

InDepth

Understanding Texas School Finance



Fixing School Finance - with Money!

If you or your friends watch any of the “fixer upper” shows on cable TV, one common result is apparent. The more money the buyers have available for the “fixin,” the prettier and nicer the finished product ends up being. Money, and increasing amounts of it, makes a difference!

However, when it comes to “fixer uppers,” another truth controls the success of the final product. If you have foundation, plumbing, electrical, or roofing problems, all those problems must be mitigated first. Otherwise, the final product is just window dressing and will fail the owner over time.

Likewise, when it comes to fixing school finance, additional funding is wonderful and much needed. But if we fail to use it to create an efficient formula system, based on known costs, and one that brings all school districts into the same system, then you run the risk of masking the problems without actually “fixing” anything.

To truly fix our school finance formula, we have to go back to the foundation, the basics to determine what constitutes an efficient, equitable and adequate method of delivering similar resources, to similar students, in districts with similar tax rates. Then, we must determine how to do that. What follows is a primer for where to start.

Start Here: The Basis of a Plan

Simplify!!!

**Remove Current
Non-cost Based
Inefficiencies**



**Use Savings to
Raise the Basic Allotment
and Address Real Costs**

This sounds simple and it is. We know the inefficiencies in our current finance system (see the next chart). A failure to eliminate these inefficiencies will result in a continuation of the very same foundational school finance problems that make our current system inefficient, inequitable and divisive. It is the necessary and required first step to successfully fixing our school finance system. (*continued on page 2*)



Fixing School Finance... (continued)

Which System is Required?

It's important to ask the question, does this change improve efficiency & equity in the system?

ALL Texas students and taxpayers should be in the same boat...take a closer look at:

- ASF Per Capita distribution
- Prior Year Values
- 1993 Wealth Hold Harmless
- Early Agreement Credits
- High School Allotment
- Staff Allotment
- 50% LOHE only for some districts
- Disaster relief handled differently for some

After removing the non-cost based elements of the current system, what's left is an understandable, efficient, and equitable funding system based on factors that we know impact the cost of educating children, no matter what Texas zip code they may live in.

Which System is Required?

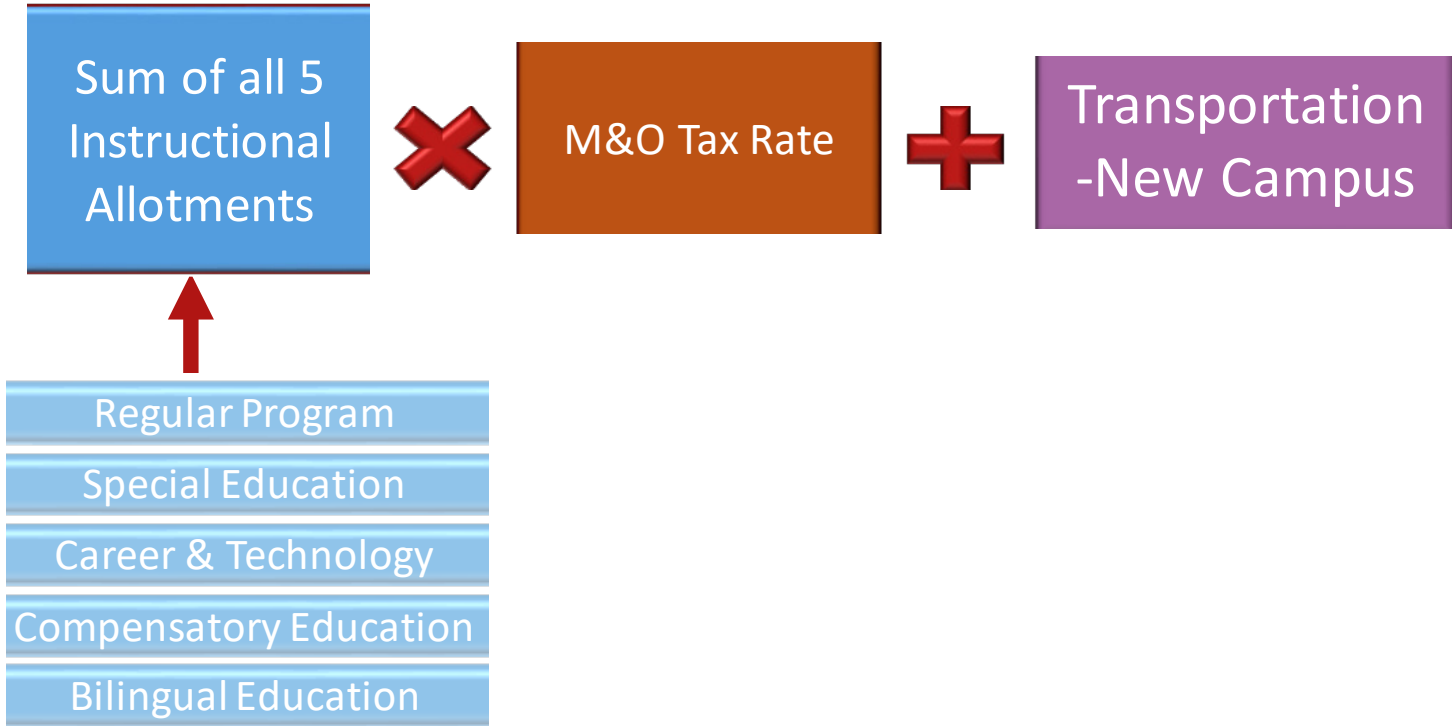
It's important to ask the question, does this change accomplish statutory/Constitutional goals?

