

August 11, 2017

Senate Version of HB 21 Continues to Pit Education Against Healthcare

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The version of House Bill 21 introduced in the Senate Education Committee is a step backward for public schools. Instead of the promising step forward passed by the House, the Senate bill favors Band-Aides over actual fixes and adds to the current \$1.2 billion Medicaid shortfall.

Specifically, the Senate bill:

- increases funding disparities between charter and traditional public schools,
- extends Additional State Aid for Tax Reduction (ASATR), an inefficient funding stream set to expire in 2017,
- takes \$311 million away from Health and Human Services, and
- fails to offer any solutions for Texas' outdated and underfunded school finance system.

The only positive aspect preserved from the House version of HB 21 is a measure to phase out a funding penalty for small districts under 300 square miles. This funding change will increase equity in the system by ensure that all small districts are funded in a similar way.

Concern: Increased funding disparities between charters and traditional public schools

The Senate substitute for House Bill 21 provides an additional \$120 million for the Existing Debt Allotment, a program that provides facility debt payment assistance to school districts with low property wealth. The proposed \$120 million is to be split evenly between charter and traditional public schools.

While the additional \$60 million in funding will flow to charter schools through the Existing Debt Allotment, the bill does not mandate that charter schools must apply this new funding toward facility expenses. Opening up this funding to charter schools, especially without guidance and oversight, will increase the funding inequities between traditional public schools and charters.

Charter schools already have an unfair funding advantage over traditional public schools because their base per-student funding is based on the statewide average, which is artificially inflated due to the large number of very small districts in the state. This often leads to charter schools receiving more funding for a similar student than a neighboring traditional public school would.

For an example, the statewide average adjusted allotment is \$6,519 for the 2017-18 school year and Houston ISD's adjusted allotment is \$5,569 – this means that a charter school in Houston receives \$950 more per student than Houston ISD does. Charter schools can apply this funding toward facility needs.

Recommendation: Direct the full \$120 million in Existing Debt Allotment funding toward tax rate equalization for public schools with low property wealth.

Concern: Continuation of ASATR past expiration date

The Senate version of HB 21 contains \$100 million for FY 2018 and \$50 million in FY 2019 in “Hardship Grants” for districts losing funding due to the expiration of Additional State Aid for Tax Reduction (ASATR) at the end of FY 2017.

ASATR is a funding mechanism for school districts, created by the Legislature in 2006, to ensure that no district would lose funding as a result of school finance reforms that compressed the Maintenance and Operation (M&O) tax rates by one-third.

Districts that receive ASATR are considered “off-formula” meaning that their funding levels are set to match a historical point in time and are not based on the various funding adjustments in the school finance formulas. The Legislative Budget Board reports that only 161 districts, out of over 1,200, would continue to receive ASATR funding in 2018 if the program did not expire. On average, these districts receive \$400 more per student than districts not on ASATR funding.

In 2011, the Legislature took actions to get all school districts off ASATR funding by 2018 through the introduction of the “target revenue reduction factor” a mechanism to reduce the amount of ASATR a district receives, increasing the basic allotment in 2013 and 2015, and by setting an expiration date for ASATR funding.

If being on formula funding is a hardship, then the formulas should be addressed. Extending ASATR funding is a Band-Aide for a few districts while underfunding in the system remains widespread.

***Recommendation:* Let ASATR expire and design a cost-based school finance system that meets the unique needs of all districts and is equally supported by state and local tax sources.**

Concern: Diversion of \$311 million from the Health and Human Services Commission

To pay for these Band-Aids and non-solutions, the Senate version of HB 21 takes \$270 million dollars in state General Revenue funds from the Health and Human Services Commission (HHSC).

While the Center supports the equity improvement for how small school districts are funded, contained in both the versions of HB 21, the Senate plan diverts an additional \$41 million from HHSC to phase in the funding adjustment.

Nearly all the General Revenue received by HHSC goes to fund the state’s share of the Medicaid program. The upcoming 2018-2019 budget already underfunds Medicaid by \$1.2 billion, meaning the state will need to make that funding up in the 2019 session through the supplemental budget. We simply cannot afford additional cuts in this area.

***Recommendation:* Address healthcare and education separately and comprehensively rather than pitting the two issues against each other to compete for funding.**