

# School Finance Reform in Texas

IDRA Perspectives on Funding Changes Adopted by the 2009 Texas Legislature

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Intercultural Development Research Association  
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## Texas Legislature Earns a C in School Finance Equity

In the last days of the 2009 legislative session, the Texas Legislature adopted CSHB 3646, which is a comprehensive school funding bill that includes the following among its major reforms:

- Some increased equalized revenue to Texas public schools;
- An \$800 per year increase in salaries for teachers and other professional staff;
- A newly created interim committee to study funding weights for special student populations and existing school district-based state funding formulae adjustments; and
- Notable expansion of the states’ “virtual schools network” and extension of hold harmless clauses that continue to provide state aid to school districts that would otherwise not be eligible. Specific elements of the latest school funding plan are described in more detail in the summary provided on the following pages.

### Related Resources

**The Status of School Finance Equity in Texas – A 2009 Update** by Dr. Albert Cortez (Intercultural Development Research Association, 2009) \$7 or free online at [www.idra.org](http://www.idra.org).

**Texas School Finance Reform – An IDRA Perspective**, by Dr. José A. Cárdenas (Intercultural Development Research Association, 1997) price.

**A Guide to Texas School Finance** (Texas Association of School Boards, 2008).

**“Fair Funding of Schools – Why and With What Results,”** by Dr. Albert Cortez (*IDRA Newsletter*, May 2009).

**“The Status of School Finance Equity in Texas,”** by Dr. Albert Cortez (*IDRA Newsletter*, May 2008).

**“Perspectives on the Texas Legislature’s Latest School Funding Plan,”** by Dr. Albert Cortez (*IDRA Newsletter*, August 2006).

**Fair Funding for the Common Good, IDRA web site**

[http://www.idra.org/Education\\_Policy.htm/Fair\\_Funding\\_for\\_the\\_Common\\_Good](http://www.idra.org/Education_Policy.htm/Fair_Funding_for_the_Common_Good)

## Maximum Wealth Level Raised

In order to ensure that all districts get the same revenue generated for every cent of local district tax effort, the Texas funding plan specifies a maximum wealth level per school district. This marker provides the level to which the state will attempt to equalize all school districts. Districts whose property wealth per student (WADA\*) are above that maximum wealth level are subject to state recapture of any excess revenue.

For example, if a school district has taxable property wealth of \$500,000 per WADA, but the maximum wealth level is set at \$360,000 per WADA, then any money per penny of tax effort yielded from the amount over the wealth maximum is subject to recapture. The higher the maximum wealth level per WADA, the fewer the number of school districts that are required to submit excess revenue to the state.

In 2007, the state made changes in the system by creating two distinct equalized wealth levels. The Tier 1 equalized wealth level was set at the property wealth per WADA of the school district that lies at the 88th percentile of wealth. The equalized wealth level for Tier II was at a set figure of \$319,500 per WADA. Because the 88th percentile varies from year to year, the equalized wealth level ranged from about \$319,500 per WADA in 2005-06, to \$364,500 per WADA in 2007-08, and \$374,200 per WADA in 2008-09.

In the 2009 session, the Texas legislature raised the Tier 1 maximum equalized wealth level at \$467,500 per WADA, or the state average property wealth per WADA times 0.0165 – whichever is greater. The Tier II equalized wealth level remained at \$319,500 per WADA.

\* *WADA* – *Weighted Average Daily Attendance*

This increase in the maximum equalized wealth level is important in two distinct ways. First, since the state's equalization efforts are impacted by the level of district wealth that it is trying to bring all school districts up to, increasing the equalized maximum wealth level can lead to increases in state aid to bring all school districts that had been below that wealth level up to that new standard. Second, as the maximum equalized wealth level increases, a smaller number of school districts may sit above that higher wealth level, thereby decreasing the number of school districts that are subject to recapture and bringing more and more school districts into the equalized funding system. In an ideal plan, all school districts would have equal return for every cent of local tax effort as every other school district in the state, and a maximum equalized wealth level would be unnecessary.

