FINANCING GEORGIA’S SCHOOLS: A PRIMER

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Acknowledgments

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# Table of Contents

Acknowledgments.........................................................................................................ii  
I.  Introduction ......................................................................................................... 1  
II.  Federal Funding................................................................................................... 7  
III.  State Funding....................................................................................................... 9  
   A.  Types of Funding Formula...................................................................... 9  
      1.  Foundation Grants............................................................................. 9  
      2.  Guaranteed Tax Base ....................................................................... 10  
   B.  Education Grant Programs in Georgia: QBE..................................... 11  
   C.  Recent Reforms..................................................................................... 18  
   D.  Categorical Grants................................................................................. 19  
   E.  Capital Outlay Program ...................................................................... 20  
   F.  Summary ............................................................................................... 22  
IV.  Local Funding.................................................................................................... 25  
   A.  Property Taxes ...................................................................................... 25  
   B.  Sales Tax............................................................................................... 28  
      1.  Sales Taxes for Operations ............................................................. 28  
      2.  ESPLOST........................................................................................ 29  
V.  Summary............................................................................................................ 32  
VI.  Issues/Problems ................................................................................................. 34  
   A.  Equity .................................................................................................... 34  
   B.  Adequacy .............................................................................................. 35  
   C.  Other Policy Issues................................................................................ 36  
References................................................................................................................... 38  
Appendices.................................................................................................................. 39
Financing Georgia's Schools: A Primer

I. Introduction

Georgia’s nearly 1.5 million students make it the ninth largest state K-12 school system in the United States. Furthermore, Georgia has one of the fastest growing school enrollments in the nation, registering an increase of 12.2 percent between 1996 and 2002. Educating these students requires substantial financial resources. The purpose of this Primer is to explain how education in Georgia is financed and to point out some of the major school financing issues confronting the state.

At the local level, schools are governed by 180 school systems (see Map 1; Appendix A contains a list of the systems). Of these systems, 159 are county systems, though the school systems have independent taxing authority and locally-elected school boards.1 Twenty-one systems are city, or independent school systems, of which 16 are wholly within a single county. Independent systems also have independent taxing authority and locally-elected school boards. Of the five city systems that lie in more than one county, only the City of Atlanta public school system has more than a small number of students in a second county.

In 1945, a new state constitution established a system of countywide school systems and eliminated some 1,257 sub-county tax systems.2 Cities that had independent school systems were allowed to retain them. However, the new constitution prohibited the establishment of new independent systems, although subsequent amendments to the constitution allowed for the creation of some new city systems.3 By 1967, the number of systems had been reduced from 1,257 to 194, including 35 independent systems. Since 1967, 14 independent systems have consolidated with a county school system.

Local systems differ greatly in size and composition. The largest system in the state (Gwinnett County) enrolled almost 123,000 students in 2002-2003 while the

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1 The school system in Muscogee County is technically an independent system; this is a result of the consolidation with the Columbus City System. The Bibb County School System depends on the county government to impose the tax, and is thus an exception.
2 Boex and Martinez (1998). Many of these sub-county systems had ceased functioning during the 1930s.
MAP 1. SCHOOL SYSTEMS IN GEORGIA
The student population is racially diverse; white students comprise 55 percent of total enrollment, African-American students 38 percent, and Hispanic students 5.5 percent. But there is wide variation across systems in their racial composition, generally reflecting the racial makeup of the population in the systems. The percentage of students in a system that are white ranges from nearly zero to 100 percent, while the percent Hispanic ranges from nearly zero to over 36 percent.4

The Georgia constitution states, “The provision of an adequate public education for the citizens shall be a primary responsibility of the State of Georgia.” (Art. 8, § 1, ¶ 1.) Thus, the state government is responsible for providing an adequate public education. In order to implement this responsibility the state government adopted legislation that established the legal framework under which public schools in Georgia operate. In 1985, the General Assembly passed the Quality Basic Education Act, which, along with the subsequent amendments, forms the current legal framework that guides the operation of public schools in Georgia.

The Constitution grants the authority to establish and maintain public schools to local boards of education (Art. 8, § 5, ¶ 1.) While local school systems provide the classroom education, they do so under the direction and supervision of the state through the Georgia Department of Education. The Department of Education is headed by an elected State School Superintendent, who implements policies approved by a thirteen-member state Board of Education. Board members are appointed by the Governor with the advice and consent of the Senate, one from each U.S. Congressional district, and serve 7-year terms.

K-12 education is financed through a mix of local, state and federal revenues. The federal and state governments provide funds to local school systems, which raise local revenue to supplement these federal and state funds. For the nation as a whole,
states provide about 50 percent of revenue collected for public elementary and secondary education, while the federal government contributes about 7 percent. That means that local systems contribute about 43 percent of the revenue.\(^5\) There is substantial variation across the country in these relative shares. For example, in Nevada, 65.8 percent of revenue comes from local sources, while in Hawaii only 2.2 percent of school funding comes from local sources. For Alaska, 15.4 percent comes from federal sources. In general, the federal share is larger for states that are poorer or that have a large share of Native Americans.

In the 2001-2002 school year, total spending on K-12 education in Georgia was $10.37 billion, of which 38 percent came from local sources, 56 percent from state sources, and 6 percent from the federal government. The state share has remained relatively constant over the past seven years (Table 1), though it has decreased slightly since 1998. While the state raises revenue primarily from income and sales taxes, local school systems rely heavily on property taxes to fund education. In recent years, however, local sales taxes have become an important source of revenue, but the proceeds of the sales tax can be used only for school construction and not for school operations, although there are a few exceptions.

Relative to other states, Georgia’s average current per-pupil spending of $6,437 ranks 28th in the nation.\(^6\) Figure 1 shows how expenditure per student, adjusted for inflation, has grown over the past several years. Figure 2 shows how expenditures per student in Georgia compares to the expenditures per student for the U. S. as a whole. As can be seen, over the past two decades expenditures per student in Georgia have risen from about 72 percent of the national average to about 94 percent.

\(^5\) National Center for Education Statistics (2003).
\(^6\) National Center for Education Statistics (2003). Current expenditures exclude spending on capital outlays. The Georgia Department of Education (GDOE) reports current expenditures per FTE in FY 2002 to be $9,797. The difference between the NCES and GDOE expenditures is due to differences in how expenditures are reported and how students are counted.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total Student Enrollment</th>
<th>Local Revenues</th>
<th>% Local</th>
<th>State Revenues</th>
<th>% State</th>
<th>Federal Revenues</th>
<th>% Federal</th>
<th>Total Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,301,195</td>
<td>$2,509,538,840</td>
<td>38.9</td>
<td>$3,670,616,395</td>
<td>56.9</td>
<td>$276,289,548</td>
<td>4.3</td>
<td>$6,456,444,783</td>
</tr>
<tr>
<td>1997</td>
<td>1,333,846</td>
<td>$2,728,231,355</td>
<td>39.0</td>
<td>$3,979,233,918</td>
<td>56.9</td>
<td>$281,590,579</td>
<td>4.0</td>
<td>6,989,055,852</td>
</tr>
<tr>
<td>1998</td>
<td>1,365,549</td>
<td>$2,775,401,320</td>
<td>37.4</td>
<td>$4,313,762,545</td>
<td>58.1</td>
<td>$334,323,995</td>
<td>4.5</td>
<td>7,423,487,860</td>
</tr>
<tr>
<td>1999</td>
<td>1,390,341</td>
<td>$3,135,012,871</td>
<td>38.2</td>
<td>$4,670,765,289</td>
<td>56.9</td>
<td>$399,548,195</td>
<td>4.9</td>
<td>8,205,326,355</td>
</tr>
<tr>
<td>2000</td>
<td>1,412,840</td>
<td>$3,449,706,225</td>
<td>39.2</td>
<td>$4,922,286,996</td>
<td>55.9</td>
<td>$436,846,841</td>
<td>5.0</td>
<td>8,808,840,062</td>
</tr>
<tr>
<td>2001</td>
<td>1,435,174</td>
<td>$3,697,905,915</td>
<td>38.5</td>
<td>$5,439,669,382</td>
<td>56.6</td>
<td>$474,907,514</td>
<td>4.9</td>
<td>9,612,482,811</td>
</tr>
<tr>
<td>2002</td>
<td>1,459,827</td>
<td>$3,982,493,537</td>
<td>38.4</td>
<td>$5,803,719,925</td>
<td>56.0</td>
<td>$584,054,336</td>
<td>5.6</td>
<td>10,370,267,798</td>
</tr>
</tbody>
</table>

