

To: Members of the Special Council on Tax Reform and Fairness to Georgians

From: Georgia School Boards Association

Thank you for the opportunity to provide comments to you. The Georgia School Boards Association is a voluntary organization composed of all 180 elected boards of education in the state. In 2007, our members adopted and have continued to support the following legislative position:

The Georgia School Boards Association supports tax reform that is done right. GSBA believes that a Commission on Comprehensive Tax Reform should be convened to conduct a complete and open study of the implications of tax reform. Recommendations from the Commission should then in turn be based upon sound data and research that supports reform that will bring about a tax system that yields adequate funding, is fair, is stable, and is transparent.

Since education is a large part of state and local revenue needs, the topic has come up a number of times in your sessions. I would like to provide you some information to show the interrelationship between state decisions and local revenue needs. I will also provide you with points we have made previously to others looking at the tax structure.

Education Funding

Although the Special Council on Tax Reform and Fairness to Georgians is focused on state revenue, the subject of local property taxes has come up. As is often noted, most of the property taxes go to schools. In September 2008, the Fiscal Research Center of Georgia State University held a conference on property taxes. Dr. Sally Wallace broke out the property taxes levied by type of government. From 1996 to 2007, the share of property taxes levied by school boards dropped 1.5%. Those levied for special districts, however, increased 2.6% in that time period. Who paid the property tax also shifted: in 1996, 43% of the tax digest came from residential property; in 2007, 55% of it did. This may be part of the reason for the increased complaints. The assessment process is often at the core of the issue, and legislation passed this year should provide relief from many of the problems.

There are 180 public school districts in Georgia governed by a locally elected board of education – 159 county districts and 21 independent city districts. The districts range in size from just over 200 to over 160,000 students. 92% of the school-age children in Georgia attend public school. These schools are funded through federal, state, and local sources. In FY 2009 (the latest figures available), the funding was on average 8% federal, 44% local, and 49% state. State support to districts ranged, however, from 18% to 82%. Seventeen systems received less than 40% of their revenue from the state, but it was over 70% of the total revenue in fifteen districts.

The amount of local funding needed by local boards is directly related to a number of decisions made by the state. The state determines the salary schedule, class sizes, personnel required, expenditure controls on QBE funds, minimum length of the school day and school year. In six of the nine years of the state reductions, certified employees, bus drivers, and food service workers were given a state raise ranging from 2% to 4%. A number of these rules are currently waived due to the economic crisis, but the point is that local boards have little control over the major expenses

As state revenue has declined, local support for students has increased. In FY 2002, the state paid an average of \$4,009 per full-time equivalent student, and districts paid \$2,752. By FY 2009, state support

had increased by \$309 but the local share was up \$1133. State revenue and its distribution have a direct impact on local property taxes.

State funding comes mostly from the Quality Basic Education Act (QBE) formula which was created in 1985. The formula generates a cost of instructional programs which reflects a teacher-student ratio and specific services typically required to address the special needs of the students enrolled. A local contribution is required to receive the state funds. The value of five mills, based on an equalized adjusted school property tax digest, is deducted from each school district's QBE earnings. The total deduction is supposed to be limited to 20% of the QBE formula earnings, although that is not always the case. The remainder is to be paid by the state. Since FY 2003, the state has reduced its share by annual amounts ranging from \$135 million to \$1.3 billion for a nine year total of \$4.2 billion.

Ninety-two percent of the amount generated by the formula is for salaries of required personnel. When the state reduces its portion, these salaries must still be paid. To illustrate the impact, in FY 2011, the state is paying \$6 billion as its share of QBE -- \$1.1 billion less than the formula directs. The salary totals alone are \$8.2 billion. Local districts must pay the \$1.7 billion five mill contribution, all the operating costs, plus the rest of the salary expense. \$126 million in federal stimulus funds help offset this but by no means cover it. These figures include only expenses within the formula.

The state provides some funding for transportation as state law requires that districts offer transportation to all students who live 1.5 miles or more from the school or any student for whom it would be unsafe to walk. This formula has also faced a series of cuts. In FY 2011, the state appropriated \$26 million *less* for transportation than in 2003 even though we now have over 194,000 *more* students. In FY 2009, the state paid 24% of the transportation costs; in 2003, it paid 34%. State funding also includes a grant that attempts to equalize the differences in local property values and thereby equalize educational opportunities available to students across the state. This grant has also been reduced in the economic downturn.

Local revenue for maintenance and operations is limited to property taxes for most school districts. Ten systems, however, had a local constitutional amendment grandfathered in that allows them to receive a penny of sales tax for operations separate from the special purpose local option sales tax (SPLOST) for capital outlay. The districts are Bulloch, Chattooga, Colquitt, Habersham, Houston, Mitchell, Pelham City, Rabun, Towns, and Trion City. Because of this revenue, their millage rates are lower. The rate in these systems averages 10 mills; the state average is 15 mills. There have been proposals to amend the state constitution to allow the SPLOST to be used for operations and capital outlay. This is different than the revenue structure of the ten systems. Our members are split on that proposal, so GSBA has no position on that.