## Increased School Funding

In response to growing pressure for some notable increases in state aid to school districts, the Texas legislature increased funding for the basic allotment,\* raising it from an amount equal to yield generated by a school district at the 88th percentile of wealth per WADA – which was about \$3,153 in 2007-08 and an estimated \$3,218 in 2008-09 – to the greater of either \$4,765 per WADA, or an amount equal to the state average property wealth per WADA .0165. Given state property wealth projections, it is estimated that the actual basic allotment level will fall by at least \$4,765. Starting in 2014, the basic allotment actually is set at \$4,765 per WADA.

For school districts that had an a maintenance tax rate less than the \$1.00 tax rate in Tier I, the basic allotment is adjusted to \$4,765. (For example, if a school district's compressed tax rate was only 90¢ then its basic allotment would equal \$4,765 times 90/100 or \$4,765 x 90¢ or \$4,283.)

To contain the costs that would be borne by the state, however, the legislation did put a cap or limit on the amount of increased revenue that any school district may actually realize from the new plan. This maximum allowed is \$350 more per WADA than the school district received in local and state maintenance and operations revenue in the preceding school year (2008-09). This maximum however does not apply to revenue raised by school districts through enrichment tax efforts (above the Tier I or Foundation School Program level).

Because the higher basic allotment did not actually raise the overall level of funding for the Foundation Program by any appreciable amount greater than what was being delivered by prior years' funding mechanisms, there was very little “new” state money pumped into the Texas funding plan.

\* **Basic Allotment** – *The specific amount of money a school district gets per student to provide state-required minimum education for Texas students.*

## Tier II Enrichment Revenue Still Unequalized

The amount of funding guaranteed under the state's enrichment tier was left unchanged. School district enrichment tax effort for the first 6¢ above the \$1.00 level required to receive full funding in Tier Ia will continue to be based on the wealth level of the Austin Independent School District (ISD), a level that provides about \$59 per penny of tax effort. School districts that generate more than the \$59 guaranteed by the state get to retain all that excess revenue as unequalized enrichment.

The Tier IIa is the portion of the Texas funding system that creates unequal funding since it allows some school districts to raise more money per student than other districts that tax themselves at the same level.

Tax efforts for the remaining 11¢ permitted under the enrichment tier (referred to as Tier IIb) are guaranteed \$31.95 per penny of tax effort up to a maximum of 11¢. School districts whose property wealth generates more than the \$31.95 equalized level guaranteed for this portion of Tier II enrichment are subject to recapture, so that their return for each penny of tax effort equals the same as that guaranteed to every other district.

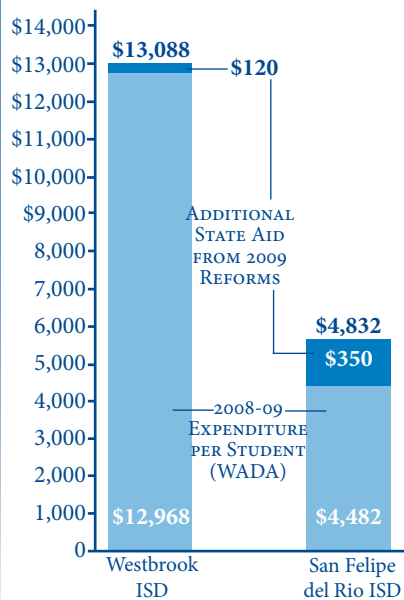
**Local Enrichment** – Local enrichment refers to extra money raised by school districts beyond the minimum funding provided by the state system. Unequal local enrichment has been considered to be a weakness and monumental flaw of the Texas system of school finance.

