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PROVISION OF AN EQUITABLE PUBLIC SCHOOL FINANCE STRUCTURE IN GEORGIA

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The search for equity and adequacy has been a dominant theme of school finance policy and research for over thirty years. Beginning with California's landmark 1971 *Serrano v. Priest* decision,¹ in which the state's highest court ruled that a child's education could not depend on the wealth of the child's parents or neighbors, virtually every state, including Georgia, has faced a legal challenge to its system of funding public school districts. State supreme courts in 19 states have invalidated state systems of funding public education based on equity or adequacy challenges.² This report discusses equity and adequacy as they relate to Georgia and presents several policy options for addressing equity in Georgia.

I. Defining Equity

Despite the importance of equity and adequacy to educational policy decision-making, the terms are often misunderstood. *Equity* is a relative rather than an absolute concept, and it can be defined and measured in a variety of ways. Though sometimes used interchangeably with *equality*, equity is a much more difficult concept to define and measure. Stated simply, an equitable funding system is one that treats children and/or taxpayers fairly. Fairness is, of course, a matter open to political and legal interpretation. It is important to remember, though, that equal per-pupil spending across districts does not necessarily meet a legal (or conceptual) definition of equity. Some districts may face numerous factors that require them to spend higher amounts per pupil to provide the same educational program as other districts. These factors frequently include higher concentrations of students with special needs or with limited English proficiency, higher costs to attract qualified personnel, and remote locations. Therefore, an

¹ *Serrano V. Priest*, 5 Cal. 3d 584, 487 P.2d1241, 69 Cal. Rptr. 601 (1971) (Serrano I).

equitable funding system would provide a higher level of resources to these districts. There is no consensus in the education community about *how much more* these districts should receive, however. QBE recognizes these differences through its funding weights and through several categorical programs. (See the Appendix for a brief discussion of how QBE works.)

While some spending differences may be traced to differences in district characteristics, other differences may be caused by differences in local “taste” for education. Since almost half of the revenue for primary and secondary education in Georgia and nationally comes from local sources, school districts are afforded a considerable amount of discretion to set their own tax rates and funding levels. Courts have generally been tolerant of spending differences caused by variations in tax rates across districts. However, when wealth disparities across districts are so large that poorer districts could not, on their own, raise the same level of revenues as wealthier districts, the inequities are apparent and state action is required to offset these differences. Several types of state grant formulas can equalize local districts’ ability to raise revenue while still preserving local control to set tax and spending levels. The equalization component of QBE functions on this principal. Districts can choose whether to levy a millage rate above five mills required for the local fair share, but the state guarantees that all districts will be able to raise the same level of revenues from mills 5 to 8.25 as can the 18th wealthiest district (see Appendix).³

Well-developed methods are available to measure the degree of equity within and across states (some results for Georgia are discussed below). The numbers can quantify spending differences across districts but cannot determine the level of equity that is deemed acceptable. Generally, courts and state legislatures have been called upon to resolve these difficult questions.

² Minorini, P. A. and Sugarman, S.D. (1999). “School Finance Litigation in the Name of Educational Equity: Its Evolution, Impact and Future.” In Ladd, H.F., Chalk, R. and Hansen, J.S. (eds). *Equity and Adequacy in Education Finance: Issues and Perspectives*. Washington, DC: National Academy Press, 1999.

³ These types of grants are generally known as Guaranteed Tax Base plans.

II. Defining Adequacy

While equity compares school districts to each other, adequacy measures education funding relative to an absolute standard. An adequate funding level is one that provides all students the opportunity to perform at desired levels. As this broad definition suggests, a fundamental question that must be answered when examining adequacy is, “*adequate for what?*” Before an adequate funding level can be determined, decisions must be reached about the performance goals the system is intended to achieve. As described in the equity discussion above, certain students and systems may require higher level of resources to achieve desired performance goals. Therefore, the adequate funding level will likely vary according to student and district characteristics. The QBE program weights and base funding levels are, in part, an attempt to define an adequate expenditure level for different types of students. It should be noted though that these estimates focus on inputs such as class sizes and allotments of non-instructional personnel, with no explicit connection to the desired outputs produced.

