



# Overview of Education Finance in Texas and School District Financial Challenges

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# Education Finance Characteristics

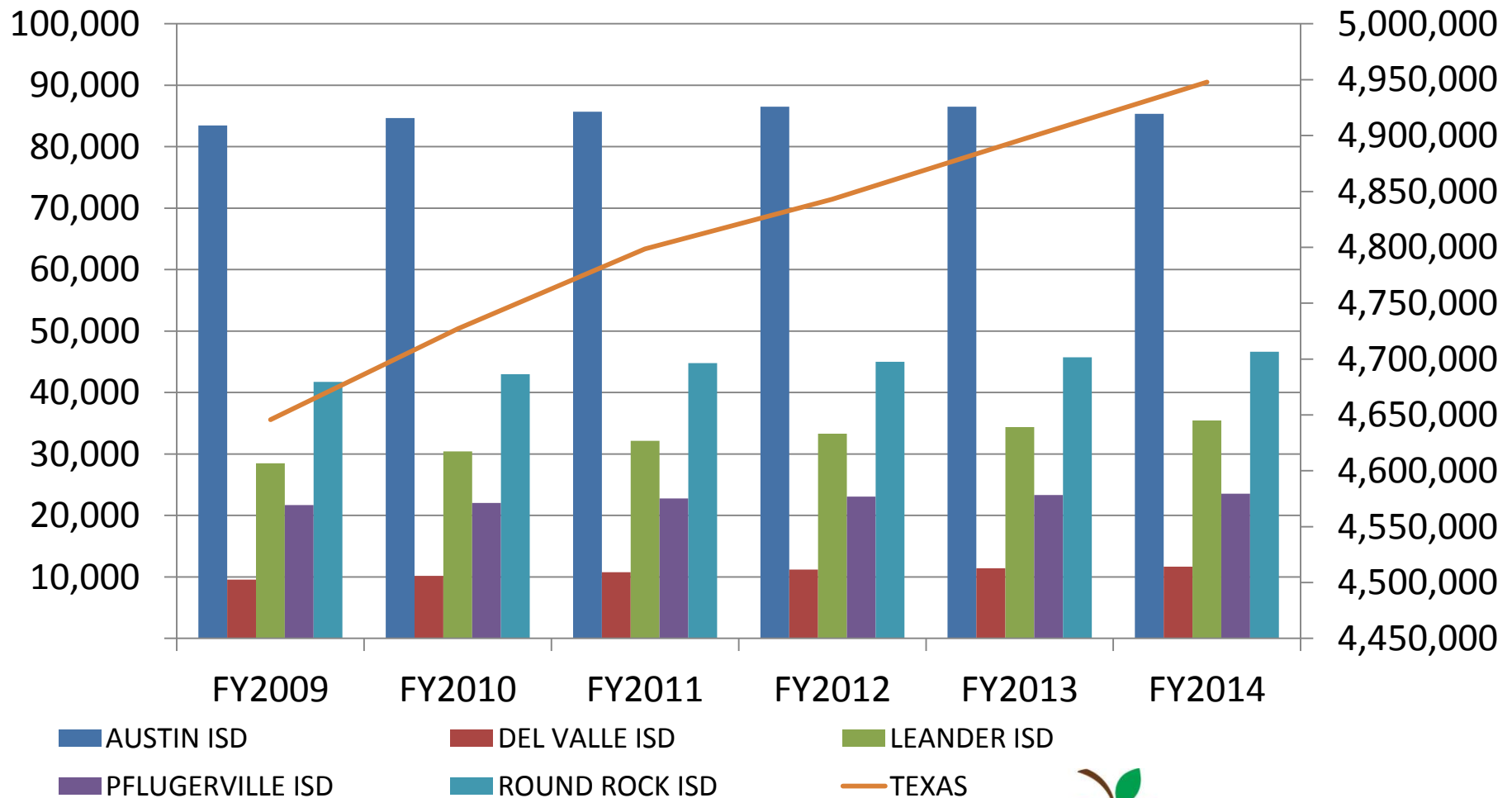
- School finances are highly categorical in nature
- Property taxes are a primary source of revenue
- Often times include complex formulas to allocate resources in efforts to maintain “equity” (state or local)
- School districts are highly regulated
- Finances are administered publicly
- Political issues have high relevance in financial and operational management