Source: Georgia Department of Education.
We turn now to a discussion of the nature and role of each of these three sources of revenue in financing Georgia’s K-12 education system. We begin with federal funding and then discuss state funding. Finally, local funding is addressed.
II. Federal Funding

The Federal government operates a variety of grant programs which provide funding for K-12 education (Table 2) that supplements state and local funding. Several of these programs are authorized by the Elementary and Secondary Education Act (ESEA), which combined a number of existing separate education grant program. The most important ESEA grant program, known at Title I, Part A, provides funding to meet the needs of children from low-income families and to address the impact of concentrated poverty. The size of the grant depends on the number of students from low-income families in the county and the average expenditures per pupil in the state. Funds are also provided through two other parts to Title I. Funds allocated under Part C are aimed chiefly at reducing the dropout rate, while Part D allocates funds for the development of special programs for migrating, disabled, and neglected children.

**TABLE 2. FEDERAL FUNDING TO GEORGIA: FY 2003**

<table>
<thead>
<tr>
<th>Federal Program</th>
<th>Federal Allocations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title I, Part A</td>
<td>$602,602,125</td>
</tr>
<tr>
<td>Title I, Part C</td>
<td>8,515,125</td>
</tr>
<tr>
<td>Title I, Part D</td>
<td>2,285,979</td>
</tr>
<tr>
<td>Title II, Part A</td>
<td>70,661,190</td>
</tr>
<tr>
<td>Title II, Part D</td>
<td>8,827,078</td>
</tr>
<tr>
<td>Title III, Part A</td>
<td>6,786,358</td>
</tr>
<tr>
<td>Title IV, Part A</td>
<td>10,567,629</td>
</tr>
<tr>
<td>Title V, Part A</td>
<td>9,618,366</td>
</tr>
<tr>
<td>Special Education Grants</td>
<td>187,622,572</td>
</tr>
<tr>
<td>Vocational Education Grants</td>
<td>14,421,250</td>
</tr>
<tr>
<td>Title IV, Part B</td>
<td>6,941,585</td>
</tr>
</tbody>
</table>

Total Federal Formula Funds $626,439,626

Source: Georgia Department of Education.

The focus of Part A of Title II of ESEA is on strengthening the skills of teachers and improving instruction of mathematics and science. Part D supports technology improvements. Title III supports magnet schools, Title IV supports funding for several programs such as gifted programs, and Title V funds drug prevention programs.
Funding under the Individuals with Disabilities Education Act is aimed at providing special education and related services to students with disabilities. Finally, grants are provided under the Vocational Education Act of 1963 to support vocational education.
III. State Funding

State funds flow to school systems through a number of formula grants, with funding tied to the number, grade level and special needs of students enrolled in each system. School systems in turn distribute funds to individual schools.

A. Types of Funding Formula

Virtually every state maintains a system of state grants to local school systems to fund educational expenditures. Generally speaking, these grants attempt to ensure that school systems are able to provide adequate resources for students and to provide some level of equity in resource levels between school systems, while still allowing local control over tax and spending levels. While it may be impossible to simultaneously achieve all of these goals (for example, complete local control would lead to significant differences in per-student spending between systems), funding formulas attempt to balance these competing goals.

There are two main types of grants used to fund K-12 education. We first describe them in general terms and then explore the specifics of the Georgia grant formulas.

1. Foundation Grants

*Foundation grants* are one of the most common ways that states provide funding for education. In a foundation grant, the state determines the minimum level of per-pupil expenditures (the foundation) for all school systems. The per-pupil foundation amount, with adjustments to account for differences in the costs of the various educational programs, is multiplied by the number of students in each system to determine the minimum total expenditure on K-12 education in each school system. In most foundation grant programs, each school system is required to levy a minimum property tax rate and contribute the revenue raised by this tax to the total cost of the foundation. The state then provides a grant equal to the difference between the total minimum spending level specified by the foundation and the revenue that the local school system is required to raise. School systems that have small property tax bases per student, i.e., low-wealth school systems, will raise less property tax revenue from the required minimum property tax rate than systems with
large property tax bases per student, i.e., high-wealth school systems. Thus, low-wealth systems will receive larger per-pupil grants than high-wealth systems. Wealth is measured by the size of the property tax base per student, not by income level, although in some states additional funding it provided to school systems with low income levels.

To illustrate, suppose the state sets the foundation amounts at $4000 per student for high school students and $4200 for elementary school students. Consider a school system that has 200 high school students and 300 elementary school students, and that it is required to raise $500,000 in property taxes. This school system would get a grant of $1,560,000 [i.e., $800,000 ($4000 times 200) for the high school students plus $1,260,000 ($4200 times 300) for the elementary school students, less the $500,000 the system is required to raise]. This amounts to $3120 per student.

2. Guaranteed Tax Base

A second common type of state grant is the guaranteed tax base or guaranteed yield plan. In these grants, the state chooses a level of property tax wealth (i.e., tax base) per pupil (often the level of wealth in a particular system in the state) and guarantees that a school system will obtain at least the same revenue that would be generated by each mill of property tax when applied to the guaranteed property tax wealth per student. (The property tax rate is expressed in mills, where each mill is $1 per $1000 of taxable value. Thus, if the millage rate is 5 and the taxable value is $100,000, the property tax would be $500.) The state provides a grant equal to the difference between the revenues that would be raised based on the guaranteed property wealth per student and the system’s actual property tax yield. Systems are generally free to choose their own tax rates under such a plan, although there may be a limit on the number of mills that are eligible.

The lower the property tax wealth per student, the greater the grant from the state, for any given property tax rate. Suppose, for example, that the guaranteed tax base is set at $150,000 per pupil. Thus, for each mill of property tax that is levied by the system, the system is guaranteed $150 in revenue. If the system can raise $100 per pupil for each mill, the state will give the system a grant of $50 per pupil for each
mill of property tax that is levied. The total grant thus equals $50 per pupil times the 
millage rate set by the school system, up to any maximum eligible millage rate.

Foundation grant programs can be effective for ensuring minimum spending 
levels in all school systems. Guaranteed tax base plans reduce the inequality across 
school systems in their revenue raising ability. Neither program will necessarily 
provide equal spending across school systems. Unless the state controls the level of 
local contributions, some school systems will provide additional funding above the 
foundation. Guaranteed tax base plans allow local control of taxing decisions, which 
may result in unequal levels of spending and excessively low spending in some 
systems since systems are free to choose a tax rate and spending level.

B. Education Grant Programs in Georgia: QBE

Georgia’s state funding formula combines these two types of grants, although 
the foundation grant is the much larger of the two. The guaranteed tax base program, 
which in Georgia is called the equalization program, allocates only about 5 percent of 
the total of the two funding programs. In addition, Georgia provides categorical 
grants for specific purposes, such as for transportation.

In the early 1980s, Georgia faced a challenge to the constitutionality of its 
state education funding formula in the McDaniel v. Thomas case. Although the state 
Supreme Court recognized that the system provided little equalization of funding 
across school systems, it ruled that the state constitution’s requirement for “provision 
of an adequate education” did not require equal spending across systems and 
therefore upheld the system’s constitutionality. Despite the state’s victory in the 
McDaniel case, then-Governor Joe Frank Harris appointed an Education Review 
Commission (ERC) to review the formula’s funding structure and its reliance on local 
property tax wealth. The Committee’s recommendations, released in November 1984, 
were immediately drafted into the Quality Basic Education (QBE) Act. The Georgia 
General Assembly unanimously passed the QBE Act in 1985. It was phased in 
during the 1985-86 and 1986-87 school years, with full implementation in 1987-88.

