

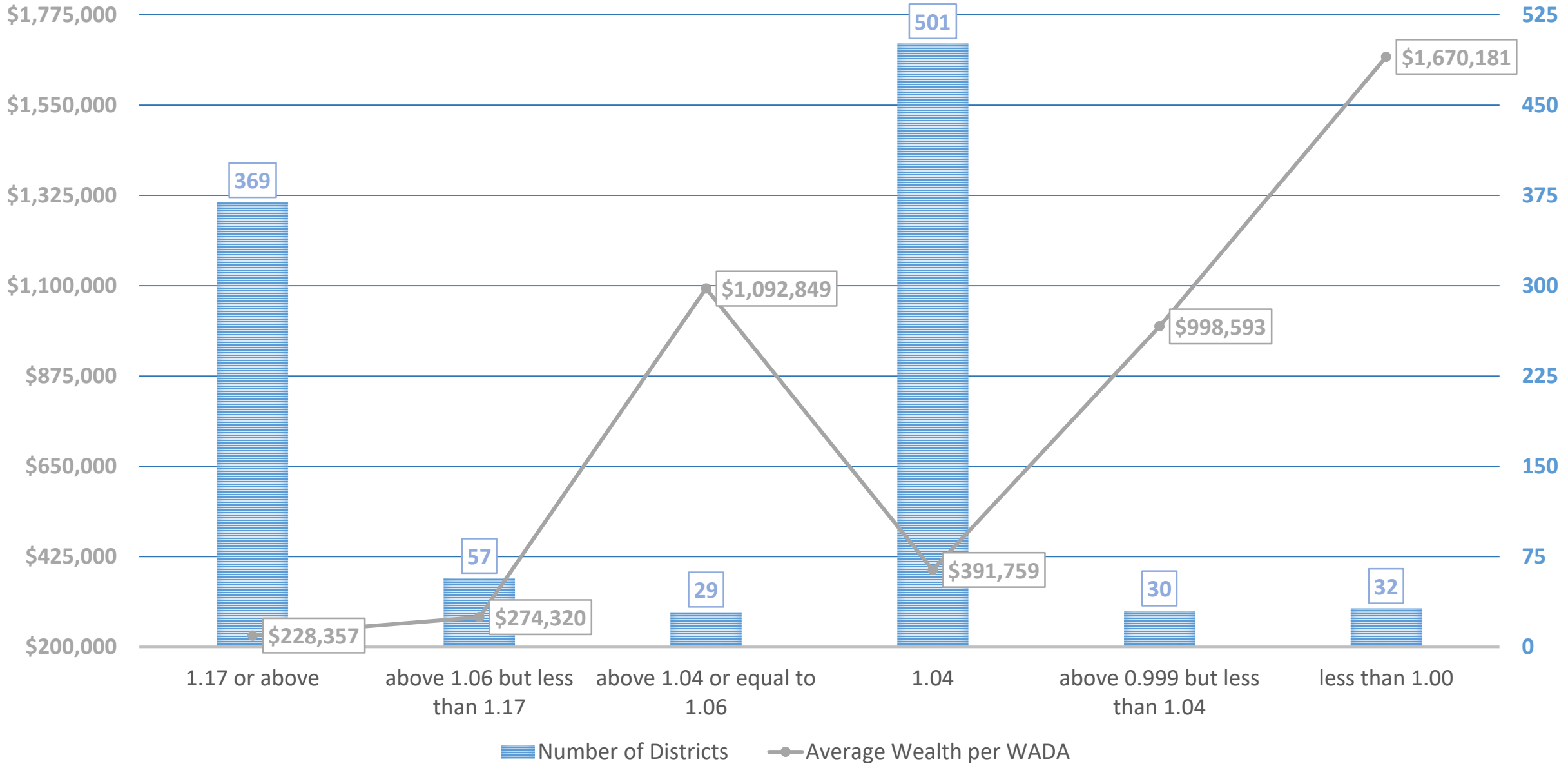
# Overview of a School Finance Plan That Makes Sense for Everyone

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

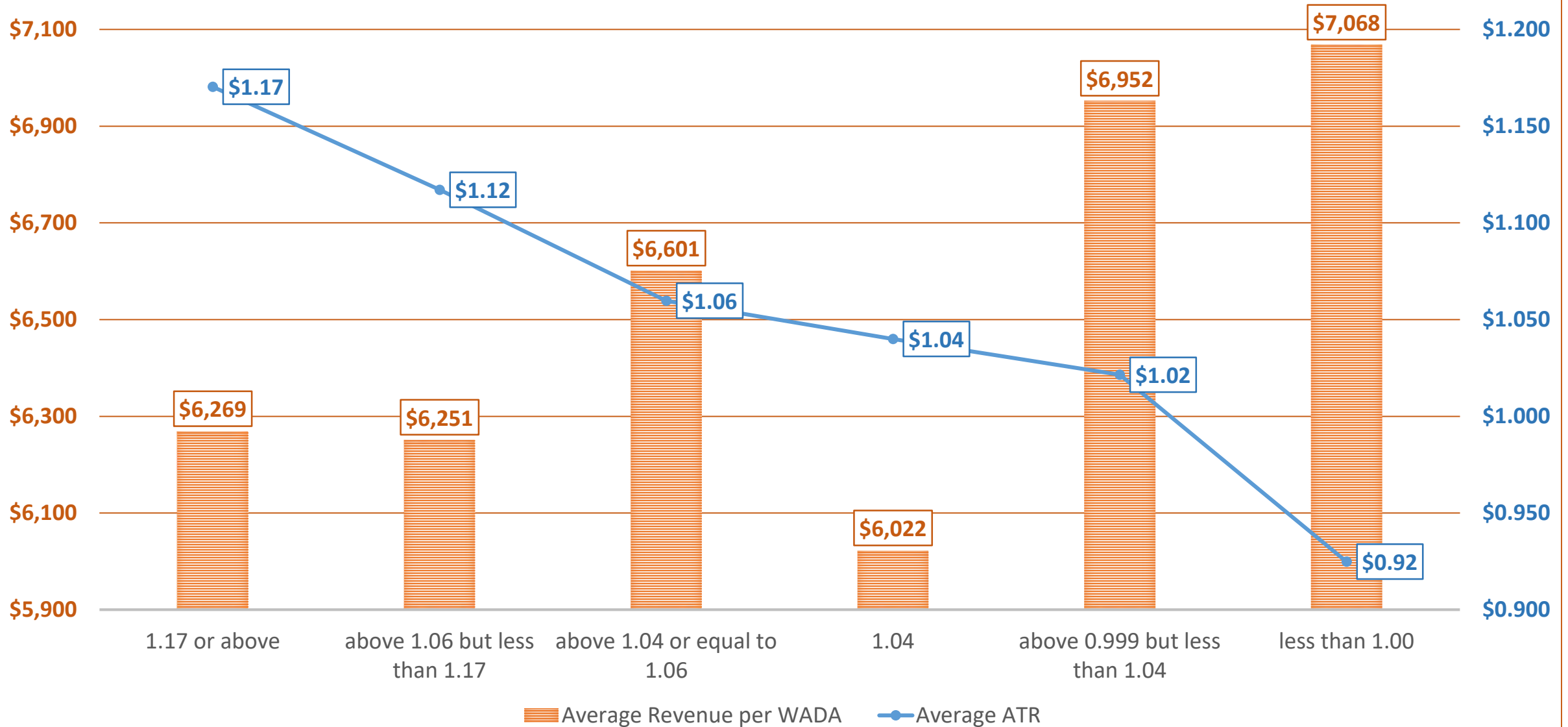
# Principles of an Efficient Funding System

