



## The 89th Legislative Session in Review... by Josh Sanderson

The 89th Legislative Session was the perfect example of how sound policy making is just as important as increased funding. **House Bill 2 is the largest infusion of new state dollars for public education in the history of the state. However, the manner in which some of this new funding is allocated provides limited discretionary revenue to see to local needs.**

House Bill 2 provided a significant educator pay raise. Compensation-related provisions of the bill **make up more than half** of the \$8.5 billion total. The bill also **eliminated the Golden Penny driver**, which was a crucial component in maintaining funding equity in tier II. Also, HB2 creates several new allotments which have the potential to distract from Basic Allotment increases in future legislative sessions.

HB2 does provide a **significant increase in School Safety Allotment and special education funding**, but these funding increases should not be looked at in isolation. The House passed a supplemental spending bill that would have used \$900 million in state funds to compensate for the loss of SHARS funding; however, the Senate stripped the \$900 million and **it was not included when finally passed**. Further, Senate Bill 4 re-wrote certain current law hold harmless provisions for prior homestead exemption increases and HB3 M&O compression such that **state funding for I&S will be reduced by approximately \$500 million per year**.

There were several bills supported by leadership in either the House or Senate which would have had substantial effects on school district operations that did not pass, such as House Bill 19, that would have limited I&S debt beyond the current law fifty cent test. House Bill 2 was much-needed; however, **those of us in the public education community have a lot of work to do over the interim in preparation for the 90th legislature.**

1,200 bills passed the Texas Legislature during the 89th session, which is in line with previous sessions. On the following pages is a brief recap of a few of the most impactful bills relating to public school finance.

As always, Equity Center member districts have access to the latest models and runs, expert analyses of how legislation and policy will impact you, and key education and communication pieces to help your local communities and school boards understand how legislative decisions impact your funding at home.

If you haven't renewed your membership, please renew or join today. We are proud to say over the past 40 years, we've held membership rates the same - allowing EC members multiple services for the same low rate as when we began - but we cannot do it without your support.

**Read ahead for key points on the bills of the 89th legislative session, including links to specific bills, the latest buzz about what's in store this interim and potential special sessions, an entertaining take on a retired superintendent's experience in the legislature as an advocate, and more!**

(bill reviews continued on page 2)

## 89th Review... continued

### 2026-27 Biennial Budget

[Senate Bill 1:](#) Total: \$338 Billion

Public Education:

#### Appropriation

#### Increase from 2024-25

\$75.1 Billion All Funds

\$13.6 Billion

\$39.8 Billion General Revenue

\$8.5 Billion

Enrollment growth: \$3.1 billion (\$4.7 billion savings from property value growth)

### Property Tax Reduction

\$51 Billion Total

\$10 billion increase

[Senate Bill 4:](#) \$40,000 Homestead Exemption increase from current law \$100,000 to \$140,000

[Senate Bill 23:](#) Homestead exemption increase for seniors and disabled from current law \$10,000 to \$60,000

[House Bill 9:](#) Increase of the business personal property tax from \$2,500 to \$125,000

### School Finance

[House Bill 2:](#) \$8.5 billion increase in public education funding.

[HB 2 Analysis \(link\)](#)

[HB2 Funding Model \(link for members\)](#)

### School Safety

[House Bill 2/Senate Bill 260:](#) The School Safety Allotment provisions of HB 2 and SB 260 conform. Increase from current law \$10 per ADA to \$20 per ADA. Increase from current law \$15,000 per campus to \$33,540 per campus.

[House Bill 121:](#) Increases the positions that qualify as a peace officer. Good cause exceptions claimed by school districts expire one year after they are claimed.

### Education Savings Accounts

[Senate Bill 2:](#) \$1 billion allocated to the first year of the biennium with unexpended funds carrying over to the second year of the biennium.

85 percent of the statewide average amount of funding per student; universal eligibility

# 89th Review... continued

## **Other Bills that Passed**

**House Bill 6:** Relating to discipline management and access to telehealth mental health services in public schools.

**House Bill 20:** Relating to establishing the Applied Sciences Pathway program.

**House Bill 100:** Relating to the purchase, adoption, and use of instructional materials by public schools.

**House Bill 120:** Relating to college, career, and military readiness in public schools, including career and technology education programs, the Financial Aid for Swift Transfer (FAST) program, and the Rural Pathway Excellence Partnership (R-PEP) program, funding for those programs under the Foundation School Program, and workforce reporting to support those programs, to the public school accountability system, and to the new instructional facility allotment and the permissible uses of funding under the Foundation School Program.

