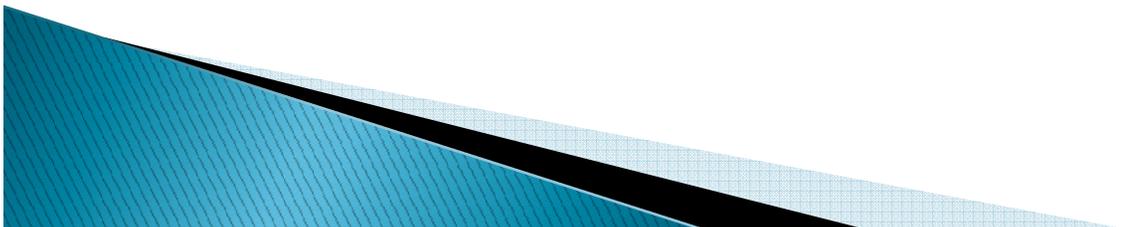


State Education Finance Study Commission

Issue Paper: Equalization

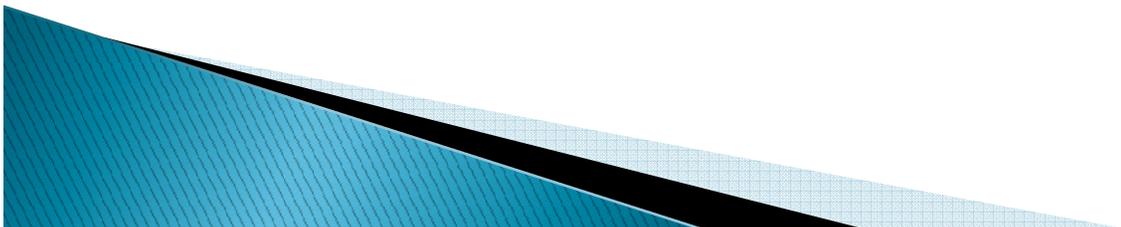
Equalization Grants

- ▶ What are they?
 - Equalization grants are additional aid provided to school systems above the core QBE formula earnings.
 - Currently funded at \$436 million (earnings exceed \$600 million)
 - Second largest grant in DOE budget
 - Seventh largest program in the state budget



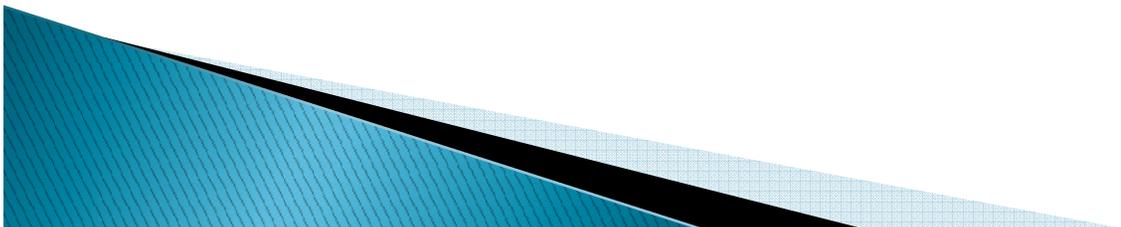
Equalization Grants

- ▶ Why do we provide them?
 - Equalization is intended to narrow the gap between systems in terms of property tax wealth per pupil.
 - Equalize educational opportunities across school districts.
 - No expenditure controls – funds may be spent as needed by each system.



Equalization Grants

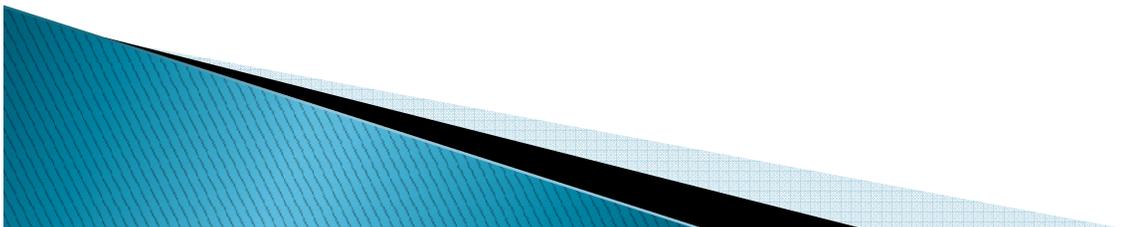
- ▶ How are funds earned?
 - Each year 134 of the 180 systems (75%) receive an equalization grant.
 - The amount of the grant received each year is determined by a system's property tax wealth per weighted FTE in relation to the benchmark system and effort in terms of a school system's millage.
 - There are two key components to Equalization
 - Property tax wealth rankings per weighted FTE
 - Earnings each system receives based on their taxing effort



