

# Equalization Grant Considerations for Discussion

## Overview and Summary

Under Georgia’s current school funding system, equalization funding is a form of additional aid that is provided to school districts beyond their core-funding amount. The state currently (FY16) provides \$506,525,394.00 in equalization aid directly to districts. This funding is intended to address any property wealth inequalities arising between districts on per pupil basis. However, equalization goes about this by adding to a district’s coffers after the state has already deducted its 5 mills of locally raised revenue. A more logical and transparent policy can be constructed by combining these practices into one formula that acknowledges broader community factors and not just wealth disparities between districts.

To calculate a district’s equalization grant, Georgia conducts two calculations. The first identifies high and low wealth districts on a per pupil basis, while the second identifies the size of the grant. Currently, equalization funding grants are allocated to all districts whose per-pupil property tax digest value is less than the statewide average. All districts are sorted by property tax wealth per weighted FTE in comparison to a statewide benchmark, which excludes the nine highest and nine lowest district values as part of the calculation of this average.

After districts are sorted by property wealth, those that are at or below the statewide average are “equalized” for their local tax effort when the state generates their annual equalization grant . The formula for determining a districts equalization grant after it has been deemed eligible listed below:

$$\text{Equalized Difference} \times \text{Weighted FTEs} = \text{Equalization Grant Total}$$

The following chart provides examples of how districts can receive differing amounts of equalization aid based on these three factors.

Rank	Name	Tax Wealth per Weighted FTE (Statewide Average: \$135,047)	Equalized Difference	Weighted FTEs	Total Equalization Grant
1st	Rabun	\$521,674	NA	3,023	-
30th	Decatur City	\$186,075	NA	6,196	-
60th	Rome City	\$139,285	NA	8,636	-
90th	Banks	\$119,046	\$16,001	4,169	\$718,840
120th	Catoosa	\$107,418	\$27,629	15,352	\$5,450,225
150th	Wheeler	\$87,438	\$47,609	1,389	\$991,796
180th	Pelham City	\$24,616	\$110,431	2,087	\$2,762,537

The current formula for deciding the equalization grant overwhelmingly rewards districts with higher levels of effort as measured by their actual mill rate, and higher student populations. This could create a scenario in which districts with large student populations fall just below the statewide average, then receive much larger equalization grants than their peers through the impact of their weighted student population.

Additionally, although it is intended to address districts with volatility in terms of property values or student enrollment, much of the limited volatility is addressed in the local fair share requirement. While school districts have historically relied on property taxes to support local burden because of their relative economic stability, this may lead to inequities in the school funding system. States that are heavily reliant on property tax calculations demonstrate the highest funding inequities in the country.

### **Information on Other States**

Several states, including Kentucky, Pennsylvania and Ohio, use locally generated income taxes as a portion of local school funding. Connecticut uses average per capita income in the state's "minimum base requirement" local share calculation.

North Carolina has a complex formula for districts that are considered "low wealth" that takes into account multiple factors, including adjusted property tax digest, density, and per capita income.

To equalize educational opportunities, the Florida K-12 funding formula recognizes varying local property tax bases, varying costs of living, varying costs for equivalent educational programs due to sparsity and dispersion of the student population.

Texas uses a mechanism for equalization known as recapture. Recapture is a mechanism in state funding formulas that ensures that a district's property wealth per student does not exceed certain levels, known as equalized wealth levels. A district has five options available to reduce its property wealth to minimize recapture. The district may choose to consolidate with another district, detach property, purchase attendance credits from the state, contract to educate nonresident students from a partner district, or consolidate tax bases with another district. A district may exercise these options singly or in combination.

Tennessee has adopted a local fiscal capacity index developed by the Tennessee Advisory Commission for Intergovernmental Relations. Factors determining local fiscal capacity are property and sales tax bases, ability to pay (i.e. resident income), resident tax burden, service responsibility, local revenue for education.

Local income taxes and per capita income may be among the most sensitive measures to ensure equity among school districts, and they are often considered to offset, in part, the inequities established by a property tax system. For example, in Connecticut, 90% of the local fund requirement calculation is based on property taxes, and 10% is based on average household income. In this case, the state is considering both "how much should be paid" based on property wealth, and then considering "whether residents can afford to pay their burden comfortably" by adjusting for household income.

Transitioning equalization funding to a more sensitive measure that considers how burdensome property taxes are to a district may be an approach the committee chooses to consider in determining the most appropriate method to adjust for varying ability to pay across school districts in Georgia.

## Proposal for Discussion

The following outlines a potential revision of Georgia’s local millage rates and equalization grants to include a measure of community condition in order to partially address wealth inequality between districts without destabilizing the local tax base:

- Incorporate a county-based index that compiles community level factors from the Department of Community Affairs. These factors include; highest unemployment rate in the most recent 36 month period, the lowest per capita income for the most recent 36 month period, and the highest percentage of residents below poverty line in a county according to the most recent data available.<sup>1</sup>
- Transition to a progressive local scale, based on the DCA’s tiered system, for assumed millage rate for each district – reducing the current universal “5-mill” state deduction for each tier according to their community factors.
- Funds, formerly earmarked for equalization grants but unused based on a new calculation, would be added to the new per-student base amount.

