

# ***Public School Finance Seminar***

David Anderson  
Lisa Dawn-Fisher

Texas Education Agency

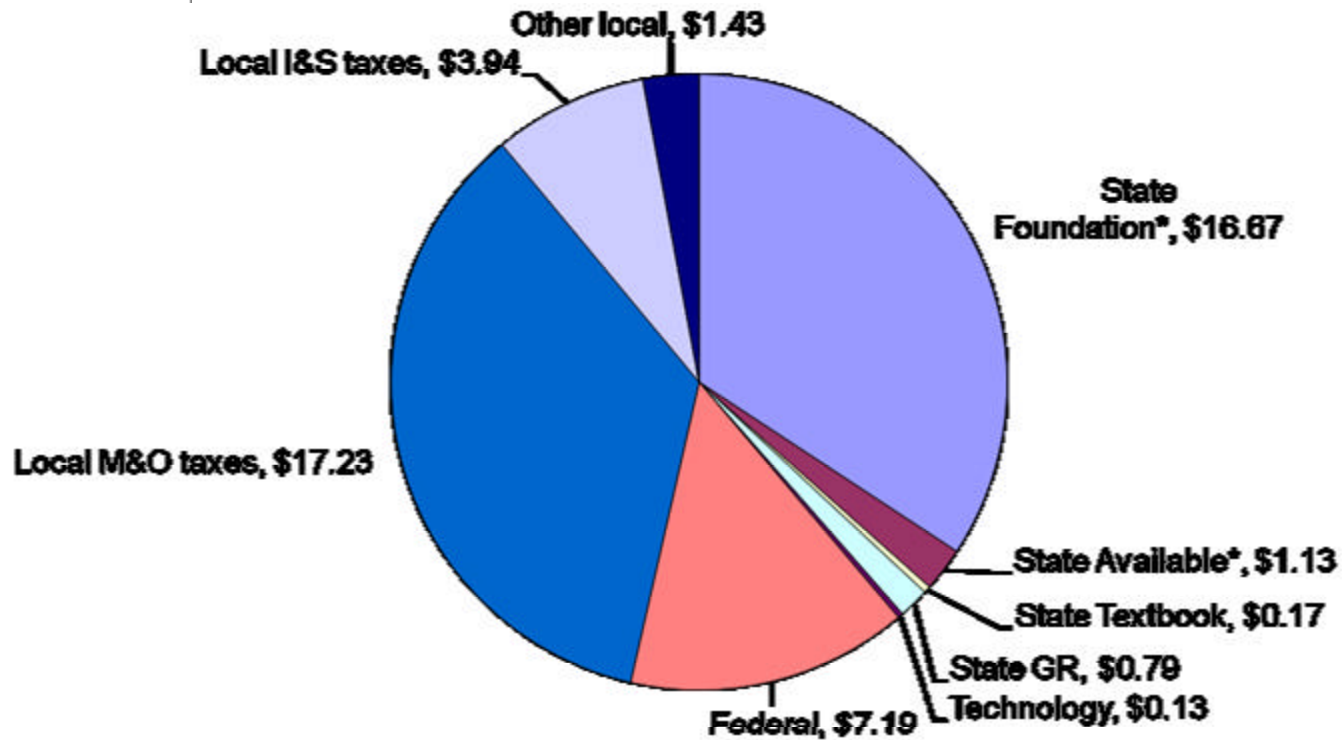


# ***Big Picture of School Finance***

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- The system is huge
  - o Annual state aid and local taxes exceed \$48.7 billion
  - o 1% error in projecting state cost is worth \$370 million in a biennium
  - o It takes large amounts of money to make meaningful change in a system this large

# *Sources of Funds*



2009–2010 Estimated, \$48.7 billion total

(\*includes SFSF)



# ***Big Picture of School Finance***

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- Wealth is tax base per student, not absolute
  - *A penny of tax rate in Houston ISD generates \$10.8 million*
  - *A penny of tax rate in Divide ISD generates \$5,397*
- ***BUT,***
  - *At \$1.00 tax rate, Houston ISD produces \$5,989 per ADA*
  - *At \$1.00 tax rate, Divide ISD produces \$25,555 per ADA*



