



The Basics of Georgia School Finance

Public school finance is a topic usually left to “experts” because its complexity is enough to make most people wave a white flag of surrender. Yet it is important that more people understand the process. Why? **First**, finance drives policy. Smaller class sizes, merit teacher compensation, tutoring programs, advanced placement classes, etc. are all policy ideas for school improvement that are dependent on funding. One cannot effectively advocate for policies without knowing the financial impact. **Second**, public schools are financed through taxes – property tax, income tax, and sales tax. Tax reform efforts immediately collide with public education reform efforts since tax relief decreases available revenue. Changes in the economy can also drastically affect the amount of funds available for education. **Third**, an educated, skilled workforce is key to economic development.

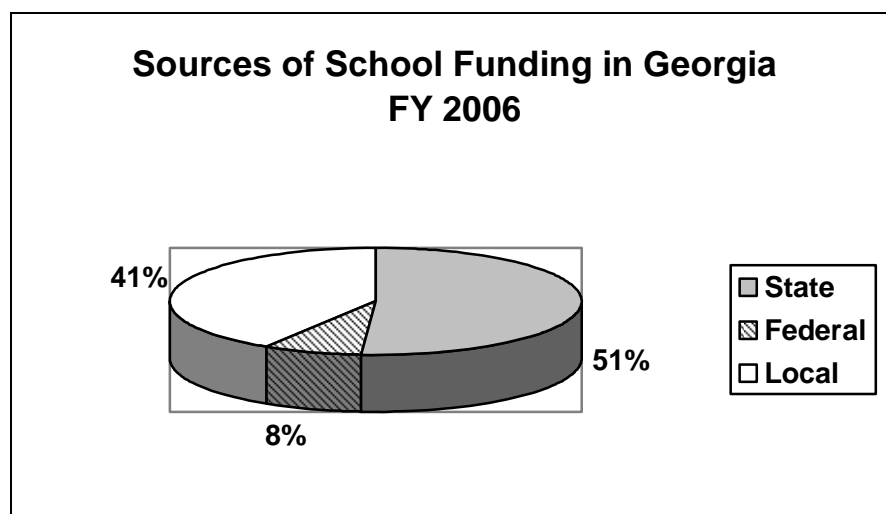
This section explains the basics of how schools are financed in Georgia, how that compares to other states, and issues raised by the funding process.

School Funding Made Simple

*“The provision of an **adequate** public education for the citizens shall be a primary obligation of the State of Georgia. Public education for the citizens prior to the college or postsecondary level shall be **free** and shall be provided for by taxation.”* (Georgia Constitution 8-1-1)

In 2007, there are 1,589,839 students in our public schools. Each one is entitled to and deserves an adequate education. In Georgia, the adequacy of a student’s education often depends upon his or her zip code. Due to the failure of Congress to fully fund federal programs, funding cuts at the state level, and constitutional limits on local taxation, even the most affluent zip codes are struggling to keep up with the escalating obligations mandated by state law and No Child Left Behind. A basic knowledge of school funding is necessary to understand our current fiscal situation.

Public schools in Georgia receive a combination of federal, state and local funds to pay for the education of public school students.





Federal Funding

Federal Funds are tied to specific programs for historically at-risk students:

| | |
|----------------|---------------------------|
| IDEA | Special Education |
| ESEA (Title I) | Poverty |
| ELL | English Language Learners |

Federal funds for certain programs like special education and ELL are based on the number of students who meet the eligibility criteria of the specific program. Funding for Title I is based upon census data.

State Funding

The majority of State Funds are provided to operate public schools and are calculated using the following Quality Basic Education (QBE) formula:

(1) QBE “Earnings” + (2) Categorical Grants + (3) Equalization

(State funds provided to build public schools - capital outlay - are not addressed in this document.)

