

Equity Center Testimony on SB 4

Senate Education Committee

April 25, 2019

Dr. Ray Freeman, Executive Director

First, we commend the Chair and his staff on the hard work and effort bringing this bill forward. This bill is based on many of the recommendations resulting from the year-long efforts of the School Finance Commission to find ways to move toward a funding system that is efficient, equitable and adequate. Such a system is necessary if all Texas children are to have the educational resources they need to become active and successful adults, adding to Texas' long-term prosperity and economy. On the whole, what is included in this bill moves the system forward in a positive and necessary direction.

Our current system has become so inefficient and complex, there is no simple fix. It requires a massive overhaul and change of policy direction in order to meet Texas' future educational needs. To that end, the proposed changes in the Senate Committee Substitute to HB 3 will increase the efficiency of the way we fund public schools.

One of the key changes in SB 4, is the move to current year values and collections. This move, while less popular for those benefiting year after year from increased property growth, is a necessary move if the system is going to be efficient. Currently, the use of prior year values results in over \$1.8 billion lost to our formula system each year this inefficiency remains in place. This practice causes a huge efficiency/equity gap to the tune of hundreds and for some districts thousands of dollars **per student** funding differences for no cost-based reason – simply due to their zip code. As property values grow, that gap only grows larger (see attachments).

The truth is, if those state resources (\$1.8 billion in FY19) were used to raise the Basic Allotment, it would result in **over a \$250 increase in the Basic Allotment for every district.** That one-time increase in the BA would impact every district, every year. Raising the BA one time from \$5,140 to \$5,390 does not just impact districts one year then go away, it resets the funding base the first year and every year thereafter.

Having been a superintendent for many years, I watched my district's property grow substantially in some years, and other years they grew little or even lost value. I can promise you I would have benefited from and much preferred the consistent and known guarantee of the increased BA over the fluctuating roller coaster of increases and/or decreases in property value gains and losses.

Moving to the use of current year values/collections solves an efficiency/equity issue. It is also a stability and planning issue; it's doable and a necessary move at a time when we have the technology and current data to make this shift for all districts; not just as an option in order to guarantee Tier 1 entitlement for some. *(Included in HB3 as it passed the House).*

Other substantial changes included in SB 4 are the elimination of several non-cost-based inefficiencies in the system, including the nearly 30-year old 1993 wealth hold harmless, the high school allotment, and differentiated per capita funding. Removing funding mechanisms that deliver additional revenue outside the formula system and are not based on known or state-recognized costs is a necessary step in any school finance reform. We have formulas for a reason – continuing to deliver pots of money outside those carefully, redesigned formulas goes against any effort to reform the system and perpetuates the inefficiency of the current system that funds students so differently from one district to the next.

This bill also follows Commission recommendations to direct resources to areas of greatest need and concern, such as increased weighting for compensatory education, preK-3rd grade funding for compensatory and bilingual/dual language students, and new funding to address issues for students with dyslexia. Recognizing cost differences students and districts face is an important and necessary part of an efficient system.

While as a whole, we feel very favorable toward SB 4, there are some areas we think can still be improved to make the legislature's final work the best reflection possible of an efficient and equitable system. We look forward to with Chairman Taylor and the Committee to address these concerns.