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7 The plaintiffs in the case did not request equal per-student spending across school 
systems.
The QBE Act provides a foundation program with a guaranteed tax base component operating on top of the foundation (see Box 1). There are three main decisions in setting the foundation grant program: measuring the number of students, determining the foundation level, and setting the required minimum local contribution. To measure the number of students, QBE uses weighted full-time equivalent (FTE) student counts. Weighted FTE counts do not represent the number of students in seats, but are based on the time that students spend in each of the various instructional programs. For funding purposes, the class day is divided into

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**Box 1**  
**School Funding Formulas**

The foundation component operates in a standard form:

\[ Grant = Pupil \times [Foundation - (Tax \times Value)] \]

where Grant is the state grant to the system, Pupil is the weighted FTE count (see discussion of weights below) in the system, Foundation is the foundation level per pupil, Tax is the required local tax rate and Value is the equalized assessed property valuation per pupil in the system. Under QBE, Tax is set at 5 mills and Foundation is set each year by the state legislature through consideration of the per-pupil cost associated with each instructional program defined in the legislation.*

The guaranteed tax base or equalization grant is specified as:

\[ Grant = Pupil \times [tax \times (GTB - Value)] \]

where Grant, Pupil and Value are defined as before, tax is the eligible millage rate in the system, and GTB is assessed valuation per-pupil in the reference system (i.e., the guaranteed tax base). Under the original QBE legislation, GTB was set at the property tax base of the system at the 90th percentile of per-pupil property wealth. Until 2001, a ceiling on tax was set at 3.25 mills (which was 3.0 mills the first year of QBE) above the five mills required under the foundation plan. Thus, the GTB equalized the revenue raised from mills 5-8.25 for all systems below the 90th percentile in per-pupil property wealth. Under the recent revision, GTB was set at the property tax base of the system at the 75th percentile of per-pupil property wealth, and the ceiling on tax was increased to 15 mills above the five mills required under the foundation plan.

*While the formula suggests that systems with the ability to raise more than the foundation level from a five-mill tax could be forced to send that money to the state (recapture), the required local contribution was set low enough that no systems raised more from its required 5 mills than the foundation amount.
six periods, or “segments,” and school systems “earn” funding based on the placement of students during each period in the various instructional programs. Each of the original 12 instructional programs specified in the original QBE legislation carried a weight ranging from 1.0 to 5.26. Over time the number of instructional programs has been increased to 19 (see Appendix B).

The program weights are based on the specified cost of serving students in each program. The specified per-pupil cost is comprised of several elements. The per-pupil cost of the teacher for each instructional program is determined by dividing a beginning teacher’s salary (including benefits), taken from the state teacher salary schedule, by the specified pupil-teacher funding ratio for each program. (Box 2 discusses teacher salaries.) For example, for grades 4-5, the specified student funding ratio is set at 23 to 1, so the teacher cost per student is the starting teacher salary divided by 23. To this cost is added allowances for school and system administration, maintenance, staff development, and several other types of expenditures. Most of these other allowance are set in dollar amounts per student while others are based on other factors. For example, the cost of a school social worker is determined by dividing the minimum state salary for a school social worker by a specified ratio of students per school social worker. On the other hand, the allocation for principals is based on one principal for each school in the school system.

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8 These funding categories include grade level programs, such as grades 4-5 or 9-12, as well as special education and gifted education programs. A fourteenth category was added in FY 1997, and five more in the reforms enacted in 2000 and 2001.
9 The pupil-teacher ratio on which funding is based is not the same as the maximum allowable pupil-teacher ratio.
**Box 2**

**Teacher Salary Schedule**

Georgia teachers are paid based upon a schedule of minimum salaries established by the State Board of Education. Teacher salaries are created on a ten-month basis and are paid by local school systems to the various classifications of professional personnel certified by the Professional Standards Commission.

The salary schedule provides a minimum salary base for each classification of professional personnel required to be certificated. A teacher with a bachelor's degree and zero years of experience is at the minimum salary base. The schedule provides for incremental increases above the minimum salary base for each classification based upon individual experience, education, and length of satisfactory service. The state minimum salary schedule is uniform; there is no differentiation on the basis of subjects or grades taught.

Local school systems cannot pay any full-time certified professional employee a salary less than prescribed by the schedule of minimum salaries. Additionally, school systems cannot pay any part-time certificated professional employee less than the pro-rata portion of their full-time salary. Local school systems can supplement the salaries of their personnel using local funds. In doing this, local school systems may consider the following:

- the nature of duties to be performed,
- the responsibility of the position held,
- the subject matter or grades to be taught, and
- the experience and performance of the particular employee whose salary is being supplemented.

Georgia’s base teacher salary has increased from $20,052 in 1994-95 to $29,259 in 2003-2004, or by 45.9 percent in total, or 4.3 percent per year. There was no increase in base salary for 2003-2004.

**Training and Experience**

When calculating teacher salaries, every teacher is initially assumed to be a minimum base teacher. To ensure that local school systems receive the money necessary to pay for the teaching experience of their teachers, QBE provides for training and experience (T&E) funds so teachers can be paid based upon their position on the teacher salary schedule. For example a teacher with 19 or more years of experience, but no additional training, is paid a minimum salary of $42,735.

T&E is calculated for each instructional program provided under QBE. Each local school system receives an amount of additional funds needed beyond the amounts reflected in the base amount and the program weights, in order to pay the state-minimum salaries of certified personnel. The calculation of this additional amount is based on all certificated professional personnel who were employed by the local school system in the month of June during the most recent year. The T&E amount needed for personnel funded through categorical grants is included in the calculation of the appropriate categorical grant, and is called the “program adjustment amount for training and experience.”
Since the cost of the high school general education program has the lowest estimated cost, it is assigned a weight of 1.0. The weights for the other programs equal the per pupil cost for that instructional program divided by the per pupil cost of the high school general education program. Thus, other programs have higher weights since the high school program has the lowest cost per pupil. Because the cost of each program changes from year to year by different amounts, the weights change over time.

As an example, assume a high school student spends four periods a day in a general education classroom (funding weight 1.0) and two periods a day in a special education program (funding weight 2.3). For the day, that student would have a weight of 1.43, derived as follows: 
\[
\frac{(4 \times 1.0) + (2 \times 2.3)}{6}
\]
If the weight for each student is multiplied by the base student allocation, which is the per pupil cost for students in the high school general education program, the result is the foundation level for each student. Therefore, if the base student allocation was set at $3,000 per pupil, the student in this example would “earn” $4,290 for the school system, i.e., $3,000 \times 1.43.\(^{10}\)

The foundation amount per pupil does not automatically change each year, but is adjusted by the state legislature. Each legislative session, the legislature may adopt changes to the teacher salary schedule and to the allowable cost of other factors such as books and materials. In determining the allowable costs, the state legislature considers the effects on the state budget. Thus, the foundation level is not necessarily what it would actually cost to provide an adequate education.

In addition to the foundation amount, each system receives additional “Training and Experience” funding based on each teacher’s actual salary on the state teacher salary schedule. Thus, systems with more experienced and more educated teachers receive higher levels of funding. These adjustments are significant, adding approximately 42 percent to the base funding for all school systems as a whole.

\(^{10}\) The actual calculation is not done this way, but yields the same result. In practice, the total number of segments for each program is calculated and divided by 6. These totals are multiplied by the respective program weight and then summed.
The QBE Act also raised the required local contribution to the equivalent of five mills levied on each system’s “equalized” property tax base (and changed the name of this contribution to Local Fair Share). 11 Most property that is subject to the property tax in Georgia is, by law, required to be assessed at 40 percent of fair market value.12 However, in practice, there are variations across counties in the actual ratio of assessed value to fair market value. Thus, calculating the required five mill shares using the actual property tax bases could lead to inequalities across school systems. School systems in which property was assessed at much less than fair market value would contribute less than school systems that assessed its property at 40 percent of fair market value. Thus, the state uses a Sales Ratio Study (Box 3) to calculate equalized property tax bases so that the Local Fair Share for all school systems are based on property tax bases that equal 40 percent of fair market value. Systems can raise their required contribution from property taxes or any other legally permissible local revenue source.

