



# POLICY REPORT

South Carolina Policy Council

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## Behind the Myths:

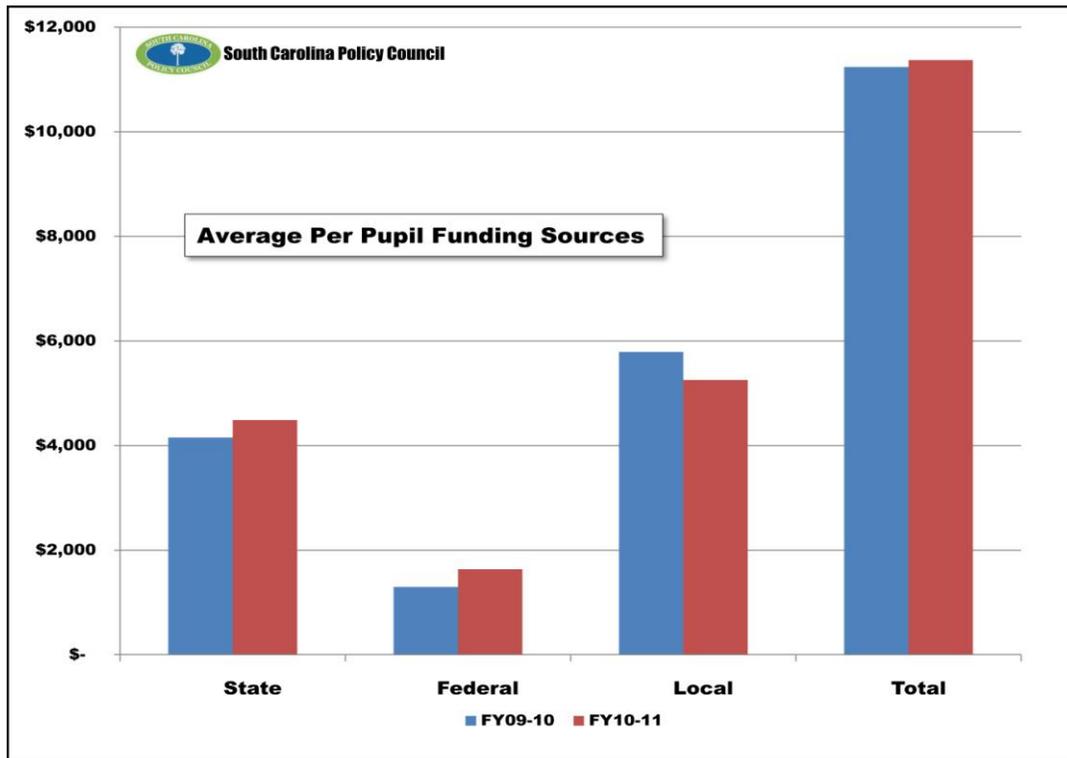
### Education Spending Up 20 Percent Since Start of Recession

The ongoing practice of keeping state spending high, especially in the midst of the “Great Recession” that has lowered the standard of living for many South Carolinians, depends upon the perpetuation of a number of myths. The first of these is that the state budget is only \$5 billion. In fact, it’s [\\$21 billion](#). This myth makes possible a second: that the budget has been drastically cut over the past few years. In fact, overall spending has increased, and the FY10-2011 budget is the [largest in state history](#). A third myth, accepted as fact by almost everyone, is that education funding, in particular, has been cut. The truth is that K-12 spending increased this past year and is up by nearly 20 percent since the beginning of the recession in 2007.

#### *What does education spending include?*

Education spending is derived from three primary sources: federal, state and local revenue. As delineated ([proviso 1.3](#)) in the FY10-2011 budget, these three sources combined make up what is referred to as average per pupil funding. In FY10-2011 alone, such funding increased by \$130 to \$11,372 per student, even as projected enrollment increased by 2,487 students.

Figure 1: Average Per Pupil Funding: FY10 to FY11



In other words, the projected total K-12 education budget is almost \$8 billion (\$7,895,613,716) for FY10-2011. Compared to last year, the K-12 budget has increased by 2 percent, or \$118.9 million.

In terms of per pupil funding, both state and federal funding increased for FY2011 while local funding declined.