Recommendations for Improving SB 4

- Transition funding should be used in singular fashion and phased out over a minimum amount of time. As written, SB 4 creates two transitions, the Formula Transition Grant and the Equalized Wealth Transition Grant. The most efficient use of state resources would be to consolidate both grants into the single Formula Transition Grant. That grant should then use a single transition year and phase out the transition in equal percentages over the life of the transition. If the Equalized Wealth Transition Grant must be maintained, then it should be made clear qualifying districts can only access one, not both grants to avoid double funding.
- Either eliminate the portion of the bill that guarantees recapture districts their full Tier 1 entitlement—Section 48.257 (b)—or correct the incorrect wording and extend the guarantee to all districts by using current year collections for everyone.
- Refine the parameters of the proposed tax compression. Any successful attempt to effectively reduce local property tax rates must be governed by the following principles;
 - Effective and accurate tax compression requires the use of current year collections. The use of prior year values would leave tax compression subject to similar problems of inconsistency and inaccuracy that plague the current funding system.
 - Tax compression done correctly, must be on a statewide, not district by district basis. To do otherwise will over time, greatly increase taxpayer inequity.
 - Tax compression is most effective when applied to Interest and Sinking (I&S). Every dollar of additional state aid applied to I&S is automatic and sustained tax relief. Additionally, it is tax relief for fast growth districts that addresses the greatest cost they face, bonded debt acquired by building campuses to house new students.
- Follow through with the study of the impact of the total elimination of the CEI and recommendations as how to update or move to a new recognition of those cost differentials.
- Revisit the Small and Mid-size diseconomies of scale. If a diseconomy of scale exists, then it exists through all populations of students in that district. If it costs more because a district cannot fill each class in K-grade 4 with 22 students, then it follows that it also costs more to provide special education services, career and technology, etc., with smaller numbers of students.
- Finish moving the funding system to a single tier, single chapter system that funds all districts with the same formula for all pennies of tax effort. This eliminates the constant problems associated with funding for golden and copper pennies. It allows the legislature to create one formula that delivers the same known cost variables for every district regardless of wealth.

Conclusion

SB 4 takes many steps toward addressing adequacy by eliminating waste and inefficiency in the current system. An adequate system depends on efficiency; an efficient system is based on state-identified costs; and an equitable system treats similar students the same in every district across the state, while also taking tax effort into account – it doesn't underfund some while overfunding others simply due to zip code. We applaud Chairman Taylor's efforts to move the system forward.

Using Current Year Values/Collections to Fund our Public Schools

We have formulas for a reason... efficiency. Failing to move to current year values/collections negates the very formula system the Legislature is working so hard to reform. **Current year values/collections fixes that issue so the formulas deliver what they are designed to**, and districts can budget and plan knowing exactly what their funding will be each year.

- Moving to the use of current data to budget and plan appropriately is a good thing.
- Shifting from an old, outdated system to up-to-date data at a time when the Legislature is working so hard to reform school finance makes sense.
- Moving to current year collections, creates certainty in district budgeting.
- A district's funding will equal exactly what the cost-based formulas determine.
- The budget problems caused by declining values, slowing rates of value growth, taxpayer delinquencies and protests, and natural or economic disasters disappear.
- Moving to current year values/collections is doable for districts and the state.

1. The purpose of a formula-based system is to make funding certain, dependable, efficient, adequate and equitable...for *all* districts.

Using prior year values fails to recognize and adjust for the actual costs of educating children. This is a major cause for the inefficiencies in our current system that funds children differently simply because of their zip code.

2. Using prior year values puts districts on a funding roller coaster.

As property values fluctuate, so does school district funding, which means districts always receive more or less funding than their intended formula entitlement.

3. Moving to current year values/collections results in savings to the state; more money for the state to spend funding actual costs in public education is a good thing.

Much like raising the Basic Allotment in a given year results in additional cost in future years for the system, efficiencies delivered to the system result in savings to the system, not just for that one year, but for every year the efficiency is in place. "A penny saved is a penny earned"...and earned...and earned.

4. The tax collections that help fund school district budgets are *never* based on the prior year's taxable values.

County appraisal districts deliver current year values to districts for the very purpose of allowing school districts to calculate the amount of taxes they will collect so they can budget as accurately as possible.

