EVERY TEXAN

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There's a New School Finance Law in Texas... *Now What?*

WHAT'S NEXT FOR PUBLIC SCHOOL FINANCE AND PROPERTY TAXES

by Chandra Kring Villanueva

A 21st century education requires resources. The quality of education delivered is directly related to a school's quantity of resources. There is no low-cost alternative to a high-quality teacher or manageable classroom size.

Recognizing that money matters in education, the 2019 Texas Legislature passed House Bill 3 (HB 3)—an $11.6 billion school finance reform law that dedicates over $6 billion toward investments in education and $5 billion toward replacing school property taxes with state aid. The new investments are great, but the shift from local property taxes to state aid costs the state more without actually sending additional funding into classrooms.

Because HB 3 includes costly property tax cuts, the law will put a strain on the state's budget and limit resources available for future investments in education and other state priorities. Districts with slower property value growth will also see higher tax rates under HB 3, presenting a serious equity problem.

HB 3 took many steps in the right direction. It made many long-overdue renovations to the school finance system, like increased funding for early education and a greater focus on college and career readiness. Other funding, however — including for special education and bilingual/English as a Second Language education — remains outdated.

The Legislature still has a long way to go in creating a sustainable cost-based system capable of closing opportunity gaps and improving educational outcomes for all Texas children. We are encouraged that the Texas House has already begun reviewing the impact of HB 3, and the Senate has included a review of the legislation in its interim charges. Any

OUR RECOMMENDATIONS

- Replace the statewide tax compression with an annually adjusted homestead exemption that reflects rising home values. Implement a circuit-breaker program to protect lower-income homeowners.
- Repeal inequitable tax rate reductions for individual school districts.
- Subject all golden pennies to recapture to reduce funding inequities.
- The Legislature should commission an independent study to determine the true costs of providing a high-quality education. Once a cost-based basic allotment is established, it should be adjusted for inflation annually.
- The Legislature should monitor how labor intensive it is for school districts and the Texas Education Agency to collect and analyze the Census data needed for the compensatory education funding and study if additional adjustments are needed for rural communities.
- Increase the 10 percent ELL funding weight to reflect the true costs of providing a high-quality bilingual or ESL program.
- Fund pre-K as a full-day program so that districts can invest the Early Education Allotment in additional strategies that improve outcomes in Kindergarten through 3rd grade.
- Remove the College / Career / Military Readiness bonus for non-economically disadvantaged students or increase the threshold to a greater amount.
- Adjust the basic allotment for inflation each year to ensure teacher compensation grows with rising costs.

legislation as significant as HB 3 will need future adjustments and fixes to ensure it addresses the intended goals and the gaps that continue to exist in our school finance system.

The greatest challenge next legislative session will be ensuring the Texas revenue system is capable of carrying out the promises of HB 3 while still meeting the state's other needs. If we're going to fully realize the goals of HB 3, then Texas schools need sustainable and predictable funding.

What is the connection between property taxes and funding public schools?

Funding for Texas schools comes from state revenue and local property tax collections. Each school district is run through a complex set of formulas to determine the set amount of funding it receives for operations. Revenue collected from property taxes is used first to meet the set funding amount. If a district is unable to generate all its funding locally, the state provides aid.

Texas law directs the state to contribute "a substantial share" of public education funding, however the state's share had been declining from 48 percent in 2010 to 40 percent by 2019.[1] State and local funding had gotten out of balance, and HB 3 made adjustments to address this imbalance. However, even with an $11.6 billion total investment, the state share is estimated to rise to only 44 percent by 2021.[2] Since a large amount of the state funding used in HB 3 is merely to replace school property tax revenue, much of the rebalancing does not benefit Texas classrooms.

When local economies are strong, property tax collections increase, and the state is able to reduce its contribution to schools while ensuring that schools still receive the promised amount of state/local total revenue. The school finance system therefore allows the state to take advantage of higher local property tax collections, which state budget writers plan for in their funding projections. On the other hand, declining state investments burden local school districts. The last thing a school district wants to do is increase its community's taxes, but the state has long relied on local taxpayers to vote to increase their own taxes so their schools have the money they need for teachers and facilities.

