



Equity Center Testimony on HB 3
Presented to the House Public Education Committee
March 12, 2019
Dr. Ray Freeman, Executive Director

First, we commend Chairman Huberty, committee members and staff on the hard work and effort put into the development of HB 3. As everyone is aware, there are some possible problems in the filed bill between intent and language. We have attached a list of possible drafting errors in the hope of assisting in the cleanup.

As to the intent of HB 3, our current system has become so inefficient and complex that it is not an easy thing to fix. If it were, that would have been done years ago. To that end, many of the proposed changes to the current system in HB 3 do much that will increase the efficiency of the way we fund public schools. Unfortunately, there are some proposed changes that negate a substantial portion of the progress towards efficiency and over time, will act to expand the inefficiencies and inequities of the new system.

Attached are charts and graphs that demonstrate our comments and concerns.

1. The decoupling of the golden pennies from the Austin ISD yield and the conversion of that yield to 160% of the Basic Allotment will automatically result in **increasing the inequity of system**. While the wealthiest districts will be allowed to continue to benefit from the full increase of their wealth because of the lack of recapture, the funding gap between them and all other districts will grow ever wider at a much faster pace since the **yield on those pennies will be initially reduced by nearly 25%**.
2. The addition of 2 more unrecaptured golden pennies will **increase the inequities mentioned above by 33%**, a huge and negative exacerbation of the system. By full implementation of the bill, the revenue gap per classroom of 22 students will be over \$93,000 between the wealthiest 5% and poorest 5% of districts. For the wealthiest 15% and poorest 15%, the average gap will be over \$35,000.
3. Additionally, because the yield on those pennies will be tied to the Basic Allotment, the equalized funding level will grow **only when the legislature increases the Basic Allotment**. Over the last 10 years the growth in the Basic Allotment has averaged about 1% annually. Far below even the statewide average property value growth rates, 6.19% and 4.07% as projected by the LBB for the coming biennium.
4. Further, HB 3 maintains a **higher funding promise for districts with Local Revenue in Excess of Entitlement**. Those districts are guaranteed the **greater of prior year values or current year collections** in order to make sure they receive their full Tier 1 entitlement. Using current year collections (values) to guarantee funding for some, but failing to do the same for all others will result in further inefficiency and inequity (as demonstrated on Charts & Graphs, page 4.)

We appreciate your efforts for the children of Texas and look forward to working with you to make HB 3 the best bill possible, and to pass meaningful and equitable school finance reform this session.

Recommendations:

