

# School Finance Reform in the 86th

---

The Road to House Bill 3

University of Mary Hardin-Baylor

July 10, 2019

# THE LAW:

## Texas Constitution

---

- ARTICLE 7. EDUCATION
- Sec. 1. SUPPORT AND MAINTENANCE OF SYSTEM OF PUBLIC FREE SCHOOLS. A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.

# Texas Statutes

## Education Code

---

- Sec. 42.001. STATE POLICY. (a) It is the policy of this state that the provision of public education is a state responsibility and that a thorough and efficient system be provided and substantially financed through state revenue sources so that each student enrolled in the public school system shall have access to programs and services that are appropriate to the student's educational needs and that are substantially equal to those available to any similar student, notwithstanding varying local economic factors.
- (b) **The public school finance system of this state shall adhere to a standard of neutrality that provides for substantially equal access to similar revenue per student at similar tax effort, considering all state and local tax revenues of districts after acknowledging all legitimate student and district cost differences.**

# Blank Slate School Finance

---

# Equity Center 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

# Basic Elements of School Finance

---

- 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

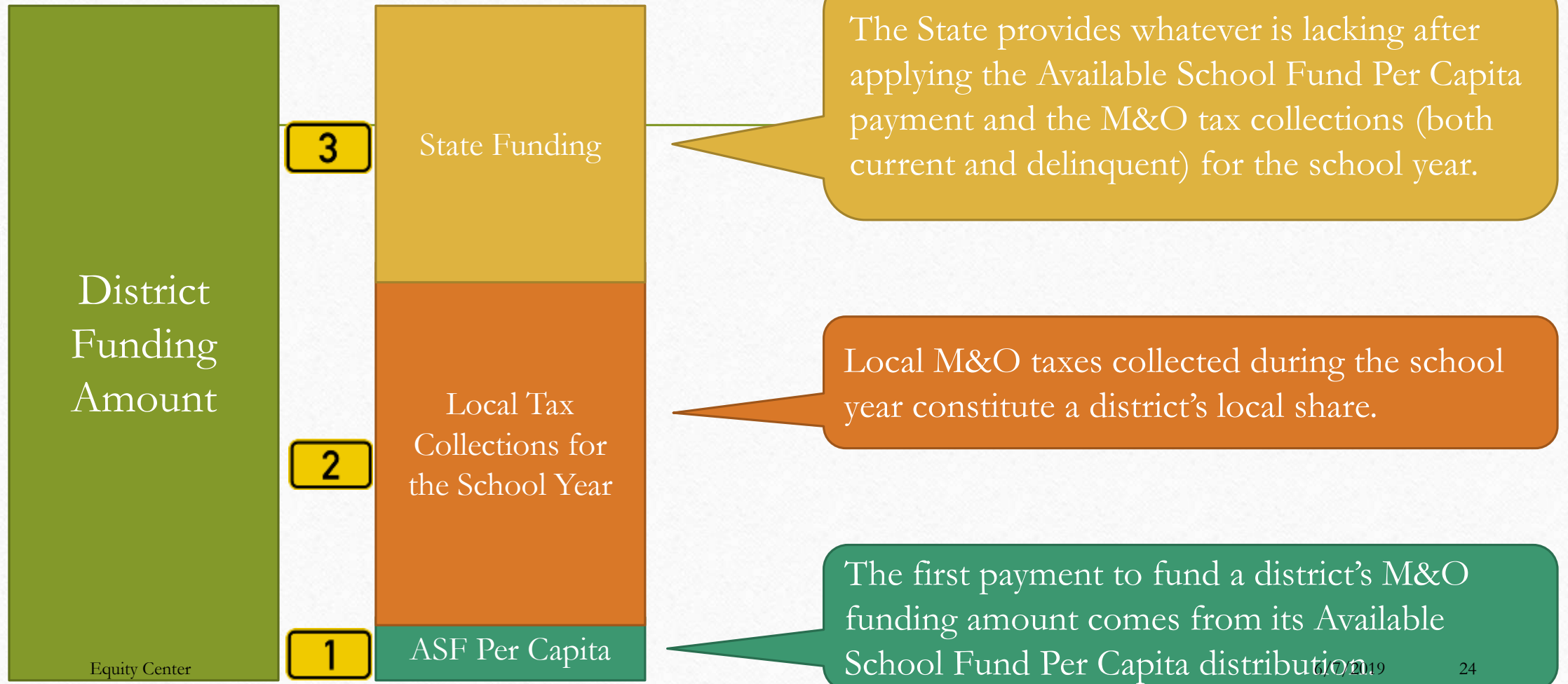
# Efficiency Savings

- 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**

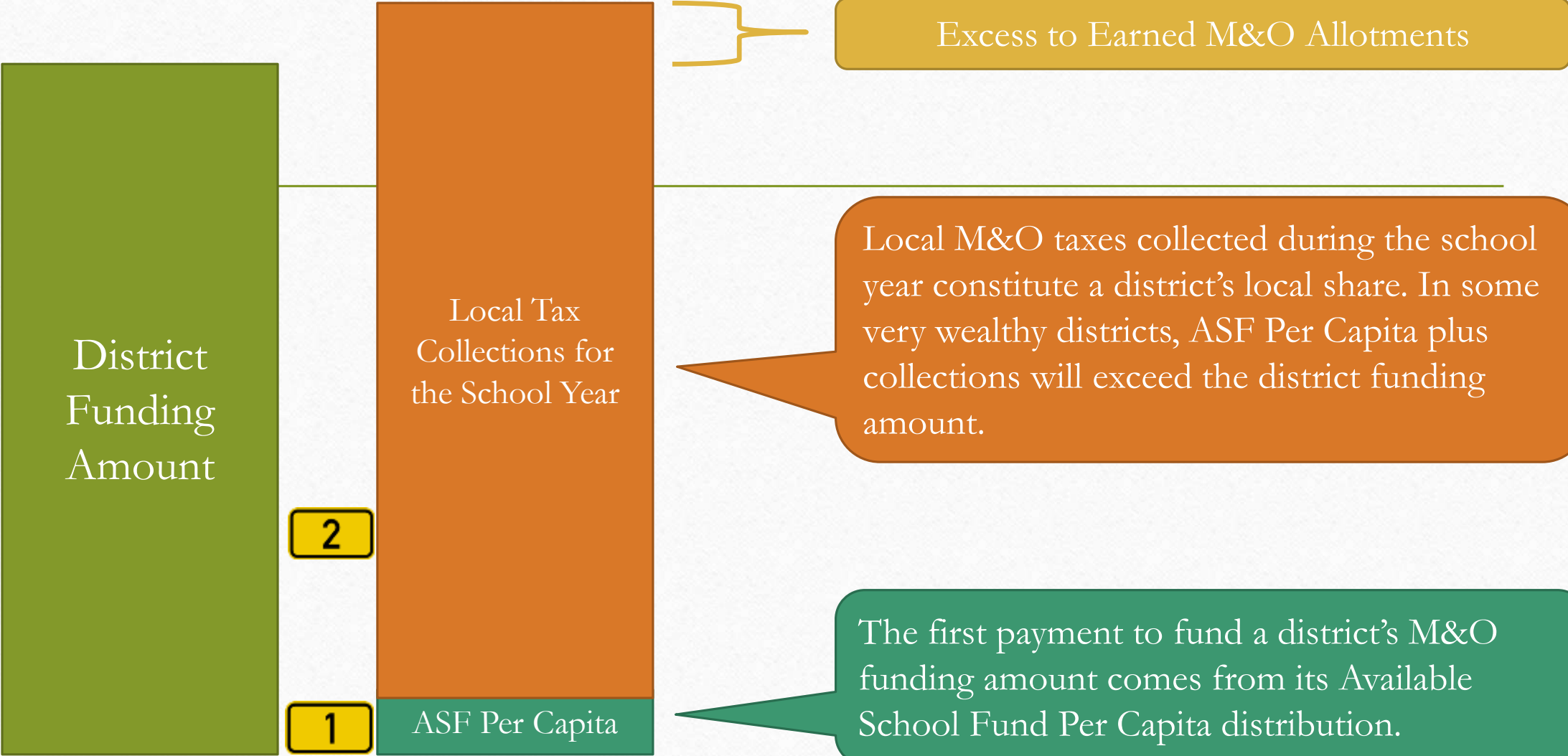
- High School Allotment
- Staff Allotment
- Early Agreement Credit
- 1993 Wealth Hold-harmless
- Hardship Grant
- Property Value Decline Funding
- Prior Year Values
- Tier 2 Golden/Copper Pennies
- Per Capita Double Dip
- New Instructional Facilities Allotment
- Gifted & Talented Allotment
- Public Education 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, 86<sup>th</sup> 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, 86<sup>th</sup> 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, 86<sup>th</sup> 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, 86<sup>th</sup> 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.
- In existing law, the minimum salary schedule is drive by the Basic Allotment.
- Creates teacher merit/incentive pay program\*
- Mentor Allotment

