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# Georgia's Special Purpose Local Option Sales Tax for Education: Review of Trends and Policy Implications – ABFM 2017

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## Background on ESPLOST

- Georgia is one of relatively few states to fund local government capital outlay through sales taxes
- Special Purpose Local Option Sales Tax for Education (ESPLOST) allows school districts to levy one cent sales to fund school construction and improvement, retire debt
  - Started in 1996
  - 179 of 180 districts have approved at least one ESPLOST
  - Substitutes pay-as-you-go financing for pay-as-you-use (debt)
  - Revenue stays in district – point of sale
- Some concern in state legislature about adequacy and equity of capital outlay funding for schools

# Research Questions

1. How unequally distributed are sales tax bases?
2. How has the ESPLOST affected school district debt levels?
3. How has the ESPLOST affected capital outlay?
4. Has 20 Years of ESPLOST led to differences in the type and condition of facilities in Georgia between school district with differing capacity to raise sales taxes.

# Previous Research on ESPLOST

- Rubenstein and Freeman (2003)
  - Analyzed the effects of Georgia's ESPLOST on school finance equity during the program's early years in the late 1990s and early 2000s.
  - Districts with large property tax bases also tended to have large sales tax bases and that the ESPLOST revenue increased disparities in funding across districts above what they would otherwise be. Although the state's capital outlay program was designed to provide more resources to low-wealth districts, it was not large enough to offset differences across districts in tax bases.

# Previous Research on ESPLOST

- Zhao and Wang (2015)
  - Reported lower capital outlays on average in South Georgia districts with higher percentages of African American residents and higher poverty.
  - They also found that disparities across districts were substantially larger for capital outlay than for operating expenditures.
  - They also found that ESPLOST had some equalizing effect for capital outlay.

# Previous Research on ESPLOST

- Brunner and Schwegman (2017)
  - Adoption of an ESPLOST led to higher capital outlay and reduced debt for districts located in metropolitan statistical areas (MSAs) in Georgia.
  - For districts outside of MSAs, they found evidence of higher capital outlay but not reduced debt.
  - Though ESPLOST revenue is restricted to capital outlay and debt reduction, they also reported that the tax increased current spending per pupil in districts within MSAs.

# Previous Research on ESPLOST

- Zhao and Hou (2008)
  - Analyzed LOST in Georgia, including potential tax exportation, meaning the sales taxes paid by people shopping outside their county of residence.
  - They estimated that 76 counties were tax importers (net beneficiaries of exporting), and 83 were exporters. The largest beneficiaries of tax exportation were regional retail centers, not necessarily districts in the metro-Atlanta area.



