

SUBJECT: Public school finance revisions

COMMITTEE: Public Education — committee substitute recommended

VOTE: 5 ayes — Sadler, Dutton, Hochberg, Olivo, Smith  
0 nays  
4 absent — Dunnam, Grusendorf, Hardcastle, Oliveira

WITNESSES: None

BACKGROUND: Texas' Foundation School Program (FSP) uses a series of formulae to fund public schools to ensure that school districts have substantially equal access to similar revenue per student at similar levels of tax effort. FSP consists of three "tiers." Tier 1 ensures a base level of funding for all students known as the "basic allotment." Tier 2 is the "guaranteed yield," known as the "enrichment tier." Tier 3 is facilities funding.

Under the equalized school-finance system set forth in Education Code, ch. 42, for every penny of local property-tax effort, most school districts receive state funds through the equity formulas designed to equalize the tax effort of rich and poor districts. Under ch. 41, about 100 wealthy districts with property values per student exceeding \$295,000 contribute revenue to the state or to another district as part of the equalization system.

**Basic allotment** is the minimum allotment provided for each student in attendance, taking into account district and student characteristics. Tier 1 ensures a base funding level for all students at a local tax rate of \$0.86 per \$100 of property value. All districts are entitled to \$2,537 per student in average daily attendance (ADA). If a district cannot generate its entitlement with local revenue, the state will make up the difference.

**Guaranteed yield** is the mechanism that guarantees equity in the system, by ensuring that a district generates no less than a certain amount of revenue per penny of tax effort. Tier 2 delivers state aid to a districts based on a district-selected tax rate between \$0.86 and \$1.50. The state guarantees a specific

revenue yield per “weighted” student (WADA) per penny of local tax effort, regardless of local property wealth. If a district’s wealth level generates less than \$24.99 per WADA, the state makes up the difference.

**Facilities funding** under Tier 3 includes both the existing debt allotment (EDA) and the instructional facilities allotment (IFA). EDA is state assistance through a guaranteed-yield system for tax effort related to school district bonds. If additional funds are available, the commissioner of education may expand the number of pennies of tax effort eligible for assistance. The existing debt tax rate currently may not exceed \$0.12 per \$100 of valuation, or a greater amount for any year provided by appropriation.

IFA is state assistance through a guaranteed-yield system for tax effort to assist in the payment of new instructional facility debt obligations. IFA does not guarantee that all districts that have received voter approval to sell bonds will receive IFA funding. Districts apply for IFA through the Texas Education Agency (TEA). For both of these programs, the yield per penny of local tax effort in Tier 3 is \$35 per student (not “weighted) or a greater amount for any year provided by appropriation.

**Double-counting of students for purposes of state aid.** In the past, some districts not offering all grades sent students in grades not offered to other school districts, but still counted those students when figuring their ADA. The districts to which students were transferred also counted these students as part of their ADA. As a result, these students were counted twice, and some of the districts not offering all grades were paid for students they were not educating. While this was corrected during the last legislative session, some school districts were then faced with a state funding decrease of up to one-third.

DIGEST: CSHB 2879 would make various changes to the Foundation School Program.

**Wealth per student in certain districts not serving all grades.** A district that did not offer each grade level between K-12 during the 1999-2000 school year could elect to have its wealth per student determined under sec. 41.0021, which would be added by this bill, for the 2001-2002, 2002-2003, and 2003-2004 school years.

In accordance with a determination of the commissioner, the wealth per student that a district choosing this option could have, after detaching territory or purchasing ADA credits under current statute, would be the amount needed to maintain state and local revenue equal to state and local revenue per weighted student for maintenance and operation (M&O) of the district for the 1999-2000 school year, minus the district's current year distribution per WADA from the available school fund other than textbook funds, if the district imposed an effective M&O tax rate equal to the M&O tax rate for the 1999-2000 school year.