11 The increase in Local Fair Share was phased in and was fully implemented in FY 1988. The aggregate required local contribution cannot exceed 20 percent of total QBE funding. If 5 mills raised more than 20 percent, the required contribution of all school system would be proportionately reduced.
12 There are exceptions that are the result of local legislation. For example, the city of Decatur assesses property at 50 percent, Dalton, Bremen, and Gainesville assess property at 100 percent, while Dublin assesses property at 47 percent. For these school systems, the required local contribution implied by the required local 5 mills is based on an assessment ratio of 40 percent.
QBE defines the local five mill share as the amount of money that can be raised by levying five mills on the school system's “equalized adjusted school property tax digest” assessed at 40 percent. The local fair share is not what the school system actually collects from a five mill property tax. Rather, the local fair share is what the school system should collect if the property in the school district is properly assessed at 40 percent.

State law requires most local governments to assess property at 40 percent of fair market value each year. While the assessment ratio is fixed in law, fair market value must be left to the judgment of individual tax assessors. As a check on the accuracy of local officials’ efforts the State Auditor conducts a Sales Ratio Study for each county.

A Sales Ratio Study is a comparison of the local assessments of fair market value of selected pieces of property with actual sales or appraisals of those same pieces of property. A Sales Ratio Study is a kind of audit of the local property tax digest.

To conduct the Sales Ratio Study, the Department of Audits, using property transfer slips, collects information on the sales of property within each county for one year. The Department augments these sales with appraisals of other property, and then compares the sales and appraisals with the assessed values for the following year of the same properties. After deleting sales that are not considered fair market exchanges, the sum total of the assessed values is divided by the sum total of the sales and appraisals to form the sales-assessment ratio. The results of the Sales Ratio Study are used to calculate the equalized adjusted school property tax digest.

The QBE legislation also added a Guaranteed Tax Base (GTB) program, known as the “equalization program,” that operates on top of the foundation program. The guaranteed tax base was set equal to the property tax base per pupil for the system at the 90th percentile. Thus, the GTB equalized the revenue for each system below the 90th percentile of per-pupil property wealth. However, the program only provided this guaranteed yield for 3.0 mills (raised to 3.25 mills in 1989) levied above the five mills required for the foundation program. Participation in the equalization program is voluntary in the sense that school systems are not required to levy more than 5 mills. However, virtually all systems in the state levied above 8.25 mills of property tax and, therefore, took full advantage of the program.13

13 Systems above the 90th percentile in per-pupil property wealth were not eligible to participate.
relatively high level of the Guaranteed Tax Base combined with the relatively low number of eligible mills, served to distribute some equalization funding on a per-student basis to virtually all school systems, but high levels of funding to virtually none. In addition, any property tax levied above 8.25 mills generated no equalization funds from the state.

C. Recent Reforms

In 1999, as part of a major school reform effort, Governor Roy Barnes created the Governor’s Education Reform Study Commission (ERSC) to recommend comprehensive changes to the state’s education system, including the QBE formulas. The legislation growing out of the commission’s deliberations (HB 1187, named the A+ Education Reform Act of 2000 and passed in 2000, and HB 656 which was passed in 2001) kept the basic QBE funding framework intact. The foundation program remained the same except for the addition of several new instructional programs and consolidation of others, resulting in 19 instructional program areas. (See Appendix B for a description of the programs.) Several programs that were previously funded through categorical grants, such as ESOL (English for Speakers of Others Languages) were folded into the foundation grant program. The required local contribution remained at 5 mills, though the name was changed from “Local Fair Share” to “Local Five Mill Share.”

The largest formula changes in the legislation focused on the equalization program. The legislation changed the reference system from the 90th percentile of per-pupil property wealth to the 75th. This change completely eliminated the equalization grants for systems between the 75th and 90th percentile of per pupil property tax wealth, and by itself, reduced the equalization grant for systems below the 75th percentile. But at the same time, the number of mills eligible for equalization funding was increased from 3.25 to 15. This change, in combination with the change to the 75th percentile of per-pupil property wealth, increased the equalization grants for low wealth systems that levied relatively higher property tax rates. As a result of the changes, systems below the 75th percentile receive state equalization aid for all mills they levy between 5 and 20 mills.
The legislation also included a six-year phase-in for the equalization program to adjust funding for systems that would lose money as a result of the change. The equalization phase-in provision was included to prevent any system from losing a large sum of money in any given year until the transition from the 90th to the 75th percentile could be completed. Most of the systems losing equalization funds were those between the 75th and 90th percentiles of property wealth, and this group included several large metro Atlanta systems that have experienced tremendous growth in student populations.14 Budgetary constraints prevented the state from implementing a true hold harmless arrangement, so the new equalization program was phased in. During the phase-in period, equalization grants are determined by comparing the funding generated using both the 90th percentile and the 75th percentile as the reference and distributing only a portion of any gains (or losses). In the first year of the new program (FY 2001), systems that would gain additional funding under the new system received 25 percent of the estimated increase, while systems losing funding were subject to only 25 percent of the loss. In FY 2002 and FY 2003, the percentage rose to 40 percent and 55 percent, respectively. In FY 2004, the percentage increased to 70 percent of the gain/loss, with full implementation expected in FY 2006.

D. Categorical Grants

The state provides separate funding for particular purposes such as student transportation. Transportation grants are based on the number of students who are eligible for transportation. In addition, special funds are allocated to systems with geographically isolated schools and for superintendents, principals, vocational supervisors, and nursing services.

14 See Rubenstein and Freeman (2003a) for further discussion of enrollment growth patterns in Georgia.
E. Capital Outlay Program

Georgia also has a capital outlay program that supports part of the cost of construction and renovation and modification of public elementary and secondary schools. The capital outlay program is comprised of two main segments, a regular capital outlay program, for which all systems are eligible, and three special programs, one for exception growth systems, one for low wealth system, and an advanced funding program.

The enabling legislation for the regular capital outlay program states that it is the policy of the State of Georgia to:

“…assure that every public school student shall be housed in a facility which is structurally sound and well maintained and which has adequate space and equipment to meet each student's instructional needs as those needs are defined and required in this article.”

HB 656 set the annual entitlement for the regular capital outlay program at $200 million and the annual entitlement for the exceptional growth systems capital outlay fund at $100 million. The actual appropriation for FY 2004 is $120 for the regular program and $60 million for the exceptional growth program.

In order to receive capital outlay funds, each school system must develop an educational facilities plan and update it at least every five years. The plan must include a list of construction projects eligible for state capital outlay funds, facilities that are scheduled for abandonment, future (five-year) facility needs, proposed renovation projects, and proposed consolidation of small, inefficient facilities. The plan must rank-order the proposed construction projects in terms of their funding priority.

A key issue is determining which projects are eligible for state funding. This includes determining which projects or portions of projects qualify and the magnitude of costs that the state will match. The State Department of Education (DOE) has detailed regulations that are used to determine which projects qualify for funding.

15 The capital outlay program was passed in 1977 and amended in 1980, and became operational in 1982.
16 Article 20-2-260, Part 10, Subsection (a), Ga Code Annotated.
Construction projects which meet the minimum standards are eligible for state funding. Projects with specifications exceeding the state standards are eligible for funding, but only up to the cost of building a “standard” facility, that is, one that meets the state's minimum guidelines. The costs of exceeding the standard size facility and the allowable costs per square foot of floor area are born entirely by the local systems. The state does not cover any of the cost of land acquisition or site preparation.

Some types of school facilities are specifically excluded from state funding. The state may not participate in the funding of swimming pools, athletic facilities used primarily for competitive sports (as opposed to physical education facilities), and administrative offices for the local systems.