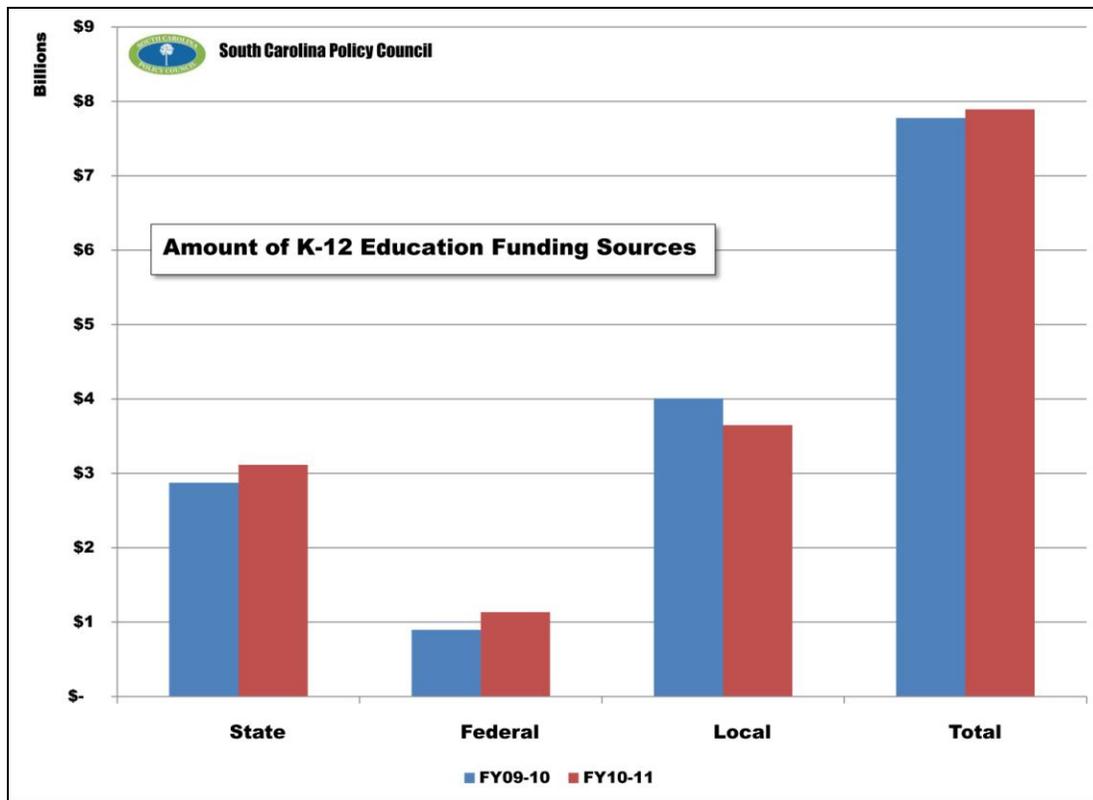
**Per Pupil Spending: FY09-2010 to FY10-2011**

	Dollar Amount	Percentage	FY10-2011 Dollar Amount
<b>State</b>	↑ \$332	↑ 8 percent	\$4,485
<b>Federal</b>	↑ \$337	↑ 26 percent	\$1,633
<b>Local Funding</b>	↓ \$538	↓ 9 percent	\$5,254

