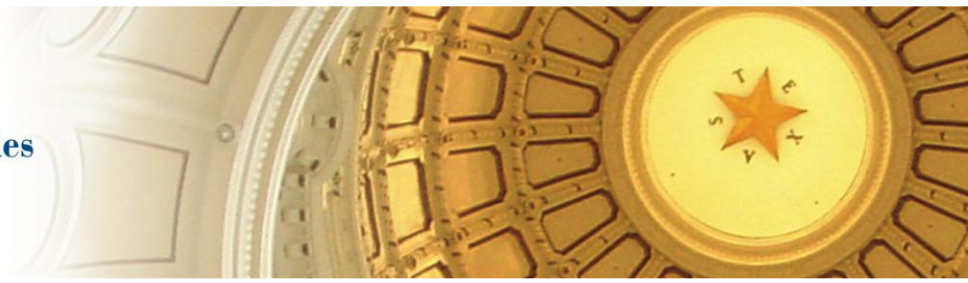




Center *for* Public Policy Priorities



Introduction to Public Education Finance

July 25, 2012

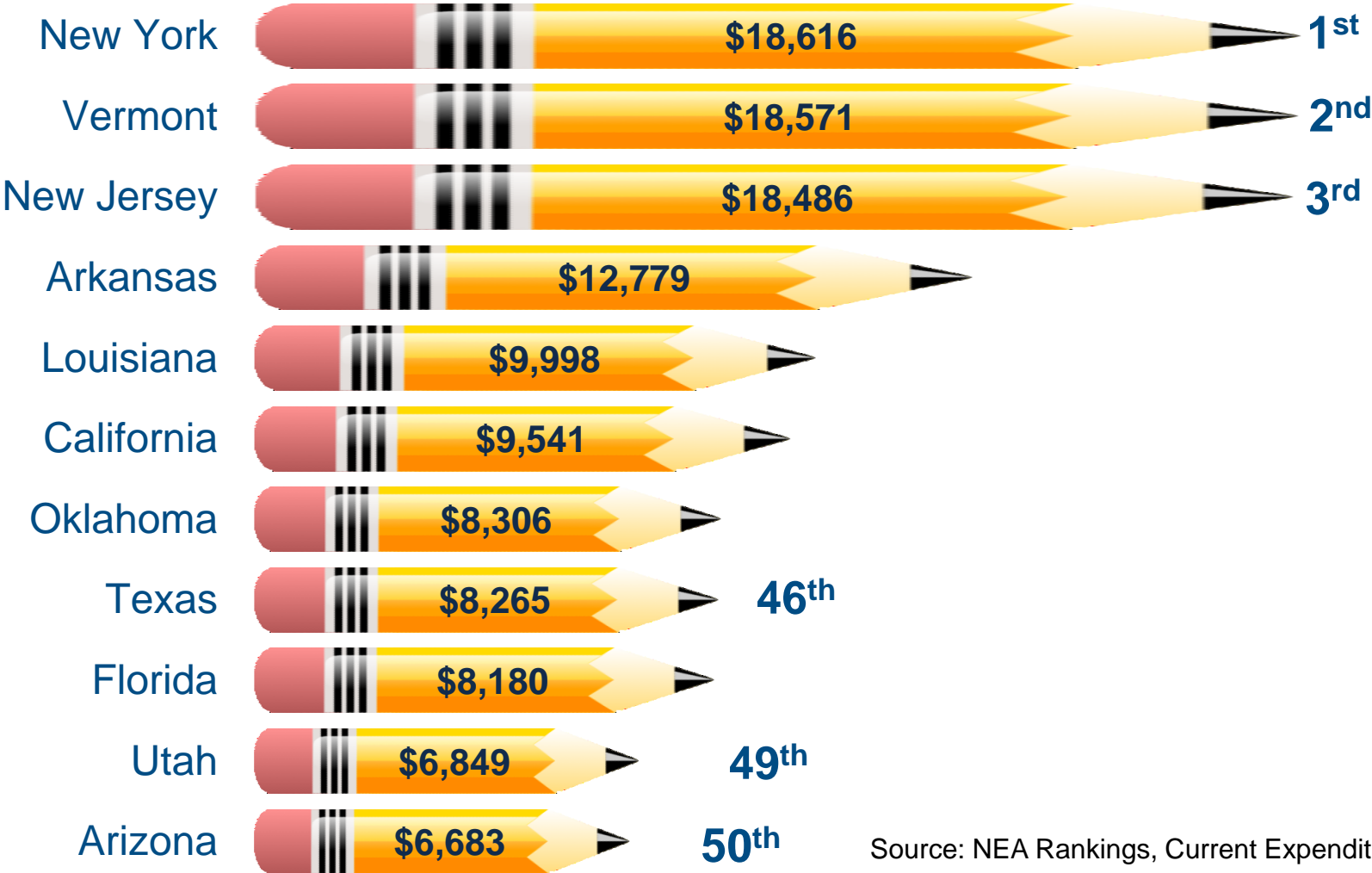
Chandra Villanueva, Policy Analyst

During the 2010-11 School Year There Were....

