

School Finance: Where Are We Now?

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On April 25, 2019, the Senate Education Committee laid out its long-awaited response to House Bill 3, the school finance proposal that the full Texas House passed three weeks earlier. Once the bill is passed out of the Senate Education Committee it will then be debated by the full Senate where amendments can be added. Granted the bill passes the Senate, it will then go to conference committee where the House and Senate will work together to smooth out any remaining differences between the two versions. All this must happen within the next 28 days.

CPPP has long advocated for a remodel of the state's public school finance system, which supports 5.4 million public school students. We have played a key role in analyzing policy proposals and recommending solutions over the years. We thank Chairman Larry Taylor, Chairman Dan Huberty, the members of the Texas Commission on Public School Finance, and all legislators who have worked toward remodeling our state's public school finance system.

The House and Senate school finance proposals are similar, but there are some notable differences. In general, the Senate stuck closer to the recommendations from the Texas Public School Finance Commission. The biggest differences relate to funding based on student performance, compensation for educators and other school employees, and how to reduce reliance on property taxes to help fund the system. While there are good and bad elements in both bills, it is important to remind the legislature that the focus must remain on helping all students get a high-quality education, NOT on reducing taxes.

Money in education matters. Well-funded schools have a stronger ability to offer high-quality teachers, reduce class sizes and increase arts, technology and STEM curriculum. Teacher quality is often cited as having the largest impact on student success, but even the best trained and most dedicated teachers struggle to be effective in over-crowded classrooms. Improving teacher quality, updating classroom technology and reducing classroom sizes all require better and more sustained funding. Schools cannot invest with money that they don't have.

As the Legislature works in this final month to finalize a school finance bill, the Center for Public Policy Priorities urges members to include the following recommendations in the final version of the bill:

- Funding should be student based: CPPP believes that students who generate additional funding should benefit from those resources. This ensures that students who need additional supports actually receive those supports.
- Districts should have flexibility to meet their unique needs: CPPP recommends that any additional funding for compensation should flow through the basic allotment—the base level per student funding amount.
- Any property tax reductions should be equitable and not harm the state's future ability to invest in public education and other state needs: CPPP recommends increasing the homestead exemption as a way to address rising property tax collections.

Student Based Funding

Spending Directives

In the school finance system students classified as special populations (such as low-income, English language learner, or special education) receive additional funding to support academic success. Under current law, the Texas Education Agency gives districts direction on the types of expenses that they can cover and how much of the funding they must spend directly on these special populations. The House proposal modifies current law to provide more flexibility to districts on how funding for English language learners and low-income students can be spent, while still ensuring the intended students benefit from the additional funding. Unfortunately, the Senate's version of the bill, as heard in the Senate Education Committee, removes all stipulations for how the funding for English language learners and low-income students should be spent and for whom those funds should focus.

Early Education

Both the House and the Senate proposals provide 10 percent more funding over the base level of per-student funding (the "Basic Allotment") for economically disadvantaged students and English language learners in grades K – 3rd. While the bill gives districts the flexibility to spend these funds within the early grades, the stated intent is to fund full-day Pre-K. The Senate proposal refers to this new funding as the Early Reading Allotment, while the House uses an Early Education Allotment to recognize the need to focus on math and reading in the early grades.

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 – 3rd, those resources should be directed toward benefiting those students by improving education quality in grades K – 3rd. In other words, if kids in grades K-3 are generating funding, then those dollars should go toward K-3 education. Full-day Pre-K funding should come from students in full-day Pre-K. 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.

Outcomes-Based Funding

The Texas Public School Finance Commission also recommended introducing outcomes-based funding, which would reward districts with additional funding for students that meet 3rd 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 school finance proposal, the Senate did include both the 3rd grade reading and college, career, or military readiness outcomes-based funding.

CPPP believes that students who generate additional funding should benefit from those resources. This ensures that students who need additional supports actually receive those supports. Outcomes based funding, in particular, 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. The biggest fault line developing in the school finance reform debate is 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.