In a radical change, under HB 3, the state will not fully reduce its contribution to schools when property tax values increase. Instead, school districts will have to decrease their local tax rates, resulting in fewer local property tax dollars collected. To ensure schools receive the same level of funding, the state will need to dedicate more dollars to public education—mainly general revenue dollars that come from the sales tax. This change will shift where school funding comes from but does not increase the amount of funding for schools. The state's already inadequate revenue system will be further strained, and new investment in education will be difficult to maintain without a new source of revenue to replace the lost property tax revenue.

What has changed around property taxes?

STATEWIDE TAX RATE COMPRESSION

Property tax collections are based on the appraised value of a property — including its land and structures — and on the tax rates that are assessed on the property. HB 3 forces down property tax rates but doesn't affect property appraisals themselves. The rate cut increases the state's share of the cost of funding public education because the state will replace any revenue lost from the rate reduction. Since the value of property may continue to grow, however, the average homeowner may not see an actual reduction in their school property tax bill. Instead, the rate reduction may only slow the growth of an individual property tax bill. The cost to Texans of slowing that growth is the ongoing erosion of funding generated through the school property tax. This loss of tax revenue will be a huge cost to the state, and without a state revenue source to replace it, the Legislature will have trouble funding commitments to public schools made in HB 3.

Prior to HB 3, school districts taxed property owners at a rate of $1.00 per $100 of property value to generate the money needed to run schools, like teacher salaries, utilities, and providing a base level of education. This is called Maintenance and Operation (M&O) Tier I funding. At this tax rate, for

example, the owner of a house with a taxable value of $200,000 pays $2,000 for this portion of the M&O funding for local schools.

Lawmakers argued that property tax rate cuts were needed to help low-income homeowners experiencing rising tax bills. However, tax rate reductions alone will not create an actual savings for most homeowners. HB 3 compresses, or reduces, the 2020 M&O Tier I tax rate by seven cents, resulting in a tax rate of $0.93 per $100 of property value. For that same $200,000 house, the tax bill would drop to $1,860 under the new tax rate—a savings of $140. However, since most homes experience appraisal growth each year, a $5,000 appraisal increase would drop the tax savings to $94. A $20,000 increase (the maximum annual percentage assessed growth permitted) results in a tax bill of $2,046 and erases any savings to the homeowner. In general, it is appraisal growth that drives property tax increases, not rate increases.

Beyond 2020, if statewide property values grow by more than 2.5 percent, HB 3 will cut even further into the Tier I M&O rate statewide, threatening public education. Every time the M&O tax rate drops, the state must come up with additional funding to replace the lost funding; these dollars do not benefit kids in the classroom.

To address rising property values and to assist struggling homeowners, the Legislature should increase the homestead exemption, which exempts a certain amount of the value of a home from taxation. The state currently reduces the appraised value of a homestead by $25,000, last raised in 2015. Similarly, a circuit-breaker program, which reduces property taxes that exceed a certain percentage of a person's income, is another good option the Legislature should explore.

We recommend replacing the statewide tax compression in HB 3 with an annually adjusted homestead exemption that reflects rising home values, and implementing a circuit-breaker program to protect lower-income homeowners.

INEQUITY IN TAX RATES

A big problem in HB 3 is that each school district must reduce its local tax rate as its individual property values grow.

The Texas school finance system is based on the principle, upheld repeatedly by the courts, that all school districts must have access to similar levels of revenue at similar tax rates. Every child in Texas is guaranteed the same level of education, so it is important that all communities put the same effort (measured by tax rates, in this case) into supporting public education and get the same relative amount of state/local total revenue.