- **1,237 Districts**
- **8,526 Schools**
- **4,912,385 Students**
- **59.2% of Students are Economically Disadvantaged**

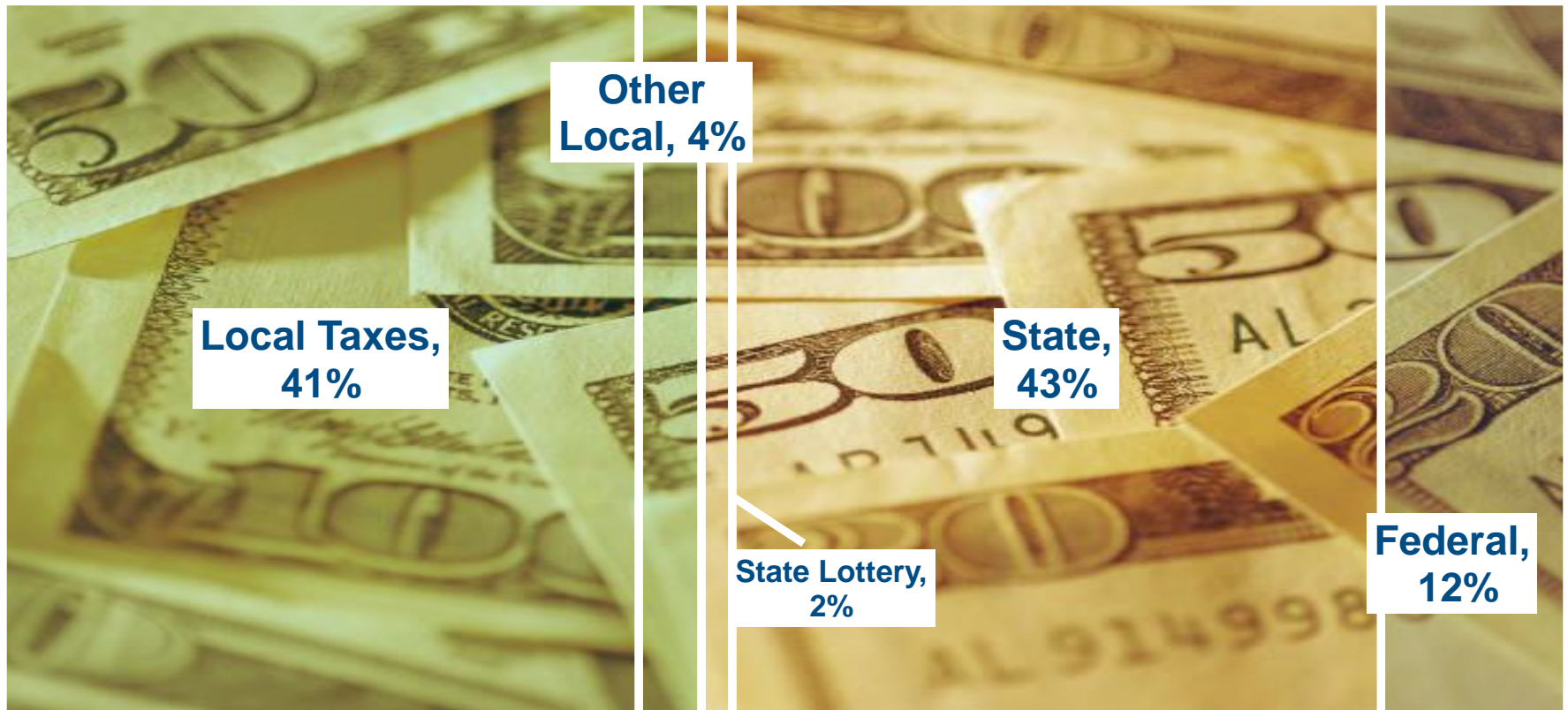


Public School Spending per Enrolled Student, 2011-12



Source: NEA Rankings, Current Expenditures

Where Support for Schools Comes From (2010-11 School Year)



What Schools Spend Money On

(2010-11 School Year)



Of non-debt service spending: 40% goes to Regular Instruction

1% to Gifted/Talented; 2% to Career/Tech Ed.; 2% to Bilingual Ed., 4% to Compensatory Ed.

