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
bases also tend to have substantially higher revenue per pupil.

In terms of ability to pay, districts with higher sales tax growth rates tend to have substantially higher revenue per pupil. Projects. In terms of need, districts with higher enrollment rates tend to have substantially higher total revenue per pupil. Part of the variation across districts in facility funding remains. 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.

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