- 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 2017 SCHOOL DISTRICT ADOPTED M&O TAX RATE (ATR) INFORMATION



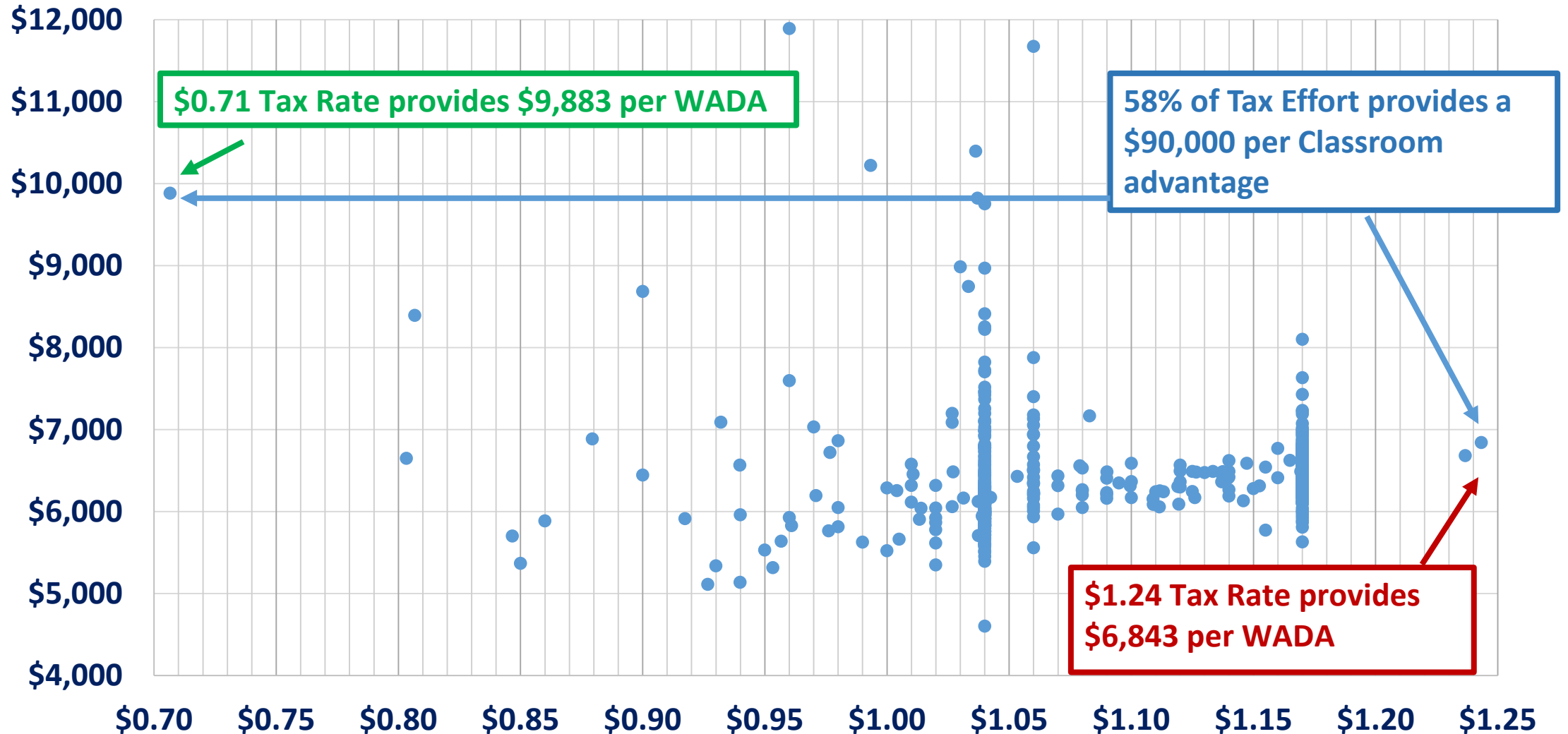
## FY 2017 SCHOOL DISTRICT REVENUE PER WADA/ADOPTED M&O TAX RATE (ATR) COMPARISON





# FY 18 Revenue per WADA at Adopted M&O Tax Rate

TEA January 2018 DATA



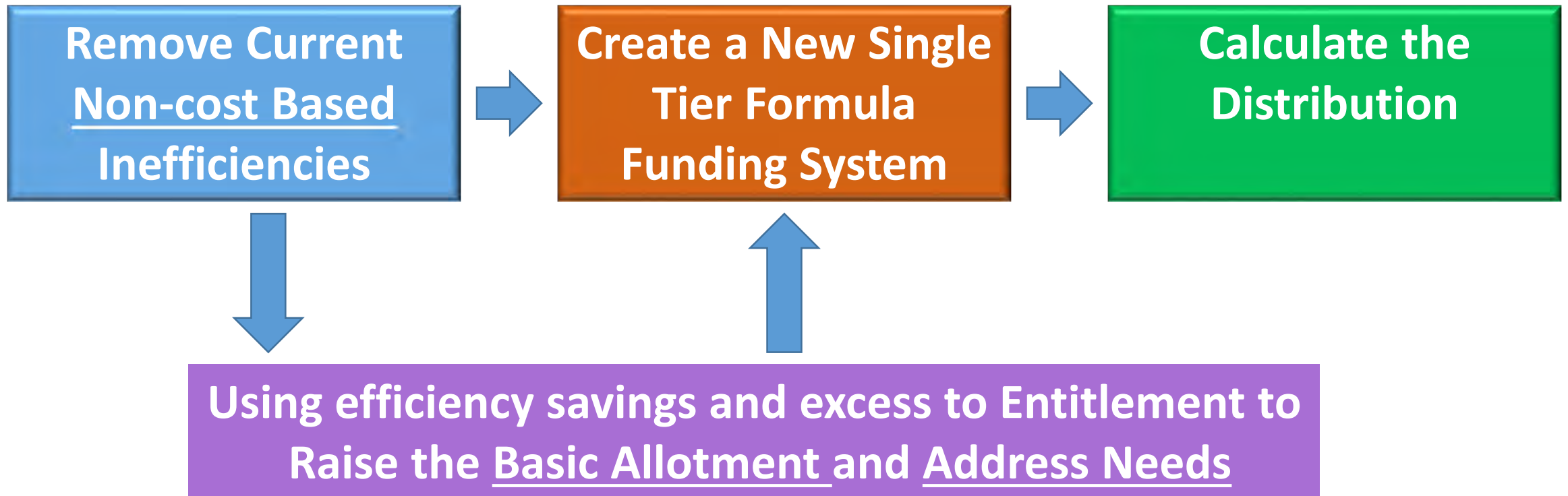
# An Efficient Texas Public Education Funding System

