

## School Finance Reform Moves to the Senate

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On April 3, 2019 the Texas House of Representatives passed a landmark public education bill, HB 3. We applaud Chairman Huberty and everyone who has worked to pass this important school finance bill.

Now the bill heads to the Senate for its first public hearing in the Senate Education Committee. While both chambers have secured similar levels of revenue for school finance reform in their respective budgets, the Senate and the House differ on some key details. The biggest differences are how to increase compensation for teachers and other school personnel, whether a portion of funding should be based on student performance, and how to reduce reliance on property taxes for funding our schools.

As the Legislature works in these few remaining weeks to finalize a school finance bill, the Center for Public Policy Priorities urges members to keep the following recommendations in mind:

- Funding should be student based;
- Make sure districts have flexibility to meet their unique needs;
- Any property tax reductions should be equitable and not harm the state's future ability to invest in public education and other state needs.

Let's dive into each of these recommendations:

### Student Based Funding

Under the current school finance system, students classified as a special population (such as low-income, English language learner, or special education) receive additional funding to support academic success. The bipartisan Texas Public School Finance Commission met for most of 2018 to study how to remodel the education funding, and we are glad to see many of the commission's recommendations in HB 3. However, we have concerns around several commission recommendations that suggest moving away from student based funding and instead using the circumstances of some students to provide funding for a different set of students.

To boost investments in early education, HB 3—as passed by the House—creates a new Early Reading Allotment that provides 10 percent additional funding over the base level for economically disadvantaged students and English language learners in grades K – 3<sup>rd</sup>. While the bill gives districts the flexibility to spend these funds within the early grades, the stated intent of the author is to fund full-day Pre-K.

In order to sustain the gains made in Pre-K, it's important to ensure students are able to transition into a high quality early education environment. Since this additional funding is provided based on the number of low-income and bilingual students in grades K – 3<sup>rd</sup>, those resources should be directed toward benefiting those students by improving early literacy in grades K – 3<sup>rd</sup>. In order to fund full-day Pre-K, the state should simply allow districts to count full-time Pre-K students as full students. Currently even those in a full-day program are counted as half a student, meaning schools must provide funding for the other

half day of funding on their own. Since these recommendations were part of the School Finance Commission recommendations, it is assumed the Senate will preserve this aspect of HB 3.

The School Finance Commission also recommended introducing outcomes based funding, which would reward districts with additional funding for students that meet 3<sup>rd</sup> grade reading benchmarks. In essence, the state would use the performance of today's students to determine the level of resources available to tomorrow's student, instead of identifying what today's kids need to be successful and providing those resources today. In addition, the School Finance Commission recommended outcomes based funding for students that were determined to be prepared for college, career, or military enlistment. While the House did not include outcomes based funding in its version of HB 3, it's unknown if the Senate will incorporate outcomes based funding into the bill.

The Center for Public Policy Priorities believes that students who generate additional funding should benefit from those resources. This ensures that students who need additional supports to be successful actually receive those supports. Outcomes based funding goes against this principle.

## **District Flexibility**

Texas is home to over 1,200 traditional public and charter school districts that serve over 5.4 million students. No two districts are exactly the same, and these districts need flexibility within the funding formulas to meet their unique needs. How to improve compensation for teachers and other school personnel while also providing districts with flexibility to set raise amounts and/or choose to hire additional personnel is the biggest fault line developing in the school finance reform debate.

CPPP recommends that any additional funding for compensation should flow through the basic allotment—the base level per student funding amount. This allows districts to set raise amounts or decide to hire more teachers. When this funding is put in the basic allotment, districts are also able to generate more funding for low-income and English language learners because the additional funding these populations receive is based on the basic allotment.

## **Equitable Property Tax Reductions**

### Tax Compression

For years, Texas has relied too much on local property taxes to fund public education. To address this imbalance and to increase the state's share of school funding, the House version of HB 3 reduces tax rates for all districts in the same way to provide equitable property tax reductions.

Currently, districts tax property owners at \$1.00 per \$100 of property value to generate the revenue needed for running schools, such as teacher salaries, utilities, and other operational expenses. This is called Tier I funding since its purpose is to provide a basic level of education. Under HB 3, that rate falls to \$0.96 per \$100 of property value for all districts.

This proposal is more equitable than a previous plan supported by Governor Greg Abbott. The Governor's proposal would allow districts with quickly rising property values to reduce their tax rates faster than districts not experiencing the same rate of growth, while still enjoying full funding. This would mean, for example, that Alamo Heights ISD in San Antonio would have a much lower base level

tax rate to support schools than its less wealthy counterpart Edgewood ISD, located less than 10 miles away.

CPPP supports the HB 3 approach to the tax reduction because it follows the equity standard that all districts should have access to similar levels of funding at similar tax rates.

### Inequitable Enrichment Funding

The school finance system gives school districts the option to increase tax rates locally to raise additional funding to supplement their educational offerings (Tier II funding). Though the intended purpose is for enrichment, many districts tax at these higher levels just to make ends meet. Through Tier II, districts can raise their tax rates to a total of \$1.17 per \$100 of property value. Tier II of the tax rate is broken down into high value “golden-pennies” (first six cents of tax rate above \$1.00) and lower value “copper-pennies” (the final 11 pennies to reach a tax rate of \$1.17 per \$100 of property value).

Nearly a third of school districts in the state are taxing at the maximum rate and lack the capacity to generate additional funding. To address this concern, HB 3 increases the guaranteed amount of funding districts receive from the state for the lower-value “copper-pennies,” while at the same time allowing districts to reduce their tax rates. Increasing the funding generated while simultaneously reducing the tax rates provides districts with the same level of funding and frees up capacity to increase the tax rate if additional funding is needed.

However, one concern with HB 3 is that it allows districts to access two additional golden pennies that are not subject to recapture. Long term, these high yield pennies will create an inequitable system where a few super wealthy districts will generate a financial wind fall.

CPPP supports the removal of the additional two golden pennies.

### **How Do We Pay for It?**

While it’s unknown if the Senate will accept the House’s tax rate proposals, more concerning is that Speaker of the House, Lt. Governor, and Governor called on the legislature to increase the sales tax by one penny in order to reduce property taxes for schools. Sales taxes are more regressive than property taxes, [burdening lower-income Texans the most](#). The sales tax is also very volatile and fluctuates greatly with the economy. There are [better, more equitable ways](#) to generate revenue.

The Center for Public Policy Priorities opposes raising the sales tax in order to address property tax growth. We urge the Legislature to reject any proposal would hurt the state’s ability to make future investments in public education.

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