

SCSBA Statement to TRAC
July 21, 2010

Mr. Chairman and members of the Commission, my name is Scott Price and I'm with the South Carolina School Boards Association. We appreciate the opportunity to share our thoughts with you concerning the issue of property tax exemptions in our state. We applaud your diligence as you tackle the complexity of our state revenue and taxation system.

I have invited Bick Halligan, a former school board member and partner with the law firm of Childs & Halligan, and Bob Davis, chief financial officer for Richland School District Two, to join me in this presentation. Both of these gentlemen offer a wealth of experience in the area of property taxes and local school district revenue.

Our Legislature tasked you with making recommendations for a tax structure that positions South Carolina as an optimum competitor in efforts to attract business and individuals to locate, live, work and invest in our state and at the same time provides a "balanced" system that is "adequate, equitable and efficient."

Our state must address many needs: infrastructure, health care, safety, economic development, education and others. While we realize that your task is not specific to educational funding but to the overall revenue system in support of all functions, any revenue system must reflect the goals of the state and the state's core responsibilities. Education as a core state function is more heavily dependent than ever on the health of the overall state revenue system.

The local property tax base is and has been extremely important to the fiscal stability of every school district in this state. That stability, as will be discussed by Mr. Halligan, is increasingly at jeopardy.

All school districts in South Carolina rely almost exclusively on local property taxes for their share of local revenues to fund school operations and capital projects. Other local governments, such as cities and counties, also rely on property taxes, but are not as dependent on them.

In addition to the growth and stability of the tax base, its composition is more important than ever to the operating budget of the school districts.

Act 388 exempts owner-occupied homes that are assessed at 4% from school operating millage. School districts receive funding from the state to partially compensate the district for these lost revenues, but the formula created by Act 388 does not adequately compensate many districts on a one-to-one basis for new 4% properties that are created in a district. A gap exists that continues to get larger annually. Further, the classes of property that are not owner-occupied (commercial, rental, industrial, agricultural, and utility owned property) are the only source for "new" operating revenues for school districts.

Exemptions relating to these other classes can, therefore, have a profound impact on local school district revenue. A chief concern that we have with state-driven property tax exemptions is the failure of the General Assembly to adequately study or provide for the replacement of locally collected property taxes and consideration of implications at the local school district level. Why is this so important?

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Property tax relief measures can profoundly impact school district funding, and they must be analyzed to gauge the impact on equity-based measures, such as the index of taxpaying ability, that drive public education funding. The Index is the proportion of the assessed value of property, including owner-occupied property, in any one district compared to the total assessed value of all property in the state and is used to determine the amount of state funds distributed to districts under the Education Finance Act. A property tax exemption can make a school district appear poorer by lowering its Index and resulting in a shift of state funding to that district to the detriment of the other districts.

Act 388 significantly impaired the ability of local school boards to raise operational millage. Locally funded programs and community-driven school initiatives will suffer. Districts will need more funding tools to address operational and capital needs at the local level. The funding of technology, school construction or other special non-recurring needs for school districts is a continuing concern.

What are some recommendations that we have?

- Authorize local boards to raise additional local revenue; allow districts to exceed cap via local referendum or two-thirds majority vote.
- revise Act 388 to allow school districts that do not increase their local property taxes to the maximum percentage allowed by law (total of CPI plus population growth) to recover this in a subsequent budget year. A district that does not raise millage to the maximum amount allowed under the cap in any given year cannot, under Act 388, make up for this lost capacity in future budget years. In such a situation, a local school district is effectively penalized when it does not raise millage by the maximum amount each year.
- revise Act 388 to create a school district stabilization fund with any Homestead Exemption Fund overage. Currently, this is directed to counties for further property tax relief.
- Amend the state constitution to increase the general obligation debt limit from 8 to at least 12 percent. Since 1982, the state constitution limits school districts' bonded debt to 8 percent of the assessed valuation of property subject to taxation in the school district. In order to exceed this limit, a school district must hold a referendum. We believe that at least 12 percent would give districts increased flexibility and reduce the need for many to go to referendum.
- Take a close look at a state-wide uniform minimum millage rate for schools in South Carolina. There has been a growing discussion regarding a uniform millage rate in recent years. Mr. Davis will discuss this more in a moment.
- Finally, we believe that a school district's tax base should not be eroded by economic development incentives, and that all revenue generated or determined by local school district tax millage must be preserved for use by school districts for school purposes. You will hear an expanded discussion of this momentarily.

Again, thank you for the opportunity to address you today.