## Necessary Steps

1. Remove Current Non-cost Based 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
- c) Rolling resulting savings into the Basic Allotment & EWL and/or increases in Compensatory & Bilingual Education allows the state to use its resources where they are most needed

## 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

- Statutory BA = \$5,140

Assume Compressed Tax Rate of \$0.90

Calculation:

*Lesser of*

5,140, or

$5,140 * .90$ , which is 4,626

(1,018 different Basic Allotments are possible)

## New Plan

- Higher Basic Allotment
  - Savings are rolled into it

Calculation:

None – Every district has the same Basic Allotment



## 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

# Simplifying the CEI Calculations

## Basic Allotment → Adjusted Basic Allotment

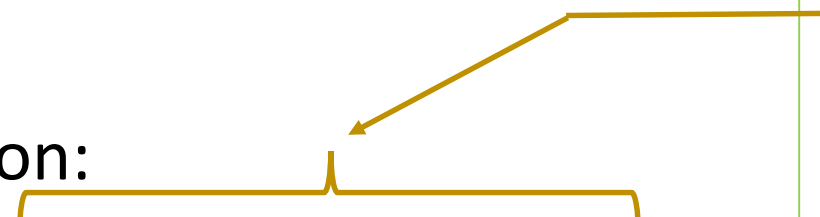
### Current Law

Assume BA = \$5,140; CEI = 1.10

Calculation:

$$\$5,140 * (1 + (0.100 * 0.710)) =$$

\$5,505 ABA



### New Plan

*TEA changes every district's CEI to reflect the 71% reduction.*

Old CEI = 1.10; new CEI = 1.071

Calculation:

Basic Allotment\* 1.071 = Adjusted Basic Allotment

\* BA will be higher than \$5,140 because of the savings

# 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

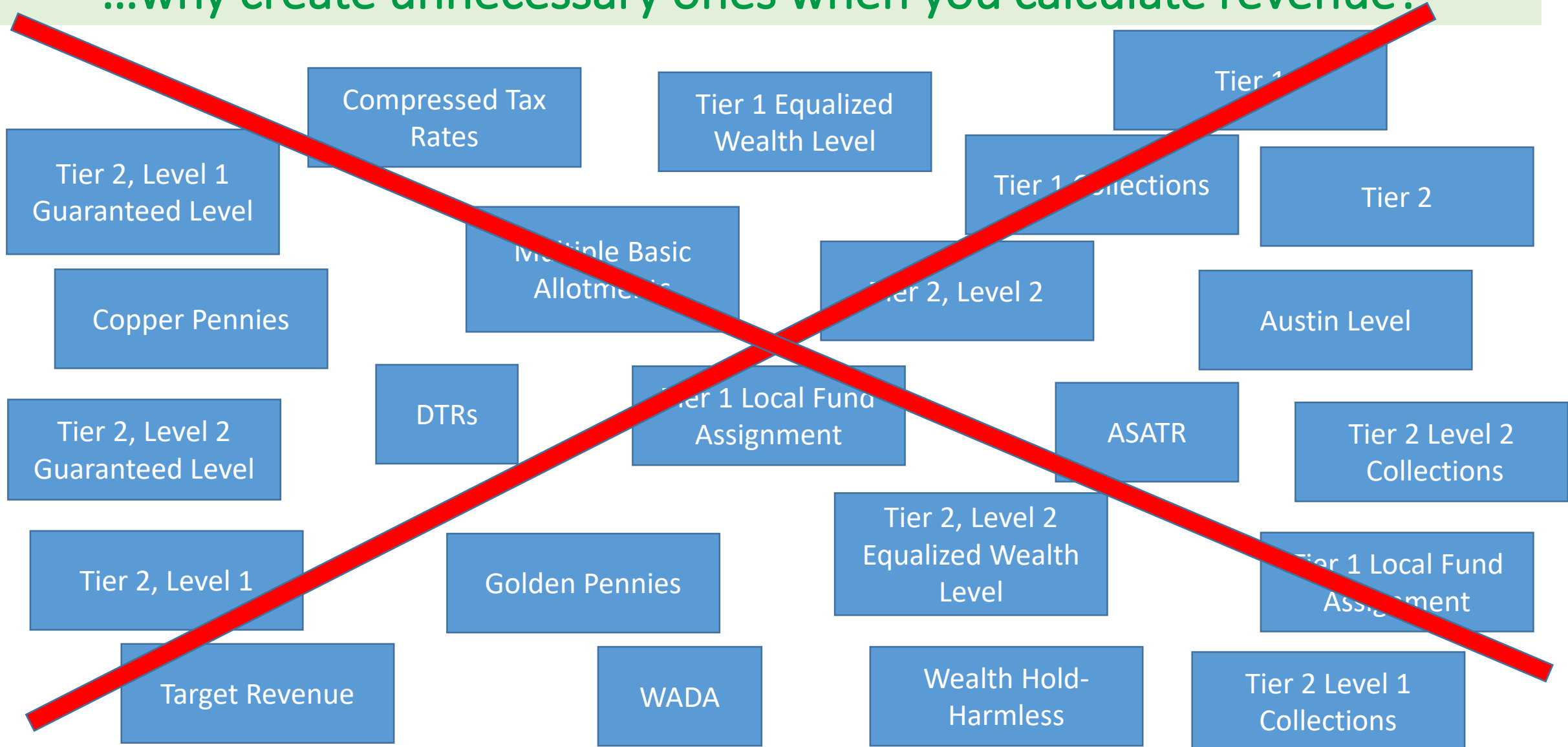
## Categorical Aid

### 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)



*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 <https://tealprod.tea.state.tx.us/fsp/Reports/ReportSelection.aspx> 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.*

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





## Possible Cycle for Reviewing Weights

- 1<sup>st</sup> Biennium—Basic Allotment & CEI
- 2<sup>nd</sup> Biennium—Student Allotments—Bilingual, Compensatory, Special Education, Career & Technology
- 3<sup>rd</sup> 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

