

October 2012, Number 250

SCHOOL FACILITY FUNDING IN GEORGIA AND THE EDUCATIONAL SPECIAL PURPOSE LOCAL OPTION SALES TAX (ESPLOST)

This brief provides a snapshot of Georgia's system of school facility finance, with a particular emphasis on the role the Education Special Purpose Location Option Sales Tax (ESPLOST) plays in funding school facilities. In so doing, it attempts to answer five broad questions related to the way Georgia finances its school facility needs: (1) How has the level of school facility funding changed over time and how does it compare to the level of funding in other states; (2) How successful have school districts been at raising revenue through the ESPLOST and how does the amount of revenue generated through the ESPLOST compare to other major funding sources for school facilities; (3) How is ESPLOST revenue and the overall level of school facility funding distributed across school districts; (4) What are the primary causes of inequities in school facility funding across districts; and (5) Would it be feasible to allow school districts to redirect some or all of their ESPLOST revenue toward operating expenses? The full report attempts to answer those questions by documenting Georgia's current system of school facility finance and examining the level and distribution of school facility funding since the passage of the ESPLOST program in 1996.

Revenue Raised through the ESPLOST has Significantly Increased School Facility Funding

Since the passage of ESPLOST legislation in 1996, spending per pupil on new school construction and modernization has increased dramatically in Georgia. Prior to 1996, spending per pupil on school facilities in Georgia lagged behind most other states with similar enrollment growth. Shortly after the passage of ESPLOST legislation, however, spending per pupil on school facilities in Georgia began to rise and now mirrors the level of funding observed in states with similar enrollment growth. ESPLOST revenue now represents the single largest source of revenue available to school districts for new school construction and modernization. For example, between 2006 and 2010, ESPLOST revenue represented over 80 percent of the total revenue available to school district for their school facility needs. The ESPLOST program has also proven to be effective in allowing school districts to reduce their dependence on long-term debt to finance school facility needs. While spending per pupil on school facilities has increased dramatically since 1996, school district debt has remained relatively constant. That stands in stark contrast to what has occurred in the rest of the United States. Among school districts

located in states other than Georgia, long term debt per pupil in 1996 averaged approximately \$3,900 while it averaged \$3,200 in Georgia. By 2008, long term debt per pupil averaged nearly \$8,000 in school districts located outside of Georgia while it averaged only \$3,560 in Georgia. The differences in debt levels are even more dramatic if one compares Georgia to other states with similar enrollment growth.

ESPLOST Referenda Receive Widespread Voter Support

As noted by the Association County Commissioners of Georgia (ACCG), the unpopularity of the property tax has made the ESPLOST a popular alternative for funding school facilities. One measure of that popularity is the widespread use of the ESPLOST. As of 2011, all but one of Georgia's 159 counties had passed at least two ESPLOST referenda and more than a third of counties had an ESPLOST in place without interruption between 1997 and 2011. Another measure of the popularity of the ESPLOST is the high passage rate of local referenda. Since the first ESPLOST referenda in 1997, all but 32 of 562 referenda held were approved by voters, implying an overall approval rate of 94 percent. Furthermore, while ESPLOST referenda only require the support of a simple majority of voters to pass, the vast majority of referenda are supported by a much higher fraction of local voters. On average, the fraction of local voters supporting ESPLOST referenda is over 67 percent. Finally, we find that voter support for the ESPLOST tends to be high regardless of when ESPLOST referenda are held. Specifically, we find no evidence that support for ESPLOST referenda varies with voter turnout or with the month in which a referenda is held.

There are Wide Disparities in School Facility Funding across Districts

Revenue per pupil for school construction and modernization varies widely across districts. For example, 10 percent of students in Georgia attended a district where facility revenue per pupil (total revenue raised over the period 2001-2010 divided by student enrollment) was less than \$6,983, while 10 percent of students attended a district where facility revenue per pupil was greater than \$17,673; a difference between the 90th and 10th percentiles of over \$10,000. While these disparities have declined over time, large differences across districts in facility funding remain. Part of the variation across districts in facility funding is due to differences in need, another part is due to differences in the ability to pay for school facility projects. In terms of need, districts with higher enrollment growth rates tend to have substantially higher revenue per pupil. In terms of ability to pay, districts with higher sales tax bases also tend to have substantially higher revenue per pupil.

In particular, disparities in school facility funding across districts are systematically related to the sales tax base within districts. Districts with higher sales tax bases are able to raise substantially more revenue through the ESPLOST and consequently, tend to have substantially higher total revenue per pupil. There also appears to be little relationship between facility revenue and the ethnic composition of districts. If anything, districts with higher concentrations of minority students tend to have higher facility revenue per pupil.

Flexible Use of ESPLOST Revenue is Potentially Feasible but Important Issues Remain

In 2010 the Georgia State Senate Budget Task Force recommended "allowing flexible use of ESPLOST revenue for schools' operating expenses and capital improvements." Following that recommendation, the Georgia State Legislature in 2010 proposed an amendment to the Georgia Constitution authorizing school districts to use ESPLOST revenue to fund operating expenses and millage rate reductions in addition to capital improvements. While the proposal was passed by the House of Representatives, it failed to gain traction in the Senate. In light of the Georgia State Senate Budget Task Force recommendation and the 2010 legislation, we end our brief by examining the feasibility of allowing school districts to redirect some or all of their ESPLOST revenue toward operating expenses.

