Overview of a School Finance Plan That Makes Sense for Everyone

An Equity Center Presentation for The Commission on Public School Finance March 19, 2018

Principles of an Efficient Funding System

- Funding for Texas' students needs to make sense for everyone. It cannot be based on one district's crisis or even on a set of runs.
- Funding decisions must be based on actual costs to educate students...holding to the TEC §42.001 promise to provide substantially equal access to a similar education at a similar tax rate.
- Funding Texas' schools should be fair to Texas' taxpayers. Your dollar should generate the same level of funding for your children as my dollar does for mine.







FY 18 Revenue per WADA at Adopted M&O Tax Rate TEA January 2018 DATA

10/23/2018

Equity Center

5

An Efficient Texas Public Education Funding System

Necessary Steps

- 1. Remove Current <u>Non-cost Based</u> Inefficiencies
- 2. Create a New Single Tier Formula Funding System
- 3. Calculate the Distribution Entitlement, Using efficiency savings and excess to Entitlement to Raise the Basic Allotment and Address Needs

Efficiency Savings used to increasing the Basic Allotment will allow districts the freedom to determine how best to use funds to accomplish goals

A Simplified, Efficient System of School Finance



An Efficient Texas Public Education Funding System

The Advantages

- a) Removing inefficient, inequitable (i.e., those not based on a state-recognized cost) and unnecessary funding elements allows the system to use all its resources efficiently
- b) Creating a new Single Tier System Simplifies and stabilizes the system
- Rolling resulting savings into the Basic Allotment & EWL **C**) and/or increases in Compensatory & Bilingual Education allows the state to use it resources where they are most needed **Equity Center**

The Plan is the *Starting Point* that does the following:

- Simplifies calculations so that everyone can easily understand how it works
- Removes waste and other inefficiencies so that we bring every education dollar to bear on every child's educational opportunities, in accordance with his or her needs, and those opportunities are as good in your district as the state system makes available to any other district
- Treats taxpayers fairly so that the funding level available in your district is as high as the level available to any other district willing to levy the same tax rate
- Makes adequate funding achievable
- Eliminates the need for districts to seek "special deals" and/or "game the system" to have some perceived advantage

The Plan is based on these basic elements

- All districts are funded alike
 - All school funding elements are in Chapter 42
 - No funding elements in Chapter 41
 - There are NO Chapter 41 and 42 districts
- One Basic Allotment for everyone AND it applies to all pennies of tax rate from \$0.01 through \$1.17
 - There is only one tier, with all 117 pennies funded at the same level
 - No Guaranteed Levels
 - No Equalized Wealth Levels
 - No Tier 2, Golden or Copper Pennies

The Plan is based on these basic elements

- No prior year value surprises or inequities
- Guaranteed revenue no tax collections surprises
- WADA is calculated by a much simpler formula
 - No funding is determined by WADA calculations
 - WADA is only used to measure the efficiency/equity of the system
- Collections do not determine funding
 - It is a stable system based on the needed funding level, not the state of a district's economy
- No convoluted recapture calculations that no one understands
- Everyone gets ASF Per-Capita and Transportation

Calculating a District's Basic Allotment		
Current Law	New Plan	
 Statutory BA = \$5,140 Assume Compressed Tax Rate of \$0.90 	 Higher Basic Allotment Savings are rolled into it 	
Calculation: <i>Lesser of</i> 5,140, or 5,140 * .90, which is 4,626 (1,018 different Basic Allotments are possible)	Calculation: None – Every district has the same Basic Allotment	

10/23/2018

District Adjustments are retained, with two adjustments (see following 2 slides)

Current Law

- 1. Cost of Education Index CEI Applies to all districts
- 2. Small District Adjustment SDA Less than 1,600 regular ADA
 - 1. Greater than 300 square miles
 - 2. Less than 300 square miles
- 3. Mid-size District Adjustment MSDA Less than 5,000 regular ADA



Diseconomy of Scale Adjustment Calculations

- Three calculations become two
 - Small District Adjustment for all small districts for districts with more than 300 square miles
 - Small District Adjustment for districts with less than 300 square miles
 - Mid-size District Adjustment

Categorical Aid 10 Allotments reduced to 6 Allotments

- 1. Regular Program Allotment
- 2. Special Education Allotment
- 3. Career & Technology Allotment
- 4. Gifted & Talented Allotment
- 5. Compensatory Education Allotment

- 6. Bilingual Education Allotment
- 7. Public Education Grant
- 8. New Instructional Facility Allotment
- 9. Transportation Allotment

10. High School Allotment

No changes were made to how the allotments are calculated.