# School Districts: Doing More With Less



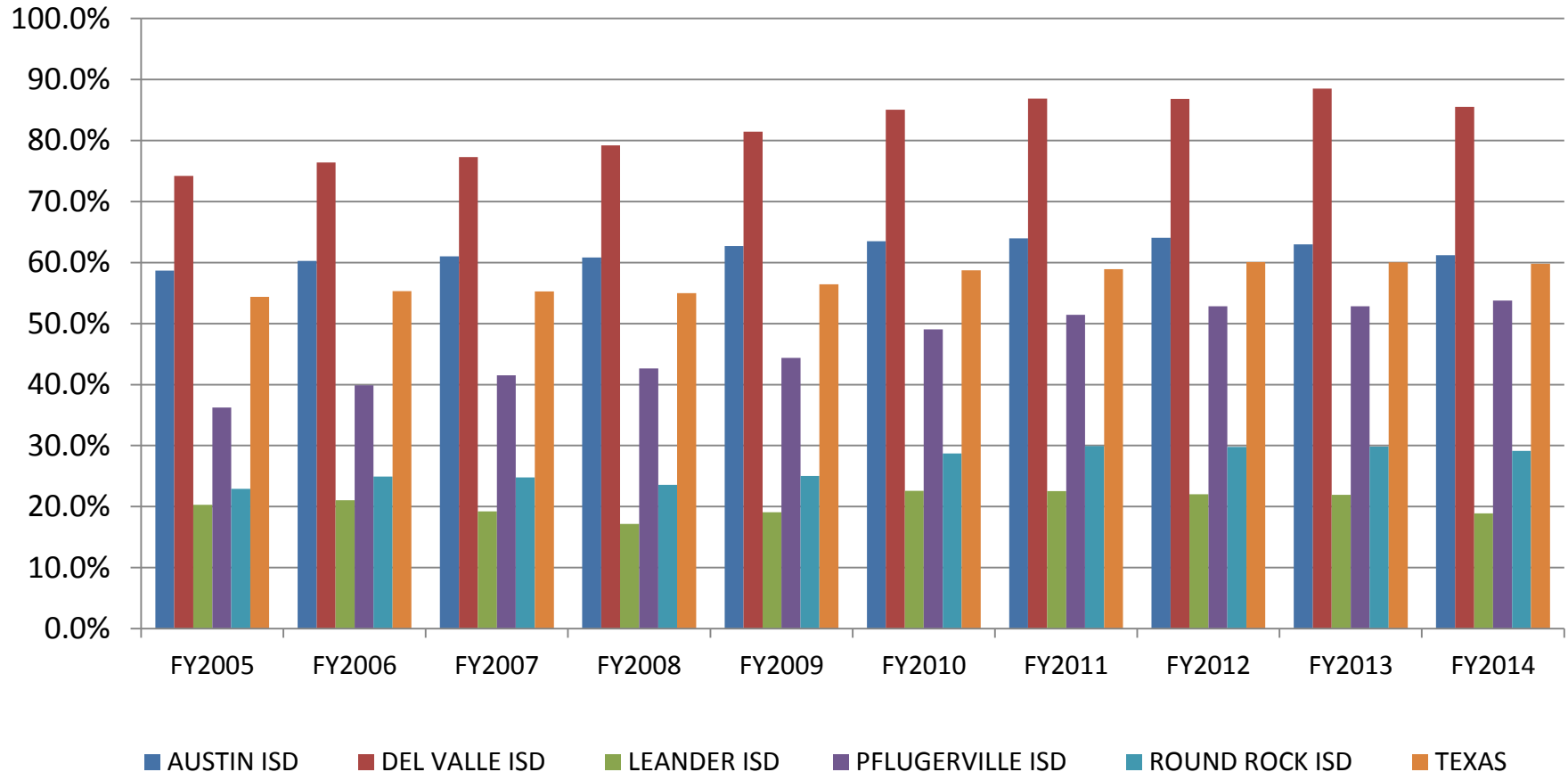
# Increased Student Enrollment Growth



Source: TASBO eFACTS

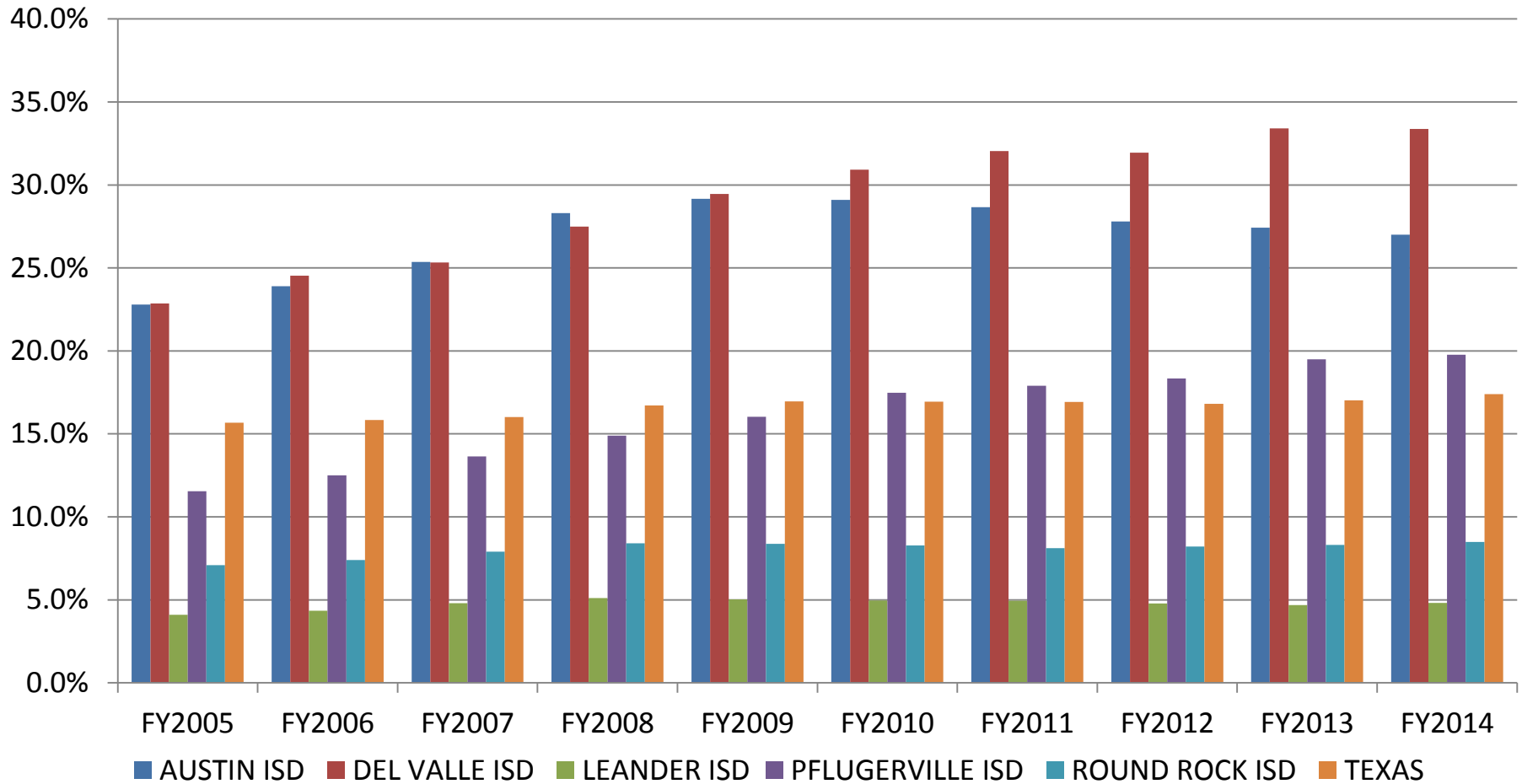


# More Economically Disadvantaged Students



Source: TASBO eFACTS

# More Limited English Proficient Students

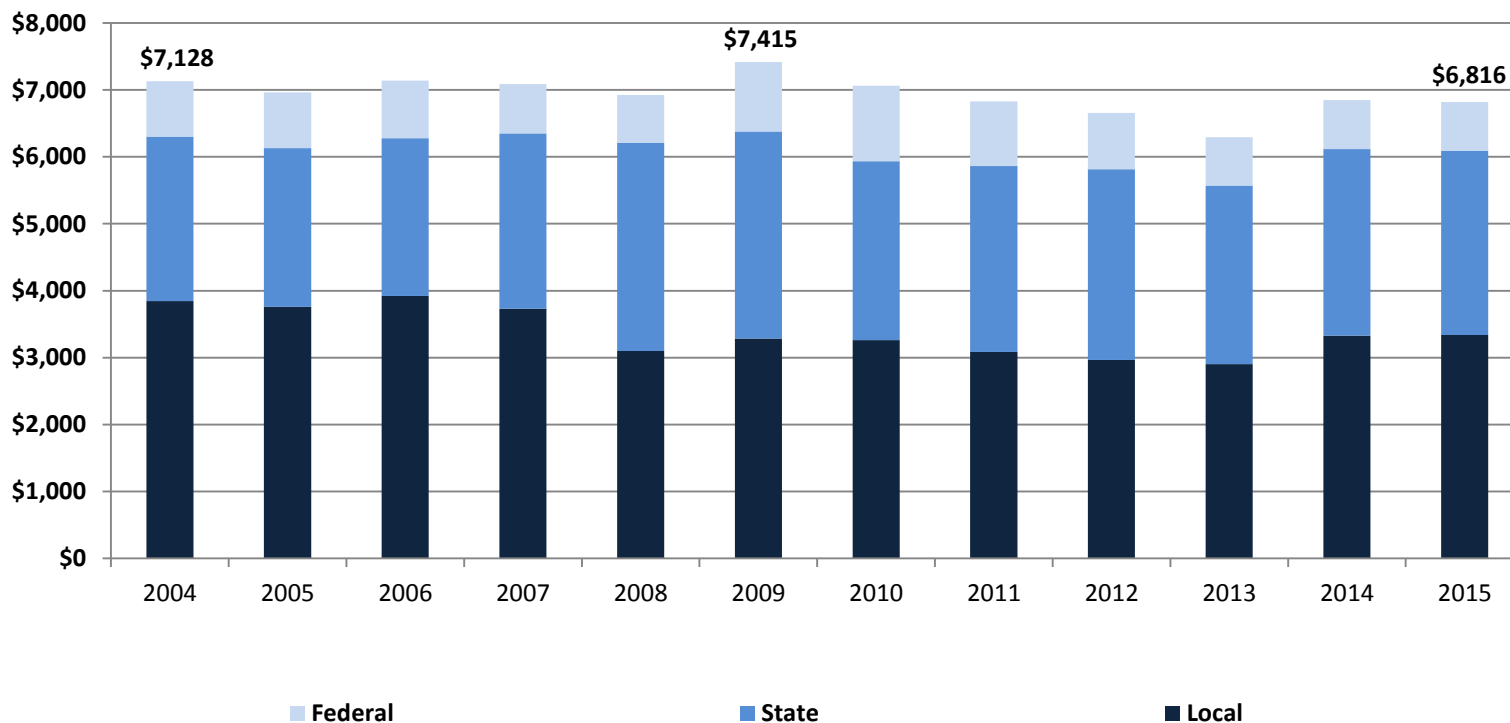


Source: TASBO eFACTS



# More Students, Less State Funding

Pre-K through 12 Public Education Revenue per Student



Source: Lynn Moak 2014 Trial Presentation, Ex. 6618

# Higher Accountability Standards

## Percent of Students Passing Spring 2013 EOC Graduation Tests by District Percentage of Economically Disadvantaged Students

<b>% of Student Body that is Economically- Disadvantaged</b>	<b>% ED Students Met Standard</b>	<b>% Non E-D Students Met Standard</b>
Under 30%	49.6%	77.2%
30% to less than 50%	41.0%	66.9%
50% to less than 70%	35.9%	60.1%
70% to less than 90%	33.9%	54.1%
90% and Over	31.3%	47.7%
Grand Total	36.1%	65.0%

Source: Moak Casey Analysis, Ex. 6620





# Overview of the State's School Finance System

# Report: Texas ranks 41<sup>st</sup> in spending per student



File 2011/The Associated Press

Texas public school teachers, students and parents rally in March 2011 outside the Capitol in Austin to protest \$10 billion in education cuts proposed by the Legislature. The latest National Education Agency research shows that Texas ranks 49th among the 50 states in per-student spending.

By Terrence Stutz  
Staff Writer

Published: 22 February 2013 12:06 PM

New, 12:01 p.m.

Texas has dropped closer to the bottom in spending per pupil in the U.S. and is now more than \$3,000 below the national average – about \$66,000 per elementary classroom – according to new comparisons by the National Education Association.

