Public School Finance Seminar

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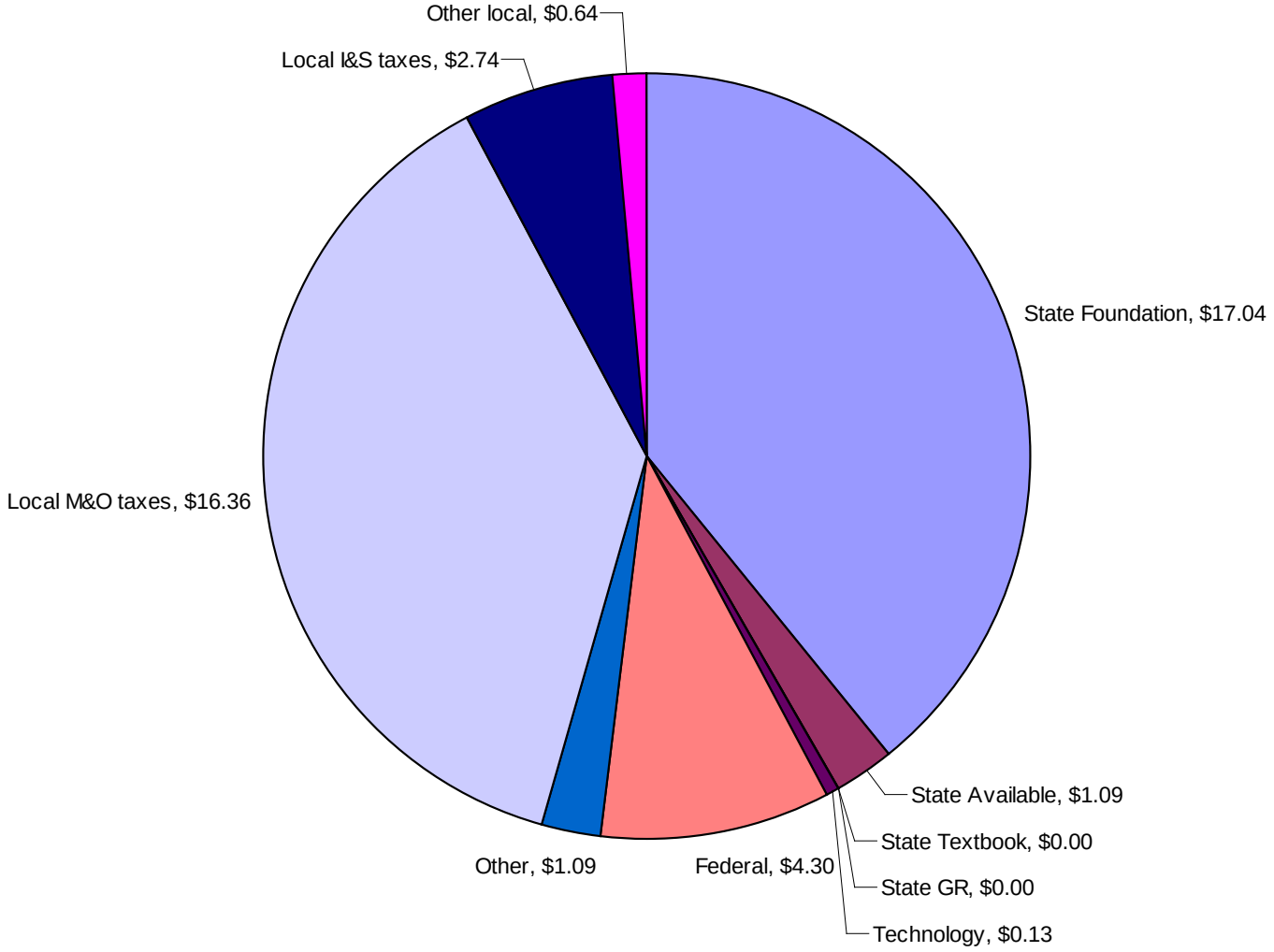
Big Picture of School Finance

- The system is huge
  - Annual state aid and local taxes exceed $37.8 billion
  - 1% error in projecting state cost is worth $377 million in a biennium
  - It takes large amounts of money to make meaningful change in a system this large