You have enough complications in your life ...why create unnecessary ones when you calculate revenue?



Determining a District's Funding Level

Every District is Guaranteed Access to the Full Sum of its Five Instructional Allotments, plus Transportation (Enrichment funding is accessible for all districts, as shown in the following two slides)



Transportation

Inputs in calculating the five instructional allotments include current law adjustments (Cost of Education Index, Diseconomy of Scale Adjustments and various Program Weights) in order to reflect varying costs among children and districts in achieving the state's academic goals. The allotments are all calculated in the plan in the same manner they are currently calculated for state funding. For details regarding the state's methodology, see the Texas Education Agency's Summary of Finance at <u>https://tealprod.tea.state.tx.us/fsp/Reports/ReportSelection.aspx</u> or contact the Equity Center for more details. Please note this plan does not change those basic elements because any changes to weights or formulas should be determined by the Legislature, based on unbiased and objective studies, and reflective of actual costs, hopefully reviewed on a rotating cycle.

10/23/2018

Every District is Guaranteed Access to the Full Sum of its Allotments, plus Transportation and Enrichment



10/23/2018

Possible Cycle for Reviewing Weights

- 1st Biennium—Basic Allotment & CEI
- 2nd Biennium—Student Allotments—Bilingual, Compensatory, Special Education, Career & Technology
- 3rd Biennium—Transportation and Mid & Small—sized Diseconomies of Scale

Determine Funding Levels

• Assume, for ease of following the calculations, the sum of the five instructional allotments is \$1,000,000 and the Transportation Allotment is \$50,000.

Examples:

(Sum of 5 Allotments x Tax Effort) + Transportation = Funding Level (\$1,000,000 x 1.00) = \$1,000,000 + \$50,000 = \$1,050,000 (\$1,000,000 x 1.04) = \$1,040,000 + \$50,000 = \$1,090,000 (\$1,000,000 x 0.96) = \$960,000 + \$50,000 = \$1,010,000 (\$1,000,000 x 1.17) = \$1,170,000 + \$50,000 = \$1,220,000 For every 1 cent increase (or decrease) in tax effort, funding increases (or decreases) by 1%

10/23/2018

Tax Rate vs. Tax Effort

- The Local Option Homestead Exemption exempts a portion of the taxable value of homesteads
- Two districts, exactly alike, both taxing at \$1.04 are not making the same effort if one of the districts is exempting part of its taxable value from taxation

Taxable value a District CHOOSES to tax

Taxable value a District IS

ENTITLED to tax

Tax Effort = M&O Tax Rate X

10/23/2018

Sources of Funding

Determining State/Local Funding for M&O



10/23/2018

Determining M&O "Excess" for Property Wealthy Districts



10/23/2018

Determining M&O "Excess" for Property Wealthy Districts



10/23/2018

Determining State/Local Funding for M&O



10/23/2018

All Property Tax Collections Fund Public Education

- All increases in collections due to growth in district wealth should be spent on public education by covering student growth, increasing the Basic Allotment, increasing district adjustments, funding initiatives such as full day pre-kingergarten and/or increasing allotment weights
- All increases in collections sent to the State must be used to increase the Basic Allotment
- These are both **DRIVERS** of school funding levels

All Property Tax Collections Fund Public Education

AND/OR

- Tie the <u>Basic Allotment</u> to a <u>Percentile of wealth</u> or a <u>Particular School</u> <u>District</u> that reflects the Level of Wealth per Weighted Student at which the Legislature determines Recapture should occur
- This would provide the Legislature with a legitimate control of Recapture and help the state limit its reliance on local property taxes
- This would also be a DRIVER of school funding levels

A Transition Plan

- If the non-cost based inefficiencies are removed, a number of districts that have been receiving excess benefit will lose funding (just as others will go up)
- Should the Legislature decide a transition plan is warranted for these districts, we suggest it be done differently to avoid the problems created by current hold harmless funding methods
 - Establish a *dollar* amount (not an amount per student) for transition funding
 - Keep transition funding separate and apart from the new cost-based formula system
 - Make transition funding a line item in both the State budget and in each receiving district's funding report so everyone knows what's going on and all funding remains 100% transparent
 - Establish a phase down percentage up front for each year (for example: 80% in year two; 60% in year three; 40% in year four; and 20% in the last year)

