InDepth

Understanding Texas School Finance

Funding Growth for Population & Inflation

Efforts to constrain and/or limit the amount of new resources the state legislature can access in a given biennium have, for several of the last legislative sessions, been successful to the point of essentially limiting growth in state budgets to the impact of population growth and inflation. Whether or not that is good government policy is still a point of argument. However, that argument is not the purpose of this particular discussion. The point that even growth in the state budget recognizes the impact of population growth and inflation on what the state needs to have available to meet minimal requirements, both constitutional and fiscal, is our point of discussion.

In a recent meeting with staff at the Texas Public Policy Foundation they pointed out, with some pride of accomplishment, that they had finally gotten growth in revenue available for the state to use in its budgeting process limited to the **growth in population and inflation**.

Our response was to point out that for public school funding, we would be thrilled if the state would get public school funding up to a point that equaled that recognition. Therein lies one of the major constraints negatively impacting public school funding.

If the recognition of population growth and inflation are the penultimate reflections of the need for government budgetary growth, then ***current formulas for public school funding only recognize 50% (half) that equation.***

While the state does attempt to recognize growth in student population statewide in the LBB (Legislative Budget Board) preliminary budget for each biennium, ***there is absolutely no factor or adjustment put into the base state budget to recognize the inflationary costs of goods and services school districts face*** by simply doing business year in and year out in the state of Texas.

Is there anyone out there who truly believes they can buy anything (cars, gas, houses, food, medicine, employees) as cheaply in 2022 as they could in 2019? Yet that is somehow what we expect public schools to do. Where is the logic?

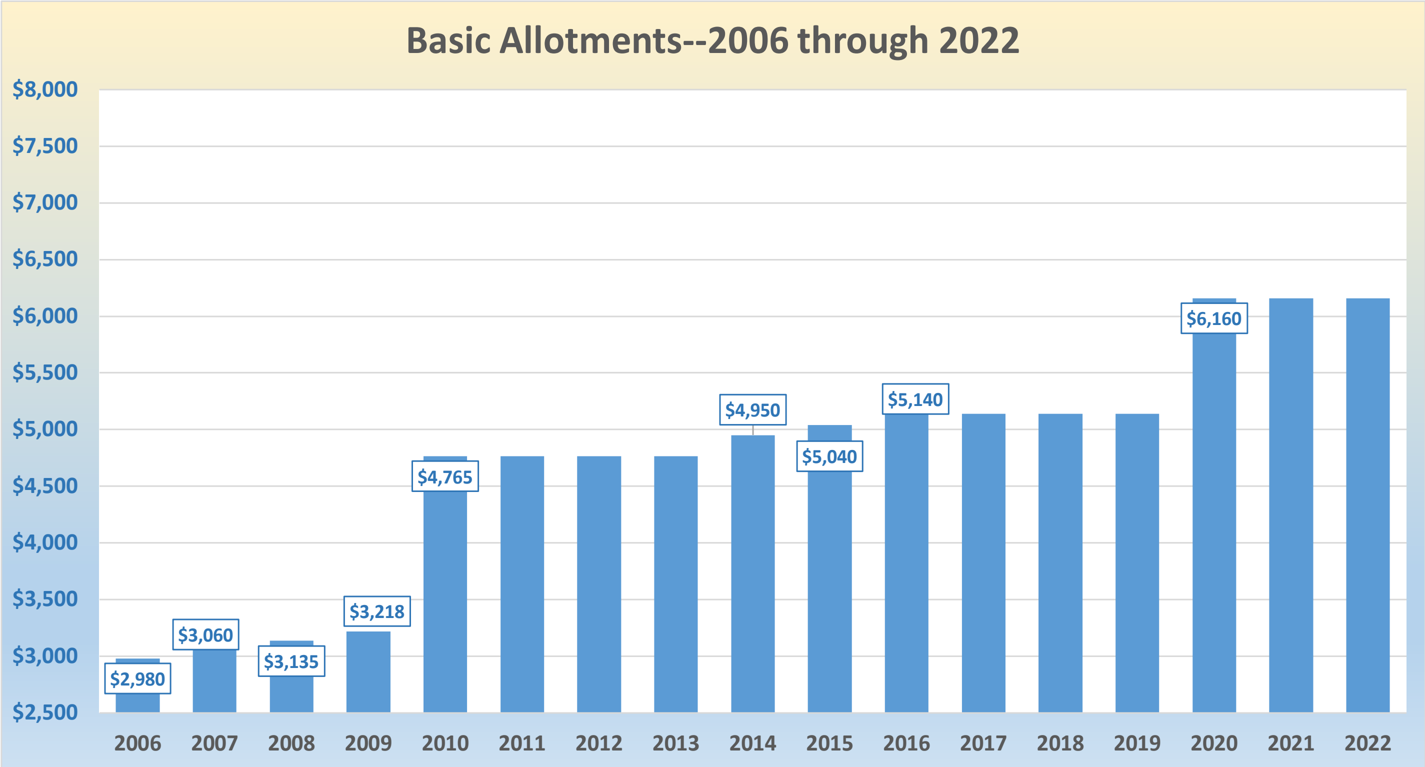
The state budgeting process to determine the base budget each new biennium is based upon the Basic Allotment (BA).[1] Under current practice, any funding to cover inflationary costs for schools has to be **new funding appropriated and approved legislatively**. Therefore, if funding is tight or if the legislature does not see fit to cover additional costs for school districts, our schools are essentially stuck with one of three really bad, untenable choices.