Sources of Funds



2008-09 estimated, $42.1 billion total

Big Picture of School Finance

- Wealth is tax base per student, not absolute
  - *A penny of tax rate in Houston ISD generates $10.8 million*
  - *A penny of tax rate in Divide ISD generates $5,397*
- *BUT,*
  - *At $1.00 tax rate, Houston ISD produces $5,989 per ADA*
  - *At $1.00 tax rate, Divide ISD produces $25,555 per ADA*

Big Picture of School Finance

- Putting local property taxes into perspective
  - At a $1.00 tax rate, it takes $800,000 in taxable property value to generate $8,000 in local property taxes

Three Basic Variables

- Number of students
  - More students increase state cost
  - Fewer students decrease state cost
- Property values
  - Higher values save the state general revenue (GR)
  - Lower values cost the state GR

Three Basic Variables

- Tax rates
  - In general
    - ✓ Higher tax rates increase state cost & local budgets
    - ✓ Lower tax rates decrease state cost & local budgets
- *BUT*,
  - Rate compression costs the state
    - ✓ One penny reduction in local tax effort costs the state about $147 million

The Effect of Inflation

- Increased costs are borne by the district (unless the formulas increase)
- The benefit of increased values goes to the state budget (less GR needed to fund the existing formulas)

Litigation History

Article VII, Section 1: A general diffusion of knowledge being essential to the preservation of the rights and liberties of the people, it shall be the duty of the Legislature of this State to establish and make suitable provision for the support and maintenance of an efficient system of public free schools.

Article VIII, Section 1-e: No State ad valorem tax shall be levied upon property within this State.

Litigation History

Edgewood I (1989)

"Efficiency…does not allow concentrations of resources in property-rich district that are taxing low when property-poor districts that are taxing high cannot generate sufficient revenues to meet even minimum standards…There must be a direct and close correlation between a district's tax effort and the educational resources available to it; in other words, districts must have substantially equal assess to similar revenue per pupil at similar levels of tax effort."

Edgewood II (1991)

"[SB1] insulates concentrated areas of property wealth from being taxed to support the public schools. The result is that substantial revenue is lost to the system…the system would be made more efficient simply by utilizing the resources in the wealthy districts to the same extent…

BUT

"Once the Legislature provides an efficient system…it may…authorize local school districts to supplement their education resources if local property owners approve an additional local property tax."

Litigation History

Edgewood III (1992)

"An ad valorem tax is a state tax when it is imposed directly by the State or when the State so completely controls the levy, assessment and disbursement of revenue, either directly or indirectly, that the authority employed is without meaningful discretion."

BUT

"If the State required local authorities to levy an ad valorem tax but allowed them discretion on setting the rate and disbursing the proceeds, the State's conduct might not violate article VIII, section 1-e."

Litigation History

Edgewood IV (1995)

"if the cost of providing a general diffusion of knowledge rises to the point that a district cannot meet its operations and facilities needs within the equalized program, the State will, at that time, have abdicated its constitutional duty to provide an efficient school system…From the evidence , it appears that this point is near"

BUT

"The danger is that what the Legislature today considers to be 'supplementation' may tomorrow become necessary to satisfy the constitutional mandate for a general diffusion of knowledge"

Litigation History

West Orange–Cove (Supreme Court 2005)

- Three separate claims:
  - Equity – do districts have substantially equal access to revenue?
  - Adequacy/suitability – can districts reach general diffusion of knowledge (GDK)?
  - State property tax – does the state control a property tax?

Litigation History

West – Orange Cove (Supreme Court 2005)

"…the undisputed evidence is that standardized test scores have steadily improved over time, even while tests and curriculum have been made more difficult…we can not conclude that the Legislature has acted arbitrarily in structuring and funding the public education system so that school districts are not reasonably able to afford all students the access to education and the educational opportunity to accomplish a general diffusion of knowledge."

But

Litigation History

West – Orange Cove (Supreme Court 2005)

"There is substantial evidence…that the public education system has reached the point where continued improvement will not be possible absent significant change, whether that change take the form of increased funding, improved efficiencies, or better methods of education"

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Litigation History

West – Orange Cove (Supreme Court 2005)

"Meaningful discretion cannot be quantified; it is an admittedly imprecise standard. But we think its application in this case is not a close question...The current situation has become indistinguishable from one in which the State simply set an ad valorem tax rate of $1.50 and redistributed the revenue to the districts."