# ***Big Picture of School Finance***

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- Putting local property taxes into perspective
  - At a \$1.00 tax rate, it takes \$800,000 in taxable property value to generate \$8,000 in local property taxes



# ***Three Basic Variables***

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- Number of students
  - More students increase state cost
  - Fewer students decrease state cost
- Property values
  - Higher values save the state general revenue (GR)
  - Lower values cost the state GR



# *Three Basic Variables*

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- Tax rates
  - In general
    - ✓ Higher tax rates increase state cost and local budgets
    - ✓ Lower tax rates decrease state cost and local budgets
- *BUT,*
  - Rate compression costs the state
    - ✓ One penny reduction in local tax effort costs the state about \$147 million



# ***The Effect of Inflation***

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- Increased costs are borne by the district (unless the formulas increase)
- The benefit of increased values goes to the state budget (less GR needed to fund the existing formulas)





# ***Litigation History***

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## **Texas Constitution, Article VII, Section 1:**

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

## **Texas Constitution, Article VIII, Section 1-**

**e:** No State ad valorem tax shall be levied upon property within this State.



# ***Litigation History***

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## **Edgewood I (1989)**

“Efficiency...does not allow concentrations of resources in property-rich school districts that are taxing low when property-poor districts that are taxing high cannot generate sufficient revenues to meet even minimum standards. There must be a direct and close correlation between a district’s tax effort and the educational resources available to it; in other words, districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.”



# ***Litigation History***

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## **Edgewood II (1991)**

“[SB 1] insulates concentrated areas of property wealth from being taxed to support the public schools. The result is that substantial revenue is lost to the system...[T]he system would be made more efficient simply by utilizing the resources in the wealthy districts to the same extent...”

**BUT**

“Once the Legislature provides an efficient system...it may...authorize local school districts to supplement their education resources if local property owners approve an additional local property tax.”



# ***Litigation History***

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## **Edgewood III (1992)**

“An ad valorem tax is a state tax when it is imposed directly by the State or when the State so completely controls the levy, assessment and disbursement of revenue, either directly or indirectly, that the authority employed is without meaningful discretion.”

**BUT**  
“If the State required local authorities to levy an ad valorem tax but allowed them discretion on setting the rate and disbursing the proceeds, the State’s conduct might not violate article VIII, section 1-e.”



# ***Litigation History***

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## **Edgewood IV (1995)**

“[I]f the cost of providing a general diffusion of knowledge rises to the point that a district cannot meet its operations and facilities needs within the equalized program, the State will, at that time, have abdicated its constitutional duty to provide an efficient school system...From the evidence, it appears that this point is near.”

**BUT**

“The danger is that what the Legislature today considers to be ‘supplementation’ may tomorrow become necessary to satisfy the constitutional mandate for a general diffusion of knowledge.”



# ***Litigation History***

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## **West Orange–Cove (Supreme Court 2005)**

- Three separate claims:
  - o Equity – do districts have substantially equal access to revenue?
  - o Adequacy/suitability – can districts reach general diffusion of knowledge (GDK)?
  - o State property tax – does the state control a property tax?



# ***Litigation History***

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## **West Orange–Cove (Supreme Court 2005)**

“[T]he undisputed evidence is that standardized test scores have steadily improved over time, even while tests and curriculum have been made more difficult...[W]e cannot conclude that the Legislature has acted arbitrarily in structuring and funding the public education system so that school districts are not reasonably able to afford all students the access to education and the educational opportunity to accomplish a general diffusion of knowledge.”

**BUT**



# ***Litigation History***

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## **West Orange–Cove (Supreme Court 2005)**

“There is substantial evidence...that the public education system has reached the point where continued improvement will not be possible absent significant change, whether that change take the form of increased funding, improved efficiencies, or better methods of education.”





# ***Litigation History***

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## **West Orange–Cove (Supreme Court 2005)**

“Meaningful discretion cannot be quantified; it is an admittedly imprecise standard. But we think its application in this case is not a close question...The current situation has become indistinguishable from one in which the State simply set an ad valorem tax rate of \$1.50 and redistributed the revenue to the districts.”



