

SUBJECT: Revising school finance formulas

COMMITTEE: Public Education — committee substitute recommended

VOTE: 7 ayes — Aycock, Allen, Deshotel, Galindo, Huberty, K. King,  
VanDeaver

0 nays

4 absent — Bohac, Dutton, Farney, González

WITNESSES: For — Julie Cowan, Austin ISD Trustee; James Schiele, Eagle Mountain -  
Saginaw ISD; Drew Scheberle, Greater Austin Chamber of Commerce;  
Rhonda Skillern Jones, Houston ISD; Barry Haenisch, Texas Association  
of Community Schools; Amy Beneski, Texas Association of School  
Administrators; David Dunn, Texas Charter Schools Association; Jennifer  
Bergland, Texas Computer Education Association; Mike Baldree, Texas  
Rural Education Association; Nicole Conley, Texas School Alliance; Dale  
Craymer, Texas Taxpayers and Research Association; Dominic  
Giarratani, Texas Association of School Boards; (*Registered, but did not  
testify*: David Anderson, Arlington ISD Board of Trustees; Amber Elenz,  
Austin and Ann Teich, Austin ISD; Gina Hinojosa, Austin School Board;  
MaryAnn Whiteker, Hudson ISD; Howell Wright, Huntsville ISD; Matt  
Dossey, Jonesboro ISD; Edward Hicks IV and Cyndi Matthews, Texas  
Counseling Association; Mark Terry, Texas Elementary Principals and  
Supervisors Association; and 34 individuals)

Against — Chandra Villanueva, Center for Public Policy Priorities; Celina  
Moreno, MALDEF; Samuel Guzman, Mexican American School Board  
Members Association; Jesse Romero, Texas Association for Bilingual  
Education; Joe Cardenas III, Texas Hispanics Organized for Political  
Education; Yannis Banks, Texas NAACP; (*Registered, but did not testify*:  
Placido Salazar, Dr Hector P Garcia American GI Forum; C. LeRoy  
Cavazos, San Antonio Hispanic Chamber of Commerce; Pauline Anton,  
Texas Association of Mexican American Chambers of Commerce;  
Michael Barba, Texas Public Policy Foundation; Joe Cardenas, Texas

Latino Education Coalition)

On — Barney McClure, Agriculture Teachers Association; HD Chambers, Alief ISD; Dr. James Terry, Dallas ISD; Wayne Pierce, Equity Center; Jeff Harvey, Fayetteville ISD; Paul Clore, Gregory-Portland ISD; David Hinojosa, IDRA; Lynn Moak, Moak, Casey & Associates; Mike Motheral, Small Rural School Finance Coalition; Randy Meyer, Sweet Home ISD; Ted Melina Raab, Texas American Federation of Teachers; Jodi Duron, Texas Association of Mid-sized Schools; Karen Rue, Texas School Coalition; Bill Grusendorf, Texas Association of Rural Schools; Daniel Casey; Paul Colbert; Lori Taylor; (*Registered, but did not testify*: Wanda Bamberg, Aldine ISD; Charles Luke, Coalition for Education Funding; Andy MacLaurin, Janet Spurgin, Aaron Henricksen, and John Mcgeady, Legislative Budget Board; Von Byer and Lisa Dawn-Fisher, Texas Education Agency)

**BACKGROUND:** The Texas school finance system has evolved through legislative responses to a series of legal challenges by school districts and taxpayers.

In 1993, the 73rd Legislature responded to a series of *Edgewood* school finance rulings by enacting SB 7 by Ratliff. The bill created a system that guarantees all districts a certain revenue base and essentially shifts money from districts with high property wealth per student to property-poor districts to equalize educational funding.

In response to a subsequent lawsuit known as *West Orange-Cove*, the Legislature in 2006 enacted HB 1 by Chisum, which required districts to lower their maintenance and operations (M&O) tax rates by one-third. The resulting compressed tax rate is a factor in determining a district's share of Tier 1, or regular program, funding. The bill provided a method for districts to raise additional revenue for Tier 2, or local enrichment. Certain additional pennies — known as “copper” pennies — are guaranteed to yield \$31.95 per penny per weighted student. HB 1 also created a “hold harmless” mechanism to guarantee that districts would not lose revenue as a result of the compressed tax rate. Known as additional state aid for tax reduction, or target revenue, the mechanism is statutorily scheduled to

expire September 1, 2017.