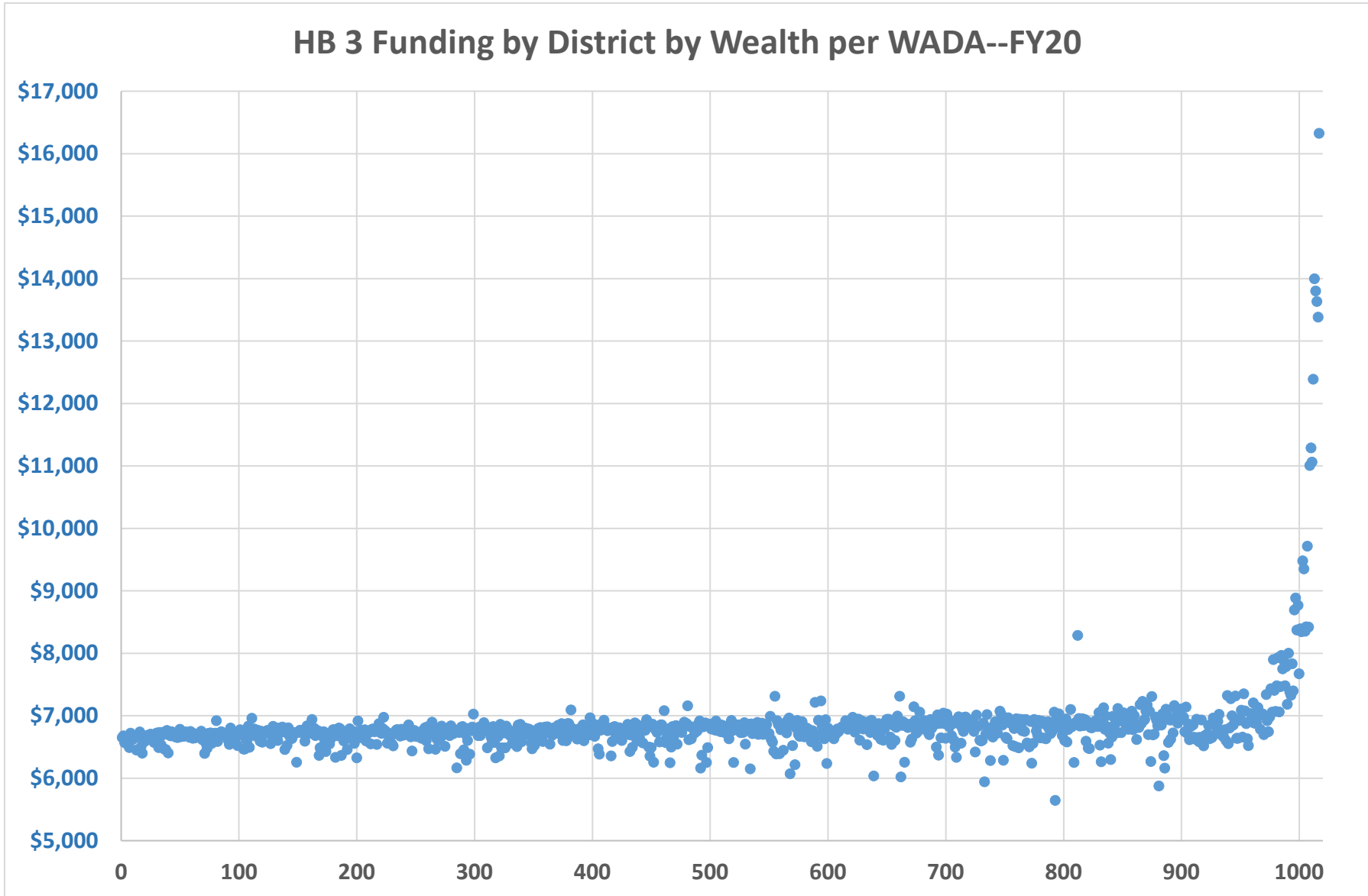
1. Remove the additional 2 golden pennies added in HB 3. The addition of more unrecaptured golden pennies only increases the inequity in the system and undoes the gains in equity made by several other measures in the bill.
2. Tie the golden penny yield to a percentage of wealth per weighted student, not the Basic Allotment. (For example, the 95th or 96th percentile as used to originally designate the Austin ISD yield)
3. Increase the yield on all copper pennies to equal the Basic Allotment. All funding used for this purpose will be used for tax compression. Additionally, only districts wealthy enough to generate funds in excess of Tier 1 entitlement will be subject to recapture.
4. Sec. 48.257 seems to have some extensive drafting problems and needs to be revisited on several points, given the stated intent of HB 3. In particular, Sec. 48.257 (b), (e) and (f) do not seem to be aligned with the stated intent of the bill. Further, special attention should be paid to assure that Sec. 48.257 (b) provides all districts in Texas the same guarantee to receive their full Tier 1 entitlement. As currently written, only districts producing revenue in excess of their Tier 1 entitlement (recaptured districts) are guaranteed their full Tier 1 entitlement by using either prior year values or current year collections (values). Non-recaptured, or regular formula districts, are not guaranteed this same level of assurance. If any district is guaranteed the full level of Tier 1 entitlement, then all should have the same guarantee.