> 1) They can raise Maintenance & Operations tax rates (unless they happen to already be at the state tax rate maximum).
> 2) They can try to survive for two more years on the same revenues they had the previous biennium (or less if the district's student population is not growing).
> 3) They can cut programs.
> * Some combination of the above three.

The truth of this situation is properly described in the chart on the following page - please read on - this is an important issue impacting all Texas schools.

1 The Basic Allotment (BA) is the base funding for a student in average daily attendance in a public school in Texas.

Funding Growth for Population & Inflation... continued



As is evident in the chart above, on multiple occasions, Texas' Basic Allotment was allowed to become stagnate over multiple years. Each time this happens, inflationary costs wind up putting school district budgets in dire straits. In addition, as the chart shows, ***because the Basic Allotment has no built-in inflationary adjustment factor, a substantial increase in the BA is required to even begin to make up for lost costs due to inflation*** (i.e. the 2019 BA increase of over $1,000).

Interestingly, the system's eight Tier 2 golden pennies have an inflation adjustment factor. In the original 2006 legislation that began the process of tax rate compression down from a maximum allowable of $1.50 to $1.17, the eight golden pennies in Tier 2 were tied to a yield per penny per WADA[2] that was to equal the yield per penny of the wealth per WADA of the Austin ISD.[3] In that same legislation, the BA was tied to the greater of the Dallas ISD wealth level or the 88th percentile of wealth per WADA, creating inflation adjustment factors for both the BA and the Tier 2 Golden Pennies. Sadly, ***in 2009 the language connecting the BA to the Dallas ISD wealth level or the 88th percentile of wealth per WADA was eliminated***; the inflation adjustment factor for the Tier 2 golden pennies remained.