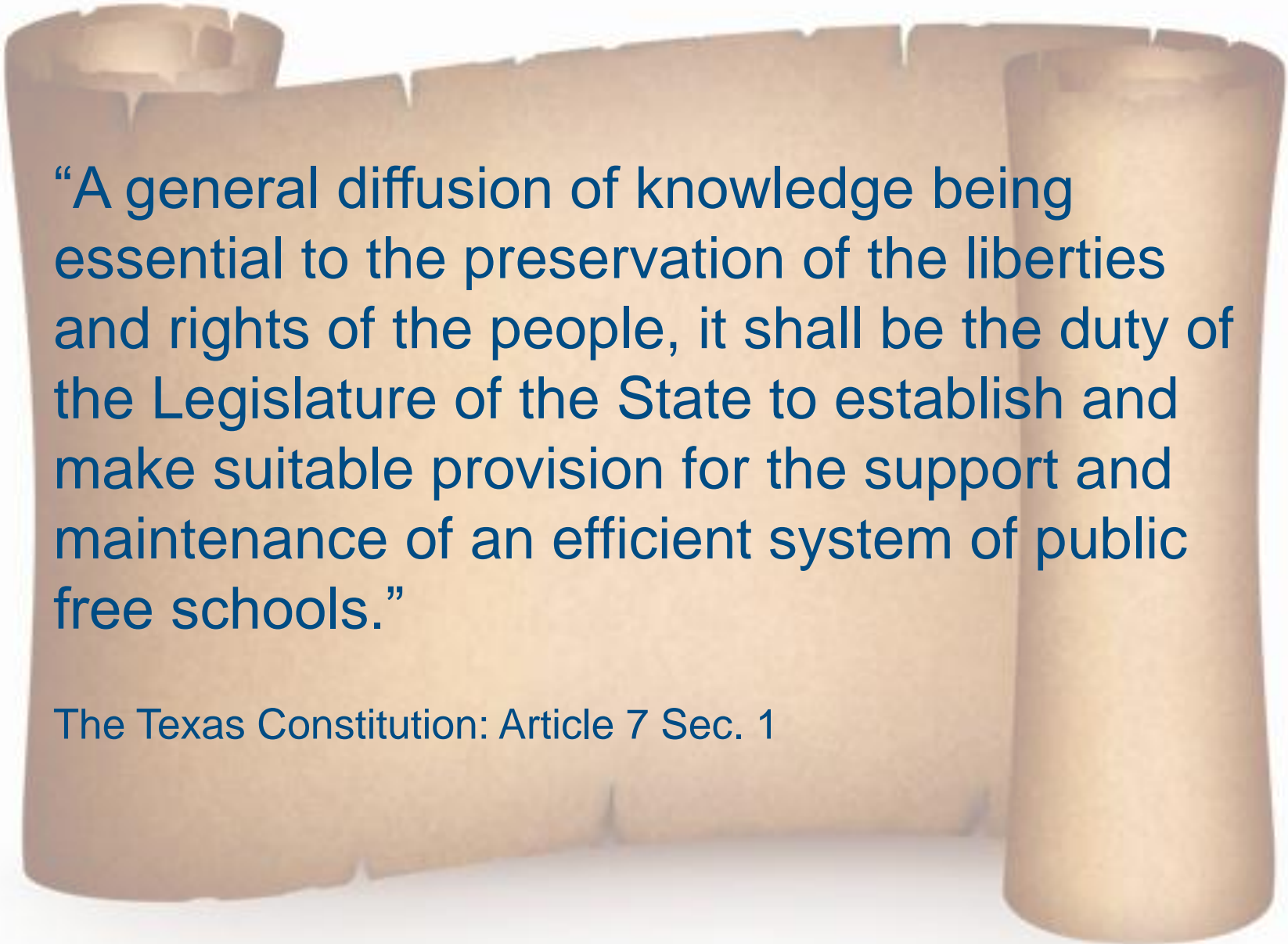
10% for Education of Students with Disabilities; 4% for Accelerated Ed.; 1% for Alternative Ed;

2% for Athletics/Cocurriculars 3% for Instructional Resources & Curriculum/Staff Development

4% for Counseling, Social Work, & Health Services 5% for School Leadership

4% for General Admin & Data Processing 10% for Campus Maintenance/Operation/Security

2% for Transportation/Buses 5% for Cafeterias/Food

A scroll of parchment with text. The scroll is unrolled and lies flat, showing a light brown, textured surface. The text is written in a dark blue, serif font. The scroll is set against a white background.

“A general diffusion of knowledge being essential to the preservation of the liberties and rights of the people, it shall be the duty of the Legislature of the State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.”

The Texas Constitution: Article 7 Sec. 1

History of Public Education Finance Litigation

Litigation Filed	US Supreme Court Ruling	Legislative Action
<p>June 10, 1968 <i>Demetrio Rodriguez v. San Antonio ISD.</i> Claimed that the state's school finance system discriminated against students in poor districts.</p>	<p>March 21, 1973 Court ruled that education is not a fundamental right and that a state system of school finance must be judged on the state's constitution, and not on the US Constitution. Urged TX legislators to create a more equitable system but did not mandate it.</p>	<p>HB 72 (1984) Created a guaranteed yield system, implemented a teacher career ladder, established a 22-1 student/teacher ratio, implemented the "No Pass/ No Play" rule.</p>

Public Education Finance Litigation Continued (2)

Litigation Filed	TX Supreme Court Ruling	Legislative Action
<p>May 23, 1984 <i>Edgewood ISD v. Kirby</i>. Charged that the state's school finance system was inequitable.</p>	<p><i>Edgewood I</i> Oct. 2, 1989</p> <p>Unconstitutional. The Court stated that an efficient system must provide "substantially equal access to similar levels of revenue per pupil at similar levels of tax effort."</p>	<p>SB 1 (1990) Provided for an increase in the basic allotment and guaranteed yield to the 95th percentile of wealth by 1995. Excluded the wealthiest districts from the equalized system.</p>

Public Education Finance Litigation Continued (3)

Litigation Filed	TX Supreme Court Ruling	Legislative Action
<p>September 1990 <i>Edgewood ISD v. Kirby</i>. Districts go back to court to challenge the revised system.</p>	<p><i>Edgewood II</i> January 22, 1991 Unconstitutional. Wealthiest school districts cannot be excluded from the system; tax base consolidation could be considered as an option to include them.</p> <p><i>Edgewood IIa</i> February 5, 1991 Advisory Opinion. Once the legislature provides an efficient system of school finance, it may authorize unequalized local enrichment if additional local property tax is approved by voters.</p>	<p>SB 351 (1991) Created 188 County Education Districts (CEDs) to consolidate tax bases of property wealthy districts with other districts in the county and if necessary, in neighboring counties.</p>

Public Education Finance Litigation Continued (4)

Litigation Filed	TX Supreme Court Ruling	Legislative Action
<p>June 17, 1991 <i>Carrollton Farmers Branch ISD v. Edgewood ISD.</i> Charged that the CED tax was an unconstitutional state property tax and violated <i>Love v. Dallas</i> because tax revenue was transferred from one school district to another.</p>	<p><i>Edgewood III</i> January 30, 1992</p> <p>Unconstitutional. The CED tax constitutes a state property tax because the rate is set in statute and is controlled by the state.</p>	<p>May 1, 1993 Legislature passes a constitutional amendment to authorize the re-creation of the CEDs, levy of a tax by the CEDs, and recapture of up to 2.75% of total revenue – rejected by voters.</p> <p>SB 7 (1993) mandates that property wealthy districts choose one of 5 options to limit access to property value in excess of the equalized wealth level.</p>

