

THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS



Rural-Urban Inequality In Education Finance: Too Little Tax Base Or Too Little Tax Effort?

An index of taxing ability for each school district is determined annually by the S.C. Department of Revenue. The index is calculated by dividing the fiscal capacity (the adjusted assessed value of all real and personal property) of a district by the derived fiscal capacity for the state. Wealth per pupil is derived by dividing the district fiscal capacity by the average daily school membership (at the end of 135 days of school). Statistics in this article are taken from the 1993 edition of the S.C. Department of Education's Rankings of the Counties and School Districts of South Carolina 1991-92. (Asterisks mark districts voting to join financing suit as of Dec. 6.)

Expenditures Per Pupil

Top Ten Spartanburg 7
(No. 1-10) *Hampton 2

Fairfield

York 2

Spartanburg 3

Richland 1

Calhoun

*Marion 4

Orangeburg 5

McCormick

Bottom Ten *Laurens 55

(No. 82-91) *Dillon 2

Dorchester 2

*Florence 1

*Clarendon 2

*Lexington 4

Aiken

*Florence 3

*Berkeley

Orangeburg 4

Like about half the states, South Carolina has an Education Finance Act designed to assure that even the poorest school districts have the resources needed to support a so-called "minimum foundation" education for every child regardless of where he or she happens to live.

Yet almost forty (mostly rural) school districts have filed suit, alleging that the state is failing to meet its obligations to assure equal access to education. So why the renewed fuss about education finance?

In fact, the variation in per pupil expenditures across South Carolina's 91 school districts is rather wide. In 1991-92, expenditures per pupil averaged \$4,098 statewide, but Spartanburg District 7 spent \$5,454 and Orangeburg District 4 only \$3,552.

Closer analysis reveals that the gap in district expenditures per pupil is not between rural and urban districts. On

average, the rural (nonmetropolitan statistical area) districts spent slightly more per pupil in 1991-92 than the urban districts.

Similarly, the variation across districts does not seem to have much to do with the racial makeup of the student population. Districts in which more than half of the 1991-92 student population was non-white enrolled about 43 percent of all students statewide and accounted for about 43 percent of all expenditures. Eight of the ten districts with the highest expenditures per pupil are also districts in which over half of the student population is made up of non-whites.

The variation between the ten districts with the lowest per pupil expenditures and the ten districts with the highest spending is only partly a result of differences in local tax capacity (wealth per pupil). All of the ten districts with the lowest expenditures per pupil are in the middle or lower ranks of

districts in local tax capacity. But two of the ten districts spending the most per pupil (Hampton 2 and Marion 4) are relatively poor districts, as poor or poorer than the ten districts at the bottom. These two districts make relatively large outlays per pupil because they also have a high local tax effort relative to their tax capacity.

Local tax capacity, therefore, explains part of the variation in per pupil expenditures across South Carolina school districts, but local tax effort, i.e., willingness to make sacrifices for education, is an even stronger explanatory factor. Among the highest 46 districts in per pupil expenditures, only 11 make less than the average local effort. But among the 45 districts with the lowest per pupil expenditures, 22 make less than the average local effort. Six relatively wealthy districts (Anderson 3 and 4, Greenville, and York

(Continued p 4)

ECONOMIC BRIEF NO. 13

A Kind Word For Government

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Why are citizens always frustrated with the government? Why can't government be run more efficiently, like a business?

Picking on government is probably the number one spectator sport in America, even surpassing football. Some of the complaints are deserved. Governments are bureaucratic, inept, and sometimes corrupt.

But government also has a tough assignment. Even a government of saints

all the trimmings, even the pickle. They can all pay separately and all eat together, enjoying each other's company while satisfying their different tastes. This is the private sector at its best.

After dinner, Alice, Mary and John head down to their city council, which is voting on a neighborhood park. Alice wants a softball diamond and basketball court for her teenagers. John wants slides, swings, and

a duck pond for his little kids. Mary has no kids, lives near the park, and

does not want to spend her tax dollars on something she won't use and that will just cause noise and litter in her neighborhood.

City council, in its great wisdom, puts buffer trees by the side of the park and cuts the duck pond to provide for the basketball court, but there's not enough space or money for softball. The art of compromise makes three citizens unhappy. The fact that government means "one size fits all" for both service and

price inevitably creates dissatisfaction because nobody gets exactly what he or she wants.

A second reason for frustration with the public sector comes from the fact that most of the goods and services that governments produce are production activities that the private sector is unable or unwilling to undertake.

If there's a profit, if it's possible to identify potential customers and give each what he or she wants in exchange for a price, the private sector jumps in. Governments produce things that everyone consumes whether they want to or not and pays for whether they want the service or not. If there are beneficiaries who can consume without paying, if the good or service is a basic necessity to which the poor may not otherwise have access, if production for one is production for all, if your consumption impacts on my welfare, the government gets the job.