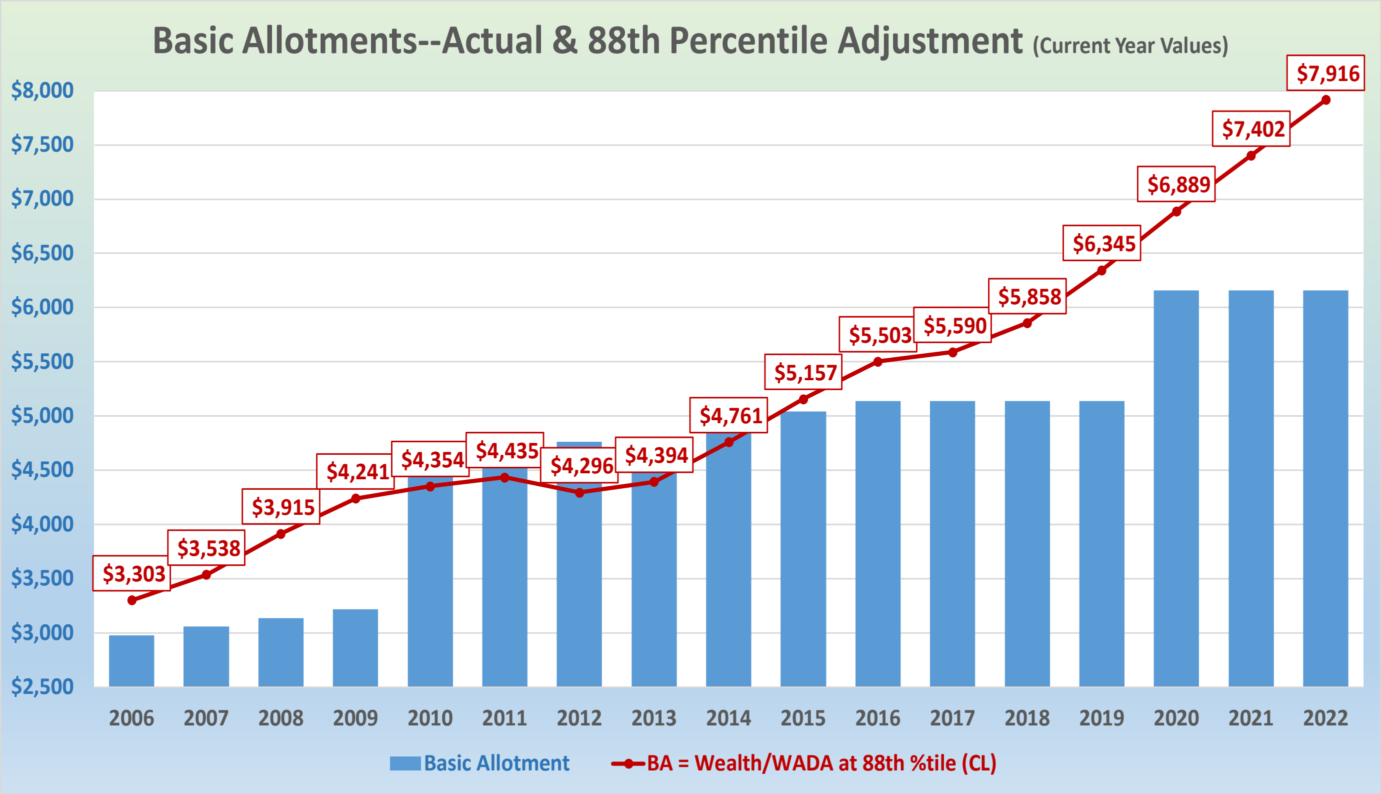
Had the 88th percentile of wealth per WADA inflation adjustment factor been maintained in our school finance formula the BA for the 2021-22 school year would have been $7,916, not $6,160. The chart on the next page tracks — based on current year values — what the BA should have been from 2006 to now.

** Note that because this methodology ties the BA to the economic conditions surrounding property values in given years, when property values rise the BA rises, when they decline, the BA does likewise.

