

School Finance Reform in the 86th

The Road to House Bill 3

Region 12 Summer Leadership Conference

June 11, 2019

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

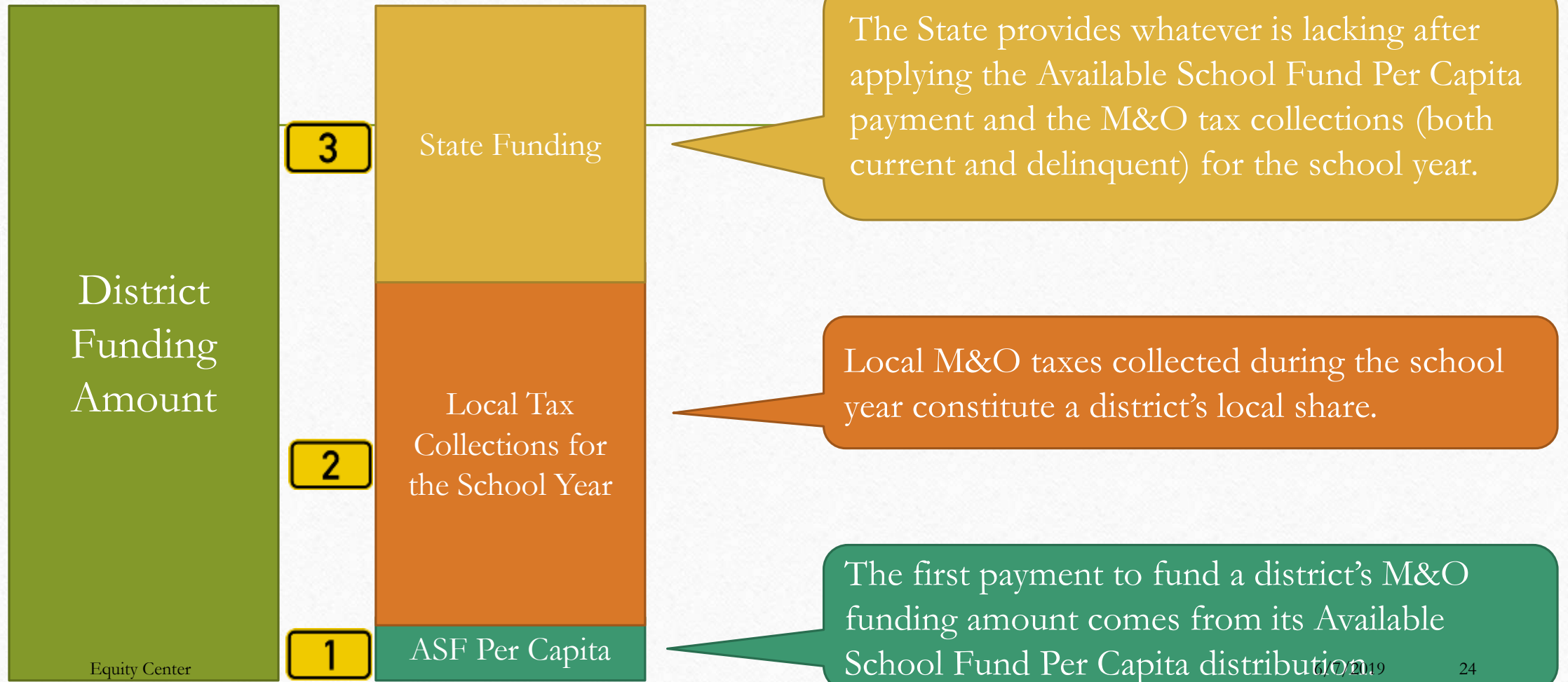
- No prior year value surprises or inequities
- Guaranteed revenue – no tax collections surprises
- WADA is calculated by a much simpler formula
 - No funding is determined by WADA calculations
 - WADA is only used for equity measurements
- Collections do not determine funding
 - It is a stable system based on the needed funding level, not the state of a district's economy
- No convoluted recapture calculations that no one understands
- Everyone treated the same for ASF Per-Capita and Transportation