# ***Components of Public Education Programs***

<b>Foundation School Program</b>	<b>Other State</b>	<b>Other Local</b>	<b>Federal</b>
▪Tier 1	▪Textbooks	▪Taxes	▪Child nutrition
▪Tier 2	▪Teacher retirement	▪Investment income	▪NCLB
▪Facilities	▪Technology	▪Fees	▪ARRA
▪Property tax relief	▪Other	▪Bond proceeds	▪Other



# ***Foundation School Program***

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Tier 1	Eight allotments for programs, with local share determined by tax base and fixed tax rate
Tier 2	Equalized enrichment of M&O tax effort
Facilities	Equalized enrichment of I&S tax effort
ASATR	Additional State Aid for Tax Reduction



# ***Tier 1 Structure***

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- Tier 1 provides districts with access to the Foundation School Program

$$\text{LFA} = \text{TR} \times \text{DPV}$$

LFA = local fund assignment = district contribution to Tier 1

TR = lesser of \$1.00 or compressed tax rate (funding prorated if compressed tax rate is less than \$1.00)

DPV = district property value

- Based on average daily attendance (ADA) or full-time equivalent (FTE) student counts

# ***Tier 1 Structure***

**Basic  
allotment\***

(\$4,765)

**Cost of  
education  
index**

(\$420 avg.)

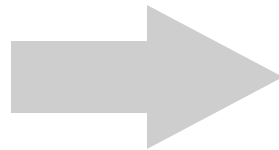
**Small and mid-  
size adjustment**

(\$133 avg.)

**Adjusted  
allotment**

(\$5,318 avg.)