(1) QBE “Earnings” = (Direct & Indirect Instructional Costs) – (5 Mill Share)

Direct Instructional Costs reflect the cost of putting a teacher in every classroom based upon **the grade of the student** (K, 1-3, 4-5, 6-8, or 9-12), any special **program** in which the student is enrolled (EIP, special education, gifted, remedial, alternative, middle school, ESOL, or vocational lab), and the **teacher:pupil funding ratio**.

This weighted formula counts each individual student for each segment of the day. The benchmark weight of 1.00 is assigned to a student in grades 9-12 who attends regular classes and receives no special services – the “least expensive” student to educate. All other students receive a higher weight. The resulting weight for each student is known as the “Full Time Equivalent” (FTE) count. The FTE count used in the QBE formula is always higher than the number of actual students. The teacher cost used in the formula is based on the state salary scale, including benefits (but not Social Security).

Indirect Instructional Costs include funding for central administration and school administration, facilities maintenance and operations (M&O), media centers, staff development and 20 additional days of instruction. These costs are calculated based on system size, school size or student population.

Note: Referring to Direct and Indirect Instructional Costs as QBE “earnings” leads local systems to erroneously believe that this is the amount of money they have earned and are entitled to receive. It is more accurate to think of QBE formula earnings as “gross” earnings, because, just like income, one does not receive the gross amount, only the net amount. The “net” earnings a local school system receives deducts the local 5 mill share and, when required, additional state cuts (“austerity reductions”).



Local Funding

“Authority is granted to county and area boards of education to establish and maintain public schools within their limits.” (Georgia Constitution 8-5-1)

Local systems are permitted to levy property taxes for the purpose of funding local public schools. “Millage” refers to the rate of the property tax levied. The millage rate is defined as “local tax revenues divided by the assessed valuation divided by 1000.” School systems may not levy more than 20 “Mills” (with a few exceptions) without voter approval. In addition to levying property taxes for the operation of their schools, local systems may also use bonds and SPLOSTS (sales tax) to finance school construction if approved by the voters. This paper is only addressing operational budgets. The funding of school construction - capital outlay - is a topic for another day.

The “5 Mill Share” in the QBE formula refers to the portion of the Direct and Indirect Instructional Costs that the state expects local systems to pay with locally raised funds. Currently, the state requires local systems to pay an amount equal to 5 Mills of property tax generated within their taxing authority. By law, the amount of money represented by the 5 Mills statewide cannot exceed 20 percent of the total QBE formula earnings (Direct and Indirect Instructional Costs).

Funds that are raised through locally levied property taxes, including the 5 Mill Share, do not leave the school system and are not sent to the state or to other school systems. (Bonds and SPLOSTS raised locally also are kept locally.) The 5 Mill Share is simply the amount of the local funding “obligation” the state requires each system to pay.

Additional local funding raised from levying additional mills are used at the discretion of the local system for:

- Additional teachers/smaller classes
- Salary supplements
- Paraprofessionals
- Additional programs (e.g., SAT prep)
- Extracurricular activities
- Athletics
- Technology

Local systems also use local funds for underfunded categorical grants (such as transportation and M&O) and for unfunded portions of QBE (such as Social Security).

(2) Categorical Grants

Local systems receive additional funding in the form of “categorical grants.” These grants include funds for transportation, sparsity and low incidence special education students. In FY 2008, this amount was \$171,578,524. Funding for school nurses is *not* a categorical grant but a separate line item in the budget. In FY 2008, funding for nurses was shifted from the tobacco settlement funds to the general revenue fund. Funding for this item has remained at \$30 million since the program began.



(3) Equalization

QBE earnings are intended to provide for an adequate education. Equalization is an attempt to address equity. The concept of equalization is related to the concept of the 5 Mill Share, discussed above. Because all counties are not created equal in terms of property tax wealth, they cannot raise the same amounts of money from local property taxes. **The state provides additional funding** to these counties according to a formula that compares the relative property tax wealth of all counties in the state. Systems at or below the 75% level can receive equalization funding in proportion to the amount of mills they levy beyond 5 mills. (The Equalization formula was changed in 2001 to reduce the participation level from 90% to 75% and to include all mills above the first 5. In the past only the mills between 5 and 8.25 were considered, thus creating a disincentive for local systems to raise their own millage rates.) In FY 2008, this amount was \$458,323,775. All figures are taken from the state allotment sheets which are available at www.gadoe.org.

