

# A School Finance System that Makes Sense for Everyone

Discussion Information for Region 7 Superintendents' Meeting

September 5, 2018

Information provided by the Equity Center (© Equity Center, 2018)

# Why it is so important to spend our money wisely in public education

- Comptroller update Revenue Estimate
- Supplemental appropriation
- Structural deficit
- Manufactured Crisis

# Structural Deficit

- 2006
  - \$14.2 billion tax swap
- Franchise tax (margins tax), liars affidavit, tobacco tax increase
  - Approximately \$3.7 billion of the \$44 billion 2018-19 Foundation School Program appropriation
  - Underperformed by **nearly \$5 billion per year**
  - 2017 House and Senate vote to phase it out entirely
- \$10 billion deficit every biennium

# Tax Cuts

- 2015
  - \$5 billion Highway Fund diversion
  - \$4 billion
    - \$2.6 billion for 25% cut in franchise tax rates
    - \$1.24 billion for homestead exemption increase of \$10,000
    - \$250 million repeal of professional fees

# Budget Surplus

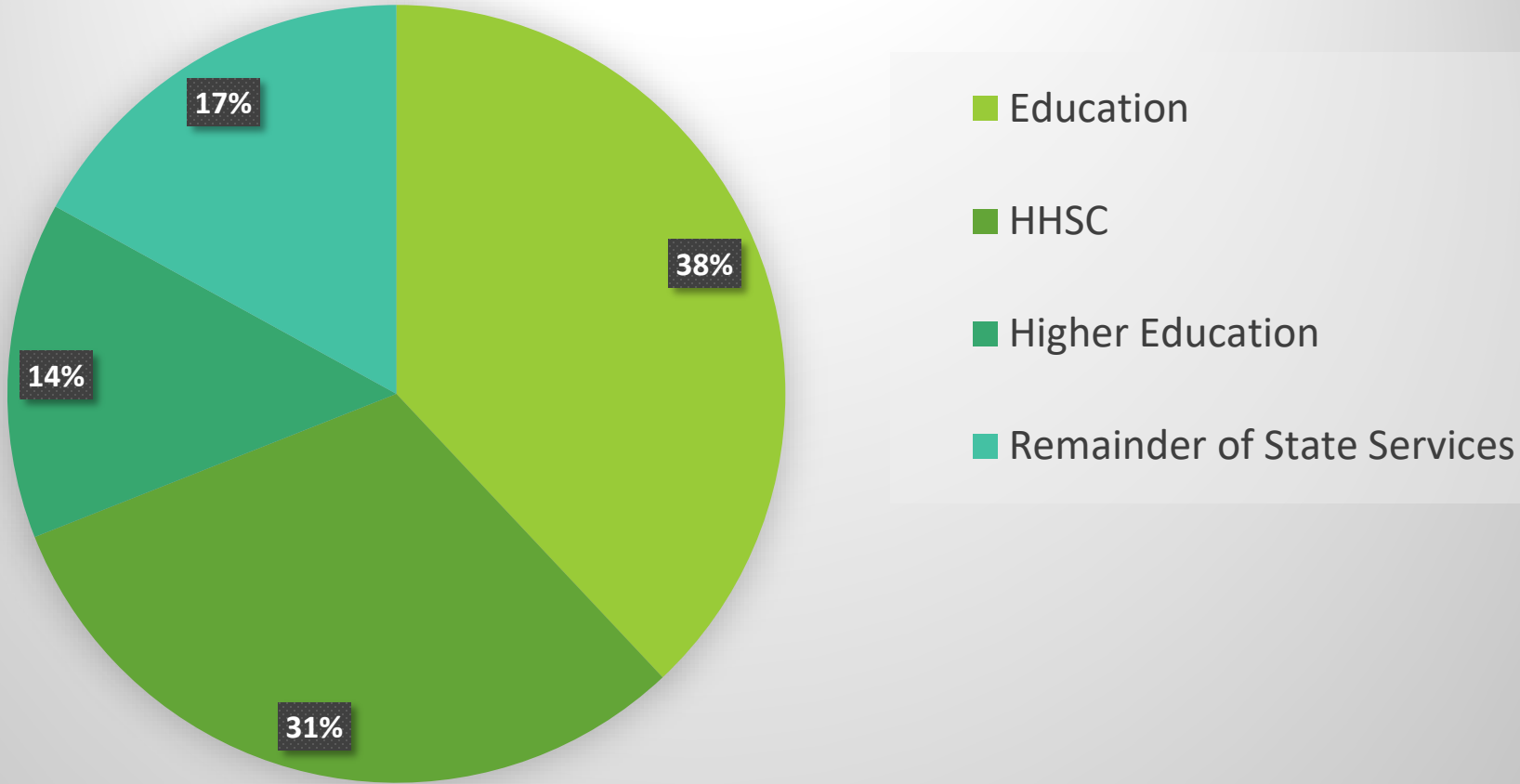
- 2013
  - \$8.3 billion
- 2015
  - \$7.5 billion
- 2017
  - \$800 million
- 2019
  - \$93 million has grown to \$2.8 billion

## Supplemental Budget: Paying for last biennium's expenses

- Medicaid deferral
  - \$2 billion
- Harvey
  - \$300 million...?
- Highway Fund deferral
  - \$1.8 billion
- Special Education
  - \$1.5 billion per year

