

SUBJECT: Formula funding for public school finance and employee salary increases

COMMITTEE: Public Education — committee substitute recommended

VOTE: 10 ayes — Eissler, Hochberg, Allen, Aycock, Farias, Jackson, Olivo, Patrick, Shelton, Weber

0 nays

1 absent — Dutton

WITNESSES: For — Portia Bosse, Texas State Teachers Association; Daniel Casey; Catherine Clark, Texas Association of School Boards; Brock Gregg, Association of Texas Professional Educators; Lonnie Hollingsworth, Texas Classroom Teachers Association; Duncan Klussman, Texas School Alliance; Ken McCraw, Texas Association of Community Schools; Ted Melina Raab, Texas AFT; Lynn Moak, Texas School Alliance; David Thompson, Texas Association of School Administrators; Dwain York, Wimberley ISD; (*Registered, but did not testify:* Nan Clayton, League of Women Voters-Texas; Robby Collins, Dallas ISD; Gina Fulkerson; Leslie James, Fort Worth ISD; Martin Pena, South Texas Association of Schools; Louis Stoerner, Alief ISD)

Against — (*Registered, but did not testify:* Walter Key, San Augustine ISD; James Marrs, Breckenridge ISD; Phil Worsham, Joaquin ISD)

On — Paul Colbert, El Paso ISD; Bill Grusendorf, Texas Association of Rural Schools; Wayne Pierce, Equity Center; Steve West and Mark Williams, Austin ISD; (*Registered, but did not testify:* Lisa Dawn-Fischer, Texas Education Agency)

BACKGROUND: The Texas public school system is funded by contributions from both state and local sources. The four major state sources of funding include the Foundation School Program (FSP), the Permanent School Fund (PSF), the Available School Fund (ASF), and the State Textbook Fund. Most state funding — including money for facilities, maintenance, operations, technology, and textbooks — is distributed to school districts through the FSP.

Foundation School Program. The FSP has two tiers. Tier 1 is base funding, which may increase or decrease according to a district's local share based on property wealth. It includes the basic allotment, which is the base level of funding for each student in average daily attendance (ADA). The basic allotment is adjusted for various district characteristics. In fiscal 2008-09, the basic allotment was \$3,218. Adjustments include the cost of education index, which accounts for cost variations beyond the control of the district; the small and midsize district adjustments, which help smaller districts compensate for diseconomies of scale encountered in serving smaller student populations; and the sparsity adjustment, for districts with low enrollment or in a geographic area encompassing less than 300 square miles.

$$\text{Adjusted Allotment} = (\$3,218 \times \text{district adjustments}) \times \text{ADA}$$

Tier 2, the guaranteed yield allotment, is calculated based on weighted average daily attendance (WADA). It guarantees a district a certain dollar amount for every penny of the district's tax effort and accounts for the extra costs involved in educating certain students, including those in bilingual and special education programs.

Districts with property wealth per weighted student beyond a statutory level must transfer that excess wealth to the state or another school district for redistribution to districts with lower wealth per student in a process known as "recapture."

Post-HB 1. The 79th Legislature, in its third called session in 2006, enacted HB 1 by Chisum in response to the Texas Supreme Court's holding that school districts lacked "meaningful discretion" in setting local school property tax rates, effectively resulting in an unconstitutional state property tax. At the time, most local governments were taxing at or near the state property tax rate cap of \$1.50. In HB 1, the Legislature compressed local property-tax rates by two-thirds, with most ending up with a rate of \$1.00. A local property tax cannot be more than \$1.17. HB 1 has allowed school districts to raise additional revenue through enrichment taxes. Local enrichment money up to 6 cents above the district's compressed property tax rate is not subject to recapture and is equalized with state aid to ensure that each district at the same tax effort can raise the same amount as the Austin Independent School District (AISD). Enrichment pennies beyond 6 cents are subject to recapture and the same level of equalization as other maintenance and operation (M&O) revenue.

HB 1 also included a target revenue provision – a “hold-harmless” mechanism to ensure school districts did not lose funding. The provision guaranteed the districts would receive, at minimum, their 2005-06 funding. This target revenue was compared to the amount a district would receive using the formulas in statute at the compressed tax rate. If the formula calculation was less than the target revenue, the state provided additional funding to reach target revenue. If the formula calculation exceeded the target revenue amount, the district received the target revenue only. Since in most cases the targeted revenue amount until the hold-harmless provision is greater, most school districts have received state funding frozen at their 2005-06 levels.

