
Senate Education Committee

Testimony on House Bill 3



Anne McCausland, Trustee

Increased Funding and New Allotments

The Committee Substitute for House Bill 3 includes billions of dollars of new funding for education over enrollment growth significantly increasing the state's share of the cost of public education. Through an increase to the Basic Allotment, new allotments, and reallocation of existing allotments, CSHB 3 simplifies the school finance system and increases its sustainability for the long term.

Basic Allotment Increase

CSHB 3's increase of the basic allotment to \$5,880 represents an \$740 increase over the past four years at \$5,140 and an increase of \$1,115 over the current statutory basic allotment level. Importantly, this increase is made statutorily, rather than by appropriation eliminating the need for the legislature to reauthorize this level of basic allotment every biennium, as has been the case for the past two sessions. This increase represents a significant commitment to increasing the state share of the cost of public education. While the formula changes in CSHB 3 are transformational and absolutely vital to the sustainability of the school finance system, the basic allotment should be increased to a level to ensure that all school districts receive at least as much funding as they would under current law. In the context of educating a generation of Texans, there should be no losers, only winners.

New Allotments

CSHB 3's new allotments are a major investment in the education of Texas students in need of the most help. The dyslexia allotment, early literacy allotment, the changes to the compensatory education allotment, and the fast growth allotment ensure that school districts are provided the resources to effectively educate all students, regardless of circumstances or background.

Tier 2 Guaranteed Yield Levels

By tying the Tier 2 guaranteed yields to a percentage of the basic allotment, CSHB 3 eliminates the arbitrary measure of Austin ISD's wealth level, allows the entire school finance system to move as a whole, and provides more certainty for school district funding.

Property Tax Relief and Recapture Reform

CSHB 3 provides meaningful property tax relief while also restraining property tax growth and significantly reforming the recapture system. These changes will have a major, positive impact on taxpayers and school districts across the state, while increasing the state share of public education funding and ensuring that school districts are fully funded prior to paying recapture.

Tier 1 Compression

CSHB 3's 8 cent tax rate compression at the Tier 1 level provides immediate property tax relief to every property taxpayer across the state. Coupled with the underlying formula changes, this compression reduces reliance on local property tax revenues by shifting funding responsibility to the state from the local taxpayers. This Tier 1 compression also provides a mechanism for future property tax relief that allows for the state to continue increasing its share of public education funding and continue to reverse the trend of increasing reliance on local property tax revenue.

Tier 2 Compression

CSHB 3's Tier 2, copper penny tax rate compression provides additional property tax reform to slow the increase in local property taxes by insuring Tier 2, copper penny local revenues do not increase year over year. This compression, coupled with the increase in the guaranteed yield level ensures that districts continue to receive necessary funding while helping to reduce the growth of the burden on local property taxpayers.

Recapture Reform

The tax compressions significantly reduce recapture payments while maintaining the equity of the system with additional state funds for property-poor districts. In addition, CSHB 3's change of the recapture calculation ensures that all districts receive their full Tier 1 entitlement before making any recapture payments.

Current-Year Values and Automatic, Ongoing Compression

CSHB 3 attempts to provide ongoing Tier 1 rate compression on a district-by-district basis. However, such a plan would require a change to current-year values, as opposed to prior-year values, would result in about a \$30 million decrease in funding for Frisco ISD in year one, which could offset all the gains from the other changes in CSHB 3. In addition, such a move would cause major budgeting issues by injecting uncertainty in the process as we wouldn't know the amount of our recapture payment or state aid until late in the budget cycle.

In addition, any automatic rate compression will only work if the legislature is committed to funding public education at the levels necessary to keep up with enrollment growth, which has traditionally been

funded largely by property value increases. Without a dedicated revenue source, it remains unclear whether the state will be able to replace all funding lost as a result of automatic compression at the Tier 1 level.

We stand ready to work with the Legislature to implement meaningful property tax reform to help alleviate the burden on our taxpayers, but any tax reform measure should take into account the long-term needs and recognition of possible financial situations that may arise. Please be mindful that what may seem prudent now could bind our hands and force drastic cuts to staff and educational programs during economic downturns. Districts must have some flexibility going forward to raise revenue if the state is not able to support us.

Teacher Pay

CSHB 3 signals a commitment to improving teacher pay by increasing the minimum salary schedule through the increase in the basic allotment. However, a large amount of funding is set aside for the \$5,000 across-the-board pay raise for teachers and librarians, which denies a large population of non-teaching educators any increase, and for a merit-based pay program that requires some form of student assessment to be included in the teacher evaluation system.

Increase in the Minimum Salary Schedule

CSHB 3 increases to the minimum salary schedule because the MSS is indexed to the basics allotment. This increase begins to address the teacher pay equity problem across the state by targeting funding at those school districts most in need of additional resources to address teacher salaries. In addition, increasing the minimum salary schedule increases the state's portion of TRS contributions for all districts freeing up additional resources for school districts.

\$5,000 Across-the-Board Pay Raise

Teachers should be paid more, but teacher pay increases should be based on an increase in the basic allotment. HB 3's original teacher pay raise creates a mechanism for automatic across-the-board raises anytime new funding is injected into the system by the state. Because the raises are tied to new funding from formulas, they are more sustainable long term than a separate allotment which may end up drawing funding away from the basic allotment during economic hardship.

Teacher Incentive Allotment

Implementation of a merit pay system requires that school districts include student performance on an assessment instrument in the evaluation of teachers. As a result, teachers in all grades and in all subjects would have to administer assessments in order to qualify for a designation that would result in additional pay. It is unclear how a school district could implement a student assessment in fine arts subjects or if such teachers are meant to be excluded from the opportunity to receive additional pay. In addition, the designations are based on a forced distribution meaning that two-thirds of teachers, no

matter how proficient, will never be eligible for a designation. Finally, because designations are based on a comparison of teachers across the state, it is unclear how differences in district evaluation systems will affect the designations. Although the flexibility provided to districts for the teacher incentive allotment is important, a forced distribution that compares teachers across different evaluation systems does not seem to be an accurate indicator of educator effectiveness.

Conclusion

CSHB 3 makes transformational changes to the school finance system and represents a major investment and commitment to public education by the state. The underlying formula funding adjustments are extremely important for the effectiveness and sustainability of the funding system, and the significant increase to the basic allotment helps to ensure that public education is adequately funded. CSHB 3, though not perfect, accomplishes many of the most important goals for school finance and property tax reform.