III. Measuring Equity and Adequacy

Most equity measures examine the dispersion of per-pupil revenues or expenditures across districts, or measure the relationship between spending and district characteristics, such as property wealth. In measuring spending differences, the analyses sometimes include adjustments for differences across districts in the characteristics of pupils and in the cost of providing education. Generally, a more equal distribution (accounting for these factors) is considered to be more equitable. Similarly, a weak or non-existent relationship between spending and property wealth would suggest that the school finance system is achieving equity since wealthier districts are not systematically spending more for education than poorer districts.

Several studies have recently examined equity in Georgia over time, and compared to other states. Rubenstein, Doering and Gess⁴ found relatively large differences in funding across districts, although these disparities decreased substantially when student characteristics and cost-of-education differences were taken into account. They also found that while the wealthiest districts in the state generally spent more per pupil than poorer districts (with an average difference of \$600 per pupil between the wealthiest 36 districts and the poorest 36), state funding substantially reduced the disparities caused by differences in local property tax bases. While the wealthiest districts had a tax base per pupil that averaged over three times that of the poorest districts and, on average, had similar tax rates, per-pupil spending in the wealthiest districts was only 15 percent higher.⁵ Their analyses examined fiscal years 1988 – 1996 and found that spending differences were generally largest in 1992 (a year of recession and lower state funding), and decreased in recent years as the state’s share of overall funding increased.

In another study using national data, Rubenstein and Moser⁶ ranked each state’s equity using an index combining several measures. Georgia ranked near the middle of the pack, improving from 24th in the nation in 1992 to 21st in 1995. It should be noted, though, that while these analyses do adjust for differences in the cost-of-education across districts, they do not take into account differences in student characteristics.

The measurement of adequacy is much more difficult and less well-developed than the measurement of equity. The concept of adequacy is based on a presumed relationship between the inputs to education (such as money) and performance. Since the nature of that relationship is not fully understood, it becomes extremely difficult to identify the level of resources that are

⁴ Rubenstein, R., Doering, D.R. and Gess, L.R. "The Equity of Public Education Funding in Georgia, 1988-1996," *Journal of Education Finance*, forthcoming.

⁵ Whether average spending differences of 15% are acceptable requires a value judgement. It is clear, though, that the differences are much smaller than they would be in the absence of equalizing aid through QBE.

⁶ Rubenstein, R. and Moser, M. (1999). "The Equality of Public School District Funding in the U.S., 1992 – 1995: A National Status Report" Working Paper.

necessary and sufficient to produce a given level of achievement. Despite these difficulties, a number of states have addressed the issue head-on and attempted to determine adequate funding levels for districts within their states. Three methods have primarily been used:

1. James Guthrie and colleagues have developed an “professional expert” approach in which they convene groups of experienced educators and researchers from around the state and nation to identify preferred instructional strategies for achieving educational goals. The courts or state legislatures usually determine these broad goals. The expert groups then cost out the estimated price of the necessary components. This approach has the advantage of being transparent to policy makers and the public, but can also be quite subjective and imprecise in the identification of strategies and related costs. Guthrie has used this method to develop estimates of adequate funding for the Wyoming Legislature.
2. An “exemplary district” approach was developed by John Augenblick and subsequently used by him and others to develop estimates in Ohio, Illinois, and Mississippi. In this method, researchers identify districts and/or schools that are representative of the state as a whole and of sub-groups within the state (for example, high poverty districts, rural districts, etc.). Districts with high performance and low spending levels are then identified within each group. The researchers investigate the instructional strategies and expenditure patterns used in the exemplary districts (or schools) to identify the adequate funding level per-pupil for each type of district. This method has the advantage of systematically linking actual performance results to costs. Researchers in each of these states have faced difficulties, though, in defining and measuring performance in order to identify the exemplary districts.
3. An econometric approach has been developed by William Duncombe and John Yinger of Syracuse University. In this method, the researchers use a large amount of data on all districts in a state and statistically estimate a “cost index” that measures differences across districts in the resource levels needed to achieve a given level of student performance. The estimates control for factors that are assumed to be outside the control of the district, such as the mix of students and the cost of hiring teachers. Duncombe and Yinger also attempt to control for inefficiencies found in some districts so that higher costs due to inefficiencies do not result in unnecessarily high cost estimates. A disadvantage of this approach is its complexity and its sensitivity to the data and assumptions used in the statistical analysis. This approach has thus far been used only in research, and has not been implemented by any states.