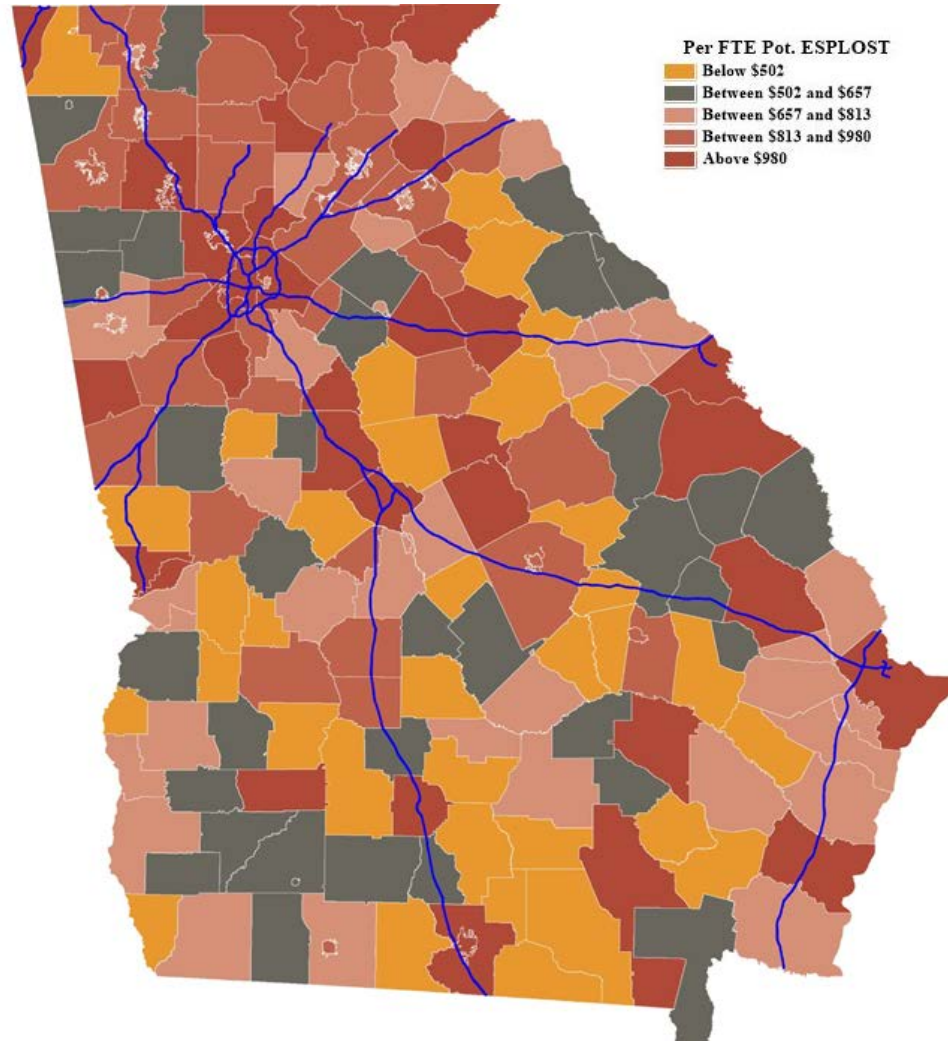
# Previous Research on the Condition of School Facilities and Student Achievement

- Gunter and Shao (2016)
  - Detailed review of the long literature in this area.
  - A positive relationship between facility condition and achievement has been found starting with Cash 1993; and Hines 1996.
  - This meta-analysis finds that the relationship is small and the findings vary based on the methodology employed, the measure of building condition, and other contextual factors.