**House Bill 1458:** Relating to the armed security officers required to be present at public schools and the appointment of reserve police officers by a school district police department.

**House Bill 3372:** Relating to prohibiting certain personal services performed by school district administrators; providing a penalty.

**House Bill 2243:** Relating to the creation of the Texas Commission on Teacher Job Satisfaction and Retention.

**House Bill 4236:** Relating to the creation of a study group to evaluate the school district property value study conducted by the comptroller of public accounts.

**Senate Bill 10:** Relating to the display of the Ten Commandments in public school classrooms.

**Senate Bill 24:** Relating to the inclusion of an understanding of communist regimes and ideologies in the essential knowledge and skills for the social studies curriculum for certain public school students.

**Senate Bill 204:** Relating to a handbook on parental rights in education and training requirements on parental rights in education for a member of the board of trustees of a school district.

**Senate Bill 314:** Relating to prohibiting certain food additives from being included in free or reduced-price meals provided by school districts.

**Senate Bill 568:** Relating to special education in public schools, including funding for special education under the Foundation School Program.

**Senate Bill 569:** Relating to the provision of virtual education in public schools and to certain waivers and modifications by the commissioner of education to the method of calculating average daily attendance in an emergency or crisis for purposes of preserving school district funding entitlements under the Foundation School Program during that emergency or crisis; authorizing a fee.

**Senate Bill 843:** Relating to a Texas Education Agency database of school district and open-enrollment charter school bonds, taxes, and bond-related projects.

**Senate Bill 2185:** Relating to the bilingual education allotment under the public school finance system.

(continued on page 4)

## 89th Review... continued

### **Bills That Did Not Pass**

**House Bill 8:** Relating to a reduction in the maximum compressed tax rate of a school district.

**House Bill 19:** Relating to the issuance and repayment of debt by local governments, including the adoption of an ad valorem tax rate and the use of ad valorem tax revenue for the repayment of debt.

**Senate Bill 19:** Relating to the use by a political subdivision of public funds for lobbying and certain other activities.

**House Bill 4:** Relating to the assessment of public school students, public school accountability and actions, and proceedings challenging the operations of the public school system.

**House Bill 3631:** Relating to a credit against recapture payments for certain school districts for the cost of windstorm and hail insurance under the public school finance system.

**House Bill 1939:** Relating to credit for prepayment of the amount required to be paid by a school district for the purchase of attendance credit under the public school finance system.



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## Equity Center Membership Drive - JOIN NOW!

The 89th Legislative Session came to an end... and despite having spent \$8.5 billion, Texas public schools will likely still face issues with rising costs due to inflation, under-funded school safety requirements, and facilities concerns. Facing potential special sessions ahead, this is the time to make sure you are part of an association advocating for you!

The Equity Center is one of Texas' only **non-profits focusd solely on school finance**. We work tirelessly to educate elected officials, school boards, and administrators on the importance of **how policy decisions impact local district funding** and continue to push for adequate and equitable funding and formula desisions for Texas public schools. **JOIN or RENEW TODAY!**

### *Member benefits include....*

- **District modeling & comparisons** showing how important legislative changes affect your budget.
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- **I&S Wizard** also included.
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Check your e-mail for your application or contact us today!

(512) 478-7313 [info@equitycenter.org](mailto:info@equitycenter.org)



# Superintendent's Corner... by Dr. Carl Dethloff

## First Steps around the Texas Statehouse

As a legislative newcomer, my first exposure to the Texas Statehouse was both eye-opening and energizing. Stepping into the Capitol, I quickly realized the fast pace, complexity, and relationships that shape legislative outcomes. While I was new to the process, I leaned on mentors, legislative staff, agency experts, and fellow advocates who share a passion for strong public schools. I was certainly thankful to our Executive Director, Josh Sanderson, and the EC staff for helping me understand the complexities and inner workings of the 89th legislative session.