Equalization Grants

▶ Wealth Rankings

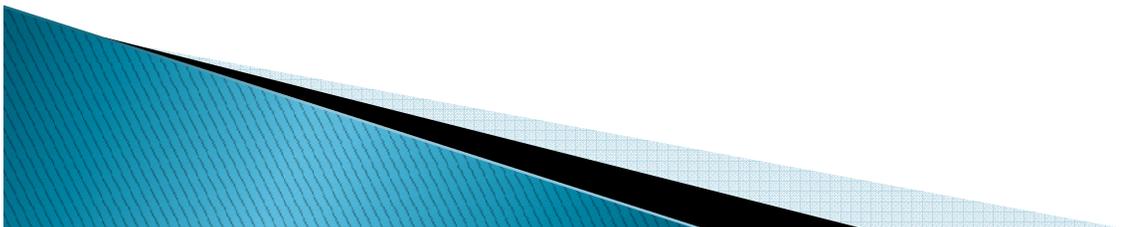
- System property tax wealth and rank is determined based on the most recent equalized tax digest (less exemptions).
 - Annual Sales Ratio Study by Department of Audits
- The equalized digest is then divided by the average weighted FTE for that system in the year of the digest to determine property wealth per weighted FTE for each system.



Equalization Grants

▶ Wealth Rankings

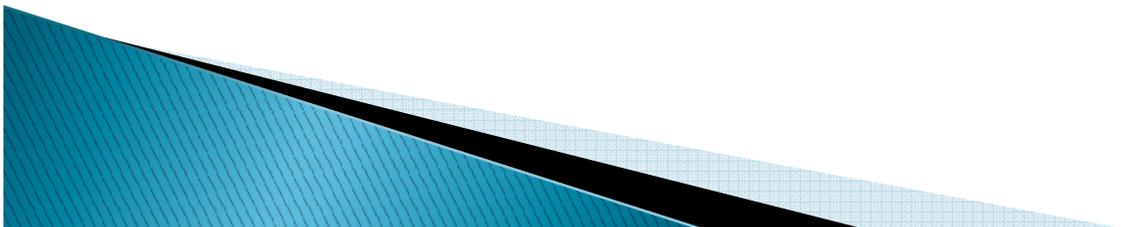
- Systems are then ranked from highest to lowest based on the amount their tax digest generates per weighted FTE.
- This is how the state determines who is eligible for an Equalization grant. The school system that is the 75th percentile becomes the benchmark.
 - The benchmark system and those wealthier do not receive an Equalization grant.
 - The systems that fall below the benchmark are eligible for an Equalization grant.



Equalization Grants

▶ Reward for Effort

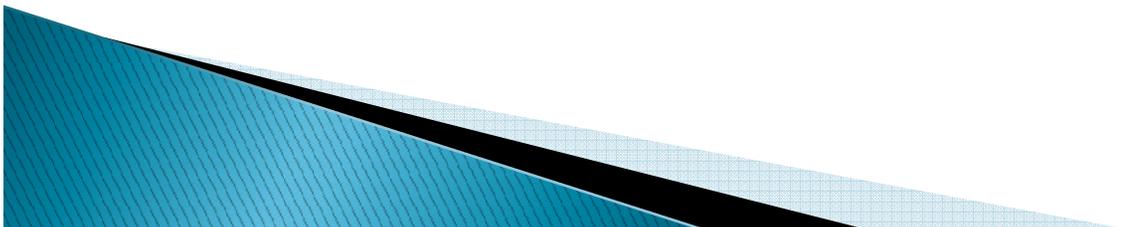
- The actual earnings a system will receive for Equalization is based on the wealth gap between each system and the benchmark and the amount of effort a system puts into generating local funds via their effective mills.
 - Effective mills – All local tax revenues divided by the assessed valuation and multiplied by 1,000.