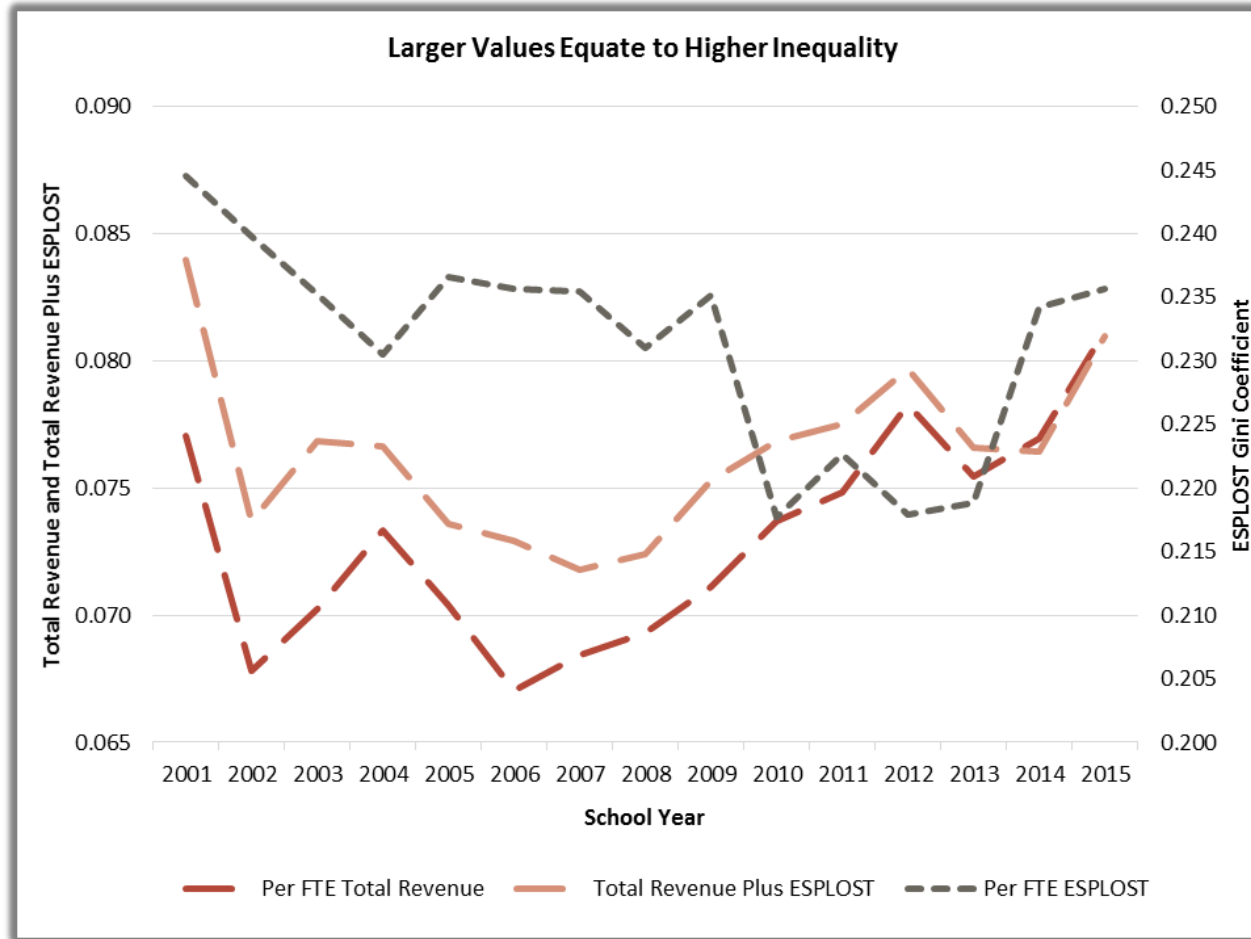
# ESPLOST funding inequality

# How unequally distributed are sales tax bases?

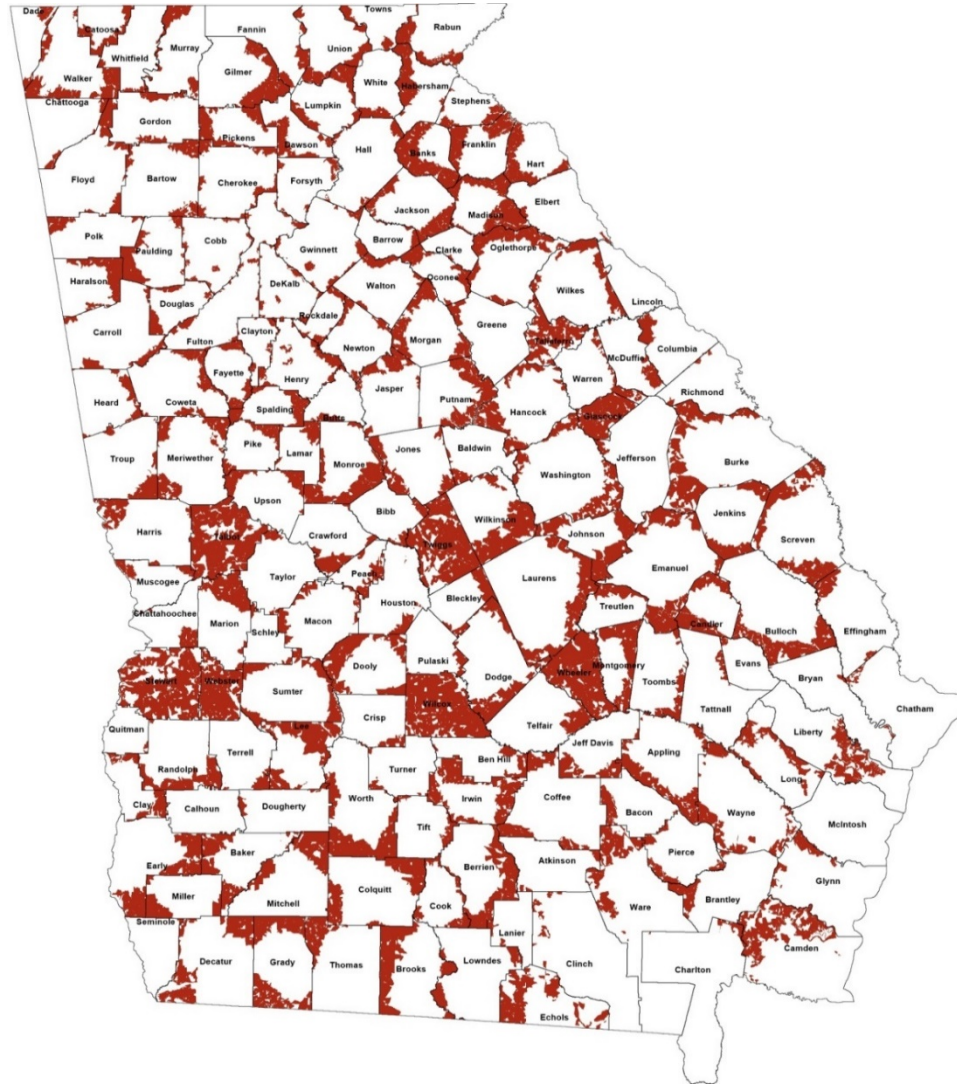


The districts with the lowest capacity (bottom five percent) raise below \$200 per FTE per year with the highest (top five percent) raise \$1,000.