Local systems are required to pay part of the eligible project cost. The local participation is affected by the system’s “local wealth factor.” The local wealth factor is the average of the property tax wealth factor and the sales tax wealth factor for school systems that have a sales tax for construction purposes (see discussion below). A local system's property tax wealth factor is its property tax base per student divided by the statewide property tax base per student. As similar calculation is made of the sales tax wealth factor. If the local wealth factor is one or more, the school system must contribute 20 percent of the eligible cost of the project, but no school system is required to contribute more than 20 percent. If the local wealth factor is less than one, then the required local participation is determined by multiplying 20 percent by the local wealth factor. But the local participation cannot be less than 8 percent. This procedure was intended to require a lower participation rate for those systems with a small property tax base per student.

The annual authorization is allocated to school systems on the basis of each school system's facility needs relative to the total facility needs of all school systems. These entitlements accrue to school systems annually and can carry over to future

---

17 The property tax base is the net equalized adjusted school property tax digest, and students are weighted full-time equivalent students.
18 A system may get a 2 percent reduction from the participation rate if it uses a prototypical design and allows the Georgia State Financing and Investment Commission to manage the project.
fiscal years. Thus, any annual entitlement to a specific school system that is not requested in an application for funding for a specific project is added to the school's previously unused entitlements.

These entitlements are then drawn down by the school system in order to fund the non-local proportion of the eligible project cost. Each school system makes an application and the state legislature then decides, through an appropriation of state funds, whether to fund the projects. A school system cannot draw down its entitlements to less than zero except under special situations, in which case the school system can receive an advance in state capital outlay funds.

The capital outlay program for exceptional growth systems provides a separate set of funding for school system for which growth in enrollment is high. In 2002, there were 50 school systems eligible for the exceptional growth program. The capital outlay for low wealth program allows eligible systems to obtain 92 percent of the state eligible cost of its first priority project. To be eligible, the system must have implemented an Education Special Purpose Local Option Sales Tax, have a property tax rate that is at least 60 percent of the maximum allowable rate (which is 20 mills for most school systems), and sales tax revenue per student, property tax base per student, and per capita income that are all less than 75 percent of the state average. Both of these programs will cease to exist as of June 30, 2009. The Advanced Funding Program allows a system to obtain funding earlier than normal under certain conditions, for example, an existing facility is destroyed by a natural disaster.

**F. Summary**

The state funding of education consists of a foundation amount less the Local Five Mill Share, plus an equalization grant to eligible systems, plus certain categorical grants, including those for construction. Box 4 contains an example of an earnings sheet showing how much the Appling School System receives from the various components of QBE funding program.\(^{19}\) Table 3 summarizes the amount of

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\(^{19}\) QBE earning sheets for all school systems can be found on the Georgia Department of Education website at http://db1.doe.k12.ga.us:8001/ows-bin/owa/qbe_reports.public_menu?p_fy=2000
<table>
<thead>
<tr>
<th>Position</th>
<th>Description</th>
<th>FTE</th>
<th>Previous Year's Pay</th>
<th>Current Year's Pay</th>
<th>Increase</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
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<th>New Pay Base</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
<th>New Pay Base</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teacher</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Principal</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Librarian</td>
<td></td>
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</tr>
<tr>
<td>Janitor</td>
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</tr>
</tbody>
</table>

**NOTES:**
1. The above sheet contains the following FTE amounts:
2. The above sheet contains the following FTE amounts:
3. The above sheet contains the following FTE amounts:
4. The above sheet contains the following FTE amounts:
5. The above sheet contains the following FTE amounts:
6. The above sheet contains the following FTE amounts:

**TOTAL PAYROLL:**
- Year 1: $1,234,567
- Year 2: $678,901
- Year 3: $456,789
- Year 4: $234,567
- Year 5: $123,456

**TOTAL PAYROLL:**
- Year 1: $1,234,567
- Year 2: $678,901
- Year 3: $456,789
- Year 4: $234,567
- Year 5: $123,456
TABLE 3. GEORGIA EDUCATION FUNDING BY COMPONENT: FY 2003

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>QBE Foundation Earnings</td>
<td>$6,234,498,154</td>
</tr>
<tr>
<td>Less Local Five Mill Share</td>
<td>1,102,013,456</td>
</tr>
<tr>
<td>Less Austerity Reduction</td>
<td>134,933,642</td>
</tr>
<tr>
<td>QBE Foundation Funds</td>
<td>4,997,551,056</td>
</tr>
<tr>
<td>QBE Equalization Grant</td>
<td>264,346,430</td>
</tr>
<tr>
<td>Categorical and Other Programs</td>
<td>204,012,610</td>
</tr>
<tr>
<td>Total</td>
<td>$5,465,910,096</td>
</tr>
</tbody>
</table>


funding for each of the funding programs for FY 2003 for the entire state. As can be seen, the foundation component of state funding accounts for 91.4 percent of total state funds provided. State appropriations to the Department of Education in FY 2003 accounted for 37 percent of the state budget.
IV. Local Funding

Local school systems raise revenue from a variety of sources to supplement state and federal funding. But in Georgia, as in most states, the property tax is the principal source of revenue for school systems. And, for most school systems in Georgia, the property tax is the only tax that school systems can use to fund school operations. However, there are 10 school systems that are allowed to use a 1 percent sales tax to fund school operations, and there are other systems that can use certain other taxes, such as an alcoholic beverage tax used by the DeKalb School System. In addition, since 1997, school systems have had authority, subject to a referendum, to levy a temporary 1 percent sales tax to fund capital improvements, i.e., construction. Local school systems also raise a relatively small amount of revenue from fees and contributions.

A. Property Taxes

As discussed above, local school systems in Georgia are required to contribute to the funding of a basic education, as defined by QBE. The required contribution, known as the Local Five Mill Share, is the amount of property tax revenue that would be generated by a property tax rate of five mills on the equalized property tax base. The 10 school systems that are allowed to levy a sales tax for operating purposes must also raise an amount of revenue equivalent to what five mills of property tax would raise, but they are allowed to use the sales tax for that purpose.

In addition to the required contribution, school systems can supplement the revenue provided for in the QBE formula by levying a property tax rate in excess of five mills. All school systems in Georgia supplement the foundation level. These supplementary funds can be used to provide additional or enhanced programs and services, to pay salaries that exceed the state’s salary schedule, and to fund system’s capital (i.e., construction) program. However, the Georgia Constitution limits the property tax rate for most county school systems to 20 mills; there is no such
Constitutional limitation for independent (i.e., city) school systems.\textsuperscript{20} The 20-mill limit can be exceeded if the school system obtains permission from the voters through a referendum.

In FY 2001, per capita property taxes in Georgia for school purposes were $411. Over the 9-year period FY 1992 to FY 2001, total property taxes for school purposes increased by 77.4 percent in Georgia. However, in per capita terms and adjusted for inflation, the increase was 13.0 percent, from $364 to $411.\textsuperscript{21}

Property taxes have increasingly become an education tax. Property taxes for school purposes accounted for 55.0 percent of all property taxes collected in Georgia in FY 2000, but were only 52 percent in FY 1992. As cities and counties have developed other sources of tax revenue, their relative reliance on property taxes has decreased. On the other hand, most school systems in Georgia have to rely solely on the property tax to fund their operating expenses. Thus, the share of all property taxes that goes to fund education has increased over time.

Property taxes per student vary widely across school systems in Georgia, ranging from $339 to $5,254, with more than half between $1,000 and $2,000. Table 4 shows the distribution of property taxes per student for FY 2001.

\begin{table}
\centering
\caption{Property Taxes Per Pupil, FY 2001}
\begin{tabular}{lrrr}
\hline
& \textit{$1,000$ or less} & \textit{$1,000 - $1999$} & \textit{$2,000 - $2,999$} & \textit{$3,000$ or more} \\
Number of Systems & 21 & 95 & 35 & 17 \\
\hline
\end{tabular}
\end{table}

Note that data for several school systems were missing from the database used to construct Table 4.

Differences in the property tax base per student is an important factor in explaining why there are differences in property taxes per student. The property tax base per student reflects the “wealth” of the school system, and the greater the

\textsuperscript{20} School systems, such as DeKalb, Fulton, and Rockdale, that were allowed to levy a property tax in excess of 20 mills prior to June 30, 1983, the last date that local Constitutional amendments were allowed, may exceed 20 mills. The Muscogee School System, which consolidated with Columbus, is considered an independent school system. The Vidalia city system has a local property tax limit of less than 20 mills.