For purposes of this subsection, a district's effective tax rate would be determined by dividing the total amount of taxes collected by the district for the applicable school year less any amounts paid into a tax increment fund, by the quotient of the district's taxable value of property as determined by the Government Code, divided by 100. (This formula is found in Education Code, section 41.002(f).)

The bill would require the commissioner to:

- ! compute the wealth per student level using WADA;
- ! notify each district eligible to have its wealth per student computed under this section; and
- ! establish a date by which a district would have to elect to have its wealth per student computed under this section.

The bill would mandate that a district electing to have its wealth per student computed under this section, which would expire September 1, 2004:

- ! would not be entitled to state aid to achieve the funding levels permitted by this section;
- ! would not be subject to the statutory limitation on tuition for education outside the district (Education Code, sec. 25.039);
- ! would not be eligible for credit for tuition payments for students transferred to other districts (Education Code, sec. 41.124(b)); and
- ! would not be eligible for an adjustment to the district's taxable value of property (Education Code, sec. 42.106).

**State aid for professional staff salaries.** The bill would limit the section's applicability to districts that received state aid under the section for the 1999-2000 and 2000-2001 school years. Current law provides that a district to which this section applies, is entitled to the difference between

- ! (1) \$3,000, multiplied by the number of classroom teachers, full-time librarians, certified full-time counselors, and full-time school nurses employed by the district who are statutorily entitled to a minimum salary; and
- ! (2) 80 percent of the amount of additional funds to which the district is entitled due to increases made by S.B. 4 (76th Legislature) to: equalized wealth level, basic allotment, and guaranteed level of state and local funds per weighted student per cent of tax effort.

The bill would amend (1) described above to include both \$3,000 multiplied by the number of classroom teachers, full-time librarians, certified full-time counselors, and full-time school nurses employed by the district who are statutorily entitled to a minimum salary; and the amount of additional salary cost the district experienced as a result of this bill increasing the guaranteed level of state and local funds per weighted student per cent of tax effort.

The bill would amend (2) described above to include 80 percent of the amount of additional funds to which the district was entitled due to increases made by S.B. 4 (76th Legislature) to: equalized wealth level, basic allotment, and guaranteed level of state and local funds per weighted student per cent of tax effort, and 80 percent of the amount of additional funds to which the district was entitled due to the increase made by this bill to the guaranteed level of state and local funds per weighted student per cent of tax effort under.

**Guaranteed funding level.** The bill would raise the guaranteed level of state and local funds per WADA per penny of tax effort from \$24.99 to \$25.96 on September 1, 2001. It would be raised again to \$27.30 on September 1, 2002.

**Instructional Facilities Allotment.** The bill would amend the guaranteed level to \$35 for eligible bonds for which the district first received state assistance prior to September 1, 2001, and \$25 or a greater amount for any

year provided by appropriation for eligible bonds for which the district first received state assistance on or after September 1, 2001.

The bill would permit a district's budgeted funds for payment of eligible bonds to include:

- ! bond taxes collected in the current school year;
- ! bond taxes collected in a preceding school year in excess of the amount necessary to pay the district's share of actual debt service on bonds in that year, if the taxes were not used to generate other state financial assistance for the district; or
- ! M&O taxes collected in the current school year or a preceding school year in excess of the amount eligible to generate other state financial assistance for the district.

The bill would prohibit multiple allotments by providing that a district was not entitled to state IFA funding assistance based on taxes with respect to which the district received state funding through the guaranteed yield program.

**Existing Debt Allotment.** The bill would increase the permitted existing debt tax rate from \$0.12 to \$0.29 per \$100 of valuation. A district's budgeted funds for payment of eligible bonds could include:

- ! bond taxes collected in the current school year;
- ! bond taxes collected in a preceding school year in excess of the amount necessary to pay the district's share of actual debt service on bonds in that year, if the taxes were not used to generate other state financial assistance for the district; or
- ! maintenance and operations taxes collected in the current school year or a preceding school year in excess of the amount eligible to generate other state financial assistance for the district.