Yes, government is often inefficient and sometimes unresponsive and corrupt. There is always room for improvement. But if government did not exist, we would have to invent it to

...if government did not exist, we would have to invent it to provide basic services that will not be forthcoming from the private

would produce less satisfactory outcomes than citizens get from their local retailer or manufacturers of their toaster ovens. Let's consider two sources of frustration with government.

Alice, Mary, and John—three citizens of Anytown—drop in at their local fast food place for dinner. Alice gets a roast beef sandwich with a little barbecue sauce. Mary is on a diet; she orders a salad. John has a double cheeseburger with

This newsletter is printed quarterly by the Community & Economic Development Program at Clemson University, a program of the Strom Thurmond Institute, Cooperative Extension Service, S.C. Agricultural Experiment Station, College of Commerce and Industry, and Office of Public Affairs.

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Communication Between Cities And Counties Crucial In Easing Fiscal Burdens Of

Most South Carolina communities might think that Greer is the beneficiary of good fortune. The new BMW plant is being constructed only a couple of miles outside this small town straddling the Greenville-Spartanburg county line.

There is no doubt that the economic impact of BMW will be substantial and positive. But the fiscal, not the economic impact of BMW worries residents of Greer. BMW will pay no taxes to the city. Because a large percentage of Greer residents are retired, BMW will not even provide many jobs to town residents. Greer has little available land for new businesses in the city limits, usually a source of property tax and business license revenue.

So Greer stands to get little tax revenue from the growth stimulated by BMW while it will have to deal with increased traffic, trash, and perhaps even crime that accompany the growth BMW is generating. While BMW is good for business in the region, it is a loser for Greer's municipal budget (at least in the short to intermediate term).

The situation facing Greer stems from the state's tax and governmental structure. Municipalities, dependent primarily upon the property tax, get little or no revenue from a new industry unless it is located within their jurisdiction. But these local governments begin to see increases in demand for their services even before the plant goes into operation. As construction workers come in and construction traffic to the plant site builds up, the local police, garbage collection, and fire protection units face increased demands.

In economic development matters, state development officials work primarily with the county economic development director, counting on that person to be knowledgeable about special problems facing Greer and other local communities. Many new industries locate near municipalities to take advantage of city services and city amenities. Municipalities need a more effective voice in negotiations with perspective new firms. Municipalities can't always count on their county economic development officials to look after their interests.

Faced with these challenges, Greer's mayor and city council came up with an ingenious response. They used a provision in state law allowing municipal annexation by petition of 75 percent of the property owners representing 75 percent of the assessed value of real estate in a given

area. Since the BMW site, owned by the State Ports Authority, has zero assessed value, Greer was able to use this process to include BMW in a sweeping annexation to make it a city property taxpayer. Timing was crucial. Once the plant (not the land) is on the tax books, its owners will be able to refuse annexation.

Greer's "terrorist politics" got the attention of the powers that be in Columbia. Annexation would threaten the terms the state negotiated with BMW. With a valid petition in hand, there appears to be no legal way the state can prevent Greer from annexing property as long as Greer is careful to follow all procedural requirements.

Greer officials indicate that they are not interested in embarrassing state officials or damaging the state's ability to attract other industries like BMW. Nor are they unappreciative of the hard work that the governor and others put into attracting BMW. They say, apparently sincerely, that they are not anti-growth. But they are determined to ensure that Greer taxpayers not bear a disproportionate share of the fiscal burden of accommodating growth.

How the dispute between Greer and the state finally will be resolved is still an open question. While Greer officials have agreed to back off on annexation temporarily in exchange for promises from the governor and others, the annexation petition remains on the table as a bargaining chip as Greer keeps its options open to defend its taxpayers' interests.

More important than the outcome of this particular case are the lessons to be learned from the experience. State development officials say that they cannot deal with more than one local development agency in each county. Closing a deal on an industrial siting is a delicate, time-consuming affair that often, of necessity, must be done out of the glare of media attention lest the industrial prospect be spooked and run away.

So, it's critical to have a good working relationship between municipalities and county development directors. The county has the link to state development activities, but the municipalities are an important player. Cities offer amenities to attract firms and provide essential services. They need to have a seat at the table. Otherwise they, too, could find themselves having to raise taxes to accommodate industrial growth that benefits others and leaves them with a disproportionate part of the fiscal burden of that growth.