Public Education Finance Litigation Continued (5)

Litigation Filed	TX Supreme Court Ruling	Legislative Action
<p>June 1, 1993 <i>Edgewood ISD v. Meno</i>. Many poor and wealthy districts challenged the system under SB 7, charging that it was not an equitable system and that the recapture of local taxes was unconstitutional.</p>	<p><i>Edgewood IV</i> January 30, 1995</p> <p>Constitutional. The system established by SB 7 is financially efficient and meets the Legislature's constitutional obligation to provide for a general diffusion of knowledge statewide.</p>	

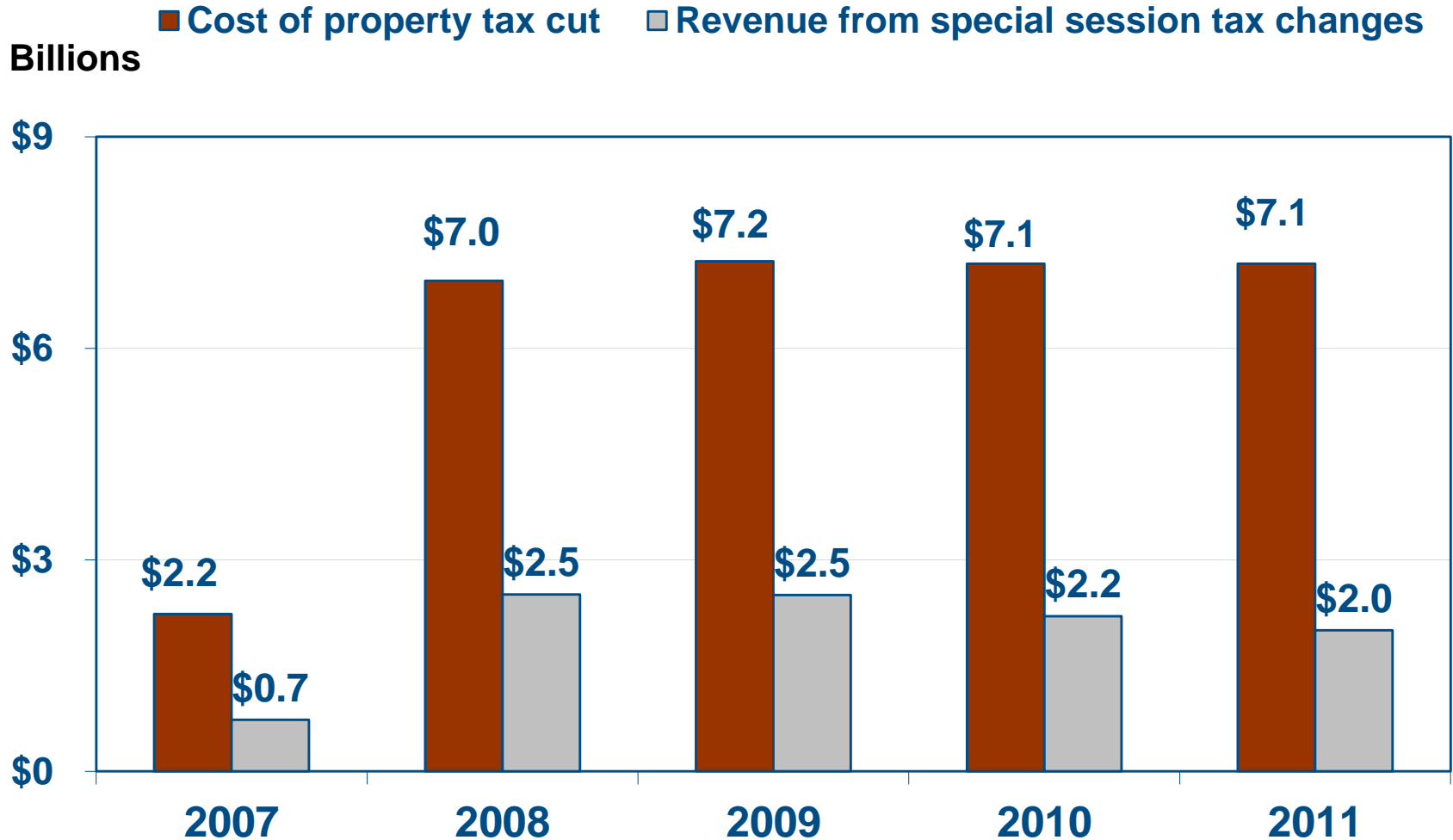
Public Education Finance Litigation Continued (6)

Litigation Filed	TX Supreme Court Ruling	Legislative Action
<p>April 9, 2001 <i>West Orange Cove ISD v. Neely</i>. Four wealthy districts file suit claiming the \$1.50 statutory M&O rate cap constitutes an unconstitutional state property tax.</p>	<p>West Orange Cove Nov. 22, 2005</p> <p>Unconstitutional. The Court agrees that the \$1.50 M&O rate cap constitutes an unconstitutional state property tax because school districts do not have meaningful discretion in setting their local M&O tax rates.</p>	<p>HB 1 (2006) Compressed school district M&O tax rates by one-third and provided a maximum of \$0.17 taxing authority that school districts can access at their discretion.</p> <p>May 2006 – Court case was dissolved by agreement in response to HB1 being passed.</p>

New Revenue Replaces Less Than One-Third of Lost Property Taxes

In billion \$	2008-09		2010-11	
	May '06 fiscal note	2008 & 2009 Cash Report	May '06 fiscal note	2010 Cash Rpt; Jan '11 Estimate
Franchise tax	6.8	3.0	7.7	2.6
Tobacco tax	1.4	1.9	1.3	1.7
Used car sales	0.1	0.03	0.1	0.001
TOTAL REVENUE	8.3	5.0	9.1	4.2
Cost of property tax cut	-\$14.2	-\$14.2	-\$14.2	-\$14.2
SHORTFALL	-\$5.9	-\$9.2	-\$5.1	-\$10.0

2010-11 Budget: \$10 Billion Gap Between Tax Cut Cost & Revenue Raised in 2006 Session



Basic Elements of Public Education Finance

Maintenance and Operations (M&O) Tax Rate – the property tax rate that raises revenue to provide instructional programs and operate and maintain the district's schools.