Equity and adequacy do not automatically go hand in hand. A state with uniformly low spending across all districts may achieve equity but fall far short of adequacy. Likewise, an adequate funding system could provide all districts with an adequate funding “floor” while still allowing wealthier districts to spend far above the minimum if they choose.

IV. School Finance Litigation

Lawsuits challenging the constitutionality of state systems for funding public education have been a prominent part of the school finance landscape since the 1960s. Georgia last faced a challenge to its system of funding K-12 schools (then known as *APEG*) in 1981 in *McDaniel v. Thomas*.⁷ While the court upheld the constitutionality of Georgia's system, the ruling acknowledged the large disparities in educational expenditures that existed across districts. The decision led directly to the drafting of the Quality Basic Education Act (QBE) in 1985.

Since the United States Supreme Court's five to four 1973 ruling in *Rodriguez v. San Antonio Independent School District*⁸ -- in which the Court refused to overturn Texas's school finance system -- school finance litigation has been restricted to state courts. These cases have primarily centered on equal protection clauses and education clauses found in state constitutions. While most state constitutions impose a duty on the state to provide a "uniform" or a "thorough and efficient" system of public education, the Georgia constitution requires the "provision of an adequate education for the citizens...of the state of Georgia, the expense of which shall be provided by taxation."⁹ Therefore, adequacy issues may be particularly relevant to school finance debates in Georgia.

The first wave of school finance litigation in states focused on the equity of resource distribution across districts. *Serrano v. Priest* in California was the first case in which a court invalidated a state funding system. The California Supreme Court ruled that the state's school finance system violated the equal protection clause of the state's constitution because it "made the quality of a child's education a function of the wealth of his parents and neighbors." The

⁷ 248 Ga 632, 285 S.S.2d 156 (1981).

⁸ *San Antonio Independent School District v. Rodriguez*, 411, U.S. 1 (1973).

⁹ Ga. Constitution, Art. VIII, sec. 1.

state legislature was eventually required to pass a funding plan that would dramatically reduce disparities across districts.

In the years following the *Serrano* decision, plaintiffs were successful in having funding systems overturned in numerous states, including New Jersey, Wyoming, Arkansas, and Connecticut. While these cases focused on revenue and expenditure disparities across districts, the relationship between inputs and student performance became a more explicit focus of cases beginning in the late 1970s. The New Jersey Supreme Court ruled in the 1976 *Robinson v. Cahill*¹⁰ decision that the New Jersey constitution required an education system that allowed students to become "citizens and competitors in the labor market." The Washington Supreme Court took a similar approach in overturning that state's funding system in 1978. In the 1979 *Pauley v. Kelley*¹¹ case, the West Virginia Supreme Court laid out a series of specific outcomes that comprise a "thorough and efficient" education in the state, including literacy, basic mathematical skills, knowledge of government and training for work. While the case was not explicitly argued on adequacy grounds, the decision paved the way for future decisions focusing on the outcomes required from a state's education system. As in most school finance cases, development of an acceptable remedy was left to the state legislature.

Perhaps the most prominent adequacy decision to date was handed down by the Kentucky Supreme Court in the 1989 *Rose v. Council for Better Education* lawsuit.¹² The court found not only the state's funding system but the entire system of public education in Kentucky to be unconstitutional and ordered sweeping changes. Focusing on Kentucky's low achievement levels and low per-pupil spending, the court specified seven "capacities" that an adequate education should provide for children, including "oral and written communication skills to enable students to function in a complex and rapidly changing civilization" and "sufficient

¹⁰ 69 N.J.449, 355 A. 2d 129 (1976)

¹¹ 255 S.E.2d 859 W.Va. 1979

understanding of governmental processes to enable the student to understand the issues that affect his or her community, state and nation.” Following the decision, the Kentucky Legislature enacted the Kentucky Education Reform Act (KERA), legislation that pushed Kentucky to the forefront of national movements toward school-based management and performance-based student assessment.

Since 1989, courts have ruled in favor of plaintiffs in adequacy cases in Alabama, Tennessee, North Carolina, South Carolina, Wyoming, and New Hampshire. Courts in Florida and Rhode Island have rejected adequacy-based challenges to state funding systems.