Outlines of the Safe Harbor

- 85% of Students in Tier II
- 98% equalized revenue
- Facilities addressed
- Meaningful discretion to set tax rate
- Sufficient funds to meet Ch. 39 accountability system and "adequate education"

Components of Public Education Programs

Foundation School Program	Other State	Other Local	Federal
▪*Tier 1*	▪Textbooks	▪*Taxes*	▪Child nutrition
▪*Tier 2*	▪Teacher retirement	▪Investment income	▪NCLB
▪*Facilities*	▪Technology	▪Fees	▪Other
▪*Property tax relief*	▪Other	▪Bond proceeds	

Foundation School Program

Tier 1	Seven allotments for programs, with local share determined by tax base and fixed tax rate
Tier 2	Equalized enrichment of M&O tax effort
Facilities	Equalized enrichment of I&S tax effort

Tier 1 Structure

- Tier 1 provides districts with access to the Foundation School Program

$$LFA = TR \times DPV$$

LFA = local fund assignment = district contribution to Tier 1

TR = tax rate, minimum of $0.86 required

DPV = district property value

- Uses average daily attendance (ADA) or full-time equivalent (FTE) student counts

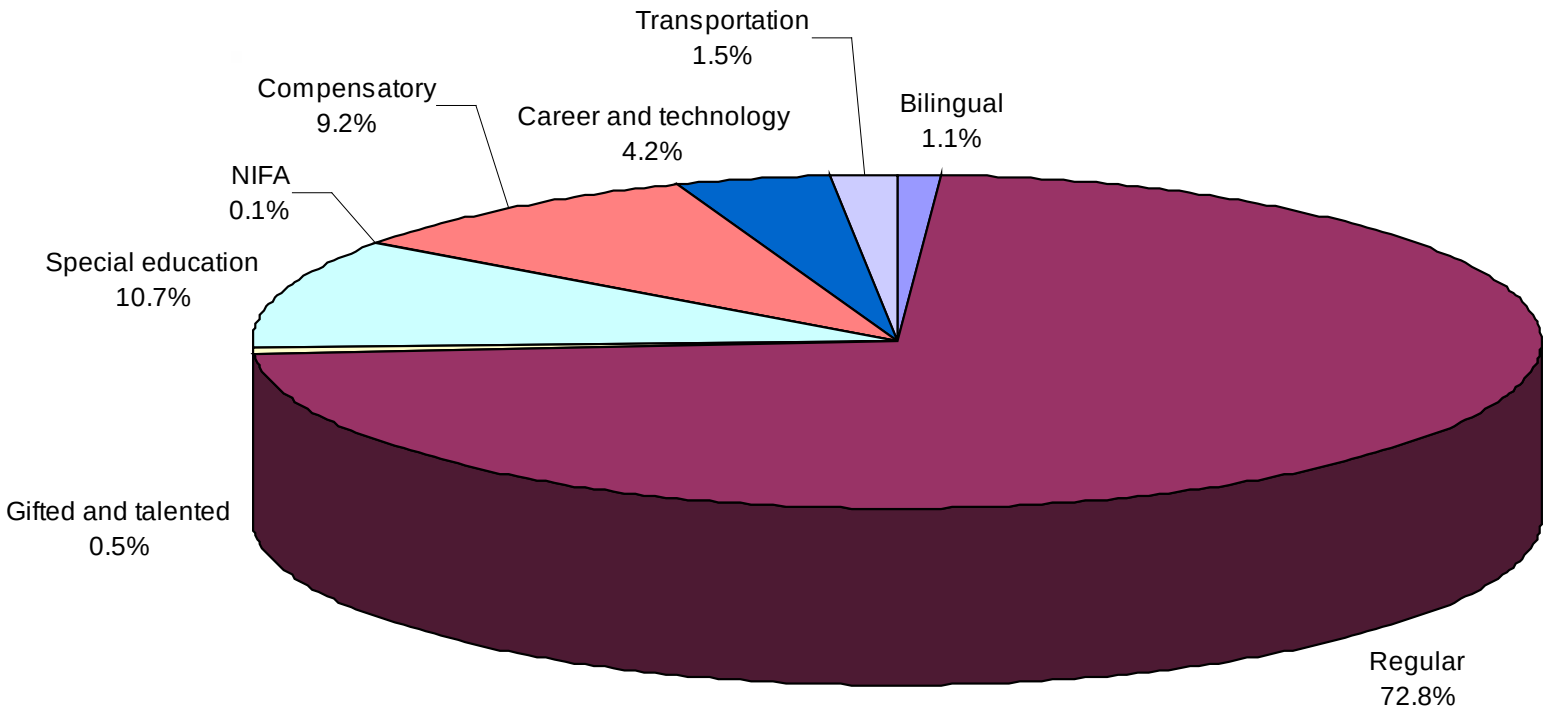
Tier 1 Structure

Basic allotment	×	Cost of education index	×	Small and mid-size adjustment	=	Adjusted allotment
($3,218)		($285 avg.)		($111 avg.)		($3,614 avg.)

Adjusted allotment used for →

- **Regular program**
- **Special education**
- **Career and technology**
- **Compensatory education**
- **Bilingual/ESL**
- **Gifted and talented**

Tier 1 Structure



2008-09 Data

Tier 2 Structure

- Tier 2 guarantees equalized access to enrichment

$$GYA = (GL \times WADA \times DTR \times 100) - LR$$

GYA = guaranteed yield amount

GL = guaranteed level

WADA = students in weighted average daily attendance

DTR = district enrichment tax rate

