

Comparison of Equity of CSSB982 and CSSB2392

The features that make a school finance plan equitable are:

1) **“Equal yield for equal effort”**, which the *Edgewood* decision defined as the key standard to which an efficient system should be compared (it permitted less than perfect equity by allowing for “similar revenue at similar effort”).

- Linking the three yields (BA, GY and EWL) to one definition, as is done in CSSB982, is a key to guaranteeing equity. It eliminates structural “gaps” between rich and poor districts. Current law uses identical definitions for each, but doesn’t link them, as does CSSB2392. While this is better than the original SB2392, which would have made the BA and EWL separate, arbitrary amounts, it is a step back from CSSB982’s equity.
- We have had experience with separate yields. The Tier 2 yield was always below the Basic Allotment and the Equalized Wealth Level. In 2001 the EWL and GY were raised, but not the BA, creating an additional structural gap between Tier 1 and recapture. As a result, Chapter 41 districts, which already were funded at much higher levels than Chapter 42 districts, received their increase on 150 pennies, while Chapter 42 districts received an increase on only 64 pennies.
- Those structural gaps created much of the existing inequity that the target revenue system of HB1 froze into place and then added to. The larger the gap, the greater the inequity and inefficiency and the more likely that the system will be found unconstitutional.
- CSSB982 treats all equal tax rates the same – a given tax rate produces a given yield which is the same for all districts. By phasing in the Austin yield (the same yield as the “golden pennies”, it furthers this equal treatment and simplifies the system.
- CSSB2392 continues the HB1 practice of making yields dependent on when they were levied, so that one district with a \$1.06 tax rate might get a uniform yield on 100 pennies and a second yield on the six golden pennies, while another district with exactly the same tax rate might receive that uniform yield on a lesser number of pennies, plus the golden pennies, with the remainder up to 100 pennies at \$31.95.
- Making some (in fact, most) districts second-class citizens, is not just wrong, it’s bad public policy. The future of Texas depends on our ability to educate all children.

2) **A dynamic system that raises the Foundation School Program costs as automatically as it raises the local share cost to the district.**

- CSSB982 uses wealth per pupil as the dynamic driver, assuring that the system will not shift back onto increasing reliance on local property taxes.
- CSSB2392 replaces the wealth per pupil driver in current law (the 88th percentile of wealth) with a fixed dollar amount.
- Failure of the program to rise with rising costs increases the inequity of the system. Districts with lower yields per penny have less ability to cover those cost increases and need higher tax rates to make up the difference.
- “Frozen” costs or yields, or even yields that don’t grow as fast as property values, shift the overall cost from the state onto local property taxes. As the Supreme Court has

found, the more the system relies on local taxes, the greater the likelihood it will be inequitable and inefficient, and therefore, unconstitutional.

- A frozen system increases the likelihood districts will have to raise tax rates, increasing the likelihood of again having the equivalent of a state property tax.

3) A reduced gap between rich and poor districts.

- CSSB982 repeals **all** of the old hold-harmless and inequitable provisions that contributed to the gap, replacing them with a single guaranty tied to this year's revenue. This allows the higher yield in the bill to "level up" poorer districts while guaranteeing some increased revenue to all districts, closing the gap.
- CSSB2392 leaves in place several of these, particularly the Chapter 41 hold-harmless and option credit provisions, which will actually make the gap grow between the wealthiest districts and Chapter 42 districts as the yield goes up.
- Currently, all pennies except the six golden pennies are fully equalized, either by guaranteeing yields or through recapture. By making the two additional unrecaptured pennies accessible without a vote, CSSB2392 will further increase the gap between rich and poor districts.
- CSSB982 sets a high yield to move most districts off target revenue onto formulas. With its lower yield, CSSB2392 would leave many districts, including most large districts, on target revenue plus a small increase. At \$100/WADA above the 2008-9 revenue in 2010-11, those districts would be at less than 1% per year higher in operating revenue by the end of the biennium.

4) A reduced reliance on local property taxes, which the Supreme Court considers important to an "efficient" system.

- CSSB982 applies "truth in taxation" principles to the school finance system, using excessive growth in property values to "ratchet down" rates, limiting "appraisal creep" and renewing future capacity in the system.
- This process also decreases the likelihood of many districts reaching the tax rate cap, recreating an unconstitutional state property tax.
- CSSB982 would even prohibit districts receiving sufficient new state aid from raising property tax rates.
- CSSB2392 permits and even encourages most districts to raise rates by two cents, setting a precedent for further reliance on tax increases to generate needed revenue and heading down the path to an unconstitutional state property tax.
- By setting a fixed, rather than dynamic basic allotment and yield, CSSB2392 continues the current policy of allowing the state to "skim off" rising property tax revenues for purposes other than public education.
- By setting a fixed, rather than dynamic basic allotment and yield, CSSB2392 continues appraisal creep.