Efficiency Savings

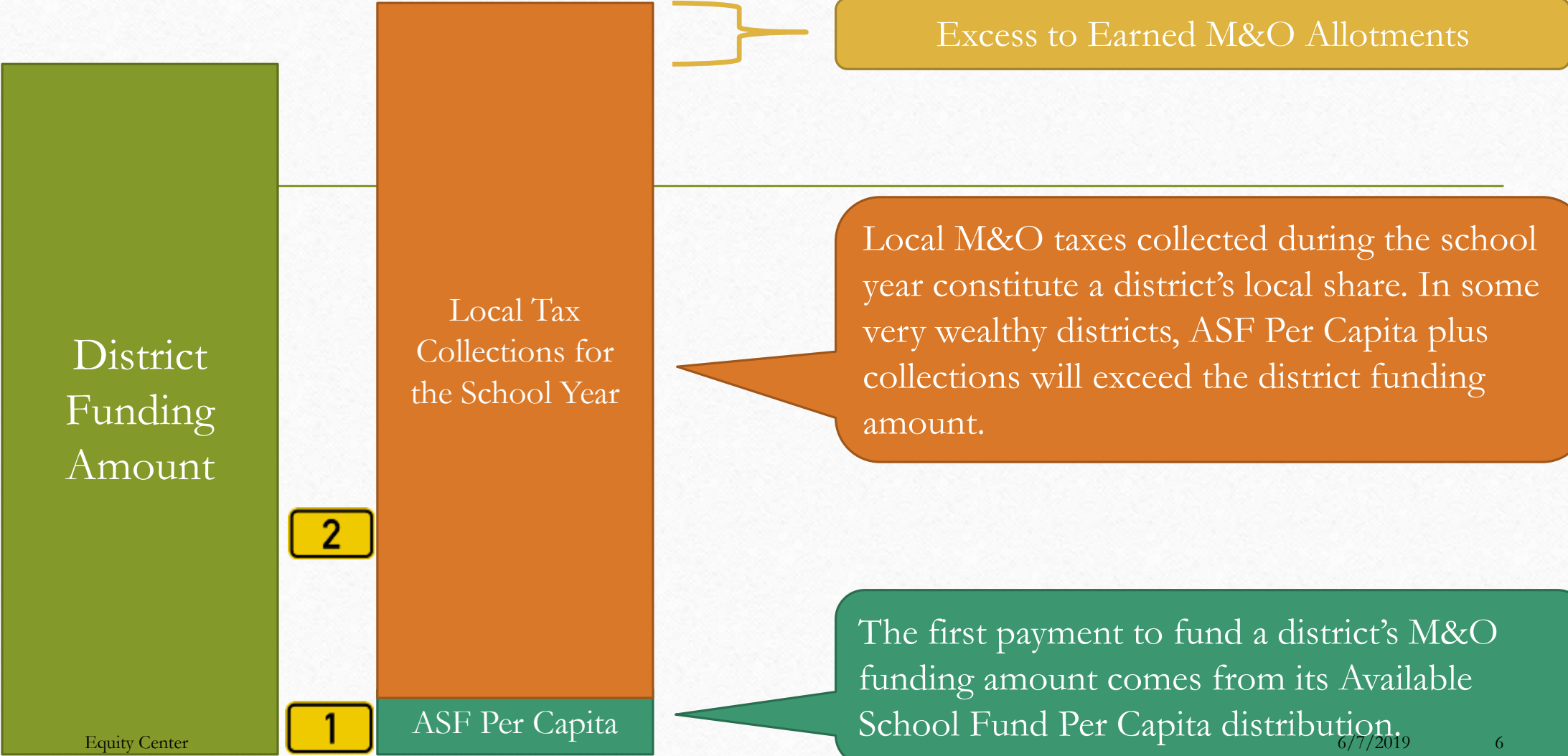
- The plan eliminates inefficient, **non-cost based elements** from the current funding system
- This creates **efficiency savings** that can be used to address important funding issues in ways that **benefit all Texas' children and taxpayers**

- 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

Determining State/Local Funding for M&O



Determining M&O “Excess” for Property Wealthy Districts



HB 21: Texas Commission on Public School Finance

- Recommendations issued in December included:
 - Eliminating the High School Allotment, Early Agreement Credit, 1993 WHH, Gifted and Talented Allotment,
 - Moving to Current Year Values
 - Indexing Golden and Copper Pennies to the Basic Allotment
 - Incentive/merit pay
 - Outcomes-based funding
 - Small and Midsize Adjustments changed
 - Increase Compensatory Education Allotment
 - Transportation Allotment changed...

House Bill 3

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



Equity Gains From HB 3, 86th Legislative Session (cont.)

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 optional 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



Equity Gains From HB 3, 86th Legislative Session (cont.)

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



Eliminates the Equalized Wealth Level and puts all districts in the same Formula Funding System



Equity Gains From HB 3, 86th Legislative Session (cont.)

Changes “Recapture” to Local Revenue in Excess of Entitlement and greatly simplifies the calculation, increasing equity



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



New Revenue for Schools

- \$11.6 billion over the next two years, including:
- \$6.5 billion for education reform
 - \$2 billion for compensation increases
- \$5 billion for property tax relief

Compensation

- 30% of ALL new revenue per ADA a district receives from FY 19 to FY 20 must go to employee compensation
- 75% of this amount must be used for full-time teachers, counselors, librarians, and nurses. Must prioritize differentiated compensation for classroom teachers with more than five years of experience.
- Creates teacher merit/incentive pay program*

Educational Reforms

- Basic Allotment increase to \$6,160, and increase of \$1,020
- Eliminated and repurposed billions of dollars in existing educational programs such as:
 - Cost of Education Index
 - High School Allotment
 - Staff Allotment
 - Gifted and Talented Allotment
 - Move to current year values
 - 4% early agreement credit
 - 1993 Wealth Hold Harmless

Compensatory Education Allotment

- Compensatory Education Allotment:
 - Increased from the current weight of .2 to a range of .225 to .275 based on concentrations of poverty that are determined by census block data. Commissioner will create an index that includes five tiers according to relative severity of economic disadvantage.
- The commissioner shall consider:
 - Median household income, average educational attainment of population, % of single family households, rate of home ownership, other economic criteria.

Other Weights and Allotments

- Bilingual Allotment:
 - Additional .05 weight for dual language immersion
- Special Education Allotment:
 - Mainstream is increased from 1.1 to 1.15
- Dyslexia Allotment:
 - .1
- Transportation Allotment:
 - Uniformly applied to all districts on a per mile basis at a rate to be determined

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- Career and Technology Allotment:
 - Funding extended through 7th grade
- P-Tech and New Tech
 - \$50 per student
- Small and Midsize Adjustments:
 - Stand alone allotment that now only adjusts for Regular Program and Special Ed

...continued

- New Instructional Facilities Allotment:
 - Increased from the current \$25 million per year to \$100 million per year
- Fast Growth Allotment: .04 per ADA
- Spending Requirements: 55 percent direct spending requirements
- College, Career, and Military Readiness Outcomes Bonus
- Additional Instructional Days:
 - Funding for optional 30 days of school during summer
- Mentor Allotment

Early Education Allotment / Pre-K

- Early Education Allotment created and funded at:
 - .1 for each student in grades K-3 that is educationally disadvantaged or limited English proficiency in a bilingual or special language program.
 - .2 for students in grades K-3 who are BOTH educationally disadvantaged and a student of limited English proficiency.