Scholars have had little success in predicting the results of school finance cases since few consistent patterns have emerged in state court decisions. Several issues may be worth noting in relation to Georgia, however. As mentioned, the constitutionality of the state funding system was upheld in the *McDaniel v. Thomas* decision and there is no current litigation on the matter. Since *McDaniel*, QBE has replaced APEG, providing a much higher level of state education funding and a greater degree of wealth equalization across districts. In the *McDaniel* case, plaintiffs argued that Georgia’s funding system failed to meet the state’s constitutional responsibility because “adequacy” required both equal educational opportunities and a minimum level of opportunities across districts. The court rejected the interpretation of “adequate” as “equal.” But regarding the definition of a minimum level of education, the court deferred to the legislature to “give content to the word “adequate.” While “adequacy” as a legal standard was undeveloped at that time, courts in many states have wrestled with the definition of adequacy since the *McDaniel* decision was handed down. In fact, courts in every state contiguous to Georgia have heard challenges based on adequacy claims since 1989.

¹² 790 S.W. 2d 186, Ky. 1989.

V. Current Conditions

As in most states, funding for education in Georgia is primarily a partnership between the state and local school systems.¹³ A major focus of the state's responsibility is to ensure that school districts are able to provide adequate and equitable educational opportunities for all students. Clearly, all school districts do not spend identical amounts of money under the current system (nor, necessarily should they). Before describing alternative strategies to address equity and adequacy, it is worth discussing the reasons that school districts fund schools at different levels. This provides a framework to decide which of these factors the Reform Commission should address, and how to address them.

In the absence of state funding, we might expect to see wide disparities in spending across districts. These disparities might be caused by a combination of the following factors:

A. Differences In Local Preferences For Education

The residents of local school districts differ in their willingness to tax themselves for education. These differences could be related to characteristics of the population such as age of residents, number of children per household, education levels and income. Regardless of the reasons for these differences, districts will choose to levy different millage rates and, therefore, differences will arise in the amount of tax revenues raised for education (assuming tax bases of equal sizes). Currently, districts can choose to levy between 5-20 mills of property tax for education (and higher in certain districts).

B. Differences In Local Wealth (Fiscal Capacity)

School districts in Georgia vary widely in the size of the tax bases available to them. Considering only the property tax, property tax digests vary from a high of about \$312,000 per weighted FTE in Burke County to a low of about \$11,000 per weighted FTE in Pelham City. While the property tax is the primary local revenue source for school districts in Georgia, most

districts have also approved special purpose local option sales taxes for education (EDLOST), to be used for debt retirement and capital construction. To the extent that districts with large property tax bases also have relatively large sales tax bases, the EDLOST might increase differences in the total level of revenue available across districts. In addition, while local school districts cannot levy income taxes to support education, districts with relatively low levels of household income might be less able to levy and collect higher property taxes, despite relatively large property tax bases. The QBE formula equalizes differences in property wealth up to 8.25 mills, but does not equalize beyond this level. There is no equalization for differences in the sales or income tax base.

C. Differences In The Needs Of Students

While all students have different educational needs, it may be impossible to accurately identify the specific needs of each student and the associated costs. We are able, though, to identify broad categories of student needs and to estimate the costs associated with educating these groups of students. For example, students with learning disabilities may require smaller class sizes and more personalized instructional methods. Likewise, districts serving large numbers of students from poverty may require more resources than districts serving primarily students from middle and upper-income families. All things being equal, districts serving more students with special needs will require higher levels of resources to achieve the same student performance results as other districts. The QBE formula recognizes some differences in student needs through the program weights (e.g., special education) and through categorical programs (e.g., ESOL).

¹³ The federal government does provide some funding.

D. Differences In The Cost Of Providing Education

Even if an adequate funding level is identified, the cost of providing the adequate "package" of educational services may differ across school districts. For example, some school districts may be in remote locations with few amenities and would, therefore, need to pay higher salaries to attract teachers. Teachers in urban districts may face higher housing costs and other cost-of-living differences that may have to be offset through higher salaries. Additionally, some school districts -- particularly in urban areas -- may face competition from other districts and from other industries looking for well-educated workers, forcing these local systems to pay higher salaries to attract qualified teachers. According to estimates by the National Center for Education Statistics (NCES), the cost of providing the same level of education may differ by as much as 38 percent across districts in Georgia. The QBE formula makes no adjustment for differences in the cost of education.

