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## RECENT CHANGES IN STATE AND LOCAL FUNDING FOR EDUCATION IN GEORGIA

Relative to previous recessions, the 2001 recession was short and weak. Even so, it had a significant effect on the fiscal conditions of U.S. state and local governments, including Georgia. In this Policy Brief we examine how the 2001 recession affected K-12 state and local education spending in Georgia.

Since we are interested in the role of state and local governments, we consider state revenue (via grants) to local school systems and own source revenues raised by local school systems, excluding federal funds. The data are obtained from the annual revenue reports prepared by the Georgia Department of Education (GDOE). All values are expressed in real (inflation adjusted) terms, and years refer to school years ending in the year specified.

### Georgia Trends in K-12 Expenditures

Figure A presents state real revenue per student, local real revenue per student, and state plus local real revenue per student for Georgia using the GDOE data. From 1996 through 2002, state real revenue per student increased and increased at about the same rate as local real revenue per student. However, beginning in 2002 state real revenue per student fell, and fell until 2005, at which point it began to increase again. Local real revenue per student increased nearly every year

between 1996 and 2007, the exceptions being between 1997 and 1998 and between 2004 and 2005. Total state revenue per student follows a pattern similar to state revenue per student.

Over the period 1996 to 2002, state, local, and total revenue per student increased at roughly the same rate. Real state revenue per student increased at a rate of 2.88 percent per year, real local revenue per student increased at 2.94 percent per year, and real total revenue per student increased 2.90 percent per year. However, over the more recent 2002-2005 period, real state revenue per student fell 5.86 percent per year and local revenue per student was essentially flat, so total revenue per student fell at an annual rate of 3.42 percent.

The pattern of change in the post-recession years in state and local revenue per student across Georgia was not uniform, and not all school systems experienced decreases in revenue per student after the recession hit. The major discretionary fiscal change that a school system can make is to its property tax rate. Locally raised revenue per student can change from year to year, but this depends on both economic conditions and the ability and willingness of local school systems to make

discretionary changes to tax rates. Changes in state revenue per student to local school systems (e.g., grants) can be due to several factors, including an increase or decrease in the appropriation for state education aid and changes in basic aid received through the Quality Basic Education program (QBE) due to changes in the value of a district's five mill local required contribution.

We turn now to a descriptive analysis of how state and local real revenue per student changed since 1996, but focus on the post-2001 recession period. We start with consideration of the change in state plus local revenue per student. Table A shows the number of Georgia school systems that experienced increases and decreases in total (state plus local), state, and local real revenue per student for each year from 1996 to 2007. (Data were not available for all years for two districts, Gainesville City and Hancock County, so in some tables we report information for only 178 of the 180 school districts.) For 2000 to 2001, i.e., the year prior to the 2001 recession, only 28 school systems reported a decrease in total real revenue per student. With the onset of the 2001 recession, the number of school systems that experienced a decrease in total real revenue per student increased; 131 (or 73.6 percent) reported a decrease in total real revenue per student between 2002 and 2003, 155 (or 87.1 percent) reported a decrease between 2003 and 2004, and 168 (93.3 percent) reported a decrease between 2002 and 2005.

Figure B is a plot of state plus local revenue per student in 2005 against the same variable for 2002, adjusted for inflation. The solid line represents points for which revenue per student in the two years are equal; points below the solid line represent school systems for which 2005 state plus local revenue is less than 2002 revenue, adjusted for inflation. As can be seen, those school systems that had the largest decreases in total revenue per student generally were those systems that were spending larger amounts per student in 2002.

For the period 2000 to 2007, there were no school systems that did not experience a decrease in total real revenue per student in any year, and only 4 systems that experienced only one year in which total real revenue fell. Twenty-five systems had 2 years of declining total real revenue per student, 71 had 3 years, and 78 experienced a decrease in total real revenue per student in at least 4 of the 7 years.