5. Moving to current year values/collections works.

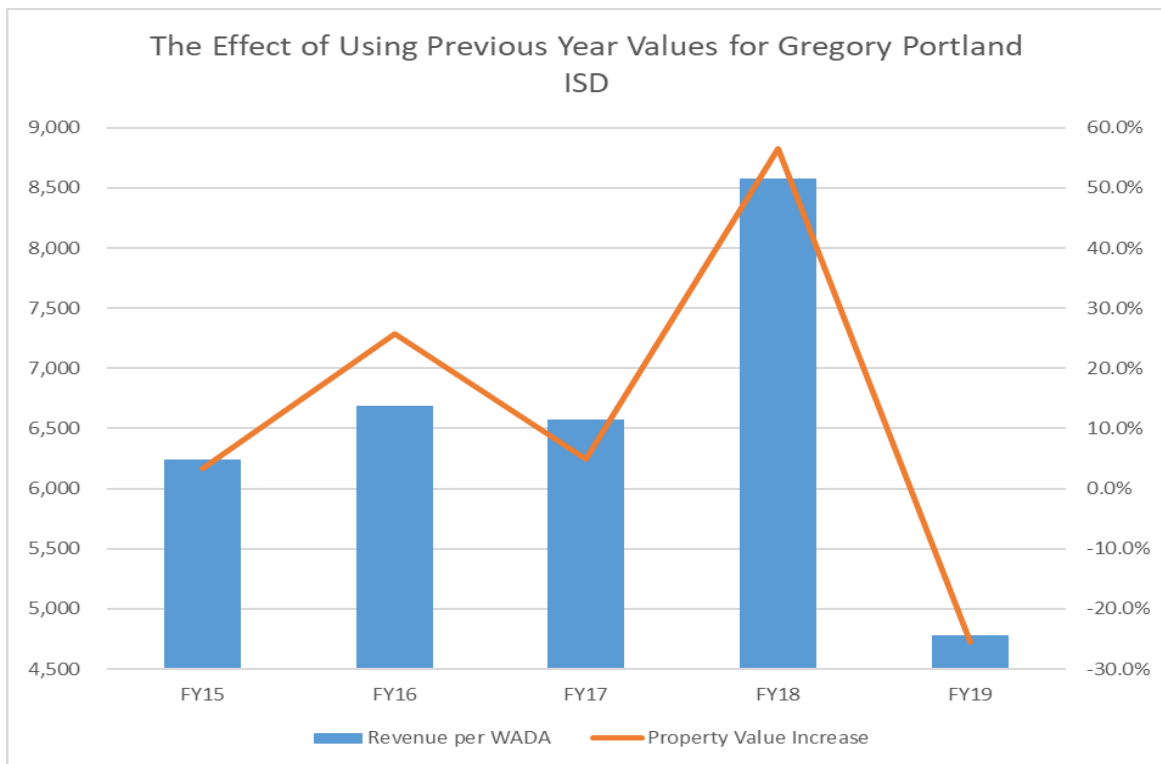
The Comptroller and LBB project statewide property values for budgeting purposes well ahead of even when prior year values are available. The use of current year data will over time build a more accurate and up to date set of data from which the state will make projections.

Continuing to Use Prior Year Values Perpetuates Districts' Funding Roller Coaster

The data below illustrates the **funding roller coaster** that exists by continuing to use Prior Year Values to determine district funding levels. As you can see by the random sampling below, from one year to the next, districts are **funded either above or below their formula funding level** – sometimes significantly – just from using year-old data to determine their funding level instead of basing it on their current values and collections.

We have formulas for a reason...efficiency of the system. Moving to Current Year Values/Collections means the formulas the Legislature designed to deliver funding to schools will actually deliver that intended level of funding to students in every district in the state. **Continuing to use Prior Year Values to calculate funding levels negates the formula system**, and keeps districts on a funding roller coaster.

Sampling of District Funding Levels Above & Below Formula due to Prior Year Values					
District	FY18	FY19	District	FY18	FY19
Alamo Heights ISD	-64	163	McMullen County ISD	1,226	735
Alice ISD	73	-139	Mount Pleasant ISD	97	-258
Andrews ISD	846	572	Navasota ISD	-146	250
Aransas County ISD	187	-750	Pecos Barstow Toyah ISD	1,569	6,200
Austin ISD	359	555	Port Aransas ISD	-604	-605
Canadian ISD	-538	62	Port Neches-Groves ISD	-228	157
Carthage ISD	-674	-26	Rio Grande City CISD	-421	69
Channelview ISD	-54	468	Sheldon ISD	30	-168
Deer Park ISD	-84	80	Silverton ISD	-3,838	-108
Eanes ISD	-78	310	Sweeny ISD	806	-1,687
Glen Rose ISD	-37	-104	Victoria ISD	21	-152
Goose Creek CISD	227	-25	Webb CISD	2,151	-39
Gregory-Portland ISD	2,211	-1,492	Westhoff ISD	-2,285	208
Henderson ISD	-101	114	Wink-Loving ISD	3,866	5,023



The Ugly Side of Using Prior Year Values

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