



# EVERY TEXAN

Formerly Center for Public Policy Priorities

May 24, 2022

## Every Texan Testimony on the Implementation of HB 3

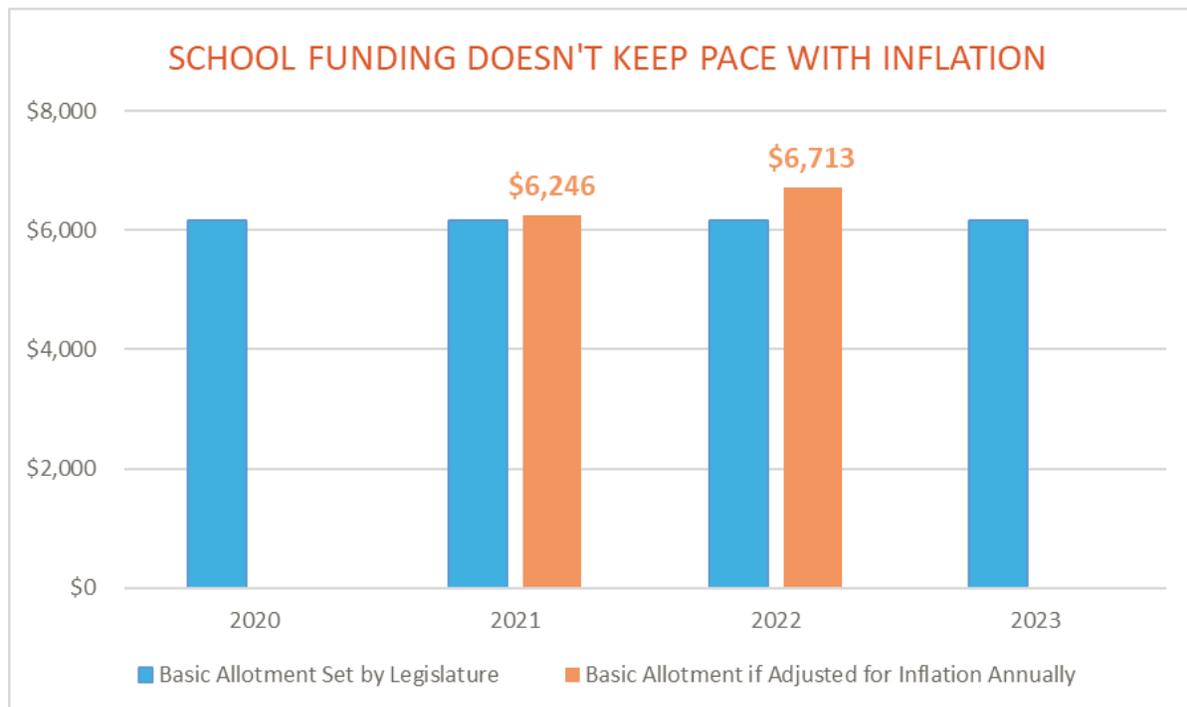
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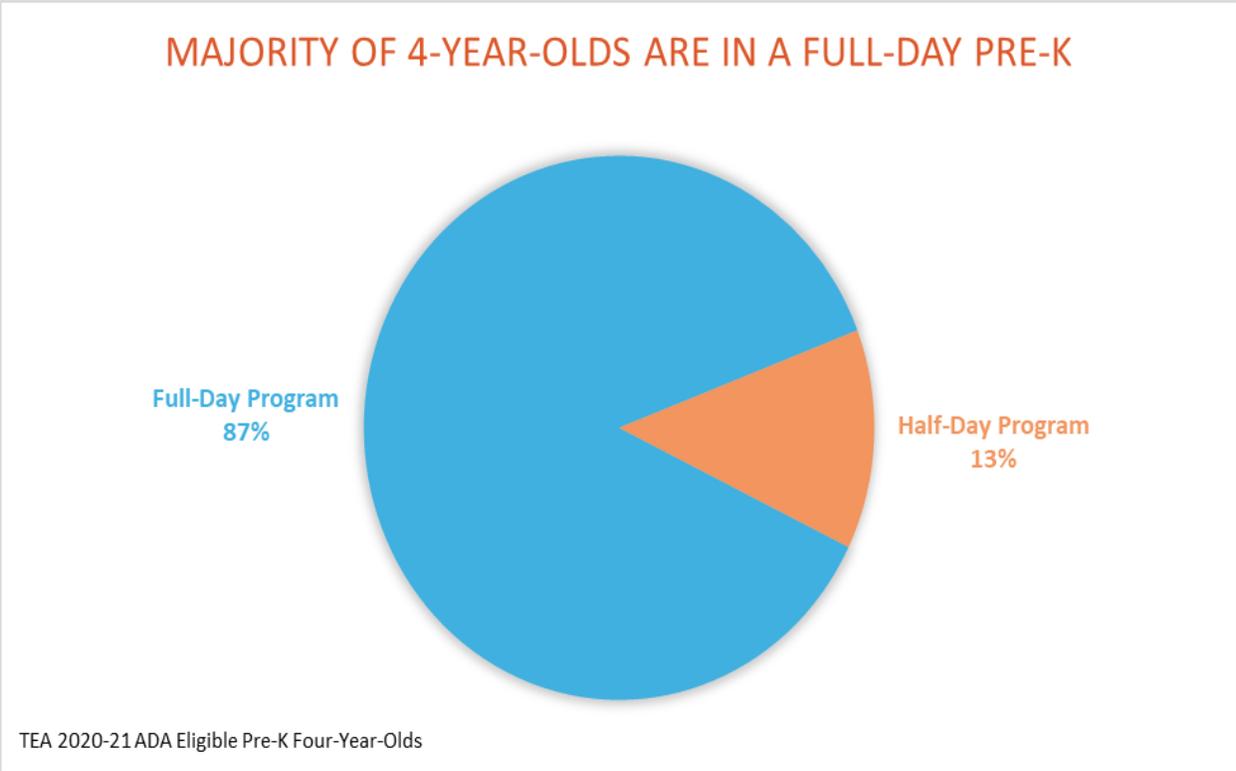
While HB 3, the tax cut and school finance bill passed in 2019, added a needed \$6 billion to the school finance system, the work of ensuring all districts have adequate resources to provide a high quality education to all students is far from over.