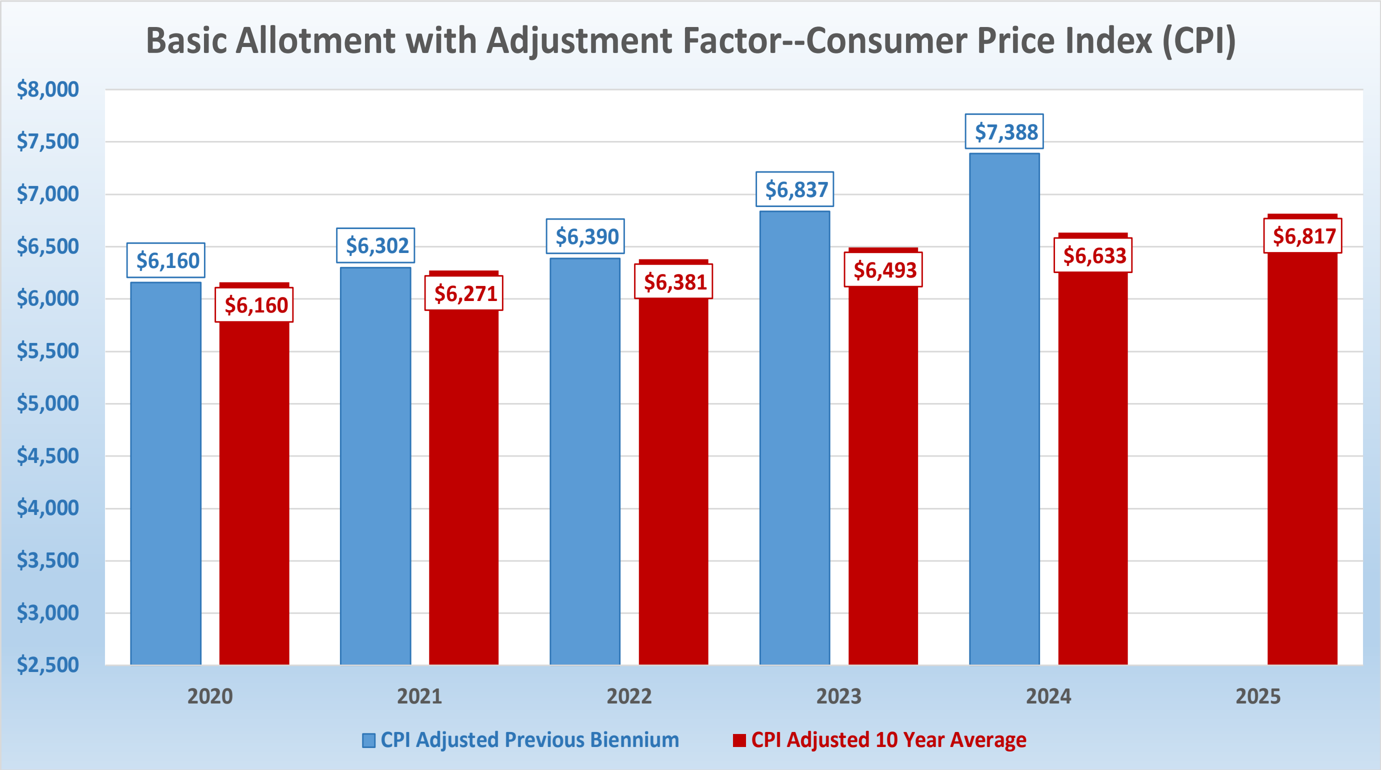
(continued on page 3)

2 WADA refers to the weighted students in average daily attendance in each district.
3 In 2019 that yield was changed to equal the greater of 180 percent of the BA or 96th percentile of wealth per WADA.

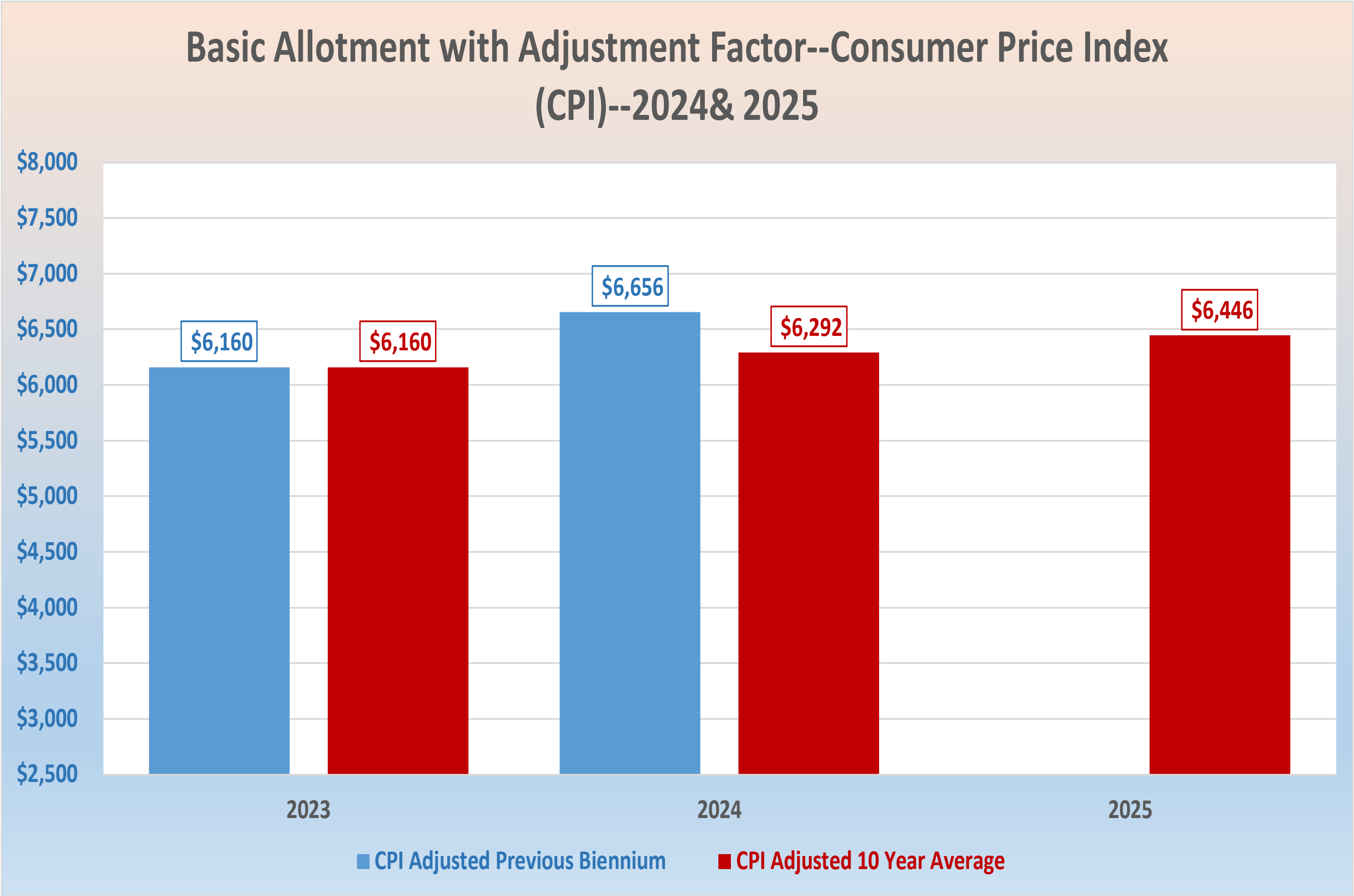
Funding Growth for Population & Inflation... continued