# 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

# ...continued

---

- Career and Technology Allotment:
  - Funding extended through 7<sup>th</sup> 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 96<sup>th</sup> 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

---

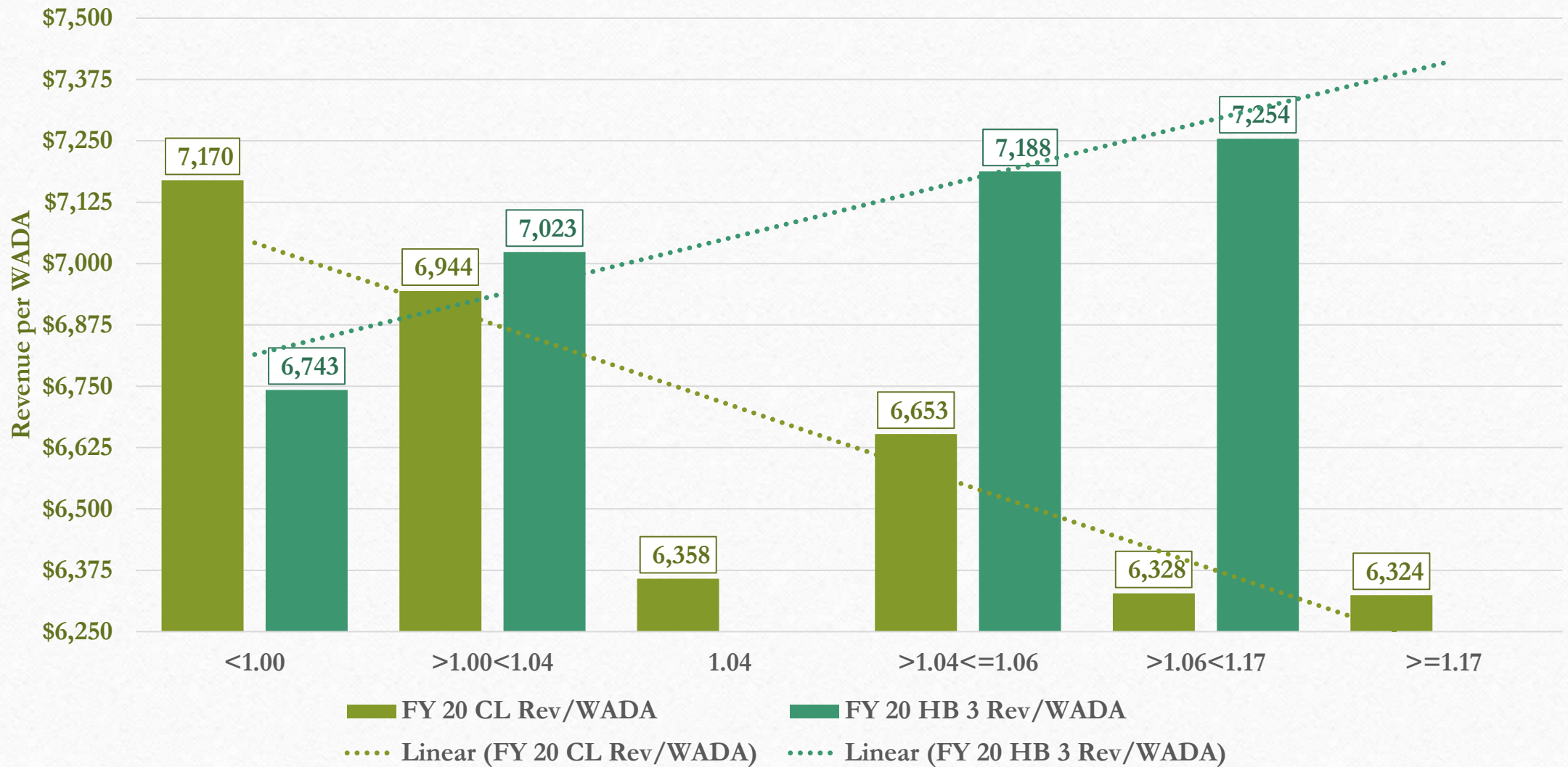
- New calculation of:
  - Revenue in excess of entitlement
- Reduced by \$3.7 billion, 47% reduction for the current biennium
- Tax compression will significantly slow the rate of growth going forward