# How does ESPLOST affect overall education funding inequality?



# How unequally distributed are sales tax bases?



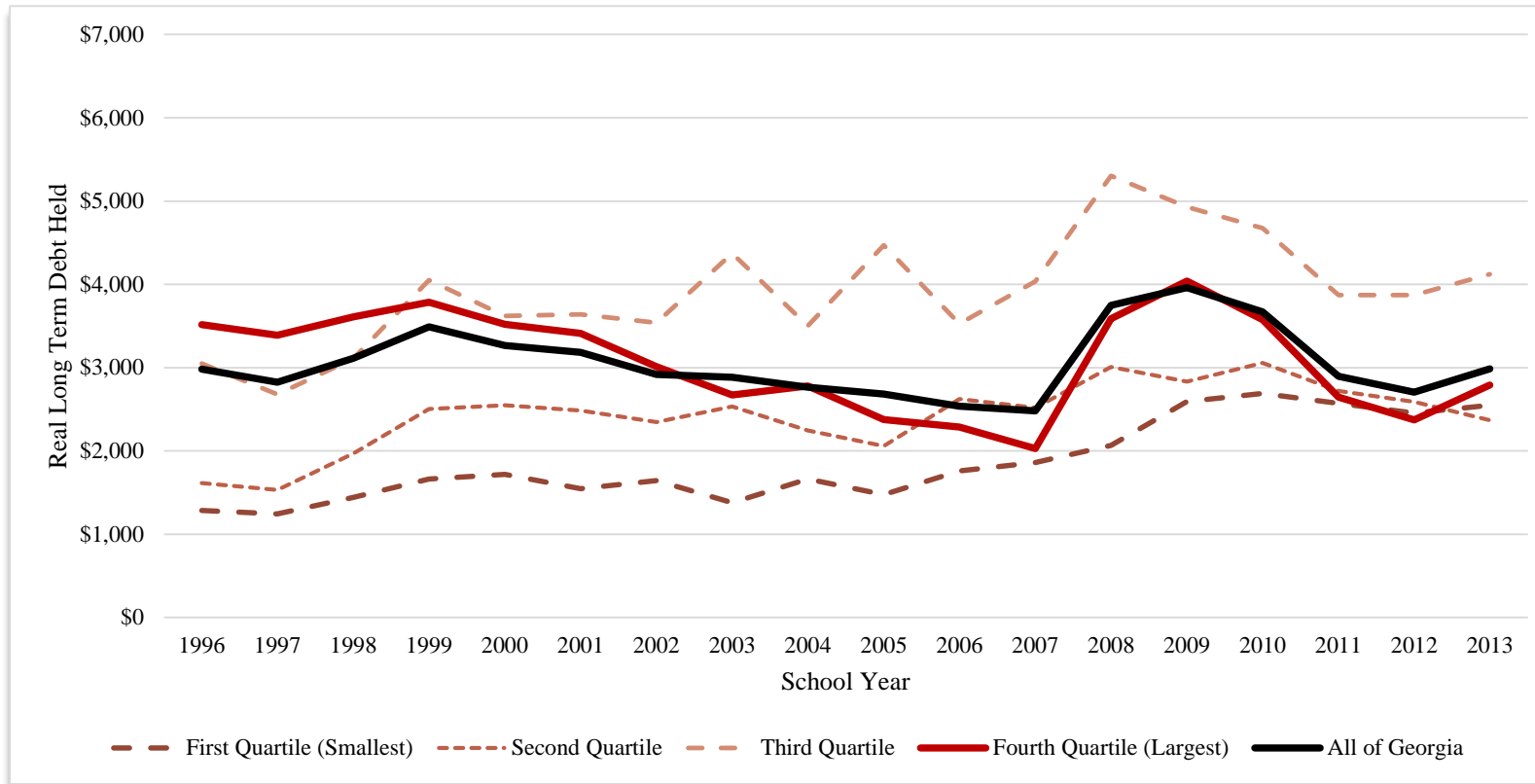
**“Leaving” Census  
Blocks for  
Grocery Stores in  
Georgia in School  
Year 2015**