Tier Two

- Golden Pennies
 - Guaranteed yield de-linked from Austin level which is currently **\$106.28** in 2019. Would have been **\$126.88** in 2020 and **\$135.92** in 2021.
 - New yield is 160 percent of the Basic Allotment of the 96th percentile of wealth, whichever is greater. Currently **\$98.56**
 - Increased from 6 to 8
- Copper Pennies
 - Guaranteed yield of 80 percent of the Basic Allotment, which is **\$49.28**, up from the current yield of **\$31.95**.
 - Decreased from 11 to 9.

Transition

- Formula Transition Grants
 - Guarantees every school at least a 3% increase per ADA and allows for no more than an increase of 128% of the statewide average revenue per ADA for the five year life of the transition
- Wealth Hold Harmless Transition
 - 5 year phase out
 - 100% in 2019-20, then reduced by 20%, 40%, 60%, 80%...

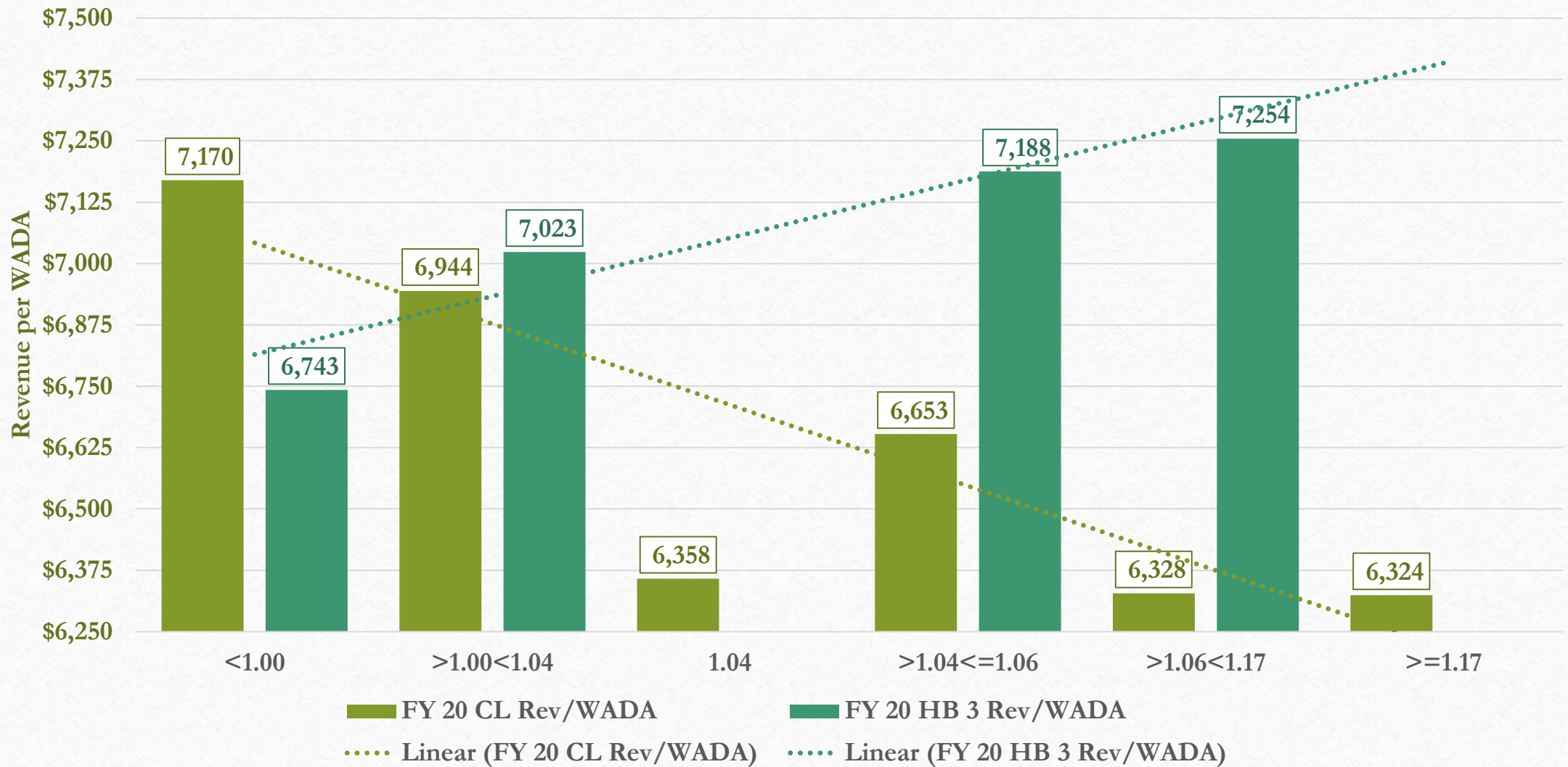
Recapture

- New calculation of:
 - Revenue in excess of entitlement
- Reduced by \$3.7 billion, 47% reduction for the current biennium
- Tax compression will significantly slow the rate of growth going forward

