

MEMORANDUM

TO: Atlanta Public Schools Board of Education, Atlanta City Council, and Fulton County Commissioners

FROM: Amy Snider

DATE: March 15, 2015

RE: Financial Actions to Reduce Impact of BeltLine TAD on Atlanta Public Schools

Atlanta is under pressure to find swift means to improve deteriorating and inadequate public transit. In 2005, the City, County of Fulton, and Atlanta Public Schools undertook the creation of an ambitious 22-mile light rail project known as the Atlanta BeltLine. Facing public resistance to higher taxes, the partners pursued a funding scheme known as tax increment financing, or Tax Allocation District. However, since its implementation, the BeltLine TAD has detrimentally impacted the financial health of Atlanta Public Schools. If the project is to succeed without capsizing a steadily sinking school system, the City must resume PILOT payments to Atlanta Public Schools, Board of Education must consider shared service with Fulton County Public Schools, and the State needs to repeal the Education Taxes for Redevelopment Act and remove the millage rate cap.

THE ATLANTA BELTLINE

The Atlanta metropolitan area is projected to increase in population by 23% from 2015 to 2025 (Fig. 1). More inhabitants requires additional public transportation infrastructure. Georgia is highly unprepared to meet growth in demand. The American Society of Civil Engineers rated Georgia's public transit a D-, noting in particular the need to expand Atlanta region transit due to higher anticipated ridership.ⁱ

The Atlanta BeltLine project is Atlanta's attempt to improve public transit. The BeltLine (Fig. 2) will encircle the city center, stretching 22 miles through 45 neighborhoods. When completed, light-rail, parks, and multi-use trails will surround Atlanta, closing the gap between two highway systems and the current Metro Atlanta Regional Transportation Authority heavy rail system.

One-third of \$4.39 billion in expected BeltLine costs is to be funded through tax increment financing, referred to in Georgia as Tax Allocation Districts. The Georgia Redevelopment Powers Act empowers municipalities to create TADs in areas with blight, deterioration, or inadequate infrastructure.ⁱⁱ Upon implementation, a TAD freezes the property tax base in the designated area, although millage remains adjustable. The BeltLine TAD froze assessed value at \$542 million, in 2005 present value terms, for 25 years.ⁱⁱⁱ Any property assessment value increase beyond \$542 million is used to levy property taxes specifically to fund the BeltLine.

NEGATIVE EFFECT ON ATLANTA PUBLIC SCHOOLS

The Atlanta BeltLine Tax Allocation District absorbs a small, but significant amount of Atlanta Public School's property tax revenue. The Education Taxes for Redevelopment Act amended the Georgia Constitution to allow use of school tax to fund development projects "notwithstanding [the Educational Purpose Clause]".^{iv} TADs override Constitutional reservation of school tax funds solely for "support and maintenance of public schools, public vocational-technical schools, public education, and activities necessary or incidental thereto, including school lunch

purposes".^v The amendment has major implications for Atlanta Public Schools, as 15% of its assessment base is legally reserved for the BeltLine and other TAD projects, limiting the district's spending ability.^{vi}

The BeltLine TAD received \$55.5 million—approximately \$9.25 million annually—in school tax revenue from 2006 to 2013.^{vii} Atlanta Public Schools annually receives over \$400 million in property tax revenue (Fig. 3). The BeltLine project consumes 2% of 2014-2015 school property tax revenue (Fig. 4). The cut is pronounced, as the district relies on property tax to provide 69% of total school funding (Fig. 5). In 2013, the \$9.25 million redirected to the BeltLine would have fully covered the 4% district-wide salary increase. In 2014, the revenue loss was four times the amount of federal aid provided.