In FY 2008, the amount of state funds that local systems will receive:

| | |
|---|------------------------|
| QBE Direct and Indirect Instructional Costs | \$8,160,615,559 |
| Less 5 Mill Share | <u>-1,543,476,458</u> |
| QBE "Formula Earnings" | \$6,617,139,101 |
| Less FY 2008 "Austerity" Cuts | <u>- 142,959,810</u> |
| QBE Net "Formula Earnings" | \$6,474,179,291 |
| Plus Categorical Grants | + 171,578,524 |
| Plus Equalization | <u>+ 458,323,775</u> |
| Total State Funds | \$7,104,081,590 |

Cuts To The Formula

The QBE formula was created in 1985. Over the years, various "adjustments" have been made. Sometimes the adjustments are made within the formula, and sometimes a percentage or amount is cut across the board. Since the economic downturn of 2002, adjustments to the formula have resulted in a cut to state funding from the level of 2002. For example, in FY 2003, the funding for maintenance and operations was cut \$2 per FTE. This resulted in \$2.9 million less in QBE earnings that year. The formula has not yet been returned to the 2002 amount. Media materials were cut by 50% in the 2003 budget also. Portions of this were added back in 2007 and 2008, but the formula still funds \$4.41 less per FTE than in 2002.

It is estimated that cuts taken within the formula in prior years resulted in about a \$40 million shortfall in the FY 2008 QBE earnings. An additional "across the board" cut has been taken annually since 2003. It has been referred to in various ways, but whether it is an austerity reduction or formula adjustment it has resulted in a total cut of \$1.4 billion to the QBE earnings in that six year period.



How does Georgia's school funding compare to the rest of the nation?

Nationwide, states provided 47%, locals 44%, and federal 9%. There is quite a variation across the nation, however. See the table below for the latest figures available nationally. The figures in the table are from the U.S. Census Annual Survey of Local Government Finances. The Census Survey shows a lower amount being funded by the state of Georgia than the Georgia Department of Education records indicate.