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

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

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

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

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

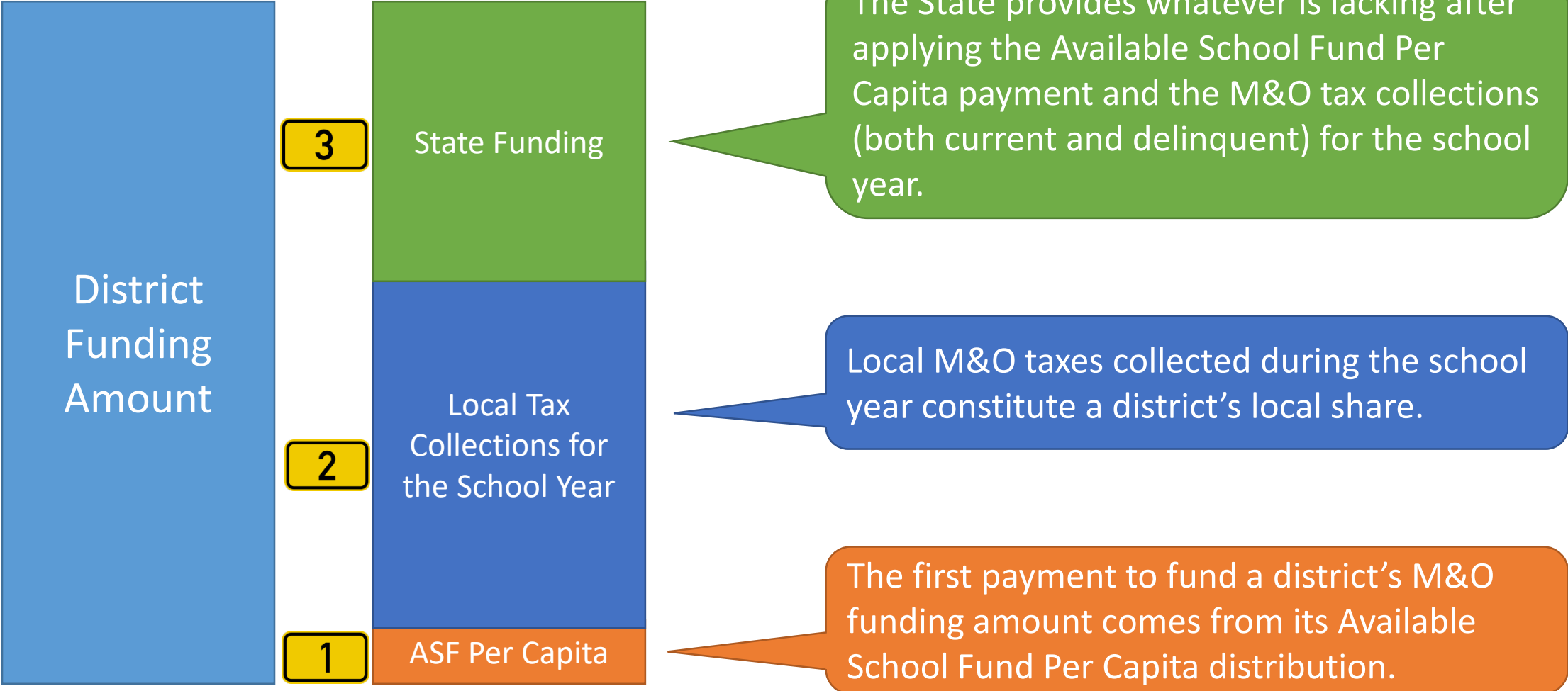
## Tax Rate vs. Tax Effort

- 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

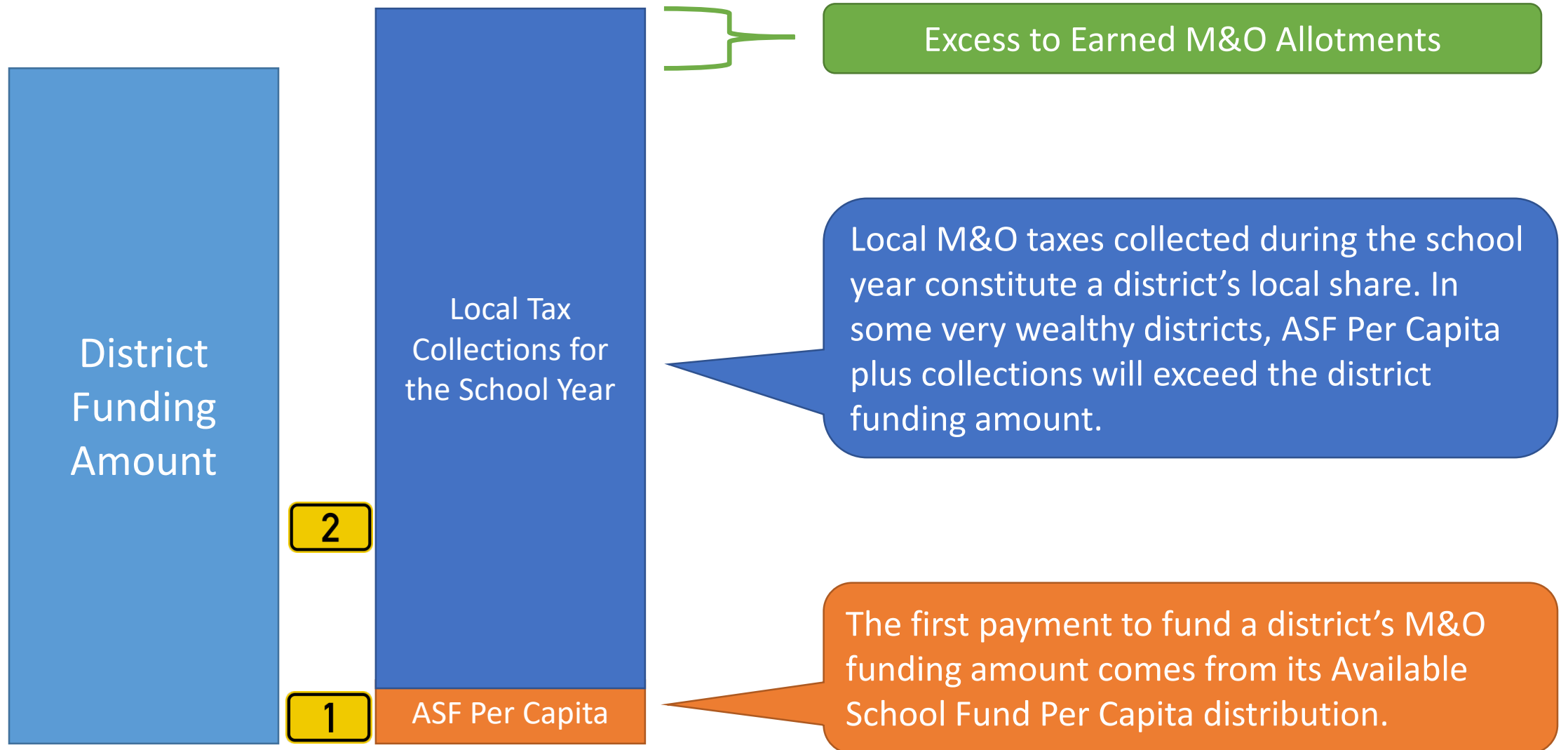
$$\text{Tax Effort} = \text{M\&O Tax Rate} \times \frac{\text{Taxable value a District CHOOSES to tax}}{\text{Taxable value a District IS ENTITLED to tax}}$$