**Total Aggregated Education Spending: FY09-2010 to FY10-2011**

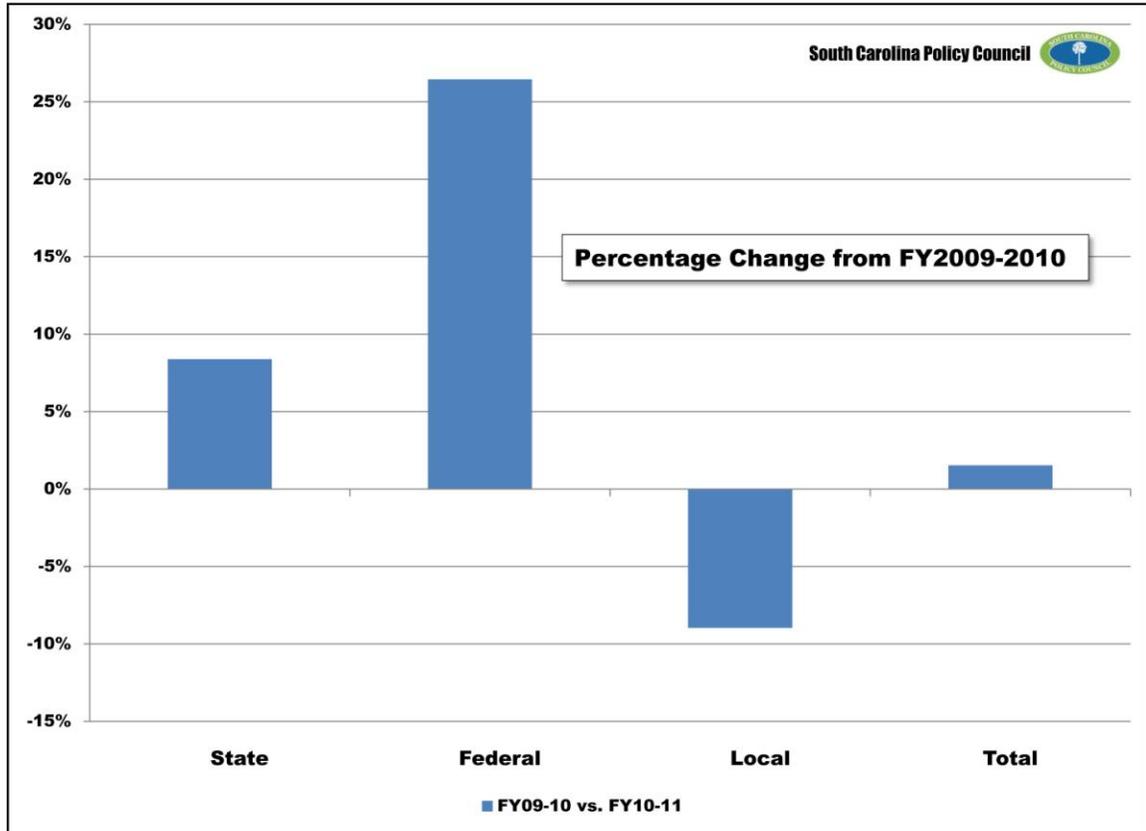
	Dollar Amount	Percentage	FY10-2011 Dollar Amount
<b>State</b>	↑ \$240.837 million	↑ 8 percent	\$3.114 billion
<b>Federal</b>	↑ \$237.203 million	↑ 26 percent	\$1.113 billion
<b>Local Funding</b>	↓ \$359.130 million	↓ 9 percent	\$3.643 billion

**Figure 2: K-12 Education Funding Sources (Billions of Dollars)**



Although federal funding makes up the smallest component of total education spending, such funding increased rapidly in FY10-2011, rising by 26 percent. Likewise, state funding increased by 8 percent. Total funding increased by 2 percent. Local funding decreased by 9 percent; albeit in some counties local bond revenue is being used to supplement cuts in instructional spending.

**Figure 3: Percentage Change in Education Funding from FY09 to FY10**



So why are we being told education spending is down? More specifically, why did Secretary of Education Jim Rex recently claim that education spending has been [cut by 20 percent](#) since 2007—that is, since the beginning of the current recession?

In short, Rex is referring specifically to Department of Education (DOE) spending—not total K-12 spending. And, DOE spending *is* down. Department of Education appropriations were cut 16.4 percent from FY09-2010 to FY10-2011 (from \$3.383 billion to \$3.098 billion). Overall, the DOE budget has decreased by \$629.6 million, or 16.89 percent, since FY07-2008.

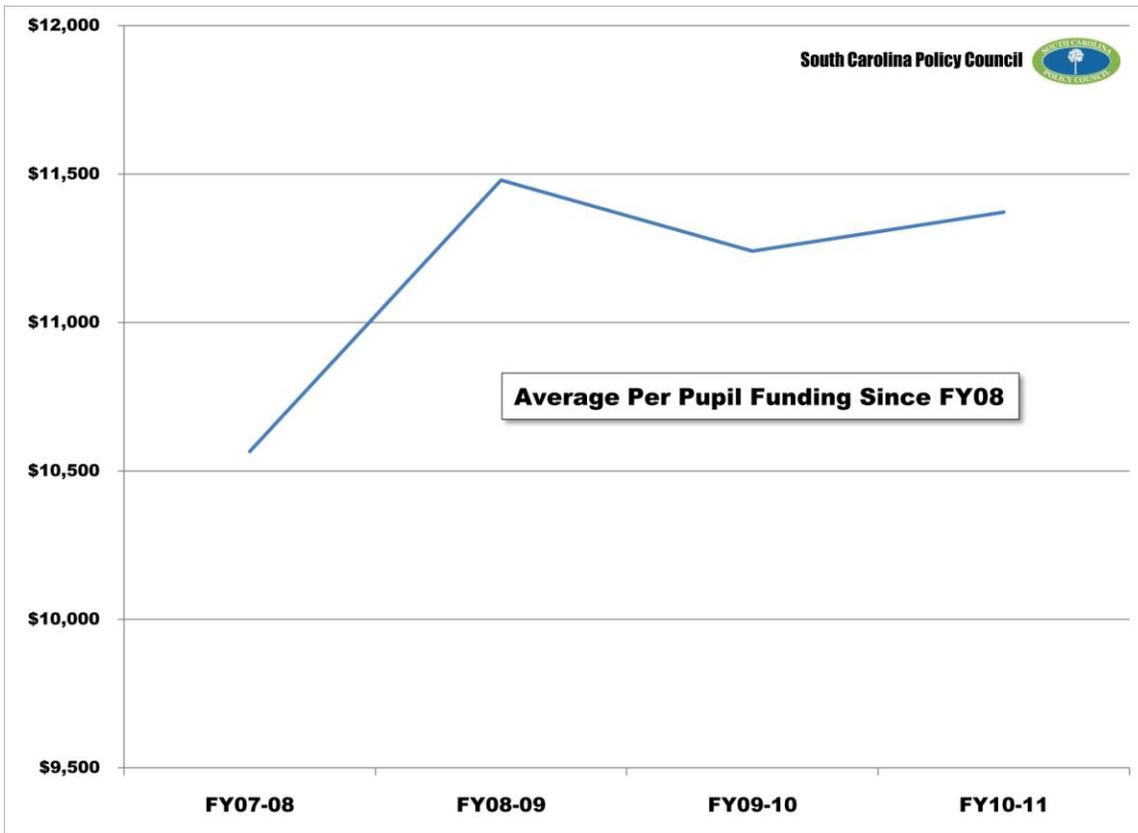
But DOE appropriations only account for about half of total K-12 spending. Specifically, they exclude other K-12 education funding sources—such as local funding, bond revenues, intergovernmental transfers, and other miscellaneous accounting items. These sources historically account for at least half of all K-12 expenditures. And because average per pupil spending includes all of these sources, excepting bond revenue, it is a more accurate measure of total education spending.