My first introduction to committee hearings, late-night amendments, and political negotiations taught me the importance of preparation, persistence, and credibility. After 33 years serving our Texas' public schools, this political arena was new to me. Admittedly, I was impressed by the intellectual prowess and the work ethic our elected legislators displayed. However, the polarity between chambers and parties was certainly unexpected and disappointing; perhaps that is just politics, and I remain naive. Most of all, I saw firsthand how **a clear, consistent voice is needed to provide a fair and equitable funding system for all schools.**

As I considered the title of this legislative memoir, I first considered naming it "First Steps through Mayberry." However, upon reflection, it dawned on me that my experience was not quite as charming as the antics of Aunt Bee, Opie, Andy, and Barney in the fictional town of Mayberry. While the 89th had plenty of appealing moments, and its share of antics and gaffes, **there remain some glaring omissions in how we fund our schools.** Historic funding alone will not solve many of the problems our schools are facing. **Funding needs to be coupled with sound educational policy.**

Despite increased funding, Texas schools will face mass disparities in per-student funding across our state. Record-setting deficit budgets, cost containment initiatives including campus reductions in teaching staff, and the slashing of course offerings will rear its ugly head soon.

When the early glow of the 8.5-billion-dollar infusion recedes in two years, districts will once again search for discretionary funding to patch up aging facilities, provide staff salary increases to keep pace with inflation, and expand course offerings. Only then will we fully appreciate the need to increase the basic allotment and allow locally elected boards to govern. A little like getting back to Mayberry if you will.

Apart from misdirected dollars not targeting an increase in the basic allotment, we remain grateful for the unprecedented funding levels our public schools will receive starting in the fall of '25. **These additional dollars will positively impact special education students, school safety, and educator preparation. We are especially appreciative of the historic increase for classroom teacher salaries.** Teachers are the cornerstone of a successful educational experience, and this was recognized by both chambers.

The session was both thought-provoking and exhilarating. I was thankful for the opportunity to learn the rhythms and inner workings of state government and participate in my first session from the other side of the fence.

At the end of the day, with all its pitfalls and messiness, we are indeed fortunate and blessed to live in a constitutional republic and a thriving state where democracy flourishes. As I continue taking first steps in my new role, I am hopeful that in future sessions our elected officials and State leaders defer to the wisdom of Robert Gates, former Secretary of Defense, in his remarks **"caring for someone for your benefit is manipulation, caring for them for their benefit is leadership."**

We hope the summer months will bring you renewal, both personally and professionally. Although Sine die has come and gone at our State Capitol, the Equity Center will continue to be totally dedicated to the legislative and constitutional pursuit of the fair, efficient, and equal treatment in the school funding system for children, school districts, and taxpayers.







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## Policy Insight: Texas' Two ASAHEs...by Paul Colbert

There are two school finance hold-harmless provisions in the Education Code with the title Additional State Aid for Homestead Exemption, frequently referred to as ASAHE. While the names are the same and the events that created them stem from the same source, what they do and who they benefit is very different. ***Both are intended to replace local tax revenue lost as homestead exemptions have been increased over the past ten years.***

**Background:** School districts levy two types of taxes: maintenance and operations (M&O) and interest and sinking fund (I&S). The latter pay for a district's bonded indebtedness for bonds sold to finance major capital purchases. ***That is mainly for buying land, building schools and other facilities (bus barns, offices, etc.), and big-ticket items like roof or HVAC replacements.*** The Foundation School Program, through which the state pays for our public schools, provides at least some aid from state revenue to assist with both types of costs.

By far the largest part of both local taxes and state aid is for M&O. ***The state provides aid in three different categories. Tier 1 is the basic education program and is, theoretically at least, supposed to cover the costs of offering an accredited education program*** suitable for all of the district's students and is significantly funded through a (mostly) common "compressed" tax rate, which can vary slightly because of the property tax rate compression program started in 2019.