5) Uses limits on excess revenue increases to promote equity.

- CSSB982 uses a uniform limit and uses the excess to reduce tax rates, compressing to a common yield and promoting “equal yield for equal effort”.
- CSSB2392 merely caps revenue regardless of rate, continuing the policy of “compressing to a common rate” that created so much additional inequity and arbitrariness under HB1.
- By capping each district at a percentage increase, CSSB2392 allows bigger increases for the wealthier districts with higher yields, increasing the gap between rich and poor.
- Because of the failure to repeal the disequalizing Chapter 41 hold-harmless provisions, wealthy districts are more likely to receive these larger increases.

6) Provides sufficient revenue for teacher and other professional salary increases in a manner that allows for closing the salary gaps between rich and poor districts and provides both guarantees of continuing, sufficient increases to attract and retain qualified staff and sufficient flexibility to districts to meet their non-salary costs.

- CSSB982 provides a guaranty of substantial increases in each year of the biennium and into the next as yields increase.
- Districts are also allowed to use increases to cover increased costs of benefits in a manner that may be advantageous for their employees.
- Districts can also use increases to close the staffing gaps between rich and poor districts.
- CSSB2392 has no comparable salary provision.

7) Updated weights and formulas that reflect uncontrollable costs rather than political pressure.

- The original SB2392 would have retreated significantly on equity by linking weights to a separate basic allotment, and sunseting the weights and formulas would have made their renewal potentially hostage to the ideologues who have long advocated their elimination. CSSB2392 has rightfully deleted those provisions.
- Both bills purport to update weights, allotments and formulas, but how they would do so is critically important.
- CSSB982 commissions a detailed study with broad participation and guidelines designed to assure outcomes that properly reflect uncontrollable costs.
- CSSB2392 establishes a study with no clear guidelines and with far less legislative involvement, decreasing the likelihood of “buy-in” by those who would have to push for adoption of the new weights and formulas.

In summary, CSSB982 contains all the features that would make the current school finance system more equitable, both for students and for property taxpayers. CSSB2392 would repeal some of the few gains in equity made in HB1. While the committee substitute for SB2392 is a major improvement over the original bill, it would still increase the gap between rich and poor districts, while solving none of the structural problems that caused the HB1 target revenue system to fail. It merely infuses some additional money to “kick the can down the road”.

History of Funding Elements

School Year	Basic Allotment	Guaranteed Yield	Equalized Wealth
1993-94	\$2,300	\$20.55	\$280,000
1994-95	\$2,300	\$20.55	\$280,000
1995-96	\$2,387	\$20.55	\$280,000
1996-97	\$2,387	\$20.55	\$280,000
1997-98	\$2,387	\$21.00	\$280,000
1998-99	\$2,387	\$21.00	\$280,000
1999-00	\$2,537	\$24.70	\$295,000
2000-01	\$2,537	\$24.70	\$295,000
2001-02	\$2,537	\$25.81	\$300,000
2002-03	\$2,537	\$27.14	\$305,000
2003-04	\$2,537	\$27.14	\$305,000
2004-05	\$2,537	\$27.14	\$305,000
2005-06	\$2,537	\$27.14	\$305,000

Impact of \$48 Yield on Chapter 41 Hold Harmless w/Sec. 41.002 (g)

	Original Ch41 H-H	H-H at 88th %ile	H-H at 480,000	Increase per 1¢	M&O tax rate	Increase per WADA	2008-9 M&O	6% Limit
ADA								
Glen Rose	1,598	536,059	635,249	28.37	0.825	2,341	8,663	520
Highland Park	6,179	324,288	398,985	15.69	1.027	1,612	6,368	382
Seminole	2,154	347,537	405,218	19.06	0.740	1,410	6,718	403
Denver City	1,386	359,515	444,987	17.13	1.060	1,816	8,514	511
Groesbeck	1,322	320,758	393,419	15.65	1.010	1,580	7,430	446
Barbers Hill	3,868	335,241	414,942	15.98	1.060	1,693	7,507	450
Kelton	75	1,528,024	1,770,323	84.91	0.707	6,003	11,711	703