# Sources of Funding

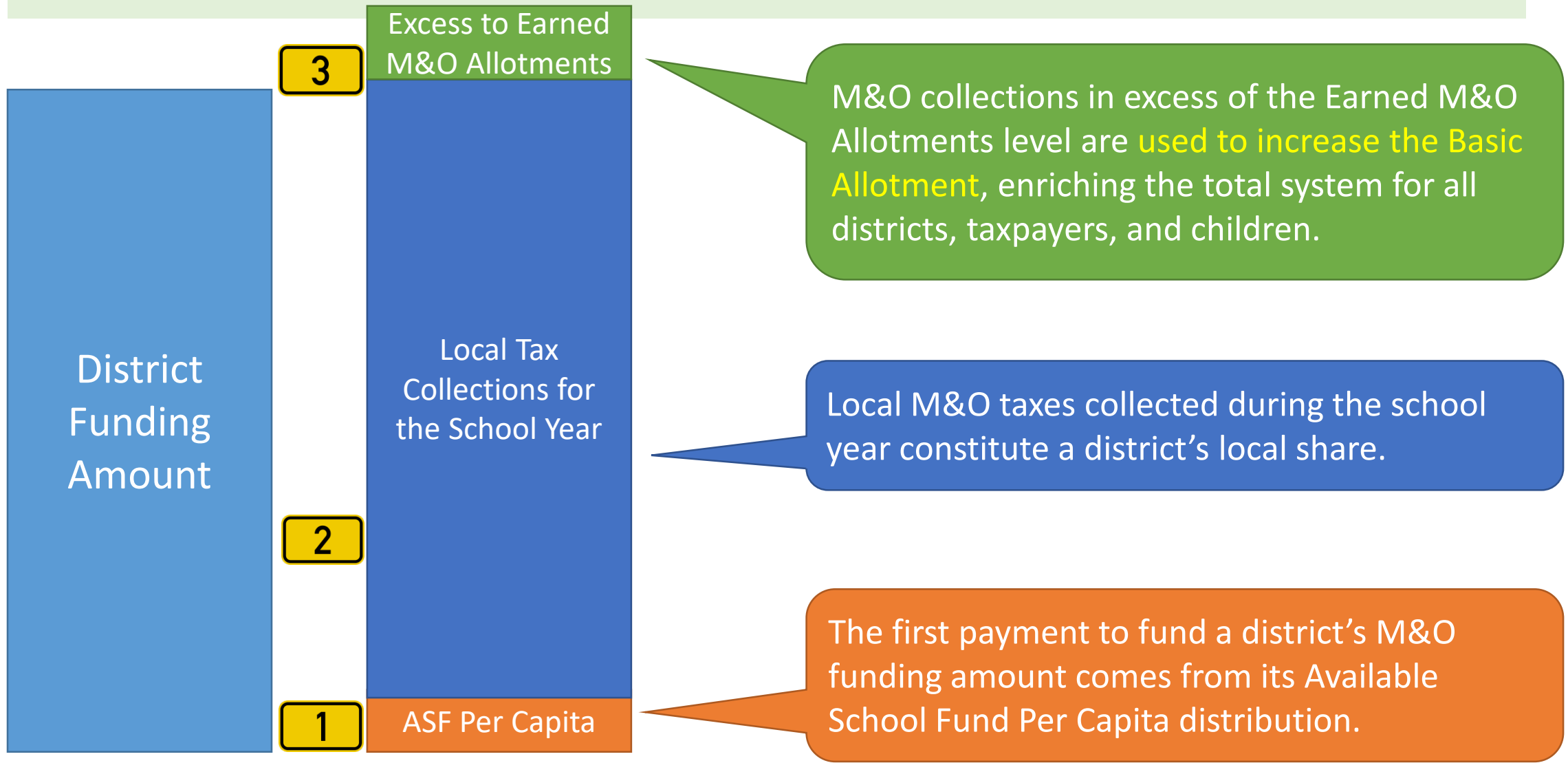
# Determining State/Local Funding for M&O



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

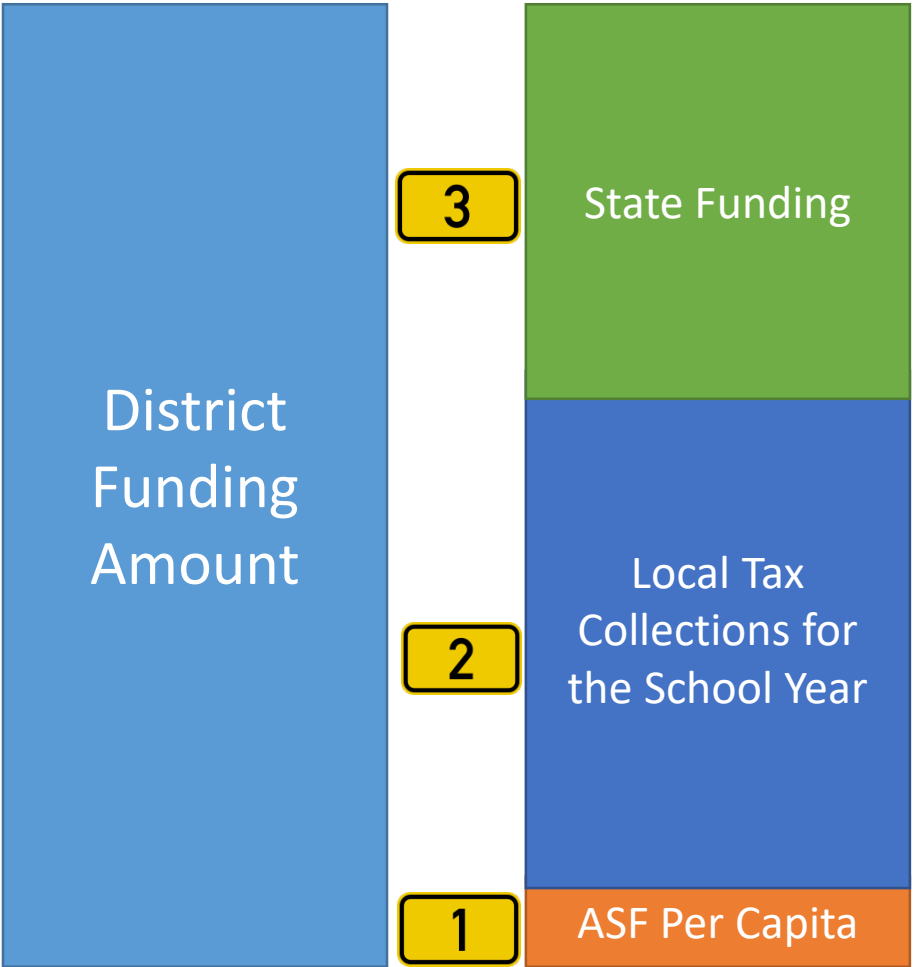


# Determining M&O “Excess” for Property Wealthy Districts



# Determining State/Local Funding for M&O

Pre-K Funding/Teacher Quality Initiative, etc



The State provides whatever is lacking after applying the Available School Fund Per Capita payment and the M&O tax collections (both current and delinquent) for the school year.