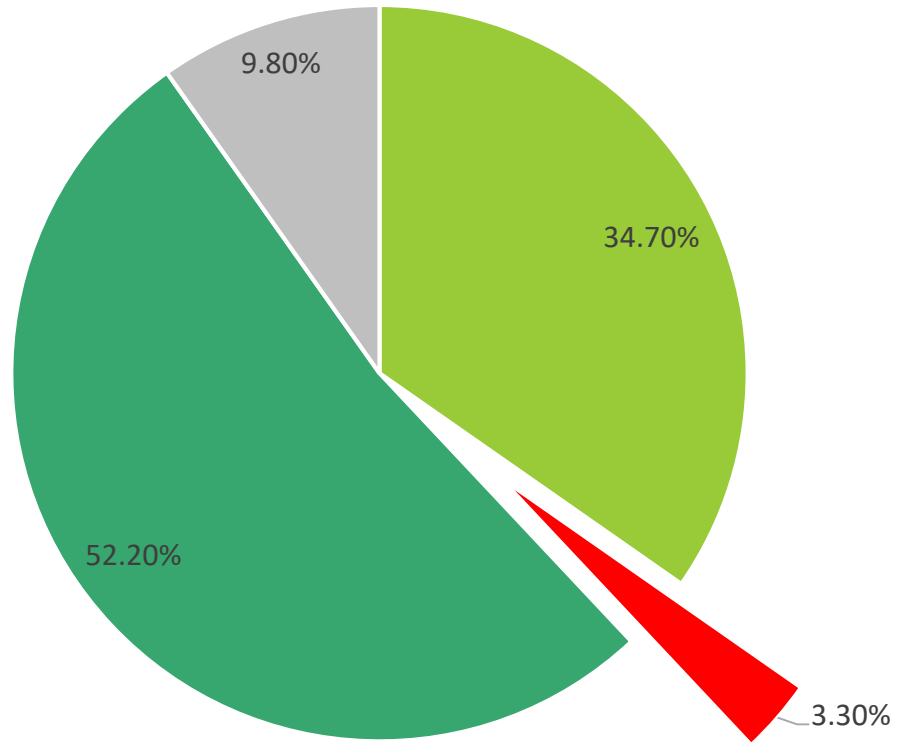
# State Budget 2018-19: General Revenue

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2018



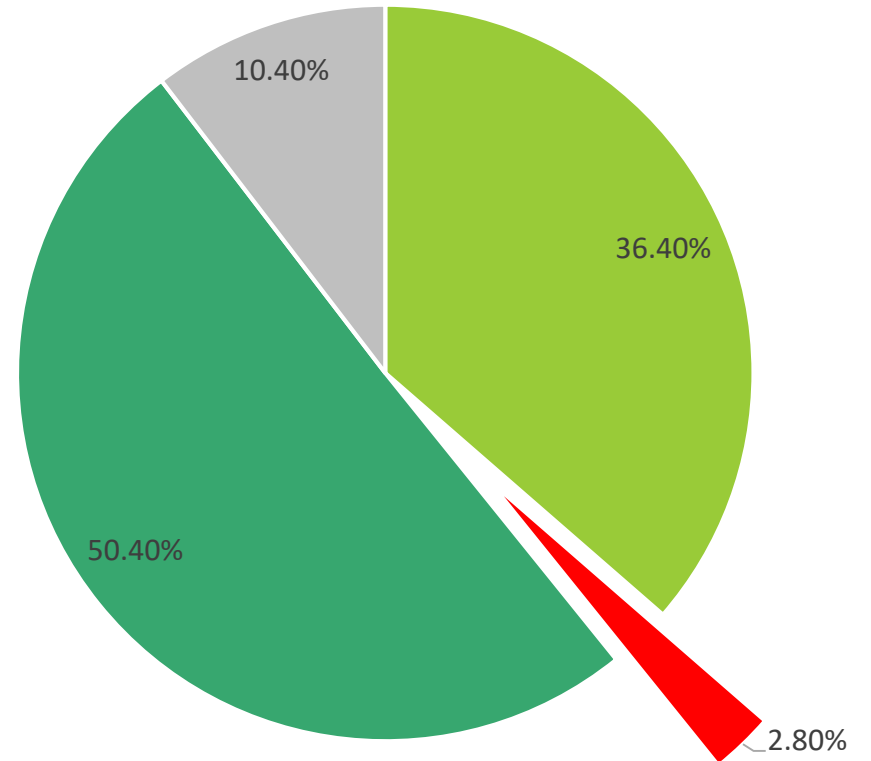
# Funding by Source

2007



■ State ■ Recapture ■ Local ■ Federal

2017

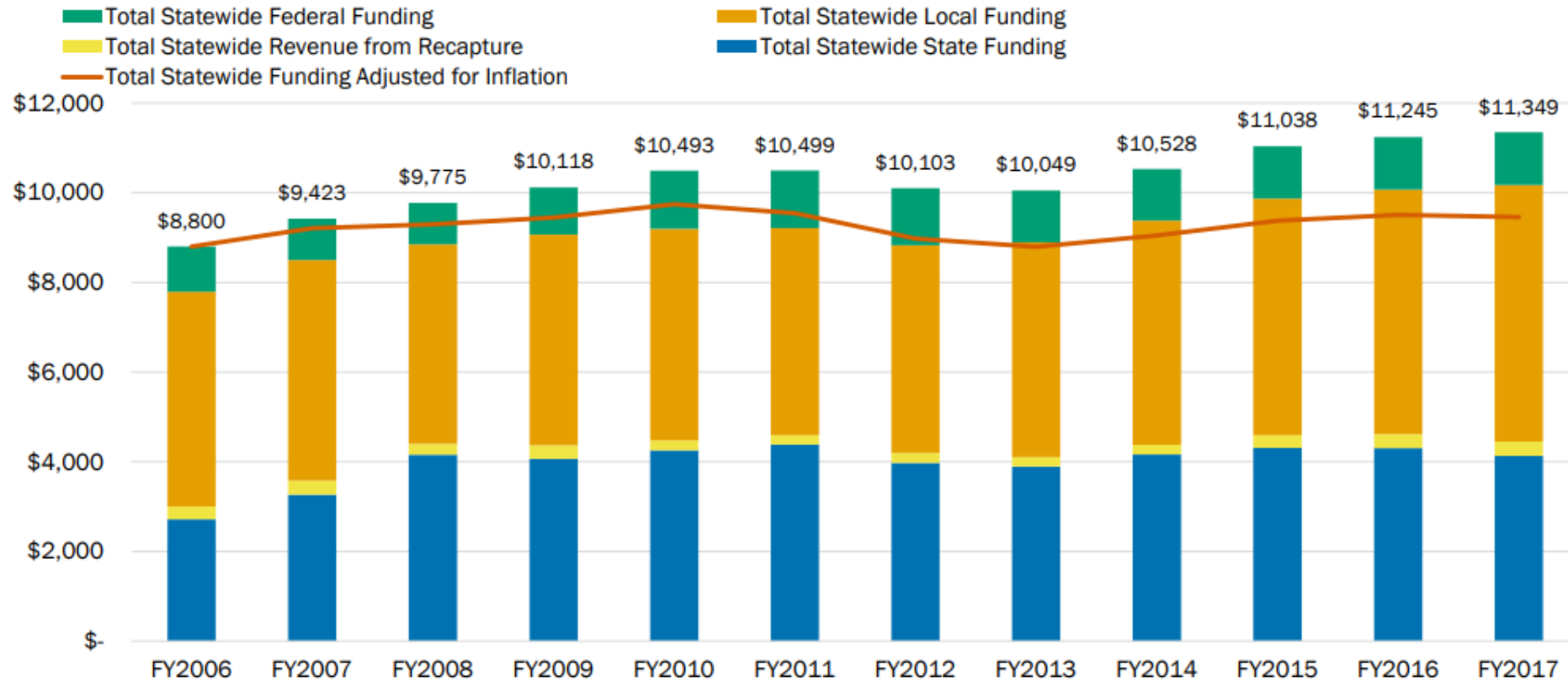


■ State ■ Recapture ■ Local ■ Federal





# Total funding per enrolled student has increased 29% (from \$8,800 in FY2006 to \$11,349 in FY2017)



# Available Options: Revenue Bandwidth 2017

- Property Tax: \$29 billion
- Sales Tax: \$28.9 billion
- Motor Vehicle Sales Tax: \$4.5
- Motor Fuels Tax: \$3.6
- Franchise Tax: \$3.2
- Oil and Gas Severance Taxes: \$3.1
- State tax revenue per \$1,000 of personal income
  - Texas ranks 44<sup>th</sup>
  - 43<sup>rd</sup> in spending per capita

# Building the state budget

- Baseline budget instructions from Governor
- September 12 TEA Budget Hearing with Legislative Budget Board
- Between November and December the LBB will determine the spending growth cap
- January Comptroller Revised Revenue Estimate

# Texas Commission on Public School Finance

- 13 members
- The commission shall develop recommendations to address issues related to the public school finance system...
- 12 meetings since January
- 3 Working Groups
  - Outcomes, Expenditures, Funding
- Report by December 31, 2018

# TCPSF

- Outcomes
- Revenues
- Expenditures
  - Recommendations  
Equity Center reforms

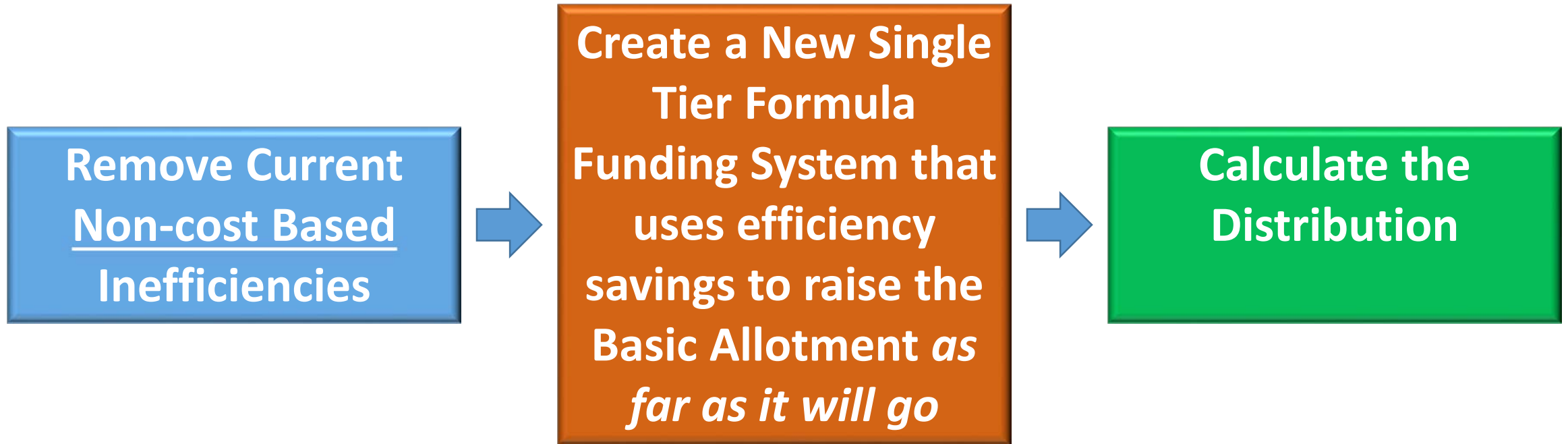


# Principles of an Efficient Funding System

- Makes sense for everyone
  - Not based on one district's crisis
  - And especially not on a set of runs
- Based on actual costs
  - Can't have equity without efficiency
  - Can't have efficiency without equity
  - Can't have adequacy without everyone being together!
- Fair to Texas' taxpayers
  - Your tax dollar should generate the same level of state & local funding for your children as **my dollar** does for mine.