## Related

Mitchell Schnurman: Why education is a good investment

dallasnews.com  
The Dallas Morning News

# From the Courthouse to the Capitol

Court Decision	Legislative Response
Edgewood I (1989)	Senate Bill 1 (1990)
Edgewood II (1991)	Senate Bill 351 (1991)
Edgewood III (1992)	Prop. 1 (failed), SB 7 (1993)
Edgewood IV (1995)	System found constitutional
West Orange-Cove (2005)	House Bill 1 (2006)
ISD Plaintiffs (2013)	Coming soon maybe (2016/2017)



# The Ruling by Judge Dietz

## State Property Tax

- Districts do not have “meaningful discretion” over their tax rates because they are being forced to tax at or near the cap in order to achieve a general diffusion of knowledge

## Adequacy

- The system is not providing a general diffusion of knowledge

## Suitability

- The system is not structured, operated, and funded so as to achieve a general diffusion of knowledge

## Equity

- Districts cannot raise the funds necessary to achieve a general diffusion of knowledge at similar tax rates

***Don't anticipate legislative response until Spring/Special Session 2016.***



# The Matter of School Finance

- HB1 in 2006 was a temporary solution
- New business margins tax implemented by HB1 never performed up to projected levels, causing a funding deficit for the Property Tax Relief Fund.
- In 2009, federal stimulus funds were used to fill the deficit.
- In 2011, with no federal help, implemented unprecedented cuts to education:
  - Schools absorbed \$4 billion in school finance formula cuts and \$1.4 billion in program cuts.
  - In 2011-12, across the board reduction of 5-6%