Local M&O taxes collected during the school year constitute a district's local share.

The first payment to fund a district's M&O funding amount comes from its Available School Fund Per Capita distribution.



# 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 Basic Allotment to a Percentile of wealth or a Particular School District 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

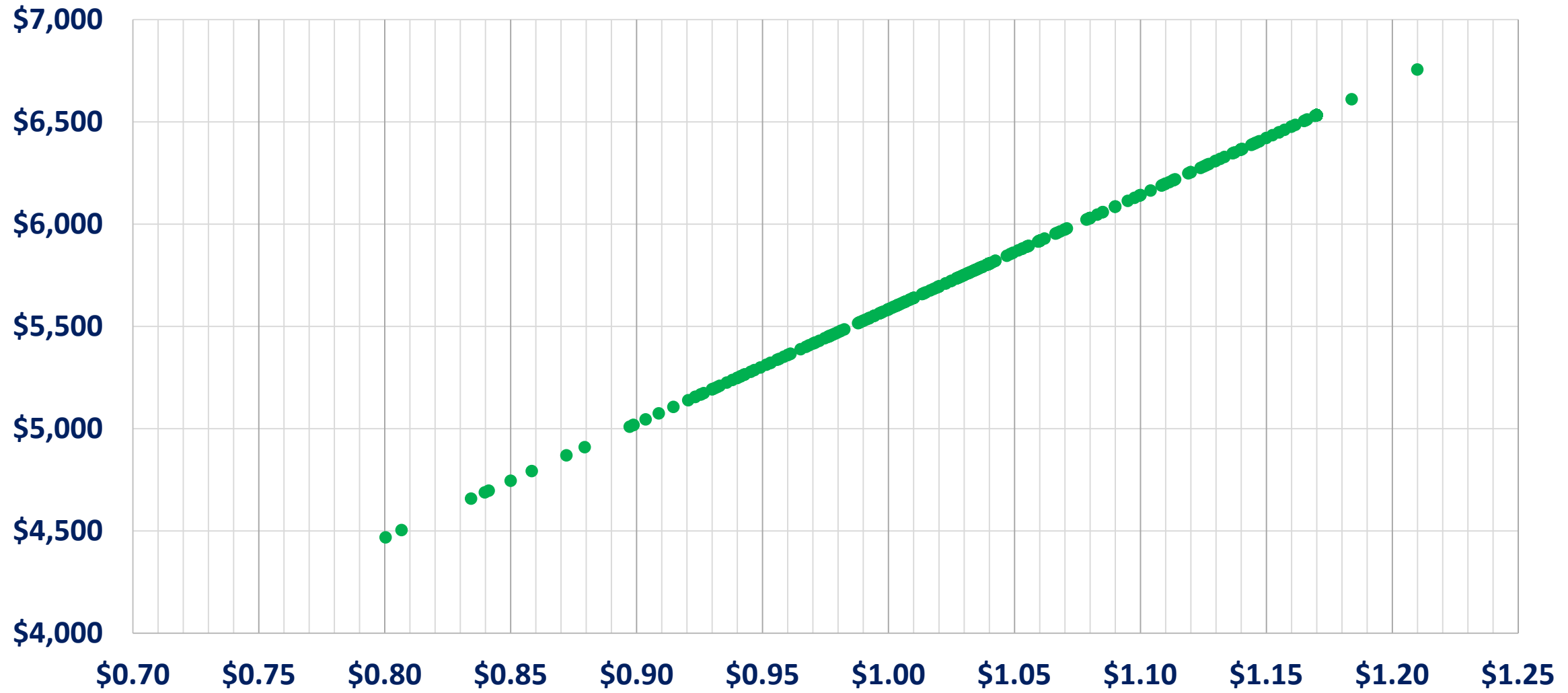
- If the non-cost based inefficiencies are removed, a number of districts that have been receiving excess benefit will lose funding (just as others will go up)
- Should the Legislature decide a transition plan is warranted for these districts, we suggest it be done differently to avoid the problems created 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

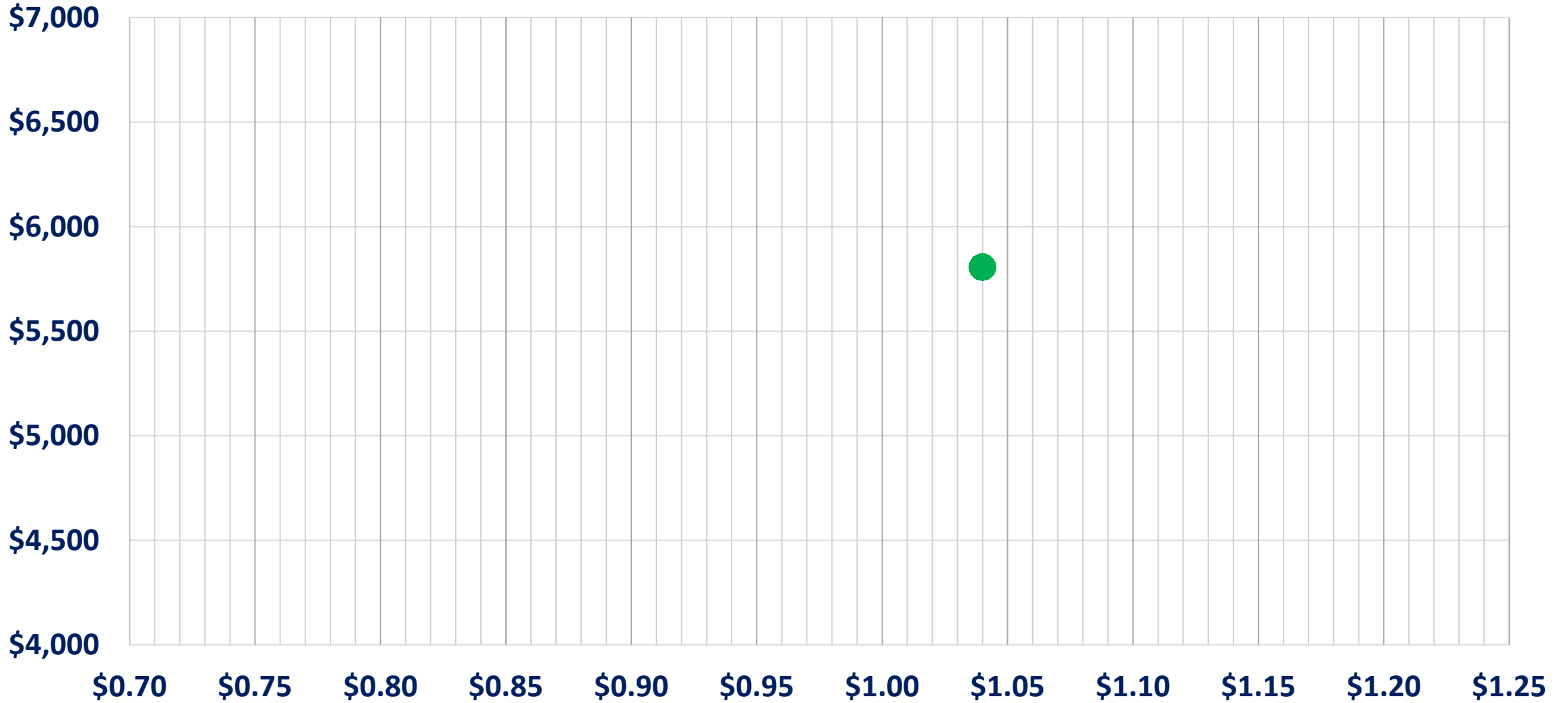
# Texas School Finance--FY 18 on a Cost Based Formula--BA \$5,583