Facilities funding. The Instructional Facilities Allotment helps property-poor school districts pay for new bond debt or for lease-purchases for new instructional facilities or renovations. Districts apply to TEA for the Instructional Facilities Allotment. The state guarantees the eligible districts \$35 per student in average daily attendance per penny of local tax effort dedicated specifically to that project. To determine eligibility and the amount of money a district would receive, the school district’s tax revenue yield is subtracted from the state’s guaranteed yield amount of \$35. If the difference is zero, then the district does not qualify. As a district’s property values increase, the state’s share of the Instructional Facilities Allotment decreases.

The Existing Debt Allotment provides tax rate equalization for local debt service taxes and operates without applications or award cycles. Each school district is guaranteed a specified amount per student in state and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds. Only general obligation bonds are eligible for the program. The Legislature reauthorizes EDA assistance for debt added during the preceding biennium in each general appropriations act.

Educator incentive pay. Texas operates two programs for educator incentive pay, or pay for performance — the Texas Educator Excellence Grant (TEEG) program and the District Awards for Teacher Excellence (DATE) program.

TEEG grants are used to retain teachers certified in the subjects they teach, especially in critical subject areas such as math and science, and to retain teachers at hard-to-staff schools. Campuses may customize their incentive plans to their needs, with approval from TEA. Generally, the incentive

payments are between \$3,000 and \$10,000 per teacher and based primarily on quantifiable student achievement.

All district and charter schools are eligible to apply for DATE funding and must, among other things, provide a 15-percent match in funding. District-level committees must develop a local plan that awards at least 60 percent of the funds to classroom teachers who improve student achievement. The remaining funds may be used to provide stipends for mentors or to provide incentives to teachers certified in the subjects they teach, especially in critical subject areas such as math and science, and to those holding advanced degrees. District grant awards range from about \$4,000 to more than \$13 million for academic year 2008-09, with the average grant being about \$700,000.

DIGEST:

CSHB 3646 would amend the calculation of the basic allotment, guaranteed yield allotment, and equalized wealth level, tying them to the statewide average property value. All formula calculations would use a school district's current year taxable property value. All midsize school districts, regardless of property wealth, would be eligible for the small and midsize school district adjustment within the formula.

Basic Allotment. The basic allotment would be the product of the amount per student per cent of tax effort available to the district multiplied by the lesser of:

- the difference between the number of cents in the district's effective M&O tax rate and six, or
- 100.

The 100 would represent one dollar or 100 pennies. A district's M&O tax rate minus six, up to one dollar, would be used for determining the basic allotment.

$$\text{basic allotment} = (\text{statewide average} \times .000173) \times (\text{M\&O tax rate} - 6)$$

OR

$$\text{basic allotment} = (\text{statewide average} \times .000173) \times 100$$

The commissioner of education would determine the amount per cent of tax effort by multiplying the statewide average taxable value of property per weighted student by .000173. The rate of .000173 could be raised through the general appropriations act.

High school allotment. The bill would include the high school allotment within the formulas, rather than only in the target revenue calculation.

Compensatory education allotment. The bill would amend the method of finance for certain FSP set-asides, such as study guides for assessments; the cost of preparing, administering, and grading assessments; teacher training materials and resources for teachers of students with limited English proficiency; life skills classes for teen parents; optional extended year programs; and salaries for certified counselors. These programs would be funded through appropriations.

Funding increase for districts. Every school district would be guaranteed an increase of at least \$100 per WADA in total revenue over current law. Districts receiving target revenue would receive this increase in addition to their total revenue.

“Golden” pennies. The last 6 cents of a district’s M&O tax rate would not be subject to recapture, and a district would be entitled to a guaranteed yield per WADA equal to the amount of district WADA per cent of tax effort available to AISD. A district would not have to adopt a higher tax rate to benefit from golden pennies.

Target revenue. Target revenue would be maintained at 2008-09 levels, except that districts no longer would be subject to the “drag back” provision and instead would retain all funding to which they were entitled through formula funding.