*Education Spending Increases Even During Recession*

Thus we find that since the beginning of the current recession, total education spending has increased.

- For [FY07-2008](#), average per pupil funding was \$10,566
- For FY10-2011, it is \$11,372
- Total increase: 8 percent

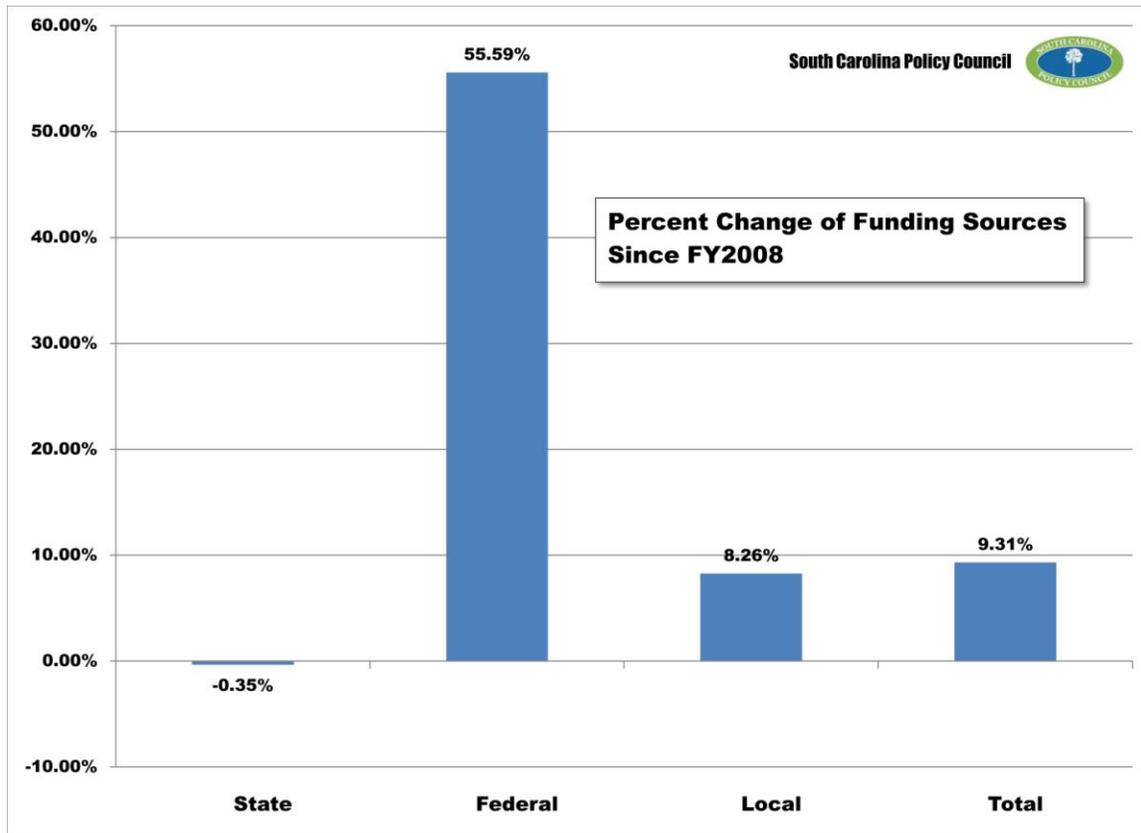
**Figure 4: Average Per Pupil Funding Since Start of Recession**