In the Texas Supreme Court's unanimous Edgewood I decision, they ruled that districts must receive "similar revenue for similar tax effort" to comply with the Texas Constitution. ***Because the Court's Edgewood II decision ruled that all property in the state must be included in that equalized system, the Legislature established the recapture program to assure that districts that had extremely high property wealth per student couldn't "tax low and spend high", enabling their communities to significantly out-compete with neighboring communities for both hiring teachers and for economic development. If a district's compressed tax rate raises more money than the cost the state has determined for a district's Tier 1 program, the excess revenue is recaptured.***

Tier 2 is frequently referred to as the enrichment tier. Because taxable property wealth per student, and therefore the ability to raise money from local property taxes, varies so widely among the 1,013

Texas traditional school districts, ***Tier 2 is intended to equalize how much money to enrich their programs above that basic level*** districts can raise per student for a given tax rate.

After a subsequent decision allowed for a small amount of wiggle room from absolute equity, Tier II was divided into two parts. ***The first eight pennies of tax above the district's compressed rate are commonly called the "Golden Pennies" because, unlike the rest of the M&O taxes, they are not subject to recapture, giving wealthier districts more money per student for those pennies than other districts are guaranteed. Based on an Equity Center proposal in HB 3 of 2019, how many students and how much wealth this left "outside the system" was limited.*** Districts containing 96% of Texas students received a state aid guarantee to the same revenue per student from each Golden Penny. In other words, only 4% of students were in districts that could tax lower yet spend higher, and only for the revenue on those eight pennies. **Unfortunately, HB 2 removed that guarantee this year.**

The remaining nine pennies of enrichment taxes that are permitted are dubbed ***"Copper Pennies" because they are guaranteed a much lower revenue yield per student and local revenue above that guarantee is also subject to recapture.*** This applies to all districts, regardless of wealth. Because the guaranteed yield is less than the yield from the basic allotment, some districts that don't pay recapture in Tier 1 nonetheless have to pay recapture on their Copper Pennies.

**M&O ASAHE:** Both types of ASAHE are limited to making up for local revenue lost to homestead exemption increases that is not replaced by other formula aid. For Tier 1, since the amount of aid a district receives or the recapture a district owes is based on how much their compressed tax rate raises on their local taxable wealth, either their state aid increases or their recapture decreases if that wealth declines. In other words, ***the Tier 1 formulas automatically cover the increased homestead exemption losses. The same is true for Tier 2 Copper pennies.***

The same was also true **until now** for districts with 96% of Texas students for the Golden Pennies. The only districts that would lose money from increased homestead exemptions were this small number of the wealthiest districts in the state.



## Two ASAHEs... continued

These are the districts that already were allowed to receive more money per student for these pennies than all the other districts in the state, even after those losses. In effect, the M&O ASAHE hold-harmless paid those few ultra-wealthy districts that already got more than everyone else to get “more more.”

Those wealthiest districts will now be joined by a few slightly less wealthy districts that have a wealth per student above the 2024-25 guaranteed yield wealth as the 96th percentile wealth grows above that level. An equity analysis of who the winners are under M&O ASAHE shows that all the winners will still be in the wealthiest ten percent of districts. As a result, ***M&O ASAHE and the lack of Golden Penny recapture will contribute to increasing inequities in the Foundation School Program.***

**I&S ASAHE:** Texas at one time had a significant program to similarly equalize the ability of districts to pay for the bonds that cover their capital costs. In 1999, the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) provided that equalized ability for more than 90% of students and covered about 33% of all bonded debt costs. At their height in 2006, the state paid \$770 million towards those costs. ***Because those programs have remained essentially stagnant since 1999 while property values have risen dramatically, fewer than 10% of students are in covered districts and the \$112 million the state is currently spending covers only about 1% of bond costs.***

For those few districts that still qualify for IFA or EDA, the loss of taxable wealth to the homestead exemption increases is made up by them in the same manner as M&O loss is made up in Tier 1 and the Copper Pennies. So, ***they either don't qualify for ASAHE at all or receive a significantly reduced amount of aid.*** However, unlike with the Golden Pennies, the vast majority of districts and students do not receive the IFA/EDA offset. For them, the local revenue losses aren't made up other than through I&S ASAHE. Also, while I&S taxes are not subject to recapture, most of these districts don't have high-yielding unrecaptured pennies, unlike the M&O ASAHE beneficiaries. This is the only hold-harmless that primarily benefits poor and average wealth districts.