In 2011 four groups of school districts initiated another round of school finance litigation that came to be known as *The Texas Taxpayer & Student Fairness Coalition, et al. v. Williams, et al.* In August 2014, a Travis County district judge ruled that the system violates Texas constitutional requirements for adequate and equitable funding and a prohibition on a statewide property tax. The state is appealing the ruling to the Texas Supreme Court.

DIGEST:

CSHB 1759 would revise formulas used to determine school district and charter school entitlement under the Foundation School Program (FSP). It would repeal certain school funding provisions, including the cost-of-education adjustments, the transportation allotment, the high school allotment, and additional state aid for staff salaries.

**Cost-of-education adjustment.** The bill would remove a requirement that the basic allotment per student include a cost of education adjustment to reflect variations in education costs beyond the control of districts.

**Transportation allotment.** The bill would repeal the allotment for districts providing transportation to students who reside two or more miles from their regular campus. The transportation allotment would be retained for The Texas School for the Deaf.

**High school allotment.** The bill would repeal districts' entitlement to an annual allotment of \$275 for each student in average daily attendance in grades 9-12.

**Additional state aid for staff salary increases.** The bill would repeal districts' entitlement to \$500 multiplied by the number of full-time non-professional employees and \$250 multiplied by the number of part-time district employees, other than administrators.

**Fractional funding.** Under current law, districts with compressed rates below \$1.00 receive proportionally less funding than districts with

compressed rates at \$1.00. The bill would provide a mechanism to enable districts with compressed tax rates that are below \$1.00 per \$100 valuation to convert existing “copper pennies” currently yielding \$31.95 per penny into Tier 1 pennies, which would generate a higher yield as a result of being tied to the basic allotment. Districts would be limited to converting the number of pennies needed to achieve a compressed tax rate of \$1.00. Rate conversion would be optional per district discretion in fiscal 2016 and 2017 and would be automatic beginning in fiscal 2018.

**Small and mid-size district adjustments.** The bill would revise the formulas used to calculate applicable small and mid-size district adjustments. It would reduce the level of application of the mid-size district adjustment to 75 percent of the current basic allotment for the 2015-16 school year. The adjustment would decrease by 5 percent in each subsequent school year until it was phased out.

The bill would specify the amount of basic allotment to which the small district adjustment is applied to be equal to the current basic allotment plus \$125. The bill would not phase out the small district adjustment.

**Career and technology.** The allotment for each full-time equivalent student in average daily attendance in an approved career and technology education program in grades 9-12 would be expanded to grade 8.

**Hold harmless.** The bill would repeal provisions that result in a higher equalized wealth level for certain districts based on the district’s 1992-93 revenue per student plus the indexed change between the current equalized wealth level and the level established in 1993.

**Transitional funding.** The bill would entitle districts to receive transitional funding for any amount of M&O revenue lost as a result of the passage of CSHB 1759. The amount of transitional funding could not exceed \$75.7 million for the 2015-16 school year and \$81.2 million for the 2016-17 school years. If the total amount of transitional funding to which districts are entitled exceeds the amount specified, the education commissioner would rank districts and provide funding first to those with

the lowest M&O revenue per cent per student in weighted average daily attendance. Transitional funding would expire September 1, 2017.

This bill would take effect September 1, 2015.

**SUPPORTERS  
SAY:**

CSHB 1759 would help to improve the overall funding and equity of the school finance system. The bill, in conjunction with the House-passed version of the general appropriations act, could provide an additional \$3 billion for public schools while ending an ongoing lawsuit.

**Cost-of-education adjustment.** The bill would simplify school funding laws by eliminating outdated adjustments such as the cost-of-education index. The index was initially designed to help districts adjust for varying economic conditions across the state, based mainly on the size of the district, teacher salaries of neighboring districts, and the percentage of low-income students in 1989-90. The index has not been updated since that time so it does little to help districts that have changed dramatically in the past 25 years. Eliminating the index would free up funding to increase the basic allotment.

