MILTON & ROSE D. FRIEDMAN FOUNDATION

Educational Choice

Presents:

An Analysis of South Carolina Per Pupil State Funding

Prepared by Dr. Susan L. Aud

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ABOUT THE FOUNDATION

The Milton and Rose D. Friedman Foundation, dubbed "the nation's leading voucher advocates" by the *Wall Street Journal*, is a non-profit organization established in 1996. The origins of the foundation lie in the Friedman's long-standing concern about the serious deficiencies in America's elementary and secondary public schools. The best way to improve the quality of education, they believe, is to enable all parents to have a truly free choice of the schools that their children attend. The Friedman Foundation works to build upon this vision clarify its meaning to the general public and amplify the national call for true education reform through school choice.

ABOUT THE AUTHOR

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EXECUTIVE SUMMARY

In many states, including South Carolina, school choice is being discussed as perhaps the best way to both improve student achievement and spend education dollars more efficiently. The evidence from the 12 school choice programs currently running around the country is that the increased competition among public and private schools leads to more successful students and better public schools. Moreover, evidence is mounting that public schools are not harmed financially by offering students the opportunity to choose their school, either public or private.

Few people would argue that the state does not have a compelling public interest in spending generously to achieve the goal of fully educating children. Many people, however, reasonably argue that the compelling public interest to finance education is qualitatively different than subsidizing a government owned and operated school system. Funding the education of the public is not the same thing as simply and only financing public schools.

Yet, when the debate about school financing takes place, this question is often ignored. Many times, perceptions and rhetoric are presented as truth, and facts are either conveniently overlooked or shaped to fit one side of the argument.

Right now, South Carolina is in the midst of the debate about school choice and the most effective use of education dollars. To increase clarity, this study accurately evaluates the categories of state funding for public schools, establishes the average total state cost per student, analyzes variable education costs versus fixed costs, and determines the precise portion of per-student funding the state provides based on the type of student and district.

TOTAL EDUCATION FUNDING

Prior to detailing the study's findings, it should be noted that when calculating the state, local and federal dollars spent on education, the facts say that South Carolina per pupil spending in 2004-2005 is $8,168. According to the Governor's most recent Executive Budget, the dollar amount represents an increase of 30 percent over the last five years. In addition, an analysis by the American Legislative Exchange Council shows that per pupil spending in South Carolina went from 48th in 1980 ($3,751), to 29th in 2000 ($6,113).

REVENUE CATEGORIES IN SOUTH CAROLINA

The study finds that there are approximately 90 revenue categories through which public school districts receive funds. These categories fall into five groups.

- **Restricted State Grants** (Revenue Code 3100) – state funds appropriated to finance specific educational programs in local school districts.

- **Unrestricted State Grants** (Revenue Code 3200) – revenue allocated to school districts for general educational purposes.

- **Education Finance Act** (EFA, Revenue Code 3300) – revenue provided by the Education Finance Act of 1977 to insure an equal education opportunity for every child in the state's public school system.

- **Education Improvement Act** (EIA, Revenue Code 3500) – revenue derived from a one percent state sales tax increase implemented in 1984. Funds generated by the increase are provided to local districts for the purpose of improving education in South Carolina.

- **Education Lottery Act** (Revenue Code 3600) – state revenue received from the South Carolina State Lottery Account to provide funding for educational programs.

However, two aspects of education funding in South Carolina are not counted in this analysis, as they are not considered general fund revenue categories. The state provides capital funding to school districts through the distribution of Education Improvement Funds, which add up to around $500 million annually. The state collects also a local option sales tax in 25 districts that have opted into the program. It then distributes the $200 million it receives annually from the local option sales tax to those 25 districts.

STATE EDUCATION AID IN SOUTH CAROLINA

This study establishes the average portion of per-pupil funding provided by the state of South Carolina to school districts. It concludes that after adding up the EFA, EIA and other state contributions, including EIF and the local option tax, the state is responsible for roughly half of the total of the $8,168 spent per pupil in the Palmetto state. This figure, $4,200, is the total fixed and variable per pupil expenditure by the state.

