Past, Present and Future of Texas School Finance

What factors contributed to the legislature’s being able to pass House Bill 3?
What implementation challenges may the legislature want to address?
How do we address questions of sustainability?
This time two years ago....

- Growing frustration with over-reliance on the property tax
- Consensus that existing system was irreparably broken
- Stagnant school funding and lack of performance improvement on STAAR compared to prior state assessment programs
- Unwillingness of court to step in
- Commission on School Finance
- Close election and growing political pressure to do something
- State Revenue Available
- Common wisdom that legislature would not act without court mandate proven false
STAAR Reading results have shown little improvement since 2012.

Texas Reading/ELA Passing Performance Over Time for All Grades, All Students Results

- TAKS^ (2003-2011)
- STAAR^^ (2012 - 2019)

Source: TEA Statewide Summary Reports; AEIS 1994-2002 (TAAS), AEIS 2003-2011 (TAKS), and TAPR 2012 - 2019 (STAAR)

^All TAKS results are shown at the Panel Recommended student passing standard.

^^TEA set the STAAR passing standard at Phase in 1 Satisfactory for 2012-2016, then "Approaches / Meets / Masters Grade Level" for 2017 - 2019.

Source: Hillco Partners
STAAR Mathematics results have shown slight improvement since 2012.

Texas Mathematics Passing Performance Over Time for All Grades, All Students Results

Source: TEA Statewide Summary Reports; AEIS 1994-2002 (TAAS), AEIS 2003-2011 (TAKS), and TAPR 2012 - 2019 (STAAR)

^All TAKS results are shown at the Panel Recommended student passing standard.

^^TEA set the STAAR passing standard at Phase in 1 Satisfactory for 2012-2016; then "Approaches / Meets / Masters Grade Level" for 2017 - 2019.

Source: Hillco Partners
Courts elect not to intervene

But our judicial responsibility is not to second-guess or micromanage Texas education policy or to issue edicts from on high increasing financial inputs in hopes of increasing educational outputs. There doubtless exist innovative reform measures to make Texas schools more accountable and efficient, both quantitatively and qualitatively. Judicial review, however, does not license second guessing the political branches’ policy choices, or substituting the wisdom of nine judges for that of 181 lawmakers. Our role is much more limited, as is our holding: Despite the imperfections of the current school funding regime, it meets minimum constitutional requirements.
TEXAS ELECTIONS 2018

Democratic women lead biggest shift in Texas House since 2010 midterms

Led by female candidates, Texas Democrats picked up 12 Texas House seats from Republicans, mostly in North Texas. But Republicans still have the edge in the lower chamber.

BY CASSANDRA POLLOCK, CARLOS ANCHONDO AND ALLYSON R WALLER NOV. 6, 2018 UPDATED: NOV. 7, 2018

After 2018 ‘wake-up call,’ Tarrant Republicans scramble to fend off Democrats in Texas House races

By James Barragán, The Dallas Morning News 2 hrs ago

Rise of big cities push Texas to swing-state territory — maybe by 2020

BY REID WILSON - 11/18/18 06:00 AM EST

4,848 COMMENT
**Survey: Most Texans want the state to boost its school funding share**

By Julie Chang
Posted Mar 19, 2018 at 12:01 AM
Updated Sep 22, 2018 at 4:59 AM

**Thriving Texas Economy Expands Broadly**
Stephanie Gullo and Emily Kerr
February 5, 2018 | Print version

**Why Houston Business Leaders Say It’s Time To Fix Texas School Finance**

In a new white paper, the Greater Houston Partnership describes how it’s getting harder for employers to find and hire qualified people for jobs that require training beyond a high school diploma.

LAURA ISENSEE | FEBRUARY 21, 2019, 8:42 AM

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**Texas economy growing fast, and poised for more, says Dallas Fed chief**

Collin Eaton
May 22, 2018 | Updated: May 23, 2018 8:51 a.m.

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**THANKS TO SHALE, TEXAS AND NEW MEXICO ENJOYING BILLIONS IN BUDGET SURPLUSES**

BY SETH WHITEHEAD | AUG. 26, 2018

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**TEXAS LEGISLATURE 2019**

**Texas school finance panel approves final report to lawmakers**

The Texas Commission on Public School Finance — created last year to scrutinize the way the state funds K-12 education — finalized a report on Wednesday that includes more than 30 recommended improvements.

BY ALIYIA SWABY | DEC. 19, 2018 5 PM
Texas Comptroller Glenn Hegar gives lawmakers cautiously optimistic revenue estimate for 2019 session

Texas Comptroller Glenn Hegar announced Monday that the state will have $119.1 billion for lawmakers to use in putting together the state's 2020-21 budget.

