

Sales Tax Flexibility Not Enough to Solve Georgia's School Funding Crisis

Bill Analysis: House Resolution 1109 and House Bill 802

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The General Assembly is considering putting a constitutional amendment to a statewide vote to give school districts greater flexibility to spend sales tax money. Districts continue to struggle financially due to ongoing cuts in state funding, including an austerity cut of about \$750 million planned for the 2015 fiscal year. If passed by the General Assembly and approved by voters, House Resolution 1109 would allow school districts to hold a referendum to allow up to half of revenue from an Education Special Purpose Local Option Sales Tax (ESPLOST) for educational materials and programs. The special tax now is limited to capital expenses, such as building and renovating schools, or to eliminate existing debt. House Bill 802 specifies the types of educational programs that could qualify for ESPLOST money.

Some of Georgia's districts would benefit from the greater financial flexibility offered by HR 1109 and HB 802. Districts with few capital needs could redirect money from the tax to critical educational programs scaled back or eliminated due to state budget cuts. Other districts with overcrowded schools and buildings in disrepair would continue to rely on ESPLOST dollars to address those problems. Districts unable to take advantage of the new flexibility will need the state to end its annual austerity cuts to restore the educational programs they once offered.

Freeing up special tax money for educational programs could create or exacerbate existing funding disparities between districts. It could also result in districts assuming more long-term debt.

Proposals Offer Districts Greater Flexibility with Special Sales Tax Money

Georgia school districts now can levy a 1 percent sales tax for five years if local voters approve. The money can be used to pay for capital outlay projects, which can include building construction or renovation, the purchase of buses and some kinds of technology. Special sales tax revenues can also be used to pay down existing debt. The tax cannot be used to pay for maintenance and operations expenses. HR 1109 and HB 802 propose to change this.

Expanding qualified spending categories for the special tax revenue requires voters to approve an amendment to Georgia's constitution. Voters could decide to expand use of special tax revenue as soon as November 2014. School districts could use up to 50 percent of special tax revenues for technology, art and music, remedial education, summer programs, media centers, graduation counseling and other uses outlined in HB 802. Districts would still need approval from local voters to expand use of the tax. Districts with an existing ESPLOST on January 1, 2015 would have until January 1, 2017 to hold a referendum to expand use of a portion of the tax.

Capital Needs Shape Districts' Ability to Redirect Special Tax Money

School districts across Georgia face enormous financial pressures. The state has shortchanged districts the full amount called for in its K-12 funding formula since 2002, for a total austerity cut of \$7.6 billion. Average state funding per full-time equivalent (FTE) student fell an inflation-adjusted 15.3 percent during that time.¹ This decline will continue, since the state's 2015 budget proposes an austerity cut of about \$750 million.

Allowing school districts wider use of special tax money would enable some to redirect funds to critical educational programs, especially ones with less need to build or renovate schools or replace aging buses. Those districts could be in better position to restore art and music education, provide more support to struggling students through remedial or summer programs, bring more instructional technology to the classroom and more. Sustaining these programs with ESPLOST money could be a challenge if a district's capital needs grow or sales tax revenue declines.

Many districts need to use all of the sales tax revenue for capital projects, however. They might need to add new classrooms or repair and upgrade older buildings. The cost of building, renovating and modernizing schools will increase by 34 percent between 2011 and 2015, districts report.² Special sales tax revenues amounted to 80 percent of money districts spent on school construction and modernization between 2001 and 2010.³

Revenue Differences Mean Some Districts Will Gain More Than Others

Some school districts generate much more special sales tax revenue than others, creating much larger amounts available for educational programs and materials. The median level of special sales tax revenue per full-time equivalent student was \$786 in 2011, the most recent year statewide data are available. Long County was on the low end of the scale, with \$225 per FTE student. Twenty-five districts raised less than \$500 per FTE. At the top end, 35 districts got more than \$1,000 per FTE student in special sales tax money in 2011 and eight of those got \$1,500 or more.

This difference in special sales tax revenue could exacerbate existing disparities in education spending. Some of the districts with the highest total revenues in local, state and federal funds per full-time equivalent student are also among those with highest in special sales tax revenue by the same measure. Some of the districts with the lowest total revenues are among those with the lowest special sales tax revenue per FTE as the chart below indicates.

Sample of Low and High Revenue Districts

	Revenue FY 2011 per FTE*	ESPLOST Revenue CY 2011 per FTE
Greene County	\$13,269.37	\$1,612.03
Talbot County	\$12,501.72	\$1,046.50
Clarke County	\$12,198.07	\$1,674.58
Long County	\$7,412.42	\$225.13
Paulding County	\$7,382.98	\$487.50
Pike County	\$6,702.38	\$309.95

*Revenue is local, state and federal funds.

Source: Georgia Department of Education, Local, State and Federal Revenue Report, Fiscal Year 2011, (GBPI calculations based on sales tax data provided by the Georgia Department of Revenue)

Using Sales Taxes for Educational Programs Could Lead to Higher Long-Term Debt

Georgia school districts use special sales tax money to keep long-term debt levels low. This held true even as spending on school construction and modernization grew considerably since the late 1990s as student enrollment soared past the national growth rate.⁴ Districts in Georgia boast debt levels far below other high-growth states such as Florida, Texas and Colorado.⁵ That could change if education's special sales tax is used for operations instead of capital projects.

Endnotes

¹Author. The Schoolhouse Squeeze. Georgia Budget and Policy Institute. September 2013. <http://gbpi.org/wp-content/uploads/2013/09/Schoolhouse-Squeeze-Report-09232013.pdf>

²Brunner, E. and Warner, N. School Facility Funding in Georgia and Use of the Educational Special Purpose Local Options Sales Tax (ESPLOST). Fiscal Research Center, Georgia State University. October 2012.

³Ibid.

⁴Spending on facilities in Georgia has outpaced the national average but that is because student enrollment has been well above the national average. Per student funding for construction and renovation in Georgia has been comparable to spending in other high-growth states. (Brunner and Warner, October 2012)

⁵Brunner, E. and Warner, N. School Facility Funding in Georgia and Use of the Educational Special Purpose Local Options Sales Tax (ESPLOST). Fiscal Research Center, Georgia State University. October 2012.