursements in subsequent years are increased by statewide inflation and population growth. The share of the annual increase going to a particular district is based on EFA weighted pupil units, with an additional weight of 0.2 for pupils in poverty.
- Beginning in 2007-08, Act 388 also provided 31 districts in the state with \$30.1 million in additional revenue unrelated to their tax base. Counties receive a minimum of \$2.5 million a year, distributed per pupil among districts within the county.
- In 2008-09, total property tax reimbursements to school districts for owner-occupied residential property were estimated to be \$914.4 million. Only \$25 million—less than 3% of the total—provided additional state funds to districts over base year reimbursements.
- School districts are also reimbursed for the state's phase-out of the tax on business inventories at the 1987 mill rate and on the assessed value of inventories. In 2006-07, these reimbursements came to \$43 million.

Tax increment financing and FILOT

- Tax increment financing (TIF) authorizes the redevelopment of blighted areas by local governments. Local governments (usually municipalities) make public investments in the designated area and get to keep all the increased tax revenues resulting from new private investments or increased property values in that area. The revenue is used to pay off the bonds issued to finance those public investments. TIF zones have a limited lifetime. Once the lifetime—typically 15 years—has expired, the expanded tax revenue accrues to cities, counties, and school districts for general use.
- Tax increment financing requires the consent of the school district, because it will not receive any of the increase in revenue from the TIF zone for the designated period. However, once the TIF expires, the school district will benefit from the increased value of the properties in the zone. The terms of the TIF—the area to be included and the length of the TIF agreement—are negotiated among the three local governments: city, county and school district.
- Fee in lieu of tax agreements with industrial taxpayers are negotiated with county government. The share of revenue school districts receive from FILOT agreements is at the discretion of the county.

Borrowing

- School districts may issue short-term tax anticipation notes to provide an income flow until tax revenues become available in November, almost halfway through the fiscal year.
- School districts can borrow through general obligation bonds to finance construction programs. District residents vote in referendums to approve construction programs and their associated bond issues.
- Borrowing is limited to a maximum of 8% of the district's assessed property value. To exceed this constitutional limitation, a referendum is required.
- More than half of school bond referendums are approved by the voters.
- Over \$6 billion in bonds for school facility construction have been issued since 1978.
- The year 2008 was a banner year for school bonds, with over \$1 billion in funding approved in nine districts.
- Some school districts have used lease purchase arrangements, similar to installment purchases, as an alternative to borrowing because of the 8% debt limit.

State Funding: Education Finance Act

- The EFA provided \$1.4 billion in state aid to education in 2006-07. Revenues for EFA obligations are appropriated from the state's General Fund.
- A school district must provide its required share of cost of the EFA defined minimum educational program, which is set annually by the legislature and expressed as a base student cost in terms of dollars per weighted pupil. The required local share is based on the district's ability to raise revenue from its tax base. School districts provided \$603.3 million in required matching support in 2006-07.
- On average statewide, the EFA provides 70% of the cost of the defined minimum program while local districts provide 30%.
- Wealthier districts receive less than 70% of the EFA's defined minimum program from state funds and poorer districts receive a larger share.
- Sixteen districts received less than the 70% EFA state funding average in 2006-07, including the larger and more urban Charleston, Greenville, and Horry County school districts. Beaufort County schools received the smallest share (2%) of the cost of the defined minimum program under the EFA formula in 2006-07.
- Clarendon 3 received 92% of the EFA cost per pupil from the state, and Lexington 4 received 90%. Sixty-seven additional districts received more than 70% of the EFA formula amount from the state in 2006-07.
- The formula for determining how much money a district will receive from the EFA and the amount the district must provide is based on the number of weighted pupil units in a district, the base student cost per pupil as defined by the legislature, and the district's index of taxpaying ability.