Without including the EIF and local option tax, in 2002-2003 the state of South Carolina distributed out of its general revenue fund approximately $1,066,000,000 in EIA payments and $1,027,500,000 in EFA payments to the 85 school districts. These districts had approximately 660,000 students. Therefore, the average per student funding from the state of South Carolina's general fund for 2002-2003 was $3,170. If you add in the $700 million of these two additional spending programs, total state funding approaches $3 billion dollars, and per pupil funding increases by $1,060 to over $4,200.

VARIABLE VERSUS FIXED COSTS

One argument against school choice is that even if children exit the public schools to attend private schools, the costs remain the same for public schools. All costs, in essence, are fixed.

The study analyzed this claim and found that of the $3,170 spent per-pupil from general revenue fund categories, 80%, or $2,560, can be considered as a variable cost. In addition to EFA, the study finds numerous variable fund categories, including EAA Summer School/Comprehensive Remediation (Code 3121) and Parenting/Family Literacy (Code 3513). Moreover, the study suggests that there are at least 17 funding categories that could be assumed to be fixed costs (e.g. Retiree Insurance, Code 3181). However, because some funding categories vary with student type (e.g. Handicapped Transportation, Code 3131), the total variable cost is likely understated.

DISTRIBUTION OF STATE EDUCATION AID BASED ON TYPE OF STUDENT AND DISTRICT

The study looked at two district characteristics and six student characteristics that affect the total variable state aid per student. District characteristics studied were the community type (urban, suburban, rural) and district performance on PACT. Student Characteristics were EFA category and weighting, income (Free or Reduced Price Lunch status), achievement (below basic on PACT or not), Gifted and Talented identification (or not), participation in regular Advanced Placement (AP) classes (or not), and participation in singleton AP classes (or not).

This study indicates that state dollars are distributed in different ways to different students and communities. For example:

- Suburban students generally receive less than urban and rural students.
- Districts that have more than 50% of their students scoring below basic on PACT receive more variable dollars than those who have 50% of their students scoring above basic.
- Low-income students (based on free and reduced lunch programs) receive more than middle and high income students.

CONCLUSION

While this report was conducted to provide a primer on state spending on education and how a school choice program might work financially, it should be noted that The Milton and Rose D. Friedman Foundation believes that school choice is ultimately not about money or about finding ways for a state to trim education budgets. We have addressed the issue of state education financing because of the attention that topic generates and because we believe that accuracy and clarity are necessary components of honest debate. However, The Friedman Foundation believes that school choice is fundamentally about providing the best education possible to all children by empowering parents to choose their educational environment.

WRITTEN ANALYSIS

South Carolina public school districts receive revenue from a variety of local, state and federal sources, which when totaled results in per pupil spending of $8,168. This analysis, however, seeks to determine the precise portion of per student funding that the *state* provides, based on the type of student and district. It is assumed that if a student were to leave the public school system, this amount would be deducted form the state's future obligations to that student's district. The purpose of calculating this variable portion of South Carolina's per pupil state funding is to determine the potential for the state to offer students the opportunity to have the state pay a fixed amount directly to them to be applied to private school tuition.

There are approximately 90 revenue categories through which public school districts receive funds from the state of South Carolina. These categories are divided into the following five groups:

- **Restricted State Grants (Revenue Code 3100)** – state funds appropriated to finance specific educational programs in local school districts.

- **Unrestricted State Grants (3200)** – revenue allocated to school districts for general educational purposes.

- **Education Finance Act (3300)** – revenue provided by the Education Finance Act of 1977 to insure an equal education opportunity for every child in the state's public school system.

- **Education Improvement Act (3500)** – revenue derived from a one percent state sales tax increase implemented in 1984. Funds generated by the increase are provided to local districts for the purpose of improving education in South Carolina.

- **Education Lottery Act (3600)** – state revenue received from the South Carolina State Lottery Account to provide funding for educational programs.

