



News & Notes



Advocating School Finance Equity and Adequacy in Texas

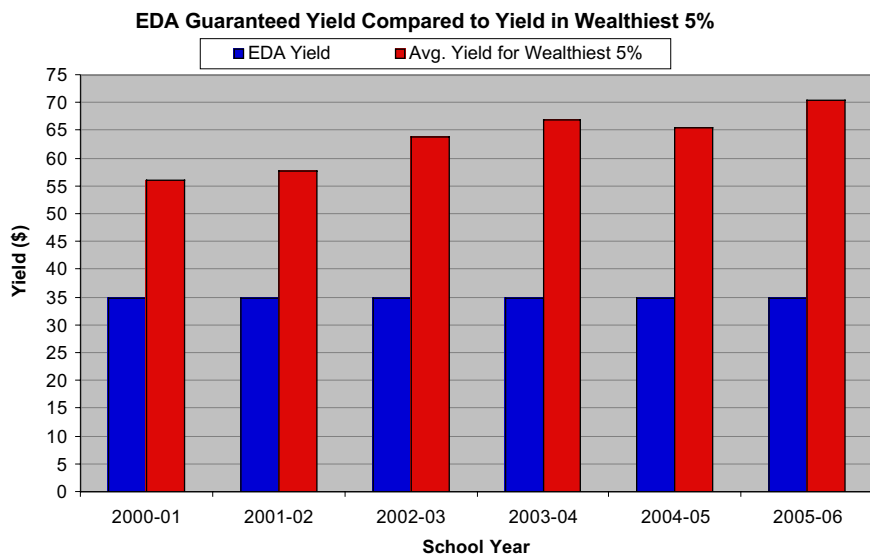
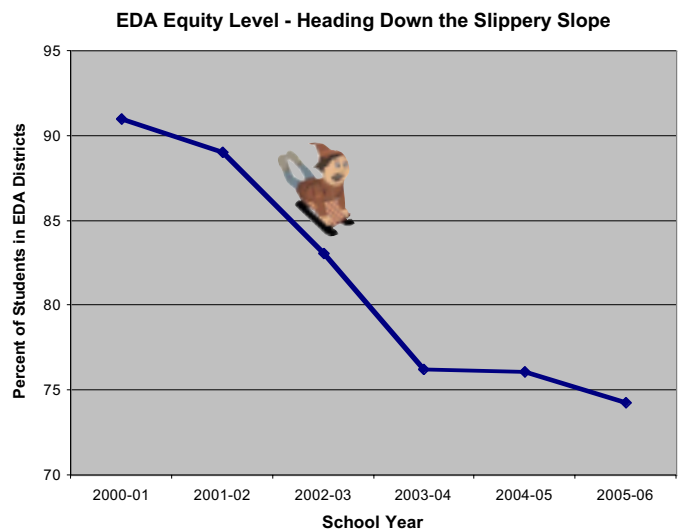
Equity in Facilities Funding Under the EDA: Heading Down a Slippery Slope

The equity level is so low under the state’s primary facilities equalization formula, the Existing Debt Allotment (EDA), that fewer than 75% of the state’s students are in school districts with equal access to funds. And this equity level of less than 75% is down from a high of 91% in the 1999-2001 biennium when the EDA first became available.

When a guaranteed yield level (GYL) is frozen at a particular dollar level, like the GYL for the EDA has been frozen at \$35 for the past seven years, the equity level drops as the wealth of the state rises, as shown in the graph to the right.

On the other hand, most wealthy districts enjoy *rising* yields, and that’s on top of substantially higher yields to begin with. As their wealth levels have risen, their yields have increased significantly compared to the frozen yield for EDA districts, as shown for the top 5% in wealth in the graph below. For example, the average yield for each cent of tax effort for the top 5% has grown from \$56.09 in 2000-01 to \$70.47 in 2005-06. At an average yield of \$70.47, the wealthiest districts with 5% of students can raise more than twice as much

revenue for facilities debt at the same tax rate as the districts in the EDA equalized system. *Or, to say it another way, taxpayers in EDA districts on average must pay twice the tax rate as taxpayers in the wealthiest districts to raise the same amount of revenue for facilities debt.*



To put it mildly, when it comes to equalizing facilities funding in Texas, things are bad and getting worse at an alarming rate.

Editor’s Note: Look for future articles on facilities funding that will expose other problems with the EDA, explain how the majority of Texas taxpayers continue to bear the burden of unequalized facilities funding, and investigate the role and shortcomings of the Instructional Facilities Allotment (IFA).



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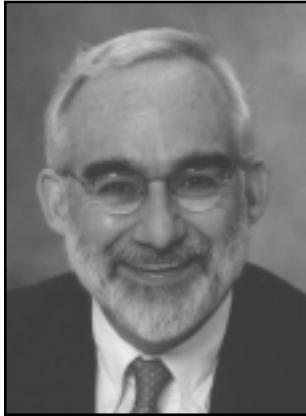
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Is the Money There?

Editor's Note: Dick Lavine is Senior Fiscal Analyst with the Center for Public Policy Priorities in Austin. Mr. Lavine focuses on revenue and school finance issues for the Center's fiscal analysis team.

Significant property tax cuts are a much-heralded cornerstone of HB 1, the school-finance bill passed in the recent special session. However, research done by the Center for Public Policy Priorities raises the question of whether the state has promised larger property tax cuts than it can actually deliver. In fact, the Legislative Budget Board's (LBB) fiscal note for HB 1 indicates that the new revenue from the tax changes made in the recent special session



Dick Lavine

will fall \$10.5 billion short of paying for HB 1 costs for the 2008-2009 biennium.