It is not unusual to see large disparities in per-student property wealth between neighboring districts, based on historic discrimination in establishing school district boundaries. For example, in San Antonio, Alamo Heights Independent School District has $1,451,618 in property value per student to tax from while Edgewood ISD has only $143,509 in property value per student.[3] These wealth disparities are often the result of the formal and informal racial and economic segregation that have shaped communities over time, especially in urban and suburban areas. A recent analysis by Vox shows how public officials drew school districts and attendance boundaries to perpetuate residential segregation.[4]

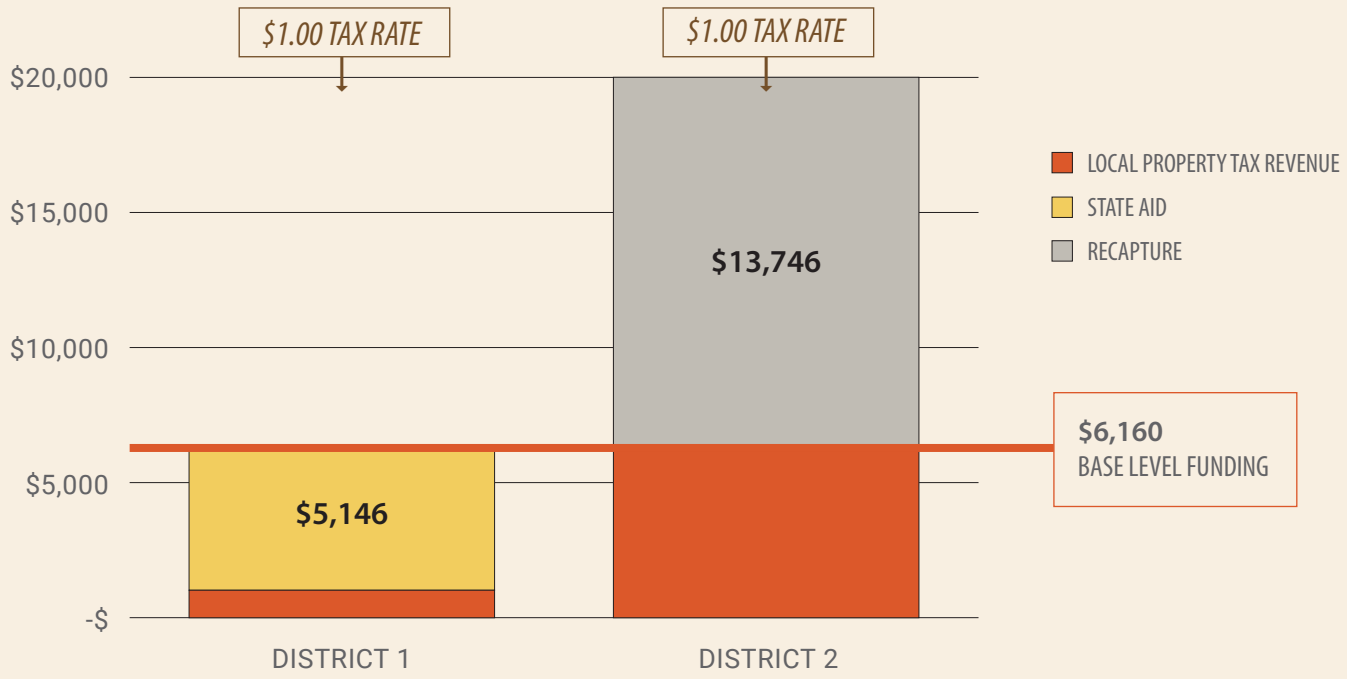
Prior to HB 3, the state's role was to equalize funding between school districts. The state sets funding levels for each district though a complex formula. If a district was not able to generate the set amount

OUR RECOMMENDATION

Replace the statewide tax compression with an annually adjusted homestead exemption that reflects rising home values. Implement a circuit-breaker program to protect lower-income homeowners.

OLD LAW

Similar Revenue at Similar Tax Rates



of money through their local property taxes (M&O Tier I tax rate), the state made up the difference. If a school district generated more funding than the set amount, the state collected, or recaptured, the excess revenue, and it became part of the state's aid to other public schools and charter schools.