Index of taxpaying ability

- The EFA index of taxpaying ability is based on the assessed value of real and personal property in a school district, including the imputed assessed value of revenue from industrial property subject to county FILOT agreements.
- The South Carolina Department of Revenue annually updates records of the value of all taxable property in the state and calculates an index of taxpaying ability for every district to be used in the EFA distribution formula.
- Each district's index is calculated by dividing the assessed value of taxable property of the school district by the assessed value of all taxable property in the state. The district's index shows what percentage of the state's taxable property value is in that district.
- The EFA allows for a two-year lag in reporting taxable property values. In 2006-07, the index of taxpaying ability was computed on the basis of 2004 state property tax value of \$19.1 billion.

- The Charleston County school district had the highest total assessed property value of all the state's eighty-five districts, close to \$2.7 billion in 2004. The district's ability index of 0.12934 means that it had 12.934% of the state's taxable property value in that year.
- Clarendon 3 had the lowest assessed property value in 2004, \$8 million and 0.047% of the state's taxable property with an ability index of 0.00047.

Base student cost

- Base student cost per pupil is set annually by the legislature. It is adjusted annually to reflect the inflated cost of providing the EFA defined minimum educational program. No changes in quality, higher expectations, or system demands have been taken into account since the program was established in 1977.
- Base student cost covers the cost of providing classrooms, teachers, supplies, and other needs to provide the level of educational quality specified in the 1977 legislation.
- When EFA funding began in 1979, the base student cost per pupil for the defined minimum program was set at \$791. The base student cost has been funded at or near the requirements of the EFA in only 12 of the past 30 years.
- The 83% funding of base student cost in 2003-04 and 80% funding in 2004-05 were the lowest since the adoption of the act. During earlier recessions, funding remained above 90%. In 2008-09, the original base student cost of \$2,578 per pupil was cut midyear to \$2,190, or 85% of the full funding level.
- The cost of education has risen faster than the rate of inflation because of improvement in teacher credentials, higher salaries, mandated smaller classes, federal requirements, more accountability, and other increases in quality.
- As a result of increased costs, state funding from the EFA, which provided 52.6% of total district operating funds in 1980, provided only 20.3% of total operating funds in 2006-07.

Weighted pupil units

- The state funds a foundation educational program for each student based on his or her weighted pupil unit.
- The EFA defines a weighted pupil unit for each type of student in the education system to use in the act's funding formula.
- Weightings are determined by considering the cost of educating different student populations based on their specific educational needs.
- Weighting factors include grade level, learning disabilities, physical and emotional disabilities, homebound students, and vocational students. Students with no special needs in grades 4 through 8 are given a weighting of 1.0. Autistic and visually and hearing handicapped students are at 2.57, the highest weight.

- In 2006-07, 21% of EFA funds were used to educate students with physical, emotional or learning disabilities.
- Total weighted pupil units in the state numbered 857,199 in 2006-07. The actual pupil count was 679,328.

Computing state and local shares under the EFA formula

- Step 1: Calculate a district's EFA operating funds for 2006-07:

$$\text{weighted pupil units (wpu)} \times \text{base student cost (bsc)}$$

For Charleston County: $50,611.59 \times \$2,367 = \$119,797,633.53$

For Clarendon 3: $1,559.44 \times \$2,367 = \$3,691,194.48$
- Step 2: Calculate a district's required local match:

$$\text{state wpu} \times \text{bsc} \times \text{index of taxing ability (ita)} \times .30 \text{ (average local match)}$$

For Charleston County:
 $857,203.725 \times \$2,367 \times 0.12934 \times .30 = \$78,729,305.225$ local match

For Clarendon 3:
 $857,203.725 \times \$2,367 \times 0.00047 \times .30 = \$286,089.172$ local match
- Step 3: Calculating the state aid from EFA:

$$\text{total local } \& \text{ EFA (step one answer) minus local match (step two answer)}$$

For Charleston County:
 $\$119,797,633.53 - \$78,729,305.225 = \$41,068,061.305$ EFA aid (34.3% of total)

For Clarendon 3:
 $\$3,691,194.48 - \$286,089.172 = \$3,690,907.588$ EFA aid (92.2% of total)