# Property Taxes

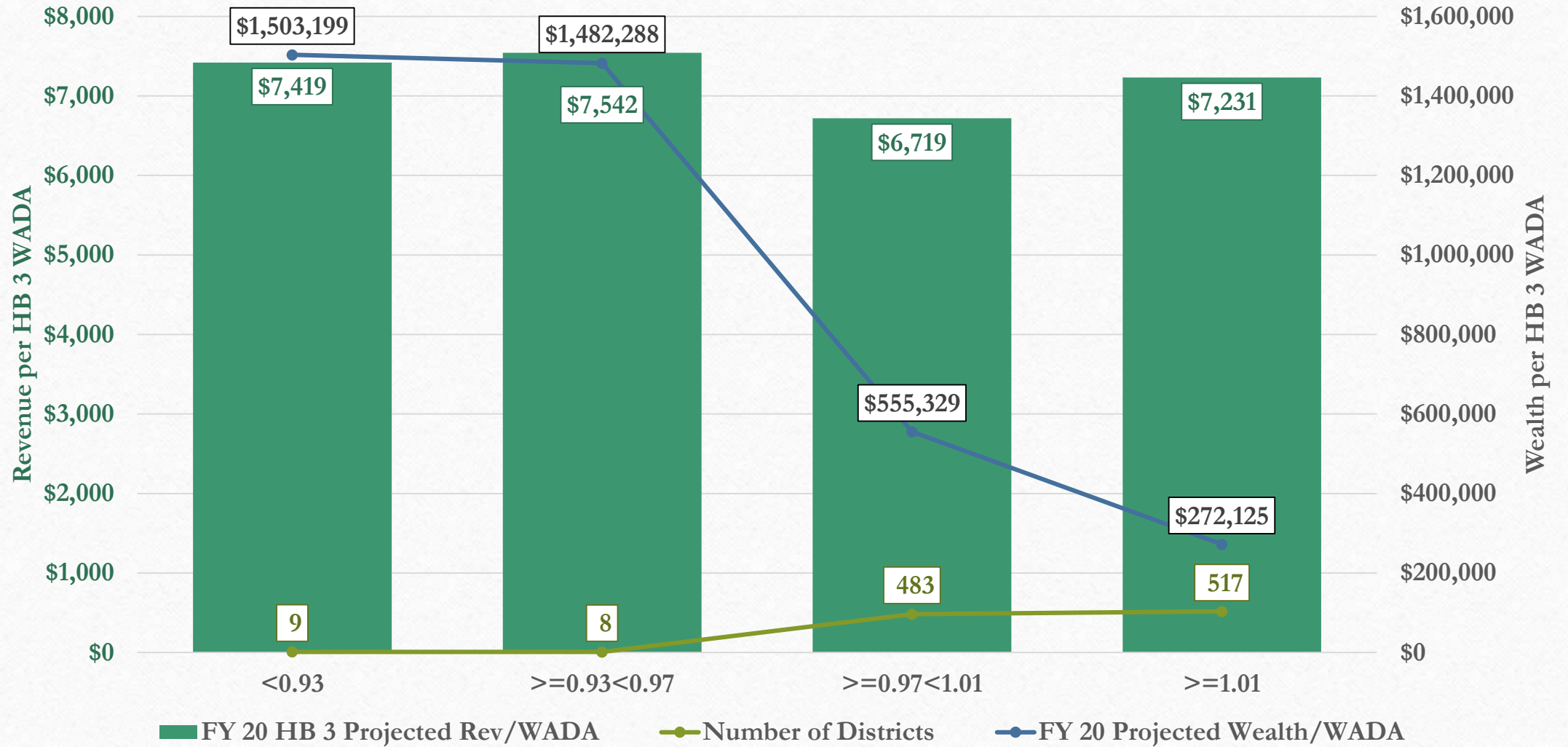
---

- 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



