Select Committee on School Finance Weights, Allotments and Adjustments

Written Testimony of the Fast Growth School Coalition

Submitted on Behalf of Dr. Greg Smith, Superintendent, Clear Creek ISD and Chair of the Fast Growth School Coalition

October 13, 2010

The Fast Growth School Coalition (FGSC) has followed with interest the deliberations of the Select Committee on School Finance Weights, Allotments and Adjustments since it began its hearings in March 2010. As the Select Committee begins to discuss its final recommendations, there are several fast-growth related issues that we want to raise for your consideration.

I am the Superintendent of the Clear Creek Independent School District and also serve as Chair of the Fast Growth School Coalition. The Coalition represents the interests of approximately 114 school districts that have accounted for nearly all of the enrollment growth in Texas public schools (378,516 students of the 397,028 student increase) over the last five years and are expected to do so into the future.

Given the enrollment increases in fast-growth districts, it should not be surprising that school facilities funding is a central focus of the Coalition. Fast-growth districts had an average debt service tax rate of $0.3136 per $100 of taxable value in the 2009-10 school year, compared with $0.1450 for non-fast-growth districts, including the 222 districts that do not levy a debt-service tax. (Updated information for 2010-11 is expected in January 2011.)

The members of the Coalition recognize the challenge of the current state budget outlook and the fact that the Legislature faces its most difficult financial situation since the mid-1980s. Given this reality, we want to bring forward two items for your consideration that will have little or no immediate impact on the state budget outlook but could improve the prospects for fast-growing school districts.

1. **<u>Modify the so-called "50-Cent Test" for the Issuance of New Debt for School Construction.</u>**

Under current law, a school district must be able to demonstrate to the Attorney General's Office that it can retire existing and future school district general-obligation bonds at an interest-and-sinking (I&S) fund tax rate of $0.50 per $100 of taxable value or less, before it may sell new bonds that have been authorized by local voters. For the 2009-10 school year, 35 fast-growth districts had I&S tax rates of $0.40 per $100 of taxable value. Statewide, 74 districts had $0.40 or higher I&S rates in 2009-10.

As enrollment increases continue in fast-growth districts and slower property value growth occurs—the State Comptroller recently estimated a 3.47 percent decrease in statewide property wealth for the 2011 tax year—an increasing number of school districts in the not too distant future will face not having the ability to issue new bonds for school construction, extending maturities on new or refunded debt, or both.

As I indicated previously, addressing the 50-cent test should not increase state costs. Existing Debt Allotment (EDA) state support is capped at an effective tax rate of $0.29 per $100, so modifying the 50-cent test would not make additional debt eligible for state support. Local voter approval on May or November uniform election dates would still be required, so no changes as to the mechanics of voter approval are being suggested.

House Bill 3697 as introduced by Representative Aycock in the 2009 Regular Session had many of the elements of the legislation that would be needed, but may need additional changes once we have updated our analysis of this issue. We respectfully request that the Select Committee considers changes to the 50-cent test as one of the Committee's recommendations for future legislation.

2. **Provide a Basis for Making Future Formula Changes to the Yields for the Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA).**

Following legislative studies conducted in the mid-1990s, the Legislature adopted the IFA program in 1997 and the EDA program in 1999. Both provide state support equalized on the basis of local property wealth to offset the school district debt service costs to local taxpayers associated with issuing voter-approved bonds for school construction.

In 1999, the yield for these programs was established at $35 per student in average daily attendance (ADA) for each cent of local tax effort. This is equivalent to a guaranteed tax base of $350,000 per ADA, to be used to pay for school district debt. At the time the $35 yield was adopted, 91 percent of Texas students attended schools in districts that were eligible for state support for school district debt service.

The problem today is that as we approach 2011, the $35 yield remains in place, now covering only 56 percent of the students enrolled in Texas public schools. Cypress-Fairbanks ISD and Northside ISD in Bexar County are, respectively, the third and fourth largest school districts in Texas. Both are of relatively moderate property wealth per student and have had substantial enrollment growth in recent years. Yet neither of these districts is eligible for IFA or EDA support, due to increases in their local tax bases over the last decade and the stagnant $35 yield.

Increasing the $35 yield is extremely difficult given the current budget outlook, even with the added appeal that these funds can only be used to reduce I&S taxes for local taxpayers. As the Select Committee considers formula changes, we respectfully request that you consider an indexing mechanism to insure that districts like Cy-Fair ISD and Northside ISD, among other members of the Coalition, do not continue to see state facilities support diminish in the future. Given the disparities in I&S tax rates between fast-growth and other school districts, increased EDA and IFA state support also addresses a taxpayer fairness question in terms of the higher tax burden placed on growing school districts.

We recognize the challenges before the Select Committee and the Legislature, given the state's fiscal outlook. And we are very appreciative of the support fast-growing school districts have received over the last decade. But we feel that addressing facilities needs (and related operating expenses) in districts accounting for nearly all the enrollment growth in the state is an important component of any future changes to school funding formulas.

Thank you for your consideration in this matter. If the Coalition can be of assistance to you in these important discussions, please feel free to contact me.