School Finance should be based on known costs to educate students (adjustments & weights):

- Regular Program Allotment
- Special Education Allotment
- Career and Technology Allotment
- Compensatory Education Allotment
- Bilingual Education Allotment
- Cost of Education Index Adjustment
- Small and Midsize Schools Adjustment

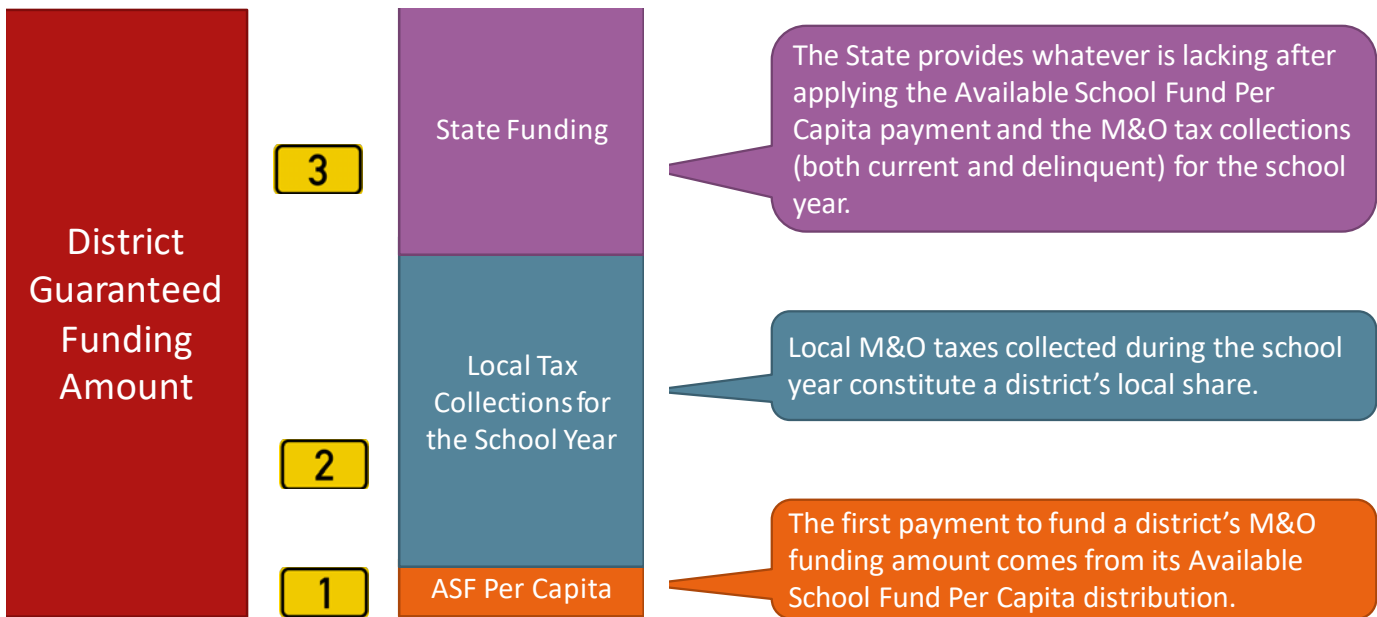
In fact, with updated district adjustments (the CEI and Small/Mid-sized Adjustments) the school finance funding formula could be as simple as this (see chart on following page). *(continued on page 3)*

Guaranteed Access to Full Sum of Allotments + Transportation + NIFA



Each district's funding, having been uniformly applied to the formula above, would work like this:

Determining State/Local M&O Funding



Every district would receive the full measure of their allotments, multiplied by the M&O tax rate. A rate of \$1.00 would generate 100% of the allotments. \$0.94 would generate 94% and \$1.10 would generate 110% of the allotments. ASF per Capita funds would be the first monies delivered to every district.