Within these five groups are funding categories that are assumed to vary with the type of student or district being considered. The most significant variable category is the Education Finance Act allocation. This act was adopted in 1977 in an effort to weight state funding by student need. This is achieved by multiplying the average daily membership in each of 15 types of students, such as primary, vocational or learning disabled, for each district by previously determined factors, or weights. This act also established a baseline portion to be paid by the state, approximately 70% of the annually determined Base Student Cost (BSC) multiplied by the weight for each category.

However, the state portion is then allocated to the school districts via an equalization formula based on the state's assessment of each district's taxpaying ability. The result is each district's EFA allocation, which comprises, on average, about half of their total state funding.

In addition to EFA, there are many other variable funding categories, including the following:

3121	EAA Summer School/Comprehensive Remediation
3122	Increase High School Diploma Requirements
3129	EAA Reduce Class Size Grades 1–3
3132	Home Schooling
3135	Preschool Programs for Children with Disabilities
3160	School Bus Driver Salary
3196	EAA Principal/Teacher Specialists on Site (Special Revenue Allocation)
3198	Technology Professional Development/School Technology Initiative
3507	School Innovation Funds
3513	Parenting/Family Literacy
3515	Advanced Placement Courses
3517	Advanced Placement Singleton
3520	Gifted and Talented Program Academic
3526	EAA Principal/Teacher Specialist on Site
3530	Trainable & Profoundly Mentally Disabled Student Services
3540	Four-Year-Old Early Childhood Program
3546	Academic Assistance K–3
3548	Academic Assistance 4–12
3582	Principal Salary/Fringe Increase
3598	Bus Driver Salary Supplement
3601	EAA Teacher Specialist
3602	EAA Principal Specialist
3610	K–5 Competitive Grants

This analysis uses algorithms developed for each of the above categories to determine the total variable portion of the state funding for a particular type of student and district. The algorithms are based on the allocation formulas given for each revenue category in the South Carolina 2002-03 Funding Manual. The data used to develop the algorithms is from actual funding for 2002-03 and projected funding for 2003-04 by district and funding category, available on the South Carolina Department of Education web site.

In addition to the variable funding categories, there are several sources of state education funds that are assumed to be fixed for when small numbers of students enter or exit the public school system, including the following:

3180	Fringe Benefits Employer Contributions
3181	Retiree Insurance
3550	Teacher Salary Increase
3555	School Employer's Contributions

Other funding categories are assumed to be fixed, regardless of the number of students. Also, some categories should vary with student type, such as the Gifted and Talented Artistic program or Handicapped Transportation, but no algorithm could be developed that reasonably matched the data for these categories. As a result, the total

variable student cost is likely understated. Therefore, the following funding categories are assumed to be fixed:

3123	EAA Alternative Schools Program
3131	Handicapped Transportation
3141	School Lunch Supervisor Salary
3185	National Board Certification (NBC) Salary Supplement
3191	Excellence in Middle Schools
3192	School Safety Officers
3193	Education License Plates
3220	Attendance Supervisors Salary
3522	Gifted and Talented Program Artistic
3532	National Board Certification (NBC) Salary Supplement
3534	Professional Development on Standards
3535	Governor's Institute of Reading
3549	Academic Assistance Reading Recovery

There are two district characteristics and six student characteristics that affect the total variable state funding for a student. The district characteristics are the community type (urban, suburban or rural) and district performance on the Palmetto Achievement Challenge Test (PACT) (<50% below basic or >50% below basic). For example, rural students tend to be funded at a slightly higher rate for school bus driver salaries, as this funding category is based on total miles traveled.

The six student characteristics that are being considered in this analysis are EFA category and weighting, income (Free or Reduced Price Lunch [FRPL] status), achievement (below basic on PACT or not), Gifted and Talented identification (or not), participation in regular Advanced Placement (AP) classes (or not), and participation in singleton AP classes (or not). After selecting a particular type of student and district, the total variable state funding for that student can be determined based on the roughly 25 variable funding categories.

This analysis has been done for all 312 possible combinations of the eight district and student characteristics and has resulted in an average total variable funding of $2,560 per student. This indicates that if the state offered a fixed amount of $2,500 per student to be applied towards private school tuition, their total obligations would be unaffected, or slightly reduced, for single or small numbers of students. If larger numbers of students elect to receive the tuition assistance, the state would be in a position to reduce their total funding by approximately $750 per student, on average.