## Revenue per WADA Without Transportation



# 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 over-reliance 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
<b>Difference</b>	<b>(6.5) cents</b>	<b>520</b>	<b>6,285</b>	<b>197,716</b>

Additional State Funding Needed for the Biennium (without recapture)



**\$4,100,000,000**

## What would a system without recapture look like?

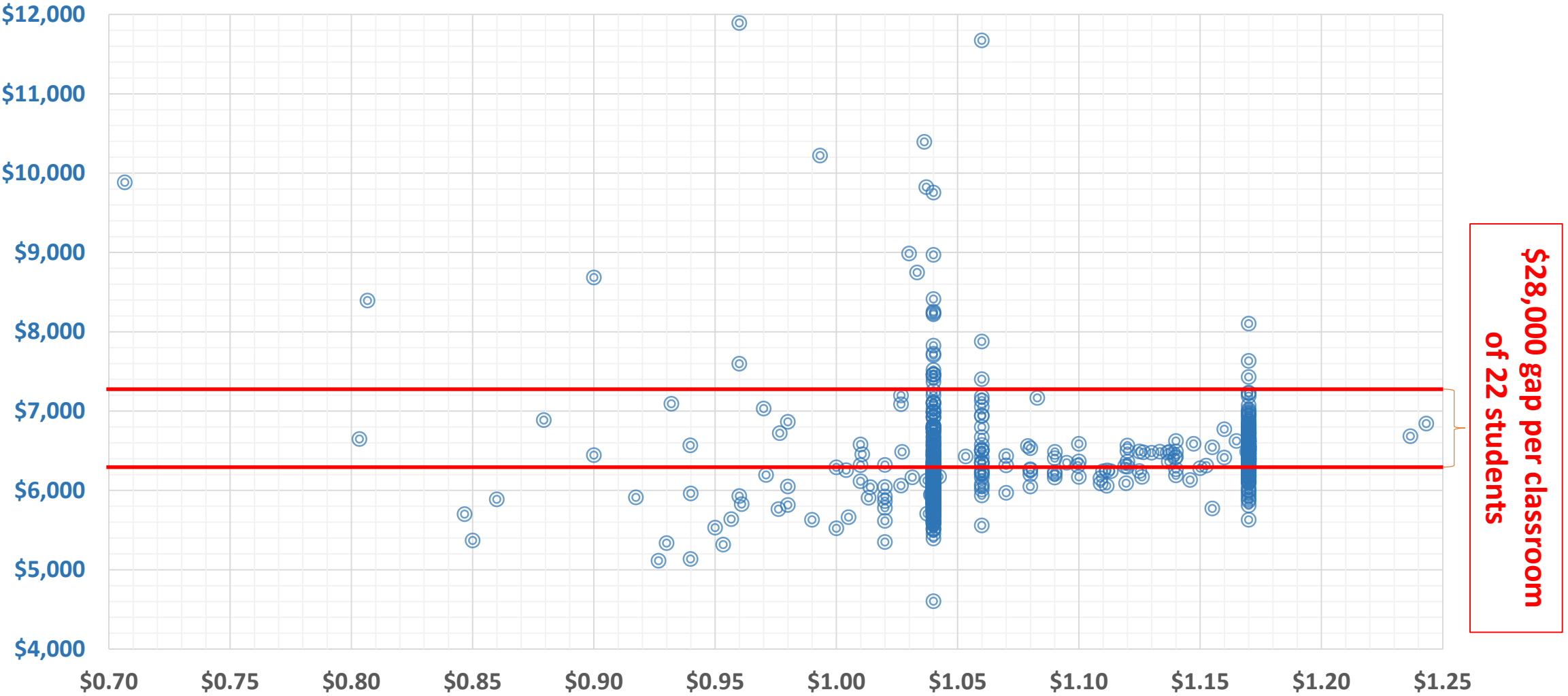
	FY17 M&O Tax Rate	FY18 Current Law	FY18 without Recapture	Gain per Classroom
Wealthiest 10% (n = 102)	1.028	6,898	14,624	268,185
Everyone Else	1.095	6,270	6,297	891
<b>Difference</b>	<b>(6.7) cents</b>	<b>628</b>	<b>8,327</b>	<b>267,293</b>

Additional State Funding Needed  
for the Biennium (without recapture)