By Edgar Walters  Jan. 7, 2019

Analysis: Big things can happen in Texas without court orders, sometimes

It usually takes a court order to move Texas lawmakers to make big changes to major programs like school finance. But it's possible, if top leaders are united, to go big without a judicial push.

By Ross Ramsey  Jan. 14, 2019  12 AM

Survey Reveals Texans' Opinions On How To Fund Public Schools, As Legislative Session Nears Close

Views tend to differ between demographics.

By Davis Land  May 21, 2019, 4:19 PM (Last Updated: May 21, 2019, 5:07 PM)

Share

Texas House committee backs budget plan with extra $9 billion for school finance, property tax reform

After passing through the House Appropriations Committee, House Bill 1 now goes to the full Texas House.

By Edgar Walters  March 18, 2019
TEXAS LEGISLATURE 2019

Texas Senate approves school finance reform bill but opts not to fund it with a sales tax hike

The chambers will need to negotiate how to give teachers pay raises, whether to adjust how students take standardized tests and how to provide long-term property tax relief for Texans.

TEXAS LEGISLATURE 2019

Texas House, Senate pass school finance bill mandating teacher raises and cutting taxes

The $11.6 billion school finance and property tax reform bill is now poised to head to Gov. Greg Abbott.
## Foundation School Program M&O Funding

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<tr>
<th></th>
<th>State Aid (All Funds)</th>
<th>Local M&amp;O Property Taxes</th>
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The state cost of HB 3 was just over $11.3 billion for the biennium, once property tax relief is netted out, increases for schools are just over $3 billion per year.
FSP Quick Reference: 86th Session Changes

It’s Gone
- Cost of Education Index
- Gifted & Talented Allotment
- High School Allotment
- Support Staff Allotment
- ASAHE for M&O

It’s Changed
- Small/Mid-Size Adjustment
- Compensatory Ed Allotment
- Mainstream Weight
- Bilingual Education Allotment
- Career & Tech Allotment
- Transportation Allotment
- NIFA Total Allowable Funding
- Basic Allotment
- Prior-to-Current Year Property Value
- Tier 1 Tax Rate
- Recapture Calculation
- Guaranteed Yields in Tier 2

It’s New
- Dyslexia Allotment
- Early Education Allotment
- Fast Growth Allotment
- CCMR Bonus
- Mentor Teacher Allotment
- School Safety Allotment
- Dropout Recovery Schools Allotment
- Teacher Incentive Allotment
- Fee Reimbursement Allotments
- Extended Year Funding
- Formula Transition Grants
Lawmakers Pass, Districts Begin Implementing Sweeping Changes

• Complexity of new legislation results in new rules, data, programs for districts to master

• COVID shifts focus dramatically from implementing new programs to staffing and sustaining schools during pandemic
Legislation Passes

Agency Rules are Written

Districts Gain Understanding and Begin Implementation

Campus Implementation

Student Learning
Legislation Passes

Agency Rules are Written

Districts Gain Understanding and Begin Implementation

Campus Implementation

Student Learning

COVID
Allotments in HB 3 that Require New Data

- Dyslexia
- Compensatory Education
- Bilingual Education
- Career and Technology Education
- Early Education
- CCMR Outcomes Bonus

- Teacher Incentive Allotment
- Mentor Program
- College Preparation Assessment Reimbursement
- Certification Exam Reimbursement
2020-21 Student Attendance

• Monitoring ADA projections is more important than ever

• TEA has announced a hold-harmless, **limited to the first two six-week periods** of the 2020-21 school year that provides a floor consisting of projected student counts using historical data

• Each district’s hold harmless student counts can be accessed at: https://tea.texas.gov/sites/default/files/2020-2021-school-year-ada-hold-harmless.xlsx

• While the hold harmless will be helpful for the first two six-week periods, ISDs will need to estimate where they will be for final 4 six weeks for comparison to budget projections.
2020-21 Student Attendance

- Floor applies to total ADA as well as ADA and FTE-based special program counts
- No floor for enrollment-based counts: Dyslexia & Comp Ed
  - Floor applies to combination of first two six weeks
  - If overall ADA in first 12 weeks is lower than floor, all ADA and FTE counts will be replaced for the first two six weeks (all or nothing, not program by program)
- No floor for remainder of school year
- Cap on attendance rate for remote learning
2020-21 Student Attendance

- Each district’s hold harmless student counts can be accessed at: https://tea.texas.gov/sites/default/files/2020-2021-school-year-ada-hold-harmless.xlsx

- You can also navigate from: https://tea.texas.gov/finance-and-grants/state-funding scrolling down to “2020-2021 School Year Hold Harmless”

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## 2020-21 Student Attendance

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<td>School Safety</td>
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</table>
2020-21 Student Attendance

• ISDs need to ensure good tracking of remote attendance
  • Who is responsible for contacting asynchronous students?
  • How successful are they?
  • What strategies keep students engaged at home?

