

InDepth

Understanding Texas School Finance



Equity Wins in the 86th

You never know. History has a tendency to write itself. However, looking at HB 3 (the major rewrite of public school funding formula) and to some degree, SB 2 (the rewrite of caps on local property tax growth due to increasing property values), from this side of the 86th Session of the Texas Legislature, it certainly appears that substantive and transformative change in the status quo is on the horizon.

In the history of public school finance in Texas, there have only been a handful of truly transformative, “sea change” legislative actions. For example;

- The 1949 Gilmer/Aiken legislation that revolutionized school district organization and ushered in a much larger participation in school funding on the state’s part.
- The Connally Reports and Peveto Bills of the 1960s and 70s that focused on school funding and equalized county appraisals and taxation to 100% of appraised value.
- The Perot Report and HB 72 of the 1980s which among other things, moved school funding formulas from a PU (Personnel Unit) system to a weighted student approach.
- And of course, the Edgewood Lawsuits and the subsequent school funding legislation of the early 1990s that resulted in greatly improved equity and efficiency.

We think, though of course it is too early to know for sure, HB 3 and the extended results taken by the 86th Texas Legislature will be added to the list for a variety of reasons, not the least of which is the efficiency and equity gains achieved through this legislation.

On the next page is a chart of many of the major efficiency and equity gains that will result because of HB 3. Many of these are changes the Equity Center and our members have been working to achieve for several years. Some we have worked on for decades! To see so many of our goals accomplished is amazing and we are grateful.

Is HB 3 perfect? Absolutely not. We have “perfecting” work to do in the future.

Is HB 3 a giant leap forward towards an efficient and equitable, cost-based, formula-driven system of public school finance? Without doubt that answer is yes.

Now our work becomes to maintain those gains and continue to move toward an ever more efficient funding system that meets the 21st century challenges and needs of all Texas children. We hope you will join us.

Equity Gains From HB 3, 86th Legislative Session

Basic Allotment increased from \$5,140 to \$6,160	✓
Funding formulas moved to a Single Chapter , placing all school districts on formula funding, regardless of wealth	✓
Funding formulas changed to base calculations on Current Year Values , moving an additional \$3.6 Billion into the Equalized Funding System	✓
ASF Per Capita included as first funding for all districts, ensuring all districts, regardless of wealth, receive Per Capita funding the same way	✓
Eliminated the High School Allotment, rolling those funds into the Equalized Formula System, ensuring all districts are impacted equally	✓
Eliminated the Staff Allotment, rolling those funds into the Equalized Formula System, ensuring all districts are impacted equally	✓
Eliminated the GT Allotment, rolling those funds into the Equalized Formula System	✓
Moved <i>optional</i> Local Option Homestead Exemption funding to Chapter 48 for all districts, making sure that all districts with a LOHE, if funding is available, receive it in the same way, regardless of district wealth	✓
Eliminated the 4% Bonus in funding recapture districts received for simply signing a Letter of Agreement to Purchase Attendance Credits by September 1 each year	✓
Put the 1993 Wealth Hold-Harmless (26 years old) on a 5-year Phase Out to elimination	✓
Eliminated the 2017 Hardship Grant	✓
Disaster Relief placed in Chapter 48 so that it impacts all districts uniformly	✓
Changes “Recapture” to Local Revenue in Excess of Entitlement and greatly simplifies the calculation, increasing equity	✓
Eliminates the Equalized Wealth Level and puts all districts in the same Formula Funding System	✓
Increases the Yield on Copper Pennies to nearly \$50 per WADA per penny , and ties the Yield to 80% of the Basic Allotment, so the Yield Increases as the BA Increases	✓
Requires all districts to adopt tax rates equal to their New Compressed Rates in order to earn Full Entitlement in Tier 1	✓
Forces all districts to tax at full New Compressed Rates before they can access any Tier 2 Golden or Copper Pennies	✓



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Transforming School Finance - Years in the Making

In the pages to follow, we've pasted slides from "A Plan for Texas" Equity Center's updated presentation from 2016 to illustrate how closely "The Texas Plan" passed by HB 3 this session resembles many of the key measures the Equity Center and its membership have worked toward for the past several years. Advocacy and education are key parts of what we do and though it may take years for some of the concepts to become law, the changes and strides toward equity are well worth it. *This first slide outlined the basic concepts of what a school finance formula should be based on.*

Three Principles of an Efficient School Funding System

Equity Center 2016

9/27/2016

A Plan for Texas

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A world-class, free public education system must be our new standard, because we compete on a global basis. A second-rate system of public education will result in a second-class Texas.