Atlanta BeltLine, Inc., the nonprofit managing BeltLine TAD, claims the “financial impact of school district consent to individual TADs... is relatively small” due to Atlanta Public Schools’ large size.^{viii} It assumes economy of scale minimizes the BeltLine’s impact, ignoring additional costs associated with the district’s socioeconomic composition. 77% of Atlanta Public School students receive free or reduced lunch, while 9% have a diagnosed learning disability (Fig. 6). Educational cost research from New York school districts with comparable demographics revealed educating a large low-income population necessitates on spending average 51% more per low-income pupil to achieve student performance equal to an average district.^{ix}

Atlanta Public Schools lacks the revenue to adequately meet low-income students’ needs. Enrollment in Atlanta Public Schools grew by 20% between 2009 and 2015. Enrollment of low-income children grew by 6,928. Overall spending increased, but expenditures in areas crucial for student achievement declined relative to student enrollment increases. The district only hired an additional 39 teachers, or one per 247 students, since 2009.^x The district lost 4 counselors since 2009.^{xi} The student/counselor ratio is 520 students to 1 counselor or 400 low-income students to 1 counselor, well above the American Counseling Association 250 to 1.^{xii} District spending for supplies, such as textbooks and computers, decreased by 18%, despite implementation of new Common Core curriculum and enrollment growth. If not for the BeltLine’s use of school tax, the district would have \$1,335 to spend on the 6,928 additional low-income children. The district could increase the spending on school counselors by 83% and supplies by 25%.

UNFEASIBILITY OF RAISING PROPERTY TAXES

Atlanta Public Schools cannot compensate for revenue losses to the BeltLine through levying of additional property tax revenue. 15% of assessed property value is within a TAD, shrinking the district’s taxable base.^{xiii} Declining property values in non-TAD city areas since 2005 further reduces the tax base (Fig. 7). Currently, Atlanta Public Schools may tax a total assessed value of \$21.43 billion.^{xiv} Recouping the \$9.25 million funding the BeltLine requires a school millage rate from 21.64 to 22.09. Millage instead has declined over the BeltLine’s lifetime, falling from 22.64 to 21.64 (Fig. 8). Raising the millage is not feasible. A state-instituted 20 mills limit prevents any millage increase.^{xv} Declining assessed property values combined with the millage cap prevents Atlanta Public Schools from independently remedying the financial problem generated by the BeltLine.

RECOMMENDED ACTION

Atlanta Public Schools is in serious financial trouble. Use of reserve funds is temporarily delaying complete disaster, but is not viable long-term. In order to prevent district implosion, I recommend the City of Atlanta resume PILOT payments to Atlanta Public Schools, for Atlanta Public Schools shared service with Fulton County Public Schools, and for State elimination of the millage rate ceiling. Further, I urge the State to immediately repeal the Education Taxes for Redevelopment Act in order to prevent more school districts from succumbing to Atlanta Public Schools' fate.

Pilot Payments

The City of Atlanta should resume PILOT payments to Atlanta Public Schools. Supplying districts with some funds to account for tax revenue lost through TAD participation may mitigate some negative financial impact.^{xvi} In 2013 the City agreed to pay a \$162 million payment in lieu of taxes (PILOT) to the school system over 23 years to soften the district's loss of tax revenue due to the BeltLine TAD.^{xvii} However, the first three payments worth over \$22 million remain unpaid by the City-- which claims fulfillment will destroy the BeltLine project.^{xviii} Without the PILOT, the district directly absorbs the fiscal impact of the TAD. In 2014, the Board of Education closed the budget gap with \$25 million in savings.^{xix} This year the district is selling off properties to raise additional one-shot revenue.^{xx}

The City does not want to use BeltLine funds for the PILOT. \$6 million represents 15% of annual TIF revenue, less than initially predicted.^{xxi} Instead, the City could use its own property tax revenue to pay the PILOT until the BeltLine recovers. Property tax revenue comprises only 24% of total City revenue.^{xxii} The City feasibly can utilize its broad taxing authority and \$127 million in cash reserves to pay the PILOT as the BeltLine recuperates from the recession.

