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## SENATE BILL 4

## School Finance, Teachers Salaries, Property Tax Cuts, Social Promotion

SB 4, the school finance bill, directs nearly \$4 billion in additional state funding to public education. The bill targets four areas of the public education system: teacher salaries, facilities financing, property tax rates, and social promotion/early childhood programs. This Policy Page touches only those developments in school finance. Others, contained in the general state budget (HB1) are not described here.

The increase in state funding is the largest single increase in public education funding in the state's history, increasing state spending on education for fiscal 2000-01 by more than 13 percent over fiscal 1998-99 levels.

The new money significantly increases the equity of the school finance system. A key factor is an increase in the amount of "guaranteed yield" state aid received by school districts for each penny of tax rate, and an expansion in the number of districts eligible for this aid. The basic allotment received by all districts will also increase significantly. According to LBB estimates, nearly all the revenue and more than 90 percent of the students will be in the equalized system, which reduces the effect of local property wealth on a district's ability to generate revenue. The new law also lessens the amount of money recaptured from wealthy school districts and gives additional aid to fast-growing districts.

The new state money will reduce local property taxes by a statewide average of six cents per \$100 of valuation. The reduction in individual districts will be determined by a variety of factors, including the amount of bonded indebtedness of that district, its current tax rate, and its level of property wealth per student. Some districts will see no reduction in tax rates.

Of particular interest is a new competitive grant program that will allot \$200 million in fiscal 2000-01 for new or expanded kindergarten and pre-kindergarten programs. Another \$15 million will go to provide an educational component to Head Start programs.

### Teacher Salaries

Teacher groups advocated strongly all session for a pay increase of \$6,000 per teacher — enough to raise the state's average teacher pay to the national average. Teachers got somewhat less, but still enough to raise Texas teacher salaries from 36<sup>th</sup> to 26<sup>th</sup> in the nation. SB 4 requires all school districts to pay all classroom teachers (and fulltime librarians, counselors and nurses) \$3,000

more in the 1999-2000 school year than they otherwise would have earned under the district's salary schedule, including any local or career-ladder supplement.

The original Senate plan would have increased teacher pay by having the state take over the Teacher Retirement System contribution currently paid by each teacher. This system would have increased each teacher's pay by the same percentage, so would have given larger dollar increases to higher-paid teachers. Since wealthier school districts generally offer higher pay, the TRS-linked system would have disproportionately benefited these districts. The original House proposal would have provided each district with a per-teacher amount dedicated to salary increases, regardless of the ability of that district to raise the money from local property taxes, again favoring higher-wealth districts.

The final version of the bill distributes the additional money for teacher salaries by flowing it through the equalized funding system, which takes into account the local property wealth of each district, improving the equity of the school finance system. Districts are required to use up to 80 percent of the additional funds to pay for the salary increase. If this amount is not enough to cover the full mandated increase, the state will pick up the rest. The total cost of the increase in teacher salaries is estimated at \$1.8 billion for fiscal 2000-01.

### School Facilities

Despite the improvements in school funding equity over the past ten years driven by the *Edgewood* decisions by the Texas Supreme Court, state support for school facilities has been notoriously weak.

The Legislature took an important step forward in 1997 by creating an Instructional Facilities Allotment (IFA), which supplies aid to certain districts for construction of new facilities. However, because the amount available is limited by appropriations, districts must apply for funding, which is oversubscribed.

SB 4 adds \$150 million to the IFA for fiscal 2000-01 and increases the amount received by a qualifying district from \$28 to \$35 per student per penny of tax effort. Fast-growing districts will be given higher priority in qualifying for aid.

More importantly, the new law creates a separate “tier” of equalized funding to help districts pay for debt they have already incurred to build existing facilities — known as “old debt.”

Under the current school finance system, the property tax rate is capped at \$1.50 per \$100 of property value. Districts may exceed this rate only to support debt service for construction of school facilities. Although revenue raised at tax rates up to \$1.50 is equalized by the state, revenue above the cap is not equalized.

SB 4 creates a new Existing Debt Allotment (EDA), which equalizes per-penny tax revenue for debt-service tax rates up to 12 cents. Through this new “tier 3,” the state guarantees that each district will receive \$35 per student for each penny of tax effort.

### **Property Tax Reductions**

SB 4 will result in an average statewide reduction in property tax rates of six cents. This anticipated tax cut is the consequence of several provisions of the bill.

The new Existing Debt Allotment accounts for \$446 million of the projected tax reduction. School districts will be required to reduce their current debt-service tax rate to the new rate that generates the same amount of state and local revenue in “tier 3” as the district raised from purely local funds in the prior year.