Generally speaking, the larger the state's role in funding education, the greater its ability to offset all of these differences. In Georgia, all school districts can raise the same amount of revenue per weighted FTE from a five mill property tax because the state makes up the difference between what districts can raise locally and the cost of the QBE foundation program. Moreover, because of equalization grants, all but the 18 wealthiest systems can raise the same amount of revenue per pupil for the next 3.25 mills. In other words, if all districts levied only 8.25 mills for education, 90 percent of districts would have the same level of resources per weighted FTE.¹⁴ Since districts can choose to levy substantially higher property taxes, and since these additional mills are not equalized, wealthier districts are able to raise higher levels of revenues for all mills above 8.25 than are poor districts. Clearly, however, if property tax rates

¹⁴ This statement is, however, somewhat simplified because it does not take into account differences in teacher training and experience (reimbursed by the state), categorical grants, federal funding, or differences in the cost of providing education.

were capped at 8.25 mills with no increase in state funding, total spending per pupil would be drastically reduced and would exacerbate concerns over the adequacy of funding levels.

Georgia's QBE Act has two methods for adding some degree of equity in education funding among school systems. These methods, local fair share and equalization, are discussed in more detail in the appendix.

VI. Policy Alternatives

Numerous alternatives are available to the state to address equity and adequacy concerns. The following list of alternatives focuses primarily on QBE's equalization grants and on the state/local funding partnership. Developing an appropriate funding level through the QBE formula and cost components, while central to the improvement of equity, is addressed in the Commission's issue paper that focuses on improving adequacy. All of the alternatives listed below could be enacted regardless of any changes the Commission recommends to the cost components. The list of alternatives is by no means comprehensive, but is intended to give an indication of the range of available options. All of these options can be enacted without changing the basic structure of the QBE formula. Several of these options would require little or no additional state funding.

A. Alternative 1: Take No Action On The Formula

Most studies have rated the equity of Georgia's funding system near, or slightly better than, the national average. As described above, no lawsuits challenging the constitutionality of Georgia's school finance system have been filed since before QBE was enacted. The Commission could choose to leave QBE under its current structure, possibly enacting incremental changes to update several cost components that have not been updated for a number

of years. If no action is taken, it can be expected that the current disparities will continue, and will likely increase during times of state budget constraints.

B. Alternative 2: Increase The Number Of Mills Eligible For Equalization

This proposal could take a number of forms. The simplest would be to continue to operate the equalization program on top of the foundation, but to increase the number of mills eligible for equalization (for example, from 3.25 to 10). Such a change would guarantee that all districts have adequate resources to provide the basic program, and would help districts to raise equivalent amounts of revenue at equivalent tax rates. Simply raising the number of mills eligible for equalization would greatly increase the cost to the state, although this could be mitigated somewhat if fewer districts elect to participate in the full program (due to the higher eligible millage rates), or by lowering the "reference district". For example, the state could equalize all districts to the level of the district at the 75th or 50th percentile of per-pupil property wealth, rather than the current 90th percentile. Fewer districts would be eligible for equalization grants than under the current structure, and the districts would be equalized to a lower level of property wealth.

The following scenario provides one example of how such a change could be structured:

- Set the reference district at the 75th percentile of per-pupil property wealth (as compared to the current 90th percentile);
- Raise the number of mills beyond local fair share eligible for equalization from the current 3.25 to 10.

Under this scenario, if we assume that all districts continue to levy their current millage rates, the cost to the state for the equalization program would be approximately the same as (or slightly lower than) the cost under the current system. Because of the additional incentive to levy higher millage rates, many districts might choose to raise their rates to at least 15 mills (5 mills local fair share plus 10 mills equalization) in order to take advantage of the additional

equalization. If all districts below the 75th percentile were to levy the full 10 equalized mills, the cost to the state would increase by approximately \$40 million. At the same time, poor districts would have substantially higher levels of revenue from both the state and from higher local tax rates.