\textsuperscript{21} Bureau of the Census (2001).
property wealth of the school system, the easier it is for the school system to finance education since one mill generates more revenue per student. There are wide differences across school systems in the level of property tax base per student (see Figure 3). Table 5 summarized the distribution. The wealthiest system (Rabun County) has an equalized property tax base per student that is almost 23 times larger than the poorest system (Pelham City). While there are large differences in property wealth per student, 162 school systems, accounting for 91 percent of the students, have property wealth per student between $50,000 and $200,000. Expenditures per student are generally larger for school systems with larger per pupil property tax bases.

![Figure 3. Net Tax Digest per FTE](image)

<table>
<thead>
<tr>
<th>Base per Student</th>
<th>Number of School Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000 or less</td>
<td>2</td>
</tr>
<tr>
<td>50,001 – 100,000</td>
<td>95</td>
</tr>
<tr>
<td>100,001 – 150,000</td>
<td>43</td>
</tr>
<tr>
<td>150,001 – 200,000</td>
<td>24</td>
</tr>
<tr>
<td>200,001 – 250,000</td>
<td>7</td>
</tr>
<tr>
<td>250,001 or more</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: Georgia Department of Education.
There are also differences in millage rates (see Table 6). Part of these differences are associated with the ability of 10 school systems to use a sales tax for school operations; 7 of the school systems with millage rates of less than 10 mills rely on a sales tax.

**TABLE 6. DISTRIBUTION OF MILLAGE RATES**

<table>
<thead>
<tr>
<th>Millage Rate</th>
<th>Number of Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 10 mills</td>
<td>16</td>
</tr>
<tr>
<td>10 – 14.9 mills</td>
<td>87</td>
</tr>
<tr>
<td>15 – 19.9 mills</td>
<td>72</td>
</tr>
<tr>
<td>20 or more mills</td>
<td>5</td>
</tr>
</tbody>
</table>

SOURCE: Georgia Department of Revenue.

**B. Sales Tax**

1. **Sales Taxes for Operations**

   The other major source of local tax revenue for school funding is the sales tax. There are 10 school systems that are allowed to collect sales taxes for school operations. These are comprised of 8 county school systems (Bulloch, Chattooga, Colquitt, Habersham, Houston, Mitchell, Rabun, and Towns) and two city school systems [Pelham (Mitchell County) and Trion (Chattooga County)]. These 10 systems account for 3.8 percent of the total number of students in the state. In calendar year 2001, these systems collected $21.4 million in sales taxes for school operations. This amounts to $382 per student.

   Voters in these 8 counties approved by referendum the use of a 1 percent sales tax for education purposes in 1983 or earlier. Prior to July 1, 1983, it was possible to enact local constitutional amendments, i.e., amendments to the state constitution that pertained only to a specific county or government. These eight counties adopted amendments that allowed them to use a local sales tax for school purposes. In 1983, the state adopted a new constitution which prohibited any future local constitutional amendments, but which “grandfathered” all existing local constitutional amendments as local legislation. State law does not allow any other school system to use the sales tax to fund its school operations.
2. ESPLOST

The other local use of sales taxes for education is the Education Special Purpose Local Option Sales Tax (ESPLOST). The ESPLOST legislation (O.C.G.A. § 48-8-110) and subsequent constitutional amendment (Article VIII, Section VI, paragraph IV), enacted in 1996, allow local school boards to schedule a referendum on the ESPLOST. The ESPLOST rate is mandated at one percent, with a maximum usage period of five years. At any point during the five years, local boards of education can call for a referendum on extending the tax. Unlike a general-purpose local option sales tax to support operations, the ESPLOST revenue can only be used for three specific purposes:

1. for capital outlay, such as new educational facilities;
2. to repay bonded debt from previous educational facilities construction; or
3. to issue new bonded debt for capital outlay, to be repaid with ESPLOST revenue.

Georgia’s mix of county and city school systems complicates the referendum process. The ESPLOST is levied countywide, but in counties containing both city and county school systems, voters in both jurisdictions must approve the tax. City systems receive a pro rata share of county ESPLOST collections based on the city’s share of full-time equivalent (FTE) students within the county, unless the city and county systems negotiate an alternative sharing mechanism. Through July 2003, 167 school systems had approved the tax (see Table 7). The first-time referendum approval rate has been 90 percent in county systems and 83 percent in city systems. Table 6 shows the number of school systems that implemented ESPLOST by year of implementation or renewal. Since most of the ESPLOSTs were implemented in 1997 and 1998 for a five year period, a substantial number of systems began to implement renewed ESPLOSTs beginning in 2002.
Financing Georgia's Schools: A Primer

### Table 7. ESPLOST by Year of Implementation

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>First ESPLOST</th>
<th>ESPLOST Renewal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>64</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>45</td>
<td>1</td>
</tr>
<tr>
<td>1999</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>2001</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>2002</td>
<td>4</td>
<td>62</td>
</tr>
<tr>
<td>2003*</td>
<td>1</td>
<td>37</td>
</tr>
<tr>
<td>No ESPLOST**</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>

**Bullock, Burke, Chatham, Clinch, Echols, Fayette, Glynn, Hancock, Johnson, Miller, Treutlen, Washington, and Wilkes.

As one of the fastest-growing states in the U.S., one of the most pressing problems facing the state has been meeting the capital outlay needs of fast-growing school systems. In addition, school reform legislation enacted in 2000 mandated reduced class sizes, thereby making space constraints even more critical. (During the 2003 session of the General Assembly the mandated reduction in class sizes was postponed, except for grades K-3.) School facility needs across the state through 2004 have been estimated at $900 million. However, this figure is based on the state’s allowance for construction, which is about half of the typical cost and does not include such factors as land cost, site preparation, or the 5,500 to 6,700 new classrooms needed to meet the requirements of the class size reduction plan.\(^{22}\) In 2002, school systems collected $1,160 million in ESPLOST revenue (Georgia Department of Revenue).

Georgia’s ESPLOST legislation provides school systems the opportunity to substitute sales tax-funded, pay-as-you-go construction for property tax-funded, long-term debt service. While the ESPLOST has provided a windfall for many school systems – particularly large, fast-growing systems in metro Atlanta – many other school systems have been largely left behind. This pattern is not entirely unexpected, since retail sales outlets tend to concentrate in heavily populated urban and suburban areas. Few rural areas, except those with large malls or retail outlets, are likely to have a sales tax base large enough to raise substantial revenue from a local sales tax.

\(^{22}\) Georgia Education Reform Study Commission (2000).
In rural areas with large retail outlets, it is likely that a large proportion of sales are made by residents of surrounding school systems, thereby forcing non-residents to support educational expenditures in the system with the concentration of retail establishments.

It is well established in the public finance literature that the general sales tax tends to be a regressive and unstable revenue source. Since lower-income families will tend to spend a higher proportion of their income on items subject to the sales tax, they will bear a disproportionate share of the burden from a sales tax increase, such as the ESPLOST.\textsuperscript{23} To the extent that these families also receive greater benefits from the school construction or property tax relief funded through the ESPLOST, this regressivity may be mitigated. However, the incidence of these benefits is far from clear.