**Adjusted  
allotment used  
for**



**Regular program**

**Special education**

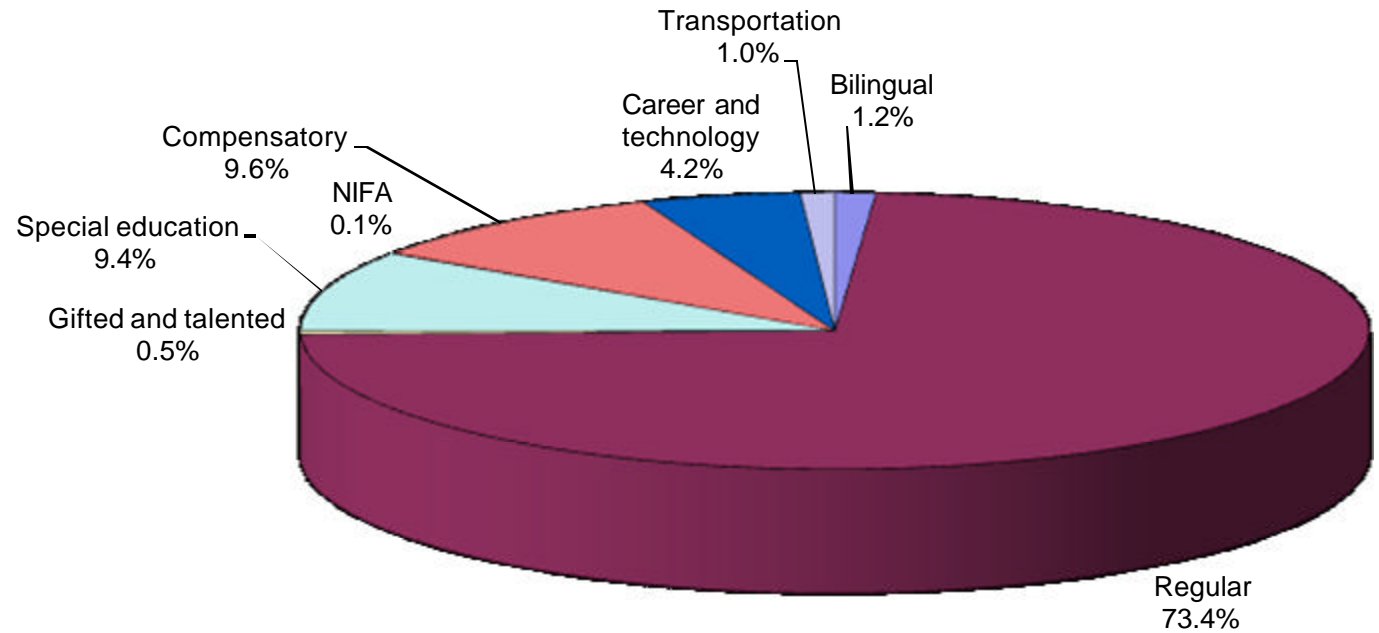
**Career and technology**

**Compensatory education**

**Bilingual/ESL**

**Gifted and talented**

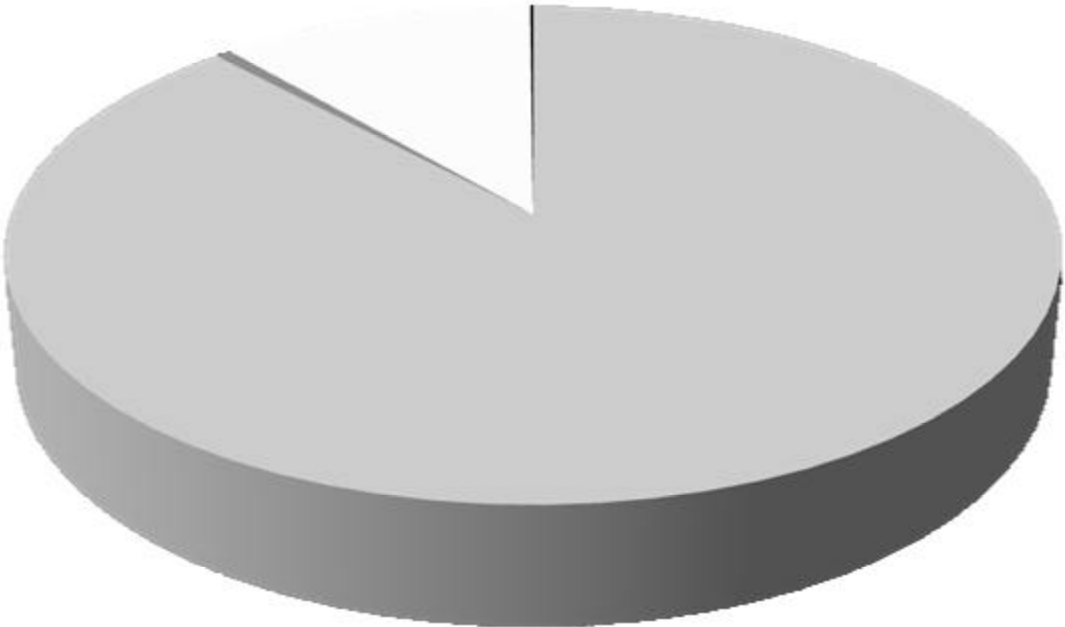
# Tier 1 Structure



2009–2010 Data



**358,900,821**



- Regular
- Gifted and Talented
- Special education
- NIFA



## ***Tier 2 Structure***

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- Tier 2 guarantees equalized access to enrichment

$$\mathbf{GYA = (GL \times WADA \times DTR \times 100) - LR}$$

GYA = guaranteed yield amount

GL = guaranteed level

WADA = students in weighted average daily attendance

DTR = district enrichment tax rate

= current-year M&O collections/prior-year values/100

LR = local revenue

= DTR  $\times$  prior-year value





# ***Tier 2 Structure***

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- Tier 2 tax effort is equalized at two different levels up to 17 cents above LFA
  - o Level 1 (L1) = Austin ISD wealth level
    - ✓ Generated by pennies above compressed tax rate
    - ✓ Aka “golden pennies”
      - 2009–2010 rate = \$59.02
      - 2010–2011 rate = \$59.97
    - ✓ Note: Pennies do not count against 17-cent DTR limit
  - o Level 2 (L2) = \$31.95 (fixed)
    - ✓ Generated by tax effort that exceeds compressed tax rate plus 6 cents
    - ✓ Aka “copper pennies”