# How to Determine a District's Funding Level

# Creating a Simplified, Efficient System of School Finance

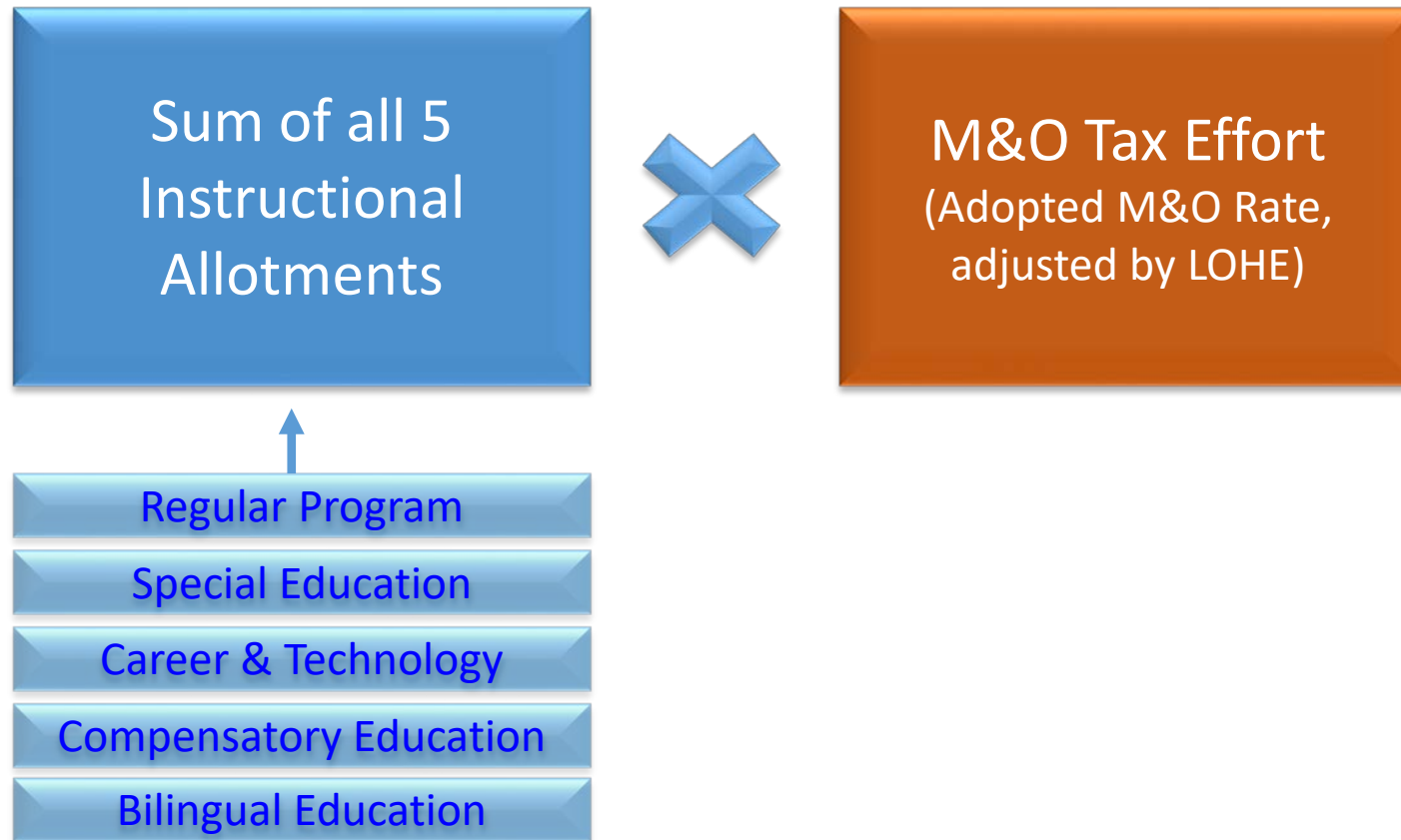




# Every District is Guaranteed Access to the Full Sum of its Allotments, plus Transportation and Enrichment



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# Determine Funding Levels (Examples)

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

# Determine Funding Levels (Examples)

Examples:

(Sum of 5 Allotments x Tax Effort) + Transportation = Funding Level

$$(\$1,000,000 \times 1.00) = \$1,000,000 + \$50,000 = \$1,050,000$$

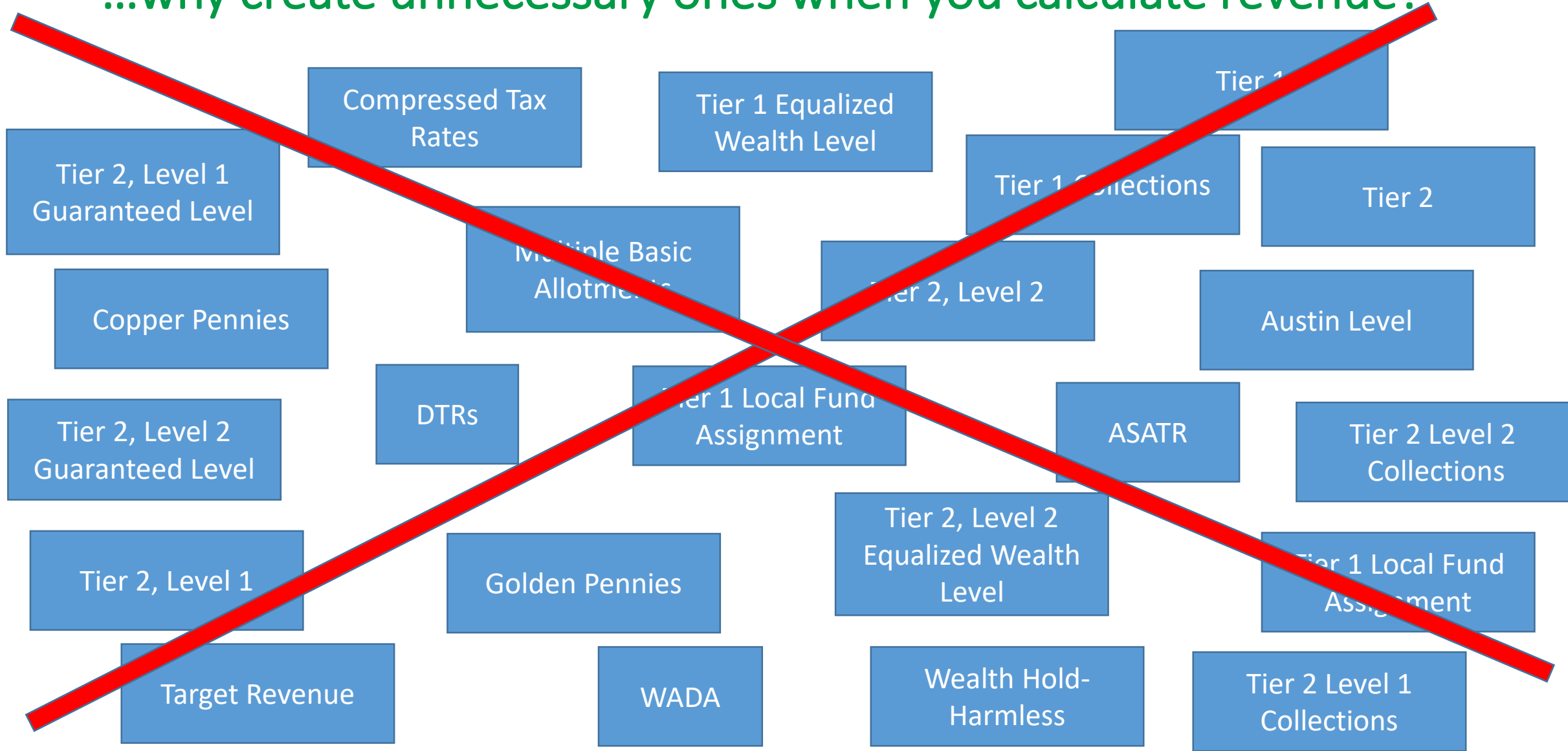
$$(\$1,000,000 \times 1.04) = \$1,040,000 + \$50,000 = \$1,090,000$$

$$(\$1,000,000 \times 0.96) = \$960,000 + \$50,000 = \$1,010,000$$

$$(\$1,000,000 \times 1.17) = \$1,170,000 + \$50,000 = \$1,220,000$$

*For every 1 cent increase (or decrease) in tax effort, funding increases (or decreases) by 1%*