HB 3 left many holes and the Legislature is not sustaining the investments made in 2019.

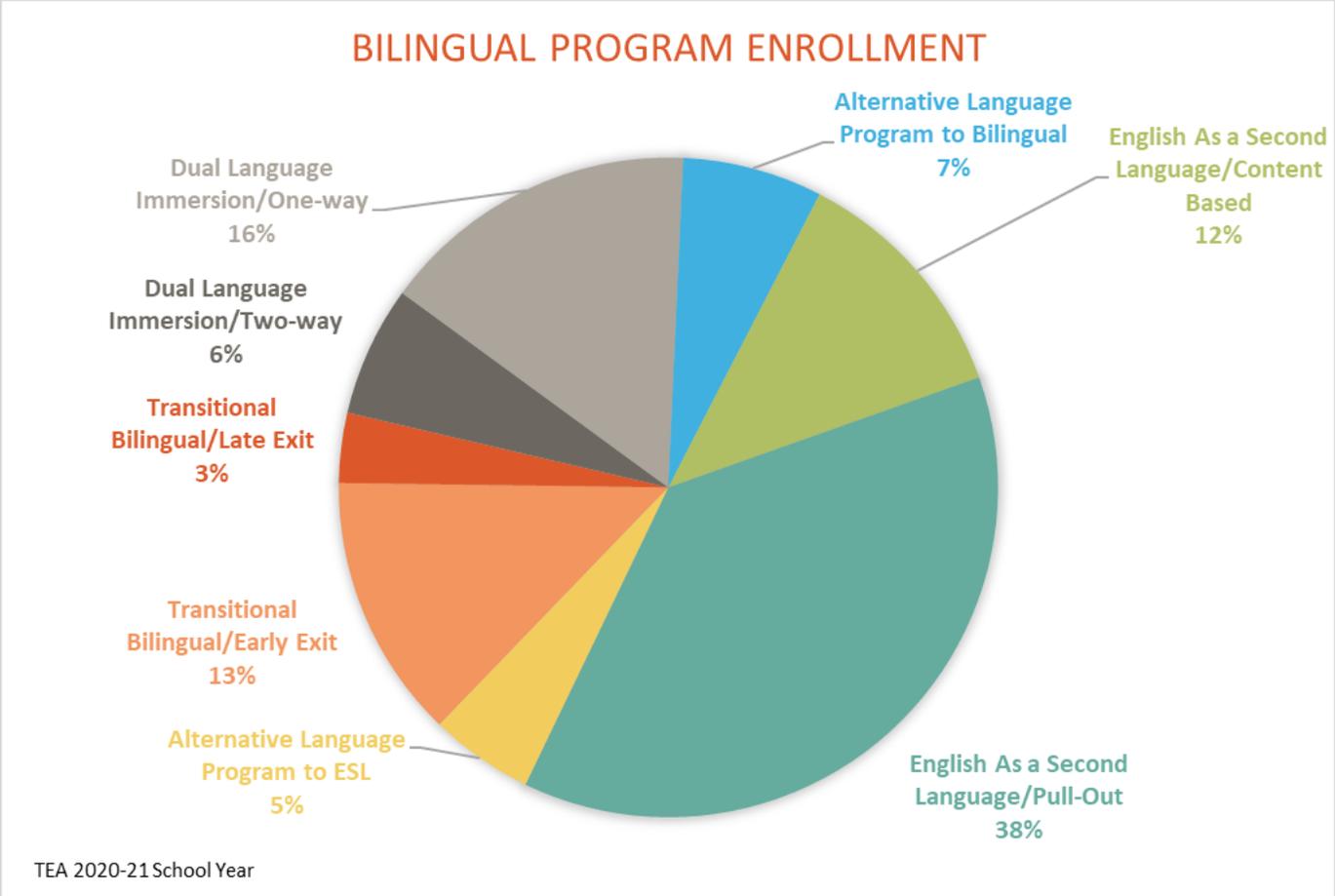
- The basic allotment was increased in HB 3, but then left stagnant for four years. If the basic allotment was adjusted for inflation annually using the Bureau of Labor Statistics Consumer Price Index, it would be \$6,713 per student today. Stagnation in basic allotment prevents school districts from offering regular salary increases to teachers and other school personnel.