Other State Funds for Education

Education Improvement Act

- In 1984, the General Assembly passed the EIA with funding provided by increasing the state sales and use tax rate from 4% to 5%. In 2006-07, the EIA penny brought in \$646.7 million in revenue to support public education.
- The EIA focuses on raising student performance, strengthening teaching and testing of basic skills, elevating the teaching profession, improving management and fiscal efficiency, rewarding schools and school districts on measurable performance and progress, implementing quality control, rewarding productivity, creating effective partnerships, and providing school buildings conducive to learning.
- The EIA funded some 48 programs in 2006-07. EIA grants for academic assistance to all grades from kindergarten through grade twelve, early childhood education for four-year-olds, summer school, advanced placement courses, and gifted and talented programs totaled \$172.6 million. Teachers' salary increases (\$95.3 million) and salary supplements for nationally board certified teachers (\$41.5 million) were other large EIA funding categories in this year.

Other state aid

- Over 84% of the \$598.5 million in general appropriations for preK-12 education in 2006-07 were used to pay for fringe benefits and retirement insurance for school personnel. General appropriations of \$43 million also funded bus drivers' salaries.
- The state purchases all school buses for school districts. In 2006-07, 712 buses were purchased using \$36.8 million in appropriations from the General Fund and the Capital Reserve Fund. Bus purchases vary from year to year.
- The state also purchases instructional materials for school districts. In 2006-07, the state appropriated \$54.8 million for this purpose, including \$23.3 million from the EIA.
- The state occasionally allocates portions of state capital improvement bonds for school facilities. The last major state bond issue available for school districts was for \$104.4 million in 1994.

The lottery

- In 2000, South Carolinians voted to amend the constitution to permit a state lottery, called the South Carolina Education Lottery.
- The lottery enabling legislation provides that "proceeds of lottery games must be used to support improvements and enhancements for educational purposes and programs as provided by the General Assembly" and that the net proceeds must be used to supplement, not supplant, existing resources for education purposes and programs.
- The General Assembly approves allocation of the lottery proceeds each year.
- Higher education claims the larger share of lottery appropriations. In 2006-07, \$219 million of

\$313 million in lottery appropriations was used for scholarships and tuition grants.

- Preschool, elementary, and secondary education received an appropriation from the lottery of \$59.5 million in 2006-07, only 2% of state funding for school operations. Over three-quarters of that amount was used to fund the K-5 program in reading, math, science and social studies. Most of the remainder was used to fund the employment of teacher and principal specialists under the EAA.

Federal Aid to Education

- The purpose of most federal aid to education is to improve educational services for disadvantaged students so they can have the opportunity to meet the same challenging state academic content and achievement standards as other children. These funds must not replace state funds or other federal program funds.
- Federal aid to education has been guided in large part by the Elementary & Secondary Education Act of 1965 (ESEA) and its subsequent legislative amendments. The No Child Left Behind Act of 2001 (NCLB), which reauthorized ESEA, also added new requirements that emphasized accountability, flexibility and local control, parental choice, and programs that work.
- In 2006-07, South Carolina districts received \$694.1 million in federal revenue—\$1,022 per pupil or 9.9% of all revenue for education.
- The district receiving the highest per pupil allotment, \$2,451, was Marion 7. Bamberg 2, Florence 3, Marion 2, and Williamsburg also received over \$2,000 per pupil. More affluent districts—Anderson 1, Dorchester 2, Lexington 1 and 5, and York 2 and 4—received less than \$600 per pupil.

Children in poverty

- Title 1 of the ESEA, as amended by NCLB, focuses on children in poverty and academically at risk. Over 28% of federal funds to South Carolina school districts in 2006-07 were designated for Title 1 programs.
- Schools eligible for Title 1 aid have more than 35% of their students in poverty. Within a district, priority in distributing aid goes to the highest poverty schools.
- In 2006-07, 503 schools in South Carolina received \$178.8 million in Title I aid. Most of the funds went to elementary and middle schools. All districts have schools that receive Title I funds.
- Other Title I programs include SC Reading First (\$13.9 million in 2006-07), which focuses on getting children in poverty to grade-level reading ability by the third grade, and Even Start Family Literacy (\$1.3 million), which combines parenting and literacy education for low income families with young children.
- The US Department of Agriculture provided \$194.5 million in reimbursements and commodities for food service programs in South Carolina schools. Families may apply for free or reduced meal prices based on their income.

