

Report to the Senate Educational Funding Study Committee Comments on the Index of Taxpaying Ability

Submitted by the South Carolina Association of School Administrators October 25, 2006

The index of taxpaying ability serves as the single variable in the Education Finance Act formula that adjusts the local match (the amount of local revenue a school district is required to contribute to the base student cost) a school district must make each year to fully fund the base student cost in the school district as set by the legislature. The adjustment is determined by the value of taxable property in the school district as compared to the total value of all taxable property in the state and represents that district's relative fiscal capability in relation to the other school districts in the state.

Thus, school districts with significant fiscal capability receive less state money per pupil than districts with less significant fiscal capability. On average the EFA formula provides for the state to furnish 70 percent of the support while local districts provide the remaining 30 percent of the support. The EFA formula as passed in the Education Finance Act of 1977 is as follows:

$$\text{State Allocation} = (\text{TBSC} \times \text{DWPU}) \quad (\text{SWPU} \times \text{TBSC} \times 0.30 \times \text{ITA})$$

TBSC — defined as Total Base Student Cost

DWPU — defined as District Weighted Pupil Units

SWPU — defined as Statewide Weighted Pupil Units

0.30 — represents the 30% match from local money

ITA — defined as Index of Taxpaying Ability

When the South Carolina Legislature alters the way taxes are collected on taxable property in school districts with legislation such as Act 388, that legislation also alters the results of calculations using the EFA formula. In past legislation altering the way taxes are collected on taxable property, the legislature has recognized this fact and has taken action to protect the integrity of the formula.

For instance, Section 4-29-67 (N) of the Code addresses this issue as it relates to fee in lieu of arrangements. This section of the Code requires that fee in lieu of arrangements be considered taxable at the level of payment negotiated. In the case of multi-county park agreements encompassing more than one county, the assessed value is based on the share of the payment coming from the park to the county.

A few applications of the formula will clearly demonstrate that the legislation alters the ability of school districts to generate local revenue to contribute their local share.

Two potential extreme cases can serve as examples in the case of Act 388.

Example One

If we assume that a district in South Carolina is comprised of all legal residence property, then Act 388 eliminates all of that district's taxable property from the tax base.

If calculations of the indexes of school districts are adjusted to exclude legal residence property, then the formula is still valid. The index would be zero, and the state would pay the entire base student cost for that district.

If the calculations of the indexes were not adjusted to exclude legal residence property, the formula would require a local match. However, the district would not have any taxable property from which to generate the local match.

Example Two

If we assume that a district in South Carolina is comprised of all non-legal residence property, then Act 388 eliminates none of that district's taxable property from the tax base.

If calculations of the indexes of school districts are adjusted to exclude legal residence property, then the formula is still valid. This district's index would be adjusted to increase its local share because all state indexes would change to reflect the value of each district's taxable property excluding legal residence property.

If the indexes were not adjusted, then the district would continue to provide a local share of much less than the district could afford to provide when compared to other districts in the state.

In light of these inequities created with the index of taxpaying ability, the state has basically two options'to address the problem.

Option 1: For the purpose of calculating school funding, all property should be valued in relationship to the revenue it can generate (index of taxpaying ability).

In order to accomplish this, the assessed value of legal residence property must be adjusted so that, when computed, that value will generate the amount reimbursed by the state.

While this option will not completely fix the problem, it does lessen the impact of no adjustment at all.

Option 2: For purposes of calculating the index of taxpaying ability, all legal residence property should be taken out of the formula since legal residence property no longer generates local revenue for school operating purposes.

This option keeps the index valid since only property that can be taxed by local school districts remains in the formula.

Worth noting: All property is still taxable for purposes of paying school district bonds. When the eight percent debt limits of school districts are calculated, all property should continue to be considered.