The districts that receive the most funding per student from the current I&S ASAHE are ones with a high percentage of their taxable wealth in single

family residential homesteads. Other contributing factors are the degree to which those homesteads belong to the elderly or disabled and the average market value of those homes. ***The lower the home values, the bigger the percentage of value taken off the roles by the homestead exemption.*** Many of the districts with the highest I&S ASAHE aid per student are those with poor neighborhoods where residents still are able to own homes.

### What happened to the ASAHEs?

HB 2 updated the M&O ASAHE to reflect losses from the homestead exemption increases passed this session. Eligibility increased because of the changes to the Golden Pennies. SB 4, which increases the homestead exemption from \$100,000 to \$140,000, extended coverage for the I&S ASAHE to this increase ***but dramatically reduced funding for the I&S ASAHE adding a new limitation to no more than the amount of revenue needed for payments on bonds eligible by September 1, 2025.***

The result of this limitation is dramatic. Over the past two years, state I&S ASAHE payments totaled almost \$980 million each year. While that was expected to decline to about \$675 million in FY 2026 (not including the cost of the new exemption increases), the new limitations are **expected to reduce state costs by about \$1 billion over the coming biennium.** This reduction was not disclosed to legislators by leadership prior to their votes on SB 4 and no runs were ever released showing the impact on districts.

**\$1 billion in aid school districts previously received has now vanished going forward...**

The Equity Center repeatedly called attention to these impacts but leadership was intent upon reining in I&S ASAHE costs. The Equity Center also tried to at least put the new limitations into HB 2 so that the \$1 billion in losses could be used to offset an additional \$1 billion in funding for the basic allotment or other programs. ***Unfortunately, these recommendations were not heeded. As a result, \$1 billion in aid school districts previously received vanished going forward.***

(continued on page 10)

## Two ASAHEs... continued

### ASAHE Summary:

#### M&O ASAHE

- Only the wealthiest 6% of districts containing fewer than 5% of Texas students receive this aid.
- These districts have property wealth above last year's 96th percentile, meaning they receive more money per student from each of their Golden Pennies than all other districts do, even after their reduction in taxable value due to homestead exemptions.
- These districts also benefit from several other hold-harmless provisions that are only provided to wealthy school districts.
- While the average allotment for these districts is about \$80/ADA, some receive hundreds of dollars at a state cost of over \$40 million.

#### I&S ASAHE

- 80% of Texas school districts containing 94% of Texas students received some aid this year.

- The average amount of I&S ASAHE aid per ADA was \$204 this year, but 278 districts received more than that amount.

- 113 districts received over \$300/ADA with the largest amount being \$577/ADA.

- The districts that received above average amounts of aid per ADA had single family residential homesteads as larger percentages of their total taxable value.

- Other factors impacting the amount of aid per ADA included the degree to which those homesteads belong to the elderly or disabled and the average market value of those homes.

- The some of the very poorest districts receive little or no I&S ASAHE aid because their losses are at least made up for by the Instructional Facilities Allotment and the Existing Debt Allotment. However, those districts represent about 10% of all school districts and have fewer than 10% of Texas students.

- Other than those districts, the least amount of I&S ASAHE aid per ADA goes to the wealthiest 10% of districts. Charter schools also receive no I&S ASAHE.

**The M&O ASAHE funding for wealthy districts was increased.**  
**The I&S ASAHE funding (primarily funding poor and average wealth districts) was dramatically reduced.**