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



# Sources of Funding

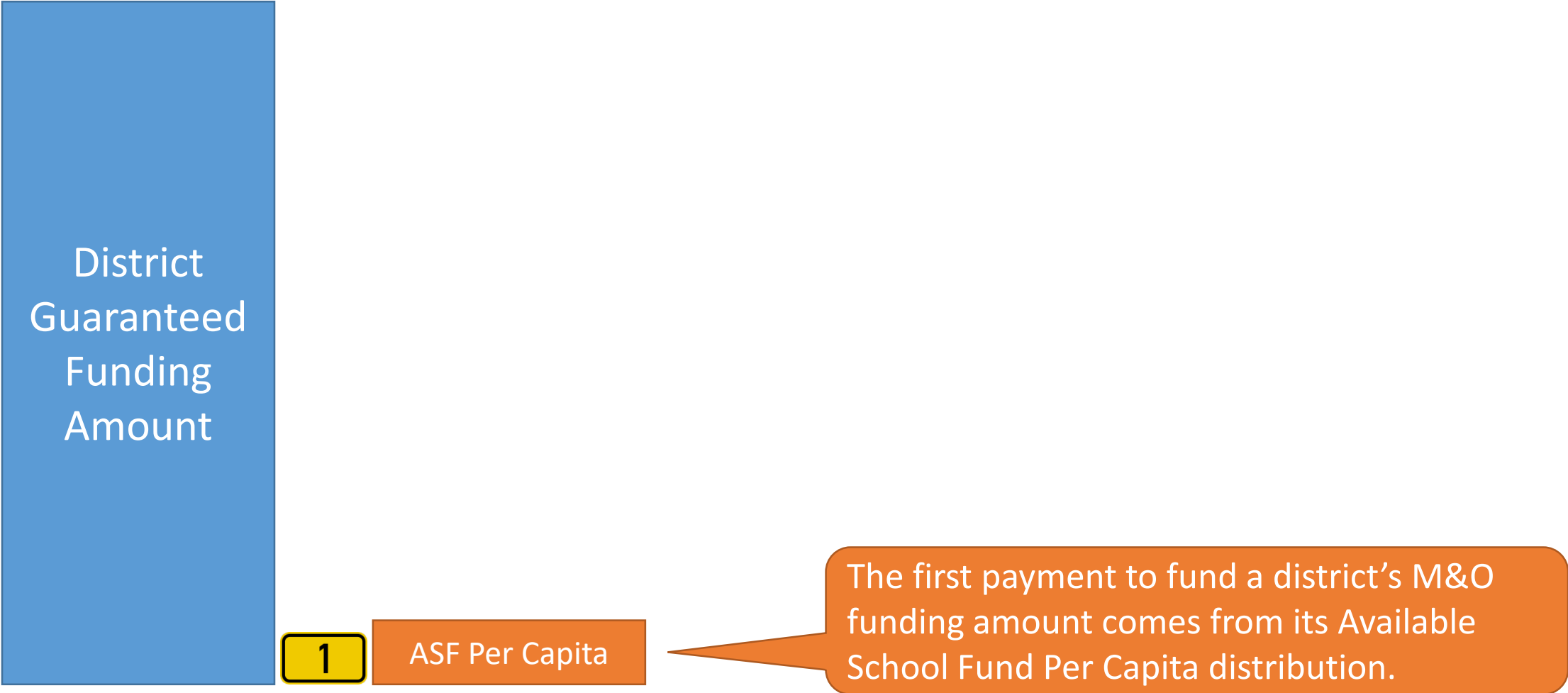
# Determining State/Local Funding for M&O



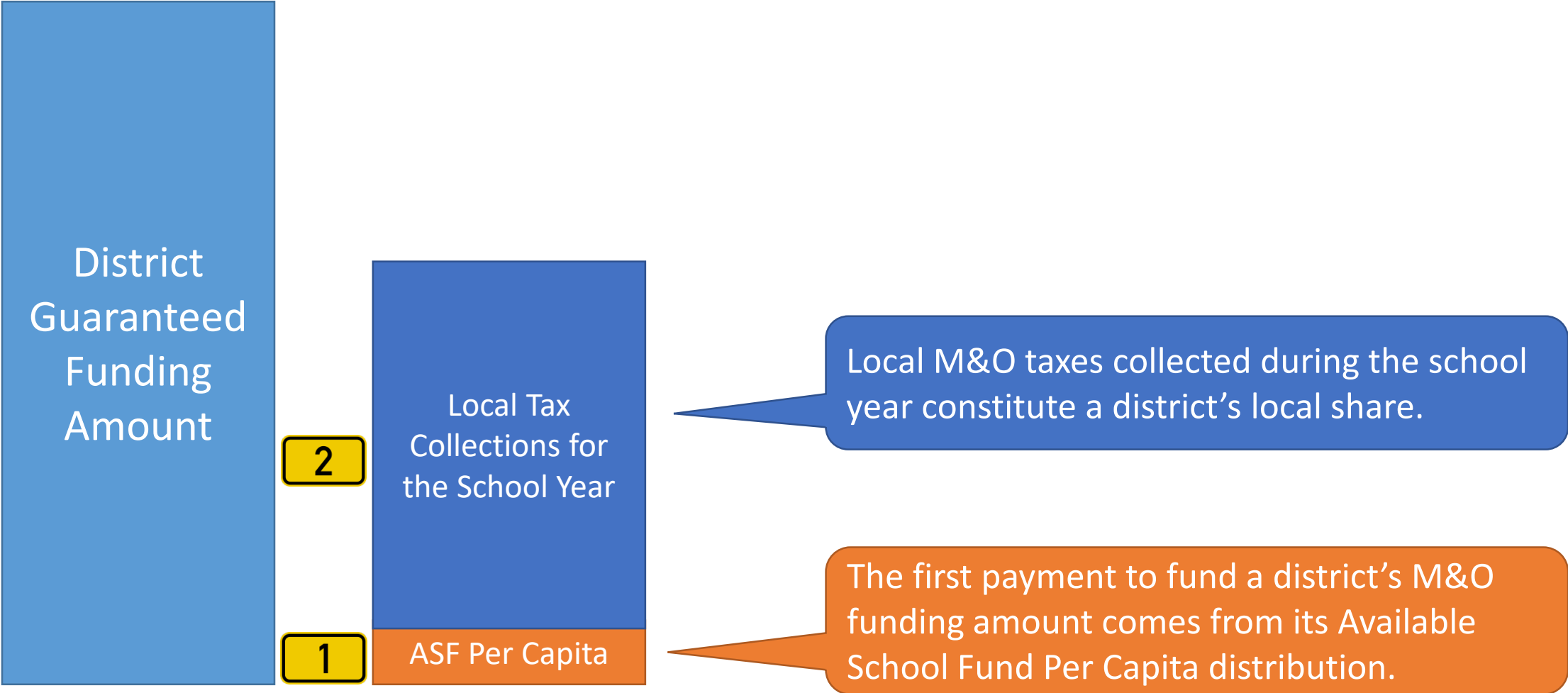
District  
Guaranteed  
Funding  
Amount



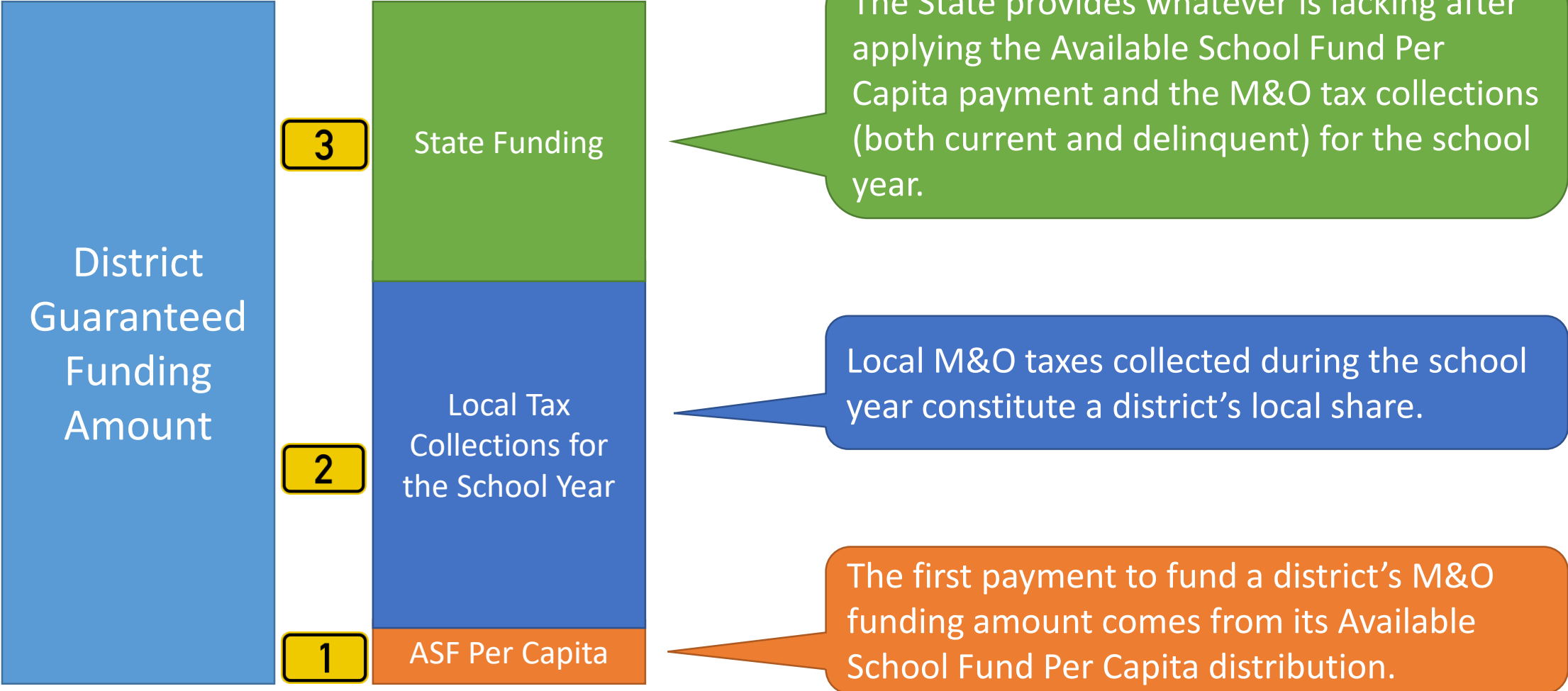
# Determining State/Local Funding for M&O



