

School Finance Faces the Economic Crisis: 2009 Legislative Changes

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Presentation by

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Overview

1. General Comments
2. State Budget
3. School Finance
4. Financial Accountability
5. Return to Formula Funding, When?

General Comments

- Unique legislative session on several fronts
 - “Historic” school finance bill (HB 3646)
 - First Foundation School Program increases on record paid for out of federal funds (\$1.9 billion)
 - Plan not yet filed to approve this use of stimulus funds
 - Potential questions about directing pay raises
 - Salary increases use up about 39% of funding increases for schools under the bill

General Comments (cont'd)

- Much concern about how quickly the economy will recover over the next two years
 - Retained estimated \$9.1 billion in Rainy Day Fund for the next biennium
 - School property tax relief program remains underfunded and requires General Revenue support
 - Concern about maintaining programs funded from stimulus funds

State Budget

- \$182.3 billion All Funds budget for 2010-11 biennium (including federal funds)
 - \$12.5 billion, or 7.3% , increase over prior budget
- \$87.1 billion General Revenue state budget
 - \$1.6 billion or 1.8% less than the 2008-09 biennial budget

Major Education Program Funding in State Budget

- School finance reform: \$1.866 billion
- Facilities funding:
 - Permanent EDA roll-forward: \$68.9 million
 - One round of IFA in 2010-11 school year: \$75 million
 - Science lab grants: \$60 million (\$20 million increase)
- Pre-Kindergarten: increased by \$25 million

Major State Programs (cont'd)

- Textbooks:
 - Proclamation 2010: \$465.3 million
 - Continuing contracts: \$347.5 million
- DATE incentive pay program: \$395.6 million
 - TEEG program eliminated
- TRS: \$500 13th check dependent upon Attorney General ruling (same for state employees)

Federal Stimulus Funding

- \$16 billion in increased federal funding for 2009 and 2010 (not all in state budget)
- State budget includes a total of:
 - \$12.1 billion in Federal Funds
 - Reduces General Revenue appropriated elsewhere in the bill by \$6.4 billion
 - Net increase of \$5.8 billion

HB 3646 (School Finance)

Overview

- Basic Allotment: \$4,765 for 2009-10 (was \$3,218)
- \$120 per WADA minimum gain (compared to revenues per WADA available in 2009-10 under current law)
 - average gain is \$153 per current law WADA in 2009-10
- Districts are allowed to gain no more than \$350 per WADA (above current law entitlement at the 2009-10 compressed rate)
- The greater of \$800 per eligible employee or \$60 per WADA must be used for uniform pay increase
- Austin ISD yield is retained for first six cents above the compressed rate

HB 3646 Formula Structure

- Basic allotment is tied to driver related to state average tax base per WADA
- Expected to raise the basic allotment to:
 - \$4,819 in 2010-11
 - \$4,873 in 2011-12
- Equalized Wealth Level for taxes up to the compressed rate corresponds to Basic Allotment
- Yield and recapture for additional pennies above the tax rate plus 6 cents remains \$31.95 per WADA (\$319,500 per WADA)

Region 10 Results

- \$127 per current law WADA for Region 10
 - A whopping \$7 per WADA increase above \$120 per WADA minimum
 - Roughly 56 of 80 Region 10 districts are at or near the \$120 per WADA minimum
- Exceptions include:
 - Districts with relatively low 2006-07 tax collection increases and corresponding lower target revenue
 - Chapter 41 districts receiving mid-size adjustment

HB 3646 Salary Increase

- Greater of \$60 per WADA or \$800 per eligible employee
 - teachers, nurses, counselors, librarians, and speech pathologists
 - State average is approximately \$1,020 per employee
- This above any step increase required by the district's 2008-09 salary schedule
- Districts can use a portion of the amount reserved for raise to cover additional social security and TRS statutory minimum costs

HB 3646 New Target Revenue

- In calculation of target revenue, the bill eliminates:
 - Homestead exemption hold harmless (1997)
 - Salary increase hold harmless (1999)
 - Insurance hold harmless (2001)
 - HB 1 \$2,500 pay increase (2006)
 - \$110/WADA (2003)
 - Mid-size prohibition for Chapter 41 districts
- Funding for these provisions are contained in the new target created by the bill based on the revenue per WADA available in 2009-10 under current law