In aggregated monetary terms, K-12 spending has jumped from \$7,222,928,166 to \$7,895,613,716, or by 9.31 percent since FY2008. Likewise, with the exception of state funding, all other funding sources have increased as well:

- Federal funding has gone up by 55.59 percent
- Local funding has gone up by 8.26 percent
- State funding has declined by 0.35 percent
- Total increase in aggregated per pupil funding: 9.31 percent

**Figure 5: Percentage Change of Funding Sources Since FY2008**

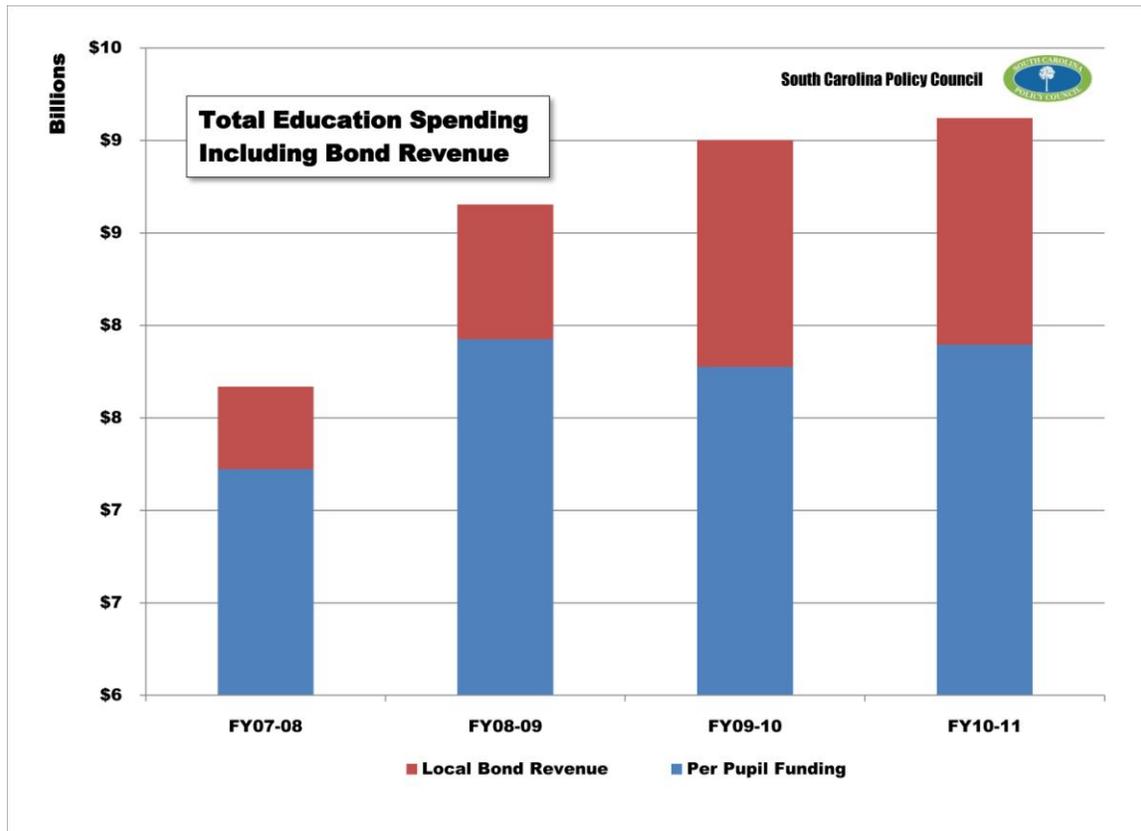


It is important to note, however, that average per pupil spending does not include local bond revenue. Once we include such revenue, total K-12 spending since the recession shows an increase of 18.94 percent for FY2011.<sup>1</sup> Such revenue is anticipated to reach \$1.226 billion for FY10-2011. Adding local bond sales to average per pupil spending results in an average per pupil expenditure of \$11,218 for FY07-2008 and \$13,138 for FY10-2011, compared to the respective appropriated amounts of \$10,566 for FY2008 and \$11,372 for FY2011.