By making more mills subject to equalization, disparities across districts -- and particularly between the districts in the upper and lower half of per-pupil property wealth -- would likely decline. Perhaps most importantly, all mills up to 15 (rather than the current 8.25) would be brought up to the level of district at the 75th percentile, while still allowing spending above that level. Districts above the 90th percentile of per-pupil property wealth would not be affected by this change since they currently receive no equalization funding. Districts between the 75th and 90th percentiles would lose their equalization allotment. These 27 districts would need to increase millage rates by an average of .41 effective mills to offset the lost equalization funding. The effect on districts below the 75th percentile would depend upon their millage rate. Low wealth/high tax districts would benefit the most since a higher number of mills would be equalized by the state (although to a somewhat lower level than under the current formula). Low wealth/low tax systems would likely lose revenue unless they increased their millage rate to take advantage of the higher level of equalization. The specific numbers used in the example could be changed to adjust the estimated budget impact for the state upward or downward.

C. Alternative 3: Increase The Range Of Mills Eligible For Equalization While Keeping The Number Of Mills Constant

Currently, mills 5-8.25 are eligible for equalization, providing no incentive for districts (particularly low wealth districts) to levy taxes above 8.25 mills. The equalization grants could be restructured to provide equalization at a fractional rate for additional mills. For example, the mills eligible for equalization could be increased to 4 mills from the current 3.25. Instead of fully equalizing the first 4 mills, with no equalization above that point, the state could equalize

half a mill for each mill levied up to 13. This change would have the effect of equalizing the same four mills, but districts would need to levy an additional 8 mills above local fair share, rather than 4 to receive the full equalization grant. A district levying a total of 10 mills would therefore receive equalization on 2.5 mills (5 mills above local fair share multiplied by 0.5). If the plan included an increase in the mills eligible for equalization (such as from 3.25 to 4) then state funding may increase slightly. At the same time, fewer districts might take advantage of the full equalization, thereby lowering the state's commitment somewhat.

D. Alternative 4: Vary The Number Of Mills Eligible For Equalization According To The Wealth And Tax Effort Of School Systems

The number of mills to be equalized would vary among schools systems under this alternative, although the 90th percentile school system (in property wealth per student) would continue to be used as the guaranteed valuation system. Rather than equalizing 3.25 mills in all eligible systems, those with wealth in the lower half of systems could become eligible for a higher number of equalized mills, while those between the 50th and the 90th percentiles would have fewer mills equalized than at present. The number of mills to be equalized would then be further adjusted to reflect the relative local tax effort of school systems, as expressed by millage rates. Those with high effort would received an upward adjustment in the mills equalized, while systems with relatively low millage rates would receive equalization for a reduced number of mills. Under this scenario, a school system with very low wealth would initially qualify for more than 3.25 mills based on its wealth, but would sacrifice the gain if it had a low tax rate. A system with both low wealth and high effort would benefit the most by this plan. To avoid a significant increase in cost to the state, a maximum number of mills to be equalized could be imposed.

E. Alternative 5: Include An Adjustment For Differential District Costs

Revisions to the cost components to reflect the actual and necessary costs of providing the basic program could include an adjustment for differences in the cost of providing education

across districts. A number of methods could be used to develop a cost-of-education index for the state (see below). If the cost index for the district with the lowest cost per student is set to 100, all other districts' allocations could be multiplied by a cost factor relating each district's costs to those in the lowest cost district. Therefore, a district with costs 10 percent higher than the lowest cost district would receive the base allocation per weighted FTE multiplied by 1.10.

Currently, a handful of states incorporate cost indices into their education funding formulas. Florida, for example, uses a three-year average of the Florida Price Level Index (FPLI) to adjust each district's allocation to account for differences in the prices they face. The FPLI is calculated annually by the state for all counties in Florida. Minnesota uses a similar method, but uses regions rather than counties, and does not update the index every year. Additionally, researchers working for the NCES have developed several national cost indices that estimate cost-of-education differences for all school districts in the country. It is important to note that these indices estimate *price differences* that school districts face for personnel and other-than-personnel spending. They are not estimates of actual spending differences. Therefore, a district's cost index would not increase simply because it chose to pay higher salaries than surrounding districts.

