



HOW TO IMPROVE SCHOOL FINANCE PLAN ON THE HOUSE FLOOR

Overview

At the end of the regular session, the Legislature was poised to pass SB 1811, a fiscal matters bill that included rewriting the state's school finance laws, when the clock ran out. Because the Legislature underfunded schools in the state budget by \$4 billion from what current law says schools need to meet the state's educational goals, the Legislature now must devise a new school finance plan to determine how much each school district is to receive.

If current law were fair, it would be simple to cut \$4 billion. Unfortunately, even after years of litigation and legislation, current law is still not fair. Some districts are limited to formula funding while other districts receive higher funding under "hold harmless" provisions called "Target Revenue." And some districts are more able to raise money locally than others.

SB 1811 offered a blended plan. For Fiscal 2012, it used an across-the-board cut favored by some in the House leadership, and for Fiscal 2013, it used the plan in SB 22 favored by the Senate. Of course, an across-the-board cut is more favorable to the higher-funded districts—those on Target Revenue. But the higher-funded districts did well even under SB 22, which was itself a hybrid plan that limited the loss to "Target Revenue" districts.

On Thursday, when it takes up SB 1, the House will again confront the question of how to distribute \$4 billion in cuts to schools. SB 1 is essentially SB 1811 all over again. Based upon discussions in the House Appropriations Committee, we anticipate several floor amendments to SB 1 that would significantly improve this legislation and set the stage for progress in the next session. In this short paper, we explain the problems in SB 1 and how they can be mitigated by floor amendments.

SB 1 Imposes an Unfair Across-the-Board Cut

SB 1 uses an unfair across-the-board cut in the first year, reducing funding for lower-funded districts on formula as much as those higher-funded districts on Target Revenue. Under SB 1, of the \$4 billion cut from current law, about 62 percent comes from the Regular Program Allotment, while only 37 percent comes from Target Revenue. Under SB 1 (after sorting the districts from low to high by State/Local Current Law Revenue for 2011-12 per Penny of Adopted M&O tax rate for 2010-11), state and local revenue for the bottom half of all districts with more than 2.6 million children (about 60 percent of all kids in public school) would average \$5,100 per weighted student in average daily attendance (WADA), while the top 15 percent of districts would be left at \$7,100 per WADA, about \$2,000 per WADA higher. Cutting a district with \$5,100 per WADA undermines education in that district far more than the same cut in a district with \$7,100 per WADA.

Advocates for Target Revenue districts make two arguments to justify this unfair allocation. First, they argue that their districts were promised Target Revenue. But of course all districts were promised current law, and if it has to be adjusted, the question is how to do so fairly. Advocates for Target Revenue districts also argue that the Legislature shouldn't bring them down too fast. To which one should reply—why not? Why are children in Target Revenue districts entitled to more than children in formula-funded districts? How can the Legislature justify cutting districts at the bottom of funding to protect districts at the top?

SB 1 Abandons the Concept of Funding Formulas

Schools should be financed by fair funding formulas that adjust for the varying costs of educating different students (for example, special education versus regular education) and the varying costs of operating different districts (for example rural versus suburban). SB 1 trades fixed funding formulas for ad-hoc funding decisions by creating something new called the “regular program adjustment factor” to be set through the appropriations process. Under SB 1, in future sessions, the Senate Finance or House Appropriations Committee could change the amount going to public education by simply adjusting the multiplier in the “regular program adjustment factor.” The budget conference committee could even make this simple adjustment, forcing its adoption as part of the budget by an up or down floor vote.

SB 1 Ignores Local Tax Rates

SB 1 is deliberately designed to produce both higher education spending *and* lower tax rates in favored districts at the expense of other districts. Generally lower-funded school districts have been forced to higher local tax rates to meet the needs of their children. Another way to put this is that districts who receive more state money than others are able to keep local taxes lower. Consequently, the bottom half of districts have average tax rates of \$1.09, while the top 15 percent have average tax rates of only \$1.01. Under SB 1, the across-the-board cut takes a bite out of the revenue generated by the lower-funded districts with their higher local tax rates and uses it to protect the higher-funded districts. A separate problem under SB 1 is that the across-the-board cut leaves room for higher-funded districts to raise local taxes to mitigate their loss, while lower-funded districts may be unable to mitigate their cut because they can't pass a tax ratification election (TRE), required for tax increases over \$1.04, or because they are already at or near the \$1.17 tax cap.

The Legislature Can Improve SB 1 in this Special Session

Rejecting the House leadership's across-the-board cut and adopting the Senate's plan as set out in SB 22 from the Regular Session would be the very best step. If that cannot be accomplished, however, several smaller steps can be taken to significantly improve SB 1. These steps should all enjoy bipartisan support.