Equalization Grants

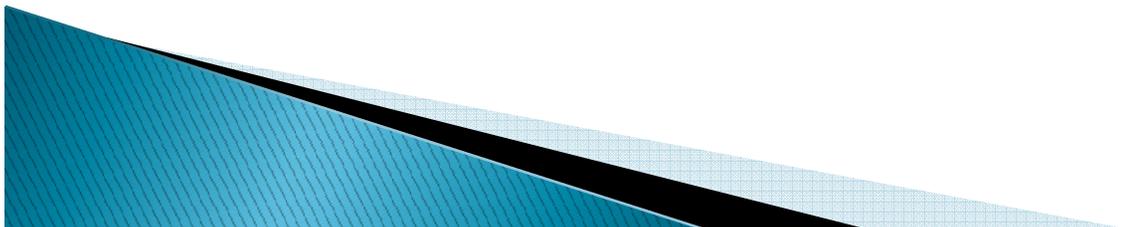
▶ Reward for Effort

- Each system will receive a grant that equals the wealth difference from the benchmark times the number of eligible mills (up to 15) times the weighted FTE.
- The higher a system's effective mills, the larger the grant they will receive.
- This is what makes Equalization a “reward for effort program”.



Equalization Calculation

<u>Percentile</u>	<u>System</u>	<u>Digest Wealth Per Mill Per WFTE</u>	<u>Equalized Difference</u>	<u>Eligible Mills</u>	<u>Weighted FTEs</u>	<u>Total Grant Earnings</u>			
100	Greene	\$ 747.81	N/A			0			
76	Warren	\$ 187.92	N/A			0			
75	Quitman	\$ 176.25	Benchmark			0			
74	Cherokee	\$ 175.23	1.02	11.07	52,585	\$ 593,758			
50	Thomas	\$ 133.79	42.46	6.98	6,491	\$ 1,923,743			
25	Johnson	\$ 110.39	65.86	9.01	1,466	\$ 869,922			
0	Pelham City	\$ 24.21	152.04	12.59	1,904	\$ 3,644,606			
Equalization Calculation:			Difference	X	Eligible Mills	X	FTEs	=	Earnings



Wealth Per WFTE Comparison

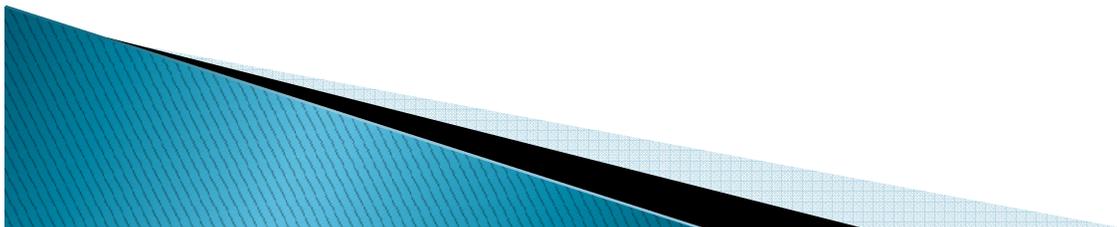
	<u>Fulton</u>	<u>Gwinnett</u>
2006		
Net Eligible 40% Tax Digest	\$ 24,471,909,686	\$ 24,839,633,098
Weighted FTEs	94,860	177,021
Value of One Mill Per WFTE	\$ 257.98	\$ 140.32
Wealth Ranking	5	40
Equalization Earnings	\$ -	\$ -
2012		
Net Eligible 40% Tax Digest	\$ 34,137,806,490	\$ 34,042,887,382
Weighted FTEs	120,196	220,918
Value of One Mill Per WFTE	\$ 285.52	\$ 154.10
Wealth Ranking	17	70
Equalization Earnings	\$ -	\$ 58,655,394

Note: Equalization numbers reflect formula earnings, not actual appropriation.

Equalization Impact

	<u>Quitman - 75th</u>	<u>Pelham City</u>	<u>Difference</u>
Value of One Mill Per WFTE	176.25	24.21	
Weighted FTEs	458	1,912	
QBE Earnings	2,301,847	8,168,893	
Local Five Mill Share	(415,807)	(235,444)	
Equalization	0	3,643,539	
Other Local Revenue	<u>1,027,969</u>	<u>828,164</u>	
Total	2,914,009	12,405,152	
Per WFTE With Equalization	6,362.47	6,488.05	125.59
Per WFTE Without Equalization	6,362.47	4,582.43	(1,780.03)