FY 20 Projected Revenue per WADA & Classroom Disadvantage (\$96.48 Golden Penny Yield)*		
	Revenue per WADA	Classroom Disadvantage (per 22 Students)
Wealthiest 5% of Districts	\$8,992	
Poorest 5% of Districts	\$6,660	\$93,881

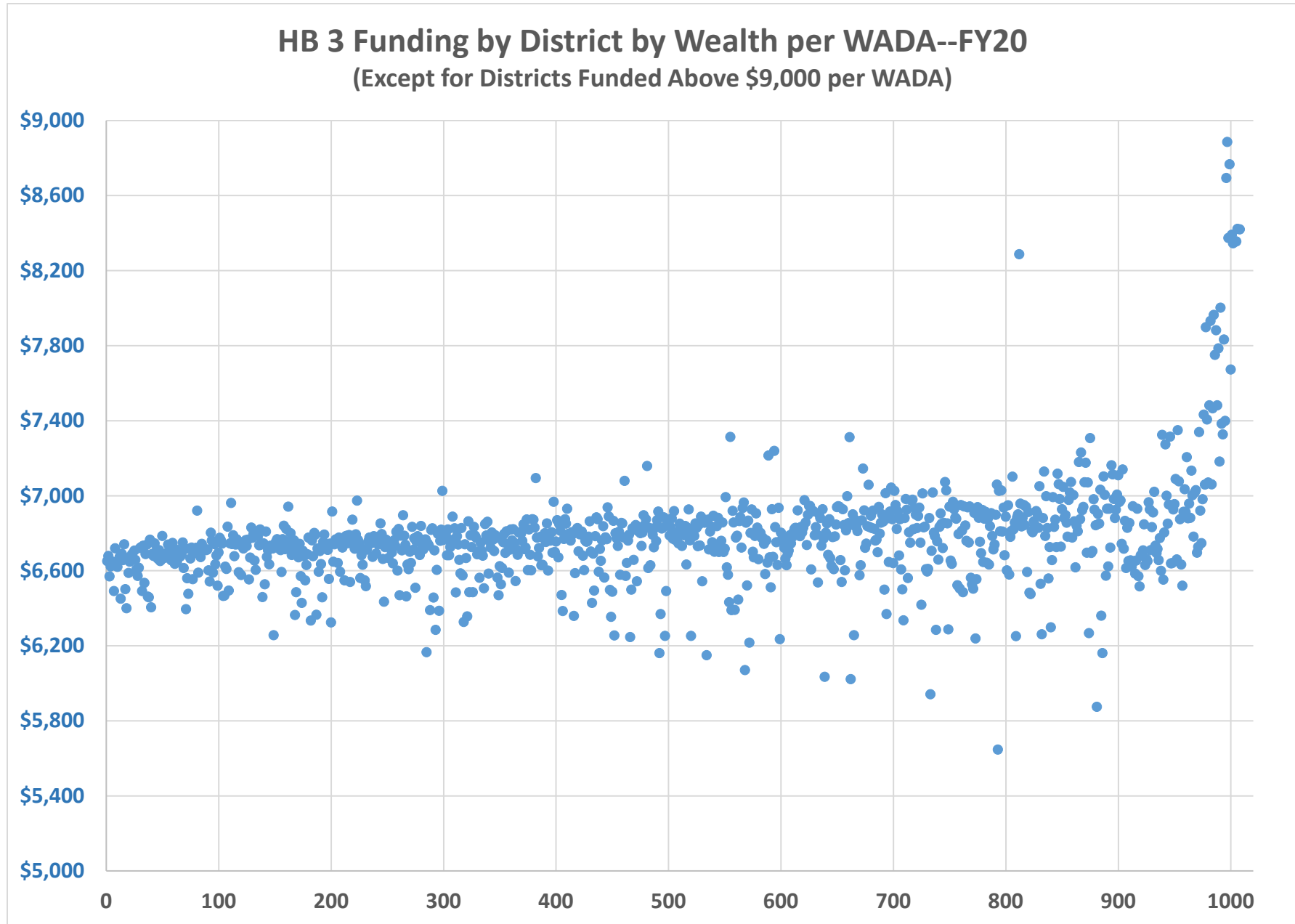
FY 20 Projected Revenue per WADA & Classroom Disadvantage (\$96.48 Golden Penny Yield)*		
	Revenue per WADA	Classroom Disadvantage (per 22 Students)
Wealthiest 10% of Districts	\$7,977	
Poorest 10% of Districts	\$6,681	\$49,743