Granted, local bond revenue has traditionally been set aside to pay for capital construction. Yet, these costs are real and add to the tax burden of South Carolina citizens. Moreover, school districts are increasingly tapping bond revenue to pay for instructional costs. During the 2010 session alone, the General Assembly granted 5 school districts special permission to use bond revenue to pay for operating and instructional costs. The governor vetoed each of these proposals, arguing that “a cardinal rule of prudent financing is that you do not fund short-term operations with long-term debt.” In every case, [local delegations overturned](#) the governor’s veto.

<sup>1</sup>Revenue for FY2011 is a projection calculated by averaging bond sale data from FY2001 to FY2009. Adding such spending to total per pupil spending results in aggregated K-12 spending of \$9,002,719,018 for FY09-2010 and \$9,121,629,078 for FY10-2011.

Figure 6: Total Education Spending, Including Local Bond Revenue: FY08 to FY11



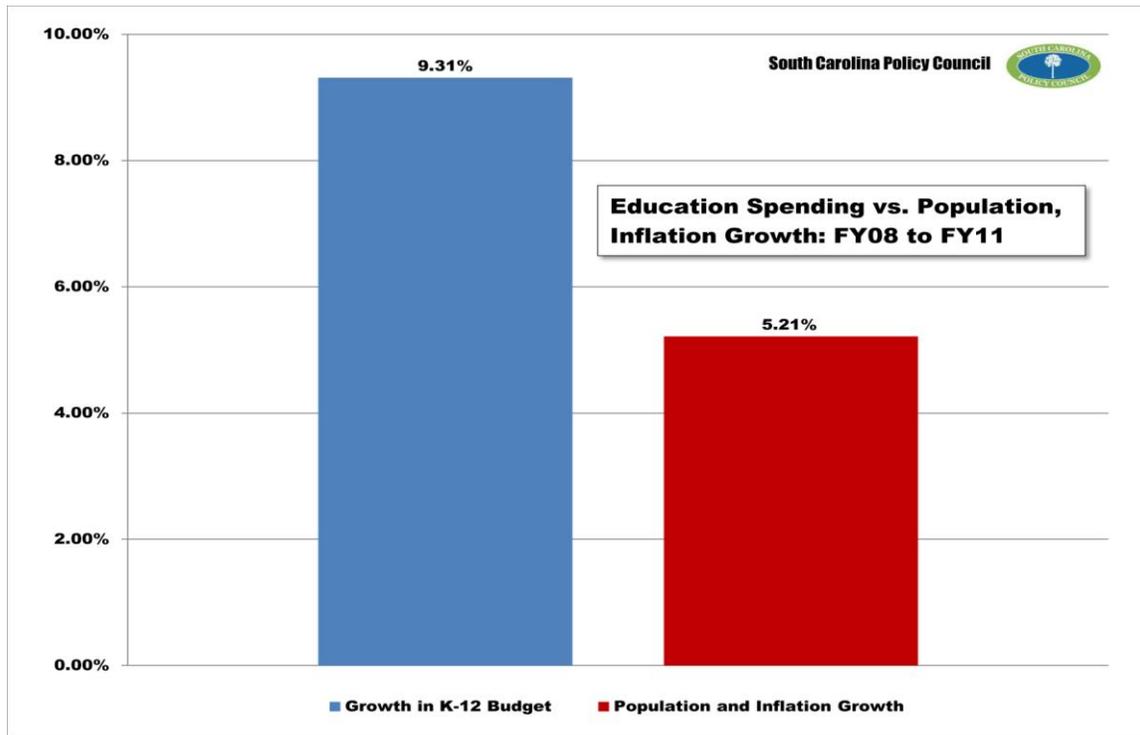
Finally, even if we exclude local bond revenue, K-12 spending has outpaced population, plus inflation, growth since December 2007.

- Population growth since FY2008 is 2.6 percent.
- Inflation growth since FY2008 is 2.62 percent.
- Combined population and inflation growth is 5.21 percent.

In translation, K-12 spending grew faster than both population and inflation combined—by 4.1 percent since the start of the recession. Likewise, spending is also growing much faster than projected enrollment. Consider that projected enrollment has only increased by 1.57 percent (10,702 students) since FY2008.

Yet during the same period, aggregated funding, as demonstrated above, jumped 9.31 percent. This means education spending has increased by \$62,856 for every new student entering the system since the 2007-2008 school year.