## Interim News & More...

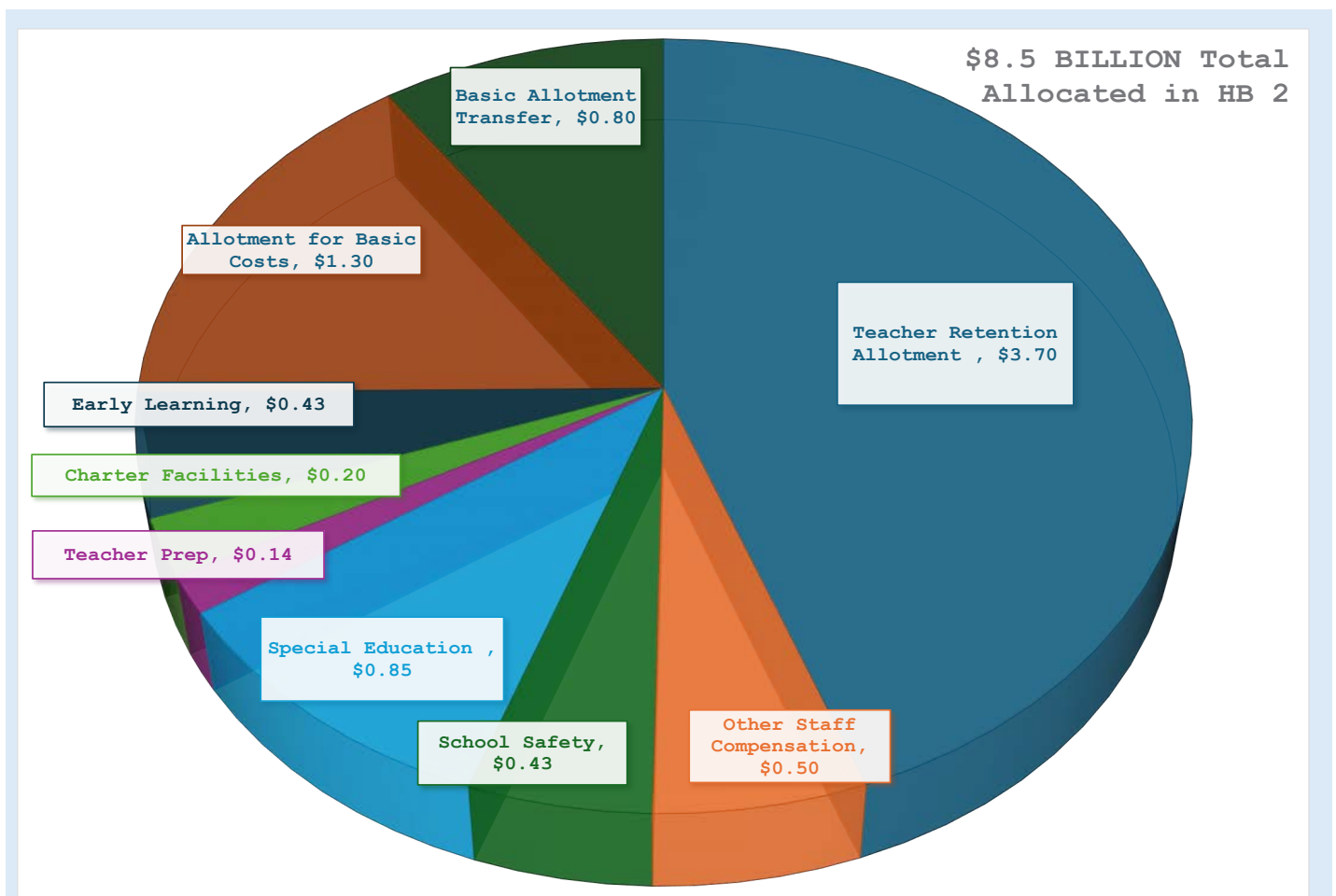
With Sine Die, the official last day of the legislative session, mere weeks behind us, already there is a lot of buzz around Austin surrounding the potential for Governor Abbott to call legislators back for a special session. Key items rumored to be on a potential call include: redistricting to gain additional congressional seats, extending property tax relief, banning taxpayer funded lobbying, and more. ***Any called special session of course opens up the chances for potential legislation that could further impact your funding whether through direct school finance policy or indirectly through changes to the way property taxes are calculated, or other changes that impact school facilities and more.*** As a reminder, the governor called four separate special sessions in 2023, and three other specials following the 2021 legislative session, so the precedent is strong.

As always, ***stay tuned to your email*** for legislative alerts and updates in the weeks and months to come. Even if a special is not called or does not impact school finance directly, the interim is an active time for us as we sort through legislation and continue to assess how it will impact your bottom line.

Members receive key benefits when it comes to modeling the latest school finance bills and figuring out the impact as you prepare for the school year ahead and make decisions about tax rates, construction projects, hiring, and more... and ***all included for the same low membership rate as we started with over 40 years ago.***

Reach out to us if we can answer any questions, and thank you for your continued involvement and support. We wish you and your families a ***happy 4th of July and a restful summer.***

## A Visual Look at Public Education Funding in the 89th... provided by the Equity Center





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