Keep tabs on any updates to TEA’s guidance on Enrollment and Attendance for the 2020-21 school year posted at:

Compensatory Education Allotment

PEIMS Submission 1, October Snapshot, count of economically disadvantaged students enrolled will determine your district’s compensatory education allotment amount for 2020-21

• Make sure you get documentation needed for free or reduced lunch eligible students by the Snapshot date, even if they are remote! Each student identified is worth at least $1,386 ($6,160 x 0.225).

• And, double-check to ensure that census block group geo-coding has not fallen by the wayside, since the census block group can boost the per-student funding by up to $308 ($6,160 x 0.275) - $1,386.

• Census Block Group Assignments by SCE weight for 2020-21 are posted at: https://tea.texas.gov/sites/default/files/census-block-tier-mapping-for-2021-state-funding.xlsx
Portions of HB 3 have projected cost increase over time

- Tax Compression
- Incentive Pay

State economic downturn causing growing concern for budget-writers
TY20 Tier 1 Tax Rate by Percent Change in Property Value

Estimated TY20 Tier 1 Rate

District Property Value Growth TY19 to TY20

- less than or equal to 4.01%
- 5.0%
- 6.0%
- 7.0%
- 8.0%
- 9.0%
- 10.0%
- 11.0%
- 12.0%
- 13.0%
- 14.0%
- 15.0%
- 15.58% or greater

$0.9164

$0.8247
2020-21 Tier 1 Tax Rate (MCR) Distribution by District

How did the inaugural round of 2.5% Tier 1 compression shake out?

Source: Texas Education Agency
2020-21 Tier 1 Tax Rate (MCR) Distribution by District

How did the inaugural round of 2.5% Tier 1 compression shake out?

Source: Texas Education Agency
Tax Year 2020
Tier 1 MCR Rates

Final MCR Rates by District
as of August 31, 2020
Posted on the TEA Website at:

Source: Texas Education Agency

Larger Urban – mostly at $0.9164
those with lower MCR
include Austin,
San Antonio,
Brownsville, Ysleta

Larger Suburban – mixed along full
spectrum

NonMetro & Rural – mixed along full
spectrum

Final MCR Rates by District
as of August 31, 2020
Posted on the TEA Website at:

Source: Texas Education Agency
2020-21 Tier 1 Tax Rate (MCR) Distribution by TY19 Tax Base

Thoughts about future rounds of compression

Source: Texas Education Agency & Texas Comptroller
2020-21 Tier 1 Tax Rate (MCR) Distribution by TY19 Tax Base

Thoughts about future rounds of compression

Source: Texas Education Agency & Texas Comptroller
Tier 1 Tax Rate Compression

What about sustainability?

Year 1: District value growth pays for district compression

- Assuming Comptroller Certified TY20 values equal or exceed those used to calculate compressed rates

- Exceptions:
  - Districts growing by less than 4.01% - state cost assumed 4.01% value growth, so state experiences higher than anticipated cost for the state compression percentage being applied to those districts (some portion of 46% of the tax base)
  - Districts whose compression is limited to $0.8247 by the 90% floor – state benefits from their excess value gain because the districts aren’t fully compressed. (2% of the tax base)
Tier 1 Tax Rate Compression

What about sustainability?

Year 2 and Beyond: Things get a little more complicated

• Tier 1 Rate Compression is a One-Way Street

• Tier 1 Rate Goes Down with Value Growth but it Doesn’t Go Up

• If values decline, rate either goes down if the state compression percentage is lower than prior year MCR, or it stays the same as it was for the prior year

• All other things being equal, the state picks up the cost of maintaining the district’s MCR
Tier 1 Tax Rate Compression

What about sustainability?

System of ongoing compression is predicated on value growth

For districts with sustained trends of growth, the mechanism maintains balance

For districts that experience volatile growth/decline cycles the state bears cost in declines but may also realize some offsetting benefit in periods of extreme growth

Periods of widespread or statewide property value decline would carry higher state cost overall.
Tier 1 Tax Rate Compression

What about sustainability?