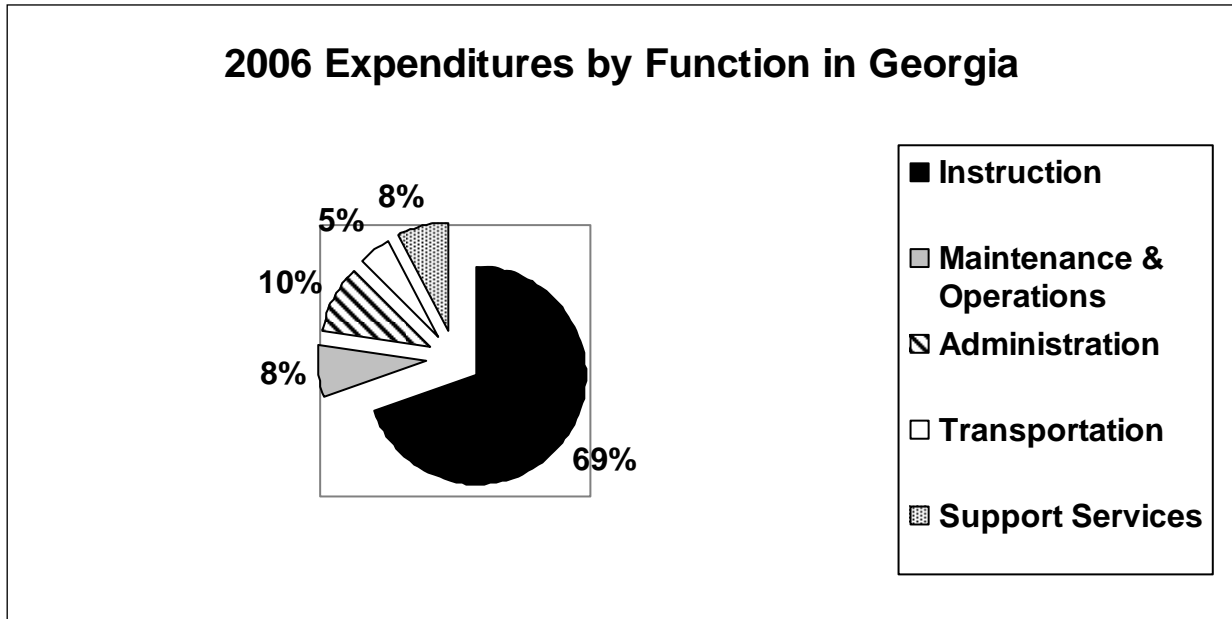
How Schools Were Funded 2004-2005

| States | Local | State | Federal | States | Local | State | Federal |
|---|--------------|--------------|----------------|----------------|--------------|--------------|----------------|
| U. S. | 43.9 | 47 | 9.1 | Missouri | 47.6 | 44 | 8.4 |
| Alabama | 33.5 | 55.2 | 11.3 | Montana | 40.1 | 45 | 14.9 |
| Alaska | 26.1 | 54.9 | 18.9 | Nebraska | 58.5 | 31.1 | 10.5 |
| Arizona | 43.6 | 44.4 | 12 | Nevada | 33.4 | 59.2 | 7.4 |
| Arkansas | 13.2 | 75.6 | 11.3 | New Hampshire | 55.2 | 39.2 | 5.6 |
| California | 30.1 | 58 | 11.9 | New Jersey | 53.9 | 41.9 | 4.2 |
| Colorado | 50.1 | 43.1 | 6.9 | New Mexico | 13.4 | 70.5 | 16.1 |
| Connecticut | 57.6 | 37.2 | 5.2 | New York | 48.9 | 43.9 | 7.2 |
| Delaware | 27.4 | 64.8 | 7.7 | North Carolina | 31.9 | 58 | 10.1 |
| Dist. Of Columbia | 84.9 | 0 | 15.1 | North Dakota | 47 | 36.9 | 16.1 |
| Florida | 47.1 | 42.8 | 10 | Ohio | 49.8 | 42.9 | 7.3 |
| Georgia | 46.8 | 43.8 | 9.3 | Oklahoma | 36.2 | 49.9 | 13.9 |
| Hawaii | 2.2 | 67.4 | 10.4 | Oregon | 41 | 49 | 10 |
| Idaho | 32.3 | 57 | 10.7 | Pennsylvania | 56.2 | 35.6 | 8.1 |
| Illinois | 57.2 | 34.1 | 8.7 | Rhode Island | 52.8 | 39.5 | 7.7 |
| Indiana | 47.9 | 45.9 | 6.2 | South Carolina | 45.1 | 44.8 | 10.1 |
| Iowa | 45.8 | 46 | 8.2 | South Dakota | 49.8 | 33.4 | 16.8 |
| Kansas | 35.7 | 55.9 | 8.5 | Tennessee | 44.7 | 43.7 | 11.6 |
| Kentucky | 30.8 | 57.3 | 11.9 | Texas | 54.5 | 34.6 | 10.9 |
| Louisiana | 39.2 | 46.7 | 14.1 | Utah | 35.3 | 54.4 | 10.3 |
| Maine | 51 | 40.1 | 8.9 | Vermont | 5.2 | 87.2 | 7.6 |
| Maryland | 55.5 | 37.7 | 6.8 | Virginia | 52.4 | 40.7 | 6.9 |
| Massachusetts | 51.8 | 42.2 | 5.9 | Washington | 30 | 61.3 | 8.7 |
| Michigan | 31.6 | 60.1 | 8.3 | West Virginia | 28.1 | 59.7 | 12.2 |
| Minnesota | 24.2 | 69.6 | 6.2 | Wisconsin | 43.5 | 50.5 | 6 |
| Mississippi | 30.9 | 53.9 | 15.2 | Wyoming | 38.8 | 51.8 | 9.4 |
| | | | | | | | |
| Source: U. S. Census Bureau, 2004-05 Annual Survey of Local Government Finances | | | | | | | |