FY 20 Projected Revenue per WADA & Classroom Disadvantage (\$96.48 Golden Penny Yield)*		
	Revenue Per WADA	Classroom Disadvantage (Per 22 Students)
Wealthiest 15% of Districts	\$7,652	
Poorest 15% of Districts	\$6,707	\$35,486

**Data based on FY20 projections at full bill implementation. All districts at \$1.04 tax rate, \$0.96 Tier 1 and 8 golden pennies. Compensatory Education funding based upon free and reduced price lunch. Teacher effectiveness funding not included.*



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Number of Districts Not Receiving Full Tier 1 Entitlement, School Years 14/15 – 17/18								
School Year	2014-15		2015-16		2016-17		2017-18	
Type of District	Recaptured	All Others	Recaptured	All Others	Recaptured	All Others	Recaptured	All Others
Number of Districts	30	214	90	289	93	432	50	263

HB 3 Progress

Recognizes the single, statewide school system and creates a single chapter to determine funding for all school districts.

Ensures funding elements such as the Available School Fund are flowed uniformly for all school districts.

Removes inefficiencies such as:

- 1992-'93 wealth hold harmless

- High School Allotment

- Staff Allotment

- Early agreement credit

Recognizes certain known costs such as:

- Dyslexia allotment

- Increase of Compensatory Education funds

- K-3 allotment, full day pre-kindergarten funding

- Bilingual/Dual language funding

Provides new revenue to increase the Basic Allotment

Increases copper penny yield

Compresses copper penny tax rate

Updates the Transportation Allotment

Redefines recapture as local revenue in excess of entitlement to better reflect statutory intent

Provides uniform disaster relief funding

Provides statewide tax compression

Increases NIFA funding increase

The Golden Penny Problem

The Problem:

The proposed change to the yield and number of golden pennies creates several problems within the school finance system. First and foremost, there is no known cost or policy reason for having any number of pennies of tax effort within the statewide school finance system that yield a variety of revenues for different districts. However, if unrecaptured pennies of tax effort are going to be allowed, they should be limited and equalized at the highest level possible to ensure similar revenue per student at similar tax effort.

Increasing the number of golden pennies will drive long-term, systemic funding inequities amongst schools.

Decoupling the guaranteed yield from the Austin ISD wealth level and establishing the yield at a percentage of the basic allotment:

- Eliminates the only funding driver within the school finance system and as such, reduces long-term funding to school districts,

- Decreases equity within the system allowing districts with a wealth level above 160% of the basic allotment to generate substantially more revenue per penny of tax effort compared to districts with a wealth level below that level on an ever increasing scale,

- The basic allotment has increased at less than 1% per year over the last decade. Indexing the golden penny yield to the BA will result in increases to the BA costing more to the state over time.

Part of the Commission's rationale for making this change was that increased funding from the two outcomes funding provisions in Recommendations 3 and 4 would offset funding losses districts would realize from decreased golden penny funding. As of the introduced version of HB3, this provision is no longer applicable since the outcomes funding provisions are not included.

The Solution:

The most critical change is simply to not expand the number of golden pennies. If it is determined that the yield should be decoupled from the Austin ISD wealth level, the legislature should link the yield to a percentile of wealth, such as the 96th percentile, which was the approximate level of Austin ISD when golden pennies were created. This will ensure that statewide property value growth remains a way to drive funds for all schools. Further, HB 3 takes much-needed steps towards funding all districts similarly. An expansion of the number of golden pennies moves in the opposite direction by exacerbating disparities between tax bases and student funding. *Keeping the golden penny yield tied to a percentile of statewide property wealth keeps public education tax dollars within the public education system.*

Equity Center - HB 3 Drafting Concerns Needing Clarification

12.106 – charter schools apparently get the average impact of the small/mid-size (prior to the <300 Sq.Mi. penalty elimination) and sparsity as an adjustment to the BA in (a-1), impacting all of their special programs, and also get the new small/mid-size allotment in (a-3).