Let's first look at what HB 1 promises.

The big news, at least for property owners, is that school M&O tax rates will be compressed by 11.3% in 2007 and 33.3% in 2008. The cost to the state of replacing lost local revenue is estimated to be nearly \$6.6 billion in fiscal year 2008 and over \$6.9 billion in 2009, for a total of \$13.5 billion needed in the next state budget for property tax cuts alone.

HB 1 also calls for additional public education expenditures. The largest of these are higher salaries for teachers and other school employees and new high school spending (\$275 per high school ADA). Taking tax cuts and these new expenditures together, the total additional cost to the state for the 2008-2009 biennium is \$18.8 billion.

To pay for this, the legislature passed a new business tax (HB 3), increased the cigarette tax (HB 5), and changed how the tax on used car sales is calculated (HB 4). Total expected revenue: \$8.3

billion for the 2008-2009 biennium.

The shortfall? \$10.5 billion. [See Table 1.]

So how does the state make up the difference?

Well, there are some interesting figures being circulated around the Capitol that might give us insight into what some people are thinking.

According to these unofficial numbers [see Table 2], the current tax system – sales tax, gasoline tax, oil and gas severance taxes, etc. – could grow by \$7.5 billion over this biennium's levels. This assumes, of course, that the economy doesn't stall out because of lower housing prices or higher oil prices.

In addition, there's \$4.7 billion left over from the surplus that was announced before the special session. There used to be more, but \$3.5 billion of the surplus was needed to pay for costs incurred by HB 1 before the new tax revenue becomes available.

The Rainy Day Fund, which is filled by natural gas taxes in excess of the 1987 level, could have \$1.2 billion available to help cover the costs of HB 1.

Plus, lower property taxes might produce more investment, which increases economic growth. Tax cuts don't pay for themselves, but \$13.5 billion in property tax cuts could lead to \$700 million in additional state tax revenue, according to these projections.

So, if these potential resources pan out, Texas would have \$22.4 billion in new state revenue next biennium—enough to cover the costs of HB 1 and even have \$3.6 billion left over.

This sounds like a lot, except that this \$3.6 billion would have to stretch to pay for every other increase in the state budget. For example, it would have to cover the more than one billion dollars per biennium cost of public school enrollment growth, the ever-increasing costs of Medicaid and other health care, increased funding for new state prisons, better state parks, and higher education so tuition doesn't have to go up even more—and anything else Texas needs

to do to care for its people and invest in a better tomorrow.

If we don't want to just abandon the rest of the state budget, what are the alternatives?

The state could turn again to the sales tax, which already produces 55% of state tax revenue. Raising the state sales tax by 0.5% — from the current 6.25% to 6.75% — could raise \$2.6 billion a biennium. However, the extreme regressivity of the Texas tax system, which takes a much larger percentage of the income of low- and middle-income families than it does of higher-income families, is largely due to our heavy reliance on the notoriously regressive sales tax we already have. Increasing the sales tax rate would just exacerbate the problem.

There are other alternatives. For example, the \$1.00 M&O tax rate isn't carved in stone. In fact, the 33.3% compression ratio, which knocks a \$1.50 rate down to \$1.00, is effective for fiscal 2008 only. Starting in 2009, the commissioner of education calculates the compression percentage based on the

amount of state funds in the property tax relief fund, which receives the revenue raised from the tax changes made in the recent special session, "or from another funding source available for school district property tax relief."

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The LBB expects the special session tax changes to generate \$4.2 billion in 2009 – enough to reduce M&O tax rates by about 31 cents (from \$1.50 to \$1.19). If the additional resources needed to go all the way to \$1.00 are not available, it would be better to stop at \$1.19 than to start reducing other critical state services just for the sake of meeting a single year's property tax rate goal.

TABLE 1

	COSTS	REVENUE				NET SHORTFALL
State Budget (biennium)	HB 1 with PTR*	HB 3	HB 4	HB 5	Total Revenue	
2008/09- 2009/10	-18.8	6.8	0.1	1.4	8.3	-10.5
2010/11- 2011/12	-20.2	7.7	0.1	1.3	9.1	-11.1

**PTR - Property Tax Reduction*

All figures in billions of dollars

Source for Table 1 Data: LBB Fiscal Notes

TABLE 2

	COSTS	REVENUE						NET BALANCE
State Budget (biennium)	HB 1 with PTR*	HB 3, 4 and 5	Revenue growth of current system	Rainy Day Fund	Dynamic Impact	Surplus	Total Revenue	
2008/09- 2009/10	-18.8	8.3	7.5	1.2	0.7	4.7	22.4	3.6
2010/11- 2011/12	-20.2	9.1	8.0	2.0	0.8	0.0	19.9	-0.3

**PTR - Property Tax Reduction*

All figures in billions of dollars

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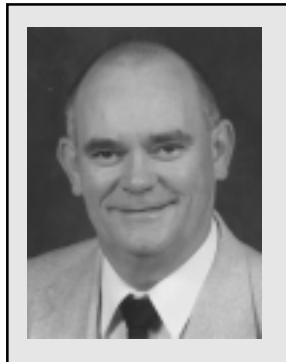
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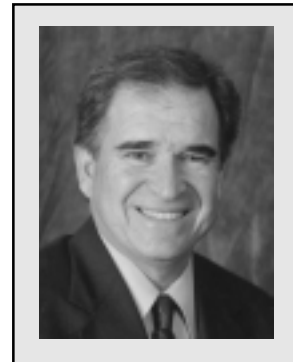
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