Accountability and NCLB

- Among the many goals of NCLB was the improvement of the performance of public schools, with greater accountability for states and schools. NCLB is part of a trend toward standards-based or outcome-based education that emphasizes measurable goals, much like South Carolina's 1998 EAA.
- Under NCLB, states set their own accountability standards, so results are not comparable across states. South Carolina is recognized for setting high standards for its public schools.
- NCLB funding for teacher professional development was \$36.2 million in 2006-07.
- NCLB funds 21st Century Community Learning Centers for afterschool enrichment. In 2006-07, 47 school districts were funded for nearly \$7.9 million.
- All school districts received NCLB funds for school drug and violence prevention programs in 2006-07. Total funds statewide were \$3.3 million.

Other federal funds

- Since 1975, the federal government has funded public education programs that support the individual needs of children with disabilities. The Individuals with Disabilities Education Act of 2004 (IDEA) provided school districts in South Carolina with \$167 million in 2006-07. IDEA funds supplement state EFA funds.
- In 2006-07, Title II of the ESEA provided school districts with \$3 million for technology enhancements to improve student achievement and \$568,200 for math and science partnerships.
- Title III of the ESEA funds language instruction for immigrant and limited English proficient students. Districts received \$2.1 million in 2006-07.
- ESEA Title V provided districts with \$1.3 million for innovative educational programs in 2006-07. Four districts received a total of \$986,000 for public charter schools. In the same year, Title VI provided districts with \$3.2 million in funding for rural and low income schools.
- Other federal programs gave districts \$12.7 million for occupational education and \$5.9 million for adult education in 2006-07.

Disparities in Funding Among Districts

Historic legacy

- In 1977, the General Assembly passed the EFA, which provided funding for a basic education by combining state aid with a local contribution based on ability to pay. The EFA remains the primary tool for funding equalization in South Carolina.
- School districts in parts of the state where plantation agriculture had dominated the economy still bear the effects of past underinvestment in education. The school system was segregated until the late 1960s.
- A 1993 lawsuit against the state filed by 34 school districts claimed that funding of education in South Carolina was both inadequate and inequitable. The suit has been back and forth between circuit court and the state Supreme Court several times. The 2006 circuit court decision on *Abbeville v. South Carolina* only called for additional spending on early childhood education. The case is again on appeal to the state Supreme Court.

Does state and federal aid equalize?

- The primary state tool for funding equalization is the EFA, which gives more aid per pupil to districts with small tax bases than to those with more taxable resources. In 2006-07, Clarendon 3 was the district with the highest share of state revenue in EFA funding—92% of the EFA base student cost of \$2,367 per pupil, or \$2,184 per pupil. Beaufort received about 2% of the base student cost in that same year, just under \$53 per pupil.
- Because today the EFA provides only about 22% of combined state and local funding, it does relatively little to reduce inequality in total revenue per pupil between districts.
- Other state revenue is not intended to equalize. Revenue from the lottery, the EIA, and other grant sources is mostly earmarked for specific programs and allocated to districts according to the number of pupils served. State property tax relief is discussed below.
- In 2006-07, the median district received just over \$8,800 per pupil in state and local revenue combined. Richland 1, a large, urban district, had the highest amount per pupil (\$12,504), while much smaller, rural districts Dillon 2 and 3 each had about \$6,700 per pupil, the lowest levels in the state. Sixteen of the 24 districts with state and local revenue over \$10,000 per pupil got more than half of that revenue from local sources.
- Federal aid reduces some disparities among districts, especially those with a high concentration of children in poverty. However, federal funds are directed at specific programs and specific target populations and do not necessarily provide significant help with regular school operations.