PILOT payments to Atlanta Public Schools could attract local investment, benefiting the BeltLine. Proponents assert the BeltLine improves school quality through eradication of blight and investment in high poverty areas.^{xxiii} Research demonstrates property values also increase with greater school expenditures.^{xxiv} Additionally, school test score increases are associated with higher house values.^{xxv} With the PILOT, the district will be able to hire additional teachers to reduce class sizes, add counselors, and purchase supplies to stay current with Common Core. These school improvements may attract investment and increase TAD property values. Rising property values directly benefit the BeltLine, as property value assessments above the base are used to fund the project.

Millage Rate Exemption

The State Legislature should amend the millage limit to exempt public schools participating in a TAD. The amendment recognizes a district, such as Atlanta Public Schools, cannot escape tax obligations to TADs after initial contractual agreement—even if it needs additional revenue during unexpected financial crises or unanticipated enrollment growth. Allowing districts with TAD contributions to exceed the millage cap provides some local revenue control. In the current funding system, districts with TADs must rely on State or Federal aid to in light of property tax revenue losses. Insufficient non-local contributions lead to deep budget cuts. At a time when the State also faces budget constraints, increasing local funding autonomy is desirable for both the State and public schools.

Shared Services

Atlanta Public Schools should pursue cost reduction through shared services with Fulton County Public Schools. Even with a millage rate exemption and PILOT payment, the district will face a budget gap of approximately \$6.5million. Continued use of reserve funds to close the gap is poor financial practice. The district should consolidate some services overlapping with those within the County district. Research identifies purchasing and insurance as two common, cost-saving shared services among school districts.^{xxvi} Currently Atlanta Public Schools allocates \$1million to purchasing, \$1.9million to property insurance, and \$21million in life, health, and workers' compensation benefits. While these costs will not disappear, a larger economy of scale due to combination with Fulton County will likely reduce cost.

Repeal Education Taxes for Redevelopment Act

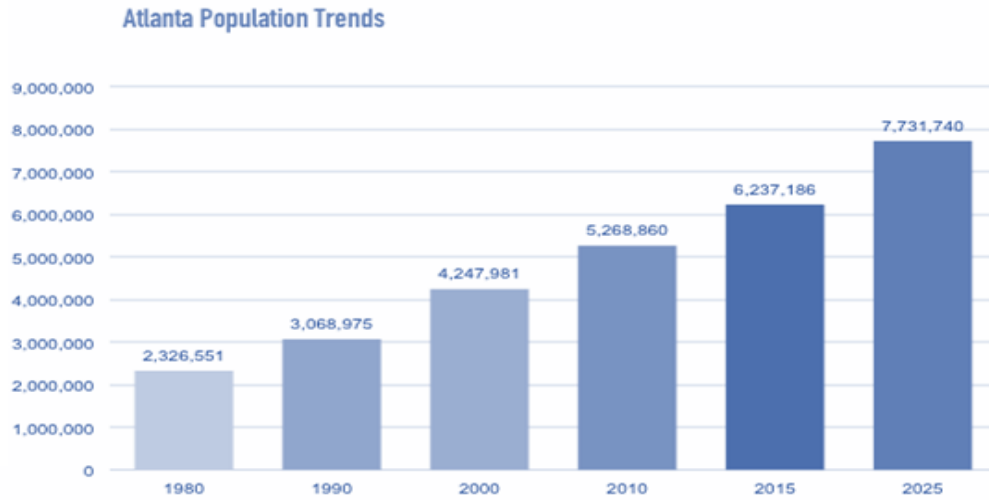
I urge the State Legislature to repeal Education Taxes for Redevelopment Act. The Act builds infrastructure on the backs of Georgia schools stripped of the ability to generate sufficient revenue to provide Georgia children educational opportunity. Further use of school funds for development places districts in risky financial situations. When the market declines rather than grows, the school district, rather than a TAD, loses revenue. The TAD, which has already secured a bond, has years to recover and secure necessary revenue pay back the bond. The school district, in contrast, receives immediate repercussions. By reducing a school district's taxable base, the Redevelopment Powers Act increases schools' susceptibility to changes in the market. This is undesirable, as student educational outcomes then become increasingly tied to the health of the economy.