Turning to changes in state revenue per student. Most (176) school systems experienced a decrease in state revenue per student between 2002 and 2005, adjusted for inflation. The number of school systems that reported a decrease in state

revenue per student fell to 20 for the period 2006-2007, approximately the number that reported a decrease between 2000 and 2001, or just before the recession. The larger decreases in state revenue were experienced by school systems with the larger total revenue per student in 2002.

There were more school systems that had an increase in local revenue per student between 2002 and 2005, adjusted for inflation, than had an increase in state revenue per student. Between 2002 and 2005, 75 school systems had a decrease in local revenue, while 105 systems had an increase in local revenue. Most systems had increases or decreases in local revenue between 2002 and 2005 of less than \$500 per student. In three cases the change exceeded \$1,000. In general, those school systems with the smallest local revenue per student in 2002 had the largest percentage increase in local revenue over the period.

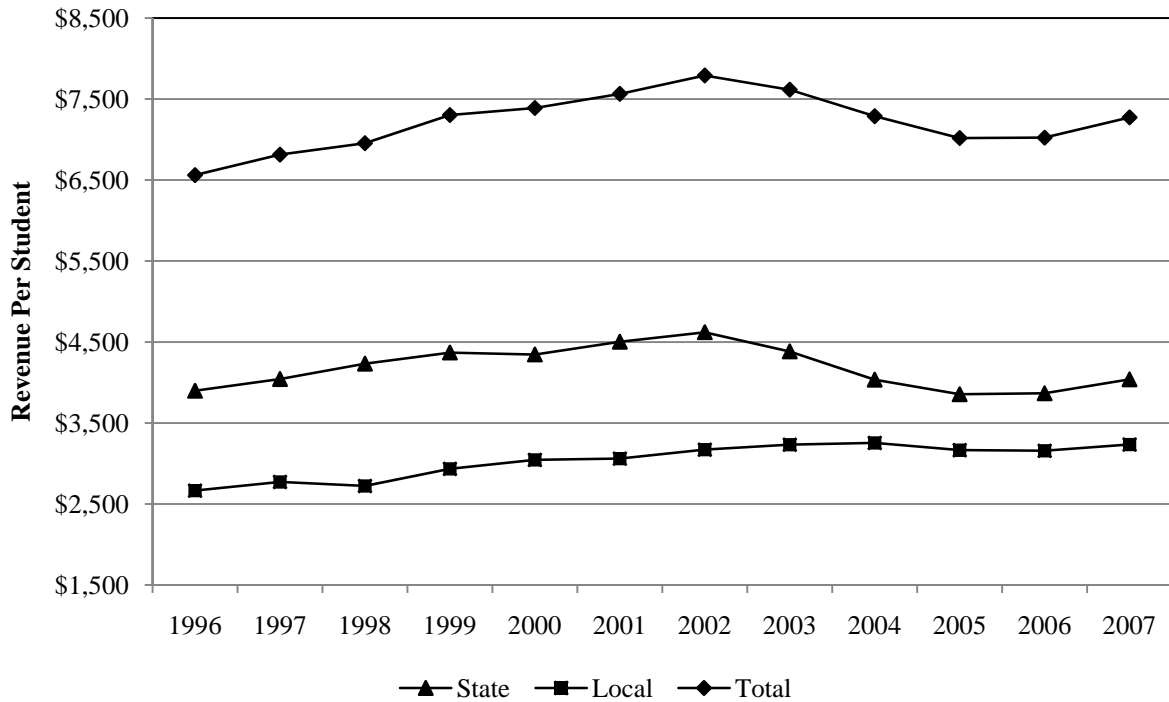
### **Local School Systems' Responses to State Revenue Reduction**

We turn now to consideration of whether school systems attempted to replace the reduction in state revenue per student in an attempt to hold total real revenue per student constant. Table B shows the distribution of school systems that had increases and decreases in real state or local revenue per student between 2002 and 2005. (The year 2002 was the year before state revenue per student began to fall, while 2005 was the year that state revenue per student was the smallest in the post-2001 period.) Over this period, 176 school systems had a decrease in state revenue per student, adjusted for inflation; of these, 101 increased local revenue. However, 75 of the 176 systems reduced local revenue, and thus clearly did not attempt to replace lost state revenue. Furthermore, as noted above, only 12 school systems did not experience a decrease in total revenue per student. It is clear that very few school districts replaced the reduced state revenue. By way of comparison, in the 1997 to 1999 period, 146 school systems increased local revenue.