# ***Additional State Aid for Tax Reduction***

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- Two-layer hold harmless provisions
  - First layer created by passage of House Bill 1, 79<sup>th</sup> Legislature, Third Called Session (HB 1 [79-3]) in 2006
  - Second layer created by passage of House Bill 3646, 81<sup>st</sup> Legislature, Regular Session, in 2009
- Provides funding for:
  - Tax revenue lost to rate compression
  - Teacher salary increase mandated in 2006–2007
  - High school allotment
  - Minimum increase of \$120 per weighted student in 2009–2010



# ***Additional State Aid for Tax Reduction – Part 1***

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- First layer: based on HB 1 (79-3)
- Revenue per WADA target = greatest of the three amounts:
  - 2005–2006 revenue per WADA
    - ✓ Based on funds received
  - 2006–2007 revenue per WADA
    - ✓ Based on law prior to HB 1
  - 2006–2007 revenue per WADA
    - ✓ Based on law prior to HB 1, using effective tax rates as defined by HB 1



# ***Additional State Aid for Tax Reduction – Part 1***

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- To determine HB 1 adjusted target revenue:
  - + Revenue per WADA target
  - + Salary allotment
  - + High school allotment
  - + Adjustment for current year transportation allotment
  - + Adjustment for current year NIFA
  - = **HB 1 adjusted target revenue**



# ***Additional State Aid for Tax Reduction – Part 2***

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- Second layer: based on HB 3646 (81<sup>st</sup>)
  - + HB 1 revenue per WADA target × current year WADA
  - + Teacher salary allotment
  - + High school allotment
  - + Adjustments for transportation, NIFA, and tuition allotments and TIF payments
  - + 2008–2009 funding educator salary increases
  - = **Adjusted HB 3646 target revenue**



# ***Additional State Aid for Tax Reduction – Part 3***

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- HB 3646 total state and local revenue
  - + Tier I state aid
  - + M&O collections on compressed tax rate
  - Recapture at compressed tax rate
  - = **HB 3646 total state and local revenue**



# ***Additional State Aid for Tax Reduction – Part 3***

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- Minimum revenue hold harmless
  - + Current year WADA × \$120
  - + HB 3646 adjusted revenue target
  - = **Minimum revenue hold harmless**  
(effective for 2009–2010 only)
  
- Maximum revenue hold harmless
  - + Current year WADA × \$350
  - + HB 3646 adjusted target revenue
  - = **Maximum revenue hold harmless**



# ***Additional State Aid for Tax Reduction – Part 3***

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- Final step: Evaluate against hold harmless amounts:
  - + HB 3646 total state and local revenue
  - Minimum revenue hold harmless
  - = **ASATR**, if result is negative
  
- + HB 3646 total state and local revenue
- Maximum revenue hold harmless
- = **Reduction of excess revenue**, if result is negative





# ***Revenue @ Compressed Tax Rate***

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- + Total HB 3646 state and local revenue
- + ASATR, if applicable
- Reduction of excess revenue, if applicable
- = **Revenue at compressed tax rate (RACR)**
- ÷ Current year WADA
- = **Revenue per WADA @ compressed tax rate (RACR/WADA)**
  - Average RACR/WADA = \$5,350



# ***What is a Chapter 41 district?***

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- A district with wealth per weighted student that exceeds the equalized wealth level (EWL)
  - First EWL = equivalent to basic allotment
    - ✓ 2009–2010 EWL = \$476,500
    - ✓ 2010–2011 EWL = \$476,500
  - Second EWL = no recapture\*
  - Third EWL = recapture at \$319,500/WADA