Salary increase. CSHB 3646 would require open-enrollment charter schools and public school districts to increase the salary for each classroom teacher, full-time speech pathologist, full-time librarian, full-time counselor, and full-time school nurse. The increase would be the greater of either \$80 per month or the maximum uniform amount that could be provided using 50 percent of any additional funding as a result of the bill, after taking into account the amount paid by the district toward Social Security and the teacher retirement system. This salary increase would be in addition to any increase to which the employee was entitled through the district’s salary schedule, including local supplement and any money representing a career ladder supplement.

The bill would guarantee each individual employed as a teacher, full-time speech pathologist, full-time librarian, full-time counselor, or full-time

school nurse during the 2010-11 school year at least that salary for the duration of the individual's employment with the school district.

Incentive grants. The bill would abolish the Texas Educator Excellence Grant. The funding for District Awards for Teacher Excellence (DATE) would be determined by the general appropriations act, and the distribution formula would use a district's WADA instead of the ADA. Grants would be distributed to school districts by dividing the amount of money available for distribution by the total number of students in average weighted daily attendance in qualifying school districts for a certain fiscal year, then multiplying that number by the number of students in weighted average daily attendance in the district. The commissioner of education would not be permitted to establish additional criteria for local award plans except to provide financial accountability.

Districts would be required to notify teachers and principals of the criteria and formulas to be used before the beginning of the performance period on which the awards would be based. The bill would reduce to 30 percent the portion of grant funds a district was required to use directly to award teachers who improved student achievement. Remaining grant funds could be used only to:

- recruit and retain highly qualified teachers and principals for campuses serving a disproportionately high number of economically disadvantaged students or students of limited English proficiency;
- recruit and retain teachers certified to teach mathematics, science, special education, bilingual education, or English as a second language;
- provide teacher induction and mentoring support; or
- provide funding for previously developed incentive programs.

Special education grant. CSHB 3646 would establish a special education grant to assist a district that did not receive sufficient state and federal funds to pay for the special education services provided to one or more students with disabilities. The grants would be funded with appropriations, federal funds, or other funds available. Districts would report to the commissioner a comparison of state and federal funds received and the expenses incurred by the district, including the cost of training teachers.

Optional flexible school day. This bill no longer would restrict the availability of an optional flexible school day to grades nine through twelve. It would include programs designed to allow students who would otherwise not receive credit for a course because of absences to make up missed instruction time. These programs would be exempt from requirements for minimum instructional time to allow the program to provide only the number of instructional days the student missed. The bill would permit school districts to offer these programs during the school year or during the summer. The commissioner could limit the funding school districts received for programs that allowed students to make up absences to funding for the attendance necessary for the student to earn class credit.

Facilities. A school district could use pro forma service projections to meet the requirement that a school district demonstrate the ability to pay new debt bonds with an interest and sinking tax rate below 50 cents. To determine a district's eligibility for facilities grants, a district's property wealth would be calculated using the taxable property value of the current year. Bonds on which the district had made payments during the final school year of the preceding state fiscal biennium would be eligible automatically under the existing debt allotment program.

Teacher Retirement System. The district's portion of the state contribution to the account of a TRS member entitled to the minimum salary schedule as it existed on January 1, 1995 would be calculated in the same manner as the contribution for school employees on the current minimum salary schedule.

The bill would take effect September 1, 2009.

**SUPPORTERS
SAY:**

CSHB 3646 would simplify the public school finance system and increase funding for most school districts by flowing an additional \$2 billion through the system. This bill would create a dynamic, formula-driven system, which would provide increased revenue for all districts.

Districts would reap the benefit of increased property tax values and would not be constrained by growing costs and shrinking budgets. The statewide average property value would be the best "driver" for the system because of its predictable manner and stable movement.

Districts that had their target revenue reduced to an amount below what the formula would have given them now would have access to the full amount. The bill would guarantee that no district received less funding as a result of the formula. A district that would receive more revenue through the target revenue provision would remain at target revenue until the formula would provide more revenue.

CSHB 3646 would increase the allowed wealth per student before recapture and would recognize that all districts need additional funds. Foundation School Program set-asides no longer would cut into the total revenue provided to school districts.

Salary increase. The bill would provide teachers and certain school employees with a well deserved pay raise and would address teacher compensation within a framework that maintained equity.

Incentive programs. The incentive pay provisions would be significantly better than current law. The bill would repeal the Texas Educator Excellence Program, which has serious structural problems. It also would increase local control of school districts over the design of local incentive programs. Decreasing the percentage that districts would be required to award directly to teachers would increase districts' options and the number of ways the money could be used to create incentives.