  - In 2012-23, cuts ranged from 1-9% depending on ASATR.
- Last Legislative session, AISD saw little restoration of cuts unlike other ISDs and the legislature called for elimination of ASATR.
- 84<sup>th</sup>- Tons of bills, speculation and hope so far



# Simple View of State's Funding Formula

- The majority of money each school district is entitled to every year is determined by two “layered” systems:
  1. Formulas in the Foundation School Program
  2. “Target Revenue” system implemented in 2006 when school district M&O rates were compressed
- 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)
- Formula based on outdated weights and indexes that haven't been updated in over 30 years

# Simplified Explanation of Equalized System Cont.

- State took steps in 2013 to add equity to funding formula.
- More districts are now on formula; remaining ASATR to be phased out by 2017.
- Equalized funding formula provides the same total \$ per student for each 1¢ of tax effort (rate) for all school districts.
- Total cost is shared between State and ISD based on local property values per student.
- As property values increase, local share increases, State share decreases, so total \$ per student remains constant.
- State budget gets the benefit of local tax base growth.
- Districts with higher tax effort (rate) receive more total funding per student – regardless of wealth.
- Only three ways to increase total formula funding per student:
  1. **Legislative action to increase funding (beyond District's control)**
  2. **Increase in # of students and attendance rates (beyond District's control and comes with added expense)**
  3. **Increase tax rate**