# ESPLOST and Debt Levels

# How has the ESPLOST affected school district debt levels?

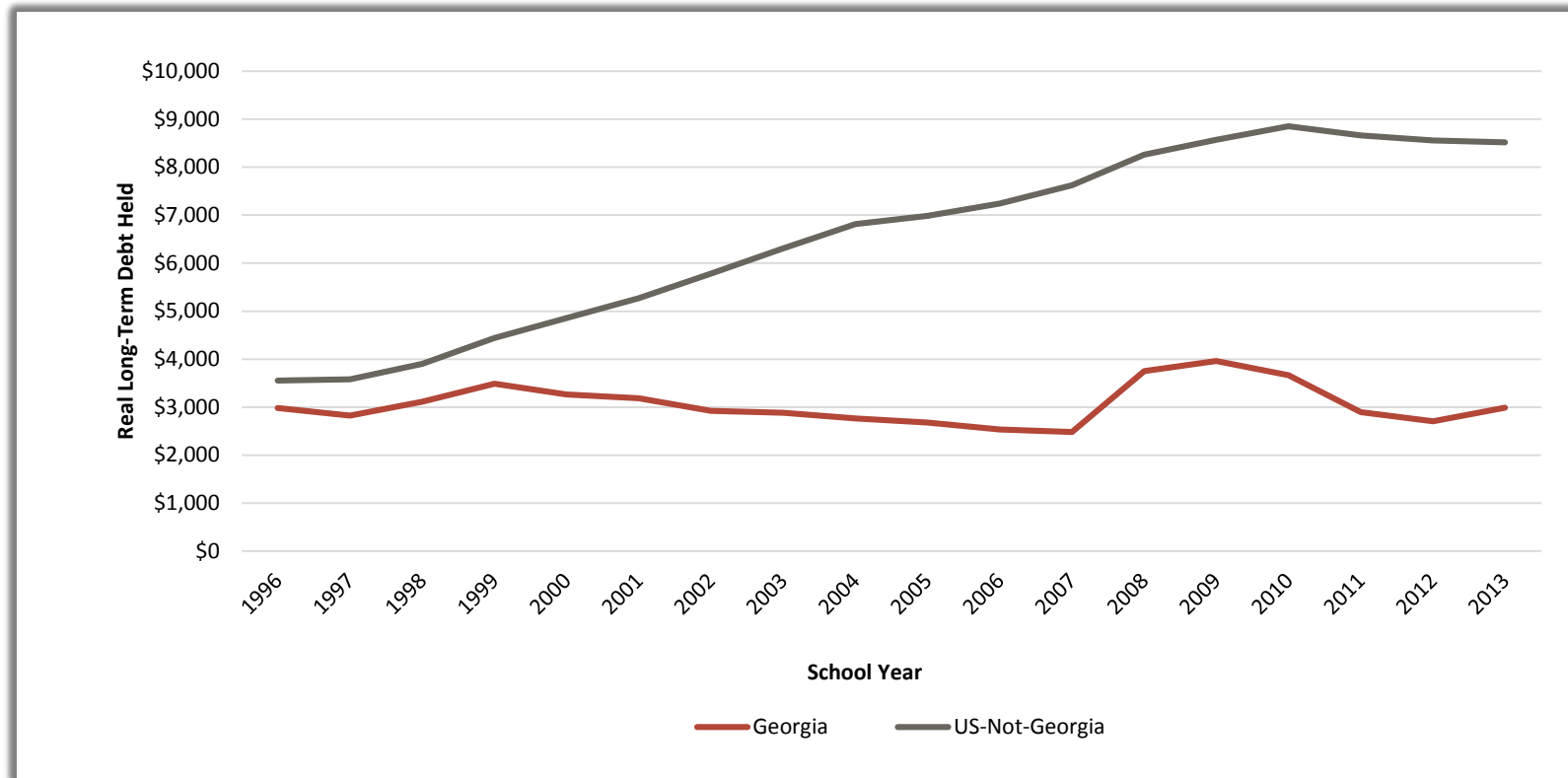
## Real Per Student Long Term Debt Held by 2001 ESPLOST