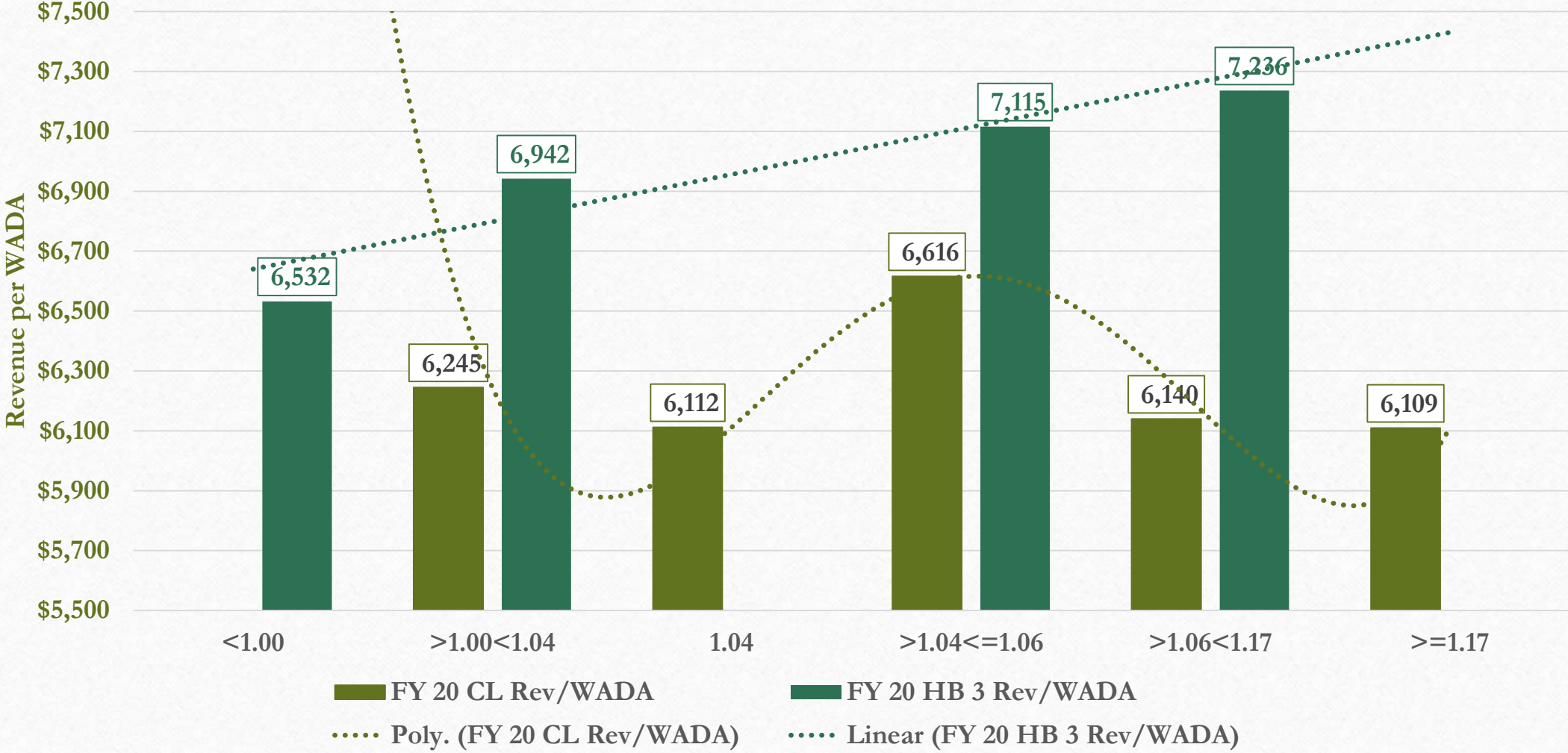
Property Taxes

- Initial Statewide Compression
 - .07 Cents in Tier One
 - Copper Penny Compression
- District by District Compression
 - 2.5% Revenue Cap
 - 10% band of equity