= current-year M&O collections/prior-year values/100

LR = local revenue

= DTR x prior-year value

Tier 2 Structure

- Tier 2 tax effort is equalized at three different levels up to 31 cents above LFA
  - Level 1 (L1) = 88th percentile of district wealth
    - ✓ Generated by compressed tax rate
      - 2007-08 rate = $36.45
      - 2008-09 rate = $37.42
  - Level 2 (L2) = Austin ISD wealth level
    - ✓ Generated by pennies above compressed tax rate
      - 2007-08 pennies = $0.04
      - 2008-09 pennies = $0.06
    - ✓ *Aka* "golden pennies"
      - 2007-08 rate = $46.94
      - 2008-09 rate = $50.98
    - ✓ Note: Pennies do not count against 31 cent DTR limit
  - Level 3 (L3) = $31.95 (fixed)
    - ✓ Generated by tax effort that exceeds compressed tax rate plus Level 2 pennies
    - ✓ *Aka* "copper pennies"

Additional State Aid for Tax Reduction

- Revenue target per WADA = greatest of the three amounts:
  - 2005-06 revenue per WADA
    - ✓ Based on law prior to HB 1
  - 2006-07 revenue per WADA
    - ✓ Based on law prior to HB 1
  - 2006-07 revenue per WADA
    - ✓ Based on law prior to HB 1, but using HB 1 effective tax rates

Additional State Aid for Tax Reduction

- Revenue per WADA target
  - Maintains target revenue per WADA
- Salary allotment
  - $2,500 for each employee subject to the minimum salary schedule
- High school allotment
  - $275 for each grade 9–12 student in average daily attendance (ADA)

Additional State Aid for Tax Reduction

- First, calculate revenue target:
  - + Revenue per WADA target
  - + Salary allotment
  - + High school allotment
  - = **Revenue target**
- Next, calculate difference between target and current law
  - + Revenue target
  - - Current law revenue
  - = **ASATR, if positive, OR dragback, if negative**