Statewide M&O Tax Base – Tax Years 2012-2019

Districts Making up 25% of Statewide TY19 M&O Tax Base
Tax Years 2012-2019
### Sustained Trend of Annual Growth (25% of TY19 M&O Value)
Tax Years 2012-2019

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<tr>
<th></th>
<th>Local Value Growth/Decline</th>
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### More Volatile Annual Growth/Decline in M&O Value (50% of TY19 Category G)
Tax Years 2012-2019

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<td>127.2%</td>
<td>3.0%</td>
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<td>-10.5%</td>
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<td>16.5%</td>
<td>6.4%</td>
<td>-7.9%</td>
<td>-11.0%</td>
<td>4.8%</td>
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<td>134.5%</td>
<td>98.5%</td>
<td>45.3%</td>
<td>-18.6%</td>
<td>-44.3%</td>
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<td>218.4%</td>
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<td>-18.2%</td>
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<td>-14.1%</td>
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</tbody>
</table>
For the 2019-2020 school year, Texas paid out $40,000,000 to Texas teachers identified in year 1 for LEAs in Cohort A.
Once identified, teachers continue to draw TIA funds regardless of which district they work in. Districts in Cohort A can also identify additional new teachers each year for up to 5 years.
HB 3 Teacher Incentive Allotment

Year 1
Year 2
Year 3
Year 4
Year 5

- Cohort A, Year 1 Teachers
- Cohort A Year 2 Teachers
- Cohort A, Year 3 Teachers
- Cohort A, Year 4 Teachers
- Cohort A Year 5 Teachers

$0 $50,000,000 $100,000,000 $150,000,000 $200,000,000 $250,000,000 $300,000,000 $350,000,000 $400,000,000 $450,000,000
TEA has announced they will be adding new districts each year, with cohort B coming online this year.
State Budget

Combined, health and human services & public education make up 63% of the state budget, all funds.

Source: Texas Comptroller of Public Accounts
Public Education Relies More on General Revenue

Almost 60% of the Health and Human Services budget is from federal funds.

Nearly 70% of the Public Education budget is from state general revenue. An additional 14% is from Other general revenue-related funds, such as state tax revenue deposited in the Property Tax Relief Fund and Appropriated Receipts (aka FSP Recapture).

2020–2021 Biennium
STATE BUDGET UPDATE

Comptroller’s Updated Revenue Estimate for the 2020-2021 Biennium Projects Ending Shortfall of $4.58 Billion

Actual revenue decline is: $11.57 billion
Net shortfall of $4.58 billion is less due to lower spending & offsets provided by federal revenue under the CARES Act. FSP savings and federal revenue swap accounts for a significant portion of the difference.

2020-2021 Appropriations Methods of Finance:

<table>
<thead>
<tr>
<th>(in billions)</th>
<th>Biennial Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue</td>
<td>$118.9</td>
</tr>
<tr>
<td>Other</td>
<td>$39.2</td>
</tr>
<tr>
<td>General Rev-Dedicated</td>
<td>$6.2</td>
</tr>
<tr>
<td>Federal Funds</td>
<td>$86.4</td>
</tr>
<tr>
<td>All Funds</td>
<td>$250.7</td>
</tr>
</tbody>
</table>

Revenue Available for General Purpose Spending in the 2020-21 Biennium (in Billions of Dollars)

<table>
<thead>
<tr>
<th>CRE October 2019</th>
<th>CRE July 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue-Related (GR-R) Tax Collections</td>
<td>$108.14</td>
</tr>
<tr>
<td>Other GR-R Revenues</td>
<td>$14.99</td>
</tr>
<tr>
<td><strong>Total GR-R Revenues</strong></td>
<td><strong>$123.13</strong></td>
</tr>
<tr>
<td>Beginning Balance (Funds carried forward from 2019)</td>
<td>$4.72</td>
</tr>
<tr>
<td>Change in GR-Dedicated Account Balances from the BRE</td>
<td>$0.39</td>
</tr>
<tr>
<td><strong>Total GR-R Revenue &amp; Fund Balances</strong></td>
<td><strong>$128.24</strong></td>
</tr>
<tr>
<td>Revenue Reserved for Transfers to the Economic Stabilization and State Highway Funds</td>
<td>$6.48</td>
</tr>
<tr>
<td><strong>Total Revenue Available for General-Purpose Spending</strong></td>
<td><strong>$121.76</strong></td>
</tr>
</tbody>
</table>

Note: Totals may not sum because of rounding.
STATE BUDGET UPDATE

Comptroller’s Updated Revenue Estimate for the 2020-2021 Biennium Projects Ending Shortfall of $4.58 Billion