Most districts have a constitutional cap of 20 mills that can be levied unless a referendum is called and the voters agree to raise it. As property values drop and tax digests decline, this limitation will be faced in some communities. For instance, Henry County's levy has been at the maximum for several years. Their tax digest is highly reliant on residential property, and values have reportedly dropped 20%. Some very difficult choices will have to be made there. School board members are fully aware of the financial impact of their decisions. They too pay taxes. Their constituents are friends, neighbors, and people they see regularly around the community. There are a number of property tax exemptions at the state and local level. Most districts have some kind of exemption from part or all of the school taxes based on age, income, and/or disability.

Our student population grows every year, although the growth rate has slowed. We've added well over 216,000 the last nine years. In October 2009, we had over 310,000 more students eligible for free or reduced lunch than we did in 2000. Almost 25,000 more students qualify for special education services. 28,000 more students were classified as gifted in 2009 than in 2004. In 2009, almost 62,000 required English Language Proficiency services. 4,400 qualified for migrant services. Our students are as varied as our state.

Georgia's Revenue Structure

In previous testimony to tax reform committees we have provided the following suggestions:

- Establish criteria, such as the Council's guiding principles, to evaluate current and proposed taxes against and do so.
- Determine the perceived problems and issues around the current tax structure and the impediments to settling them. The Council is doing just this.
- Consider population projections and the impact on revenue when making decisions.
- Require a tax expenditure report that lists all exemptions and the amount of revenue foregone. A bill passed this year addressed this.
- Establish a sunset committee to review the exemptions on a regular basis. Recommendations should be made to the Ways and Means Committee to continue them or terminate them.
- Put a moratorium on new exemptions until the current ones are reviewed and affirmed or ended.

Many of the exemptions serve a legitimate purpose and would undoubtedly be continued. Some exemptions though, granted on one basis, have led to others on a different basis. Exemptions for one product to encourage alternative crops or economic development led to other exemptions on the basis of equity. They are both legitimate considerations but the cumulative effect erodes the tax base.

There is sometimes no correlation between exemptions and expenditures. For instance, some exemptions are given to encourage certain behavior but that vision is not carried out in the budget. Income tax exemptions were created to encourage wealthy retirees to reside here, but there was no public discussions on what expenditures were needed to provide the quality of life those retirees seek. We are unlikely to obtain the maximum public benefit from this strategy if we do not work through the complete picture.

There are frequent efforts to "fix" a problem because we levy a tax someone else does not. There is, however, often a failure to offer alternative revenue or acknowledge the local impact. The inventory tax is frequently mentioned as one that should be abolished. In 2008, a fiscal note estimated the loss to school districts to be \$176 million. The motor vehicle tax is also a frequent target. In 2007, this tax was 16% of the digest for one district and over 10% of the digest in 45 districts. It is certainly appropriate to compare the total revenue structure to neighboring states, the sunbelt, and the nation, but it is not helpful overall to just consider one tax.

There is sometimes a lack of consistency in our tax philosophy. There is an exemption on the excise fees on motor vehicle fuel for public transportation vehicles but not for school buses. The cost to districts is about \$5 million, not a large amount in the scheme of things, but an oddity particularly since the state pays part of transportation costs. Another inconsistency is the willingness of the state to forego up to \$50 million in income taxes in exchange for donations to organizations

providing scholarships to private schools although the state is unable to meet its obligation to fund public schools as set out in statutes.

It is impossible to talk about revenue without also considering expenditures. We suggest a few guiding questions for this discussion:

- What is the state required to fund?
- At what level should we fund it?
- How do we maintain the appropriate level over time?
- What is the projected growth in costs to these services?
- What else do we see as imperative to fund?
- What else do we choose to fund?
- Will the current revenue structure support these needs?
- If not, what elements in the equation need to change?

Tax policy should meet at least four criteria:

1. It is adequate to raise the revenue necessary to fund services demanded.
2. It is broad-based so that no one source is over-taxed.
3. It is simple enough to understand.
4. It enhances productivity.

Any tax reform will probably result in higher taxes for some and/or less services for some. Neither of those ideas is popular. There are also costs associated with change that must be considered. The cost to implement and administer any changes will affect the state and local governments and perhaps businesses. Those costs need to be part of the discussion. We must also consider not only the sources of revenue, the amount each source will raise, but also the timing to ensure needed cash flow throughout the year.

This economic crisis has brought many opportunities to take another look at what we do, why we do it, and how we do it as we consider whether there is a better way. This is one of them. This is a time when we decide what kind of state we want to be and what we are willing to do to get there. If we want a state that encourages investment and job creation but is also highly desired by families and retirees, it will take a well thought-out, balanced approach. The partnership between the state and local governing bodies must operate from mutual respect.

I hope these comments will be helpful to members of the Council. If I can be of further help, please contact me.

Angela Palm
Director of Policy and Legislative Services
Georgia School Boards Association
770-962-6849
apalm@gsba.com