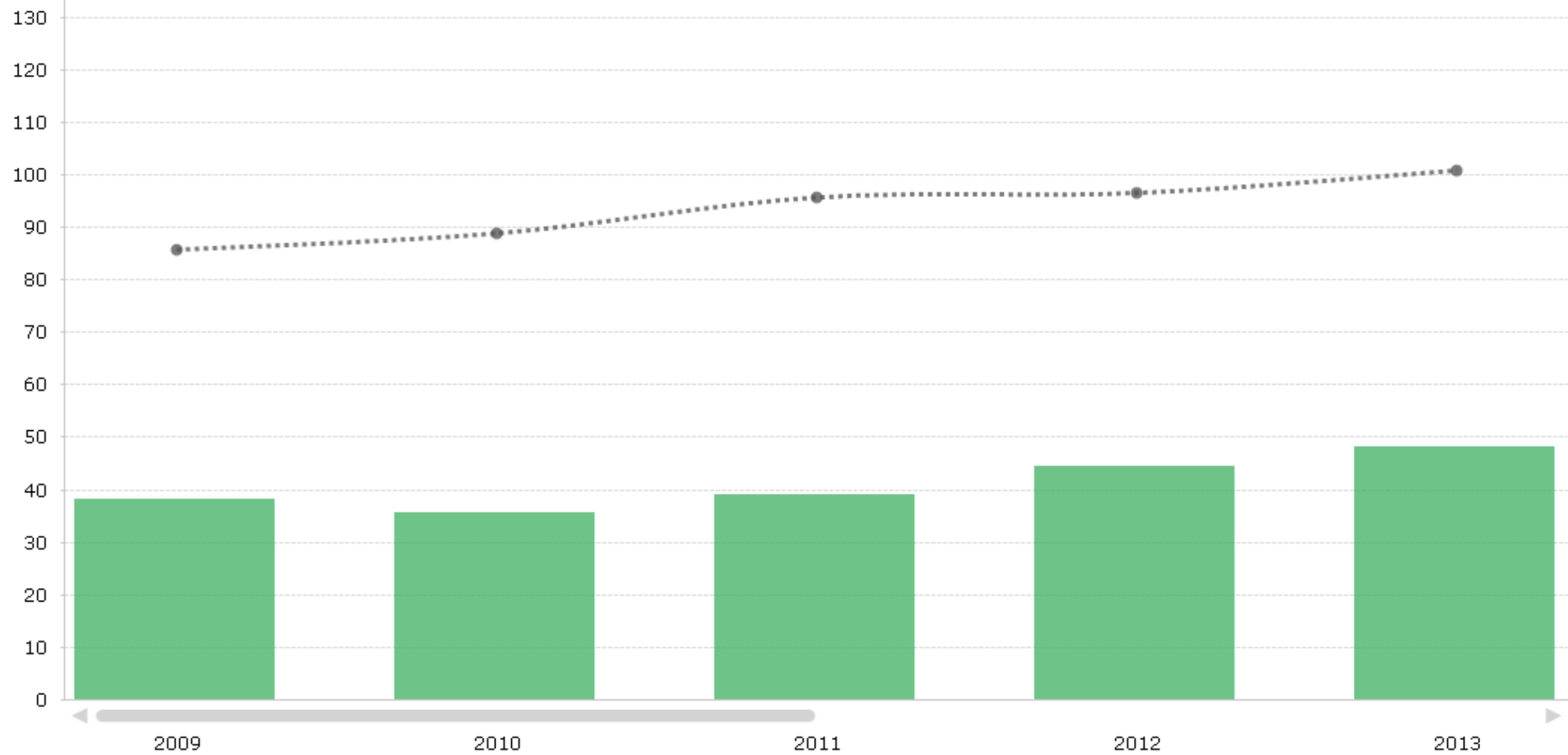
# HB 3 Major Tax Rate Categories After Compression FY 20