For example, Schools Districts 1 and 2 in the chart above are both allowed to spend $6,160 per student in Tier 1 funding based on formula calculations.[5] District 1 is property-poor, meaning the district is unable to generate its allowed amount of funding from its property tax base. With its low tax base, District 1 is only able to generate slightly more than $1,000 per student at the tax rate of $1.00 per $100 of property value. To ensure District 1 has access to the allowed amount of funding per student, the Texas Education Agency provides $5,146 in state aid.

District 2, on the other hand, is property-wealthy. Its tax base generates nearly $20,000 per student at the tax rate of $1.00 per $100 of property value. Since that is way more than the allowed amount of funding, the state recaptures the excess revenue for redistribution elsewhere in the state. The end result is that when taxing at the same rate, both districts have access to the same level of revenue.

Beginning in Fiscal Year 2021, HB 3 allows individual school districts with property value growth at or above 2.5 percent to reduce their tax rates as long as they don't go more than 10 cents below the highest taxing school district. As a result, districts with quickly rising property values will be able to reduce their tax rates while still enjoying the full funding amount allotted under the formulas. This is a gross violation of the principle that school districts must have access to similar revenue for similar tax effort. Instead, districts will receive similar levels of funding for unequal tax effort. Under HB 3, recapture payments will decline for some districts simply because they will collect less revenue from property taxes.

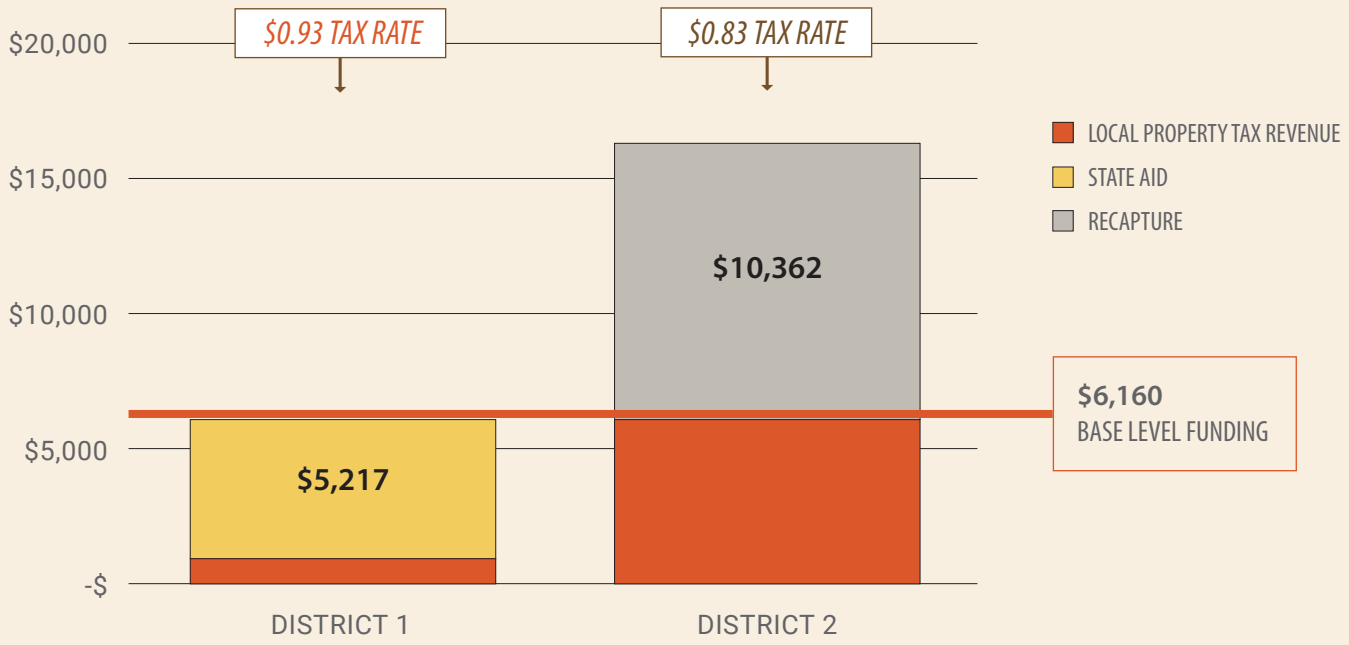
Back to District 1 and District 2 – both are still allowed $6,160 per student. Due to changes in HB 3, District 1 is now taxing at the new statewide reduced tax rate of $0.93 per $100 of property value. With a lower tax rate District 1 collects less property tax revenue and receives slightly more state aid to maintain the $6,160 per student. District 2, due to quickly rising property values in the district, is able to drop its tax rate to $0.83 per $100 of property value.