## Minimum Increased Funding Guarantees Perpetuates Inequity

To fend off complaints from very wealthy districts that their schools did not receive any additional funding from the state, the legislature guaranteed that every school district would receive at least \$120 in additional funding per WADA, regardless of district property wealth. This continuing allocation of supplemental funding outside of the equalized system only serves to support continuing inequalities in the state funding system since it ignores the fact that some school districts spend thousands of dollars more per student than average and lower wealth school districts that exert exactly the same tax effort. The \$120 per WADA minimum that was provided to otherwise non-eligible school districts could have been better used to modestly decrease the funding gap in school funding that currently characterizes the Texas system.

### New State Aid Does Little to Close Gaps

Example of Money Available to School Districts as a Result of Texas' Latest Plan



Source: Intercultural Development Research Association

An example of this issue was reflected in state-generated estimates of the amount of money that would be available to school districts as a result of the newly adopted state funding plan. According to that projection, Westbrook ISD, which spent \$12,968 per WADA in 2009 would receive an additional \$120 per WADA in state aid, thus raising its revenue per WADA to \$13,088; San Felipe del Rio ISD, which taxes at the same rate spent \$4,482 in 2009 and will receive an additional \$350 per WADA in state funding, thus raising its revenue to \$4,832.

Through the disparities in revenue per WADA will be reduced by \$230 between these two districts, Westbrook ISD will still have \$8,256 (13,088 - 4,832) more to spend on its students than its lower wealth counterpart. Though both tax themselves at similar tax rates. The state of Texas cannot achieve equity with such dysfunctional approaches. It was noted that since the state spent \$120 for every student per WADA in both 2009 and 2010 without regard to wealth, this means that it spent \$1.4 billion on unequalized across-the-board funding – leaving little more than \$300 million available in equalized funding for the biennium.

## Continuing Hold Harmless Brushes Aside Equity

For primarily political reasons and because of persistent school administrator pressure, the legislature has had a tendency to neutralize the effects of state equalization formulae by including provisions that guarantee that no school district will have less state and local revenue per student than it had before a funding reform was passed. This long-standing practice, which dates back decades in Texas, was initially justified as necessary to allow school districts to adjust to funding levels that would be notably lower than in prior years as a result of equalization feature built into the 1993 state funding plans.

After several extensions, this excuse was replaced by a stance that no school district should have less state and local funding than it had in a year prior to adoption of a reform. That stance was in turn modified to add in any new funding that was provided outside the equalized funding system over subsequent years (and thus not subjected to adjustments based on local district property wealth). This layering of unequalized funding granted over several bienniums resulted in the allocation of millions of dollars in state funding (or retention of millions of dollars in recapture revenue) among a small subset of very wealthy school districts. Hold harmless clauses are now estimated to cost the state hundreds of millions of dollars in every biennium. While somewhat defensible in the 1990s when reforms resulted in substantive changes in school district funding, this perpetual hold harmless carryover now makes a mockery of some state equalization features and plays an important role in allowing some school districts to spend hundreds and in some cases thousands of dollars more per student than all average and low wealth school districts in the state.

*Hold Harmless – Provisions that guaranteed school districts will continue to receive at least as much state funding as they got before legislative changes in school funding formulas.*



## Increased Funding for Special Populations and Related Cost Studies

Although the long-needed adjustments to the state funding weights assigned to low-income and limited-English-proficient students were again left unchanged, the higher basic allotment did generate a small increase in funding for special population programs. Unfortunately, that small improvement was diluted by a new section that allows school districts to divert as much as 45 percent of the new revenue generated for those special programs into “general administrative costs” – which is code for using the money for any legal school purpose for the next two years. On the positive side, in a long-needed change, set-asides from the state compensatory education fund (which included an array of charges from costs for TAKS testing, to selected other special programs) were eliminated, ensuring that school districts would actually receive all funding generated by students eligible for compensatory education services in that program.