Foundation School Program - a system of formulas and calculations used to distribute state funds; two components: Tier 1 is the basic allotment, Tier 2 supports enrichment.

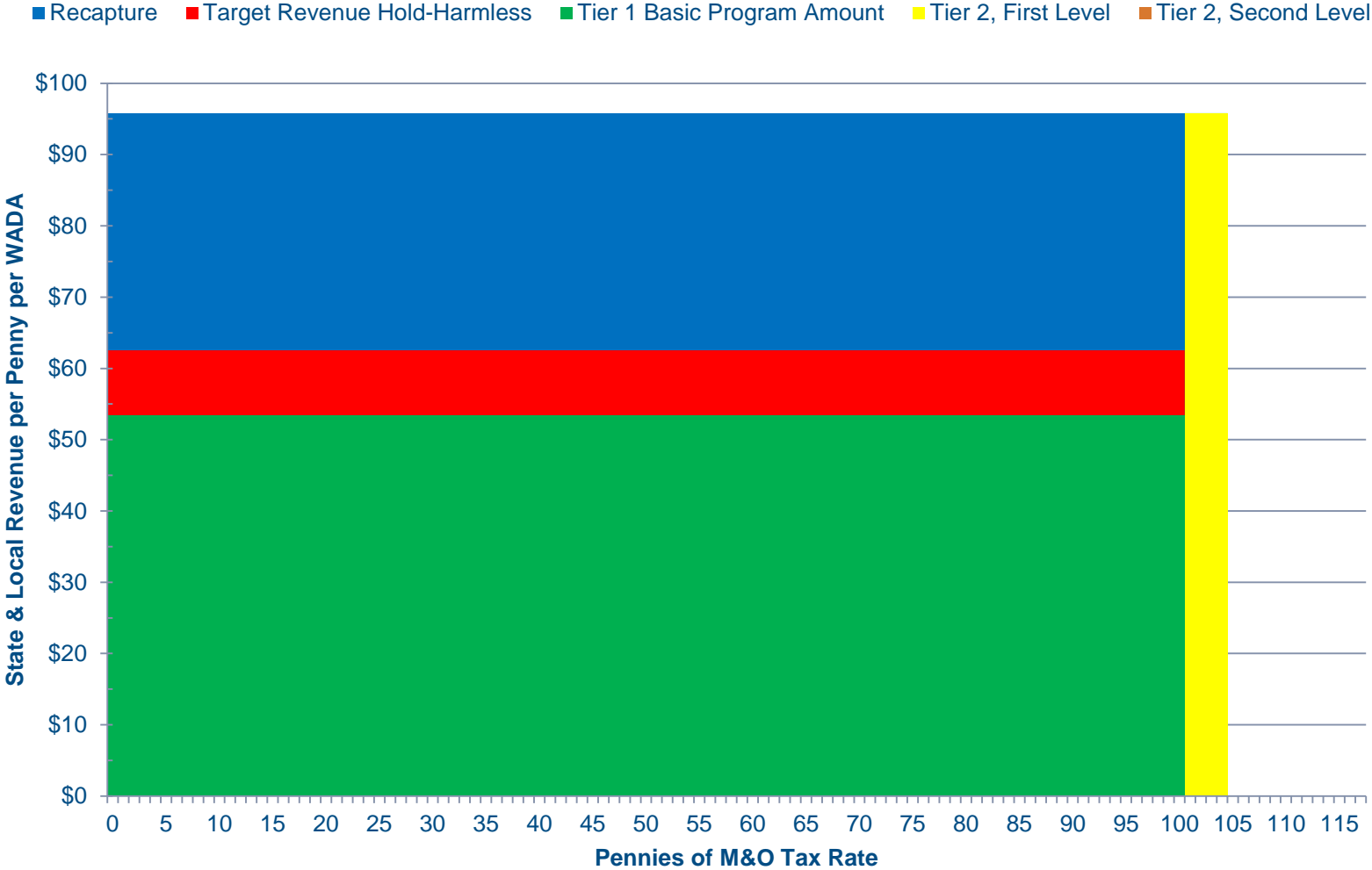
Recapture – Districts with property wealth per student above a certain level must give the state locally collected property tax revenue for redistribution through state aid formulas.

Target Revenue – an amount of funding for a school district based on the revenue per WADA it had in 2006-07.