Sec. 25.0841 – (a) (2) appears to require that they offer the full 30 days to receive the extended year incentive funding although other language implies they can get a proportional amount for fewer days.

45.0032 – (c) - Districts with CTR > 1.00 still receive only local revenue for tier 1 pennies over \$1.00. This should be fixed.

(d) – “at the tax rate described by Section 48.202(a-1)(2) for the 2018-2019 school year” – since there was no such section that year, does that mean the tax rate greater than 8 cents above the 2018-2019 CTR (\$1.08) or above \$1.04?

(d) – “that, after applying Subsection (a) to the district’s tax rate, does not comply with Subsection (b)” – “does not comply with Subsection (b)” presumably means, “has no Tier 2 pennies”, but this describes the yield they would get for those pennies. Should it say, “does not comply with Subsection (b) (2)”, so that it’s clear we’re talking about copper pennies that have dropped into the golden penny range? Is that what this is trying to do?

48.005 – Presumably this isn’t a mistake, but given all of the “this bill funds full-day pre-K for 4-year-olds” rhetoric, this section specifically limits full-day programs to half-day funding, even though they are being required for 4-year-olds. Also presumably, the other half would be paid for out of the sum total of the new K-3 early childhood reading allotment – the sufficiency of this needs to be examined – but that fact should somehow be referenced here.

48.101 – Language in this section needs some clarification to be sure intent is clear. The interaction of the adjustments for under 1,600 and under 450 needs to be more clearly delineated.

48.153 – Teacher Salary Transition – BYM&O references this chapter but Chapter 48 did not exist in FY 19. Should probably read “under the previous Chapter 42, as it existed on January 1, 2019” 48.202 –(a-1) – “per cent of tax effort equal to the maximum amount provided per cent under Section 48.051(a) or (b)” – As written, rate as 96 cents would be T2L1 = \$100.50. Some are saying the intent is for T2L1 = \$96.48. If the latter is the case, this confusion needs to be addressed.

(a-2) – T2L2 is half of \$100.50 or 96.48 as mentioned above.

(f) – “shall reduce the district’s tax rate under Section 45.0032(b)(2) for that tax year to a rate that results in the amount of district tax revenue per weighted student **per cent of tax effort** available to the district for the preceding year.” Reducing the tax rate doesn’t reduce the yield per penny, it reduces the total amount per student. The subsection needs a major re-write.

48.256 – (a) TR definition should reference 45.0032 which refers to all districts Tier 1 M&O, not just (c) which refers to only districts with greater than \$1.50 tax rate in 2005.

48.257 – (b) – “If the sum of the a district’s maintenance and operations tax collections for the current year **minus the district’s tier one revenue level under subsection (a)** is less than the amount of the district’s entitlement under Section 48.266(a)(1)”. Should be “If the sum of the a district’s Tier 1 maintenance and

*operations tax collections for the current year **and distribution from the state available school fund** is less than the amount of the district's entitlement under Section 48.266(a)(1)".*

Of course, the same should apply for non-recapture districts if it applies to recapture districts as limited here.

(e) – *"the amount of state funds appropriated specifically excludes the amount necessary"*. What does *"specifically excludes"* mean? Does failure to appropriate the full amount needed fall within or outside of that?

(f) – *"a school district's tier two **local share** described by Section 48.266(a) (5) (B) to which a district is entitled may not exceed the amount described by 48.202(a-1) (2)"*. This doesn't limit the amount of T2L2 revenue, it merely limits how much can be charged against it for local share purposes. This would exempt copper pennies from recapture.

(i) – We do not believe the formula here will accomplish what is the stated intent of HB 3 in this instance. This formula mixes revenues and values improperly and needs to be reevaluated.