Source: National Center For Education Statistics F-33 Data Files  
Inflation adjusted to 2013 dollars using the Producer Price Index for Construction

# How has the ESPLOST affected school district debt levels?

## Real Per Pupil Long Term Debt Held



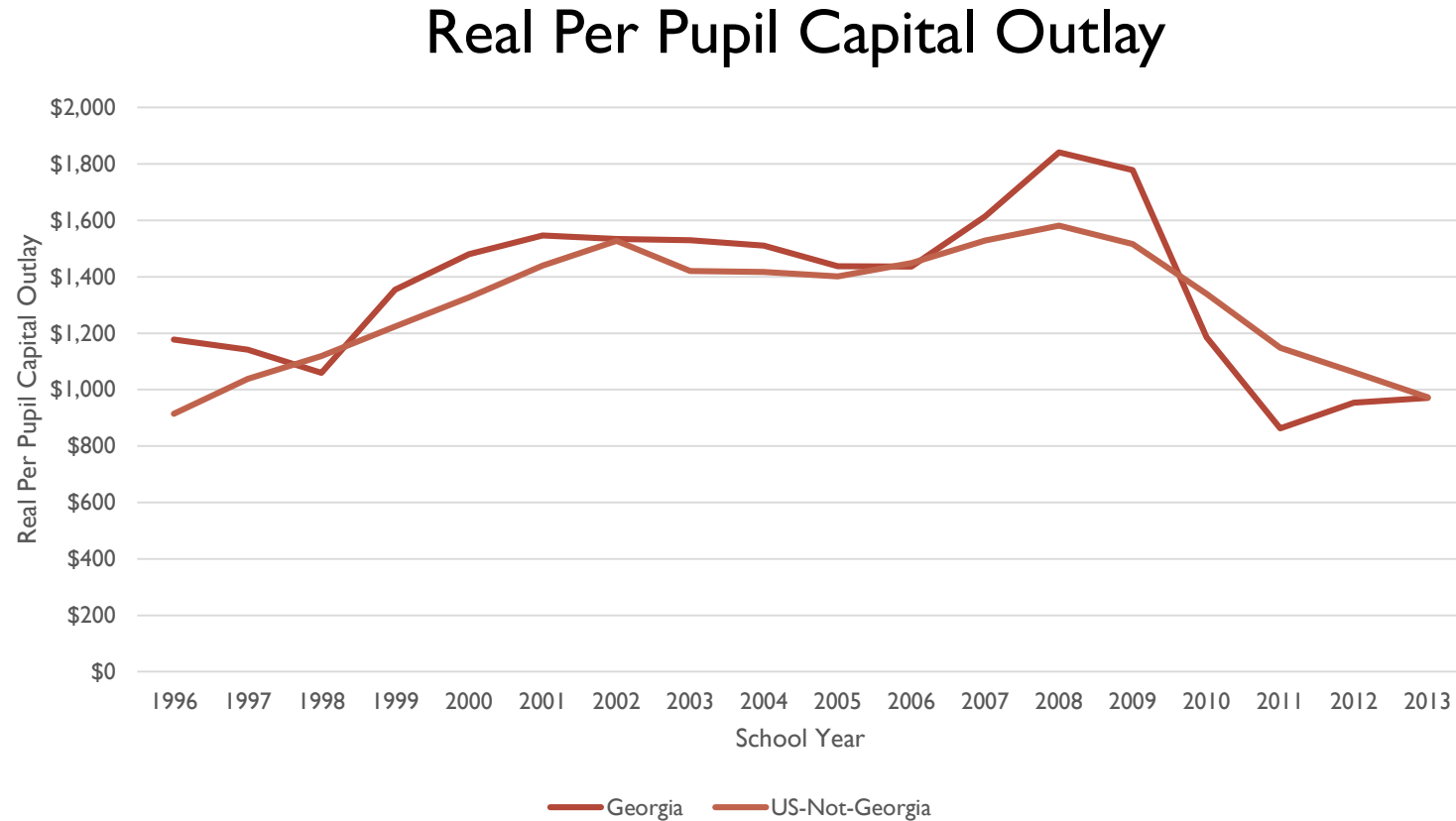
Source: National Center For Education Statistics F-33 Data Files  
Inflation adjusted to 2013 dollars using the Producer Price Index for Construction