Bowing to growing recognition that many of the special program funding allocations have been unchanged since 1984, the legislature provided for a new set of special programs cost studies that will be conducted during the next two years. Findings from those studies will be reviewed in 2011 and used to inform any future funding adjustments in those programs, though it is recognized that any increases in funding will be based on available state revenues in the next biennium.

*Chapter 41 District – A school district with property wealth that is greater than \$319,500 per weighted student is considered to be a property wealthy school. These districts are subject to the recapture provisions in the Texas school finance system.*

### **School District Cost Adjustments**

In another change, the legislature extended the mid-size district adjustments – which delivers more funding to moderately small school districts in the state – to Chapter 41 school districts whose prior law Foundation School Program cost calculations had excluded this adjustment. Increased Foundation School Program cost estimates converted to reductions in recapture requirements for the state’s highest wealth school districts and thus increased their per WADA revenue levels.

### **Facilities Funding**

In changes designed to address growing concerns about state guaranteeing local facilities funding via the Instructional Facilities (IFA) and Existing Debt Allotments (EDA), the state adopted new policies expanding state authority to use the Foundation School Fund to back new state commitments in support of school facilities construction and renovation until eligible bonds mature. Though an improvement, this new initiative will only help school districts secure better interest rates on school bond but will not provide any substantive improvement in equalizing school funding for facilities. The legislature also expanded the facilities support program to include a new charter school facilities credit enhancement to help those schools obtain funding for construction, repair or renovation projects.

## Little New State Funding

According to state-generated estimates, almost two-thirds of school districts (756 out of 1,025) – which represents about 66 percent of the state’s WADA – will receive the minimum of \$120 per WADA that was set as the floor funding in the 2009 school finance plan. Only 51 districts – which account for only 5.6 percent of the state WADA – will receive the maximum of \$350 permitted under the new law. The remaining 218 school districts – which together account for the remaining 30 percent of the state’s WADA – will receive \$121 to \$299 per WADA.

Given these data, it can be safely noted that most school districts received meager amounts of increased funding despite the availability of billions of new federal funds and multi-billion dollar state budget surpluses. Though the numbers were slightly better in the second year of the biennium, state funding adjustments fell far short of the funding levels needed to provide most Texas students a high quality education. Not surprisingly, some school leaders suggested that it seemed that the state of Texas only acted boldly in school finance when it was forced by the courts to do so.

### Increases in School District Revenue Per WADA for 2010-11 Resulting from State Aid Increases Provided in the 2009 Texas Legislative Session

Increased Funding Range from 2009 Revenue per Student (WADA)	Number of School Districts	Percent of All School Districts in Texas	Number of Students (WADA)	Percent of Students (WADA) in Texas
\$350 (max)	51	5.0%	329,497	5.6%
\$300-349	14	1.3%	48,641	0.8%
250-299	38	3.7%	304,288	5.2%
200-249	61	6.0%	500,655	8.5%
150-199	56	5.5%	572,163	9.7%
121-149	49	4.8%	278,365	4.7%
\$120	756	73.8%	3,841,511	65.4%

Source: Intercultural Development Research Association; Legislative Budget Board, 2009

## **Virtual School Network Funding**

Reflecting state policymakers' assumptions that high tech can help reduce costs and expand access to education for some groups and communities, the new law includes changes that will flow additional revenue to schools providing instruction via the state virtual school network with online courses. These allocations include an allotment of \$400 per student, plus an additional \$80 per student (20 percent of the allotment total) that will cover administrative costs.

No evaluation of the academic effectiveness or cost-effectiveness of the alternative instructional delivery system was required by the new statute.

## **Teacher Salaries**

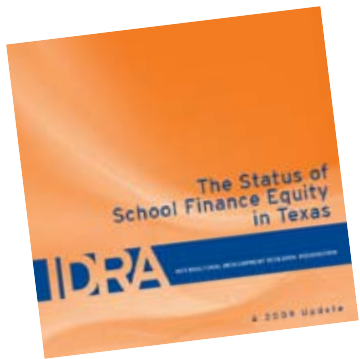
Salaries for teachers and selected support staff were increased by a total of \$800, or \$60 per WADA. Funded out of the federal stimulus allocations, actual raises will depend on whether or not Texas receives federal approval for using American Recovery and Reinvestment Act (ARRA) funds for such purposes.