Figure 7: Education Spending vs. Population, Inflation Growth: FY08 to FY11



Sources: Bureau of Labor Statistics; National Consumer Price Index; S.C. Budget and Control Board, Population Estimation and Population Projection

### *Categorical Restrictions Hamper Efficient Funding*

Common sense tells us that more money should give teachers and principals more freedom to find the best ways to educate their students, but that will not be the case for the 2010-2011 school year. Even though total education funding has increased, that does not mean schools will have more money to reward good teachers or pursue innovative instructional techniques. This is because education dollars come to school districts and schools in one of two ways: unrestricted or restricted.

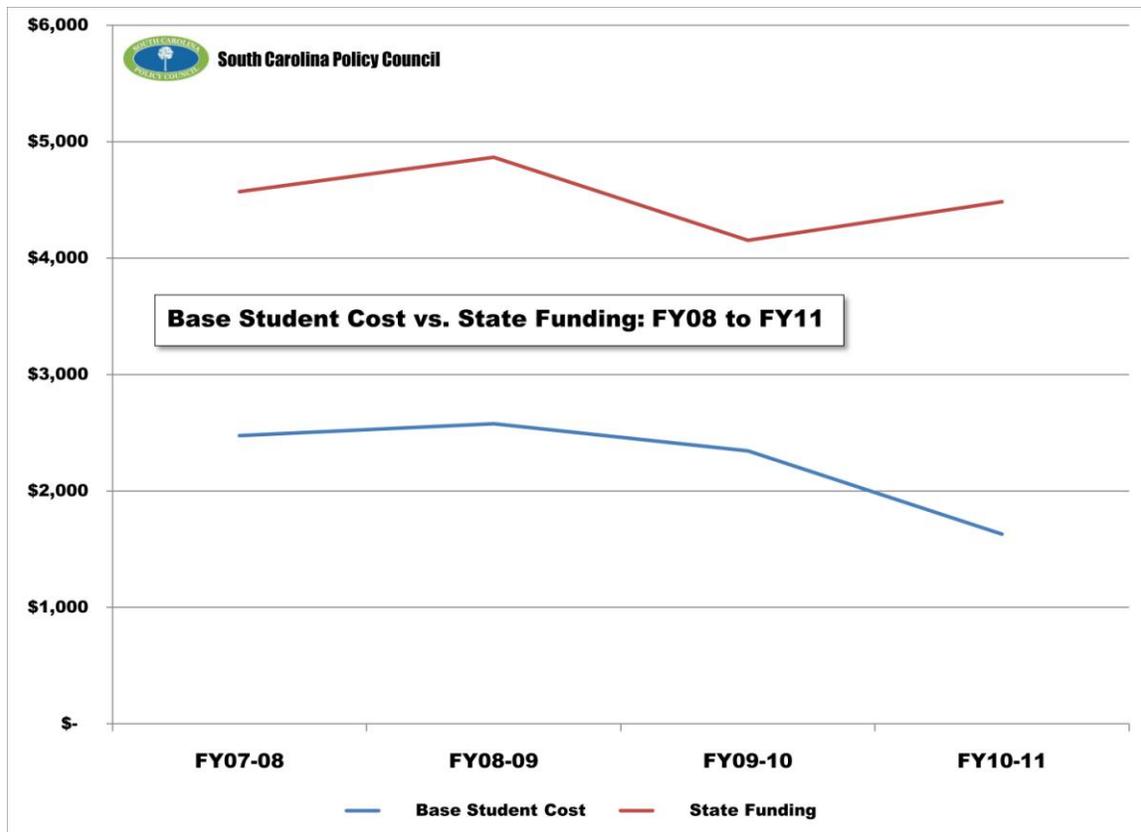
For all practical purposes, federal funding is restricted. Yet, as indicated above, the federal contribution to K-12 education spending is increasing rapidly—by 26 percent in the last year alone. Currently, federal funds make up 14 percent of total education funding whereas they accounted for less than 10 percent in FY05-2006. This increasing reliance on federal dollars is problematic because federal funding is subject to Title I (of the Elementary and Secondary Education Act) guidelines and other categorical funding requirements (e.g., Reading First or the Mathematics and Science Partnership Program). In other words, more federal funds do not necessarily translate into more dollars for day-to-day instructional use. Likewise, it goes without saying that federal dollars are not “free,” but come out of the wallets of all U.S. taxpayers.<sup>2</sup>

<sup>2</sup>In fact, every dollar increase in federal aid results in an increase in state spending of 66 cents (cf. Owings & Borck, 2000).