HB 3: Correcting the Equity Trends for FY 20

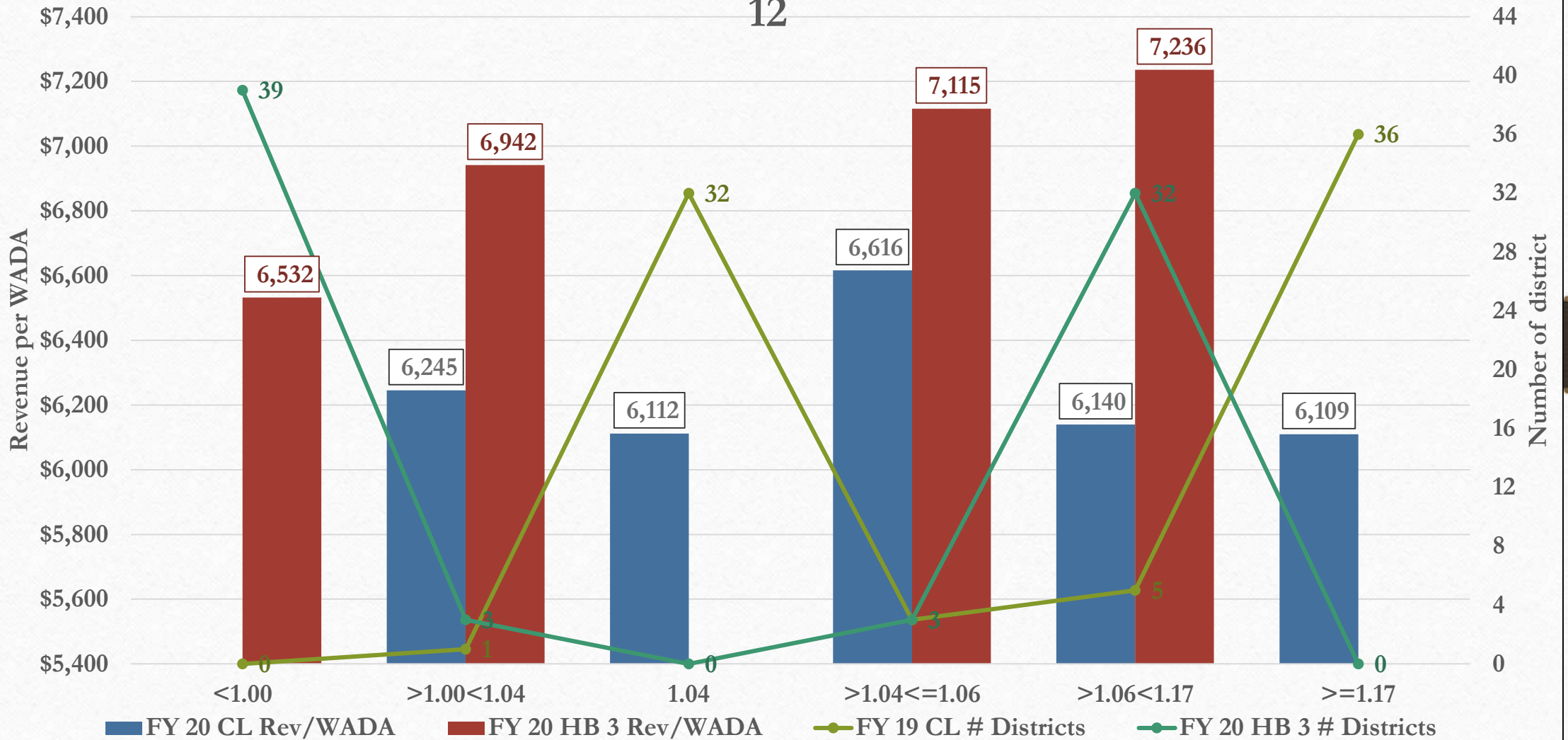


HB 3 Equity Trends FY 20 Region 12

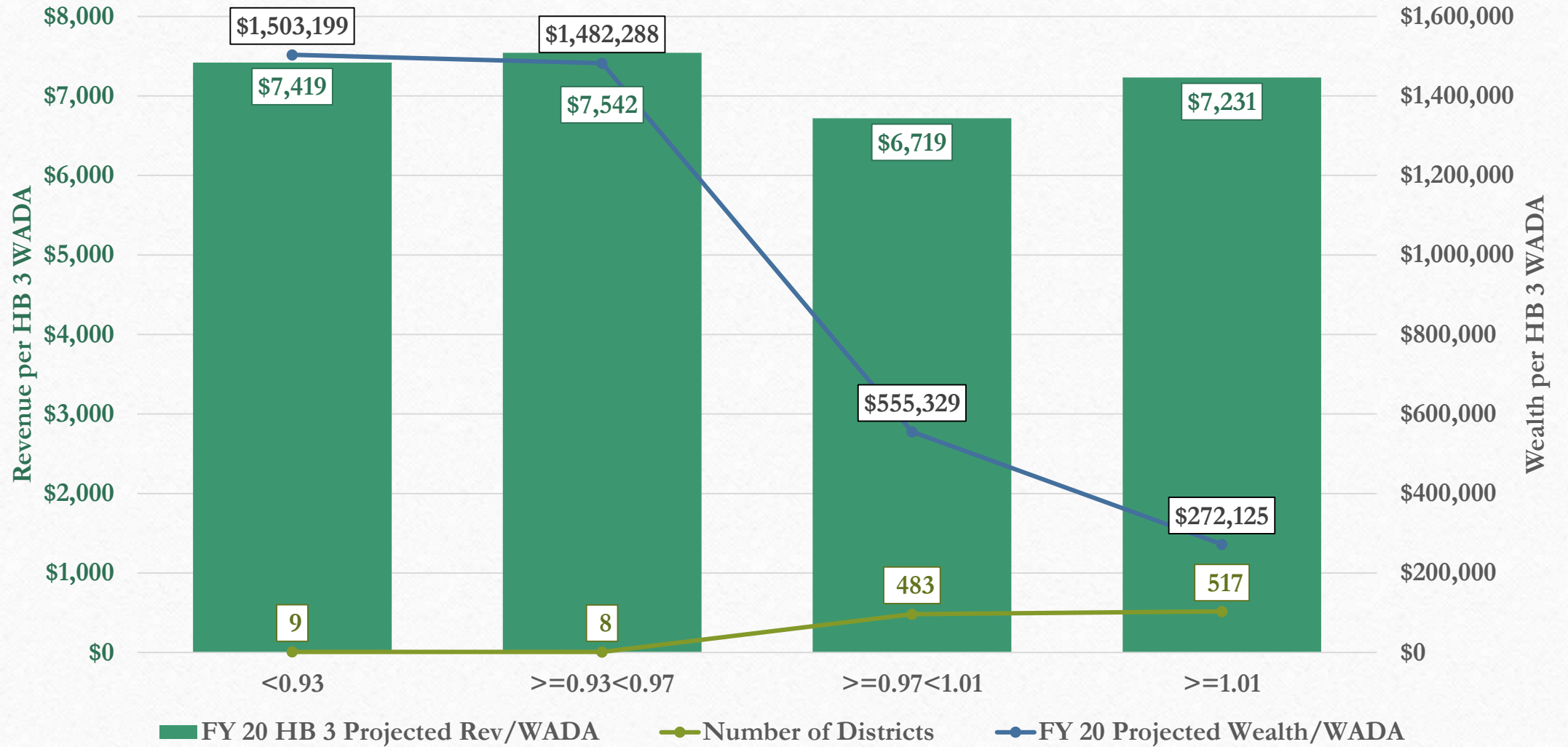