The 2001 recession had a negative effect on real state revenue per student. Many school systems did increase local revenue over the period 2002 to 2005, and the increase was larger the greater the decrease in state revenue per student. However, very few local school systems increased local revenue sufficiently to fully offset the decrease in state revenue.

We also compared the annual change in real local revenue per student over the two periods, 1996-2002 and 2002-2005. Typically the increase in the earlier period was larger than the change in the second period. In fact, 115 school systems had larger annual increases in local revenue per student, adjusted for inflation, in the first period than the second period.

**FIGURE A. REVENUE PER STUDENT, GEORGIA (2005\$)**

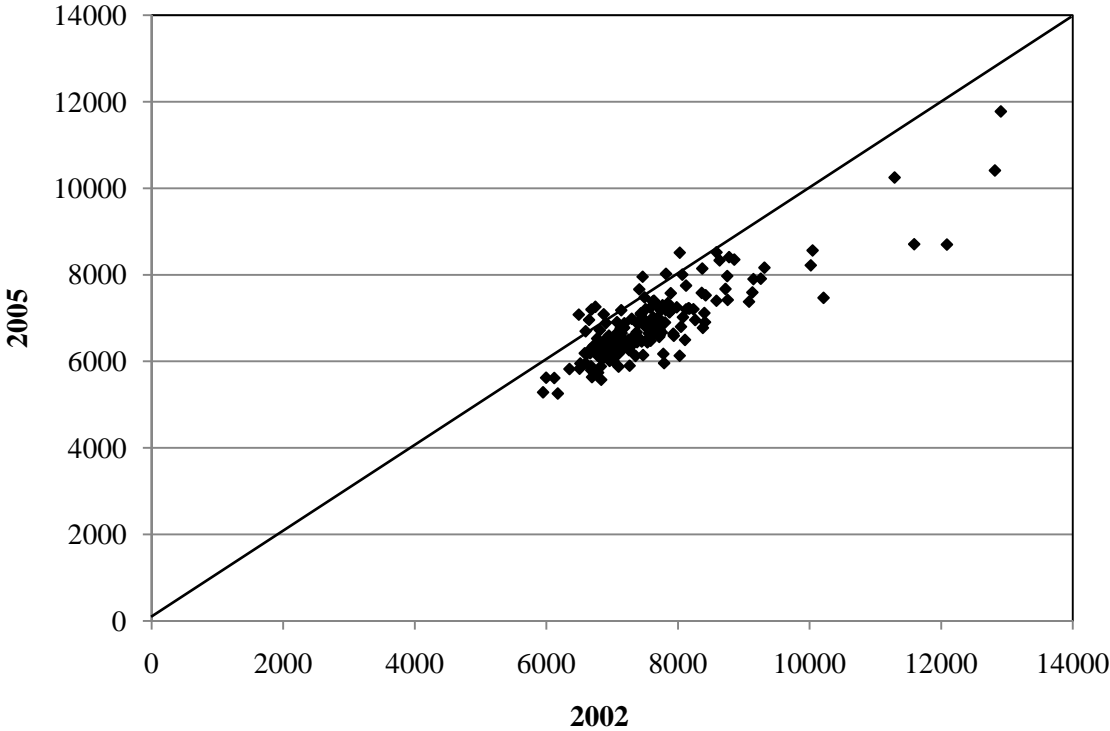


**TABLE A. SCHOOL SYSTEMS BY NATURE OF CHANGE IN REAL REVENUE PER STUDENT**

Period	-----State + Local-----		-----State-----		-----Local-----	
	Increases	Decreases	Increases	Decreases	Increases	Decreases
1996-1997	118	60	100	78	133	45
1997-1998	152	26	161	17	79	99
1998-1999	165	13	150	28	157	21
1999-2000	122	56	100	78	126	52
2000-2001	150	28	156	22	97	81
2001-2002	148	30	145	33	102	76
2002-2003	47	131	21	157	87	91
2003-2004	23	155	11	167	110	68
2004-2005	28	150	21	157	68	110
2005-2006	91	87	75	103	97	81
2006-2007	158	20	158	20	114	64

Source: Calculations by authors from Georgia Department of Education, Annual Revenue Reports.

**FIGURE B. LOCAL PLUS STATE REVENUE PER FTE**



**TABLE B. CHANGE IN REVENUE PER STUDENT, 2002 TO 2005**

	-----State-----		Total
	Increase	Decrease	
<b>Local</b>			
Increase	4	101	105
Decrease	0	75	75
Total	4	176	180

Source: Calculations by authors from Georgia Department of Education, Annual Revenue Reports.

We also attempted to explain the relationship between state revenue changes and local revenue more systematically using regression analysis. The dependent variable is the level of local real revenue per student. Since we are interested in the extent to which local school systems increased local revenues to offset declines in state revenues, the independent variable of interest is state real revenue per student. Another independent variable is the real property tax base per student. We also estimate equations that include a time trend, year dummy variables, year dummies interacted with state real revenue per student, and state revenue per student interacted with a dummy variable equal to one for the post-recession years 2003 through 2005 in which state revenue per student declined.