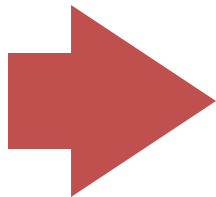
# Formula Tiers

- **Tier 1** – Sometimes referred to as the Minimum Foundation; this covers the cost of providing the basic education **driven primarily by student characteristics** and property wealth.
- **Tier 2** – Also called the the Guaranteed Yield (GYA); this is to provide enrichment above the minimum program. **Driven primarily by tax effort.**

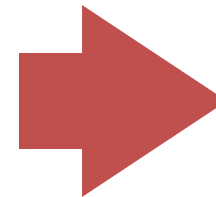
# Tier I: School District Funding Structure

$$\begin{array}{rccccccc}
 \text{Basic} & & \text{Cost of} & & \text{Small and mid-size} & & \text{Adjusted} \\
 \text{allotment} & \times & \text{education index} & \times & \text{adjustment} & = & \text{allotment} \\
 \\ 
 (\$5,040) & + & (\$352 \text{ avg.}) & + & (\$875 \text{ avg., if applicable}) & = & (\$6,267)
 \end{array}$$

Adjusted  
allotment



Special education  
Career and technology  
Compensatory education  
Bilingual/ESL  
Gifted and talented  
Public education grant



**WADA**

# Outdated Formulas: 20-30 Years Old

Student Program	Weight or Allotment (multiply by AA)	Last Updated
Regular Program Allotment (Block Grant)	1.0	n/a
Career and Technology Allotment	1.35	2003 (reduced)
Gifted and Talented Program Allotment	0.12	1991
Bilingual Program Allotment	0.1	1984
Special Education Allotment (examples)		1995
Resource Room	3.0	
Mainstream	1.1	
Self Contained	3.0	
Speech	5.0	
Residential Care & Treatment	4.0	
Compensatory Education		1984
State Compensatory Allotment	0.2	
Pregnancy Related	2.41	
Transportation	Several formulas	1984
High School Allotment	\$275/high school ADA	2006
New Instructional Facilities Allotment (NIFA)	\$250/NEW ADA	1999



# Cost of Education Index (CEI)

School District	CEI Index
Brownsville ISD	1.19
Houston ISD	1.17
Aldine ISD	1.16
Alief ISD	1.16
Conroe ISD	1.16
Cy Fair ISD	1.16
Dallas ISD	1.16
Fort Bend ISD	1.16
Katy ISD	1.16
Pasadena ISD	1.16
Socorro ISD	1.15
Arlington ISD	1.14
El Paso ISD	1.14
Fort Worth ISD	1.14
Garland ISD	1.14
Lewisville ISD	1.14
San Antonio ISD	1.14
United ISD	1.14
Ysleta ISD	1.14
Plano ISD	1.13
Round Rock ISD	1.12
North East ISD	1.11
<b>Austin ISD</b>	<b>1.10</b>
Killeen ISD	1.10

- The Austin Metropolitan Area has among the highest costs of living in the state. The median price for a single-family home and median apartment rent in Austin are both higher than any other area of the state.
- The median household income is \$2,300 higher in Austin than the second highest city in Texas, Dallas.
- However, the CEI has not been updated since 1991, and the cost of living in Austin was very different at that time.



# Property Taxes

- Every school district in Texas has the authority to levy two local property taxes:

**Maintenance and Operations (M&O):** pays for the day-to-day operations of the districts. The maximum M&O tax rate is \$1.17 for each \$100 in property value. A district must hold a Tax Ratification Election (TRE) to raise the rate above \$1.04.

**Interest and Sinking (I&S):** pays the money due on bonds issued by the districts to construct facilities. The maximum I&S rate is \$.50 for each \$100 in property value (note: no recapture on I&S revenue).