Comparative Equity Between Current Law & HB 3 FY 20region

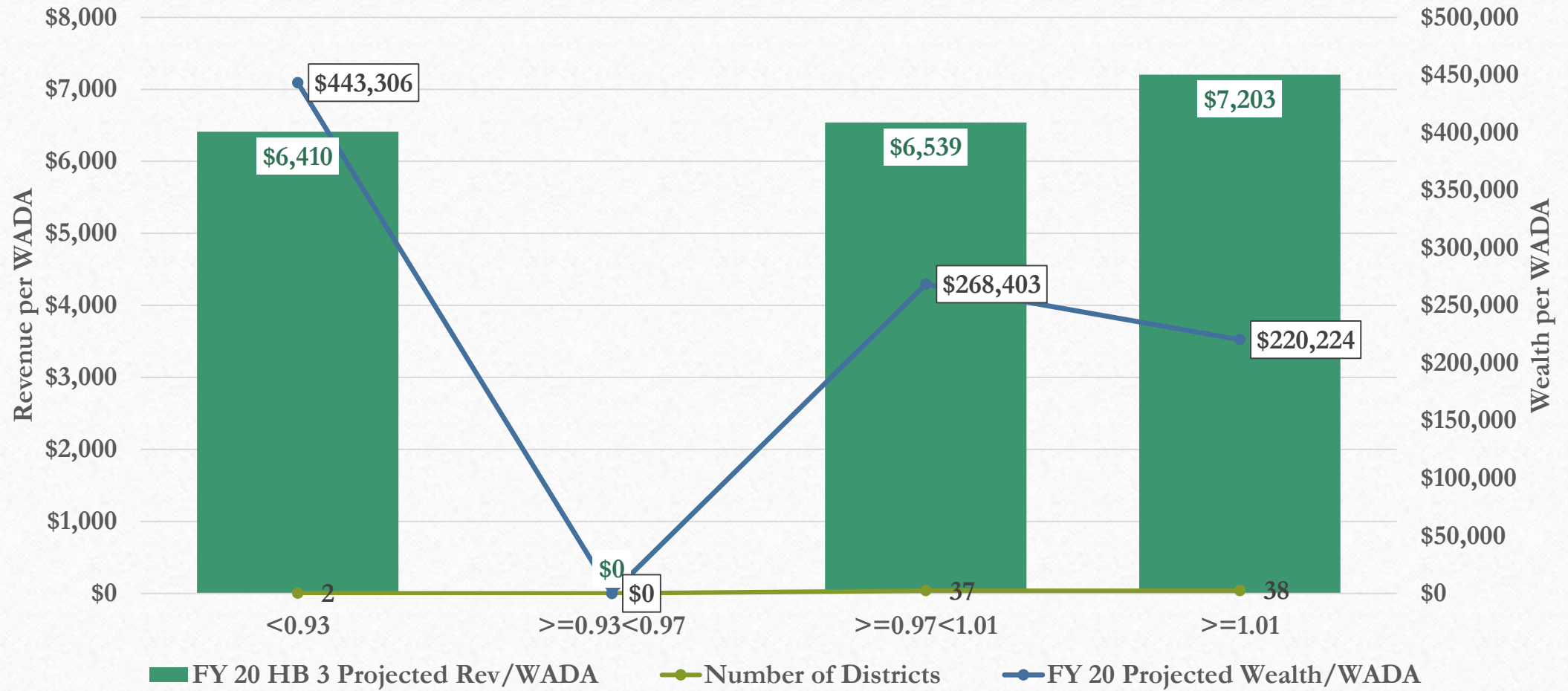
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HB 3 Major Tax Rate Categories After Compression FY 20