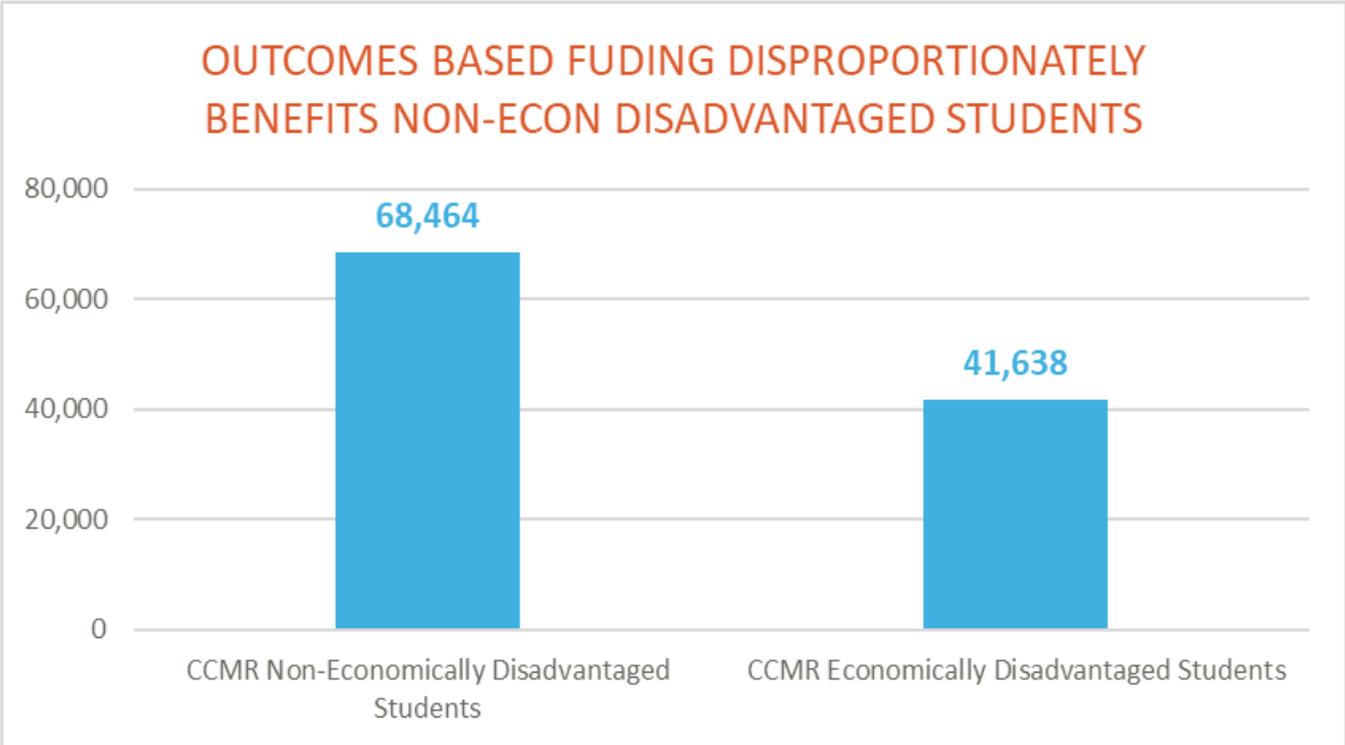
- Pre-K continues to be funded as a half-day program even though school districts are required to provide a full-day program for four-year-olds. Even with the waivers currently allowed, 87% of ADA eligible four-year-olds are in a full-day Pre-K program.



- Only 22% of emergent bilingual students benefit from the dual-language weight, leaving 78% of emergent bilingual students with the same 10% weight established in 1984.



- College, Career, and Military Readiness (CCMR) bonus funding favors non-economically disadvantaged students. Even with needing to meet a greater threshold of non-economically disadvantaged students before pulling down funding, 68,464 non-economically disadvantaged students qualified for CCMR bonus funding compared to only 41,638 economically disadvantaged students. This shows that outcomes based funding benefits districts that are ready doing well, rather than providing support to districts with greater need.