**\$4,100,000,000**

# FY 18 Revenue per WADA

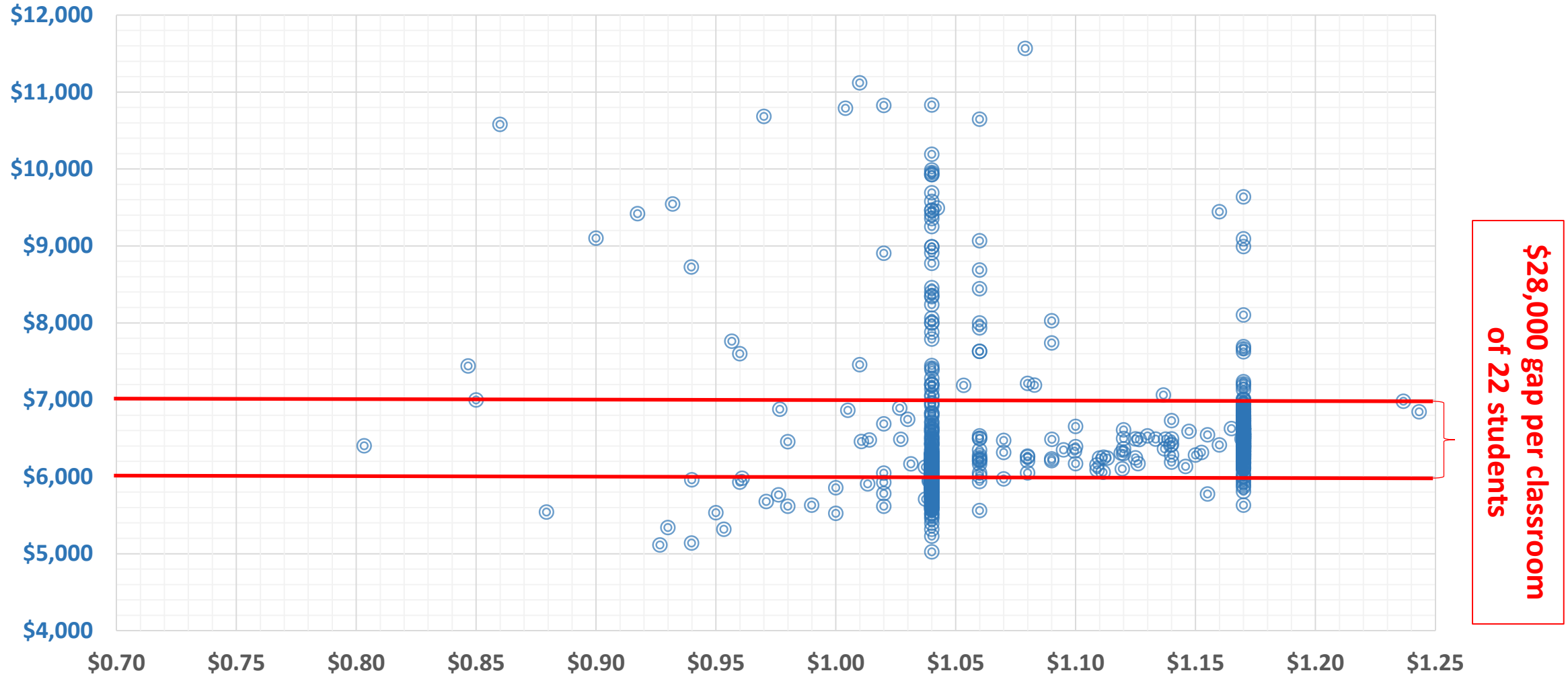
TEA January 2018 DATA



**\$28,000 gap per classroom  
of 22 students**

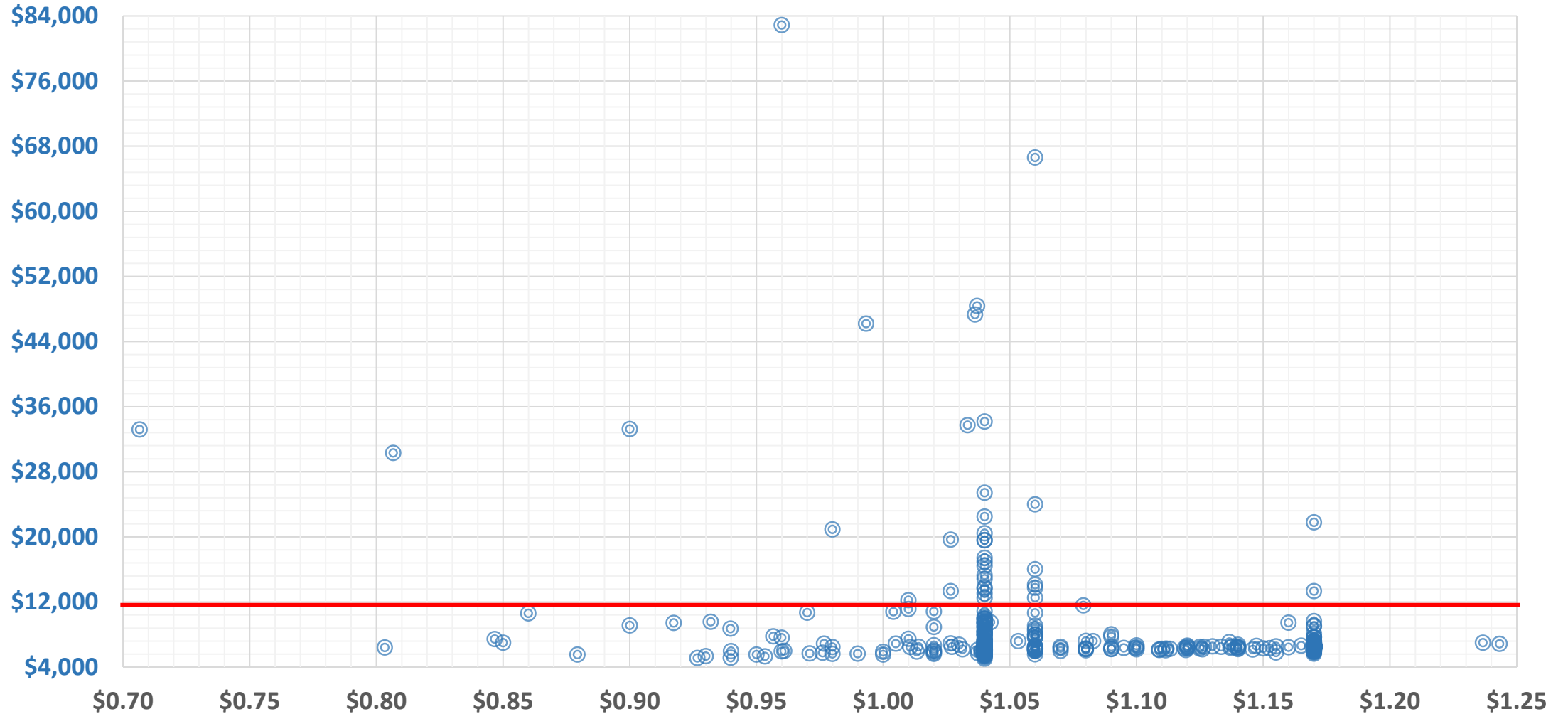
# FY 18 Revenue per WADA--No Recapture

TEA January 2018 DATA



# FY 18 Revenue per WADA--No Recapture

TEA January 2018 DATA





# 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
<b>221</b>	<b>Chapter 41 Districts that are substantially funded like Chapter 42 Districts</b>