# Maintenance & Operations Tax Rate

\$1.00 = Compressed rate

0.04 = Golden pennies

- no voter approval required
- not subject to recapture

0.02 = Golden/Silver Pennies

- voter approval required
- not subject to recapture

0.11 = Copper pennies

- voter approval required
- subject to recapture

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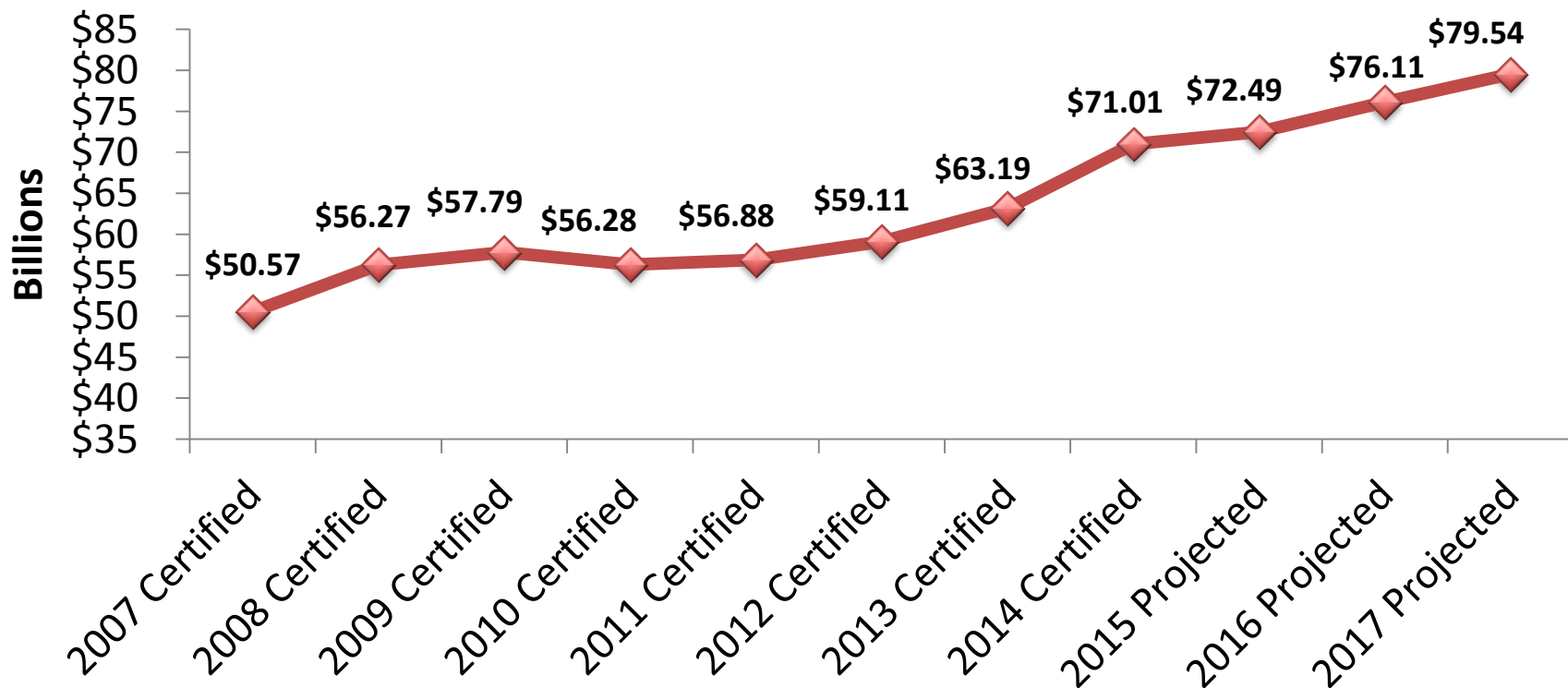
\$1.17 Max. Rate Allowed

# M&O: Tax Ratification Elections (TRE)

- For 25 years, school districts were only required to hold rollback elections if the Board-adopted tax rate exceeded the calculated rollback tax rate. The district's calculated rollback rate typically represented a small increase as it is intended to maintain existing revenue levels.
- May 2006, the Texas Legislature passed House Bill 1 (HB 1), creating a target revenue system for funding school districts and adjusting the tax rate calculation process, as well. The state requires districts to compress maintenance tax rates at 1.00 and gives them the option of approving up to four cents of additional tax.
- To increase local property tax rates further, school boards need to adopt a higher rate and then submit the rate for voter approval at a tax ratification election (TRE).
- Failure to pass a TRE leaves school districts with the same tax rate as the prior year, not a slightly higher rate as was the case with the former rollback process.
- AISD successfully passed a TRE in 2008 to increase its tax rate by 3.9 cents.