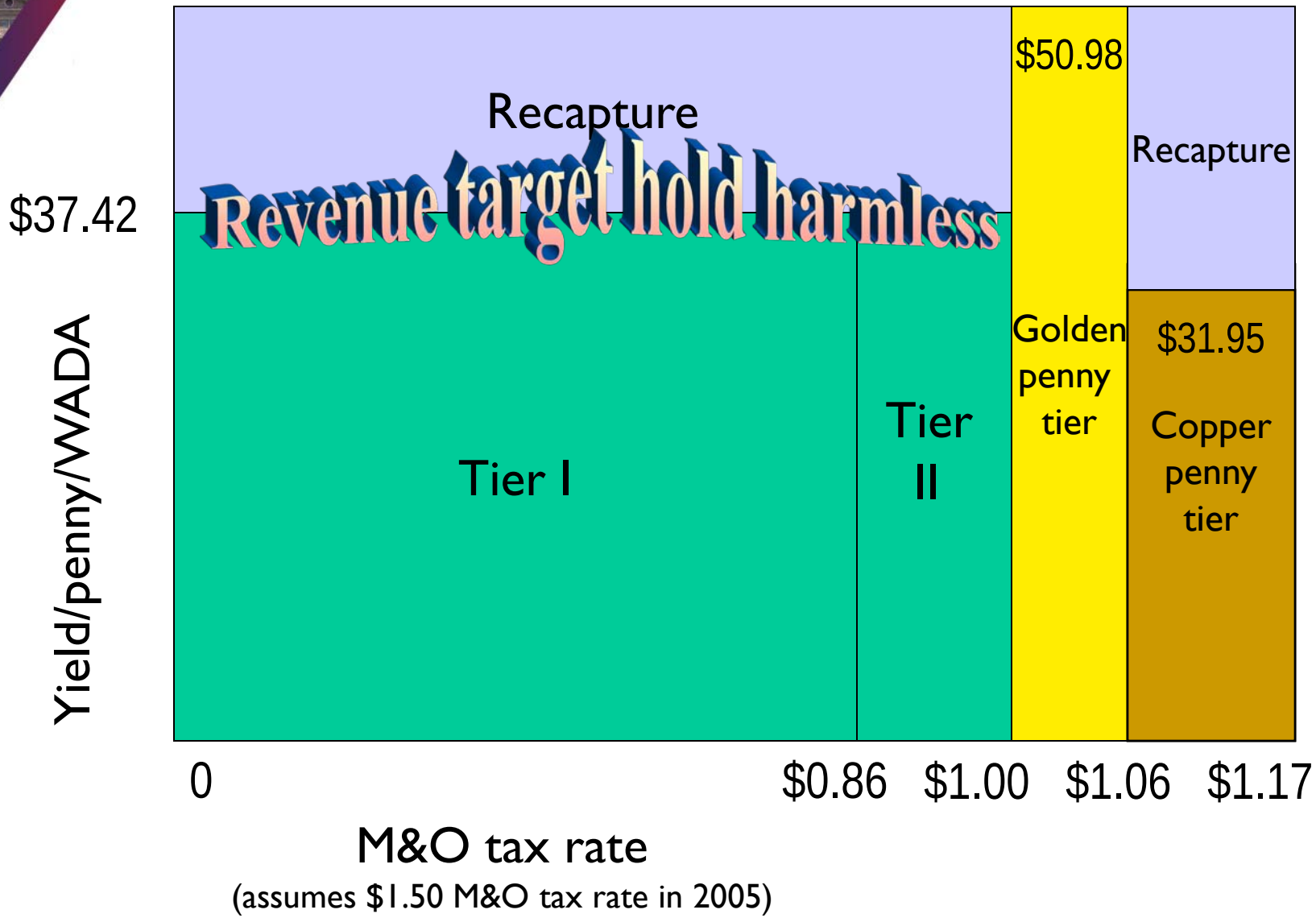
What is a Chapter 41 district?

- A district with wealth per weighted student (CH41 WADA) that exceeds the equalized wealth level (EWL)
  - First EWL = recapture at 88th percentile
    - 2007-08 EWL = $364,500
    - 2008-09 EWL = $374,200
  - Second EWL = no recapture
  - Third EWL = recapture at $319,500/WADA
- Districts subject to Chapter 41 must exercise at least 1 of 5 available options

Chapter 41 - What options can reduce property wealth per WADA?

