

School Finance Moves Forward: House and Senate to work out differences in HB 3

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Now that competing versions of HB 3 have been passed in each chamber, it is up to the House and Senate to work together to smooth out the differences. While there is a lot of agreement within the two versions of this complex bill, there are glaring discrepancies around property tax reform, the use of current or prior year values, teacher pay, and student-based funding.

Property Tax Reforms

Uniform Tax Rate Compression

Money matters in education, and lawmakers should be prioritizing policies that deliver more funding to public schools. It's true that, for years, Texas has relied too much on local property taxes to fund public education. To address this, the House and Senate are exploring several methods for reducing the share of property taxes that fund our schools. At the end of the day, we know that increasing the state share of public school funding is the best way to address rising property taxes.

Currently, districts tax property owners at \$1.00 per \$100 of property value to generate the revenue needed for running schools, such as teacher salaries, utilities, and other operational expenses. This is called Tier I funding, since its purpose is to provide a basic level of education. The House calls for a four cent compression, or reduction, in the Tier I portion of the school tax rate; the Senate bill includes a 10 cent compression.

CPPP Recommendation: Adopt the House's four cent reduction because it allows for a greater increase in per-student funding levels.

Inequitable Tax Rate Compression

The most concerning provision in the Senate version of the bill would allow districts to compress tax rates one by one as property tax revenue grows.

Our current system is based on the principle, upheld repeatedly by the courts, that all school districts must have access to similar levels of revenue at similar tax rates. Because every child in Texas is guaranteed the same level of education, it is important that all communities put the same effort into supporting public education. That effort is measured through tax rates.

The Senate version would allow districts with quickly rising property values to reduce their tax rates faster than districts not experiencing the same rate of growth, while still enjoying full funding. This would mean, for example, that Alamo Heights ISD in San Antonio could have a much lower tax rate to support schools than its less wealthy counterpart Edgewood ISD, located less than 10 miles away.

Requiring districts to automatically reduce tax rates each year will increase the state's share of education funding. However, it will also make it harder for the state to make future investments in the classroom as more and more state dollars will be needed to ensure funding stays level as tax rates decline.

CPPP Recommendation: Reject the inequitable tax rate compression in the Senate bill.

Enrichment Funding

The school finance system gives school districts the option to increase tax rates locally to raise additional funding to supplement their educational offerings (Tier II funding). Though the intended purpose is for enrichment, many districts tax at these higher levels just to make ends meet. Through Tier II, districts can raise their tax rates to a total of \$1.17 per \$100 of property value. Tier II of the tax rate is broken down into high value "golden-pennies" (first six cents of tax rate above \$1.00 – not subject to recapture) and lower value "copper-pennies" (the final 11 pennies to reach a tax rate of \$1.17 per \$100 of property value).

Currently the funding generated by the golden-pennies is tied to the wealth per student experienced in Austin ISD. Both the House and the Senate versions of HB 3 decouple the golden-pennies from Austin ISD. The House set the values of the golden-pennies at 96th percentile of wealth or 160 percent of the basic allotment—whichever is higher. The Senate version sets the value at the 96th percentile of wealth.

The House version also allows districts to access two additional golden-pennies that are not subject to recapture. Long term, these high yield pennies will create an inequitable system where a few super wealthy districts will generate a financial wind fall.

CPPP Recommendation: Adopt the House golden-penny rate at the 96th percentile of wealth; reject the House addition of two additional golden-pennies.

Revenue Dedicated to Property Tax Cuts

Through the creation of the Tax Reduction and Excellence in Education Fund, the Senate version of HB 3 includes a provision that would use a portion of the tax revenue from oil and gas production intended for the Economic Stabilization Fund, and any additional sales tax generated from changes in how online purchases are taxed, for property tax rate reductions.

Dedicating these revenue streams to property tax cuts will hurt the state's ability to make future investments in public education. Instead of directing this funding toward inflation costs or improving funding levels for low-income and ELL students, the Senate prioritized tax rate reductions over education. Under this plan, educational improvements will never materialize because funding will be hamstrung by property tax reductions.

CPPP Recommendation: Reject the dedication of revenue to tax rate reductions in the Senate bill.

Prior vs Current Year Values

Under current law, the Texas Education Agency uses prior year property values when determining a district's level of funding. This creates a one-year lag between what TEA assumes a district will collect and what the district actually collects. When property values rise, districts are able to collect revenue above what TEA assumes will be generated. However, when property values decline, a district's actual collections for the year fall below TEA assumptions and create budget shortfalls for the district. The use of prior year values means districts always receive more or less funding than the formulas intend.

The Senate version of HB 3 requires a move to current year values, while the House version continues the use of prior year values.

CPPP Recommendation: Adopt the Senate's move to current year values to improve the efficiency of the school finance formulas.

Teacher Pay

The biggest fault line between the two versions of HB 3 is how to improve compensation for teachers and other school personnel.

The Senate version includes a \$5,000 pay raise for all classroom teachers and librarians as a stand-alone allotment. An across-the-board pay raise, as presented in the Senate bill, is concerning because it excludes other school workers such as counselors, educational aides, and many of those who provide special education services within our schools. Many districts still have not regained all the [teachers they lost](#) as a result of deep cuts to education in 2011, making their priority to add more teachers before offering across-the-board pay raises in order to reduce class sizes.

The House version directs districts to use 25 percent of the basic allotment increase to provide pay raises to all full-time employees other than administrators. Flowing funding for pay raises through the basic allotment creates other benefits as well. Additional funding for English language learners and low-income students is based on a percentage of the basic allotment, so the House proposal would generate more funding for these populations.

CPPP Recommendation: Adopt the House's provision that directs a portion of the basic allotment increase to be used on pay raises.

Student-Based Funding

Spending Directives

In the school finance system, students classified as special populations (such as low-income, English language learner, or special education) receive additional funding to support academic success. Under

current law, the Texas Education Agency gives districts direction on types of expenses and how much of the funding they must spend directly on these special populations.

The House version modifies current law to provide more flexibility to districts on how they can spend funds for English language learners and low-income students, while still ensuring the intended students benefit from the additional funding. The Senate version of the bill removes all stipulations for how the funding for English language learners must be spent and requires 90 percent of the funds generated for low-income students to be spent at the campus the low-income student generating the funding attends.

CPPP Recommendation: Adopt the House spending directives for English language learners and low-income students.

Outcomes-Based Funding

CPPP believes that students who generate additional funding should benefit from those resources. This ensures that students who need additional supports actually receive those supports. Outcomes-based funding, in particular, goes against this principle.

In essence, outcomes-based funding uses the performance of today's students to determine the level of resources available to tomorrow's student, instead of identifying what today's kids need to be successful and providing those resources today.

The Texas Public School Finance Commission recommended outcomes-based funding for students that meet 3rd grade reading benchmarks and for students determined to be prepared for college, career, or military enlistment. While the House did not include outcomes-based funding in its school finance bill, the Senate did include both the 3rd grade reading and college, career, or military readiness outcomes-based funding.

CPPP Recommendation: Reject the outcomes-based funding within the Senate version of HB 3.

There have been a multitude of ideas and discussion stemming from the School Finance Commission to what is now the final step in overhauling our Texas school finance system. CPPP looks forward to final passage of a bill that will improve educational outcomes, recognize that money matters to outcomes, improve equity for all school children regardless of where they live, and put financial resources toward the students that need them most.

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