Children in any Texas school district must have access to educational opportunities that are appropriate to their needs and similar in quality to those provided to children in any other Texas district. An efficient school funding system does not pick winners and losers among children; all children are given an even chance.

An efficient system is devoid of waste. Differences in funding that are not justified by differences in either tax effort or educational and operational costs that are beyond a district's control must be eliminated in order for available resources to be focused on real costs.

Efficiency requires the state funding system to be devoid of waste. Every dollar must be based on actual costs, not political causes or rewards for only some districts, as illustrated in the following slide.

**There are no free lunches –
Somebody always pays**

**Every dollar spent for a non-cost reason takes
a dollar away from the amount of money
available to fund all districts.**

9/27/2016

A Plan for Texas

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Transforming School Finance - Years in the Making

The next slide outlined the necessary steps to transform our school finance system into one that is efficient and meets the needs of all children equally.

An Efficient Texas Public Education Funding System

The Solution

- a) Remove inequitable and unnecessary funding elements
- b) Simplify and stabilize the system
- c) Roll resulting savings into the Basic Allotment
- d) ALL school property taxes must go to fund public schools

9/27/2016

A Plan for Texas

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The standards for an efficient funding system are based on recognizing student and district educational costs not within their control. The slide below demonstrated the base elements of such a system.

Efficient Funding for Special Needs and Costs

All districts are guaranteed access to the full allotment to which they are entitled for the categories below. This plan does not change current student and district weights for these categories. Changes to weights are determined by the Legislature, but should be based on unbiased and objective studies to reflect actual costs.

- Regular Program Allotment
- Special Education Allotment
- Career and Technology Allotment
- Compensatory Education Allotment
- Bilingual Education Allotment
- Transportation Allotment