Both districts are still allowed similar amounts of funding, but District 1 has to tax at a rate of 10

NEW LAW

Similar Revenue at *Different* Tax Rates

Districts with Slower Property Value Growth will have Higher Tax Rates



cents higher to access it. Though District 2 saw its recapture payment decline by over $3,000 per student, that reduction does not benefit kids in classrooms since the amount of formula funding did not change.

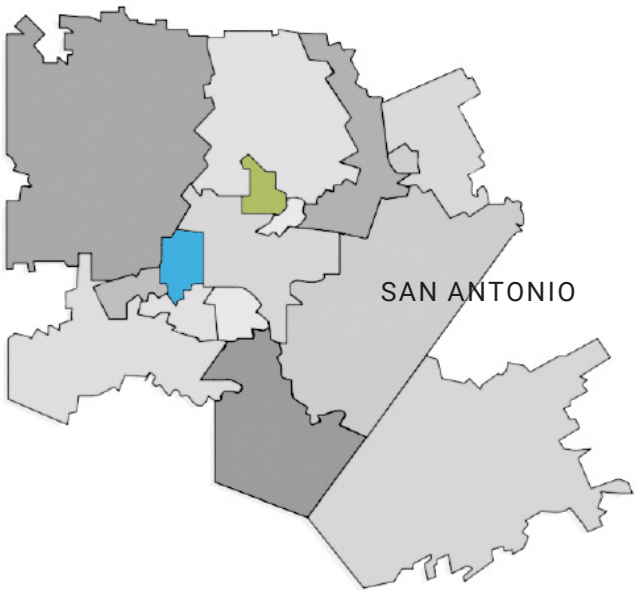
The changes made in HB 3 could hurt the economic development of communities across Texas as businesses seek out areas with declining property tax rates. District 1 and District 2 in our example are based loosely on the Edgewood ISD (property-poor) and Alamo Heights ISD (property-wealthy), two school districts roughly 10 miles apart in San Antonio.

Requiring districts to automatically reduce tax rates each year will increase the state's share of education funding, but without increasing the total amount of state/local revenue devoted to supporting education. It also violates the long-held court-ordered principle that schools have access to similar revenue at similar tax rates. This shift from local to state taxation will make it harder for lawmakers to increase investments in the classrooms as more and more state dollars will be needed just to offset cuts to property tax rates.

We recommend repealing inequitable tax rate reductions for individual districts.

PROPERTY RICH VS. **PROPERTY POOR**
INDEPENDENT SCHOOL DISTRICTS

(Spotlight on Bexar County)



OUR RECOMMENDATION

Repeal inequitable tax rate reductions for individual school districts.

Enrichment Funding

The school finance system gives school districts the option to increase property tax rates to raise additional funding to "enrich" their educational offerings through the M&O Tier II tax rate. Enrichment can include additional computer labs, courses beyond those required in the Texas Essential Knowledge Skills, smaller class sizes, and professional development for teachers. Though enrichment is intended to provide extra, many districts tax at this higher level just to make ends meet.

Through enrichment (Tier II), districts can raise tax rates to a maximum of 17 cents above the Tier I tax rate. The enrichment tier breaks down into two levels: high value golden pennies without recapture and lower value copper pennies with recapture.

"Pennies" refer to the local tax rate calculated in cents per $100 of property value. The amount of revenue raised by a "penny" is determined by the taxable property value within a district. If a district has $500,000 in property value per student, for example, then a one-penny tax rate generates $50 in revenue per student. A district with $1,000,000 in property value per student generates revenue at $100 per student with a one-penny tax rate.