Additionally, the local share would be based on collections, not values. This would stabilize funding for districts allow every district to budget on a known amount of resources each year, regardless of what might happen with local property values. In those instances where a district collected more local taxes than what it would take to fund their allotments, those funds would be recaptured by the state and used to raise the Basic Allotment for everyone.

86th Legislature - Bills to Watch

Below is a small sampling of school finance bills to watch this session. Equity Center members, be sure to login to your Member Portal for a complete list with brief analyses included...and stay tuned for our "Latest Reports" detailing how certain legislation will impact your district. Don't miss our weekly legislative alerts and video updates - check your inbox and find previous versions on our newly-redesigned web site: www.equitycenter.org.

HB 1 by Zerwas, General Approps Bill

Notes: Article III Public Education \$9 billion above current law obligations (\$2.4 billion enrollment growth, \$2.2 cost of increase in Golden Penny Guaranteed Yield) contingent upon school finance legislation passing; \$7.4 General Revenue Related Funds; an undefined portion dedicated to property tax relief.

SB 1 by Nelson, General Approps Bill

Notes: Article III Public Education \$3.7 billion dedicated to \$5,000 educator salary increase above current law obligations (\$2.4 billion enrollment growth, \$2.2 cost of increase in Golden Penny Guaranteed Yield); \$2.3 billion dedicated to property tax relief.

SB 3 by Nelson, Classroom Teacher Raise

Notes: Provides an additional salary allotment of \$5,000 for every full-time classroom teacher at a state cost of \$3.7 billion for the biennium.

HB 89 by Gonzalez, General School Finance

Notes: Increases the Basic Allotment and creates inflationary factor for the BA of the greater of one percent or the inflation rate. Calls for a study to increase current weights. Requires a school finance study at the conclusion of every legislative session. Changes equalized wealth level calculations.

HB 297 by Murr, Elimination of Certain Property Taxes

Notes: Eliminates Tier I ad valorem taxes for maintenance and operations. Increases the current 6 ¼ sales tax to 12 cents and dedicates the increase in revenue to fund the foundation school program.

HB 443 by Meyer, Limitation on Amount of Recapture

Notes: Allows Chapter 41 districts that execute an agreement to purchase attendance credits to retain maintenance and operations revenue sufficient to pay the district's average M&O costs per student adjusted for inflation.

86th Legislature: Committee Assignments

House Public Education Committee

Chair: Rep. Dan Huberty
 Vice-Chair: Rep. Diego Bernal
 Rep. Alma Allen
 Rep. Harold Dutton
 Rep. Ken King
 Rep. Morgan Meyer
 Rep. Steve Allison
 Rep. Trent Ashby
 Rep. Keith Bell
 Rep. Mary Gonzalez
 Rep. Scott Sanford
 Rep. James Talarico
 Rep. Gary Van Deaver

House Appropriations Committee

Chair: Rep. John Zerwas
 Vice Chair: Rep. Oscar Longoria
 Rep. Cecil Bell
 Rep. Greg Bonnen
 Rep. Brad Buckley
 Rep. Giovanni Capriglione
 Rep. Philip Cortez
 Rep. Sarah Davis
 Rep. Mary E. González
 Rep. Cole Hefner
 Rep. Donna Howard
 Rep. Jarvis D. Johnson
 Rep. Rick Miller
 Rep. Ina Minjarez

Rep. Sergio Muñoz, Jr.
 Rep. Toni Rose
 Rep. Matt Schaefer
 Rep. J. D. Sheffield
 Rep. Carl O. Sherman, Sr.
 Rep. Reggie Smith
 Rep. Lynn Stucky
 Rep. Steve Toth
 Rep. John Turner
 Rep. Gary Van Deaver
 Rep. Armando Walle
 Rep. Terry M. Wilson
 Rep. Gene Wu

Senate Education Committee

Chair: Sen. Larry Taylor
 Vice Chair: Sen. Eddie Lucio, Jr.
 Sen. Paul Bettencourt
 Sen. Donna Campbell
 Sen. Pat Fallon
 Sen. Bob Hall
 Sen. Bryan Hughes
 Sen. Angela Paxton
 Sen. Beverly Powell
 Sen. Kirk Watson
 Sen. Royce West

Senate Finance Committee

Chair: Sen. Jane Nelson
 Vice Chair: Sen. Juan Hinojosa
 Sen. Paul Bettencourt
 Sen. Brian Birdwell
 Sen. Donna Campbell
 Sen. Peter P. Flores
 Sen. Kelly Hancock
 Sen. Joan Huffman
 Sen. Lois W. Kolkhorst
 Sen. Robert Nichols
 Sen. Charles Perry

Sen. Larry Taylor
 Sen. Kirk Watson
 Sen. Royce West
 Sen. John Whitmire

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There are two requirements for a school finance system to be equitable.