F. Alternative 6: Establish Fixed State And Local Shares Of The Basic Program, With Local Districts Contributing In Proportion To Their Share Of Total State Property Wealth

Such a system could be constructed as follows:

1. The total cost of providing a Quality Basic Education for all students in Georgia would be calculated by:
 - multiplying the per-student cost of each program by the adjusted number of full-time-equivalent (FTE) students being served in each program, and
 - adding Categorical Grants for Student Transportation, Sparsity, and Special Education - Low Incidence. (All of the other current Categorical Grants plus

Alternative Programs could be converted to regular programs or cost components in a regular program.)

2. The State would be responsible for 80 percent of the total cost calculated above for the entire state, and the remaining 20 percent would be apportioned among all of the local school systems in accordance with each system's relative taxable wealth.
3. Each local school system would levy local taxes as necessary to:
 - cover its share of the required local effort for the entire state,
 - pay salaries in excess of the State minimum salary schedule, and
 - provide programs beyond those included in a Quality Basic Education.

Under this approach, local systems would bear part of the added cost of any additions to the base program. Since local fair share is now a fixed amount, the cost of increasing the formula falls entirely on the State, while leaving a necessary cost out of the formula puts the burden entirely on local systems. This alternative could increase equalization, especially in terms of the basic program, if the estimate of the cost of providing a Quality Basic Education is higher than under the current formula. For example, the number of local mills to be equalized in the form of local fair share could increase from 5 to approximately 6 (plus the number of mills covered by Equalization Grants). At the same time, all local school systems would participate according to their relative wealth. Under this approach, there would be a noticeable shift in the distribution of State funds since the wealthy school systems would have to bear relatively more of the total cost of the basic program.

V. Conclusions

The alternatives above would keep the basic structure of the QBE program intact. The alternatives should not be viewed as mutually exclusive. For example, a combination of Alternatives 2 and 6 could operate together much the same as the current formula and

equalization grants. If Alternative 6 led to an increase in the number of mills required to fund the local share of the basic program, then the two alternatives in combination would provide a substantially higher level of equalization than under the current system. If local fair share increased to 6 mills, then the combination of these alternatives would have the effect of equalizing approximately 16 mills of property wealth (rather than the current 8.25) for 75 percent of districts. In addition, each of the alternatives could be implemented with or without an adjustment for cost differentials (Alternative 5).

APPENDIX

How QBE Works

Local Fair Share

QBE determines the level of expenditures required of each school district in order to provide a basic education. The basic grant from the state is that expenditure level less the local fair share. Local fair share (O.C.G.A. § 20-2-164) is the amount of funding each local school system is required to spend each fiscal year to support the QBE Program. The idea behind local fair share is that state educational funding should not simply be a grant from the state to local school districts. Each local school district must contribute a portion of program costs, with a district's share based upon its relative property wealth. Local fair share thus creates a partnership between the state and local school systems in funding education.

School districts raise funds for QBE largely by levying property taxes. Each school district's local fair share is the amount that five mills generates on the equalized adjusted school property tax digest. The use of an equalized tax digest is necessary because all property in Georgia is not assessed at the same percentage of fair market value. To equalize for differing assessments, the State Auditor conducts a Sales Ratio Study for each county to determine the percentage of full market value at which local property is assessed. Using this percentage, called the sales-assessment ratio, the Department of Education determines the assessed value of property in each school district at 40 percent of full market value and thus the local fair share for each district at five mills. Tax digests are reduced by an amount reflecting homestead exemptions, including an allowance for the elderly.

The local fair share (LFS) is deducted from the amount to which the district is entitled under QBE program weight and categorical grant funding formulas. Each system is expected to

spend from local sources an amount equivalent to the LFS on state-supported programs. LFS may be applied to any combination of programs under QBE; however, no portion of LFS funds can be used to finance education programs or services outside state-recognized QBE programs.

Local fair share funds are applied to the cost of the QBE program in a local system. As a result, the actual amount per student paid by the state will vary considerably from system to system. Therefore, the actual percentage of the total QBE amount that is paid by state funds will also vary from system to system. One effect is to provide poorer systems with more state funds per student and wealthier systems with fewer state funds per student to pay for the state-required program. A second effect is to ensure that students receiving the same services in different school systems receive the same amount of funding from the QBE formula, regardless of the wealth of the local system in which the student resides. A third effect is to ensure that the level of effort (defined by the number of mills required) is the same regardless of wealth.