Even if we use a different economic measurement (i.e. the Consumer Price Index, Social Security COLA, etc.) the recognition of changes in the costs of doing business must be brought to bear on the BA if our public schools are to ever be adequately funded. The following two charts (below and continued on page 4) demonstrate what the BA would be now and in the next biennium when we apply the Consumer Price Index (CPI) to the current BA of $6,160 (using comparable Social Security COLA data returns similar results).



Funding Growth for Population & Inflation... continued



The first of these two charts (on previous page) reflects what the BA would have become in the years 2021 through 2025, if HB3 in 2019 had included a CPI inflation adjustment factor. The blue bars reflect the results of using the CPI for the corresponding two years of the previous biennium for the adjustment factor. The red bars reflect an adjustment factor based upon the average CPI of the previous ten years.

The second of the charts (shown above) is similar. It reflects what the BA would be if we applied either the CPI for the corresponding two years of the previous biennium or the average CPI of the ten previous years as the adjustment factor to determine the BA for the upcoming biennium.

To us, ***the need for an inflationary adjustment factor for the BA is obvious***. School district's costs rise as consumer prices for goods and services rise.

Naming something an "independent school district" does not grant that entity immunity from rising costs.

Additionally, it makes good business and political sense for the legislature. Instead of coming to Austin every two years dreading the fact that the education community will bring pressure to try and increase spending on public schools, ***address the issue in the base budget with a reasonable inflation adjustment factor to the BA***.

Addressing inflationary costs in doing business is good business. It is an integral part of sound business practice.

It seems apparent and appropriate that if the state of Texas is to run government and public schools as good businesses the use of an inflation adjustment factor for the BA is a necessity.

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NOW is the time for Golden & Copper Pennies!

For those of you who do not have all eight golden pennies, or, who have not accessed some or all of your nine copper pennies, this year provides a unique scenario to hold a voter approved tax rate election (VATRE) to increase your revenue.

What makes this year unique is two things:

One, the ongoing yearly state and local tax compression enacted in HB 3 from 2019 is expected to be larger than projected statewide and even greater for many school districts who have property value growth that exceeds the state level.

Statewide property values grew 9 percent in 2020 and nearly 20 percent in 2021. For 2022, statewide growth is projected to surpass last year's number statewide, and many ISDs it will experience growth of substantially more than 20 percent. According to TEA calculations, this will result in a maximum compressed rate of 0.8941 cents and a minimum compressed rate of approximately 0.80 cents for the 2022-23 school year.