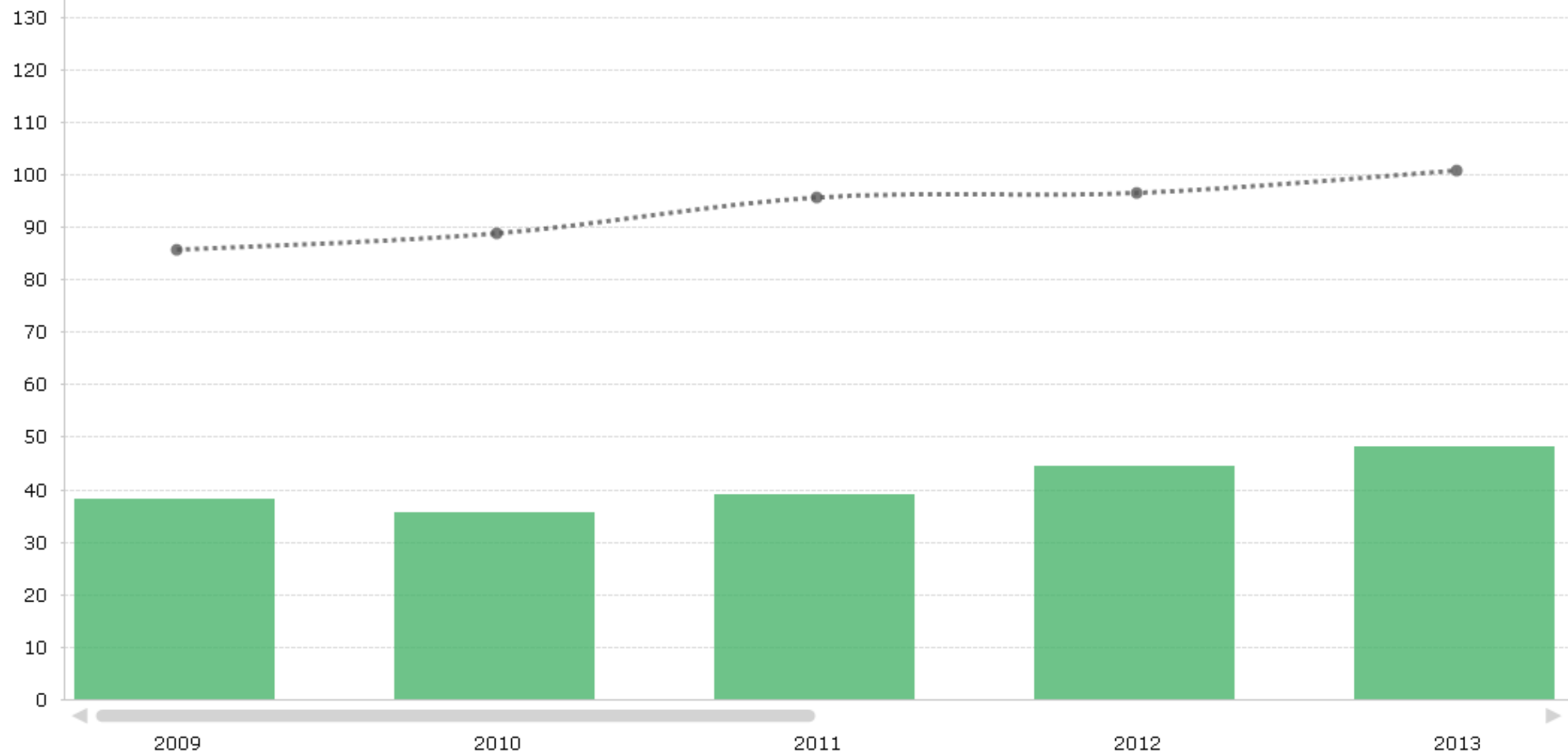


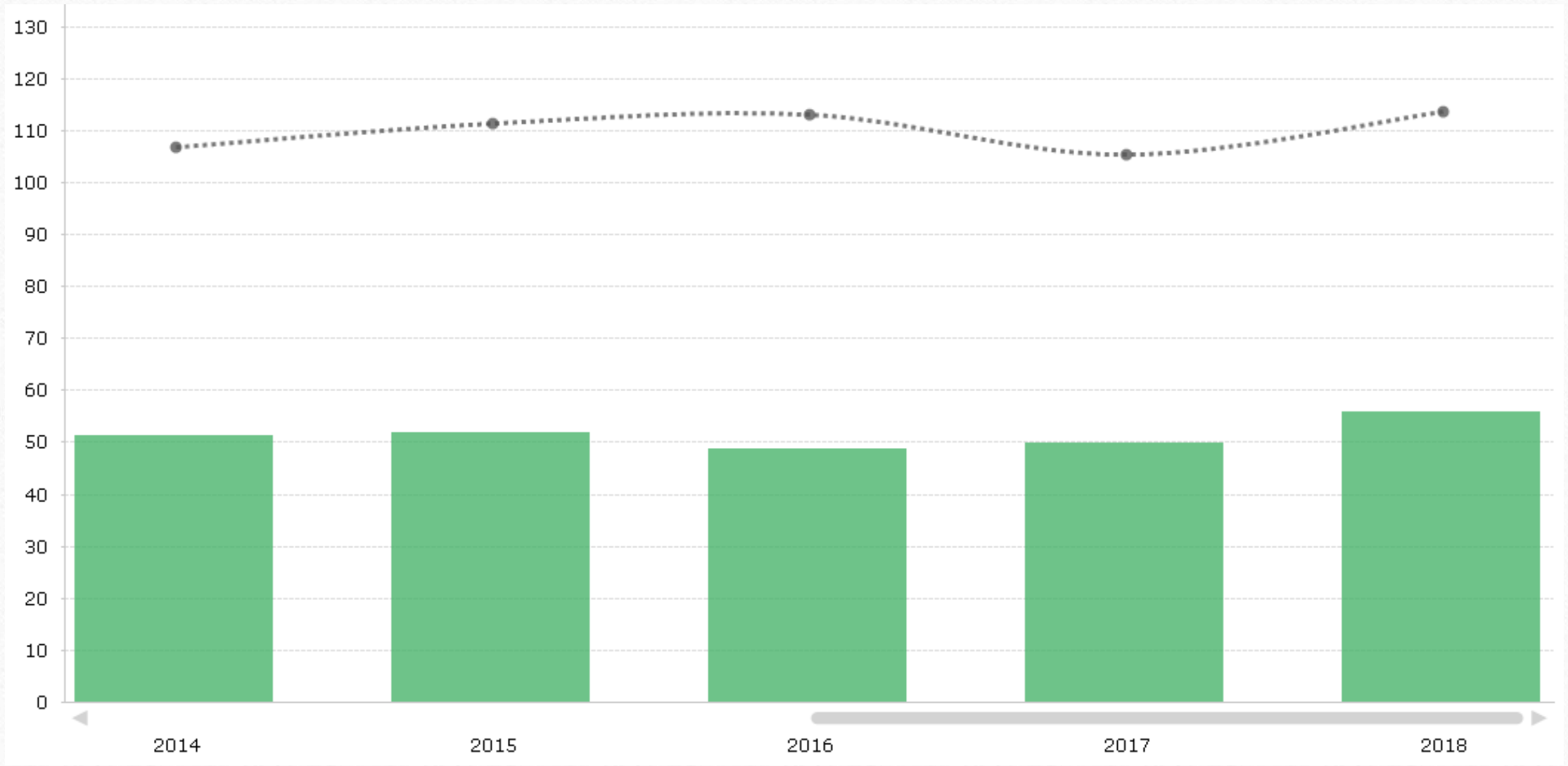
HB 3 Major Tax Rate Categories After Compression FY 20 Region 12