- (1) Equity for the taxpayer: every penny of tax effort should provide the same quality of education for a student regardless of the tax base resources of the district.*
- (2) Equity for the student: a given level of tax effort should provide an appropriate educational opportunity for each student, regardless of the differing educational needs of students and regardless of the differing costs districts face due to market differences (the free enterprise system) or diseconomies of scale due to district size.*

Not adjusting for these, leaves districts in the spot of having to use money needed for other programs to fill the basic educational needs of the student rather than having funds available for providing important enrichment programs available to other districts around the state.

Recognizing Actual Costs: Small & Midsize Allotment

The purpose of the weighted student approach to funding in Texas public education is to recognize and provide for the differing costs in educating children. It costs more to educate a student with dyslexia for example than it does to educate one without it, whether it be due to hiring additional aids or supplying different materials. The Texas Commission on Public School Finance recognized this differing cost in their final report to the Legislature published in December by creating a new funding stream for children with dyslexia.

The different costs to educating children doesn't stop there; it also costs more to educate children in smaller districts due to a diseconomy of scale. Here's a classic example:

District A has 10 first grade classrooms, but the enrollment is slightly higher than the 22:1 ratio state law allows. The district adds an 11th first grade class: net cost 10% more.

District B has 1 first grade classroom, but the enrollment, just like in District A, is slightly higher than the 22:1 allowable ratio. The district adds a 2nd first grade class: net cost 100% more.

In District A, an extra 4 students (11 teachers and 224 students) results in 20.37 students supporting each teacher.

In District B, an extra 4 students (2 teachers and 26 students) results in only 13 students supporting each teacher. Diseconomy of scale of a small school, in other words, the added cost of being small.

The Texas Commission on Public School Finance recently released recommendations to the 86th Legislature, which included limiting small and midsize funding adjustments only to the regular program, which on the surface may seem like an effective way to reduce certain costs in the funding system; however, adjustments in the formula system that relate to diseconomies of scale such as this one, don't just impact the regular program... they have a lasting impact on students in special populations such as special education and career and technology.

School finance is tricky and redoing an entire system is bound to create some problems here and there; but reducing or eliminating funding for known costs will have a lasting and far-reaching impact on Texas children, especially in rural parts of Texas. It's something we have to pay attention to as we work with legislators to create a more efficient and equitable system that works for all Texas students and taxpayers.

Known costs exist and the adjustments within the formula system that recognize these costs are there for a reason - while they may be out of date, or perhaps, could be rewritten in a more efficient way, the costs the formulas are meant to address are real costs that impact real students in schools all across the state... and they should be handled with care.

Recognizing Actual Costs: Cost of Education Index (CEI)

Ignoring a Cost Doesn't Make it Go Away

Salaries make up the overwhelming majority (nearly 80%) of school district operating costs and in a state as big and diverse as Texas, the salary markets vary considerably. Texas has long recognized school district salary cost differences through the Cost of Education Index (CEI). Unfortunately, it has not been updated since 1991 and the current CEI is based on the market conditions districts faced in 1989. That failure has caused some to call for eliminating the CEI. While the frustration over relying on such old data is understandable, throwing out a funding element created to recognize known costs would have many negative consequences. If those uncontrollable costs are not recognized, districts with higher costs must take money from other programs just to cover basic costs.

Although the CEI is significantly out of date, the factors that make up the current CEI are still significant and it would be relatively simple to plug in current data for each district and redistribute them along the ranges for those factors in the current CEI. The current CEI is made up of five factors that were found to relate to the need to pay higher salaries:

- **What were schools around them paying? (up to 9% more)**
- **How big was the school district? (up to 7% more)**
- **What percentage of the students were economically disadvantaged (up to 5% more)**
- **Was the district in a county of fewer than 40,000 people (1%)**
- **Was the district categorized as either rural or as an independent town (1%)**

Of these considerations, salary competition with neighboring districts was found to have the biggest impact, with districts in the most competitive markets paying up to 9% more higher salaries than those in the least. Districts like Lubbock or Odessa were found to be in competition as much or more with other large districts than with their neighbors, and the impact of size was up to 7% in higher salaries for districts with 8,500 or more ADA. The CEI analysis also showed it was more difficult to staff equivalent quality teaching staff in schools with high concentrations of disadvantaged students and those with the highest percentages needed to pay up to 5% more. Additionally, districts in small counties were found to need to pay 1% higher to recruit and retain qualified teachers.