Urban-Rural Inequality In Education? _____ (From p 1)

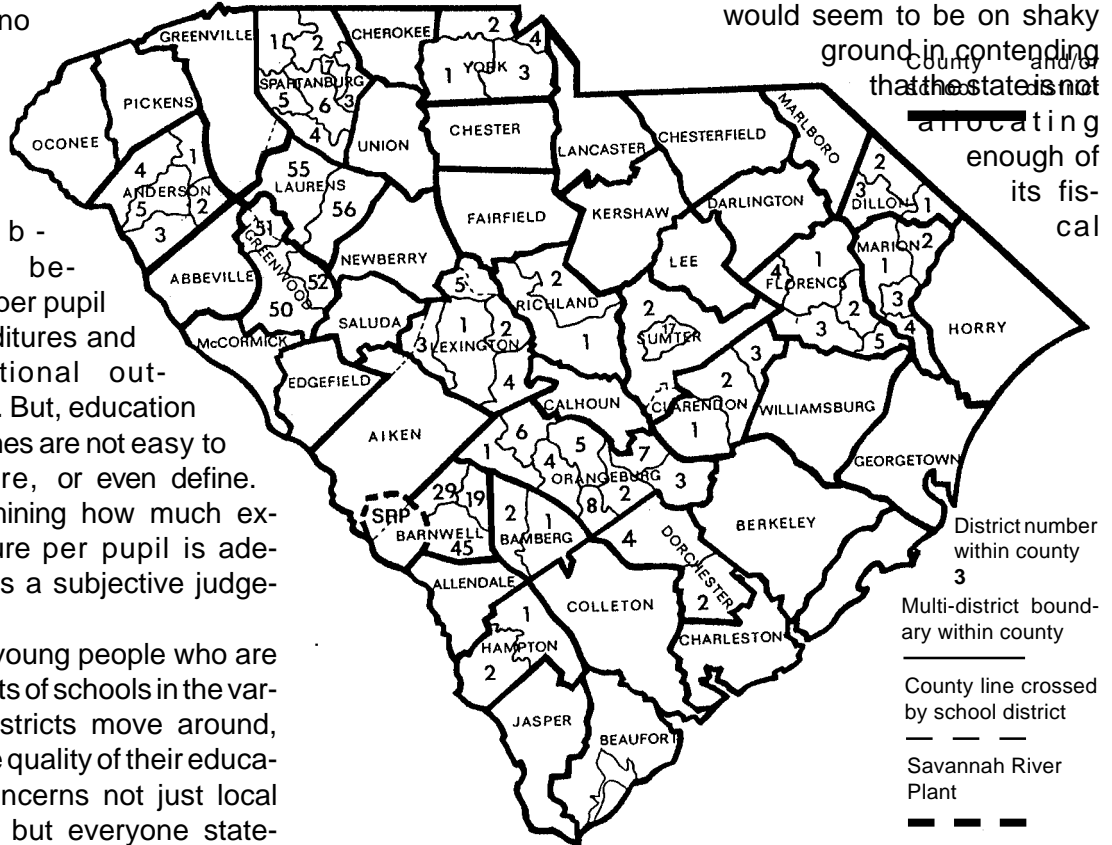
3 and 4) are in the bottom half of all districts in per pupil expenditures.

Admittedly, no strong correlation has been established between per pupil expenditures and educational outcomes. But, education outcomes are not easy to measure, or even define. Determining how much expenditure per pupil is adequate is a subjective judgment.

The young people who are products of schools in the various districts move around, and the quality of their education concerns not just local people but everyone state-

wide. A good case can be made for the state assuming one-hundred percent of the

funding of primary and secondary education. But districts that are making relatively low local effort to fund education would seem to be on shaky ground in contending that the state is not allocating enough of its fiscal



- Wealth Per Pupil (Fiscal Capacity)**
Top Ten (No. 1-10)
 York 2
 Beaufort
 Fairfield
 Horry
 Calhoun
 Oconee
 Charleston
 Spartanburg 5
 Greenwood 52
 Spartanburg 6
Bottom Ten (No. 82-91)
 *Florence 4
 *Lexington 4
 *Marion 2
 *Dillon 3
 *Barnwell 19
 *Marion 3
 *Dillon 1
 *Orangeburg 8
 *Marion 4
 *Clarendon 3
- Local Tax Effort**
Top Ten (No. 1-10)
 *Hampton 2
 Spartanburg 7
 *Marion 4
 York 1
 Spartanburg 1
 *Orangeburg 8
 Spartanburg 3
 Spartanburg 4
 *Marion 3
 Greenwood 51
Bottom Ten (No. 82-91)
 *Florence 1
 Charleston
 *Clarendon 1
 Horry
 *Laurens 56
 *Florence 3
 Anderson 3
 Beaufort
 *Clarendon 2
 York 2

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resources to provide a minimum foundation education for all young South Carolinians.

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