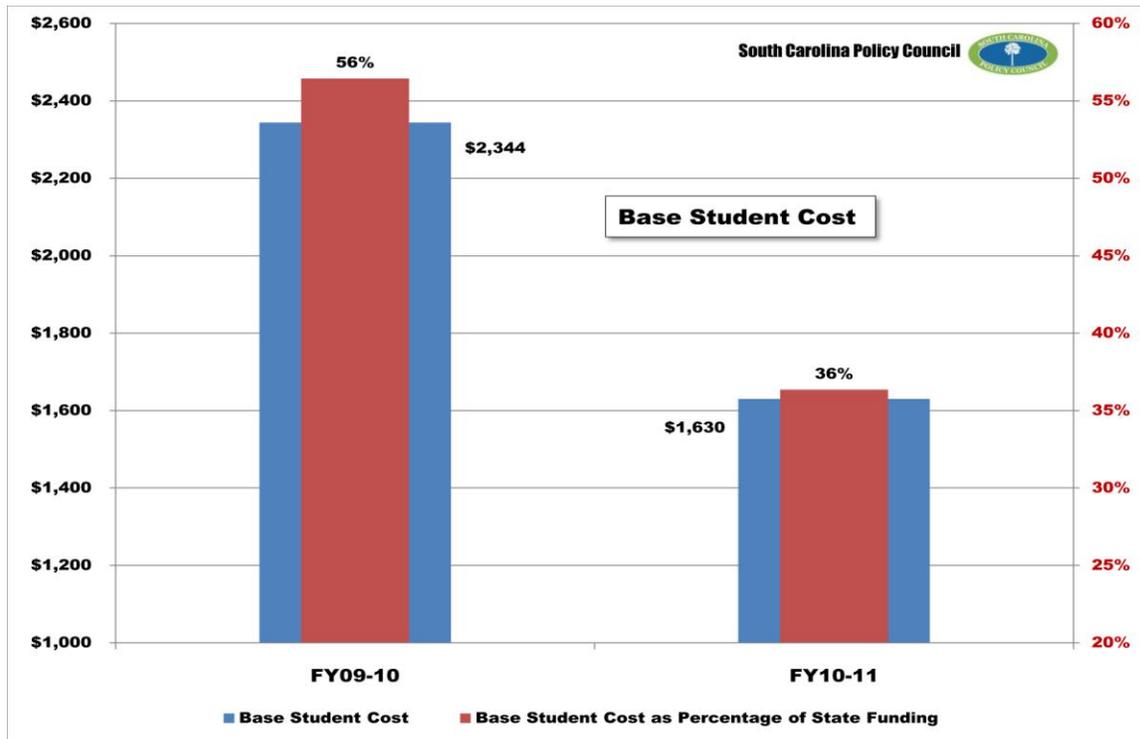
State funding controlled by the Education Finance Act (EFA) is essentially unrestricted. As [Hassel and Roza \(2007\)](#) indicate, such funding accounted for 55 percent of state education spending in FY05-2006. The remaining 45 percent of state education funds were classified as restricted. As such, they are assigned on a categorical, or programmatic, basis and can only be used for specific programs, such as Arts in Education, EAA Technical Assistance, or the “iAm” Student Laptop Program.

Over the past few years, however, one of the essential components of the EFA—the “Base Student Cost” assigned to every student—has declined substantially. For FY10-2011, the Base Student Cost is \$1,630 per student, down \$714, or 31 percent, from last year’s \$2,344. Moreover, while Base Student Cost accounts for 36.3 percent of state K-12 funding for FY10-2011, last year it made up nearly half of such funding. This decline in Base Student Cost indicates that more and more dollars are coming to schools as restricted funds. Consequently, principals and school districts are now even more hand-tied in terms of how they allocate monetary resources. Thus, we are faced with the irony that even as education spending has skyrocketed by 20 percent over the past few years, some school districts are still furloughing teachers and other employees.

**Figure 8: Base Student Cost vs. State Funding During Recession**



**Figure 9: Base Student Cost as a Percentage of State Education Funding**



**Conclusion**

As demonstrated above, it is a myth that education spending has been slashed during the current recession. This myth is being perpetuated by the assumption that more money automatically translates into better educational outcomes. But this also is not true. Instead of focusing on how to increase education funding, South Carolina lawmakers need to begin to look at how to better use the resources we already have. In particular, the elimination of categorical funding restrictions would enable schools to use per pupil funding in the most effective manner. Otherwise known as weighted student funding, this one reform would not only make education funding in South Carolina more efficient, equitable and transparent, it would also transform schools into innovative learning centers focused on the specific needs of each student. By contrast, blindly increasing education funding is not going to improve student performance. In the real world, better results in education will require smarter thinking about how we fund education.

To learn more about weighted student funding, visit us at [unleashingcapitalismsc.com](http://unleashingcapitalismsc.com)

*Nothing in the foregoing should be construed as an attempt to aid or hinder passage of any legislation.  
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