Equalization Grants

Many states, including Georgia, allow local systems to levy taxes (usually property taxes) beyond the amount required for the state formula program. The Georgia Constitution limits the taxing ability of school systems to a maximum of 20 mills, but a few systems have exercised their Constitutional prerogative to exceed that limit via a local referendum (DeKalb, Fulton, and Rockdale counties). Several other systems have higher limits in place as a result of old city charter or constitutional provisions that were allowed to continue as variances (these include Bibb, Glynn, and Muscogee counties, Atlanta City, and Decatur City). In effect, most local systems have the authority to raise four times as much as they are required to raise to participate in the state formula program.

Local systems vary greatly in the amount of extra effort they exert to enrich the state program for their students, and the extra effort results in widely varying amounts of additional

funds to use. The state exerts no control over the way school systems use local funds beyond the five mills required by the QBE Act. The additional funds often go for such widely varying purposes as lowering class size, paying supplements to teachers, hiring additional administrative personnel, buying supplemental materials, and providing funds for courses that do not generate enough students to get full QBE funding. A local system with a high level of taxable property wealth that levies property taxes above the five-mill requirement can provide more of these extra services to its students than one with less such wealth. Equalization grants attempt to offset some of these disparities in the ability of local districts to generate such additional funding.

Equalization grants are described in Part 4 of the Quality Basic Education Act (O.C.G.A.20-2-165). Since the dollars of taxable wealth per child vary tremendously from district to district, the QBE Act attempts to reduce this disparity in revenue raising ability through "equalization earnings." One mill of property tax levied in a wealthy district, with its more valuable real estate, enables the district to raise much greater revenues than the same rate levied in a poorer district. Georgia law currently provides that districts whose property wealth per student is below the 90th percentile of all districts in the state will receive additional state funding if that system taxes itself at a rate of up to 3.25 mills above the local fair share amount of 5 mills. The state provides poorer districts with the difference between what they can raise from those mills of property tax and what the system ranked at the 90th percentile can raise. The 90th percentile is used as the base figure because an atypical situation, such as a regional power plant or industrial center located within a system's boundary, may result in extreme concentrations of property wealth in some systems. For FY 2000, \$246,132,702 was appropriated for equalization grants.

To determine the equalization earning of a local school system, the Department of Education calculates each system's taxable wealth per weighted FTE student and ranks the

systems from greatest to least wealth to find the district at the 90th percentile. For each district below the 90th percentile, the state will pay the difference between the per weighted FTE amount that that district can raise from each mill up to an additional 3.25 mill tax on its property and what the system at the 90th percentile can raise.¹⁵

Equalization grants ensure that 90 percent of Georgia's school systems -- regardless of wealth -- can raise the same amount of revenue per pupil from the first 3.25 optional mills of local taxes. Equalization is *not* designed to ensure that all districts spend the same amount of money on education, however. Instead, it intended to ensure that all districts *with the same tax rates* can spend the same amount per pupil, although the state caps the number of eligible mills at a low level. Decisions about property tax rates are left to the discretion of local school districts. A school system in which local residents wish to pay school personnel significantly higher salary supplements or provide extensive enrichment efforts can do so, although there is no equalization of fiscal capacity beyond the first 8.25 mills of property tax. The state provides all the revenue for these grants -- no funds are taken from wealthier systems. If a system does not qualify for equalization funds, it still keeps all proceeds from both LFS and its mills above LFS.

¹⁵ A more technical explanation of equalization grants is that the system at the 90th percentile (the eighteenth system in rank) represents the guaranteed level to which the state will equalize revenue for the first 3.25 mills a system below the 90th percentile levies above local fair share. DOE must also calculate the amount of dollars per \$1,000 valuation to be equalized, which is the difference between the guaranteed taxable wealth per weighted FTE student and the system's taxable wealth per weighted FTE student. This figure represents the dollars generated by one effective mill of taxation per weighted FTE student. DOE then determines the effective mills levied by the system above those required by QBE as the local fair share. Equalization grants are calculated by multiplying equalized dollars per effective mill to be equalized times the number of effective mills levied above those required by local fair share. The product is multiplied by the total weighted FTE student count of the school system.

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