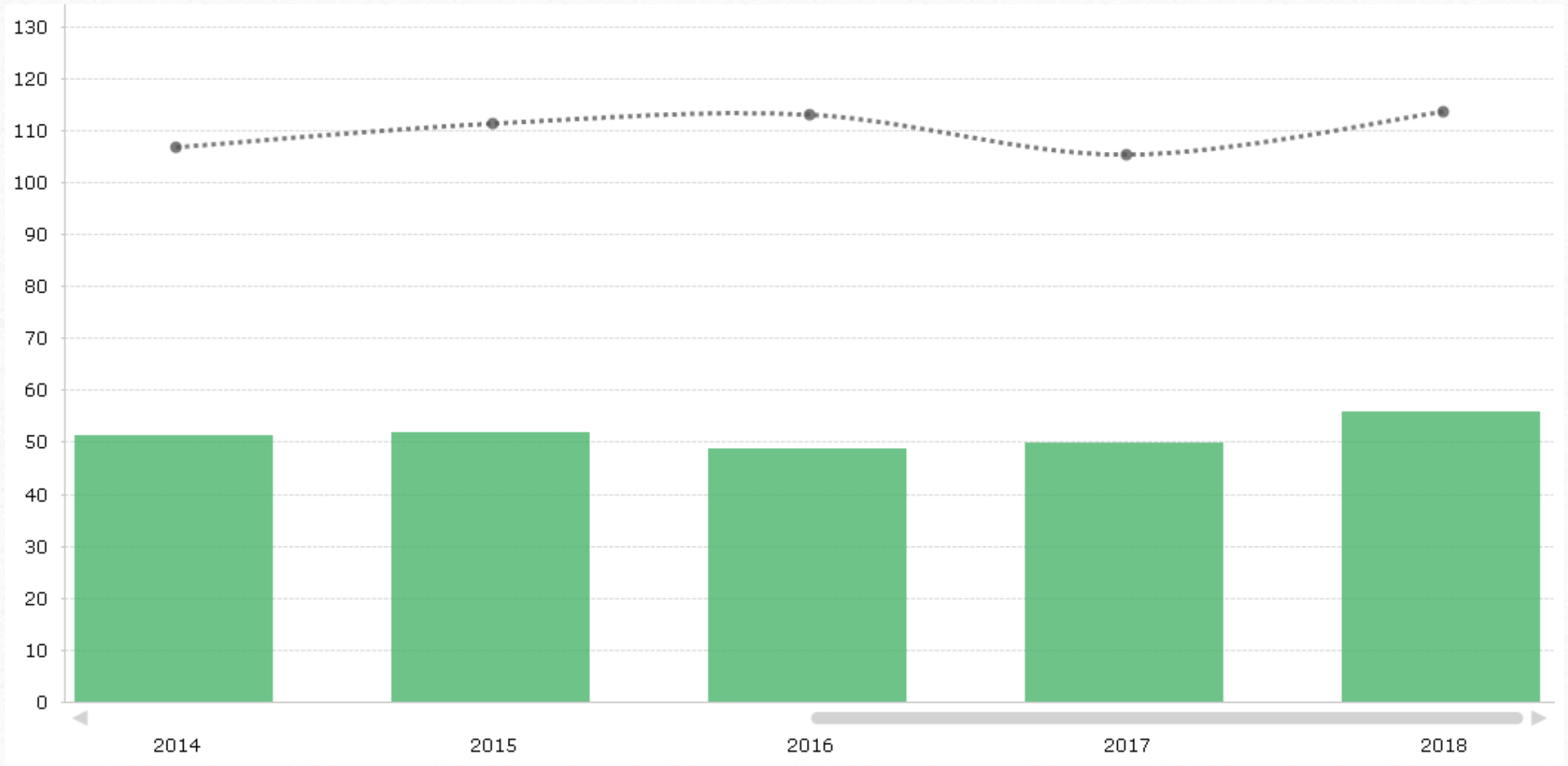


# Sustainability

---

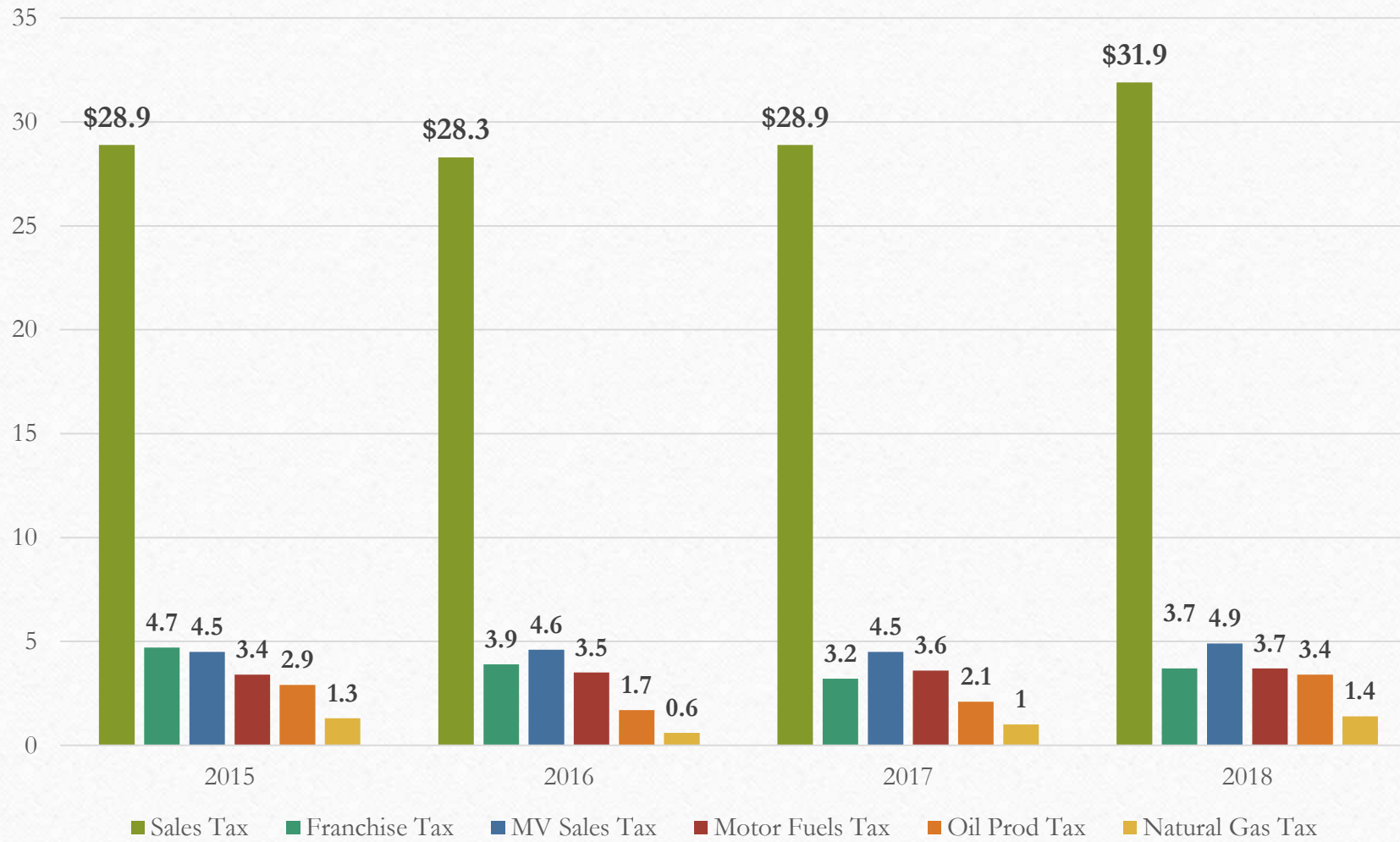
- Perils of an increasing state share
- Reducing recapture
- Politics of property taxes
- Potential new revenue
  - Sales tax: increase and swap
  - Income tax
    - Constitutional amendment on prohibition on an income tax – Franchise Tax







# Tax Revenue



# Other Education-Related Legislation

---

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

# 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