	Alamo Heights	Edgewood (Bexar)
Wealth Level (per WADA 2011)	953,659	63,278
WADA	5,211	13,978
Compressed Tax Rate	1.00	1.00
Adopted Tax Rate	1.04	1.17
M&O Tax Collections per Penny per WADA	95.76	6.18
Tier 1 Funding (adjusted)	5,343	5,064
Target Revenue per WADA	6,253	4,914
Tier 2		
Yield per Golden Penny	95.37	59.97
Yield per Copper Penny	0.00	31.95
State & Local M&O Revenue per WADA		
Tier 1	5,343	5,064
Tier 2	383	695
Hold Harmless added to Tier 1	910	0
TOTAL Revenue per WADA	\$6,636	\$5,759

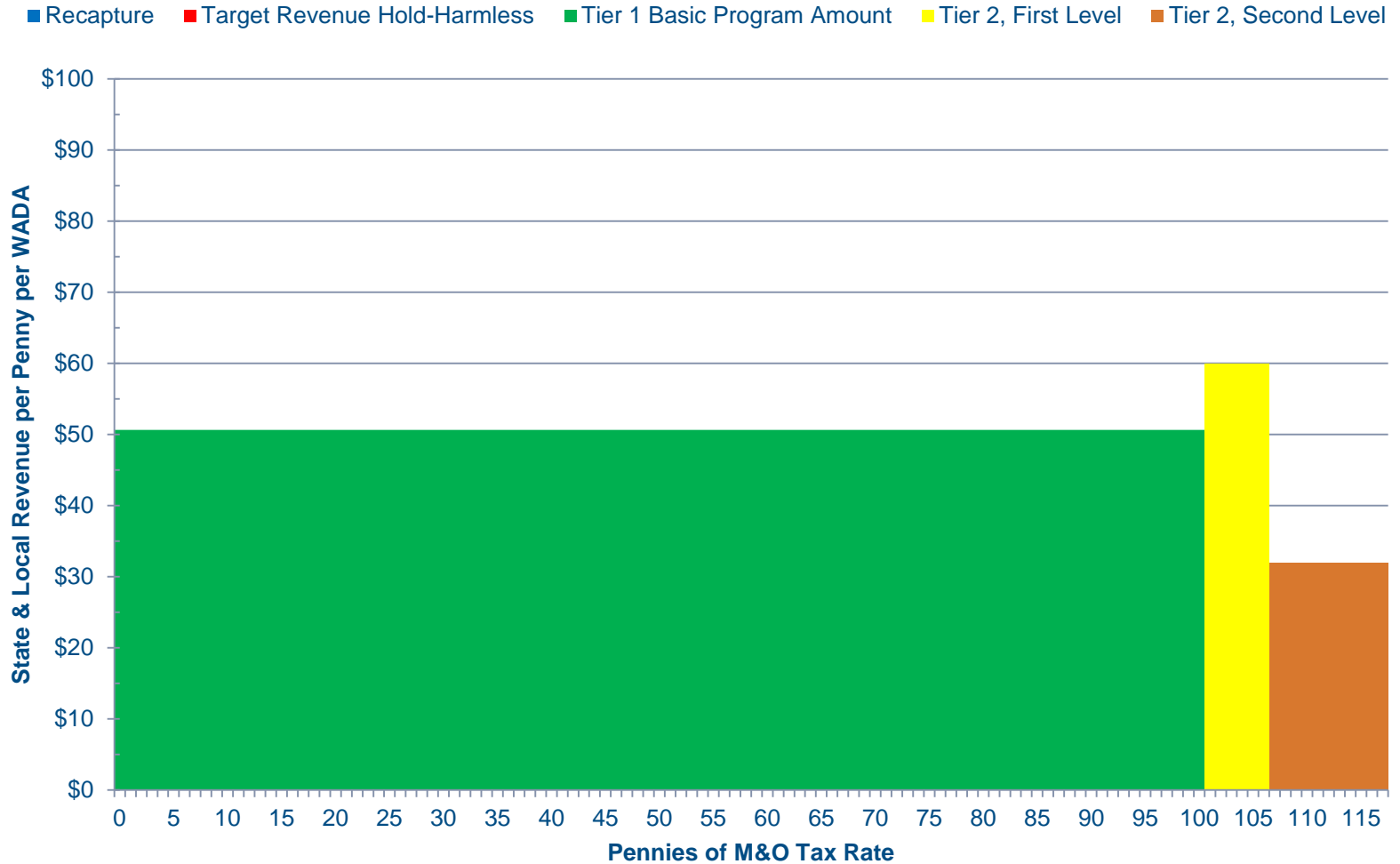
Source: Equity Center 2010 – 2011 District Funding Footprint

Alamo Heights 2010-11 Funding Footprint



Source: Equity Center 2010 – 2011 District Funding Footprint

Edgewood (Bexar) 2010-11 Funding Footprint



Source: Equity Center 2010 – 2011 District Funding Footprint

Examples of Inequity

Same...	District	Tax Rate	Revenue
Location	Alamo Heights	\$1.04	\$6,243
	San Antonio	\$1.04	\$5,036
Size	Glen Rose	\$0.825	\$8,424
	Diboll	\$1.04	\$4,881
Tax Rate	Austin	\$1.079	\$6,171
	Amarillo	\$1.08	\$5,094
Revenue	Lamar Cons.	\$1.02	\$5,475
	Calallen	\$1.17	\$5,475

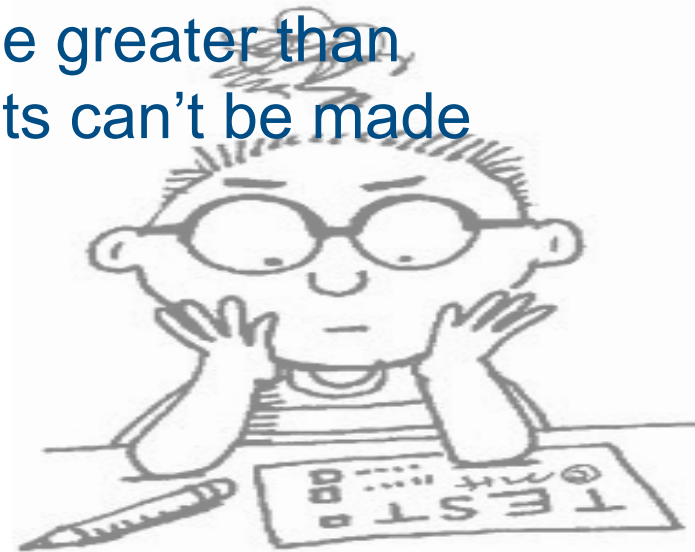
Other Elements of School Finance

Permanent School Fund – Established in 1854 when the Republic of Texas joined the Union and sold lands to the federal government. Income from the fund is distributed to schools through the Available School Fund.