HB 3646 Allotments

- The \$275 high school allotment is added to Tier I
 - Districts not eligible for state aid in Tier I will receive credit for the allotment, similar to treatment of NIFA
- New allotment for virtual school network participation
- \$650/ADA for dependents of military personnel that were relocated due to base realignment or are deployed overseas
- \$50/student allotment for student enrolled in two or more CATE courses for a total of three or more credits or/and advanced course as a part of a tech-prep program

Other Provisions

- Increases the indirect cost allowance to 45 percent for compensatory education
 - Directs state board to increase indirect cost allotments for special education, career and technology, and bilingual/ESL programs
- Allows a district to adopt a tax rate before receipt of a certified a roll and before the adoption of a budget
- A tax collector shall accept US currency, check, money order, credit card or funds transfer
- Repeals set-asides (chiefly compensatory education)

What's Not in HB 3646

- An additional two pennies at Austin ISD yield without voter approval
- Authorization elections
- 50-cent test relief provision for I&S tax rate

Financial Accountability in HB 3

- New indicator system to be developed in consultation with State Comptroller
- Establishes Comptroller review of resource allocation practices
 - Includes identification of districts and campuses using resource allocation practices
 - Will result in rankings of the relative performance of districts and campuses

Comptroller's Resource Allocation Study (Cont'd)

- Comptroller shall “ensure resources are being used for the instruction of students by evaluating:
 - The operating cost for each student
 - Operating cost for each program
 - Staffing cost for each student

Financial Solvency Review

- TEA shall develop a review process to anticipate future financial solvency of each school district
- TEA will analyze:
 - District revenues and expenditures for preceding school year
 - Projected revenue and expenditures for the current school year and the following two years

Financial Solvency Review (Cont'd)

- System of alerts for:
 - Student-to-staff ratio significantly outside norm
 - Rapid depletion of General Fund balance
 - Significant discrepancy between budget and actual financial data
 - Projected deficit in next three school years
- Commissioner shall assign district to “accredited-warned” status if it fails to submit or comply with plan

Return to Formula Funding, When?

- Reasons to return to formula funding
 - Target revenue system highlights inequities
 - Will hopefully more appropriately reflect “similar effort for similar tax effort”
 - Formula system should address student needs and differences in district characteristics
 - Needs to address inflation and cost of rising academic standards

Select Committee on Public School Finance to Be Appointed

- “Comprehensive review of public school finance weights, allotments, and adjustments”
- Created in HB 3646
- 15 members, stacked with legislators
- Accountability issues were a late addition
 - Expect more discussion on college and post-secondary readiness

Local/State Shares: Local Property Tax Increases Subsidize Foundation Program

FIGURE 174
STATE AND LOCAL REVENUE FOR TEXAS PUBLIC SCHOOLS
FISCAL YEARS 2000 TO 2009

IN MILLIONS				
FISCAL YEAR	LOCAL	STATE	TOTAL	% STATE SHARE
2000	\$11,717.4	\$10,391.4	\$22,108.8	47.0
2001	\$13,336.6	\$10,247.6	\$23,584.2	43.5
2002	\$14,430.0	\$9,720.3	\$24,150.3	40.2
2003	\$15,777.4	\$10,381.6	\$26,159.0	39.7
2004	\$16,631.4	\$9,774.0	\$26,405.4	37.0
2005	\$17,548.7	\$10,454.0	\$28,002.7	37.3
2006	\$19,912.8	\$10,147.7	\$30,060.5	33.8
2007	\$20,322.7	\$13,338.2	\$33,711.0	39.7
2008*	\$17,706.3	\$17,656.9	\$35,363.2	49.9
2009*	\$19,219.6	\$17,657.6	\$36,877.2	47.9

*Estimated.

Source: Legislative Budget Board.

New Formula System: Much Work is Needed

- Many of the current funding elements are at two decades old
- Major formula changes generally come about when significant new revenues are added
- Conflicts between school groups and other special interests are common in this debate
- Ownership of any major changes among legislators and Governor are critical



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