Two, with the passage of SJR 2, the constitutional amendment that increases the statewide homestead exemption from the former amount of $25,000 to the new amount of $40,000, residential tax bills will be further reduced alongside compression. Residential property tax bills will be reduced beyond what statewide and local compression result in.

You can ***login to your member portal on the Equity Center website*** to use our Tax Rate Compression Worksheet to look at how different property value scenarios will affect your local tax rate.

If you aren't a current Equity Center member, now is the start of a new membership season, so it's the perfect time to sign up! Call us today.

call: (512) 478-7313 or visit: www.equitycenter.org or email: Josh@equitycenter.org

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Summer Edition: Legislative News & Happenings

Prelude to the 88th Legislative Session: Interim Hearings

In the last issue of the InDepth, we discussed House and Senate interim charges. Reading through the charges, you will notice that few of the House Public Education Committee's eleven charges and the Senate Education Committee's nine charges deal with improving funding for public education. Typically, interim charges are a good indicator of what leadership in both chambers intend to focus on during the upcoming legislative session.

House Public Education Committee

The House Public Education Committee has a broad set of interim charges to study and make recommendations to the legislature before the January 2023 legislative session begins. These charges range from studying the impact COVID-19 has had on learning loss, and the impact of Texas-Mexico border issues, to the preparation, recruitment, and retention of educators.

The committee met on April 26th to discuss the financial impact of the increase of children crossing the Texas-Mexico border and the investments in the Permanent School fund that are owned or controlled by the Russian government.

The committee met on May 24th to discuss the impacts of COVID-19, chronic absenteeism, and the ongoing implementation of HB 1525 and HB 3.

Senate Education Committee

In March, Lt. Governor Dan Patrick announced that outgoing Chairman Larry Taylor would be replaced by Senator Brandon Creighton (R) – Conroe, as the chair of the Senate Education Committee. Further, the Lt. Governor announced that the Senate Higher Education Committee would no longer be a stand-alone committee during the 88th legislature, but instead will be a subcommittee of the Senate Education Committee.

The Senate Education Committee met on May 24th at 9 a.m. to discuss the COVID-19 impact on the educator-talent pipeline, bond efficiency, the local option homestead exemption (LOHE), and HB 3, HB 1525, and HB 4545 implementation.

Senate Finance

The Senate Finance Committee met on May 4th to discuss inflation, the state economy, and the state budget. The committee discussed the state's four constitutional spending limits that were further tightened by the passage of SB 1336 last session that limits growth of general revenue appropriations to the average growth of population and inflation during the preceding biennium.

Comptroller staff notified the committee that all major tax collection categories, including Sales Tax and Oil and Gas taxes, are exceeding state estimates. Officially at this time we have a surplus of $12 billion, but this amount is expected to grow before the legislature convenes.

It was also noted that state appropriations for public education are going to be reduced because local property values are far greater than what the state assumed last session. Regarding inflation, Texas typically sees an inflation rate of approximately 2 percent; however, in calendar year 2021 we had 4% inflation and this year inflation is expected to be at 5%.

Texas Commission on Special Education Funding

The Commission on Special Education Funding has met three times so far, once on March 17th, again on April 25th, and again on May 24th. The commission is charged with studying and making recommendations to the 88th legislature on financing special education in public schools. So far, the commission is primarily in the fact-finding stage, but it is clear that there is interest in completely re-designing the delivery method for funding special education for students. It should be noted, that any redesign of funding methods must include additional revenue to account for federal maintenance of effort requirements.

Texas Commission on Virtual Education

The Commission on Virtual Education is charged with making recommendations to the 88th legislature regarding the delivery of virtual education in the public school system and state funding for virtual education under the Foundation School Program. Commission meetings have been held on February 23rd, March 30th, and April 27th. Most recently, the commission heard from out of state virtual providers regarding alternative models for delivering virtual education. The commission met again on May 25th and is scheduled to meet again June 29th.

You can find meeting materials and postings for both the Special Education and Virtual Education Commissions on the TEA website.