\textsuperscript{23} Food is exempt from state sales tax in Georgia, but not from the local sales tax.
V. Summary

Table 8 summaries expenditures and the various sources of education funding in Georgia for FY 2002.\textsuperscript{24}

\textsuperscript{24} Table 8 was constructed by Joe Martin. We appreciate his willingness to allow us to use it.
### TABLE 8. GEORGIA K-12 GENERAL FUND EXPENDITURES AND REVENUES, FY 2002

<table>
<thead>
<tr>
<th></th>
<th>Expenditures</th>
<th></th>
<th></th>
<th>Revenues</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Fund</td>
<td>Per FTE</td>
<td>% of Total</td>
<td>QBE Earnings</td>
<td>Per FTE</td>
<td>% of Total</td>
</tr>
<tr>
<td>Instruction (1)</td>
<td>$6,829,732,317</td>
<td>$4,719</td>
<td>72.8%</td>
<td>$5,186,813,558</td>
<td>$3,584</td>
<td>55.3%</td>
</tr>
<tr>
<td>Pupil Services (2)</td>
<td>230,814,962</td>
<td>159</td>
<td>2.5%</td>
<td>247,615,740</td>
<td>171</td>
<td>2.6%</td>
</tr>
<tr>
<td>Media Center</td>
<td>215,819,491</td>
<td>149</td>
<td>2.3%</td>
<td>151,364,716</td>
<td>105</td>
<td>1.0%</td>
</tr>
<tr>
<td>General Admin. (3)</td>
<td>213,024,088</td>
<td>147</td>
<td>2.3%</td>
<td>117,062,015</td>
<td>81</td>
<td>1.2%</td>
</tr>
<tr>
<td>School Admin. (4)</td>
<td>614,051,827</td>
<td>424</td>
<td>6.5%</td>
<td>294,311,169</td>
<td>203</td>
<td>3.1%</td>
</tr>
<tr>
<td>Maintenance &amp; Operations</td>
<td>792,188,196</td>
<td>547</td>
<td>8.4%</td>
<td>434,205,000</td>
<td>300</td>
<td>4.6%</td>
</tr>
<tr>
<td>Transportation</td>
<td>436,004,014</td>
<td>301</td>
<td>4.6%</td>
<td>177,551,705</td>
<td>123</td>
<td>1.9%</td>
</tr>
<tr>
<td>Other Expenditures (5)</td>
<td>53,282,419</td>
<td>37</td>
<td>0.6%</td>
<td>NA</td>
<td>NA</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>$9,384,917,314</td>
<td>$6,484</td>
<td>100%</td>
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**Notes:**

- Based on the Georgia Public Education Report Card and statewide Midterm GDOE Allocation Sheets for FY 2002 and a total enrollment in full-time-equivalent (FTE) students of 1,447,332. Numbers may not add to total because of rounding.

1. Includes Instruction, Instructional Support, Staff & Professional Development, 20 Days of Additional Instruction, Hold-Harmless Midterm Adjustments, Equalization Grants, Computers in the Classroom, Sparsity Grants, and Migrant Education. Does not include the QBE funding for Counselors.

2. Based on the portions of the QBE formula represented by Counselors, Psychologists, and Social Workers and the non-formula grant for Nursing Services. Local systems apparently reported some of the related expenditures in other categories.

3. Does not include the QBE funding for Psychologists and Social Workers.

4. Includes School Administration, Principal Supplements, and Vocational Supervisors.

5. Includes Capital Projects, School Food, and Debt Service paid from General Funds.

6. Reduced by $55,222,031 from the amount shown in the Report Card to reflect funds which the State considered to be State QBE Funds but which local systems reported as Other State Funds.

7. Does not include Federal Funds that are restricted to specific programs.
VI. Issues/Problems

A. Equity

For over thirty years, providing equitable funding for education has been a primary goal of school finance policy in Georgia and elsewhere. Equity is not, however, synonymous with equality; equity refers simply to a “fair” distribution of resources. In school finance, equity analyses typically focus on differences in expenditure or revenue levels across school systems, and on the relationship between local property tax wealth and spending for education. To the extent that per-pupil revenue or expenditure levels are relatively equal across systems, funding is generally considered more equitable, a concept often referred to as horizontal equity. Note, though, that the measures of spending may take into account differences in student needs or in the cost of education that might require higher levels of spending by some systems, a concept often referred to as vertical equity. In fiscal neutrality analyses, the absence of a relationship between local property wealth and spending for education is generally considered to be more equitable. In Georgia, average per pupil expenditures by the 36 wealthiest school systems is about 19 percent larger than the 36 poorest school systems.

Studies examining the equity of funding in Georgia generally find that, compared with other states, Georgia ranks near the middle of the pack. Moser and Rubenstein (2002), for example, compared states on several measures of equity and found that Georgia generally ranked in the middle, improving from 24th in the nation in 1992 to 21st in 1995. Rubenstein, Doering and Gess (1998) looked at equity in Georgia from the late 1980s to mid 1990s and found relatively large differences in funding across school systems. While equity worsened during the deep recession of the early 1990s, equity had improved by 1996, though much of the disparity in funding could be attributed to differences in student characteristics and in the cost of providing education across systems. They also found that, despite state aid targeted to poor school systems, the wealthiest quintile of systems averaged approximately $600 more revenue per pupil as compared to the poorest quintile in 1996, despite levying similar average tax rates.
More recent work by Rubenstein and Freeman (2003b) examines the potential effects of the reforms enacted as part of the A+ Education Act of 2000. The researchers found that the changes to the QBE formula could more effectively target state funds to low-wealth/high tax-effort school systems, many of which are in rural South Georgia. This targeting could reduce, though not eliminate, the relationship between property wealth and spending. The effects will largely depend, though, on whether poorer school systems levy sufficiently high tax rates to take full advantage of the program.

B. Adequacy

While equity analyses focus on disparities in resources across school systems, adequacy analyses are concerned with the level and sufficiency of resources. Adequacy analyses ask, “Is funding adequate to provide all students with the opportunity to achieve the goals of the education system?” The concept, therefore, implicitly focuses on the relationship between resources and student performance.

Georgia’s Constitution explicitly requires “the provision of an adequate education….” While other states have faced a legal challenge to the adequacy of its funding system, Georgia has not. Measuring adequacy is very difficult and empirical evidence on adequacy in Georgia is lacking. Rubenstein (2002) used several benchmark spending levels to examine the cost of adequacy across states and found that raising all systems in Georgia to the national median of per-pupil spending in 1997 would cost an additional $96 million, with the cost rising to over $1 billion to fund spending 20 percent above the median in all systems. He also found that, similar to the equity analyses, Georgia is ranked near the middle of all states on a measure of adequacy.

While the QBE formula sets out the expenditures required per FTE in various grade levels and educational programs, it does not explicitly take into account desired student performance levels or the relationship between the minimum foundation level and performance. The weights for each instructional program are driven primarily by estimates of appropriate student-teacher ratios in each program. These weights provide additional funding for special education students as compared to general education students because of the lower student-teacher ratios used to derive funding.
levels for special education. The derivation of these ratios and of the foundation levels is not entirely clear, however, nor is the link between the foundation levels and research on educational costs. The report of the Education Reform Study Commission in 2000 recommended that a comprehensive study be undertaken by researchers to assess the cost of providing adequate educational resources in Georgia, but this recommendation was not included in the final legislation and no such study has been conducted to date.

C. Other Policy Issues

Many more detailed policy issues can be identified beyond equity and adequacy. However, most of these can be considered as simply part of the issue of either equity or adequacy. For example, in determining the foundation level the State may not have allowed an amount considered sufficient to cover the cost of some of the elements, such as school administration or books. This is really an issue of what is adequate.

But there are four policy issues, while not of the importance of equity and adequacy, which are nonetheless worth mentioning. First, the mechanics for funding education are extremely complicated and not easily understood. A funding system that is complicated can lead to the “experts” taking over the formula. If citizens, and perhaps even school superintendents and board members, cannot understand the process, they are hard pressed to voice concern over the issues of equity and adequacy. Thus, it would be desirable to adopt a system that is more transparent.

Second, there is an issue of the appropriate balance between State control of expenditures and local fiscal autonomy. While not discussed above, the State exercises great control over how school systems use the funds provided by the State. This means that school systems cannot exercise judgment on what composition of expenditures would work best for that system. The issue is whether school systems would misuse the allocation by spending it on pet projects, sports programs, etc., rather than on the core mission.

Another issue concerns how charter schools should be funded. This issue is really about whether to support the expansion of charter schools. If the procedures for determining the funds available for charter schools yield amount below what is
provided to regular schools, then it will be more difficult to establish a charter school. On the other hand, charter school funding should not be so generous that it harms the non-charter schools in the system.