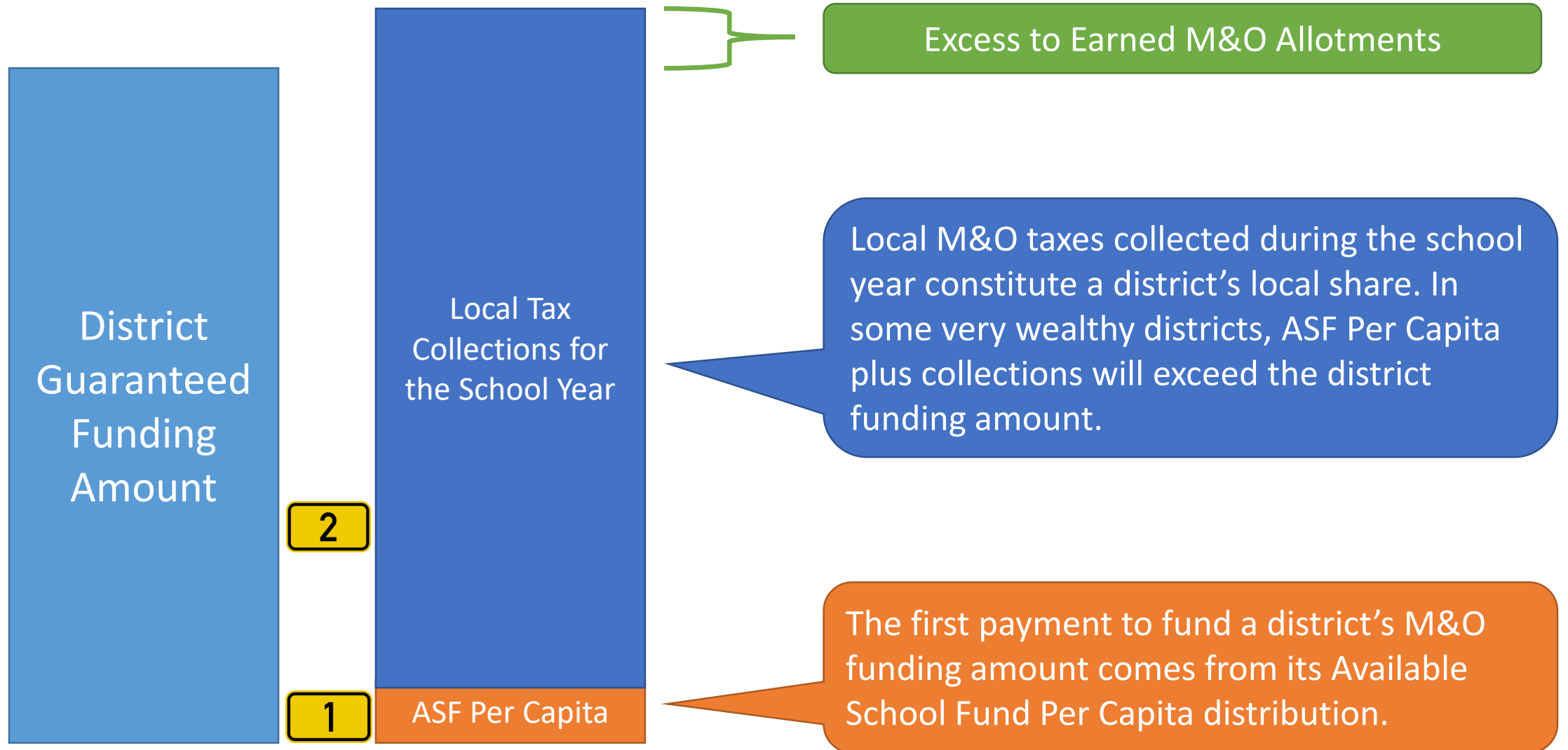
# Determining State/Local Funding for M&O



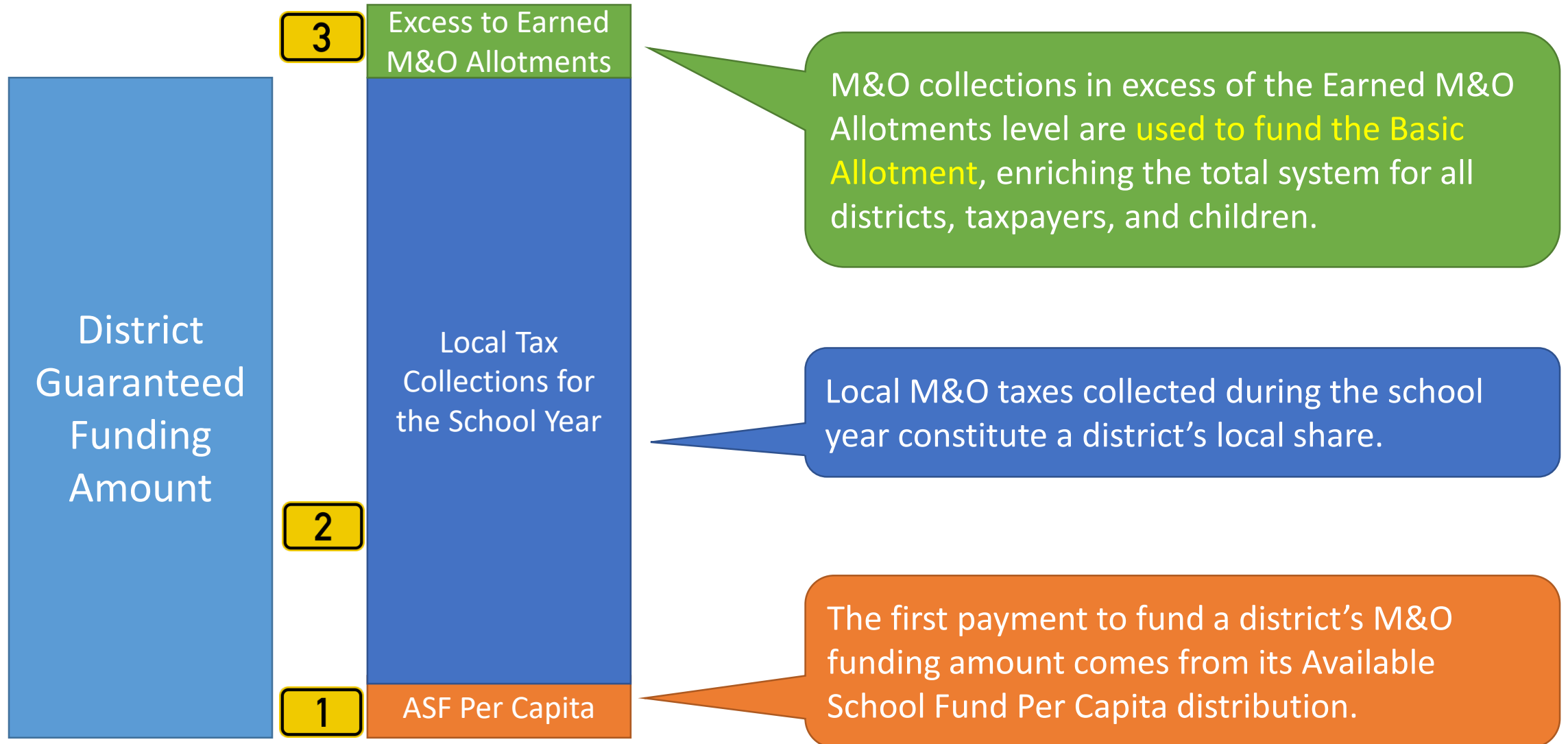
# Determining State/Local Funding for M&O



# Determining M&O “Excess” for Property Wealthy Districts



# Determining M&O “Excess” for Property Wealthy Districts



# All Property Tax Collections Fund Public Education

- *All increases* in collections due to growth in district wealth should be *spent on public education*
  - Cover student growth
  - Increase the Basic Allotment, district adjustments, allotment weights, and/or funding initiatives such as full day kindergarten or pre-K
- Exception: *All increases in recaptured funds must be used to increase the Basic Allotment*
- These are both **DRIVERS** of school funding levels

## A Transition Plan

- This plan doesn't have any winners or losers—all are treated fairly
- Districts that have been receiving extreme excess benefit in the current system will lose funding (just as losers in the current system will go up)
- A funding transition for districts losing revenue to avoid disruption is reasonable—under the right circumstances

## A Transition Plan that Works

- Should the Legislature decide a transition plan is warranted for these districts, we suggest it be *done differently to avoid the problems created by recent hold harmless funding methods*