**Equity.** Money saved by ending the cost-of-education index and allotments for transportation, high school, and school support staff could increase the basic allotment from \$5,040 to \$5,888 per student, according to models by the Legislative Budget Board (LBB). Flowing similar or increased levels of funding through the basic allotment in place of the existing structures would move the revenue inside the equalized system of the FSP. This would improve equity among school districts, according to the LBB.

**Recapture.** The bill also could ease the impact of recapture for some districts, according to LBB. This could benefit large urban districts like Houston and Austin that are property wealthy but also have large populations of economically disadvantaged students who are more expensive to educate. Under the current system, it is difficult for these districts to ask voters for tax increases when a large portion of the revenue collected would be distributed to property-poor districts across the state. If

the state put more money into the basic allotment, the amount of recapture required for equalized wealth would decrease.

**Fractional funding.** The bill would address a problem that dates to 2006 when district tax rates were compressed by one-third. Districts — often in rural areas — that had kept taxes down and whose rates were compressed below \$1.00 per \$100 valuation receive proportionally reduced entitlement under Tier 1. For example, a district with a compressed rate of \$0.90 receives Tier I formula entitlement on the basis of 90 percent of the basic allotment. The bill would provide a means for districts receiving prorated entitlement to increase Tier 1 participation to \$1.00 per \$100 valuation.

**Small and mid-size district adjustment.** The bill would continue to recognize that small and mid-size districts face challenges related to economies of scale. For mid-size districts, the bill would use the existing factor but would apply it to only 75 percent of basic allotment and would eventually phase out the adjustment. The adjustment for small districts, some of which are among the state's poorest districts, would be increased and retained.

**Transitional funding.** Although most districts would receive increased funding under the bill, it includes a provision for transitional funding to ensure that no district would lose money over fiscal 2016-17. This transitional funding would expire September 1, 2017.

**Career and technology.** Funding career and technology education beginning in 8th grade level would help middle and junior high schools enhance CTE programs.

OPPONENTS  
SAY:

CSHB 1759 would increase the funding gap between the highest- and lowest-wealth districts. It would not address funding weights for economically disadvantaged students and English language learners, which was one of the primary concerns of the district court in its 2014 ruling.

The bill by itself would not increase the basic allotment, which would be done through the general appropriations act. The bill would repeal aspects of the funding system without guaranteeing that the savings would actually be rolled into the basic allotment. With no corresponding statutory change to the basic allotment, any increase could be temporary.

**Equity.** The funding differential between the highest and lowest wealth districts would grow significantly under the bill, according to some analyses. It would be better to change Education Code provisions that could reduce the funding gap such as subjecting local enrichment taxes, known as “golden pennies,” to recapture and eliminating all hold harmless.

**Educationally disadvantaged.** The bill would do little to address the 60 percent of school children who are economically disadvantaged. These children as well as those with limited English proficiency are more expensive to educate. The district judge in the school finance case noted that the state uses outdated “weights” to determine per-student funding that fail to meet the extra costs of educating students who are economically disadvantaged and English language learners. Without determining the appropriate costs to educate these students and updating the weights, the school finance system would not be fair or equitable.

**Cost-of-education index.** Instead of doing away with the cost-of-education index, the state should update it to reflect current values. Eliminating the index would undermine the ability of certain urban districts to compete with suburban districts for the best teachers.

**Mid-size district adjustments.** Fixed and uncontrollable costs are higher on a per-student basis for mid-size districts. The adjustment for mid-size districts should be retained at current levels and not phased out.

**Transitional funding.** The bill would provide for transitional funding so that no district would lose revenue. The transitional funding would be scheduled to expire in 2017 at the same time as target revenue, which could result in certain districts facing an even higher “financial cliff” at

that time.

**Career and technology.** The bill would extend CTE weighted funding to 8th grade students but would leave the weight unchanged. The weight should be increased to provide additional funding for students who want to pursue a career and technology path.

OTHER  
OPPONENTS  
SAY:

The Legislature should wait until the Texas Supreme Court rules in the pending school finance case before attempting major changes in the funding system. Previous Supreme Court rulings have provided guidance for the state on critical funding issues.

NOTES:

The LBB's fiscal note estimates the bill would have a negative impact of \$3 billion through fiscal 2017.