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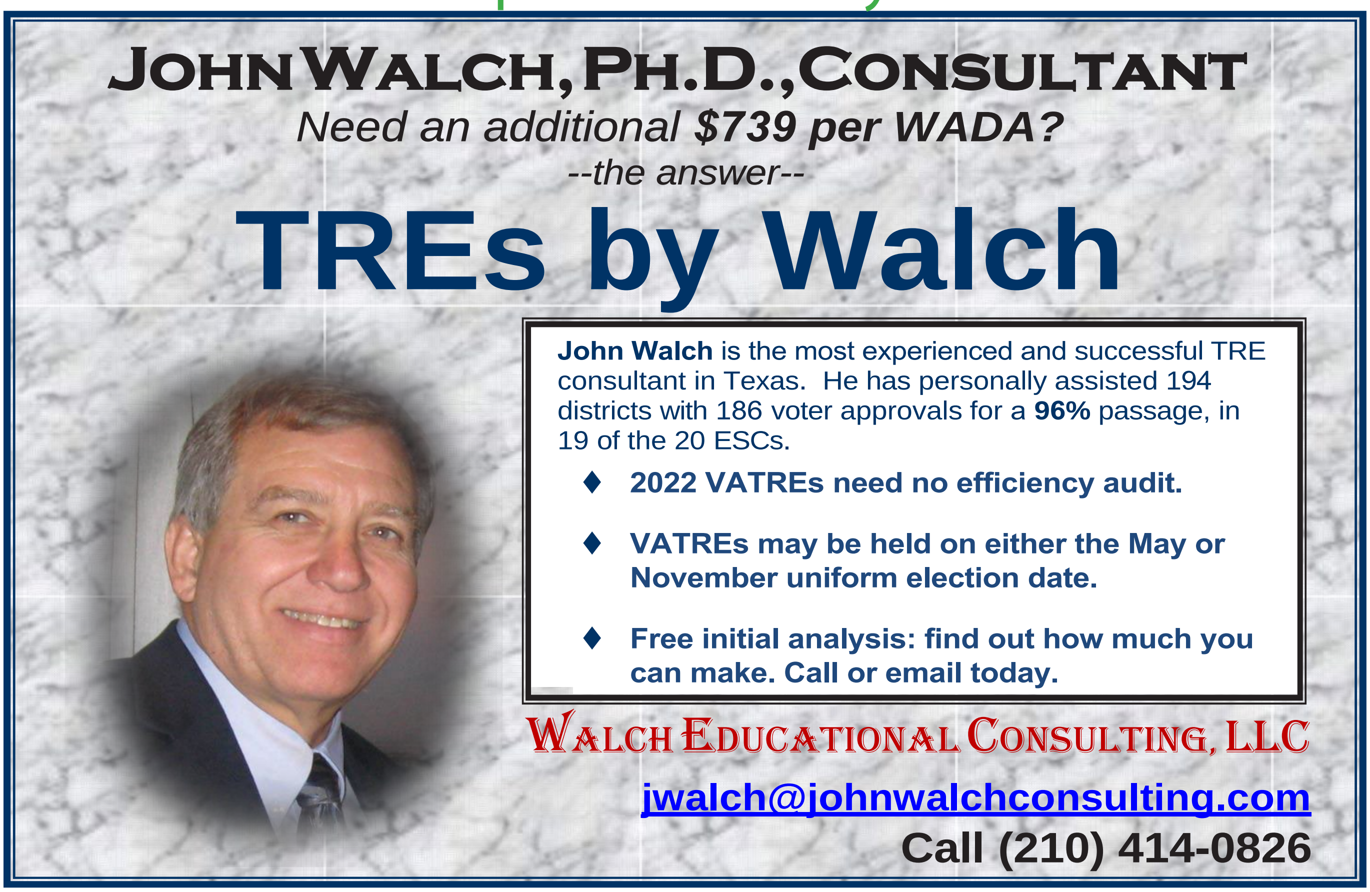

In The News:

To highlight some of the more recent school finance related news articles, we are featuring this op ed written by Paul Colbert in response to an article in the Austin American-Statesman on April 11, 2022. See his response below.

Recapture Is Not the Source of Austin ISD's Budget Woes... In a recent article (Why does Austin ISD pay so much into the state's school recapture program? Austin American-Statesman 4/11/22), Austin ISD blamed its budget cuts on recapture required under the state Foundation School Program. Not only is recapture not the source of Austin ISD's budget woes, it is their constant focus on recapture – rather than the real problems with the finance system – that is causing Austin and similar districts around the state to suffer the same financial difficulties that all Texas school districts are facing.