CONCLUSION

Funding the BeltLine project with school taxes has proven to be more damaging than beneficial for Atlanta Public Schools. Legal and media disputes over the project's use of school funds have curbed initial enthusiasm for the development on a local and national level. Recovering the BeltLine's reputation as a national model for contemporary public transit requires modifying the financing system to mitigate the larger-than-predicted burden on Atlanta Public Schools. The City, State, and Atlanta Public Schools should adopt the suggestions as outlined. Doing so will begin to reverse school system's budget crisis. This demonstrates commitment from all parties to balance the need for improved public transit with learning opportunities for Atlanta children. With 15 years remaining until TAD dissolution, there is sufficient time to reinvest in Atlanta Public Schools and rebuild the BeltLine's image as an exemplary model of transit development.

Appendix

Figure 1



Source: Georgia Department of Labor and Technology Association of Georgia

Figure 2



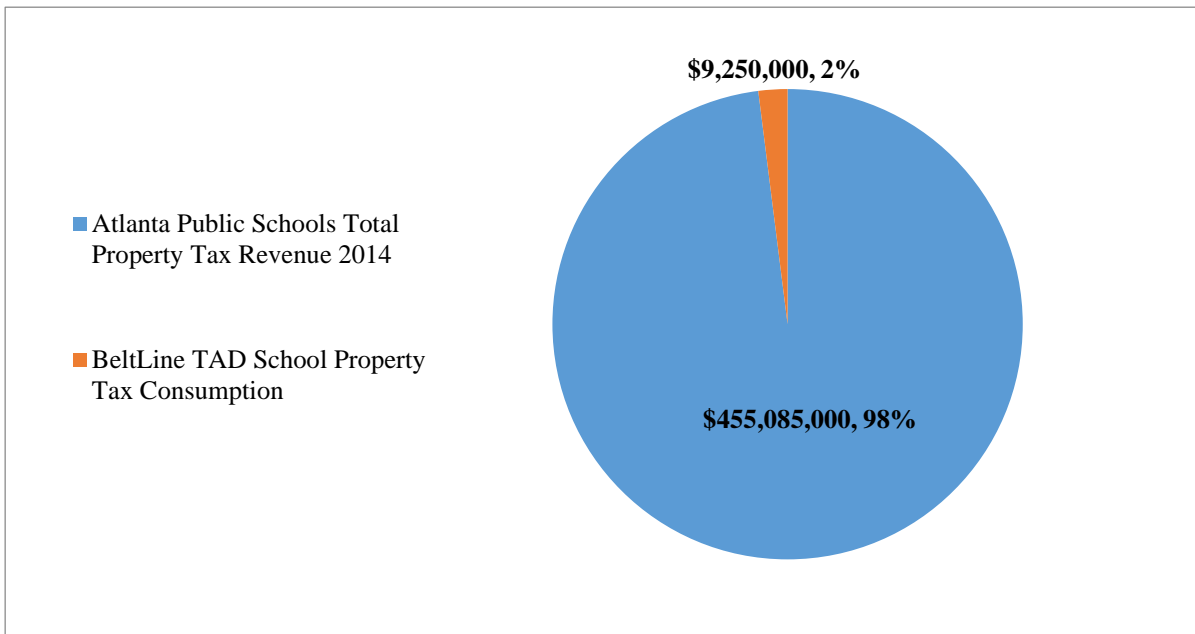
Source: Atlanta BeltLine, Inc. Strategic Plan 2014

Figure 3

Atlanta Public Schools Revenue Summary						
	2009-10 Actual	2010-11 Budget	2011-12 Budget	2012-13 Budget	2013-14 Budget	2014-15 Budget
Local Taxes	493,825,791	459,979,326	425,312,646	395,000,000	401,000,000	455,085,000
Other Local Revenue	8,635,119	3,200,000	1,500,000	1,160,000	12,860,000	22,136,664
State of Georgia	107,237,545	111,000,000	130,247,925	151,500,000	145,078,949	153,320,146
Federal Sources	16,548,816	2,500,000	5,000,000	8,740,000	10,884,854	2,050,000
Subtotal	626,247,271	576,679,326	\$562,060,571	\$556,400,000	\$569,823,803	\$632,591,810
Fund Balance Transfer		9,500,000	16,000,000	18,351,208	25,300,000	25,000,000
Total	626,247,271	586,179,326	578,060,571	574,751,208	\$595,123,803	\$657,591,810