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A Plan for Texas

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Continued on page 7



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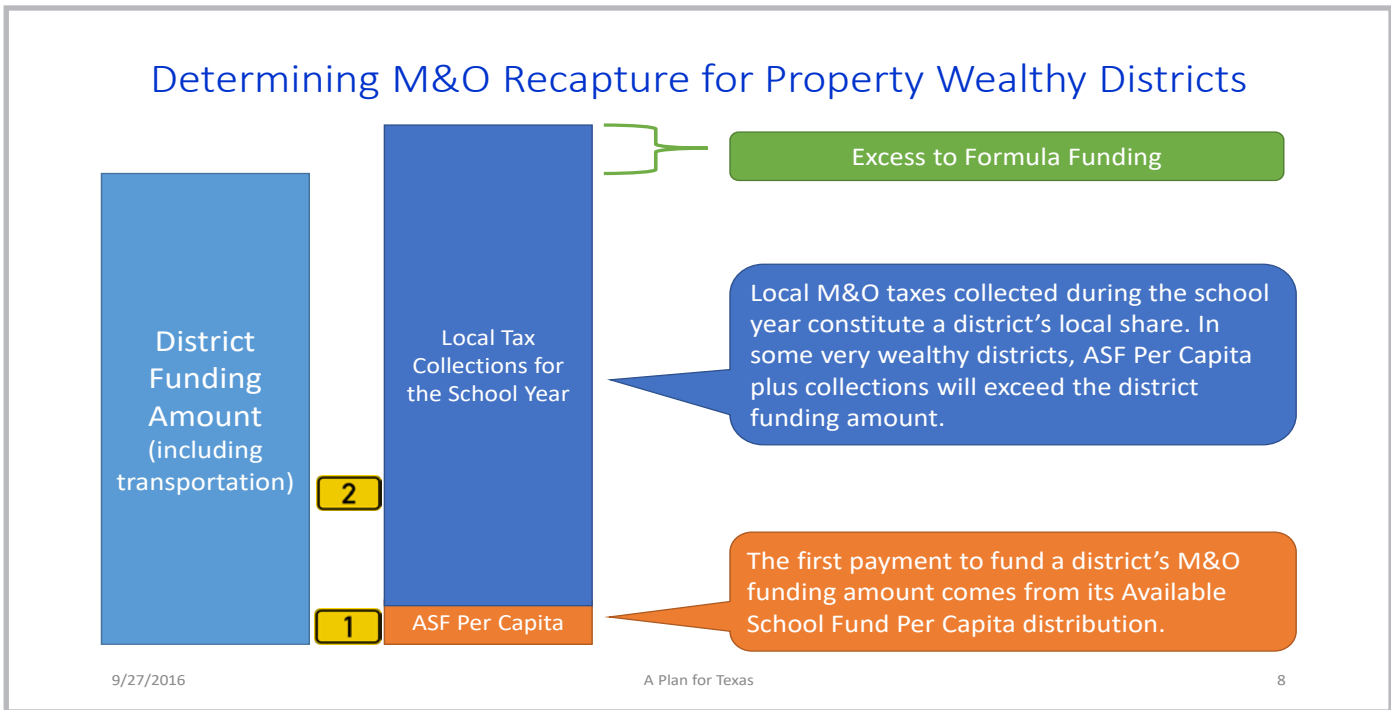
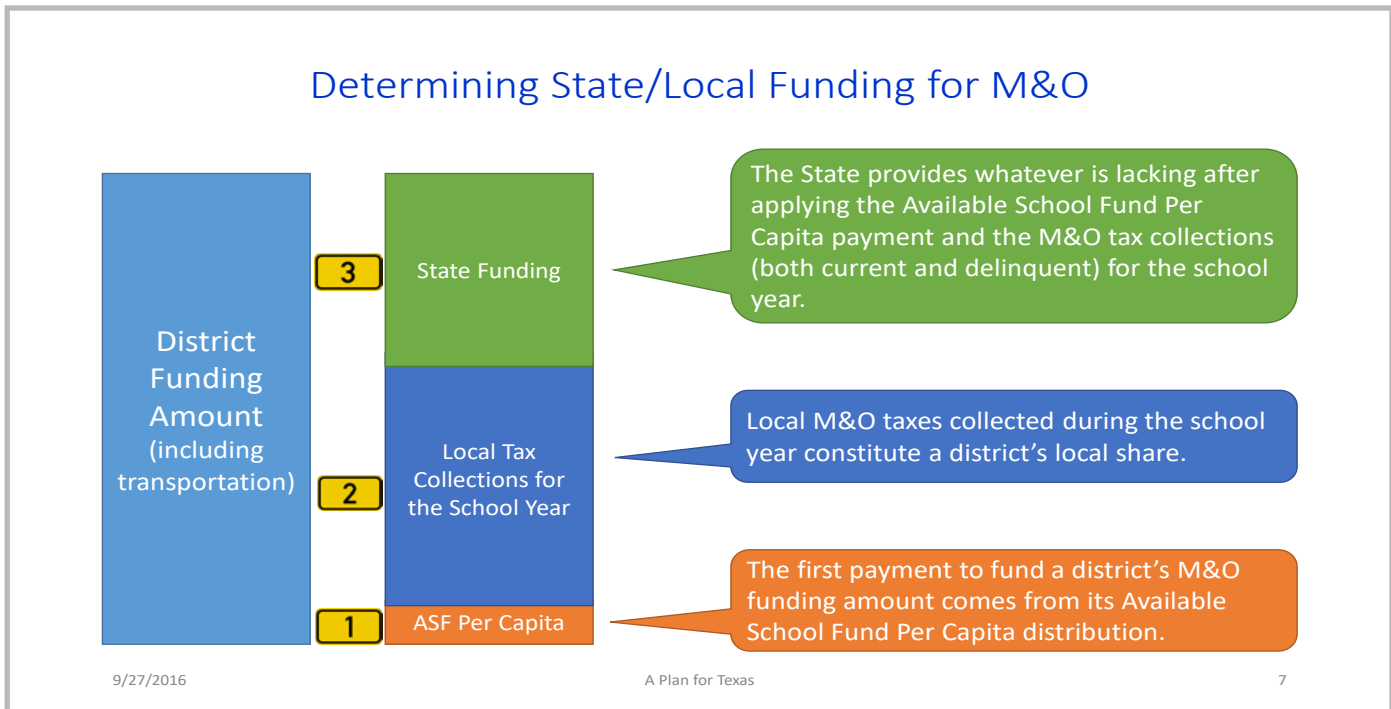


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Transforming School Finance - Years in the Making

The next two slides showed the efficient flow of local and state funds in a formula system. The second slide showed the simplification and correct description of districts receiving revenue in excess of their formula entitlement (previously called recapture).



Summary – We think it is interesting how closely the Texas Plan under HB 3 mirrors the Equity Center Plan for Texas (i.e. SB 2145 from the 85th Session), and we are encouraged to see many years of hard work and advocacy on behalf of the Equity Center and our members paying off in these accomplishments. As you can see, it takes teamwork, effort and lots of time to educate legislators and their staff, and even then the political process is never perfect, so the work continues! Thank you for your continued support of the Equity Center - together we can continue improving our school finance system for Texas children and taxpayers.

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Fiscal Notes - HB 3 and Spending \$11.6 Billion

During the session, while Legislators were deciding which policy recommendations would ultimately be included in House Bill 3, hundreds of people weighed in on what they believed our funding priorities should include. One of the realities that became clear in this process is that a billion dollars doesn't go quite as far as you might think in a system with 5.4 million students and 720,000 employees.