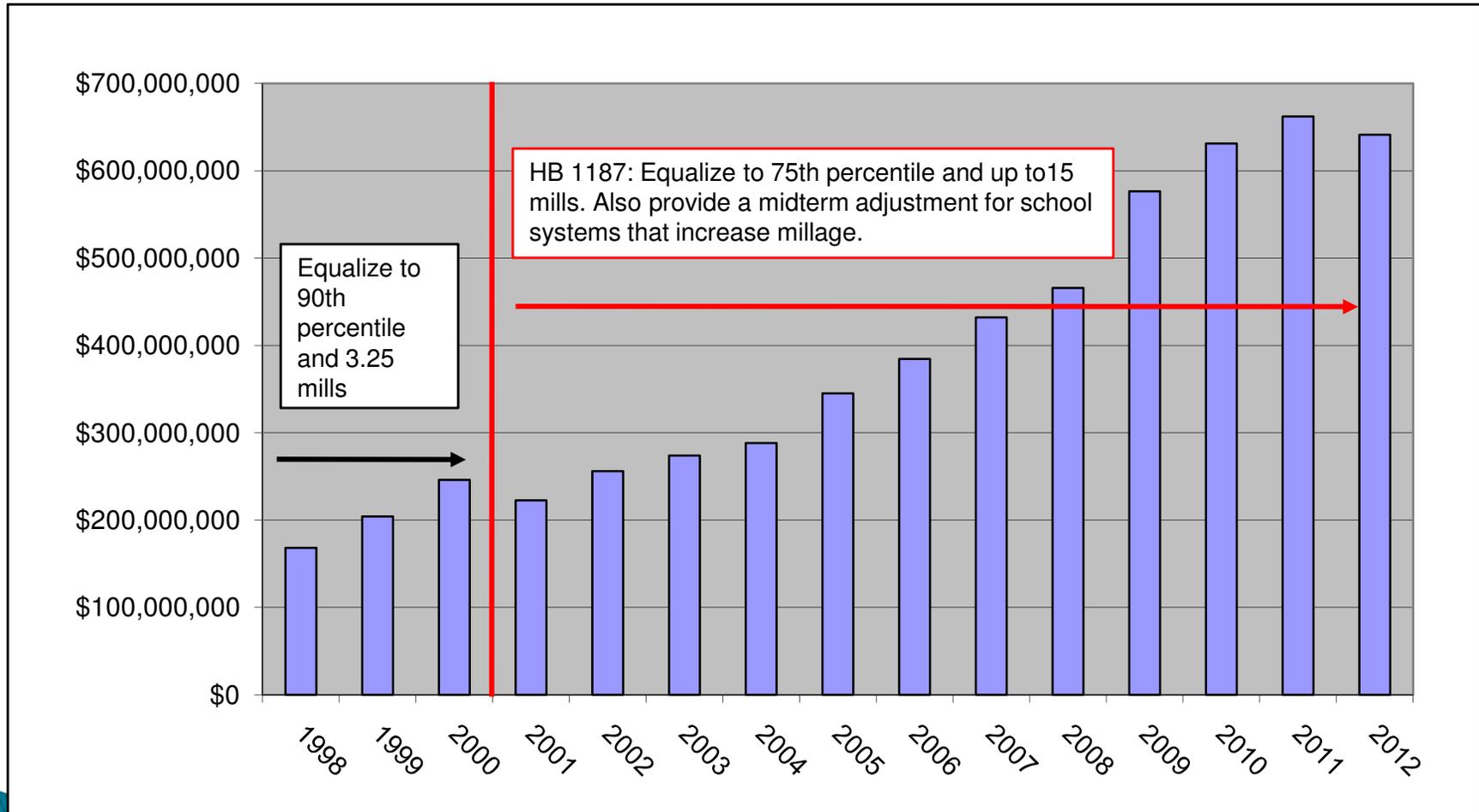
Note: Shows full earnings for QBE, LFMS and Equalization - not actual appropriation



Equalization History

- ▶ Equalization was first funded in FY1987 at a cost of \$84 million
 - Equalized to the 90th Percentile
 - Recognized 3 mills
- ▶ In FY1990 the state recognized an extra .25 mill – for a total of 3.25 mills
- ▶ HB 1187 in 2000 made major changes to Equalization
 - Equalize to the 75th Percentile (phased in over 5 years)
 - Recognize up to 15 mills (reward for effort)
 - Provide a mid-term adjustment for systems that increase millage