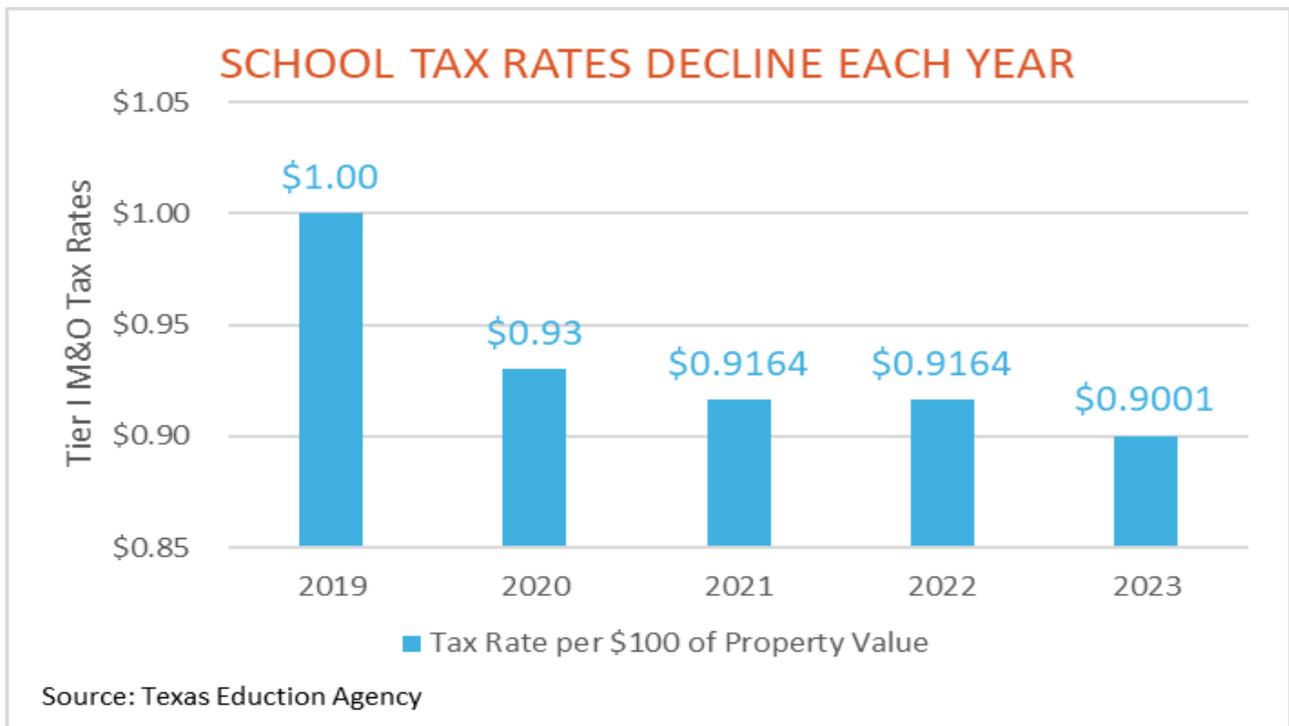


## Tax Compression: A Looming Threat to Public Education Funding

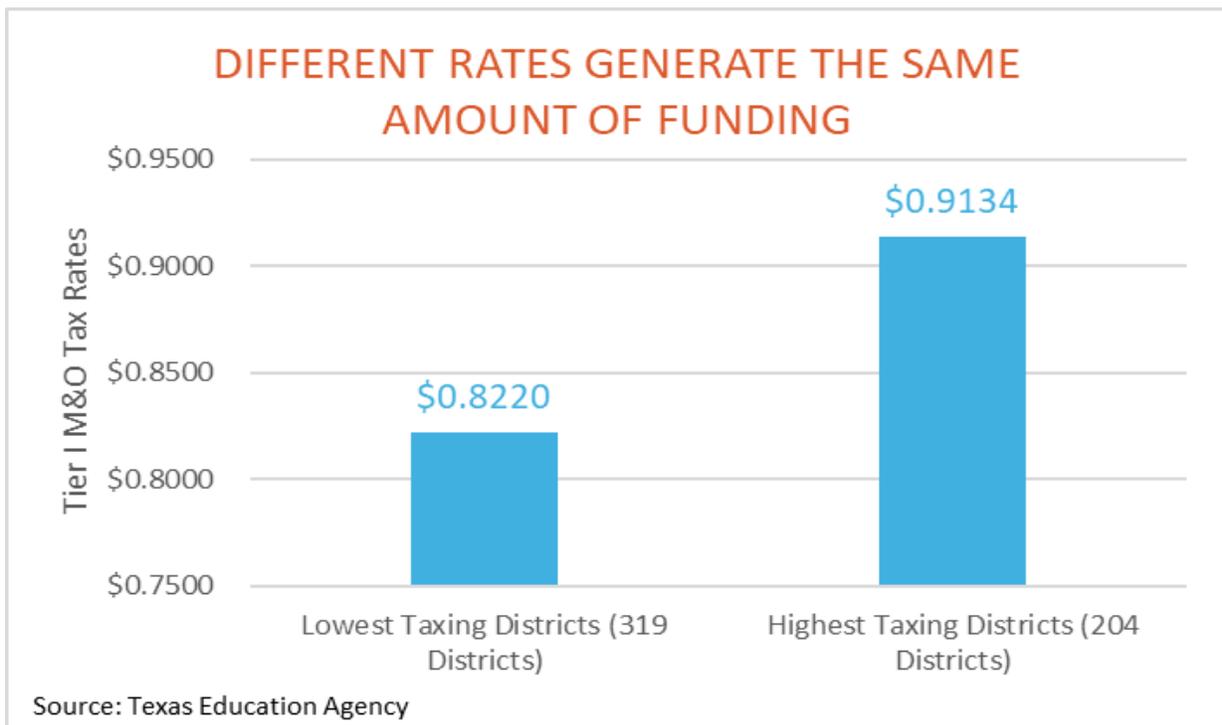
Before the passage of HB 3 in 2019, when property values would rise the state would benefit from that growth by lowering the amount of state aid needed to fulfill its entitlement to school districts. In response to the outcry over growing recapture and declining state share, the Legislature implemented a system of tax compression that shifts the responsibility to fund schools from local property taxes to state aid.