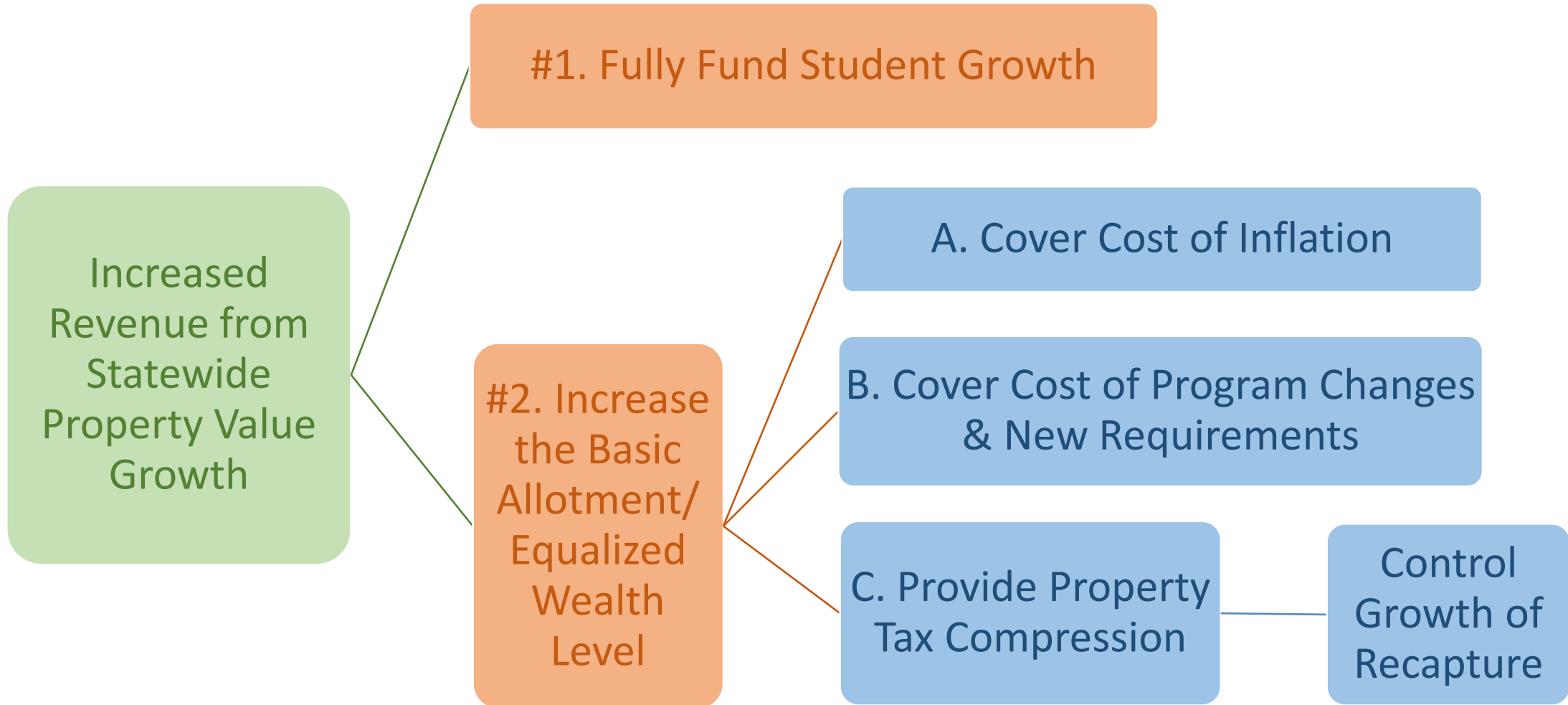
## A Transition Plan that Works

- 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 it 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 *to avoid catastrophic cliffs*
    - For example: 100% in year one; 80% in year two; 60% in year three; 40% in year four; and 20% in the last year

# Major Concerns to Watch

- Discussions over District Adjustments (CEI, Mid and Small District Adjustments)
- Attempts to impact recapture (outside of raising the BA and other known cost elements in the system—ELL, Comp Ed)
- Forced Tax Compression
- Changes to Existing Cost-based Student Weights
- LOHE advantage for chapter 41 districts

# Proper Use of Property Value Growth—In an Efficient System



Year	Total WADA	Current Year Property Value	Current DPV/WADA	% Change	BA Growth Kept	BA Growth for Tax Compression	Historical Basic Allotment (BA)	Historical Equalized Wealth Level (EWL)	Historical Average M&O Tax Rate	Average M&O Tax Compression after 2.5% Gain	BA after Growth	EWL after Growth	Impact of Continued Compression of M&O Tax Rates
FY06	5,554,227	1,211,027,049,860	218,037										
FY07	5,623,429	1,290,915,171,137	229,560	5.3%	2.5%	2.8%			1.3391				
FY08	5,799,144	1,522,513,173,357	262,541	14.4%	2.5%	11.9%			1.0420				
FY09	5,898,712	1,678,723,459,823	284,592	8.4%	2.5%	5.9%			1.0520				
FY10	6,012,408	1,686,028,900,947	280,425	-1.5%	0.0%	0.0%	4,765	476,500	1.0557	0.000	4,765	476,500	1.056
FY11	6,137,650	1,655,152,584,816	269,672	-3.8%	0.0%	0.0%	4,765	476,500	1.0629	0.000	4,765	476,500	1.063
FY12	5,879,487	1,655,388,268,684	281,553	4.4%	1.9%	2.5%	4,765	476,500	1.0673	0.027	4,884	488,400	1.036
FY13	6,243,285	1,769,622,007,452	283,444	0.7%	0.7%	0.0%	4,765	476,500	1.0684	0.000	4,884	488,400	1.037
FY14	6,448,156	1,871,257,360,017	290,200	2.4%	2.4%	0.0%	4,950	495,000	1.0727	0.000	4,884	488,400	1.042
FY15	6,565,867	1,950,283,403,782	297,034	2.4%	2.4%	0.0%	5,040	504,000	1.0742	0.000	4,884	488,400	1.043
FY16	6,672,665	2,129,035,039,762	319,068	7.4%	2.5%	4.9%	5,140	514,000	1.0812	0.053	5,125	512,500	0.990
FY17	6,756,148	2,076,186,680,300	307,303	-3.7%	0.0%	0.0%	5,140	514,000	1.0869	0.000	5,125	512,500	0.996
FY18	6,833,219	2,394,137,979,134	350,368	14.0%	2.5%	11.5%	5,140	514,000	1.0934	0.126	5,715	571,500	0.870
FY19	6,914,550	2,562,634,577,550	370,615	5.8%	2.5%	3.3%	5,140	514,000	1.0934	0.036	5,902	590,200	0.834

NOTE: The next 2 slides are different scenarios of the funding **ADVANTAGE** and/or **GAIN** per classroom if recapture were repealed and all else remained the same except ...

1. The State raised taxes by more than \$4.1 billion for the biennium to maintain current law funding levels in the absence of recapture funds.

2. The Hardship Grant was deleted when non-recapture calculations were done...rich wouldn't need it, and low-wealth recipients wouldn't have gotten it.

# What would the current system without recapture look like?

Results are, of course, on average for the group indicated.

	FY18 M&O Tax Rate	FY18 Rev per WADA	FY18 Rev per WADA w/o Recapture	<i>Advantage per Classroom</i>
Net Recapture Districts	1.043	7,209	13,757	264,197
Everyone Else	1.101	6,231	6,196	--
<b>Difference</b>	<b>(5.8) cents</b>	<b>978</b>	<b>7,561</b>	<b>--</b>

Additional State Funding Needed for the Biennium (without recapture)



More than \$4,100,000,000

*The data shown are based on TEA March Update for FY 2018 – Near Final data, which is more reliable, will not be available until the end of September, 2018.*

# What would the current system without recapture look like?

Results are on average for the group indicated.

	FY18 M&O Tax Rate	FY18 Rev per WADA	FY18 Rev per WADA w/o Recapture*	<i>Gain per Classroom</i>
Net Recapture Districts	1.043	7,209	13,757	228,799
Everyone Else	1.101	6,231	6,196	(1,181)
<b>Difference</b>	<b>(5.8) cents</b>	<b>978</b>	<b>7,561</b>	<b>229,980</b>

Additional State Funding Needed for the Biennium (without recapture)



More than \$4,100,000,000

*The data shown are based on TEA March Update for FY 2018 – Near Final data, which is more reliable, will not be available until the end of September, 2018.*

*\* Hardship grant was deducted from calculations when recapture was removed.*

NOTE: The next slide compares the current law net recapture districts at current law and everyone else at \$1.17 and no LOHE. All else remained the same, except: The Hardship Grant was deleted when non-recapture calculations were done...rich wouldn't need it, and low-wealth recipients wouldn't have gotten it.



Top 10% at *FY18 Tax Rate* vs. Everyone Else at *Maximum Tax Rate*  
 Results are, of course, on average for the group indicated.