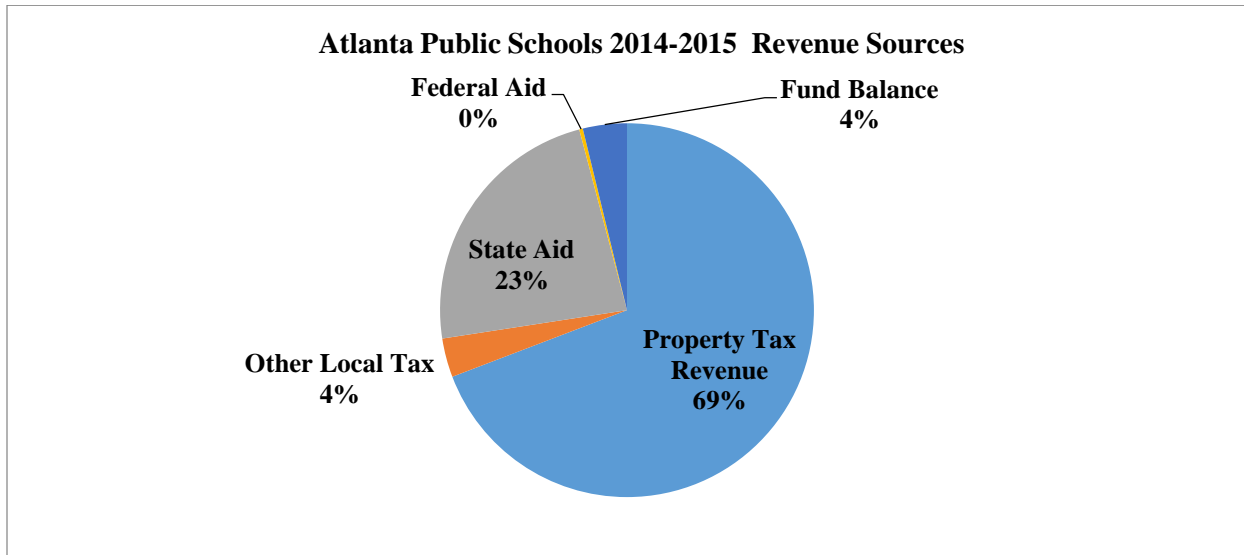
Source: Atlanta Public Schools Final Budget Book 2014-2015 and 2013 Approved Budget

