

Diving into Texas House Bill 3: a big school finance plan

New Investments and Overdue Remodels for the School Finance System

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Texas House of Representatives Bill 3 (HB 3) is the first major piece of school finance legislation filed by a committee chair in the 2019 legislative session. Sponsored by House Public Education Committee Chairman Dan Huberty, the proposal comes after Governor Greg Abbott declared school finance an emergency item. As introduced, HB 3 offers \$9 billion more funding than what's in current law, including \$6 billion for educational investments and \$3 billion to reduce property tax rates.

The Center for Public Policy Priorities applauds Chairman Huberty for advancing a proposal that prioritizes early education, removes inefficient funding mechanisms, and offers equitable property tax rate reductions. While we support HB 3, we also have concerns around equity, sustainability, and ensuring funding remains student-focused.

Greater Investments in Early Education

Experts agree that meeting third grade reading benchmarks is crucial for student success. To boost investments in early education, HB 3 creates a new Early Reading Allotment that provides 10 percent additional funding over the base level for economically disadvantaged students and English language learners in grades K – 3rd. While the bill gives districts the flexibility to spend these funds within the early grades, the stated intent of the author is to fund full-day Pre-K.

In order to sustain the gains made in Pre-K, it's important to ensure students are able to transition into a high quality early education environment. Since this additional funding is provided based on the number of low-income and bilingual students in grades K – 3rd, those resources should be directed toward benefiting those students by improving early literacy in grades K – 3rd. In order to fund full-day Pre-K, the state should simply allow districts to count full-time Pre-K students as full students. Currently even those in a full-day program are counted as half a student.

A Recognition that Money Matters in Education

After being stagnant for four years, HB 3 offers a \$890 increase to the main, per-student funding level (known as the “basic allotment”). The basic allotment would move up to \$6,030 from \$5,140. Funding for this increase came partially from the elimination of inefficient or outdated funding streams.

The most notable of these provisions eliminated from the school finance formulas is the Cost of Education Index. The purpose of the Cost of Education Index is to adjust funding based on regional cost differences. Primarily the index adjusts for district size, teacher salaries in neighboring districts, and the percentage of low-income students in each district. Considering the data used to populate the index is fixed at the 1989-90 school year, it's easy to argue that the index is outdated and not serving its intended purpose. However, in a state as large as Texas, certain costs can vary widely due to differences in economic conditions. Lawmakers need to do further review to see if the funding changes in the bill as a whole meet the needs of districts facing higher regional costs.

We also need more information to determine how much of the basic allotment increase is due to formula changes or new investments. The Texas Public School Finance Commission, which met all through 2018, did not make any efforts to fully study how much it should cost to educate a student in our state today. HB 3 similarly does not develop a cost-based method for setting per-student funding levels.

The fact that HB 3 authors chose \$6,030 for the new basic allotment was arbitrarily chosen as a nod to TX60x30 (i.e. \$6,030), the name of the Texas Higher Education Coordinating Board's plan to ensure 60 percent of Texas adults have a post-secondary degree or credential by 2030. This is a nice gimmick but also demonstrates the need for a more data-driven cost determination.

An Equitable Way to Reduce Property Tax Rates

For years, Texas has relied too much on local property taxes to pick up the cost of public education. To address this imbalance and to increase the state's share of school funding, HB 3 reduces tax rates at two different points in the property tax system. The first is a four cent tax reduction for all districts to the mandatory portion of the school Maintenance and Operation (M&O Tax) tax rate. The second reduces the optional portion of the M&O tax rate some districts access to supplement base level funding.

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. Under HB 3, that rate falls to \$0.96 per \$100 of property value for all districts.