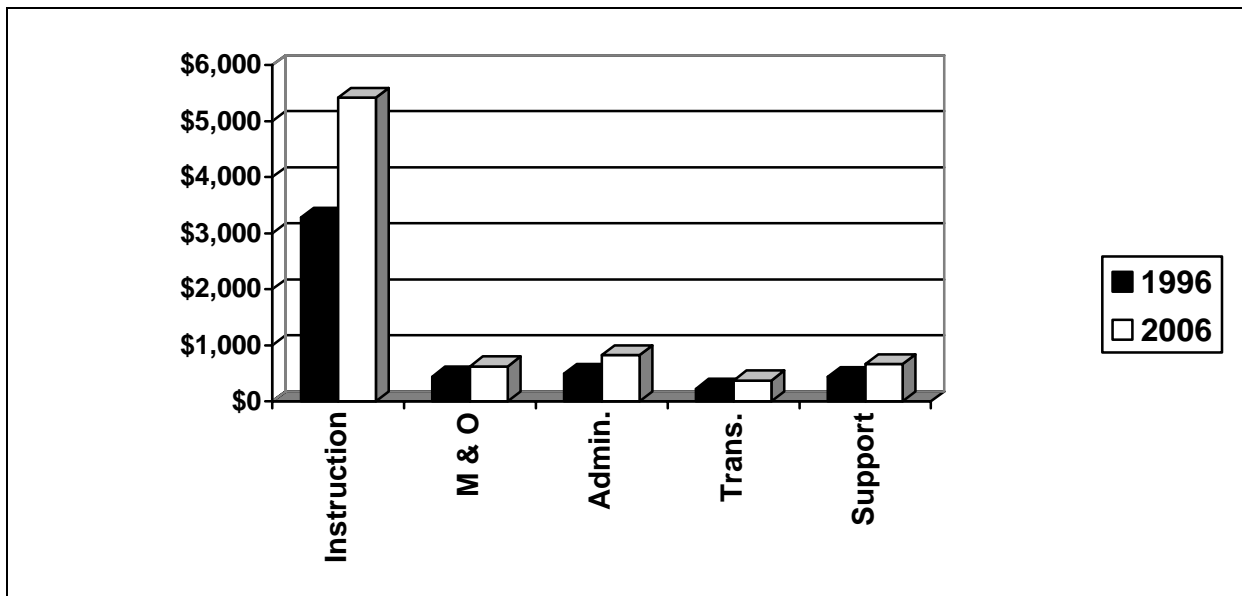
Since the *2000-2001 Annual Survey of Local Government Finances*, the state share of public school funding has increased in only eight states. The national average has dropped 3 percentage points. The local share has, however, increased in 28 states. Increased federal funding due to the *No Child Left Behind Act* has led to an increase in the federal share of public school funding in all 50 states in this time period.



Where Does The Money Go?



How have expenditures per FTE changed over time?



Note: In all charts, “administration” is the total of school and general administration; “support” is the total of pupil and staff services. All figures are from the 2006 expenditure reports unless noted otherwise.



Adequacy: How much is enough?

There are two major components to adequacy:

- What is an adequate education in terms of standards, teachers and curriculum?
- What is the appropriate funding level to provide that?

Through the *A+ Education Reform Act of 2000* and *No Child Left Behind* we have begun to define education in terms of expectations, standards, aligned assessments, teacher qualifications, and curriculum. What funding level is needed to achieve what has been put into law? How much should the state pay? Georgia is not alone in struggling with the question of adequacy. Other states have faced court battles over this. A New York Appeals court ruled in 2002 that providing an education commonly attained by eighth or ninth grade met its constitutional requirement. A North Carolina court, however, seemed to require more of their school system. That court ruled that the state had not provided a “sound and fundamental education” to students not performing on grade level. That court also emphasized that the right is to a basic education, not a prep school education. Do we *define* adequacy through inputs or do we *test* for adequacy through output (student achievement)?