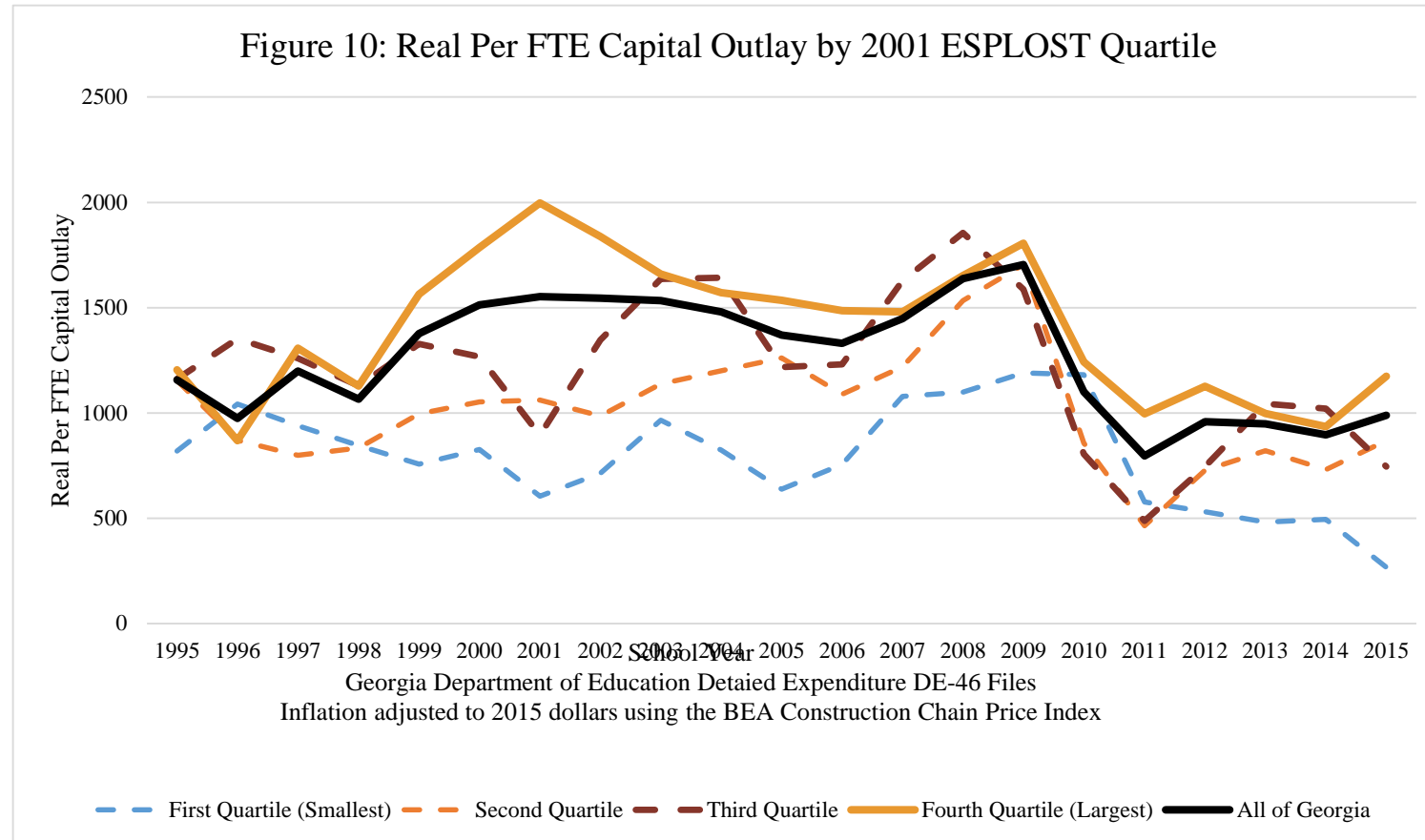
# ESPLOST and Capital Outlay

# How has the ESPLOST affected school district debt levels?



Source: National Center For Education Statistics F-33 Data Files  
Inflation adjusted to 2013 dollars using the Producer Price Index for Construction

# How does ESPLOST affect Capital Outlay?





# ESPLOST and Facilities

# Has ESPLOST an effect on the condition and type of facilities?

- Has 20 years of vastly different levels of available ESPLOST led to districts with systematically different facilities.
  - Types of Facilities
    - ESPLOST “rich” school districts could have just invested more into their facilities than the ESPLOST “poor”.
      - Policy makers in Georgia often refer to this as the Taj Mahal ESPLOST affect.
  - Condition of facilities
    - ESPLOST “poor” school districts could have fallen behind ESPLOST “rich” districts in maintaining adequate facilities.
      - Policy makers in Georgia anecdotally discuss the dismal condition of schools in rural areas citing their inability to raise ESPLOST revenues.

# Has ESPLOST an effect on the condition and type of facilities?

- Potential data source:
  - Building space level data provided by The Georgia Department of Education's Facilities and Transportation Department
    - Detailed cross-sectional data that describes every room (space) for all facilities in Georgia in school year 2014-2015.
    - For each of these spaces we know it's size, use, and if it has ever changed its use over time.
    - For each building we know the year it was constructed and for each facility (typically a group of buildings that represents a school) we know the reported needed/planned investment reported on the district's previous capital assessment.