# Record Property Tax Values (Net)

*(in Billions)*



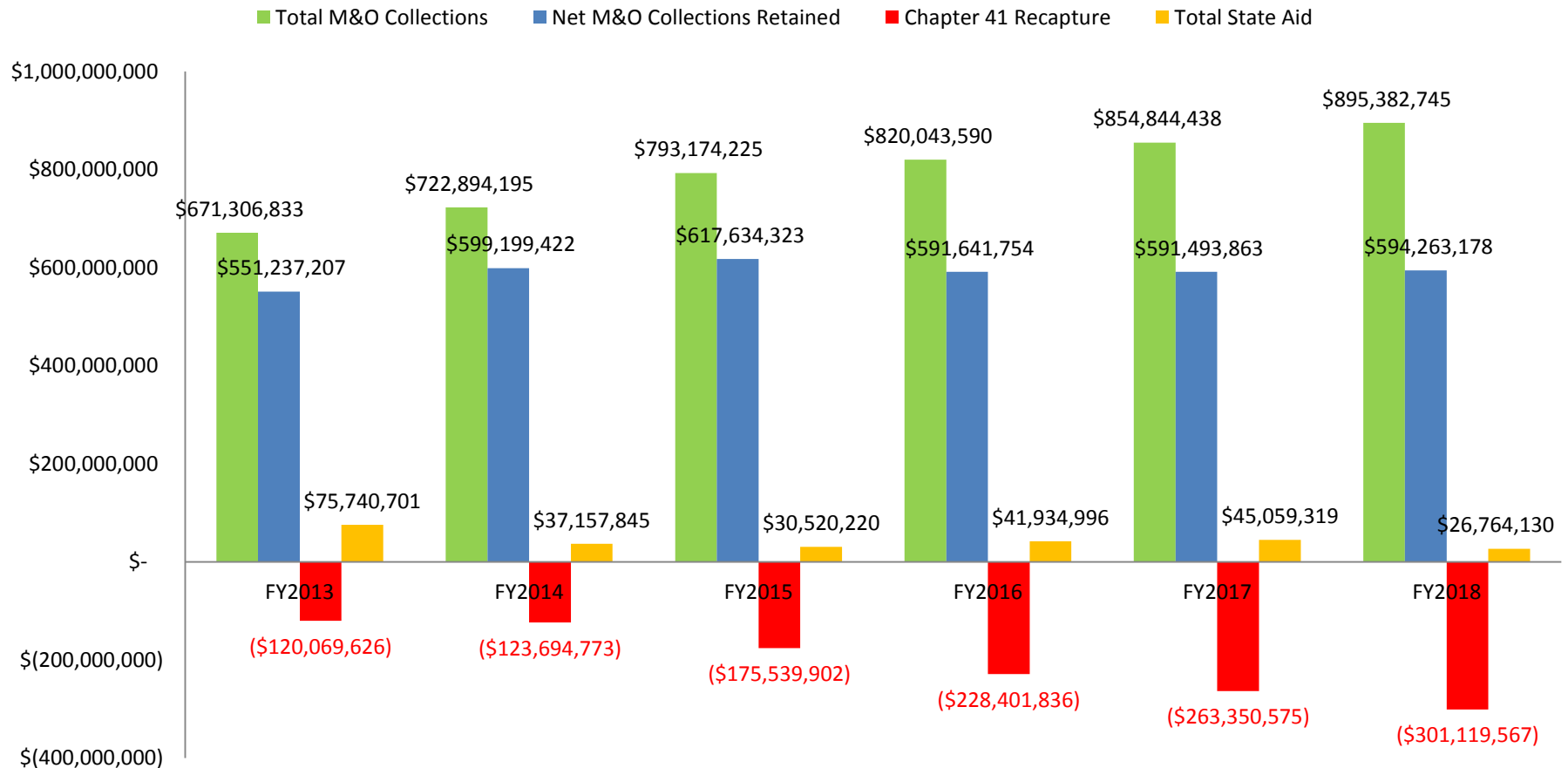
Even though property taxes are rising, the District receives nominal benefit due to the State's Target Revenue system which essentially caps the District's revenue at 2005-06 levels.



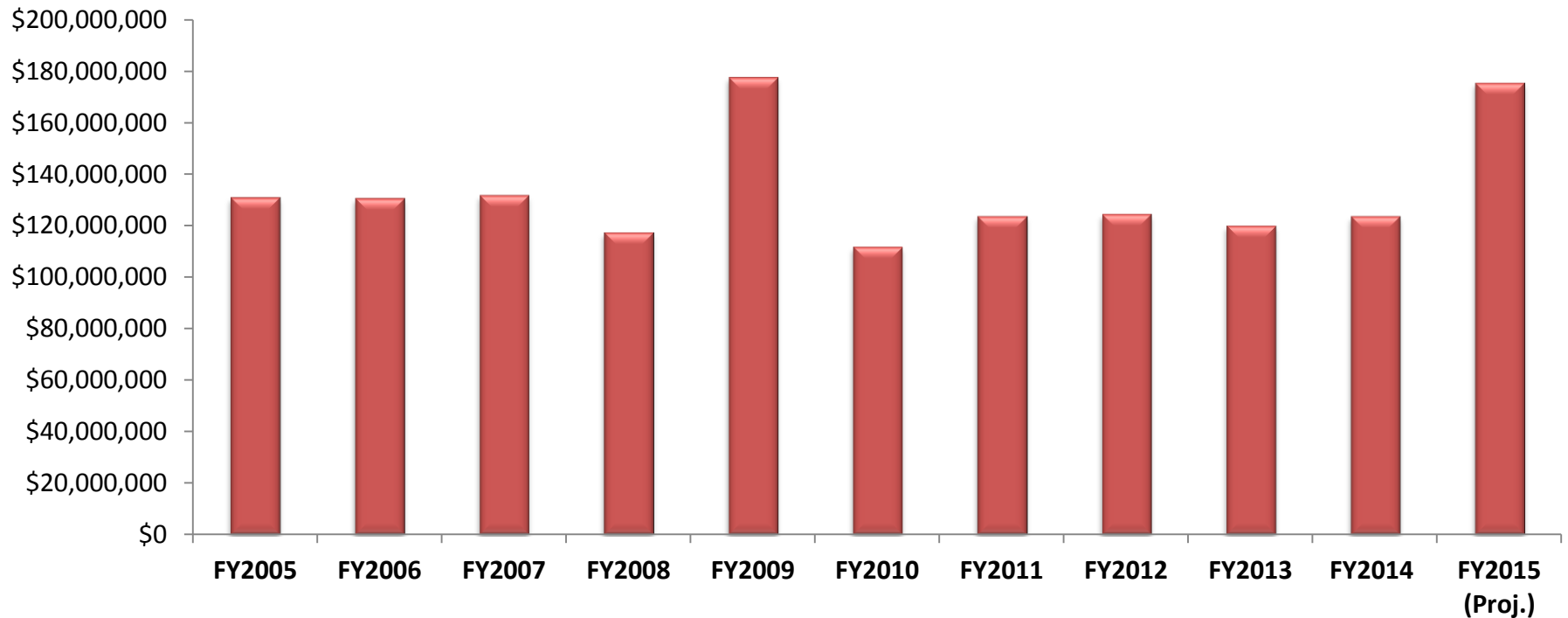
# Doesn't Necessarily Translate to Substantial New Revenue: The Impact of Recapture