Georgia could move away from a deduction (5 mills) and addition (equalization grant) model toward a unified approach where districts have a single deduction – in mills – based on community level factors. This would clarify a complicated system and reduce year-to-year funding uncertainty for districts. It would also demonstrate that the state is interested in helping local cities and counties *reduce* the local tax burden for their schools.

Like all changes to the current QBE funding formula, a move like this will create changes in individual district allocations. This can be better analyzed by identifying how much districts will change in the aggregate and not by focusing on only the change in the equalization grant from the current formula to a new one.

The table below shows the total “cost” to the state of Georgia would assume by lowering the minimum mill rate deduction for districts based on community factors. This amount, approximately \$311 million, is far less than the current total equalization funding, therefore leaving nearly \$200 million for reallocation elsewhere in the K-12 funding formula.

Total Equalization Aid FY16	Total Cost to State of Reducing Mill Rates for Communities in Need	State Funds Available for Reinvestment in the Student Base Funding
\$506,525,394	\$351,381,861	\$155,143,533

<sup>1</sup> “Georgia Job Tax Credit Program,” <http://www.dca.state.ga.us/economic/taxcredits/programs/taxcredit.asp>

The following table shows the changes to be expected by tier under the Department of Community Affairs ranking. These four classifications rank counties on community indicators to identify those with the most need.

- Each column tracking positive, negative, or neutral change indicates the aggregate number of districts for each tier.
- The column indicating difference from equalization is the aggregate difference between how much money those districts would gain or lose by lowering the assumed mill rate down from 5 and the current FY16 individual equalization grant.
- The heightened effect on Tier 4 is the largely driven by the change Gwinnet and Paulding Counties would face, losing \$88.8 and \$30 million respectively in equalization funding.

	<b>Proposed Mill Rate Deduction</b>	<b>Positive Change</b>	<b>Negative Change</b>	<b>Neutral</b>	<b>Total Difference from Equalization</b>
<b>Tier 1 – Highest Needs</b>	2	42	34	-	<b>-\$23,636,796</b>
<b>Tier 2</b>	3	24	16	-	\$17,509,475
<b>Tier 3</b>	4	20	24	-	\$5,033,816
<b>Tier 4 – Lowest Needs</b>	Same	-	8	12	<b>-\$154,050,028</b>
<b>Total</b>	-	86	84	12	<b>-\$155,143,533</b>

**Largest Changes by Tier**  
**Tier 1: New Base – 2 Mills**

District	Tier	FY 16 Equalization Grant	FY 16 Local Fair Share	FY 16 Net Local Fair Share and Equalization	New Variable Local Fair Share Tier 1 = 2 Mills, Tier 2 = 3 Mills, Tier 3 = 4 Mills, Tier 4 = 5 Mills	Difference from Net Equalization/LFS
Burke County	1	\$ -	(\$11,835,341)	(\$11,835,341)	(\$4,734,136)	\$7,101,205
Bulloch County	1	\$ -	(\$8,833,344)	(\$8,833,344)	(\$3,533,338)	\$5,300,007
Rabun County	1	\$ -	(\$7,874,578)	(\$7,874,578)	(\$3,149,831)	\$4,724,747
Baldwin County	1	\$ -	(\$5,291,748)	(\$5,291,748)	(\$2,116,699)	\$3,175,049
Hart County	1	\$ -	(\$4,510,538)	(\$4,510,538)	(\$1,804,215)	\$2,706,323
Spalding County	1	\$ 7,248,192	(\$7,003,042)	\$245,151	(\$2,801,217)	(\$3,046,367)
Brantley County	1	\$ 4,187,151	(\$1,594,110)	\$2,593,041	(\$637,644)	(\$3,230,685)
Coffee County	1	\$ 6,320,397	(\$4,291,367)	\$2,029,029	(\$1,716,547)	(\$3,745,576)
Colquitt County	1	\$ 11,141,927	(\$4,640,278)	\$6,501,649	(\$1,856,111)	(\$8,357,760)
Clayton County	1	\$ 40,911,935	(\$31,533,361)	\$9,378,573	(\$12,613,345)	(\$21,991,918)