Our analysis of enrollment growth projections and the five-year facility needs reports submitted by school districts to the Department of Education suggests that over the next five to ten years, financial need for new school construction and expansion projects will decline as the growth rate of student enrollment slows statewide. At the same time, however, our analysis of the most recent (2011) facility needs reports prepared by school districts suggests that overall financial need for facilities will increase by approximately 34 percent over the next five years, an increase that is being driven primarily by a substantial increase in reported need for renovation and modernization projects.

The continuing financial need for facility investments casts some doubt on whether school districts would have sufficient ESPLOST revenue available to fund operating expenses and millage rate reductions in addition to reported capital improvement needs. We note, however, that the overall increase in facility needs reported above represents an average across all school districts, and thus it is possible that some school districts would have sufficient ESPLOST revenue available to fund operating expenses or millage rate reductions, if given the option to use ESPLOST for operating expenses. In addition, for certain school districts the marginal benefit of additional

spending on daily operations (e.g. hiring teachers and teacher aids and providing school enrichment programs) may be higher than the marginal benefit of additional spending on school renovation and modernization projects. In such cases, reallocating ESPLOST revenue towards operating expenses could increase overall productivity. The use of sales tax rather than property tax to fund operating expenses does have some policy implications which are further discussed in the full report.

ABOUT THE AUTHORS

Eric J. Brunner is an Associate Professor in the Department of Economics at Georgia State University. His primary fields of research are state and local public finance and political economy. More narrowly, much of his work has focused on issues related to the provision and financing of K-12 education, the economics of school choice, and the political economy school funding and school choice.

Nicholas Warner is a Research Associate at the Fiscal Research Center. His recent research has included expenditure and revenue portfolio analysis, tax expenditure estimation, and examination of Georgia's special option sales tax for school facility funding.

ABOUT FRC

The Fiscal Research Center provides nonpartisan research, technical assistance, and education in the evaluation and design the state and local fiscal and economic policy, including both tax and expenditure issues. The Center's mission is to promote development of sound public policy and public understanding of issues of concern to state and local governments.

The Fiscal Research Center (FRC) was established in 1995 in order to provide a stronger research foundation for setting fiscal policy for state and local governments and for better-informed decision making. The FRC, one of several prominent policy research centers and academic departments housed in the School of Policy Studies, has a full-time staff and affiliated faculty from throughout Georgia State University and elsewhere who lead the research efforts in many organized projects.

The FRC maintains a position of neutrality on public policy issues in order to safeguard the academic freedom of authors. Thus, interpretations or conclusions in FRC publications should be understood to be solely those of the author. For more information on the Fiscal Research Center, call 404-413-0249.

RECENT PUBLICATIONS

School Facility Funding in Georgia and the Educational Special Purpose Local Option Sales Tax (ESPLOST). This brief reviews Georgia's system of school facility finance, emphasizing the role of the Educational Special Purpose Local Option Sales Tax (ESPLOST). (October 2012)

Georgia's Revenue and Expenditure Portfolio in Brief, 1989-2009. This brief uses Census data to examine how Georgia ranks in terms of spending and revenue by functions and objects and examines how Georgia's portfolio has changed over time compared to national peers. (August 2012)

Estimated Distributional Impact of T-SPLOST in the Atlanta Metropolitan Area. This brief examines the distributional impact of the Atlanta area T-SPLOST by income level and age. (July 2012)

Georgia's Tax Portfolio: Present and Future. This paper proposes a tax policy analysis methodology that applies financial market portfolio concepts to simultaneously consider both the growth and volatility of Georgia's historical and future tax revenue receipts. (September 2012)

Jobs in Georgia's Municipalities: Distribution, Type, and Quality of Jobs. This brief discusses the distribution, type, and quality of jobs and examines the percentage by municipality of total state employment. (June 2012)

Jobs in Georgia's Counties: Distribution, Type, and Quality of Jobs. This brief discusses the distribution, type, and quality of jobs and examines the percentage by county of total state employment. (June 2012)

Measuring Preferences for and Responses to Alternative Revenue Sources for Transportation. This report contains a survey of published public opinion polls and the results of a new Georgia poll regarding citizens' attitude towards alternative transportation revenue sources. (June 2012)

The Incentive Effect of Tax-Benefit System Facing Low-Income Families in Georgia. This report examines the incentives created by the state and federal tax system and the phase-in and phase-out of means tested benefit programs on low-income households in Georgia. (April 2012)

An Analysis of Reducing the Corporate Income Tax Rate. This brief discusses the likely revenue and incentive effects associated with various options for modifying the current corporate income tax structure. (April 2012)

Georgia's Corporate Income Tax: A Description and Reform Options. This report describes the existing corporate income tax structure and discusses the likely revenue and incentive effects associated with various options for modifying the current corporate income tax structure. (April 2012)

An Analysis of Options for Reforming Georgia's Income Tax: Simplicity, Equity, and Adequacy. This report develops a framework for analysis of individual income tax reform proposals, and analyzes recent reform packages and some simple alternatives. (February 2012)

An Inventory of Transportation Funding Options. This report provides a discussion of the advantages and disadvantages of various options for funding transportation. (February 2012)

Federal Tax Burden and Tax Breaks for Georgia Residents. This report examines the federal taxes paid and the tax breaks received by Georgia residents, it also places these in context of other U.S. states. (January 2012)

For a free copy of any of the publications listed, call the Fiscal Research Center at 404/413-0249, or fax us at 404/413-0248. All reports are available on our webpage at: frc.gsu.edu.