Several models have been developed to address adequate funding. A base level of funding has to be set that would fund a school with students of average characteristics. Then adjustments have to be made for different types of students through student weights or categorical programs.

Successful Schools Model

Ohio, Mississippi, and Illinois have tried this approach. The premise is to look at spending in schools or districts that are performing well. The average per-pupil cost is derived from those schools. In those states the model districts have been suburban or rural, white, and low poverty. This funding model has no mechanism for adding resources for students of other characteristics.

Professional Judgment Model

Oregon, Maine, and Wyoming have tried this model. A panel of experts – teachers, administrators, and school finance consultants—first identify resources needed to establish model schools for students to achieve state standards. The base funding level is the cost of providing that. It can be adjusted for student characteristics. A criticism of this model is that it is usually very expensive because the panel members tend to select high-level resources. Maryland has developed a hybrid approach that combines these two approaches.

Evidence-based Model

In this model the state bases the funding of the poorest districts on the average spending of the wealthiest districts. The purpose is to create a funding level that allows the district to implement research-based reform models with appropriate professional development for teachers and computer technology for students. New Jersey uses this model, and Kentucky and Arkansas are considering it.

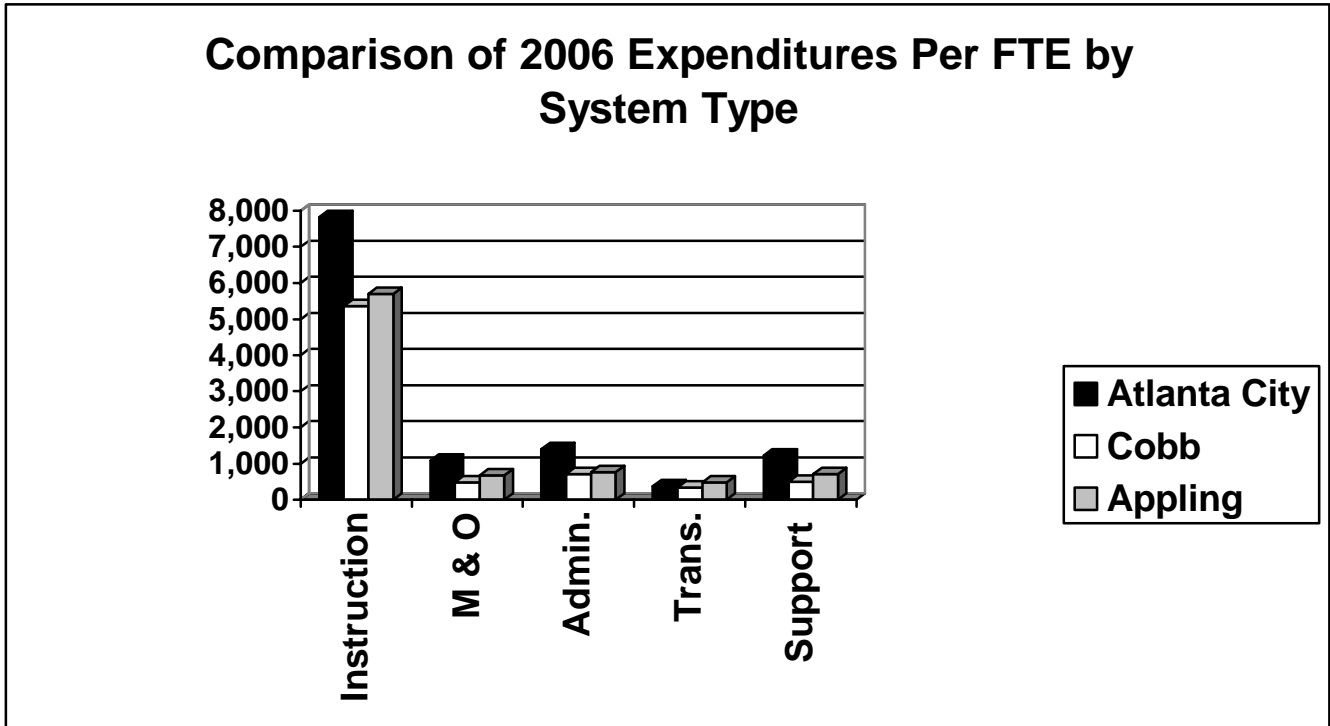
Equity: Will all students receive a quality education?