**Tier 2: New Base – 3 Mills**

<b>District</b>	<b>Tier</b>	<b>FY 16 Equalization Grant</b>	<b>FY 16 Local Fair Share</b>	<b>FY 16 Net Local Fair Share and Equalization</b>	<b>New Variable Local Fair Share Tier 1 = 2 Mills, Tier 2 = 3 Mills, Tier 3 = 4 Mills, Tier 4 = 5 Mills</b>	<b>Difference from Net Equalization/LFS</b>
Clarke County	2	\$ -	(\$17,849,846)	(\$17,849,846)	(\$10,709,907)	\$7,139,938
Bibb County	2	\$ 1,731,235	(\$20,865,007)	(\$19,133,772)	(\$12,519,004)	\$6,614,768
Richmond County	2	\$ 4,834,046	(\$25,357,756)	(\$20,523,710)	(\$15,214,653)	\$5,309,056
Troup County	2	\$ 420,473	(\$10,842,561)	(\$10,422,088)	(\$6,505,537)	\$3,916,551
Valdosta City	2	\$ -	(\$7,963,835)	(\$7,963,835)	(\$4,778,301)	\$3,185,534
Lanier County	2	\$ 2,526,885	(\$798,427)	\$1,728,458	(\$479,056)	(\$2,207,515)
Polk County	2	\$ 4,452,878	(\$4,987,437)	(\$534,559)	(\$2,992,462)	(\$2,457,903)
Long County	2	\$ 3,310,321	(\$1,348,728)	\$1,961,593	(\$809,237)	(\$2,770,830)
Whitfield County	2	\$ 7,287,816	(\$9,500,988)	(\$2,213,172)	(\$5,700,593)	(\$3,487,421)
Liberty County	2	\$ 6,377,229	(\$6,864,325)	(\$487,096)	(\$4,118,595)	(\$3,631,499)

**Tier 3: New Base – 4 Mills**

<b>District</b>	<b>Tier</b>	<b>FY 16 Equalization Grant</b>	<b>FY 16 Local Fair Share</b>	<b>FY 16 Net Local Fair Share and Equalization</b>	<b>New Variable Local Fair Share Tier 1 = 2 Mills, Tier 2 = 3 Mills, Tier 3 = 4 Mills, Tier 4 = 5 Mills</b>	<b>Difference from Net Equalization/LFS</b>
Fulton County	3	\$ -	(\$149,269,478)	(\$149,269,478)	(\$119,415,582)	\$29,853,896
Atlanta Public Schools	3	\$ -	(\$116,794,479)	(\$116,794,479)	(\$93,435,584)	\$23,358,896
DeKalb County	3	\$ -	(\$96,591,022)	(\$96,591,022)	(\$77,272,818)	\$19,318,204
Chatham County	3	\$ -	(\$66,614,810)	(\$66,614,810)	(\$53,291,848)	\$13,322,962
Glynn County	3	\$ -	(\$24,553,770)	(\$24,553,770)	(\$19,643,016)	\$4,910,754
Carroll County	3	\$ 8,479,080	(\$9,930,642)	(\$1,451,562)	(\$7,944,514)	(\$6,492,952)
Rockdale County	3	\$ 10,213,796	(\$10,927,652)	(\$713,856)	(\$8,742,122)	(\$8,028,266)
Douglas County	3	\$ 14,976,848	(\$18,394,027)	(\$3,417,179)	(\$14,715,221)	(\$11,298,043)
Henry County	3	\$ 22,908,226	(\$28,866,049)	(\$5,957,823)	(\$23,092,839)	(\$17,135,016)
Newton County	3	\$ 23,063,043	(\$10,011,662)	\$13,051,381	(\$8,009,330)	(\$21,060,710)

**Tier 4: Same Base – 5 Mills**

<b>District</b>	<b>Tier</b>	<b>FY 16 Equalization Grant</b>	<b>FY 16 Local Fair Share</b>	<b>FY 16 Net Local Fair Share and Equalization</b>	<b>New Variable Local Fair Share Tier 1 = 2 Mills, Tier 2 = 3 Mills, Tier 3 = 4 Mills, Tier 4 = 5 Mills</b>	<b>Difference from Net Equalization/LFS</b>
Cobb County	4	\$ -	(\$132,140,110)	(\$132,140,110)	(\$132,140,110)	\$0
Columbia County	4	\$ -	(\$22,600,534)	(\$22,600,534)	(\$22,600,534)	\$0
Coweta County	4	\$ -	(\$21,374,054)	(\$21,374,054)	(\$21,374,054)	\$0
Dawson County	4	\$ -	(\$5,588,065)	(\$5,588,065)	(\$5,588,065)	\$0
Fayette County	4	\$ -	(\$22,302,367)	(\$22,302,367)	(\$22,302,367)	\$0
Catoosa County	4	\$ 5,450,225	(\$8,215,697)	(\$2,765,472)	(\$8,215,697)	(\$5,450,225)
Effingham County	4	\$ 5,999,705	(\$8,198,874)	(\$2,199,169)	(\$8,198,874)	(\$5,999,705)
Houston County	4	\$ 17,499,709	(\$19,228,250)	(\$1,728,541)	(\$19,228,250)	(\$17,499,709)
Paulding County	4	\$ 30,015,934	(\$14,703,379)	\$15,312,555	(\$14,703,379)	(\$30,015,934)
Gwinnett County	4	\$ 88,818,100	(\$129,713,971)	(\$40,895,871)	(\$129,713,971)	(\$88,818,100)