## Other Issues

In addition to the numerous changes already described, the Texas legislature created a new \$650 special allotment for school districts based on: the number of children in average daily attendance (ADA) who have a parent or guardian serving on active duty in a combat zone as a member of the U.S. armed forces and also for each student in average daily attendance who has parent serving on active duty in the U.S. armed forces and has transferred into the school district as a result of action taken under the *Defense Base Closure and Realignment Act*.

The existing career and technology allotment was provided a supplemental allocation of \$50 per student enrolled in two or more advanced career and technology education classes or an advanced course as part of a state-sanctioned tech-prep program. The additional allocation reflected a desire among a segment of the state legislature to expand state career and technology programs – an effort viewed by many as a movement away from ensuring that all Texas graduates are ready for college.

In contrast to past session, vouchers received very little support during the recent session, with one voucher-related effort defeated by a margin of 5 to 1. This development may reflect a growing recognition that public support for private school vouchers has been in decline as research reveals that many of the alternative schools attended have little or no impact on the academic performance of students participating in those programs.



Another measure to expand the number of charters (currently capped at 215) that could be granted by the State Board of Education was defeated. That measure re-emerged from a House-Senate conference committee in the last hours of the session and was eliminated on a point of order.

In other State Board of Education-related action, the senate rejected Governor Perry's attempt to retain Mr. McElroy as chair, perhaps in reaction to the many controversies that have characterized the SBOE over the last few years.

## Final Words

Though containing some improvements, the new Texas school finance legislation proved to be a major disappointment from most groups who had hoped that the combination of available state surplus monies, coupled with a \$2 billion infusion of federal funding dedicated for public education would lead to a badly needed, substantive increase in public school funding, including funding to close the expanding gap between wealthy and average and low wealth schools district. Instead, the state chose to provide meager increases for schools, while at the same time expanding the monies directed to the state rainy day fund, which was intended to serve as reserve fund to help support needed state spending in critical areas during times of severe state financial shortages. How state leaders justified refusing to expand funding for children's services (including non-education services, such as children's health insurance) while salting away billions in state revenue is a question that merits attention.

If the current session were to be graded on its performance on improving school funding equity in Texas, we would have given it a grade of C-, with a notation that given existing capacity that it performed well below its maximum potential.

## What is Needed – Funding Equity in Education in Texas

An equalized system of funding in Texas must be established. Such a system has existed before and can be reinstated through small but substantive changes to state policy. The changes needed are described below. For more information on these changes, see IDRA's publication, *The Status of School Finance Equity in Texas – A 2009 Update*, by Dr. Albert Cortez.

- ✓ Use and update the existing state equalized funding system,
- ✓ Eliminate local unequalized enrichment that enables a few districts to severely outspend their neighbors,
- ✓ Eliminate the use of hold harmless adjustments to funding that counteract fair funding features,
- ✓ Provide increased funding that covers the actual costs of serving all students, including additional costs involved in serving special populations,
- ✓ Provide predictable and sustainable state funding for school instructional facilities, and
- ✓ Ensure excellence for all rather than settling for adequate education of most.



## All children are valuable; none is expendable

IDRA is a vanguard leadership development and research team working with people to create self-renewing schools that value and empower all children, families and communities.

The Intercultural Development Research Association help schools to:

- ✓ keep all students in school through high school graduation
- ✓ ensure that children who speak a language other than English benefit from quality instructional programs that capitalize on students' language and culture
- ✓ ensure that children in every neighborhood have access to excellent public schools

Assistance available from IDRA includes: professional development, research and evaluation, policy and leadership development, and programs and materials development.

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