Efficiency Savings

- The plan eliminates inefficient, non-cost based elements from the current funding system
- This creates efficiency savings that can be used to address important funding issues in ways that benefit all Texas' children and taxpayers

- High School Allotment
- Staff Allotment
- Early Agreement Credit
- 1993 Wealth Hold-harmless
- Hardship Grant
- Property Value Decline Funding
- Prior Year Values
- Tier 2 Golden/Copper Pennies
- Per Capita Double Dip
- New Instructional Facilities Allotment
- Gifted & Talented Allotment
- Public Education Grant

Texas School Finance--FY 18 on a Cost Based Formula--BA \$5,583

Revenue per WADA Without Transportation



10/23/2018



Texas School Finance—FY 18 on a Cost Based Formula—BA \$5,583 Revenue per WADA — \$1.04 Effective Tax Rate for all districts — Without Transportation

I&S Funding

I & S (Bonded Debt)

Critical Funding Area for Many Reasons

- Because State Assistance for funding Bonded Debt has been stagnate since 1999
 - A program, originally equalized funding for 91% of the children in Texas-
 - Now provides assistance for Bonded Debt for less than 40% of Children
 - And while original funding covered almost 30% of bonded debt payments, in 2018 it will only cover 10%
 - As a result, we are creating an ever growing inefficiency and inequity
 - Having the greatest impact on the children and taxpayers of our fastest growing districts, but also impacting the children and taxpayers of all mid and low property wealth districts

I & S (Bonded Debt) Critical Funding Area for Many Reason

- Possible concepts to address I&S funding
 - Fully fund the current guaranteed yield (GY) at \$40
 - Increase the GY
 - Increase the GY only for new bonded debt
 - Tie a portion of the increasing GY to a well articulated plan of expansion
 - Phase in increased GY with the aim to return to and maintain a level reflective 91% of students in the system for new bonded debt
 - Fund the increase with a dedicated ½ cent sales tax
 - Reserve any excess budgeted funding for the state share of bonded debt payments in a biennium to help cover the cost of any increase needed for the next biennium

Why the Current System Must Have Recapture

"Robin Hood" recaptures the efficiency lost to our overreliance on property taxation to fund our public schools.

Recapture is estimated to provide about \$4,100,000,000 in NECESSARY revenue this biennium.

(That's \$320 per WADA over the biennium.)

What would the current system without recapture look like?

	FY17 M&O Tax Rate	FY18 Current Law	FY18 without Recapture	<u>Gain</u> per Classroom
Tier 1 Recapture Districts	1.032	6,781	12,552	197,886
Everyone Else	1.097	6,262	6,267	170
Difference	<mark>(6.5)</mark> cents	520	6,285	197,716
Additional State Funding Needed for the Biennium (without recapture)		\$4,100,0	000,000	

What would a system without recapture look like?

	FY17 M&O Tax Rate	FY18 Current Law	FY18 without Recapture	Gain per Classroom
Wealthiest 10% (n = 102)	1.028	6,898	14,624	268,185
Everyone Else	1.095	6,270	6,297	891
Difference	<mark>(6.7)</mark> cents	628	8,327	267,293
Additional State Funding Needed for the Biennium (without recapture)			►\$4,100,0	000,000

FY 18 Revenue per WADA TEA January 2018 DATA



FY 18 Revenue per WADA--No Recapture

TEA January 2018 DATA



^{10/23/2018}

FY 18 Revenue per WADA--No Recapture

TEA January 2018 DATA



10/23/2018

If not recapture, then what method of "efficiency" do we pick?

Choices

- Eliminate local property tax and increase/create state tax to take its place
 - Income Tax
 - State Property Tax
 - Increase Sales Tax
 - Split Tax Roll (Tax non-homestead property at state level)
 - Keep and increase state Franchise Tax
 - Statewide Land Tax
 - Statewide fees
- Consolidation
- Recapture

What does Chapter 41 *really* mean?

Not as much as you may think...

- According the latest TEA Summary of Finance data, about 344 districts will be designated Chapter 41 in 2018
- But of that number, most are "Chapter 41" because of the stagnant guaranteed level in Tier 2 Copper Pennies
- If you subtract each district's state aid from its calculated recapture, then just 123 districts are true recapture districts
 - e.g., sends more to the state than it gets from the state
 - That's 12% of all 1,018 districts

Not as much as you may think...

344	Estimated Chapter 41 Districts in FY18
- 123	True Recapture Districts
221	Chapter 41 Districts that are substantially funded like Chapter 42 Districts