This approach would have all school districts receive the same reductions in tax rates, making it quite equitable. The proposal is certainly more equitable than a proposal that Governor Abbott has supported and which is part of the school finance commission's report. The Governor's proposal would allow districts with quickly rising property values to reduce their Tier I 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 would have a much lower base level tax rate to support schools than its less wealthy counterpart Edgewood ISD, located less than 10 miles away. CPPP supports the HB 3 approach to the M&O tax reduction because it follows the equity standard that all districts should have access to similar levels of funding at similar tax rates.

Reducing the Tier I tax rate shifts more of the responsibility for funding schools to the state. In an effort to maintain that increased investment, HB 3 includes a provision that directs the Legislative Budget Board to report the state's share of funding, how much it's projected to decline due to local property value growth, and what it costs to reduce the Tier I tax rate.

The school finance system also gives school districts the option to increase tax rates locally to raise additional funding to supplement their educational offerings; this is called 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) and lower value "copper-pennies" (the final 11 pennies to reach a tax rate of \$1.17 per \$100 of property value).

Nearly a third of school districts in the state are taxing at the maximum rate and lack the capacity to generate additional funding. To address this concern, HB 3 increases the guaranteed amount of funding districts receive from the state for the lower-value "copper-pennies," while at the same time allowing districts to reduce their tax rates. Increasing the funding generated while simultaneously reducing the tax rates provides districts the same level of funding and frees up capacity to increase the tax rate if additional funding is needed.

Equity Concern

HB 3 also makes changes to the high-value “golden penny” portion of the Tier II tax rate, and those changes raise some equity concerns. Current law uses the property-wealthy Austin Independent School District (AISD) as a baseline. For the first six pennies of the Tier II tax rate, districts are guaranteed to receive as much funding as AISD is able to generate based on the Austin area property tax base.

House Bill 3 takes Austin ISD out of the picture and instead makes the baseline equal to 160 percent of the basic allotment. HB 3 also increases the number of “golden pennies” to eight from six. With the proposed basic allotment set at \$6,030, that would make the value of the golden pennies \$96.48 per student, down in value \$39.44 from the \$135.92 per student required by current law for 2021.

The recapture (or “Robin Hood”) provision of the school finance formula requires property-wealthy districts to send revenue to the state for redistribution to other school districts and charter schools. Because “golden pennies” are not subject to the recapture provisions, HB 3 would let property-wealthy districts keep any revenue generated above the amount guaranteed by the state. Taken together, these changes in HB 3 (increasing the number of pennies available while decreasing the guaranteed yield) would widen the gap in revenue that property-wealthy and property-poor districts are able to access. In effect, the amount of supplemental or enrichment funds available to a district would be influenced more by property wealth than efforts to generate revenue through the tax rate.

Redirecting Badly Needed Funds

In addition to the concern that the Early Reading Allotment is intended to fund full-day Pre-K rather than make investments in early literacy for the students using the funding in grades K – 3rd, HB 3 also removes spending directives for compensatory education (services for low-income students) and English language learners. While districts need some flexibility to meet unique student needs, any time funding is generated based on a student population, those funds should be used to serve that population. It’s unfair to use children that need special services to bring in extra funds and then not use those funds on the needs of these children.

Sustainability Concerns

The positive revenue estimate that the Comptroller delivered in January made the proposed investments in HB 3 possible. An investment of this size, however, without a plan to generate new revenue, prevents the state from investing in other state priorities and puts these potential gains at immediate risk in the next economic downturn.

House Bill 3 does not create any mechanisms or adjustments to address future inflation. Inflation each year, without additional funding to the system, is essentially a cut in funding over time.

We appreciate Chairman Huberty for the hard work that went into HB 3. Ultimately the full 2019 Legislature will have the final say on remodeling our school finance system and capitalizing on this rare opportunity to accomplish meaningful reforms. We encourage lawmakers to build off the proposals from Republicans, Democrats and the full School Finance Commission and invest in our future workforce.

The **Center for Public Policy Priorities** is an independent public policy organization that uses research, analysis and advocacy to promote solutions that enable Texans of all backgrounds to reach their full potential.

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