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The Forgotten Tax Relief: School Facilities Funding in Texas

The largest feature of then-Gov. Bush' school property tax relief package in 1999 was the compression of debt service tax rates through the expansion of the Instructional Facilities Allotment (IFA) and the creation of the Existing Debt Allotment (EDA). Through neglect of the formulas and failure to appropriate sufficient money to fund the IFA program, much of that relief has disappeared.

In 1999, the guaranteed yield for debt service taxes under these programs was set at $35 per penny per student and it has remained at that level since. According to the Associated General Contractors, the rate of inflation in construction costs from that year through 2006 averaged 7.6% per year. This means that it cost about 2/3 more to construct a given size and quality of facility in 2006 than it did in 1999. To the taxpayer, this means that a building that required a **10-cent tax rate** to build in 1999 required the equivalent of a **17-cent rate** in 2006 through a combination of higher rates and higher property values.

Additionally, annual funding for new aid under the IFA has been reduced from the initial levels by over two-thirds or even eliminated in some years. In many of the intervening years, a district with a wealth per ADA of $100,000 (a $10 yield) needed a tax rate of 35 cents to build facilities that could have been funded with a 10-cent tax rate with IFA funding at the $35 yield, as a result of this lack of funding. A poor district with only $50,000/ADA in wealth (a $5 yield) would pay a rate **seven times as high**.

The Problems

1. **Taxpayers in most school districts must play Russian Roulette with their taxes** when voting to approve bonds for school facilities. Neither the IFA nor the EDA is a *reliable* guaranty of facilities tax relief for the following reasons:

   - The IFA depends on biennial appropriations and has been funded at levels as high as $200 million and as low as $20 million for a biennium, with no funding at all provided for the 2003-4 school year or the 2007-8 school year.
   - The EDA covers current prior debt but doesn't cover debt in the biennium in which the first payment is made. The Legislature must pass a bill each Session to roll EDA coverage forward to include debt initiated in the biennium just ending.
   - In either case, failure of the Legislature to affirmatively act in any given year means dramatically higher local property rates for many school districts.

2. **The $35 yield per penny** per ADA guaranteed level of funding allowed under both the EDA and IFA — which is now below the 70th percentile of wealth (per ADA) — **has not changed since 1999** when $35 represented the 91st percentile of wealth. According to data on building costs from the Associated General Contractors (AGC) in 2007, it would have taken a guaranty of almost $65, about the 97th percentile, to restore the buying power of that $35 for the 2007-2008 school year.

The Solution: Create a Single Facilities Program Combining the Best of the EDA and IFA

First and foremost, it must be remembered that every dollar of state aid for facilities must be used to compress property tax rates. Therefore, any new expenditure for this program is actually tax relief in the same manner as the compression required under HB1 in 2006. The following provisions will make that tax relief stable and permanent:

1. Fund facilities assistance beginning in the same year that the first debt service payment is made, but eliminate the IFA "until the money runs out" approach. The preferable way would be to retain the ranking, but fund those districts not receiving funds in "settle-up" the following year. Another possible, but less desirable, alternative would be to limit the allotment only to the second year of the biennium in which the debt is issued, as was done this past session, to reduce state cost. A third approach would be to set a lower initial guaranteed yield level. Any district below the guaranteed level would be eligible. This would provide a pathway for the poorest districts, who currently can't fund a facility without IFA assistance. They would then transition into EDA at the higher yield.

2. Change the EDA to a Permanent Tax Rate Compression program with eligibility for new bond issues automatic in the subsequent biennium. This would eliminate the "Russian Roulette" risk to taxpayers.

3. Set the permanent guaranteed yield level at a higher level closer to the buying power that the EDA started with in 1999-2000. The yield could be set either as a dollar amount, or preferably, as a percentile of wealth to prevent future recurrence of the second problem. Because the value of a percentile will likely continue to go up with inflation in property values, local property tax rates will be automatically compressed further each year, reducing or eliminating the impact of "appraisal creep."

4. Create a revolving fund that will recycle state funds saved by rising property values and completed bond programs to meet the cost of new debt and higher guarantees. The fund should also be increased by the rate of growth in ADA and inflation to fund the additional tax relief provided each year.

5. The state/local shares should be determined solely by the debt payment schedule, which is known when the bonds are sold. Local share of annual debt service can be provided by property tax revenue, penalty and interest on delinquent taxes, I&S fund interest, and any other available local resources that have not already been used for the local share elsewhere. This would further reduce local property tax rates by using "trapped" funds.

6. The minimum formula should be 400 to assure truly sufficient funding for small districts.

7. The limitation per student on the guaranteed amount needs to be increased to reflect the increases in construction costs since it was initially set.