	FY18 M&O Tax Rate	FY18 Rev per WADA	<i><u>Advantage</u></i> <i>per</i> <i>Classroom</i>
Top 10% by Wealth (Current Law, no change in LOHE)	1.039	7,414	31,635
Everyone Else (No LOHE)	1.170	6,525	--
<b>Difference</b>	<b>(13.1) cents</b>	<b>889</b>	<b>--</b>

*The data shown are based on TEA March Update for FY 2018 – Near Final data, which is more reliable, will not be available until the end of September, 2018.*

Recapture is good, works well, but there are some problems that need to be addressed (FY18 Data taken from TEA's March Update and the Equity Center's SAS model...we use actual WADA estimates, not Chapter 41 self-reported WADA)

### Sundown ISD

- District Property Wealth – **\$796,000**
- WADA – 869
- M&O Tax Rate – \$1.04
- M&O Revenue per WADA – **\$11,275**
- Recapture - **\$0** (*based on actual estimated WADA, using Chapter 41 self-reported WADA, recapture calculates to be estimated, recapture calculates to be about **\$153,138***)

### Carthage ISD

- Property Wealth – **\$798,000**
- WADA – 3,428
- M&O Tax Rate - \$1.04
- M&O Revenue per WADA – **\$5,988**
- Recapture - **\$8,189,387** (Or, **\$2,047,347** *when divided by 4 to get a Sundown ISD equivalent due to differences in district WADA counts*)

Two primary differences...Carthage ISD (according to the Summary of Finance data) *lost taxable value*, which reduces revenue...Sundown ISD has a *1993 wealth hold harmless*, which greatly increases its revenue...(both get Hardship Grants, which are included in these totals).

# Misleading Information from Large Districts is Driving the Train

(FY18 Data taken from TEA's March Update and the Equity Center's SAS model...we use actual WADA estimates, not Chapter 41 self-reported WADA)

## Houston ISD

Wealth Level – \$635,000

Revenue per WADA (after recapture, of course) – \$6,027

Adopted M&O Tax Rate – \$1.04

Recapture - **\$241,157,989**

# Misleading Information from Large Districts is Driving the Train

(FY18 Data taken from TEA's March Update and the Equity Center's SAS model...we use actual WADA estimates, not Chapter 41 self-reported WADA)

## Houston ISD

Wealth Level – \$635,000

Revenue per WADA (after recapture, of course) – \$6,027

Effective M&O Tax Rate Effort – ~~\$1.04~~ **\$0.96**

- Taking its 20% Local Option Homestead Exemption into consideration

Recapture - ~~\$241,157,989~~ minus \$122,939,701 in state aid, nets recapture down to **\$118,218,289**

# Misleading Information from Large Districts is Driving the Train

(FY18 Data taken from TEA's March Update and the Equity Center's SAS model...we use actual WADA estimates, not Chapter 41 self-reported WADA)

## Houston ISD

Wealth Level – \$635,000

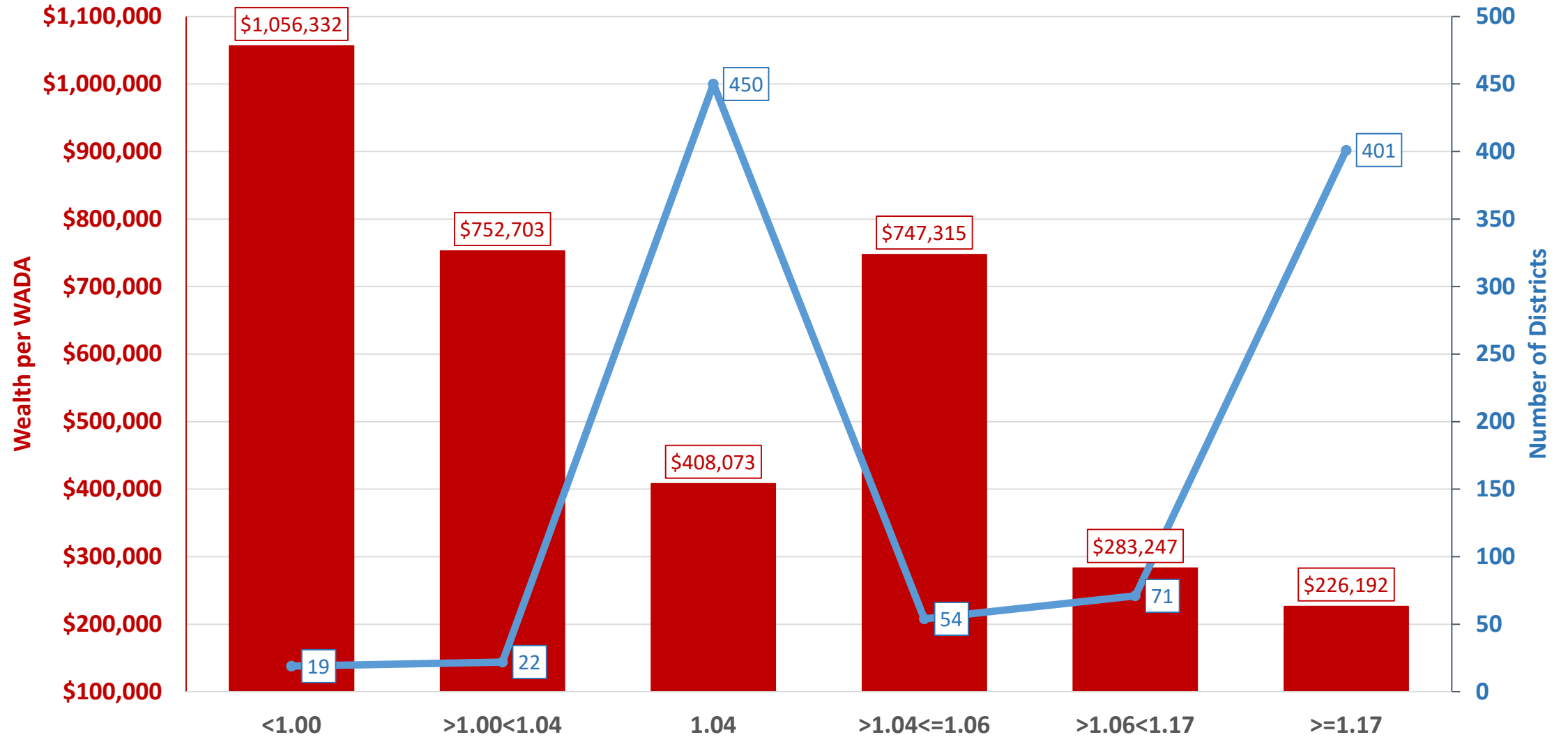
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Effective M&O Tax Rate Effort – ~~\$1.04~~ **\$0.96**

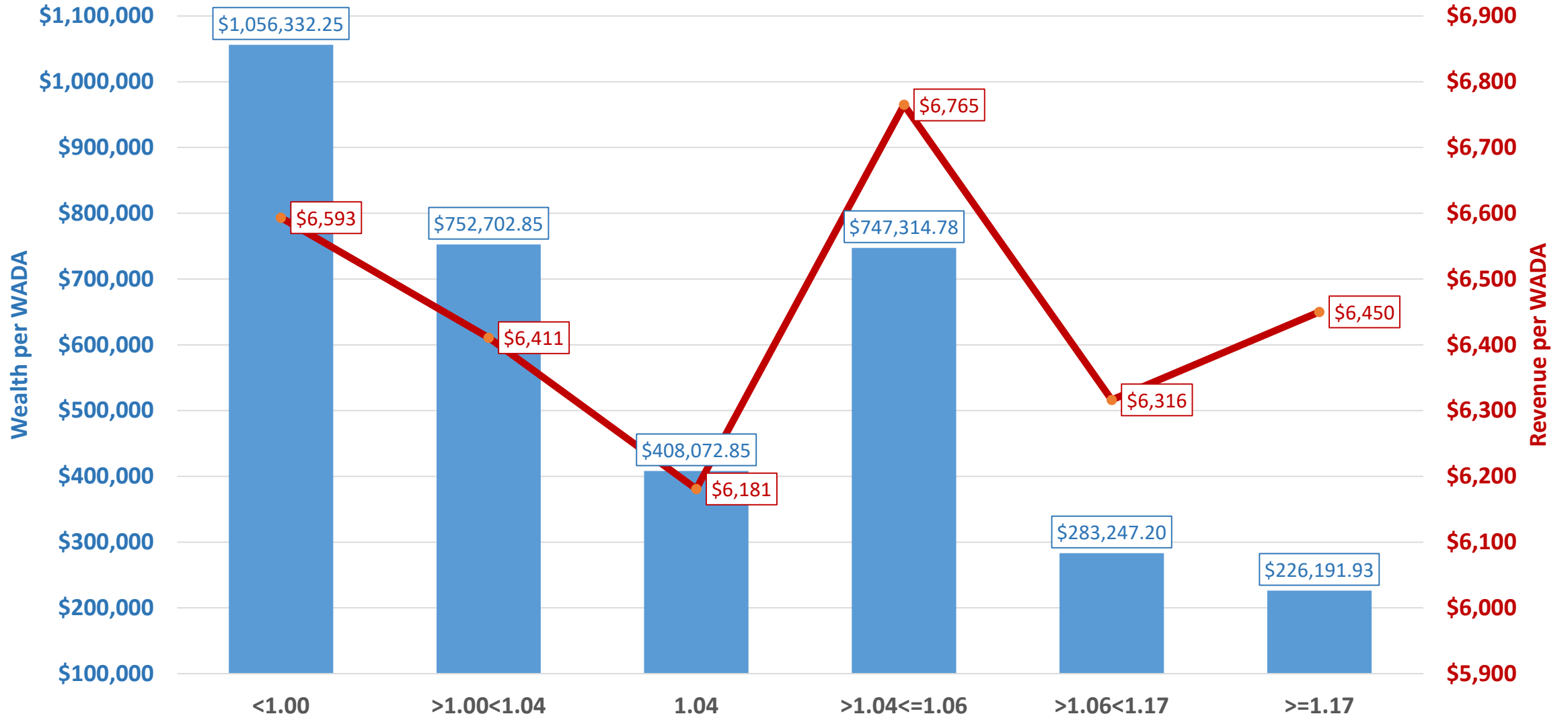
- Taking its 20% Local Option Homestead Exemption into consideration