- RECAPTURE, also known as Robin Hood or Chapter 41 is a function of Chapter 41 of the Texas Education Code which equalizes wealth for educational spending. The Chapter 41 provision is intended to “recapture” local tax dollars from “property-rich” districts and redistribute the funds to “property-poor” districts. Under this law, golden pennies represent the six cents that property-rich school districts like AISD are allowed to retain in revenue above the one-dollar tax that is assessed on all taxable property values. Any revenue collected on property taxes above these six cents is subject to recapture by the state. In other words, nearly 55% of the revenue generated beyond the six cents is sent to the state to redistribute to property-poor school districts. In FY2015, AISD will submit \$175.5 million to the state for redistribution.

# More Tax Collection Doesn't Translate to More Revenue for AISD



# During the past decade, AISD will have paid the State \$1.5 Billion in Recapture

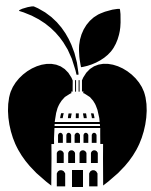


*AISD is the single largest payer of recapture representing approximately 11% of the total \$1.2 billion collected by the state in 2014. When Eanes and Lake Travis ISD are included, the Capital area accounts for nearly 20% of all payments.*

# Outdated Weights + High Recapture = Pressures

AISD's unique demographics and the State's overreliance on recapture is putting pressure on Austin's ability to serve students with important needs.

Rank	District	Recapture	Bilingual Students	Economically Disadvantaged Students	Students with Limited English Proficiency	Special Education Students	At Risk Students
#1	Austin ISD	\$128,343,304	27.8%	61.2%	27.0%	9.9%	55.9%
#2	Highland Park ISD	\$68,933,313	0.7%	0.0%	0.8%	7.1%	8.8%
#3	Eanes ISD	\$55,864,686	2.1%	3.1%	2.3%	7.4%	11.7%
#4	Plano ISD	\$36,333,491	12.4%	27.6%	12.9%	9.8%	24.2%
#5	Rankin ISD	\$28,257,083	8.4%	47.5%	8.8%	5.0%	57.7%



# Overview of School District Financial Challenges



# School District Budget Challenges

- Uncertainty in State Budget: Senate budget prioritizes tax relief over funding, Court case unresolved
- School districts are facing state mandated cost increases
  - District share of TRS retirement will be about \$660 million for the biennium
  - LBB's Government Effectiveness and Efficiency Report recommends raising district costs for TRS-Care by about \$90 million
  - HB5 implementation
- State (not districts) benefits from rising property values
- Failure of formulas to address rising costs falls on school staff to address students' rising academic and support needs
- Salary pressures are both a short- and long-term concern
  - 80% of school budgets are salaries
  - An improving economy and lower unemployment will make retention and recruitment more difficult
- No new money for facilities
  - TEA requested \$75 million for a new round of awards for the Instructional Facilities Allotment – not funded in either budget



# School District Budget Challenges

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- Many central Texas school district never restored from 2011 cuts
- Others face steep cliffs from the revised the legislation setting an expiration date of ASATR at the end of FY2017 (*broken promise*)
- Fluctuating enrollments (declining and/or fast growth) due to a number of factors that include: lack of affordable housing, declining birthrates and increased competition with charter schools, vouchers
- Record high and rising appraisal values which substantially increases the district recapture liability. In FY2018, nearly a third of every local tax dollar collected in Austin will go to the state
- Many district have used fund reserves to balance their budgets which is not a perennial solution
- Most school districts have implemented and exhausted several budget balancing solutions and savings options to address previous budget shortfall
- Federal reauthorization will impact accountability system and Federal funding

# QUESTIONS