The bill would amend the definition of eligible bonds for EDA purposes. Bonds would be eligible for EDA assistance if the district made payments on the bonds during the 1998-1999 school year or taxes levied to pay the principal of and interest on the bonds were included in the district's audited debt service collections for that school year; and the district did not receive

state assistance under general equalized funding provisions for payment of the principal and interest on the bonds.

The bill would prohibit a district from receiving excess aid if the amount required to pay the principal and interest on eligible bonds in a school year were less than the amount of (1) payments made by the district on the bonds during the 1998-1999 school year, or (2) the district's audited debt service collections for that school year.

The bill would prohibit multiple allotments by providing that a district was not entitled to state EDA funding assistance based on taxes with respect to which the district received state funding through the guaranteed yield program.

Except as otherwise provided, the bill would take effect September 1, 2001.

SUPPORTERS  
SAY:

**Wealth per student in certain districts not serving all grades.** Although the problem of double-counting students was corrected during the last legislative session, some school districts have been faced with a state funding decrease of up to one-third. The provisions in this bill would continue to assist those districts in making a smooth transition, without disruption of educational instruction to students.

**State aid for professional staff salaries.** During the past legislative session, the Legislature added a "hold-harmless" provision to make sure all school districts could afford the state-mandated \$3,000 salary increase for teachers. Without a continuation of this hold-harmless provision, some districts would still be unable to afford the salary increase. By increasing the yield, the Legislature could reduce the hold harmless.

**Guaranteed funding level.** Texas is required to maintain standards of equity within the school finance system. Changes in the guaranteed funding level are needed to ensure that the school finance system complies with equity standards.

**Instructional Facilities Allotment.** Under the current \$35 IFA yield limit, TEA is unable to provide IFA assistance to all eligible districts requesting IFA assistance. Lowering the limit to \$25 would entitle each funded district

to a smaller share of the IFA, and thus allow the state to assist more districts with IFA funding.

**Existing Debt Allotment.** The bill would raise the limit on the EDA tax rate, allowing districts to tax up to \$0.29 per \$100 of value instead of \$0.12 per \$100 of value. This would assist the few districts that currently need a tax rate between \$0.12 per \$100 and \$0.29 per \$100 to meet their existing debt obligations. During the current biennium, the commissioner has used his discretionary authority to raise the limit on the EDA tax rate to \$0.29. This bill would correct a problem in past legislation that forced some districts to temporarily increase tax rates dramatically.

When the EDA was established, the definition of eligible debt precluded some districts from receiving EDA assistance for existing facilities debt. These districts made payments on existing bond debt, either with taxes not collected in that year, or with tax money that was not specifically earmarked for instructional facilities bond debt payments. As a result, those districts could not receive EDA assistance. The bill's redefinition of eligible bond debt would allow these districts to receive EDA funding, while making sure that districts are not permitted to double dip on funding.

OPPONENTS  
SAY:

This bill carries a significant fiscal note. LBB estimates the bill would cost \$1,144,900,000 through the fiscal 2002-03 biennium and addition costs in fiscal years 2004 (\$778,900,000), 2005 (\$792,500,000), and 2006 (\$826,700,000).

NOTES:

The committee substitute would increase the guaranteed yield from \$24.99 to \$25.96 effective September 1, 2001, and to \$27.30 effective September 1, 2002. The bill as filed would have increased the guaranteed yield one penny from \$24.99 to \$25.00.

The committee substitute removed provisions in the bill as filed that would have increased the equalized wealth level from \$295,000 to \$295,001. The substitute also removes the provision in the bill as filed that would have required the commissioner of education to develop an equitable formula for funding districts not covered by increases in the guaranteed yield or the equalized wealth level for the 2001-2002 and 2002-2003 school years.

The committee substitute added provisions regarding the IFA and EDA. The substitute also adds provisions related to school districts that do not offer all grade levels, and additional state aid for professional staff salaries.