As you can see just in this very concise description of the CEI, there are actual costs associated with this funding mechanism and eliminating it could lead to some unintentional consequences, such as:

- **Districts with overall high costs would be less able to retain qualified staff**
- **Districts with high concentrations of poverty would particularly be impacted**
- **All districts would have to pay more to TRS. Currently, a district's payments are based on the amount of salary above the state minimum salary schedule multiplied by the district's CEI. Eliminate the CEI and all districts' payments would be on a larger amount.**
- **It could create "maintenance of effort" problems for special education. Because the special education weights are multiplied by the adjusted basic allotment, removing that adjustment could reduce the funds allocated for special education.**

Other key points to consider:

1. CEI includes disadvantaged students, isn't that the same as the compensatory education allotment?
Not the same. The comp. ed weight reflects the higher cost of necessary instructional arrangements such as extended day, Saturday or summer school programs, smaller class sizes, use of an aide, etc. The CEI factor relates to the additional cost required to recruit and retain quality staff in districts with higher populations of disadvantaged students -- a district-wide cost, not a per student cost only for disadvantaged students.
2. Does the salary factor reward districts for paying higher salaries?
No. The factor is based on the competing salaries from surrounding districts and the individual district's salary is not included in calculating the average. The general principle of all weights and formulas is to adjust for known and uncontrollable costs, not from optional local decisions.

We encourage the Legislature to consider all options in ensuring known costs districts face in educating students and hiring quality teachers are covered. Eliminating the CEI may be what is decided, but the costs associated with it won't disappear just because the funding element might. It's important to make sure some element in the formulas will account for these costs moving forward, whether it's updating the current CEI or creating a newer element to recognize these district costs.



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19th Annual School Finance & Legislative Workshop

A big thank you to the over 525 superintendents, CFOs, legislators, staff and sponsors in attendance at this year's event. We enjoyed the perspective and insight each of our panelists gave and appreciated the information provided by the Commission panel, our superintendents panel, the state budget and tax panel as well as by our keynote speaker, award recipient, and the Equity Center team. If you were unable to attend or missed the presentations, be sure to check out our web site or log-in to your member portal to find updated videos, presentations and more! Thank you again for your attendance and continued support as we work together to improve our school finance system for all Texas children and taxpayers.



From top left, clockwise: keynote speaker Rep. Drew Darby; Champion for Children recipient Rep. Mary Gonzalez with Josh Sanderson, Equity Center; welcome provided by Josh Sanderson, Equity Center, Dr. Gonzalo Salazar, Los Fresnos CISD, Dr. Ray Freeman, Equity Center; a packed room as Equity Center presents Equity in Education; and Dr. Wayne Pierce, Texas Children Advocacy Project, talks membership & advocacy.



19th Annual School Finance Workshop... (continued)



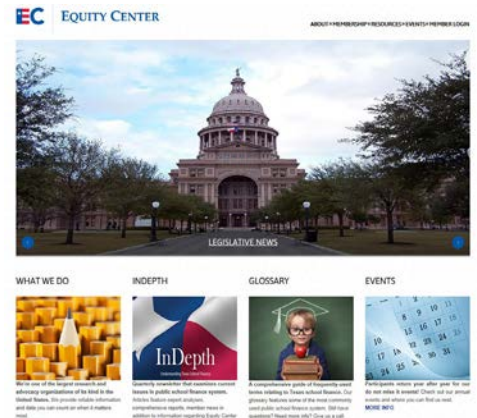
From top left, clockwise:
Commission panelists moderated by Josh Sanderson, Dr. Keven Ellis, SBOE, Sen. Royce West, Sen. Larry Taylor, Justice Scott Brister; Superintendents panelists Dr. Gonzalo Salazar, Los Fresnos CISD, Dr. Sharon Shields, La Vega ISD, Julee Becker, Slaton ISD, HD Chambers, Alief ISD; Dick Lavine, CPPP and Dale Craymer, TTARA; Dr. Ray Freeman, Equity Center; Josh Sanderson, Equity Center.



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