Another \$489 million in tax reductions are linked to increases in the basic elements of the school funding formulas. School districts are currently guaranteed a yield of \$21 per weighted student per penny of tax effort for tax rates between 87 cents and \$1.50 (known as “tier 2”). SB 4 increases this “guaranteed yield” to \$24.99. Districts must reduce their tier 2 tax rates to the rate that provides the same amount of state and local revenue per weighted student as the district raised the prior year, calculated at a virtual guaranteed yield of \$23.10. The district will then receive a full \$24.99 per penny at this new tax rate, thus increasing the district’s actual revenue.

It will take an example to make this clear: Let’s look at a district with a tier 2 tax rate of 60 cents. At last year’s guaranteed yield of \$21, that district would have generated \$1,260 in state and local revenue per weighted student (60 x \$21). At a guaranteed yield of \$23.10, the district could raise the same amount of money with a tier 2 tax rate of only 54.5 cents (\$1,260/\$23.10). So the district would have to reduce its tier 2 tax rate by 5.5 cents (60-54.5). However, the district actually would receive \$24.99 for each penny of tier 2 tax effort, so it could generate \$1,363 at its new lower tax rate, a revenue increase of \$103 per weighted student despite the lower tax rate.

The 1997 school finance bill also promised property tax reductions by increasing the statewide homestead exemption. However, most taxpayers enjoyed smaller tax cuts than anticipated, since many districts raised their tax rates. To avoid repetition of this politically damaging result, SB 4 reduces the district tax-rate rollback amount. Current law requires a district to receive voter approval for any tax-rate increase greater than the rollback rate — the rate that a district would need to levy to receive the same amount of funding with the current year’s property values as it received in the prior year, plus 8 cents. The new law lowers the rollback rate to 3 cents for the 1999 tax year and to 6 cents thereafter.

SB 4 also contains several provisions that will increase revenue to certain school districts, potentially reducing (although not prohibiting) future tax increases. The commissioner of education is currently permitted to allocate additional funds to districts whose property values decline by more than 4 percent annually. SB 4 increases the funding for this provision from \$21 million in fiscal 1998-99 to \$133 million in fiscal 2000-01. Districts with new facilities will receive an additional \$50 million to help cover initial costs. The bill also allots \$90 million to reimburse districts that lost revenue because of the 1997 increase in the homestead exemption

Property wealthy school districts will benefit from several provisions that allow them to keep more revenue, reducing pressure on tax rates. SB 4 raises the equalized wealth level — the point at which a district’s additional revenue is “recaptured” by the state — from the current \$280,000 in property value per weighted student to \$295,000. This change allows wealthy school districts to keep \$29.50 per weighted student per penny of tax effort, rather than \$28.

The law also makes permanent the “hold harmless” provision that was originally intended to permit wealthy districts to slowly acclimate themselves to the equalization requirements of the *Edgewood* decisions. These districts now may maintain their per-student revenue at their 1992-93 levels and be subject to a reduced level of recapture, depending on their tax rate. The higher wealth level and new hold-harmless rules will cost the state \$200 million in fiscal 2000-01.

The Dallas Morning News offers a property tax calculator on their web site that allows user to estimate taxes for their individual school district:

<http://dmnweb.dallasnews.com/proptax/schooltaxrates.asp>

### **Social Promotion/Early Childhood Education**

A major plank in the governor’s legislative program was the elimination of social promotion — the promotion of students to the next grade for social reasons, despite their failure to learn the curriculum. SB 4 is intended to eliminate social promotion by requiring students in specified grades to pass certain TAAS tests at their grade level before being promoted. The program will begin with students who are in the 3<sup>rd</sup> grade in the 2002-03

school year and will be implemented in the 5<sup>th</sup> and 8<sup>th</sup> grades as this first group of students moves up.

Students who fail a TAAS test in these grades will be given additional instruction and allowed to take the test two more times. If, after the third try, a student still does not pass, the student will be held back. A parent may appeal a retention decision to a grade-placement committee consisting of the principal, the teacher, and the parent. The appropriations bills includes \$173 million for accelerated instruction for these students, as well as for younger students who fail to perform at or above grade level on a reading diagnostic instrument.

SB 4 also makes a significant investment in programs to improve early childhood education. House Public Education Committee Chairman Paul Sadler explicitly identified these programs as part of the social promotion program, arguing that it would be better to teach children as early as possible rather than waiting until they fail in 3<sup>rd</sup> grade to offer help.

The bill establishes a competitive grant program to expand an existing kindergarten or pre-kindergarten programs to a full-day basis or to implement new pre-K programs. Priority in allocating grants will be given to districts in which third-grade TAAS performance is substantially below the state average. The grant program will disburse \$200 million for fiscal 2000-01.

The bill also creates a \$15 million grant program to provide an educational component to Head Start programs or similar government-funded early childhood and education programs.

Another \$85 million will go to a competitive grant program for "second chance" programs for students who fail 9<sup>th</sup> grade.

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