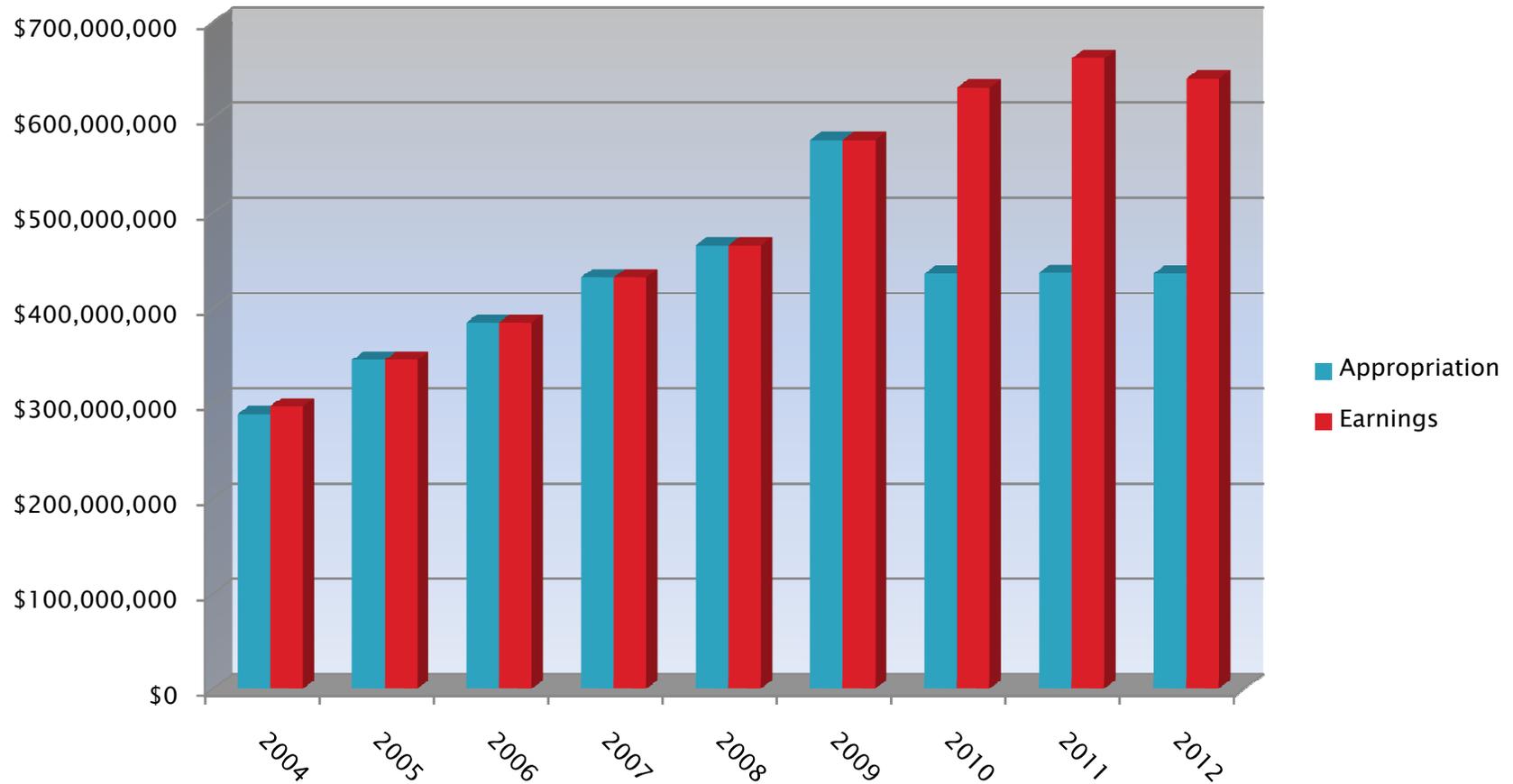
Equalization Earnings



Equalization Appropriation

- ▶ In recent years, the amount of funds that Equalization has earned according to the current formula has exceeded the state's ability to pay for the full grant.
- ▶ Since FY10, the state has funded the grant at \$436 million – despite earnings that exceed well over \$600 million. Also, no mid-term adjustment has been provided.
- ▶ In FY12, Equalization earnings were \$641 million. Actual appropriations were 68% of earnings.
- ▶ This has led to a proration in formula earnings without any regard given to the wealth rankings – meaning the poorest system will still receive the same percentage of the grant as systems that rank higher in wealth.

Earnings vs Appropriations



Issues with Current Formula

- ▶ Sustainability
 - Growth exceeds state's ability to pay
- ▶ Predictability
 - Lack of predictability in earnings causes difficulty for both the state and school systems
- ▶ Transparency
 - While the premise of the formula is easy to understand, some of the calculations are not
- ▶ Meet program's objective
 - Ensure that the state's limited resources make it to the systems that need it the most

Possible Options

- ▶ Equalize to statewide average
 - Straight average
 - Remove outliers, then average
 - Equalize to a percent of the state average (ie, 95%)
- ▶ Require a minimum millage for participation
- ▶ Cap number of mills we equalize
- ▶ Consider median family income
- ▶ Graduated level of funding so that the systems with the lowest wealth would receive a higher percentage of funding