GOLDEN PENNIES

When school districts increase property tax rates through the enrichment tier, the first pennies per $100 of property value levied are golden pennies, so-called because of the high value the state guarantees to school districts that choose to access them. Prior to HB 3, there were six golden pennies available to districts. The amount of revenue the state guaranteed districts would receive for each penny was tied in the funding formulas to what the Austin ISD generated per penny per student—estimated to reach a value of $135.92 in 2021.

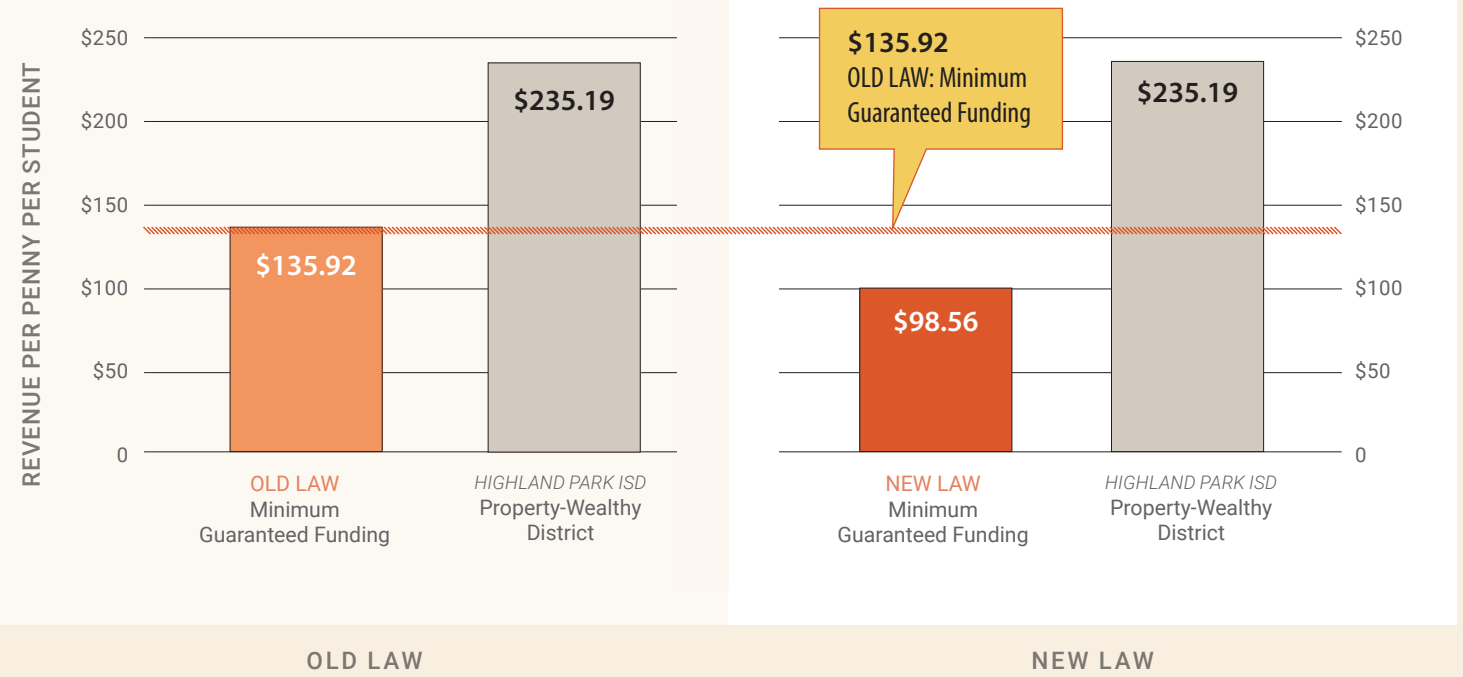
Golden pennies are not subject to recapture, which means a district with wealth greater than the base amount of funding guaranteed by the state can keep all the additional revenue generated.