- Option 1 – Voluntary consolidation
- Option 2 – Detachment/annexation
- Option 3 – Purchase of attendance credits from state
- Option 4 – Education of nonresident students (purchase of credits from other district(s))
- Option 5 – Tax base consolidation

2008-09 M&O Taxes and State Funding



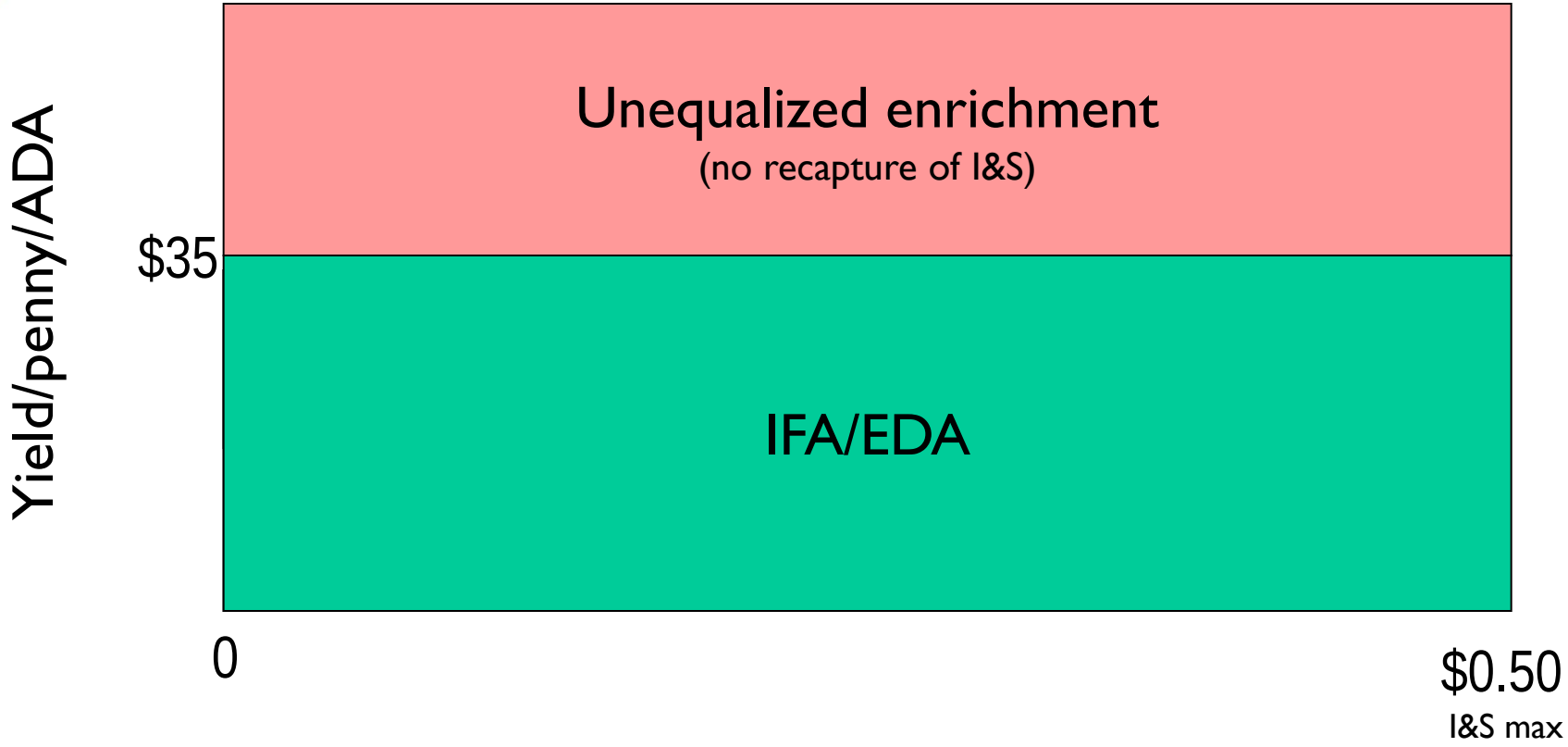
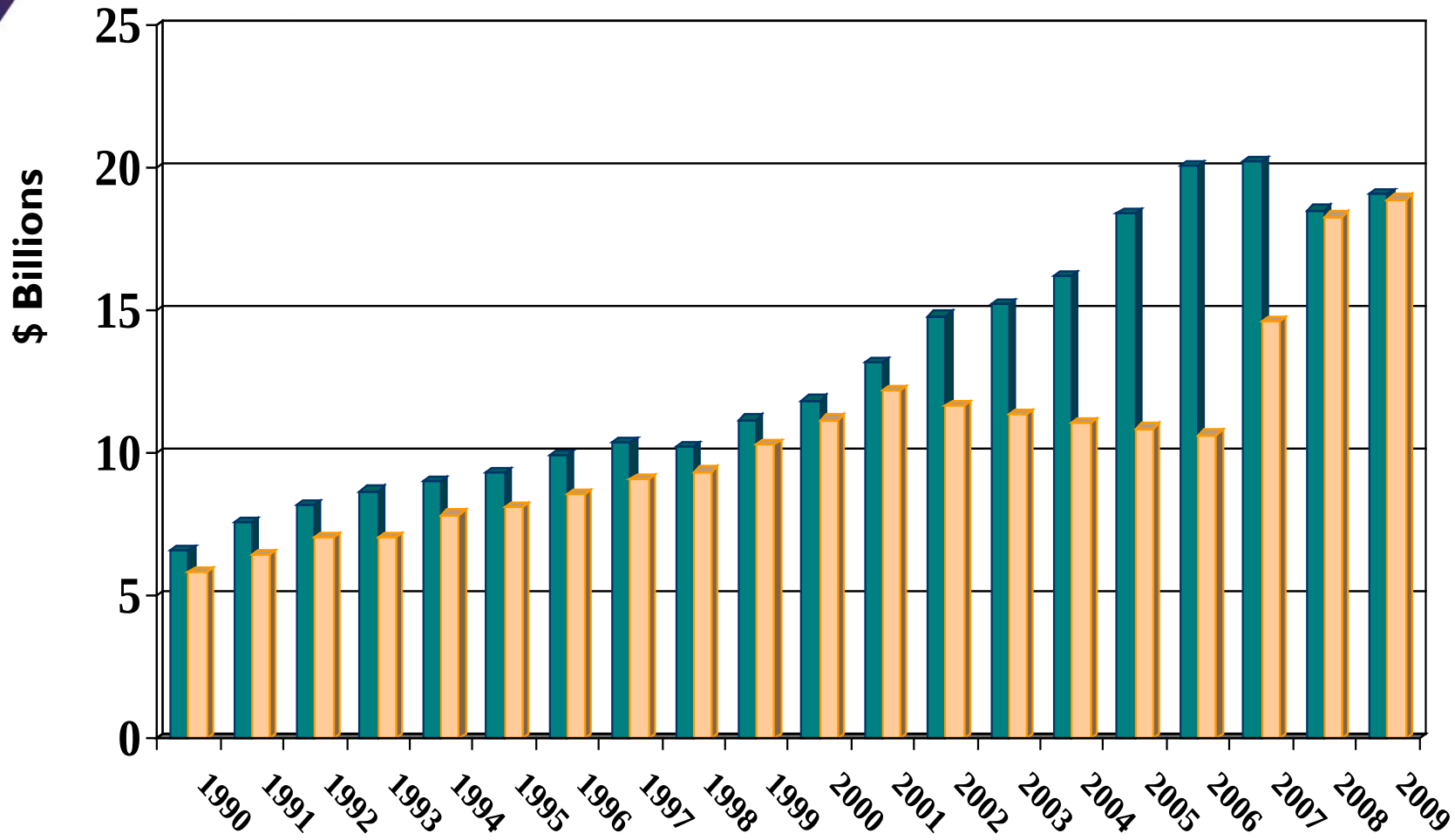
Facilities Funding

- State facilities programs provide
  - Equalized funding for interest and sinking fund (I&S) tax effort
    - ✓ $35/penny/ADA
      - Local revenue = $15.00/penny/ADA
      - State revenue = $20.00/penny/ADA
- State funding
  - 2007-08 = $725,917,237
  - 2008-09 = $629,386,313
- No. of districts with I&S rates ≥ $0.40 in 2008-09 = 60

Facilities Funding

- Instructional Facilities Allotment (IFA)
  - Requires application for funds
  - Provides funding for bonds and lease-purchase agreements
  - Limited to $250/ADA in debt service/biennium
  - No. of districts receiving IFA = 370
- Existing Debt Allotment (EDA)
  - Bonds sold and paid on as of 08/31/2007
  - Limited to $0.29 of I&S tax effort
  - No. of districts receiving EDA = 441

I&S Taxes and State Funding



School Tax Levy and State Aid