The Senate version broke with the school finance commission by including a \$5,000 pay raise for all classroom teachers and librarians as a stand-alone allotment. An across-the-board pay raise, as presented in the Senate bill, is concerning because it excludes other school workers such as counselors, educational aides, and many of those who provide special education services within our schools. Many districts still have not regained all the [teachers they lost](#) as a result of deep cuts to education in 2011, making their priority to add more teachers before offering across-the-board pay raises in order to reduce class sizes. If this pay raise is intended to continue in future years—an aspect that is still unclear—then \$5,000 will also lose value over time, providing a smaller increase for educators and librarians each year.

Across-the-board pay raises for teachers and librarians are estimated to cost \$4 billion over the two-year budget period. This would consume the majority of the new money dedicated for school finance reform this session. As a result, the Senate version of the bill would not increase the basic allotment (base level of per-student funding) to the same level as the House. The House version increases the basic allotment to \$6,030 per student from \$5,140, while the Senate proposes raising it only to \$5,880. Without the higher base level of funding, a large number of districts are expected to see their funding decrease. To address this, the Senate proposal includes a five-year transitional grant program (also known as “hold-harmless provisions”).

For the school finance system to be equitable and efficient, all school districts need to receive funding under the same rules. Transitional grants or hold-harmless provisions, keep select districts out of the system used by everyone else. Anticipating that a large number of districts will need to receive transitional grants shows the Senate proposal does not work. Hold-harmless provisions should only be used to smooth transitions for outlier districts and should be temporary. Past hold-harmless provisions, such as the one created in 1993 to adjust for the newly created recapture system, were supposed to last two-years. Instead these prior provisions are just now being phased out of the system after 25 years. Setting up a five-year transitional grant that applies to most districts at the start of new school finance legislation is a serious red flag.

To address the need for dedicated teacher compensation, the House proposal directs districts to use a percentage of the new funding received from the increase in the basic allotment pay raises for all district personnel, as opposed to a stand-alone allotment. This is a better approach since it provides districts the flexibility to set raise amounts and determine which employees are eligible. Flowing funding for pay raises through the basic allotment creates other benefits as well. Additional funding for English language learners and low-income students is based on a percentage of the basic allotment, under the House proposal districts would generate more funding for these populations.

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 hire more teachers.

Equitable Property Tax Reductions

Tax Compression

For years, Texas has relied too much on local property taxes to fund public education. To address this, the House and Senate are exploring several methods for reducing the share of property taxes that fund our schools.

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. The House bill reduces property taxes for all districts by adjusting the rate to \$0.96 per \$100 of property value.

The Senate proposes dropping the Tier I rate by 15 cents to \$0.85 per \$100 of value by 2021. Included in the Senate version is also authorizing language for a constitutional amendment to increase the homestead exemption to \$40,000 from \$25,000. Homestead exemptions reduce the taxable value of a home that is owner occupied.

Most concerning is that the Senate proposal includes Governor Greg Abbott’s plan to allow districts to compress tax rates one by one as property tax revenue grows. Our current system is based on the principle, upheld repeatedly by the courts, that all school districts must have access to similar levels of revenue at similar tax rates. Because every child in Texas is guaranteed the same level of education, it is important that all communities put the same effort into supporting public education. That effort is measured through tax rates.

The Governor’s plan 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 could have a much lower tax rate to support schools than its less wealthy counterpart Edgewood ISD, located less than 10 miles away.

Requiring districts to automatically reduce tax rates each year will increase the state’s share of education funding. However, it will also make it harder for the state to make future investments in the classroom as more and more state dollars will be needed to ensure funding stays levels as tax rates decline.

CPPP supports increasing the homestead exemption since it addresses the cause of property tax growth which is appraisal value, not 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, both the House and Senate proposals increase the guaranteed amount of funding districts receive from the state for the lower-value “copper-pennies.”

One concern with the House proposal, however, 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 in the Senate proposal.

How Do We Pay for It?

The 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. Raising the sales tax is a bad idea because it would put more of a burden on [lower-income Texans](#). The sales tax is also volatile, fluctuating 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.

About CPPP

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