Figure 4



Source: Atlanta Public Schools Final Budget Book 2014-2015

Figure 5



Source: Atlanta Public Schools Final Budget Book 2014-2015

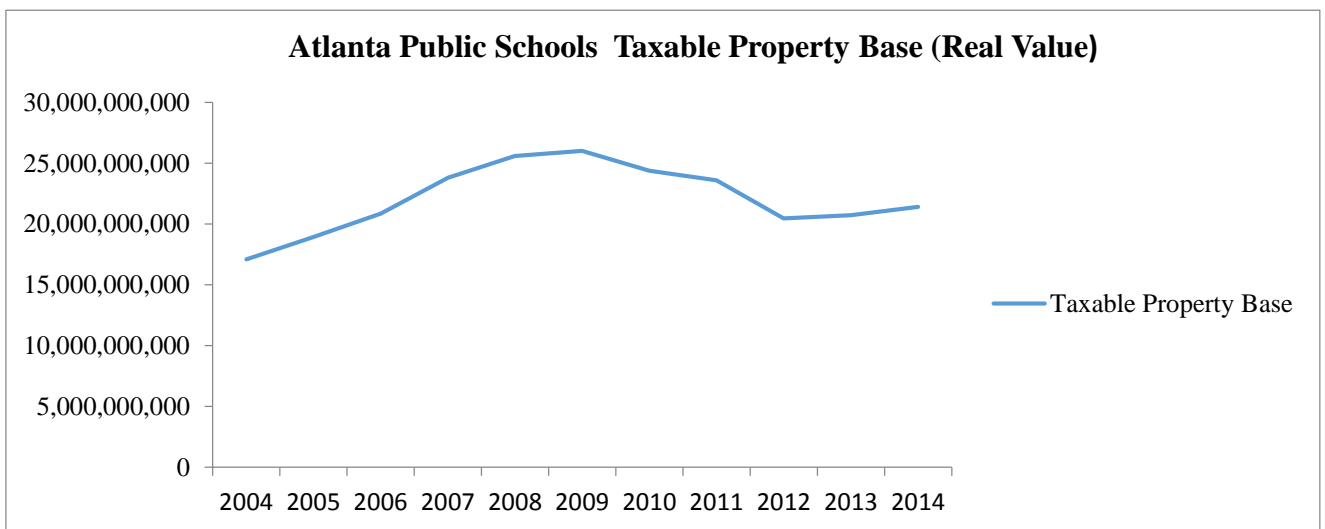
Figure 6

Atlanta Public Schools Student Demographic Breakdown

	2013-14	2012-13	2011-12
	4.0%	4.0%	4.0%
	77.0%	75.0%	75.0%
	8.9%	9.0%	8.9%

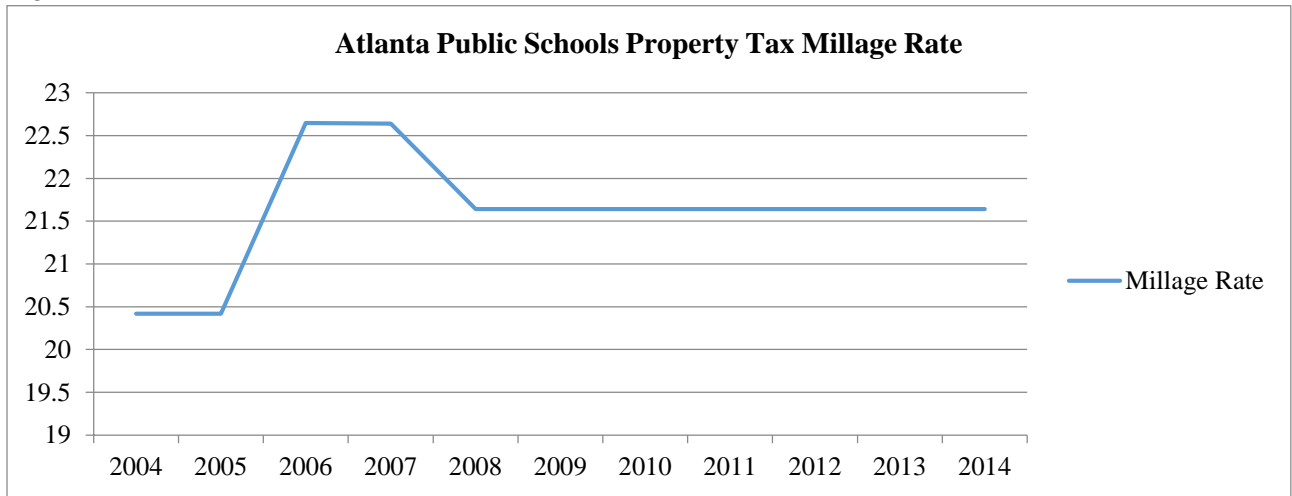
Source: Georgia Governor’s Office of Student Achievement

Figure 7



Source: Georgia Department of Revenue Local Government Services Division County Digest

Figure 8



Source: Georgia Department of Revenue Local Government Services Division County Digest

Footnotes

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- ^{xiv} Georgia Department of Revenue. “Georgia State Tax Digest: Atlanta Independent School District.” 2014. <https://etax.dor.ga.gov/DigestConsolidation/DisplayDigest.aspx>
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