Optional flexible school day. The bill would help reduce the number of dropouts and provide another way school districts could reach out to at-risk students. School districts that provide programs to help students make up absences in classes for which they may otherwise not receive credit have found that most of these students participate and excel. These programs help students to reach their grade level and finish high school. Unconventional school hours often are needed for certain students' unique circumstances, and the bill would allow districts more flexibility to tailor their programs to meet these needs. The current funding structure does not provide incentives to school districts to give students a way to make up absences. The bill would fund these programs with no additional cost to the state and ultimately would result in a savings. It is more expensive for the state to fund a student retaking a course than to fund a student making up the days the student missed.

Facilities funding. School districts are faced with the need for additional and renovated instructional facilities because of rapid population growth

and the increased need for specialty classrooms, such as science laboratories. Allowing a school district to use pro forma service projections to meet the requirement that a school district demonstrate the ability to pay new debt bonds with an interest and sinking tax rate below 50 cents would allow districts to purchase shorter-term bonds. A longer bond is not as fiscally responsible and increases the amount of interest payments. The ability to purchase shorter bonds would save a district millions of dollars.

The permanent roll-forward for eligibility for the existing debt allotment would provide equity among school districts by assisting property-poor school districts that would otherwise be priced out of building new classrooms.

Teacher Retirement System. CSHB 3646 would simplify the calculation of a district's retirement contribution for employees, such as principals and superintendents, who were entitled to the minimum salary schedule as it existed 1995. At present, to calculate the contribution, the old minimum salary schedule must be referenced and the salary level adjusted for inflation at the same rate of inflation as the current minimum salary schedule. Contributions to the Teacher Retirement System are then made based on that salary. The bill would allow this contribution to be based on the current minimum salary schedule.

OPPONENTS
SAY:

CSHB 3646 would give every district access to all six golden pennies, which would create different funding levels at different school districts, increasing inequity within the system.

Salary increase. The state should not specify the amount by which a teacher's salary should be increased. The decision to increase teachers' salaries should be made at the local level to award effective teachers; this approach acknowledges teachers as professionals by approaching their raises the same the way a corporation would its employees' raises. There are some teachers who do not deserve pay raises.

Incentive programs. The changes CSHB 3646 would make to incentive programs would damage current programs, especially the provision that would lower the percentage of funds that would be required to be awarded directly to teachers. The bill would change the rules for current programs by changing the ways the money could be spent. Some districts choose not to participate in incentive programs, believing that they are unstable and

not sustainable, and the changes made by this bill would be an illustration of that problem.

Facilities funding. This bill would decrease the number of fast-growth districts eligible for state facilities funding assistance. When a district's eligibility is determined by the district's preceding tax year, the district is able to receive more state aid. This bill would calculate the eligibility using the taxable property value of the current tax year, and if the district had experienced significant property growth over the year, this would reduce the state aid for which the district was eligible as the need for facilities increased.

High school allotment. The bill would continue the high school allotment based on ADA rather than WADA. As a result, the funding would flow to districts regardless of whether they had a significant drop-out problem. Shifting the basis of funding from ADA to WADA would help ensure the districts with the greatest drop-out problem received the most funding to address that problem.

OTHER
OPPONENTS
SAY:

CSHB 3646 would not address the transportation allotment, which has not been raised or adjusted since 1984. Each school district receives money through the transportation allotment, which is disbursed through the Foundation School Program. The current funding structure covered only 26 percent of school districts' transportation costs in 2006-07. With increasing fuel prices, inflation, and student population growth, increasing the transportation allotment is long overdue.

NOTES:

The LBB estimates this bill would necessitate a \$2 billion appropriation for fiscal 2010-11. TEA rider 82 in the House-passed version of SB 1, the general appropriations bill for fiscal 2010-11, and TEA rider 89 in the Senate-passed version both would allocate \$1.87 billion from the funds appropriated to the Foundation School Program for a return to a formula-driven public school finance system and a teacher salary increase, contingent upon enactment of authorizing legislation for this purpose.

The substitute differs from the bill as filed by changing all references to preceding tax year to current tax year; abolishing the Texas Educator Excellence Grant; defining an effective tax rate; rolling forward eligibility for the existing debt allotment; amending the calculation of the certain

district contributions to the Teacher Retirement System; and allowing for alternate means to demonstrate a district's ability to pay debt service.