Recapture - ~~\$241,157,989~~ minus *\$122,939,701 in state aid*, nets recapture down to ~~\$118,218,289~~ minus *\$335,211,697 in state aid for HISD-located charter schools* (whose parents pay HISD taxes) **completely nets out recapture** with over \$200 million to spare.

# FY 18 Average School District Wealth per WADA by M&O Tax Rate Groupings--TEA March Updates

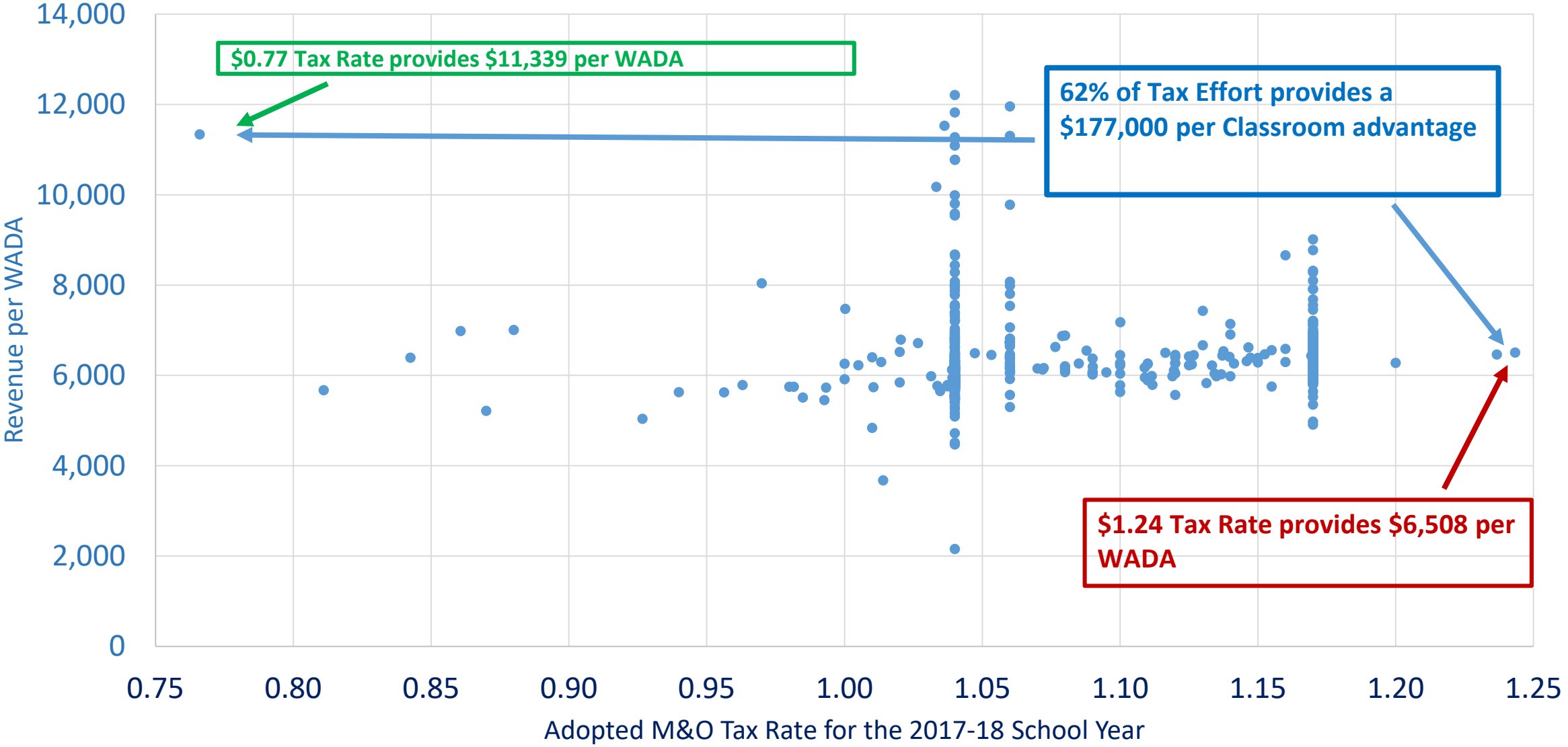


# FY 18 Average School District Revenue per WADA & Wealth per WADA by M&O Tax Groupings--TEA March Updates



# FY18 Revenue per WADA at M&O Tax Rate

(with Hardship Grant) - Updated 8.24.18 from TEA's March Update

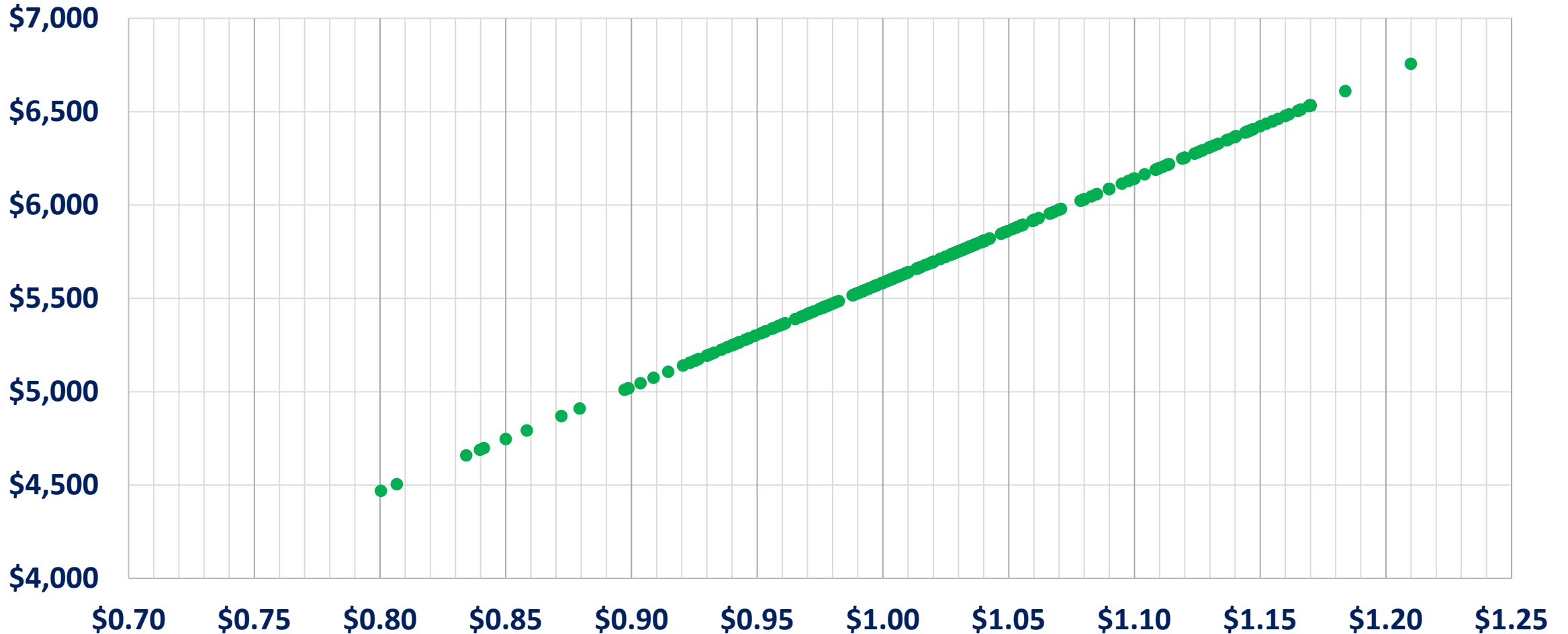




# Texas School Finance--FY 18 on this Cost Based Formula Plan

**BA \$5,583**

Revenue per WADA Without Transportation



District M&O Tax Rates for FY 17