Property taxes and state tax relief

- The value of the taxable property in a school district varies greatly from district to district. The median assessed valuation statewide was \$16,889 per pupil in tax year 2006, with a range from \$6,504 per pupil in Clarendon 3 to \$85,809 per pupil in Beaufort County.

- Because of the variation in the value of the property tax base, a tax rate of one mill raises widely divergent amounts in different districts. One mill raised nearly \$1.6 million in the large and wealthy Beaufort County school district in tax year 2006, but only \$8,055 in Clarendon 3.
- Hampton 2 had the highest tax rate in 2006 for school operations at 294 mills. Georgetown had the lowest at 87.5 mills.
- Some districts have high mill rates because of their limited tax base. Other districts levy high mill rates because they choose to invest more money in the school system. Still others with high mill rates are suburban districts demanding quality schools but with little high value commercial or industrial property to help shoulder the cost.
- Since the mid 1990s, state spending on public education has increased in part because the legislature has provided property tax relief to homeowners. These funds did not increase direct aid to schools, but rather replaced local property taxes formerly paid by homeowners. School districts received reimbursement of \$893.8 million from the state in 2007-08 for homeowner tax relief, an average of \$1,303 per pupil statewide.
- With Act 388, most state revenue for tax relief is related to the value of a district's tax base in owner-occupied residential property and the tax rate for school operations in 2006. Districts in some of the state's larger, wealthier, and urban counties—Beaufort, Charleston, Lexington, Richland, and York—received some of the highest levels of tax relief, over \$1,800 per pupil in 2007-08.
- Beginning in 2007-08, Act 388 now provides 31 districts in the state with additional revenue unrelated to their tax base, but it does not equalize. Counties receive a minimum of \$2.5 million, distributed per pupil among districts. McCormick (884 pupils) received \$1,648 per pupil from this distribution in 2007-08, but even smaller Marion 7 (738 pupils) got only \$218 per pupil.

Economies of scale

- All school districts must provide certain basic services and programs such as administration and transportation no matter how small the district may be. The cost per pupil for administration is generally higher in small districts than in larger districts.
- In 2006-07, four of the five largest districts in the state, including Greenville (\$120 per pupil), Horry (\$138), Berkeley (\$185), and Aiken (\$201), spent well below the state average of \$234 per pupil on district and program management.
- In comparison, all eight of the districts with less than 1,000 pupils in 2006-07 spent more than the state average per pupil on district and program management. Six of these eight districts spent more than \$600 per pupil, topped by Bamberg 2 at \$1,239 per pupil.
- Small rural districts may have high transportation costs per pupil if students live far apart. Four of the five smallest districts reported 2006-07 transportation spending per pupil well above the state average of \$217 per pupil, topped by Marion 7's \$316 per pupil.
- Districts with high enrollments also may have high transportation costs if they encompass a large land area and/or include sparsely populated areas. Per pupil spending on transportation in 2006-07 was well above the state average in four of the state's ten largest districts: Charleston (\$269 per pupil), Horry (\$289), Richland 1 (\$337), and Lexington 1 (\$281).

Policy Issues in Financing Education

District size

- Education in South Carolina is provided by 85 school districts, a considerable reduction from the 1,200 or more districts that existed before the 1950s.
- National research suggests that fiscal efficiency requires about 1,500 students in a district. Gains in efficiency, or lower cost per student, are modest after that size level is reached.
- National studies also indicate that minority students and students in poverty often do better in smaller schools and smaller districts where their special needs are more likely to be recognized and addressed.
- In 2009, South Carolina had 14 districts with fewer than 1,500 students each, which served about one fifth of the students in the state. Some of these districts might benefit from being part of a larger district with a higher tax base per pupil. Consolidation could reduce some of the existing problems of adequacy and equity between districts and pupils.
- Some of South Carolina's school districts are very large—Greenville with 68,840 pupils, Charleston with 40,591, and Horry with 36,498 in 2009. These and other large districts might be more responsive to parents and more tailored to the needs of their particular populations if some of them were split into smaller units.