Let's set the record straight. The Foundation School Program applies the same formulas to all districts to determine how much the state thinks an "efficient" education should cost based primarily on the types of students that each district educates. The total amount of that program cost is then compared to how much a district can raise locally. If the program cost is bigger than what it can raise, the state makes up the difference with state aid. If the district can raise more than its program cost, the difference – appropriately named "local revenue in excess of entitlement" – is "recaptured" to the state. The result is that most districts receive similar funding per student after adjusting for student and tax rate differences.

However, property-wealthy school districts like Austin ISD actually end up with more revenue per student – even after paying recapture – than their poorer neighbors because of inequalities still left in the system. Compared to the state average, Austin ISD retains almost $500 more per student after recapture than is available to most students even though Austin ISD has a lower than average tax rate and a smaller percentage of disadvantaged students.

To really see the picture, though, let's compare Austin ISD to a district of similar size and similar demographics – Fort Worth ISD. Fort Worth ISD has slightly more students in average daily attendance (ADA) than Austin ISD, so even though it retains slightly more total revenue $709 million this year compared to $672 million for Austin, Fort Worth actually gets about $100 more per ADA.

That is despite the fact that Fort Worth has a tax rate that is 11% higher than Austin's ($1.0512 vs $0.9487). Furthermore, although they are similar, Fort Worth ISD has a higher concentration of students with special needs than does Austin ISD. When you compare funding per weighted (cost-adjusted) ADA, Austin actually gets over $330 more per student than does Fort Worth, again after recapture and despite having a much lower tax rate.

So, if Austin doesn't have enough money, what does that say about Fort Worth's finances? What is the real problem?

Several good answers were given in the article. As Chandra Villanueva pointed out, neither the basic funding amount (basic allotment) nor the formulas that attempt to adjust for student cost needs are based on actual costs. Based on numerous prior studies, the adjustments for economically disadvantaged students are at most 60-70% of what they need to be and the adjustment for English language learners is a woeful 25% of the real cost. Funding for special education students is based on an archaic structure no longer used for most students and is probably half of what it needs to be in total. The basic allotment stays without change for years at a time despite inflation.

The Texas School Coalition (the districts paying recapture) would like the state to restore funding for market cost differences that was eliminated in 2019, something that would be important to a district like Austin in a high-cost market area. However, this highlights the real reason why the formulas are so inadequate.

In 2019, the only organization trying to retain the market cost adjustment was the Equity Center – the organization that represents the property-poor school districts. They got no help from the Coalition or from the other school organizations that Austin ISD participates in, including organizations that specifically represent districts in high-cost markets – and Austin did nothing to encourage them to support the Equity Center's effort. Instead, Austin and the Coalition pushed for changes that would only benefit property-wealthy districts, and failed.

(continued on page 10)

In the News... continued

It is this constant demand for special treatment – not related to the real costs of educating students – that has been the focus of Austin and the Coalition. The request for an "early payment" discount for recapture that Austin asked for in the article is just one example. It is not based on common need, it is merely an attempt to carve out an additional benefit on top of the ones that give Austin ISD hundreds of dollars more per student at lower tax rates. Essentially, Austin ISD is saying, "The special treatment we already get isn't enough, we need more."
If, for a change, Austin would work with the rest of the state (recapture districts only contain less than a quarter of Texas students), that unified effort might result in the changes that are really needed. That would help all students, not just those in a few zip codes fortunate enough to have big office towers, major industrial facilities or mineral wealth.

Former State Representative Paul Colbert served as the Public Education budget chair and prior to that was the research director of the Senate Education Committee. He also served as an expert witness in several school finance lawsuits.

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New Resources on the EC website

Don't forget to check our website regularly for updated resources. Some of the latest updates include:

- **NEW History of School Finance video** (on the homepage under EC NOW) highlighting the 40th Anniversary of the Equity Center and the important role we've played (thanks to all of you!) in Texas school finance. This is a great resource to show incoming or new board members, supts or cfos that might be less familiar with who we are and what we do. Special thanks to Dr. Wayne Pierce for his work.

- **NEW Tax Rate Compression Worksheet** ... a valuable tool for Equity Center member districts

- **UPDATED Funding Formula Wizard**... another valuable finance tool for member districts.

- **LATEST Equity Center presentations** from ESC meetings and other regional events.

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