For example, Highland Park ISD, a property wealthy district near Dallas, is estimated to generate $235.19 per penny per student by 2021. Because the golden pennies are not subject to recapture, students in Highland Park ISD will get $99.27 more per student for each golden penny levied than a district at or below Austin ISD wealth levels. Students in Highland Park ISD would get a better funded public education just because they happen to live in a wealthier area.

Advocates of equity and fair funding have always been concerned about unrecaptured golden pennies because students in property wealthy districts can get vastly more resources, based on local wealth rather than the taxing effort of the district.

OLD LAW VS. NEW LAW

Funding Inequities *Increase* with the New Law



Texas school enrichment funding has always been based on where you live. This is even worse under the new law.

HB 3 increased the number of golden pennies available from six to eight, and the value is no longer tied to Austin ISD. Golden pennies are now set at 160 percent of the basic allotment (base level per student funding set at $6,160 in HB 3) or at the 96th percentile of wealth—whichever is higher. As a result, the value of a golden penny under HB 3 drops to $98.56 per penny per student, $37.36 less than the projected 2021 value of $135.92 per penny per student.

This change threatens to further increase funding inequity between property-poor and property-wealthy districts. The revenue a school district gets from golden pennies is based on the community someone lives in, not the level of financial need. For example, the wealthier Highland Park ISD will continue to collect $235.19 per penny per student and have access to two more high revenue generating pennies at the same time. A district with values at or below the guaranteed level will now get $136.63 less per penny per student than Highland Park ISD.

Many of the funding inequities currently seen in the system are due to golden pennies not getting recaptured. Increasing the number of golden pennies available, while reducing their value, will result in worse funding inequities between property-poor and property-wealthy districts.

COPPER PENNIES

In addition to the high-value golden pennies, school districts are able to access lower value copper pennies – the pennies of tax rate permitted above the golden pennies. Before HB 3, districts were guaranteed to earn $31.95 per penny per student for each copper penny levied—up to 11 pennies. Any revenue generated above that amount was subject to recapture. Property-wealthy districts rarely accessed copper pennies because often they would have to pay more into recapture than they were allowed to retain.

To keep enrichment funding at a maximum of 17 cents above the Tier I rate, HB 3 reduces the number of copper-pennies to nine from 11 to accommodate the two-cent increase in golden pennies. HB 3 also increased the value of the copper pennies to 80 percent of the basic allotment or to $49.28 from $31.95. By setting the copper penny value at 80 percent of the basic allotment, the guaranteed amount that the district receives will increase whenever the legislature increases the basic allotment.

By the 2017-18 school year, 40 percent of districts were taxing at the maximum Tier II tax rate of $0.17 per $100 of property value and had no options for raising additional funding. To move districts away from the cap and create ongoing opportunities to generate additional funding, HB 3 requires districts to automatically reduce the number of copper pennies they have when the value of the copper penny goes up. This way districts must cut their Tier II property tax rate, without reducing the amount of their state/local funding. They then have the option to increase the copper penny tax rate in future years.

Enrichment funding is a good idea in theory, especially in a large state like Texas. Different communities have different needs. A program that a school in an inland agricultural area wants to run might be different than a program for a school along the coast. But when enrichment funding has to go to cover basic expenses, and unrecaptured golden pennies worsen inequities, these tools don't support a sustainable or equitable school finance system.

We propose that all golden pennies be subjected to recapture to reduce funding inequities.

	OLD LAW	NEW LAW	
Statewide Tax Rate	$1.00 per $100 of value	$0.93 per $100 of value Future reductions triggered when statewide local revenues grow by 2.5% or more.	*Tier I M&O Tax Rates*
Individual District Compression	Principle of Equal Revenue for Equal Effort	A district must reduce its tax rate if property values within the district grow by 2.5% or more.	
Golden Pennies	Total of 6 Minimum Value $135.92 (2021); No recapture	Total of 8 Minimum Value of 160% of the basic allotment or the 96th percentile of wealth - whichever is higher. ($98.56 for 2020-21); No recapture	*Tier II "Enrichment" M&O Tax Rates*
Copper Pennies	Total of 11 Maximum Value $31.95; Subject to recapture	Total of 9 Maximum Value 80% of the basic allotment ($49.28 for 2020-21); Subject to recapture	

OUR RECOMMENDATION

Subject all golden pennies to recapture to reduce funding inequities.