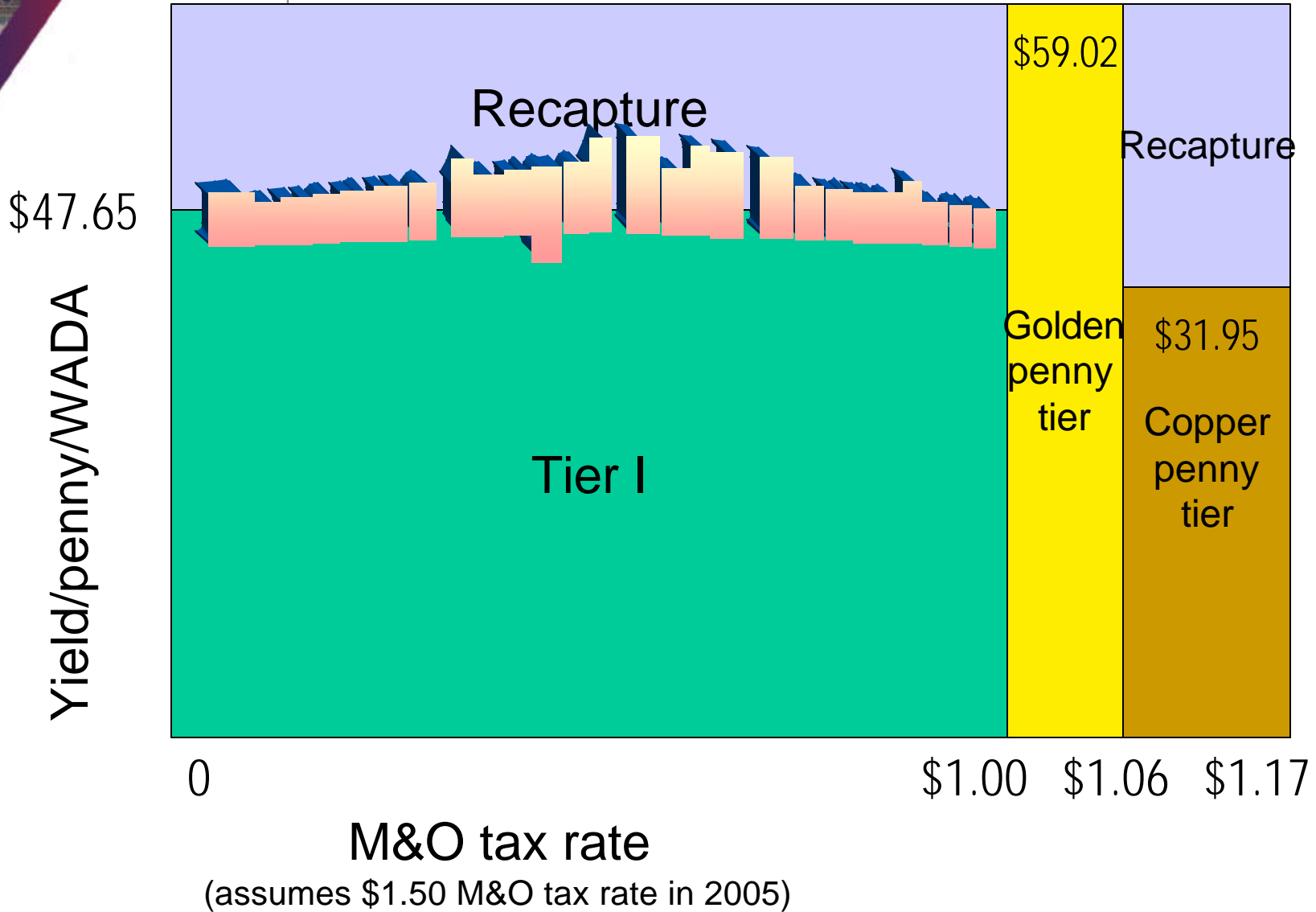
\*No recapture if Chapter 42 districts are funded at the Austin ISD level



# **Chapter 41 - What options can reduce property wealth per WADA?**

- Districts subject to Chapter 41 must exercise at least 1 of 5 available options
  - Option 1 – Voluntary consolidation
  - Option 2 – Detachment/annexation
  - Option 3 – Purchase of attendance credits from state
  - Option 4 – Education of nonresident students
  - Option 5 – Tax base consolidation

# 2009–2010 M&O Taxes & State Funding





# *Facilities Funding*

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- State facilities programs provide
  - Equalized funding for I&S tax effort
    - ✓ \$35/penny/ADA
      - Local revenue = \$15.00/penny/ADA
      - State revenue = \$20.00/penny/ADA
- State funding
  - 2009–2010 = \$592.2 million (actual)
  - 2010–2011 = \$766.3 million (budgeted)
- No. of districts with I&S rates  $\geq$  \$0.40 in 2009–2010 = 60