Available School Fund – Each school year the State Board of Education determines what the per student allotment is based on the earnings of the Permanent School Fund. The Available School Fund allotment is subtracted from state aid.

Public Education Finance Continues to be Inefficient, Inadequate, and Inequitable

- Changes to how schools are funded (\$4B)
- Grant cuts are harmful for economically disadvantaged students
- Cuts to lower-funded districts will be greater than those for highly funded districts; cuts can't be made up with tax increases



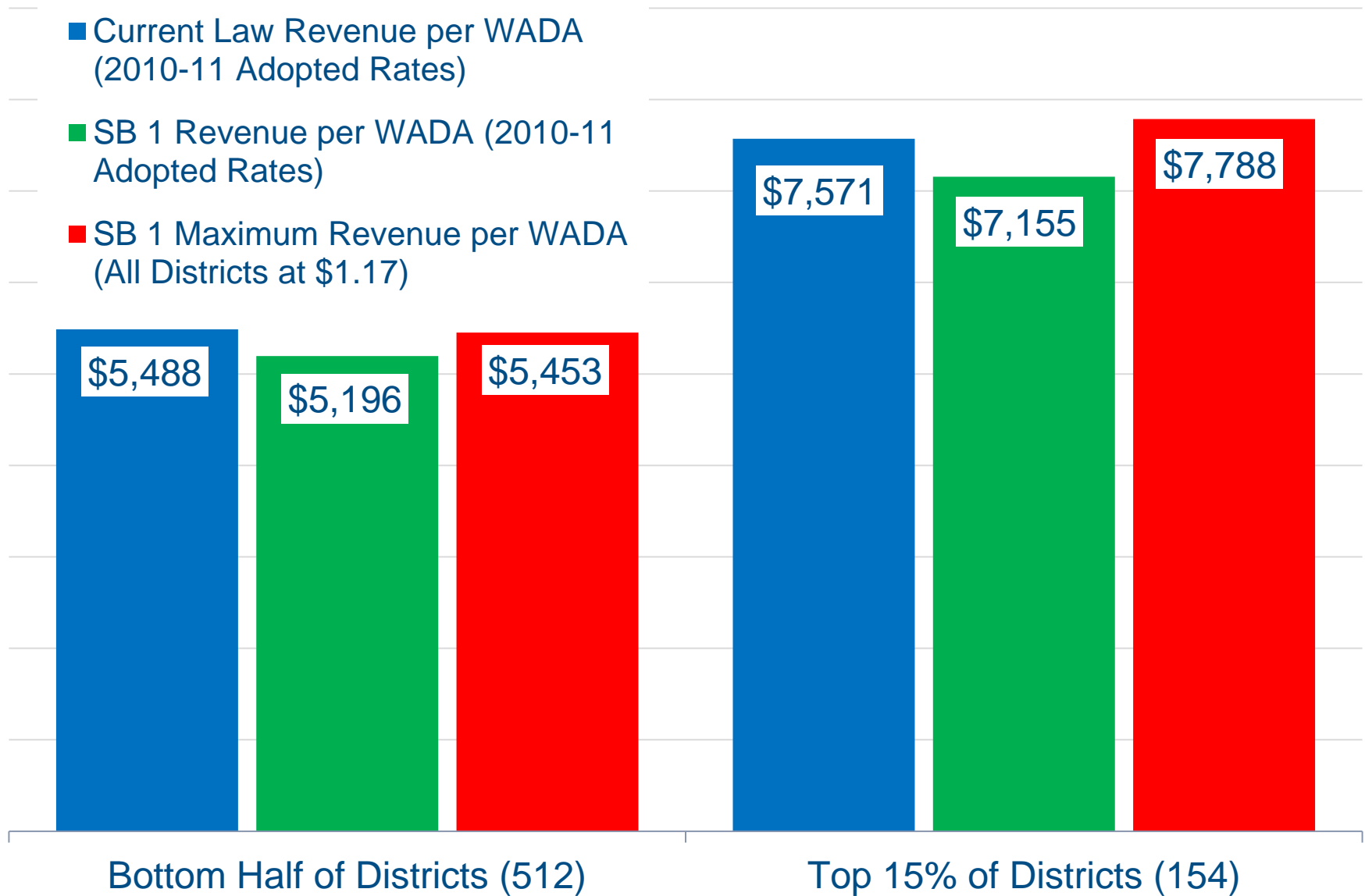
Changing how Schools are Funded: RPAF & Target Revenue Reductions

Regular Program Adjustment Factor (RPAF) – allows legislature to adjust funding by a multiplier that produces an across the board cut.

Target Revenue will be reduced until it is eliminated in 2018.

Impacts for Low- and High –Funded Districts

- Current Law Revenue per WADA (2010-11 Adopted Rates)
- SB 1 Revenue per WADA (2010-11 Adopted Rates)
- SB 1 Maximum Revenue per WADA (All Districts at \$1.17)



Local Property Taxes Alone Can't Make up the Cuts

- At maximum tax rate of \$1.17, schools could only raise about \$2.4 billion in new revenue
- More than a fifth of the districts are already at the maximum rate of \$1.17
- Some districts can't pass an election, which is required for any increase over \$1.04.