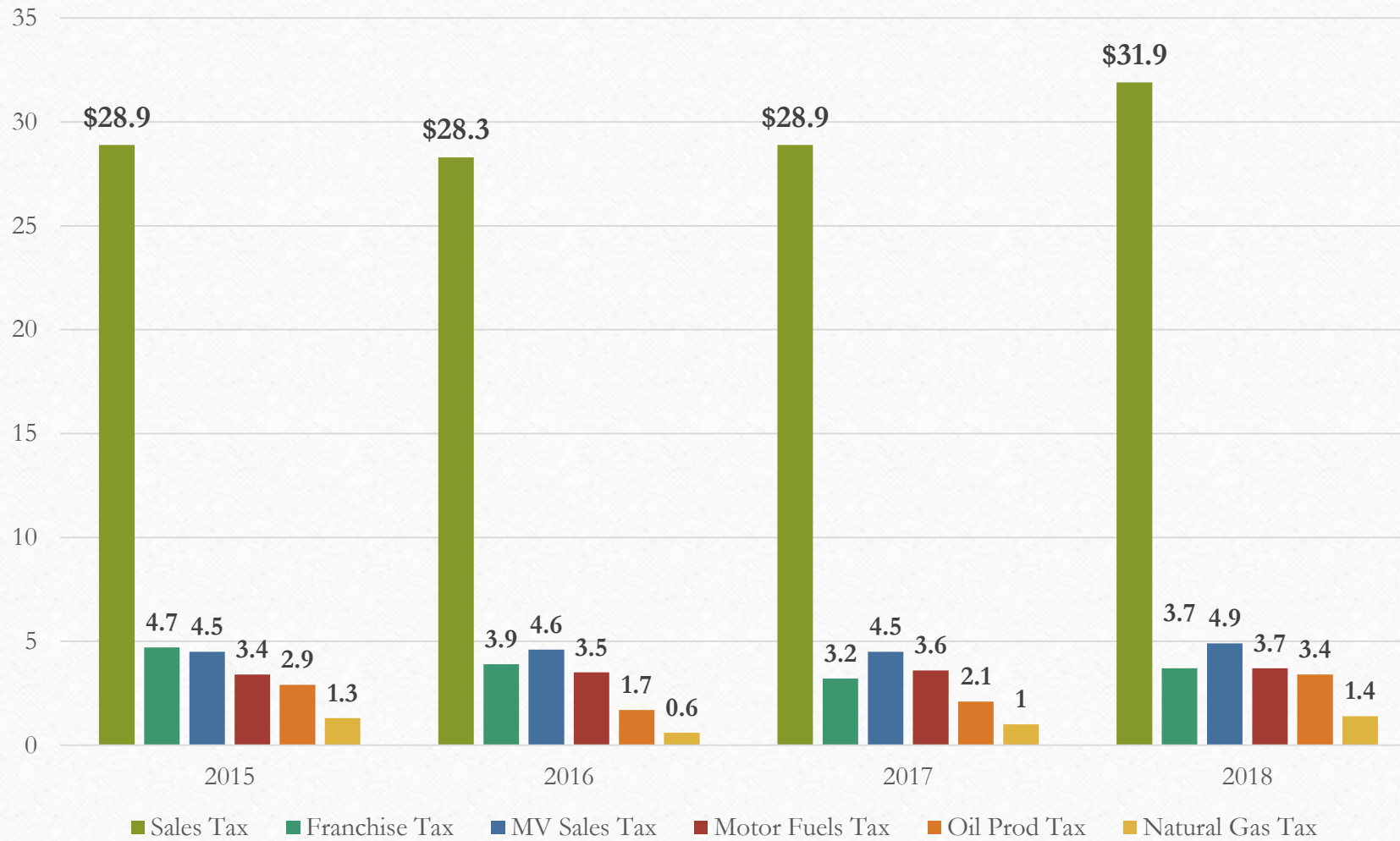
Sustainability

- Perils of an increasing state share
- Reducing recapture
- Politics of property taxes
- Potential new revenue
 - Sales tax: increase and swap
 - Income tax
 - Constitutional amendment on prohibition on an income tax – Franchise Tax





Tax Revenue



Other Education-Related Legislation

- HB 1 State Budget
- SB 2 Property Tax Reform
- SB 11 School Safety
- SB 12 Teacher Retirement System

Equity Center HB3 Template

Questions about HB3

- Tax Rate Compression and Rollback Rate
- Salaries
- Compensatory Education
- Pre-Kindergarten Funding

FY20 Tax Rate Compression and Rollback Rate

- Tier 1 tax rate is 93 cents. Added to this is the maximum of 4 cents or the number of pennies the starting tax rate is above 1.00
- If starting compressed rate is <1.00 and $ATR <1.00$, then ATR is compressed to 93%. Rollback rate would add 4 cents
- Copper pennies are compressed at a ratio of 31.95/49.28
- TRE's can only be done by a district that has already adopted a strategic plan that proposed a higher tax rate or if the total compressed tax rate is $<.97$

FY21 Tax Rate Compression and Rollback Rate

- Statewide tier 1 tax rate is the lower of:
 - 0.93
 - $\text{Prior Year Compression Percentage} \times 1.025 / (1 + \text{Estimated Change in Taxable PV})$
- District maximum compressed rate is lower of:
 - Statewide Tier 1 tax rate (above)
 - If DPV increased by more than 2.5%:
 - $(1.025 \times ((\text{PYDPE} + \text{PV of 311 or 313}) \times \text{PYMCR})) / \text{DPV}$, but not less than 90% of statewide tier 1 tax rate
- Rollback is the district maximum compressed rate plus greater of:
 - 5 cents
 - Number of enrichment pennies from the prior year

Salaries

- In existing law, the minimum salary schedule is drive by the Basic Allotment.
- 30% of any increase in revenue per ADA, as compared to FY19 revenue per ADA, is to be used to increase salaries.
 - 75% must be used for existing teachers, librarians, counselors and nurses.
 - 25% may be used for any other existing full-time employee, except administrators.
- Teacher Incentive Allotment
- Mentor Teacher Allotment