While tax compression is increasing the state's responsibility to fund schools, it does not increase the amount of funding available to schools. Eventually the main portion of the school property tax rate will be eliminated, which will strain the state budget and lead to cuts in education funding if the Legislature does not identify an alternative funding source to replace lost property tax revenue.

When statewide property taxes increase by 2.5 percent or more, tax rates are reduced for all school districts across the state. Since funding for schools is formula driven, the state must contribute more revenue to schools as property tax collections decline.



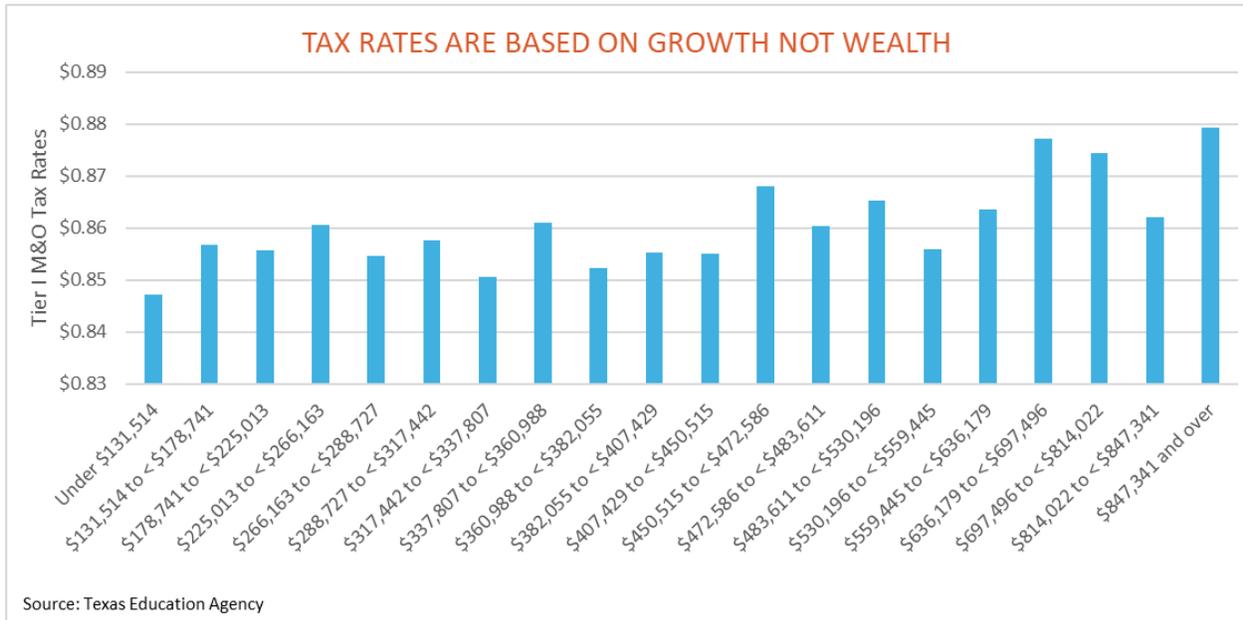
If an individual district experiences property value growth at a rate higher than the statewide average its tax rate is reduced even further. This is a complete departure from the long-held principle of 'equal revenue for equal taxation.' Before HB 3, every district taxed at the same rate for the Tier I M&O (Maintenance and Operations) funding with recapture and state aid used to ensure everyone was on a level playing field.