For instance, to increase the Basic Allotment by \$100 in the two-year budget it costs approximately \$1.2 billion. A \$1,000 pay raise for classroom teachers, librarians, counselors, and nurses costs just short of \$1 billion for the biennium. And an increase in the Compensatory Education Allotment of .1 costs nearly \$2 billion per year. In short, it takes a lot of money to make relatively small changes within our statewide public education system.

This is why it is important to pay attention to exactly how tax dollars are allocated, and one of the best ways to do this is to start at the beginning. Not many people outside of the legislative environment read the fiscal notes that are required to be compiled for any legislation that has a financial impact on state or local governmental entities. Even within the legislative arena, most people read very few fiscal notes generated by the Legislative Budget Board every session. But these documents contain the details that show how tax dollars will be allocated and what it costs to make many of the policy changes public education advocates call for.

For those of you following along with the various iterations of House Bill 3 as it moved through the legislative process, you might recall the initial cost was limited to \$9 billion in the House and even less in the Senate. It didn't take long for Senate budget writers to match the House amount, but in the final weeks of the legislative session, the full two-year cost for implementation grew to \$11.6 billion. This includes \$6.5 billion in new funding for public schools and \$5.1 billion allocated to reducing school district M&O property taxes. Approximately \$2 billion of the \$6.5 billion will be earmarked for salary increases.

It is estimated that the \$5.1 billion will buy tax rates down by an average of 8 cents in 2020 and 13 cents in 2021, which translates to a property tax bill reduction of about \$200 in 2020 on a house valued at \$250,000. House Bill 3 contains numerous provisions that allocate revenue that otherwise would seem significant; however, gets eclipsed in a bill of this magnitude, such as:

- \$19 million per year for the college preparation assessment allotment,
- Over \$40 million for the certification examination allotment,
- \$6 million for the blended learning professional development program; and,
- \$3.2 million for additional funding dedicated to P-TECH schools.

While we still have a long way to go, many of the changes made in House Bill 3 greatly improve both the adequacy and equity of the overall statewide system, as indicated by the LBB in the Equalized Funding Impact Statement:

“The new method of calculating recapture, and the shift to the use of current year district property values in determining state aid within the funding formulas, would improve equity relative to current law.”

As the formula and wealth transition grants included in the bill expire, every district in the state will then be funded on the same formula-based system, which will help us each legislative session to fight together for what is adequate for all Texas students.

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Key School Finance Bills of the 86th

Over the 140 days of the 86th legislative session we tracked over 200 education bills specifically addressing school finance. Because of the emphasis placed on House Bill 3, just over 80 bills were passed out of the Senate Education and House Public Education Committees and sent to the Governor. Overall, over 1,500 pieces of legislation passed both the House and Senate to be signed into law by Governor Abbott. Below, we outline just a few of the major bills considered this session. Log-in to our member portal online for more complete analyses and other helpful templates. www.equitycenter.org

HB 1 – State Biennial Budget: \$250 billion in overall funding for all state operations 2020 and 2021. An all funds increase of 20% for public education.

SB 2 – Property Tax Reform: Re-names the effective tax rate as the “no-new-revenue tax rate” which will be 3.5% for cities and counties.

SB 12 – Teacher Retirement System: Increases the state contribution to the Teacher Retirement System from the current rate of 6.8% to 7.5% at a cost to the state of \$524 million. Provides a 13th check to retirees as of 12-31-2018 of no more than \$2,000.

SB 11 – School Safety: Relating to policies, procedures, and measures for school safety and mental health promotion in public schools and the creation of the Texas Child Mental Health Consortium. Creates a school safety allotment that is funded at \$109 million, \$9.72 per ADA.

SB 500 – Supplemental Spending Bill: Includes \$100 million for school safety that is appropriated from the Economic Stabilization Fund (ESF). Appropriates approximately \$900 million from the ESF to cover Hurricane Harvey-related expenses to school districts. \$542 million from the ESF is appropriated to the Teacher Retirement System.

SB 29 – Restrictions on lobbying: Proposal to prohibit any political subdivision that imposes a tax from spending tax dollars to directly or indirectly influence the outcome of any legislative pending before the legislature. *It is important to note that while **SB 29 ultimately did not pass**, it did pass the Senate as a whole and House State Affairs committee, and was placed on the House Calendar.

Member Benefit: New HB 3 Template

See how legislative changes impact you!

Equity Center Members – be sure to login to your member portal and use our **HB 3 Template** to see how recent legislative changes will impact your district! We will continue to send templates throughout the year as TEA makes updates, and will notify member districts as changes are made and new templates are uploaded to the site: www.equitycenter.org.

**To become a member, or renew your membership, please call (512) 478-7313.*

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