In addition, averages were calculated for each of the characteristics, e.g. all types of rural students or all types of FRPL students. These results indicate that some types of student cost the state, on average, more than $2,500 and some cost the state less than $2,500. As can be seen in the figure below, suburban students have the lowest variable state funding, as compared to urban and rural. Not surprisingly, districts that have less

than 50% of their students scoring below basic on the PACT receive less variable funding per student than those that have more than 50% scoring below basic. This is due to several EIA funding categories aimed at lower performing districts. Similarly, grade level has an affect on the total variable state funding, due to the EFA category weights.

Preschool was included here, although this is really a special funding category that supports programs for either at-risk or disabled 3 and 4-year olds. It is not likely that these students would be included in a tuition assistance program. Elementary students, therefore, are the lowest variable cost category. This is largely driven by their designation as the EFA baseline. In other words, they are weighted as 1.0 for the EFA allocation, meaning that districts receive, on average, only 70% of the Base Student Cost for elementary students. High school students tend to be the most expensive, in terms of variable state funding. This is because they have a higher EFA weight (1.25) and have access to Advanced Placement and Gifted and Talented programs. Vocational students were assumed to not have access to these.

In addition to grade level, total variable state funding is affected by student income and achievement characteristics, as well as whether or not they qualify for special academic programs.

As expected, low-income students receive more support from the state than those that do not qualify for FRPL. The most interesting fact to note regarding these student characteristics is that providing an AP program on a singleton basis is very expensive. The per-student cost for such a program in substantially higher than the per- student cost for regular AP, particularly for rural districts.

Finally, the total variable cost for special needs students has been determined. This is largely driven by their EFA allocation, without consideration for income. The highest total variable cost in this group is for trainable mentally handicapped students. This is predominately because they receive additional funding through the Education Improvement Act.

In 2002-03 the state of South Carolina distributed approximately from the general fund $1,066,000,000 in EIA payments and $1,027,500,000 in EFA payments to their 85 school districts. These districts had a total average daily membership of approximately 660,000 students. Therefore, the average per student funding by the state for 2002-03 was $3,170. The average variable portion calculated here, consequently, represents nearly 80% of the total per student funding. As the other 20% is basically fixed, each student that might choose to receive tuition assistance of $2,500 would save the state a small amount and could, in fact, increase the state per pupil funding, as the fixed costs would be spread over fewer students.

For example, consider the public school district of Hampton 2. This is a small, rural district that has received an Unsatisfactory rating based on their PACT scores. If a 3rd grader, who qualifies for FRPL and has scored below basic on PACT, chose to leave

this failing public school system for a private school, with the assistance of $2,500 in state funding, the district's total state funding would drop from $6,158,731 to $6,155,564, as the total variable cost to the state for this student is $3,167. Their enrollment would then decline from 1,523 to 1,522 students. Therefore, their per pupil state funding would only drop from $4,044 to $4,042, or by $2 per student. Even if half of the districts approximately 100 third graders left, the total district state funding would decline to $5,966,131 ($3,852 per student) and their per pupil funding would be $4,050, or roughly $6 per student more than it was last year.

However, in the first case the state saves over $650 for the student that left and in the second case the state saves $67,600, or $1,352 for each of the 50 students that have left. (The database at http://www.friedmanfoundation.org/sc.xls indicates the variable per student state funding amounts for every appropriate combination of student characteristics for each of the sixteen districts used in this analysis.) This is a reasonable example to use, as low-income students that are not performing well in their public schools would be the most likely to try to exit.

In summary, total per pupil spending in South Carolina is $8,168, and the state of South Carolina is contributing approximately $4,200 of that amount in variable and fixed cost. The data indicates that the South Carolina state government is contributing $3,170 in per pupil spending from the state's general fund, and an additional $1,000 per child due to money spent by the state via the Educational Improvement Fund and the local option sales tax program. Finally, 80% of the state's spending is considered variable.

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