Now, every district taxes at a different rate for Tier I M&O and receives similar levels of funding.<sup>1</sup> In addition to property-wealthy and property-poor districts, the system now also has high and low taxing districts.

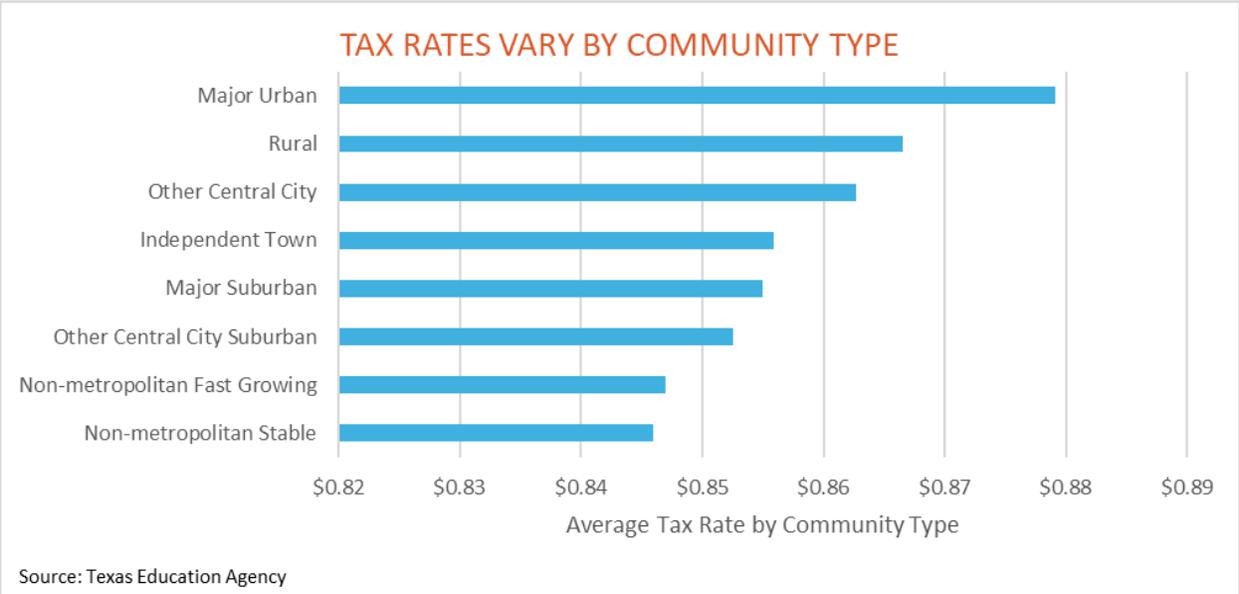
<sup>1</sup> Texas Education Agency, Division of State Funding. Tax Year 2021 Final Maximum Tax Rates; August 27, 2001

Because tax compression is based on growth, rather than wealth, there is no correlation between Tier I M&O tax rates and property wealth.<sup>2</sup>



<sup>2</sup> Every Texan analysis of Texas Education Agency Snapshot 2019-20 and Tax Year 2021 Final Maximum Tax Rates data.

However, when a community starts with a smaller tax base it is easier to achieve higher rates of growth than it is for a community that has a large tax base. As a result, the greatest divisions in tax rates can be seen between community types.



### HB 3 Puts Tax Cuts before Kids

Instead of directing additional state resources to improve school funding for all districts, the Legislature chose tax cuts that are making the system more unfair for everyone. With the historic rates of property value growth being reported, the cost of compression is anticipated to grow significantly next biennium. Without an alternative revenue source to replace property tax revenue lost to tax compression, the quality of our public education system will ultimately pay the price. Increasing the basic allotment and funding for special populations puts kids first.