Equity should not be confused with equality. Equity is a consideration of how resources are distributed. The discussion usually centers around the property wealth of a school district. There is a wide variation in the value of a mill across Georgia. A mill in one school district may be worth less than \$50,000, but in another district be valued at over \$18 million. School districts with a mill of high value can fund much more from local funds than a district where the mill has a low value. When state funds are cut, high-wealth districts have the means to replace the funds. When categories such as instructional materials are underfunded by the state, high wealth districts can buy what their students need. Low wealth districts can not. Those conditions create the argument that resources are inequitable. A number of states have been sued over this issue, including Georgia where the lawsuit is pending.

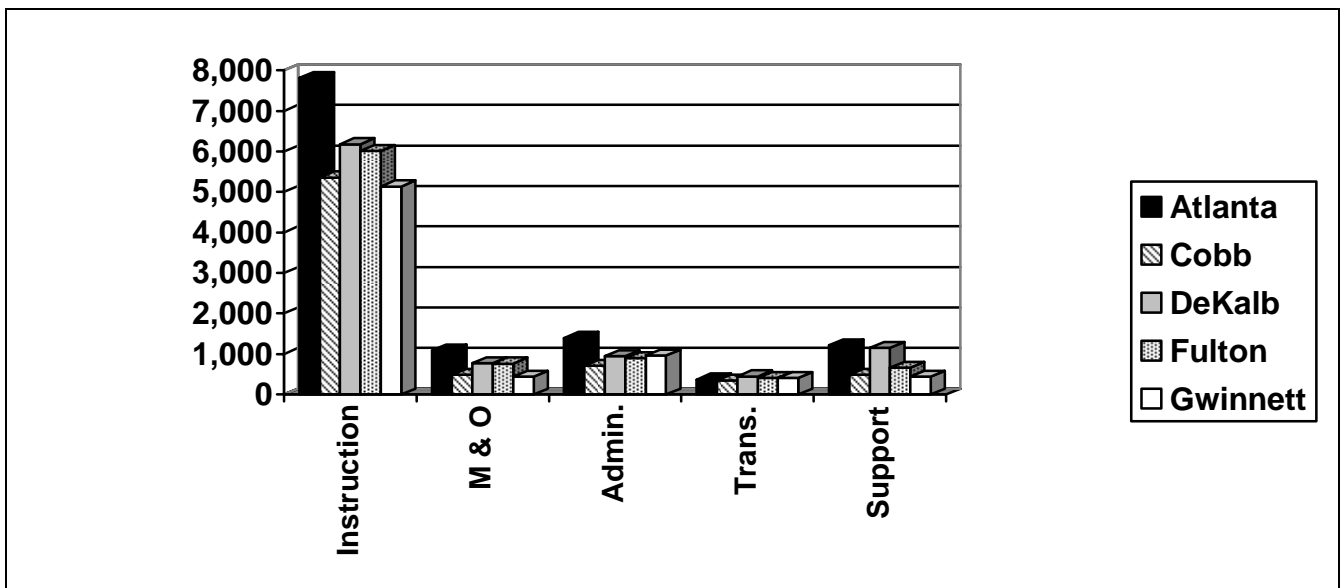


When considering equity and adequacy in funding, it may be useful to look at how school systems in different geographic locations use their funds. All systems used in the comparisons were selected randomly from those fitting the definition used.

Is there a difference in the costs per pupil in an urban, suburban, and rural system?