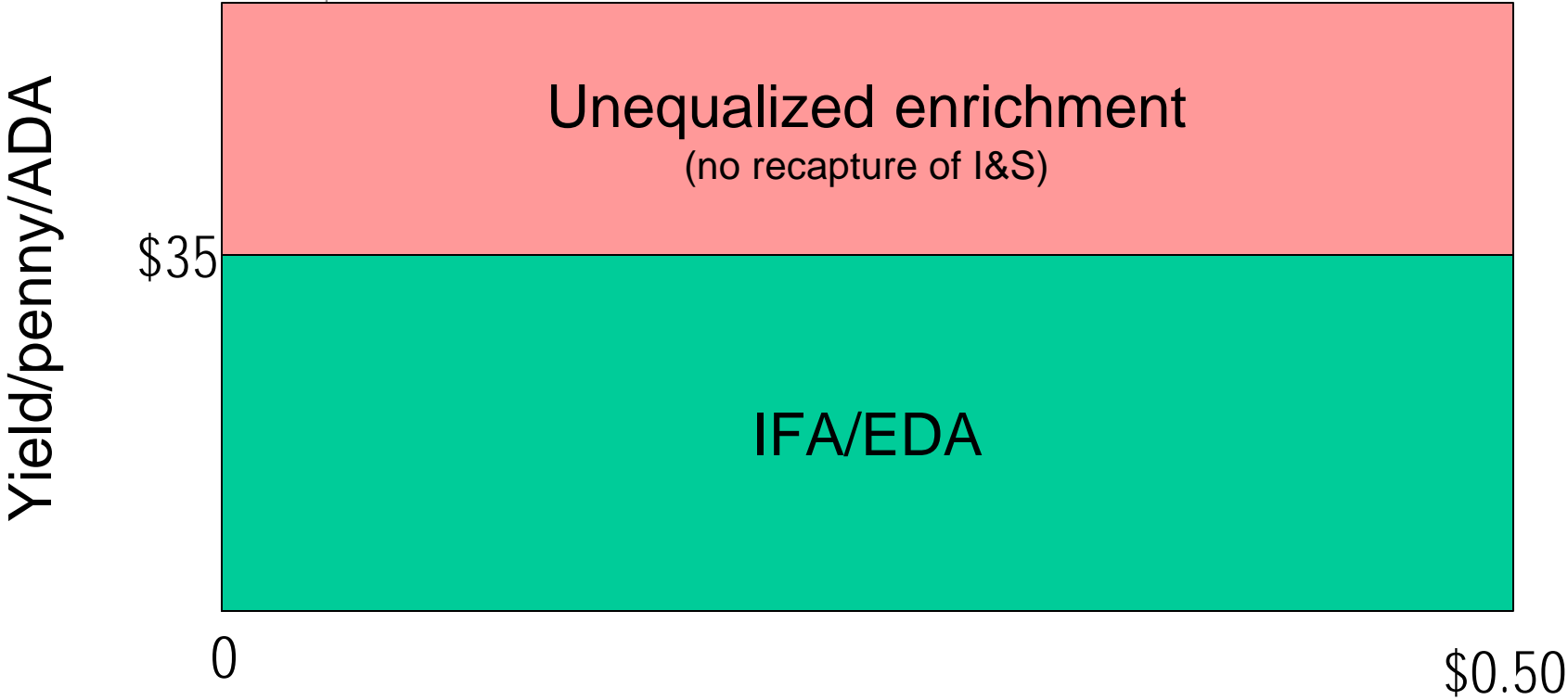


# ***Facilities Funding***

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- **Instructional Facilities Allotment (IFA)**
  - o Requires application for funds
  - o Provides funding for bonds and lease-purchase agreements
  - o Limited to \$250/ADA in debt service/biennium
  - o No. of districts receiving IFA = 372
- **Existing Debt Allotment (EDA)**
  - o Bonds sold during preceding biennium
  - o Limited to \$0.29 of I&S tax effort
  - o No. of districts receiving EDA = 427

# *I&S Taxes and State Funding*





# *School Tax Levy and State Aid*