First, SB 1 should be amended to sunset the Regular Program Adjustment Factor, allowing it to be used this session but returning the state to fixed funding formulas after 2012-13. Such an amendment was discussed in House Appropriations and may be offered by Representative Diana Patrick or Representative Scott Hochberg. This step is essential to demonstrating the Legislature's continued commitment to public education. Public education should be funded by fixed formulas. When the Legislature increases or decreases funding, it should be done by a specific formula adjustment in law, not a simple change in a multiplier through appropriations.

Second, SB 1 should be amended so that if formula districts lose more in Fiscal 2012 than in Fiscal 2013, then they are given the average of the two amounts each year so that they can plan better. Under SB 1, a district can face a huge cut in 2012 and then an increase in 2013. If instead the district could spend the average of both years each year, it would allow for smoother implementation, perhaps saving jobs in the district. This amendment was also discussed in House Appropriations and may be offered by Representative Scott Hochberg.

Finally, SB 1 should be amended so that after 2012-13 the proration sections revert to current law so that districts are reimbursed for losses if proration happens in some biennium beyond 2012-13. Because the Legislature does not want to pay back the \$4 billion it is underfunding for 2012-13, SB 1 does away with the requirement that school districts be made whole after proration. But to say that school districts shouldn't be made whole after the extraordinary proration called for in SB 1, doesn't mean they shouldn't be made whole after ordinary proration that may be experienced in the future.

Ordinary proration results when modest changes in estimates of enrollment growth or property values leave the state short of the money needed to fully fund formulas during a biennium. Current law obligates the state in the next biennium to make good on any shortfalls in the current biennium. It does this because school districts incur bills based upon authorized spending, and unless the state makes up the difference between authorized spending and proration, districts are forced to cut spending on public education in future years to cover bills from previous years. This problem was also discussed in House Appropriations, and Representative Diana Patrick or Representative Scott Hochberg may offer an amendment to address it.

Fighting for a fair school finance plan is critically important

In light of the Legislature's spending cuts to public education and the reductions in formula funding, it is critically important for the Legislature to fairly distribute funding. Contrary to what you may have heard, the Legislature has actually cut spending.

The Legislature is spending \$621 Million Less in All Funds on Public Education

In the state budget (HB 1 and HB 4) for 2012-13, the Legislature is spending \$621 million *less* in All Funds on public education than it did in 2010-11. The LBB's [Summary of Conference Committee Report for House Bill 1](#) (May 2011), Table 1, All Funds, on page 6, shows public education spending increasing in Article III from \$53.7 billion in 2010-11 to \$53.8 billion in 2012-13. But as the LBB explains on page 3 of the summary, Article IX reduces this Article III spending by \$800 million (supposedly to adjust for new estimates of fewer students and higher property values). HB 4, the supplemental appropriations bill, allocates another \$53.5 million to the Texas Education Agency for 2012-13. All totaled, the Legislature is spending \$621 million *less* in All Funds on public education than it did in 2010-11. Our calculation puts the state in the very best possible light. It treats the federal Education Jobs money that the state is distributing as part of the state budget. It also does not deduct from public education spending the \$2.3 billion Foundation School Program payment delay made in Article IX, nor other Article IX reductions that affect TEA and all other state agencies.

The Legislature is spending \$1.3 billion less in General Revenue on Public Education

The Legislature is also spending \$1.3 billion less General Revenue on public education in 2012-13. The LBB's Table 7, on page 12 of the summary, shows General Revenue spending on public education spending decreasing from \$37.4 billion in 2010-11 to \$36.8 billion in 2012-13. But this amount also has to be adjusted by the \$800 million reduction in Article IX and by HB 4, for a biennial decrease of \$1.3 billion.

Finally, the Legislature is underfunding Current School Finance Formulas by \$4 billion

The Legislature is underfunding current school finance formulas by \$4 billion. The Legislature is not funding enrollment growth, which accounts for about half of formula underfunding. Enrollment will grow by about 90,000 in 2012 and another 78,000 in 2013.

Conclusion

As long as some districts are better funded than others, legislators representing the higher-funded schools have no reason to support funding for the lower-funded districts. This session provides a perfect illustration of this dynamic. It has been easy for some to oppose use of the Rainy Day Fund and any new revenue because their own school districts have several thousand dollars more per weighted student to spend than others. Until we have a fair school finance plan, the fight for adequate funding for public education will never be successful. Amending SB 1 is an important step in the battle for both equitable and adequate funding for public education—a bipartisan goal.