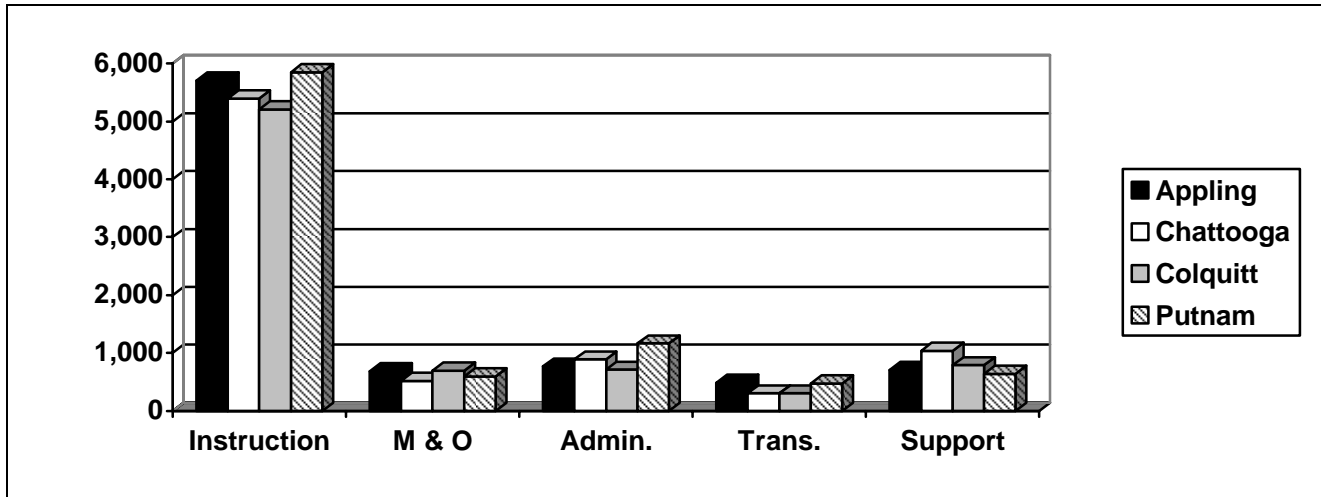


How do expenditures per FTE compare across the largest metro counties?





How do expenditures per FTE compare across rural counties?



Studies at the University of Wisconsin show that districts' spending is surprisingly consistent across districts and states whether they are rural, urban, small, large, high poverty, or low poverty. Higher spending districts tend to put their extra dollars on more staff, but not staff for regular instructional programs. Most of the new dollars spent on schools in the past 30 years have been spent on specialist teachers and resources for special needs children, usually outside the regular classroom. Because of this increase in specialist staff and programs, regular classroom teachers are a declining portion of the professional staff. The financial result is that fewer funds are spent on the core activity of schools – teaching the regular instructional program. The funding distribution has been necessary to cope with changing student populations and legal requirements, but has not necessarily been used in a way that would show improvement in terms of student achievement.

Points to Ponder:

- Direct Instructional costs are fixed costs that local systems cannot change: the numbers and kinds of students who attend their schools and the cost of teachers on the state salary schedule. Both are increasing.
- The state does not fully fund teacher pay raises, so even though a system receives more money for salaries, it must contribute additional local dollars. For example, a metro county received \$6 million from the state for the 2% pay raise in FY 2005, but it cost them \$10 million to provide that raise. This is because they, like many local systems, hire more teachers than the state formula provides and pays a local supplement on top of the state salary scale. These additional teachers and this additional salary is not included in the state's 2% calculation. Further, the state pays no Social Security – this is totally paid for by local systems.
- State austerity cuts to QBE funding can have a direct effect on classrooms. Just to maintain the status quo, local systems have to either cut expenditures, raise taxes, or use reserve funds. Most systems maintain there is no fat in their budgets – teachers and programs will be eliminated. Many systems are at or near the 20 mill cap and cannot raise taxes. A number of systems have little or no reserves.