# Has ESPLOST an effect on the condition and type of facilities?

- Building Space data
  - Pro's
    - Very detailed and could allow for apples to apples comparison across school districts regarding the size and type of facilities that school districts have
  - Con's
    - As a cross section it does not include across time variation. Before and after the establishment of ESPLOST would be preferred.

# Has ESPLOST an effect on the condition and type of facilities?

Multiple Regression Models: Instructional SQFT per FTE by Regions					
VARIABLES	Rural	Town	Suburb	City	Total
ESPLOST_PFTE	0.0132** (0.00654)	-0.0143 (0.0217)	0.00652 (0.00984)	0.00645 (0.0124)	0.0111*** (0.00284)
FTE_GROWTH	-2.541* (1.454)	-0.610 (3.001)	-2.909* (1.389)	-4.858 (2.916)	-1.396** (0.569)
SUBURB					2.352 (4.155)
TOWN					2.885 (3.370)
RURAL					4.416 (3.127)
Constant	63.09*** (11.48)	57.97* (29.40)	97.96*** (10.65)	71.93*** (18.43)	17.65*** (6.207)
Observations	114	37	14	14	179
R-squared	0.358	0.354	0.693	0.646	0.233

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1



# Has ESPLOST an effect on the condition and type of facilities?

Multiple Regression Models: Non-Instructional SQFT per FTE by Regions					
VARIABLES	Rural	Town	Suburb	City	Total
ESPLOST_PFTE	0.0124*** (0.00380)	0.0136 (0.00904)	0.00995 (0.00645)	-0.000142 (0.00832)	0.0111*** (0.00284)
FTE_GROWTH	-1.677** (0.846)	-0.145 (1.252)	-1.094 (0.912)	-2.347 (1.955)	-1.396** (0.569)
SUBURB					2.352 (4.155)
TOWN					2.885 (3.370)
RURAL					4.416 (3.127)
Constant	20.81*** (6.673)	14.91 (12.26)	36.55*** (6.990)	15.73 (12.36)	17.65*** (6.207)
Observations	114	37	14	14	179
R-squared	0.224	0.224	0.545	0.796	0.233

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1