Budget Cuts Especially Hurt Economically Disadvantaged Students

Program	2010-11 Appropriation*	2012-13 Appropriation*	Percent Cut
Pre-Kindergarten Early Head Start	\$208.6 million	ELIMINATED	100%
High School Completion/ Success	97.1 m	ELIMINATED	100%
Teen Parenting Program	20.0 m	ELIMINATED	100%
Early Childhood School Readiness	15.0 m	7.0 m	47%
School Based Prevention Services	6.0 m	ELIMINATED	100%
Communities in Schools	41.9 m	29.3 m	70%
Amachi – mentoring for children of incarcerated parents	5.0 m	2.5 m	50%
LEP Student Success Initiative	19.4 m	ELIMINATED	100%

*All Funds

Back to Court

FORT BEND ISD ET AL.	TEXAS TAXPAYER AND STUDENT FAIRNESS COALITION	MEXICAN AMERICAN LEGAL DEFENSE AND EDUCATIONAL FUND	TEXAS SCHOOL COALITION	TEXANS FOR REAL EFFICIENCY AND EQUITY IN EDUCATION	TEXAS CHARTER SCHOOLS ASSOCIATION
<p>WHO THEY ARE</p> <p>81 school districts ranging from rural to suburban to inner city, including the state's eight largest districts.</p>	<p>Organized by the Equity Center, the group represents more than 400 primarily mid- to low-property wealth school districts accounting for an estimated 1.3 million students.</p>	<p>Districts with large portions of low-income and English-language-learning (ELL) students</p>	<p>Roughly 60 property-wealthy districts, known as Chapter 41 districts, that give back to the state under the Robin Hood Law.</p>	<p>Six parents and a newly formed coalition that includes the Texas Association of Business, school choice advocates and former House Public Education Chair Kent Grusendorf.</p>	<p>Along with TCSA, the parents of five charter school students in Austin, Dallas, Houston and San Antonio.</p>
<p>WHAT THEY SAY</p> <p>By underfunding schools the state has not given local districts enough choice in whether to raise property taxes or how to spend existing revenue — in effect, instituting an unconstitutional statewide property tax. Schools also don't have adequate resources to meet increasingly rigorous accountability standards.</p>	<p>Inequities in the school finance system — in which neighboring school districts can have as much as a \$7,000 difference in annual per-student state funding — hurts the districts with the least property wealth the most, leaving them with higher taxes and fewer funds.</p>	<p>Children who don't speak English at home are more expensive to educate. The state provides per-student allotments to districts that enroll them — but those haven't been updated since 1984.</p>	<p>This group is involved primarily as a defensive measure. Property wealthy districts benefited the most from state property tax cuts in 2006, because Texas lawmakers agreed to make up the difference in lost school revenue. But these districts say they still aren't adequately funded.</p>	<p>No one knows how much it costs to educate a Texas student, so how can the school finance system be efficient? Efficiency doesn't necessarily mean more funding. The state should lift the charter school cap and lessen regulations on public schools.</p>	<p>Charter schools don't receive funding for facilities like traditional school districts. The state also caps its charter contracts at 215. Both the lack of facilities funding and the cap are unfair and arbitrary, hurting charter school students.</p>
<p>LEGAL ARGUMENT</p> <p>The system is unconstitutional because it forces a de facto statewide property tax and because the state has failed to adequately fund its public schools — and because it arbitrarily and unfairly allocates funding to schools (i.e. inefficiently) without any real connection to the actual costs of educating students.</p>	<p>A school finance system that is so inequitable is also wildly inefficient — thus unconstitutional. This group also makes the adequacy and property tax arguments.</p>	<p>By underfunding ELL and economically disadvantaged students, the state has failed to adequately provide for their education — and because of this, property poor school districts do not have discretion in whether to raise their taxes. This group also makes the efficiency argument.</p>	<p>The system is unconstitutional because it forces a de facto statewide property tax and because the state has failed to adequately fund its public schools.</p>	<p>The current system is unconstitutional because it is inefficient. The court should order a study on the true costs of educating a child — whether that means more or less money for schools. This group also makes the property tax argument.</p>	<p>Denying charters the facilities funding available to traditional school districts and limiting their growth by way of the charter cap creates an inefficient finance system.</p>

Longer-Term Solutions

Apply Sales Tax to Services	\$5 billion
Repeal high-cost natural gas tax break	\$2 billion
“Healthy Texas” taxes	\$3.5 billion
Hospital quality assurance fee	<u>\$350 million</u>

TOTAL

\$11 billion



Charter School Basics

- Not eligible for the PEG (public education grant) where a student is able to attend another school in their district if their current school is failing to meet certain academic benchmarks
- Not eligible for the NIFA (New Instructional Facility Allotment) or other facility funding through the FSP (foundation school program)
- Open-enrollment charter schools receive a high school allotment of \$275 for each ADA in grades 9 – 12
- Charter school's Tier I entitlement is calculated using a state average adjusted allotment; charter schools themselves do not have an adjusted allotment
- Charter schools do not directly receive ASATR (additional state aid for tax reduction – also known as hold harmless) – because they do not collect local taxes, although they do receive an entitlement that is based on the state average ASATR amount
- Charter schools are not eligible for ASF (available school funds)
- Charter schools have the option of providing TEA with an estimate of the state aid it should receive for the coming school year based on an estimate of the number of ADA it will have and an estimate of the number of students it will have in various educational programs. If a school does not submit these estimates TEA uses prior year data to determine the amount of state aid they should receive.