<table>
<thead>
<tr>
<th>(in billions)</th>
<th>GR Available</th>
<th>GR Appropriated</th>
<th>Surplus (Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue – Comptroller’s Original Estimate</td>
<td>$121.8</td>
<td>$118.9</td>
<td>$2.9</td>
</tr>
<tr>
<td>General Revenue – Revised Revenue Estimate</td>
<td>$110.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in Available General Revenue</td>
<td>-$11.6</td>
<td></td>
<td>-$4.6</td>
</tr>
</tbody>
</table>

87th Legislature will Need to fill in 2020-21 Shortfall

- Take action to recognize already assumed Method of Finance Swaps & Reduced Costs
  - $4.6
- Enact State Agencies’ 5% Cuts for 2020-2021
  - ~$1.0
  - -$3.6
- Other Mechanisms (Payment Delays, Rainy Day Fund, etc)
  - $3.6
  - $0

Key Take Away

Options that are used to cover the current biennium’s $4.58B shortfall (for example Rainy Day Fund) will limit the tools available to lawmakers to make ends meet for the 2022-2023 biennium without cuts to current services.
The Economic Stabilization Fund

Ending Balance by Year

Source: Texas Comptroller of Public Accounts

If $3.6B were used in package to fill-in the 2020-2021 shortfall, balance remaining would be roughly $5.2B
87th Legislative Session
87th Legislative Session

• Interim work is ongoing
• TEA Budget request due October 9
• General election November 3rd
• Pre-filing of legislation will begin November 9
• Legislative session begins January 12
• Regular session ends May 31
Interim Committee Work: House Public Ed

HB 3

• **Question 1:** Can the state *delay implementation of the teacher incentive pay program* to push it out to the next biennium? If so, what would be the impact on the current budget, as well as budget implications for the 2022-23 biennium?

• **Question 2:** Does the state have any *obligation to ensure that newly awarded salaries are carried forward* from year-to-year all other conditions being equal?

• **Question 3:** Is the state capable of providing the additional financial resources so school districts can maintain the new salaries awarded post-HB 3?

• **Question 4:** What impact does the "no new revenue - tax cap" of 2.5 percent have on a school district's ability to continue the pay raises or changes in salary scheduled adopted for the 2019-20 school year?
Interim Committee Work: House Public Ed
HB 1842 (84R), HB 22 (85R), SB 1882 (85R) & HB 3906

• **Question 5:** The stated purpose of these partnerships with charters was to serve as incubators of innovative ideas in how to turn around failing campuses. Have any successful programs been identified that can be replicated by struggling campuses?

• **Question 6:** Have certain types of new partnerships been more successful than other types of alternative educational arrangements?

• **Question 7:** What type of resources (financial and other types of supports) have been necessary to implement new turn-around partnerships?

• **Question 8:** What measures of "success" are being used to know if these partnerships are working and sustainable?

• **Question 9:** Can programs that have been deemed successful at these low-rated campuses been replicated at other campuses within the district? If not, why? If yes, have similar results in increased student achievement been realized?
Interim Committee Work: House Public Ed

SB 1873 (85R)

- **Question 10:** Other than checking a box that a report has been filed with TEA, has this legislation resulted in any changes in the PE programs offered to students? Is Texas using any of this data or trends that Texas students are healthier and more physically active?
Interim Committee Work: House Public Ed

Digital Learning

**Question 1:** Can a map, detailed list, or other resources be provided that shows where there are gaps in available internet coverage? If so, please provide. What needs to be done to close this gap?

**Question 2:** What plans do internet service providers have to roll out increased coverage in the state to close the technological gap only highlighted by the current pandemic?
Monitor the progress of the TEA's compliance with the Corrective Action Response required by the United States Department of Education, the implementation of the state's Special Education Strategic Plan, and the state’s compliance with other federal requirements regarding special education, including maintenance of state financial support for special education. Recommend solutions to barriers the agency, school districts, students with disabilities, and parents face in accessing FAPE and in meeting the milestones of the plan and any measures needed at the state level to ensure that students with disabilities are being located, fully evaluated, and appropriately identified for special education instruction and services.
TEA Budget Instructions

Agencies required to submit a request that includes a 5% reduction

Current law FSP is exempted

2020 – 2021 biennium FSP is projected to cost significantly less than appropriations as compared to current law

• Higher than estimated property value growth in tax year 2019
• Lower than estimated ADA
• ESSER supplantation
Where from Here?

- How do districts move forward with HB 3 implementation, and in fact leverage it to maintain student learning during COVID?

- How will school districts and the legislature maintain teacher salary gains in the face of economic downturn and loss of student enrollment?

- Texas school recovery depends on Texas economic recovery, and the reverse is also true
(512) 462-1711
www.tasbo.org
Texas Association of School Business Officials