Fiscal authority

- If local school boards are to be accountable, they need the autonomy to manage their own financial affairs. The lack of fiscal autonomy in some school districts and the lack of uniformity in the degree of autonomy among districts makes it more difficult for some school districts than others to respond to changes in state funding, educational costs, loss of tax base, change in school population, or other challenges on either the cost or revenue side of the budget.
- Act 388's annual millage cap has restricted the ability of districts with full and limited fiscal authority to raise revenue for school operations from the property tax.

Economic disparities

- South Carolina's spending per pupil is within a reasonable range in relation to the southeastern and national averages. However, that average conceals significant disparities between the richest and poorest districts on all the financial indicators: assessed value per pupil, mill rate, and operating revenue per pupil. Even after state equalization efforts, substantial disparities remain in educational resources per pupil between richer and poorer districts.
- Important steps were taken since the 1950s to provide additional financial resources for education, including the retail sales tax (dedicated to education) in the 1950s, the EFA with the state funding 70% of base student cost in the 1970s, and the EIA in the 1980s with an extra penny of sales tax dedicated to educational improvement. Despite those important steps to increase

the state's share of education funding and to equalize per pupil resources to some degree, there still remain substantial differences in revenue per pupil and in the mill rates local districts must levy in order to raise the local share of the cost. With the prospect of more demand for state funding to reduce disparities between districts as a result of the current court case, *Abbeville v. South Carolina*, there is pressure on the General Assembly to reconsider the size and the revenue stream used to fund public education.

- Act 388 significantly altered the role of the property tax as a source of education funding in South Carolina, taking homeowners out of the equation and shifting the burden partly to the sales tax and partly to other classes of property. Act 388 increased the level of state funding for elementary and secondary education beginning in 2007-08, but because that increase is for homeowner property tax reimbursement, these state funds do not increase overall revenue to schools.
- Implementation of Act 388 has magnified a problem in the EFA index of taxpaying ability caused by the 1994 partial exemption of owner-occupied residential property. The index formula specified in law includes the value of the exempted property, but this property is no longer taxable for school operations and the reimbursement formula is not linked to growth in that portion of the tax base.

What Can a Citizen Do?

Why get involved?

- A democratic system of government depends on the participation of informed citizens. Citizens who are aware and informed on public issues are an important counterweight to special interests seeking more money for their own purposes or trying to lower their own tax burdens or regulatory constraints.
- Citizens represent general interests when decisions are being made, such as the appropriate level of taxes to support education and the quality of public educational programs and facilities.
- A quality education system benefits all citizens whether or not they have children in school. A well educated citizenry makes democracy work. A well educated citizenry provides a competent workforce to attract and retain industry. An educated citizen is more likely to earn more and pay taxes and is less likely to require governmental social services or turn to crime and wind up in prison. A quality public school system also enhances home values.

Ways to support education

- Citizens can help shape education policy at the state and school district level by becoming informed about current issues in education finance.
- Individuals may choose to get involved by addressing one of the issues identified earlier, such as funding disparities between districts, consolidation, or fiscal authority for school districts.
- Make your state representatives and senator and members of your local school boards aware that you support adequate and equitable funding for education.
- Get involved with local schools. Attend school board meetings, parent groups, the school improvement council, and consider being a school volunteer.
- Find out what issues the schools are addressing and express your views.
- Become a candidate for school board.
- Be informed about school district bond referendums and talk to others about the issues.
- Visit your school district's Website to find out what is happening.
- Talk to local government officials about what concerns they have about financing education.
- Ask how you can make a difference.

Get information

For reports and resources on financing education, go to these sites:

SC Department of Education— ed.sc.gov

SC Budget and Control Board, Office of State Budget— www.budget.sc.gov

SC State School Boards Association— www.scsba.org

SC Association of School Administrators— www.scasa.org

Palmetto State Teachers Association— www.palmettoteachers.org

SC Education Oversight Committee— eoc.sc.gov

SC Education Association— www.thescea.org

Public Education Network— www.publiceducation.org

National Center for Education Statistics— nces.ed.gov

US Department of Education— www.ed.gov



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