In all regressions, the coefficients on state revenue per student are negative and statistically significant, which is consistent with the hypothesis that lower state revenue per student results in school systems increasing local revenue per student. The coefficients suggest that a dollar reduction in state real revenue per student causes local school systems to increase real revenue per student, but only by about 40 cents. For the period, 2002-2005, the increase in real revenue per student per dollar decrease in real revenue per student was somewhat smaller, about 30 cents. Also, the coefficients on the property tax base are positive and statistically significant in all five regressions, which is consistent with the expectation that school systems with greater property tax wealth per student generate greater local revenue per student.

### **Summary and Conclusions**

How did the 2001 recession affect education spending in Georgia, and how did local school districts respond? Our analysis indicates that most school systems in Georgia experienced a decrease in real revenue per student during the 2002 through 2005 period, and indeed that the reductions in state plus local and in state real revenue per student were greater in Georgia than the U.S average. However, not all Georgia school systems suffered a decrease, and the decreases (when they occurred) varied widely across the state's school systems. Of greater interest is whether local school systems responded to the reduction in state real revenue per student by increasing local real revenue per student. Thus, the extent to which local school systems choose to replace reduced state aid is a discretionary decision based on economic and political factors. Our results suggest that Georgia local school systems responded inversely to changes in state real revenue per student, increasing local

revenues when state revenues decline but not by enough to fully replace reduced state revenue.

### **ABOUT THE AUTHORS**

**James Alm** is a Professor in the Department of Economics in the Andrew Young School of Policy Studies; previously he has served as Chair of the Department of Economics and as Dean of the School. Much of his research has examined the responses of individuals and firms to taxation, in such areas as the tax treatment of the family, tax compliance, tax reform, the line item veto, social security, housing, indexation, and tax and expenditure limitations. He has also worked extensively on fiscal and decentralization reforms overseas. He is Editor of *Public Finance Review* and an Associate Editor of *Economics-Ejournal* and of *Review of Economics of the Household*.

**David L. Sjoquist** is Professor of Economics, holder of the Dan E. Sweat Distinguished Scholar Chair in Educational and Community Policy, and Director of the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. He has published widely on topics related to state and local public finance and urban economics. He holds a Ph.D from the University of Minnesota.

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