Finally, there is the issue of the use of the property tax. While there are many desirable characteristics of the property tax, there are very good reasons why property taxes are not liked. If the State wants to reduce the use of the property tax, the issue arises of what to do about the revenue that local school systems currently raise. There are three options, reduce education spending, increase the state share of education spending, or give local school systems an alternative revenue source. There are major issues associated with each of those options that need to be seriously considered.
References


## Financing Georgia's Schools: A Primer

### APPENDIX A

<table>
<thead>
<tr>
<th>County</th>
<th>FTE</th>
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## Financing Georgia's Schools: A Primer

### Appendix A (Continued)

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Appendix B
Quality Basic Education Programs

Kindergarten

All local school systems must offer a full-day kindergarten program. A kindergarten program must provide classroom instruction for a minimum of four and one-half hours daily for a 180-day school year. The kindergarten program provides all children an equal opportunity to become prepared for a successful first grade experience and to acquire the foundation for academic progress throughout the students' educational careers. No student is to remain in kindergarten for more than two years. This program is funded at a student-to-teacher ratio of 15 to 1.

Primary Grades (1-3)

The purpose of the primary grades (1-3) program is to provide students with the essential basic skills and knowledge needed to enable them to achieve more advanced skills and knowledge taught in the higher grades. This program is funded for a student-to-teacher ratio of 17 to 1.

Elementary Grades (4-5)

The original QBE statute did not differentiate between students in grades 4-5 and students in grades 6-8. As a result of the recommendations of the 1988 Governor's Educational Weights Task Force, the Elementary Grades (4-5) program was created, and became a part of the QBE funding formula beginning with the fiscal year 1991 budget. This program helps students make the transition from the primary grades into the middle grades. This program is funded for a student-to-teacher ratio of 23 to 1.

Middle Grades (6-8)

The middle grades (6-8) program has several purposes, including:

- Providing students with essential basic skills and knowledge,
- Assisting students in the transition from childhood to adolescence,
- Preparing students for the selection of programs and courses consistent with their abilities and interests when they enter high school, and
- Providing an opportunity for mastery of advanced skills and knowledge.

This program has existed as a distinct program since fiscal year 1991 and is funded at a student-to-teacher ratio of 23 to 1.

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25 This Appendix is an update of a document prepared by John Brown. We thank him for allowing us to use it.
High School Program (9-12)

The high school programs have three main purposes:

- Prepare students for continuing their education beyond high school,
- Prepare students for entry into their chosen career fields, and
- Prepare students to take their places in society as young adults.

The program includes all high school courses that are not vocational or include lab components. This program is funded for a student-to-teacher ratio of 23 to 1.

High School Vocational Laboratories (9-12)

The goal of the high school vocational laboratory program is to provide instruction to enable students to enter the workforce or a technical institution upon completion of high school. Like the high school non-vocational lab program, the vocational laboratory program is funded at higher levels than the high school general education program to reflect the reduced student-teacher ratios and more extensive material and equipment needed for effective laboratory courses. The program is funded for a student-to-teacher ratio 20 to 1.

Early Intervention Programs

Early intervention programs exist for kindergarten, for primary grades (1-3), and upper elementary grades (4-5). The programs are for students who are at risk of not reaching or maintaining academic grade level. The nature of the programs are determined by the local school system. These programs are designed to be temporary, and are funded at the student-to-teacher ratio of 11 to 1.

Special Education

Children eligible for special education are defined as those who 1) have emotional, physical, communicative, or intellectual deviations, or a combination thereof, to the degree that there is interference with school achievement or adjustment or prevention of full academic attainment, and 2) require modifications or alterations in their educational programs. There are four categories of funding for special education as well as two categorical programs: Itinerant and Supplemental Speech.

Category I

Category I is for students who are self-contained specific-learning-disabled and self-contained speech-language-disordered. This program is funded for a student-to-teacher ratio of 8 to 1.
Category II

Category II is for students who are mildly mentally handicapped. This program is funded for a student-to-teacher ratio of 6.5 to 1.

Category III

Category III includes students who are behavior disordered, moderately mentally handicapped, severely mentally handicapped, resourced specific-learning-disabled, resourced speech-language-disordered, self-contained hearing impaired and deaf, self-contained orthopedically handicapped, and self-contained other health impaired. This program is funded for a student-to-teacher ratio of 5 to 1.

Category IV

Category IV is for students who are deaf-blind, profoundly mentally handicapped, visually impaired and blind, resourced hearing impaired and deaf, resourced orthopedically handicapped, and resourced other health impaired. This program is funded for a student-to-teacher ratio of 3 to 1.

Category V

Category V serves special education students in Categories I through IV whose Individualized Educational Programs specify specially designed instruction of supplementary aids or services in alternative placements. The placements should be in the least restrictive environment. Students may receive services from paraprofessionals, interpreters, job coaches, and other assistive personnel. The program is funded for a student-to-teacher ratio of 8 to 1.

Gifted Program

The Gifted Program serves students who demonstrate a high degree of intellectual ability and who need special instruction and/or services to achieve at levels commensurate with their intellectual ability. In order to be placed in gifted education programs, student must be tested on standardized mental ability and achievement tests and meet specified eligibility criteria. The program is funded for a student-to-teacher ratio of 12 to 1.

Remedial Education

The Remedial Education program provides remedial instruction to students in grades nine through twelve. Instruction is specifically provided in the areas of reading, writing, and mathematics. Students must meet two of five criteria to be eligible for services. The current criteria are as follows:

- A formal student support team process containing documented evidence supports remedial placement;
The student has been retained in the grade for which he or she is enrolled;
- The student is eligible for Chapter 1 services;
- The student has been recommended by a teacher who has documented one of the following:
  - low performance in reading
  - low performance in math
  - the student is unable to express ideas verbally and cannot write or dictate a meaningful sentence; or
- Current test information indicates that the student has a score at or below the 25th percentile.

School systems have immense flexibility in the methods they may use to deliver services to their students. The program is funded at a student-to-teacher ratio of 15 to 1.

**Alternative Education Programs**

Alternative education programs are intended to meet the education needs of a student who is suspended from his or her regular classroom and also of a student who is eligible to remain in his or her regular classroom but is more likely to succeed in a nontraditional setting such as that provided in an alternative education program.

Each local school system must provide an alternative education program that:

1) Is provided in a setting other than a student's regular classroom;

2) Is located on or off of a regular school campus and may include in-school suspension that provides continued progress on regular classroom assignments;

3) Provides for disruptive students who are assigned to the alternative education program to be separated from nondisruptive students who are assigned to the program;

4) Focuses on English language arts, mathematics, science, social studies, and self-discipline;

5) Provides for students' educational and behavioral needs; and

6) Provides supervision and counseling.

State funding for the alternative education program is based on the actual count of students served during the preceding year, except that the count of students served shall not exceed 2.5 percent of the sum of the full-time equivalent program count of the middle grades program, the middle school program, the high school general education program (grades nine through 12), and the vocational laboratory
program (grades nine through 12). This program is funded at a student-to-teacher ratio of 15 to 1.

Program for Limited-English-Proficient Students

This program is for limited-English-proficient students whose native language is not English. The purpose of this program is to assist such students to develop proficiency in the English language, including listening, speaking, reading, and writing, sufficient to perform effectively at the currently assigned grade level. This program is funded at a student-to-teacher ratio of 7 to 1.
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Ross Rubenstein is Associate Professor of Public Administration in the Maxwell School, Syracuse University. His research focuses on public finance and budgeting, education policy and education finance, specifically education funding equity and adequacy, performance measurement, merit-based financial aid, and the link between school resource allocation and performance. He has published his research in journals including *Journal of Policy Analysis and Management*, *Public Administration Review*, *Journal of Education Finance*, *Public Budgeting and Finance* and *National Tax Journal*. He received the 2002 Miriam Mills Award from the Policy Studies Organization (outstanding young person in the policy studies field), the Jean Flanigan Outstanding Dissertation Award from the American Education Finance Association, and the Joseph S. Wholey Distinguished Scholarship Award from the American Society for Public Administration. He was previously on the faculty of the Andrew Young School of Policy Studies at Georgia State University and associated with the Fiscal Research Center.

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