Investments in Public Education

INCREASE IN THE BASIC ALLOTMENT

The basic allotment, or per-student base level funding amount, is the central building block for the entire school finance system. Before the passage of HB 3, the basic allotment remained unchanged for four years, losing value annually due to inflation. HB 3 increased the basic allotment to $6,160 from $5,140. However, not all of this increase represents new money. Several funding streams, including the Cost of Education Index, the High School Allotment, and the Gifted and Talent Allotment, were rolled into the basic allotment in the name of improving the efficiency of the formulas.

Of the new money directed toward public education in HB 3, about $3 billion went toward increasing the basic allotment. This increase was a good step, but that amount is only slightly above what was needed to cover inflation for 2020 and 2021. This increase is not enough to also make up for the value lost due to inflation during the four years that the basic allotment was unchanged. HB 3 does not make any provisions to cover the cost of inflation in future years.

The basic allotment remains an arbitrary number, completely void of any policy rationale or measured costs. When lawmakers established the basic allotment in 1984, the Legislature set it at 76 percent of the amount recommended by a commission created to reform the Texas education system. Since then, lawmakers have increased the basic allotment sporadically, but never explicitly for inflation or any other cost-based rationale. Without an independent study of how much it costs to educate students in Texas, it's impossible to calculate what the basic allotment should be.

STATE DOLLARS *FOR PUBLIC EDUCATION* **DON'T GO AS FAR AS THEY USED TO.**

A dollar in 2010

is only worth $0.84 today.

OUR RECOMMENDATION

The Legislature should commission an independent study to determine the true costs of providing a high-quality education. Once a cost-based basic allotment is established, it should be adjusted for inflation annually.

We recommend that the Legislature commission an independent study to determine the true costs of providing a high-quality education. Once a cost-based basic allotment is established, it should be adjusted for inflation annually.

FUNDING FOR ECONOMICALLY DISADVANTAGED STUDENTS

Since 1984, the school finance formulas have provided 20 percent additional funding for each economically disadvantaged student—measured by those who qualify for the federal free or reduced school lunch program. This means that if schools receive a base level of funding of $6,160 per student, then schools get an additional $1,232 for each economically disadvantaged student.

Free and reduced lunch participation is a poor proxy for the actual needs of low-income students. Not all eligible students participate in the lunch programs, and the needs of a student in a stable low-income home are different than a student experiencing greater instability though both participate in the same lunch program. HB 3 tried to address this inexactitude by creating tiered funding, based on the census block group of the student's home address using the American Community Survey. A census block group is the smallest geographic unit the Census Bureau reports data on, equivalent to about 600 – 3,000 people each. Using a matrix of socio-economic factors including household income, homeownership rates, household composition, and educational attainment, funding will range from 22.5 percent additional funding to 27.5 percent more for each individual student.

Targeting resources to students with the greatest need is good policy. However, this new method adds extra layers of complication to an already complex finance system. Since rural parts of the state see less variation in their block groups, due to sparse populations over large geographic areas, this method may not fully identify all students with greater needs.

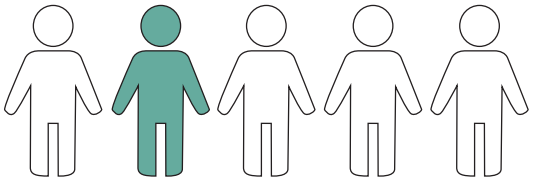
We recommend that the Legislature monitor how labor intensive it is for school districts and the Texas Education Agency to collect and analyze the Census data needed for the compensatory education funding, and study if additional adjustments are needed for rural communities.

OUR RECOMMENDATION

The Legislature should monitor how labor intensive it is for school districts and the Texas Education Agency to collect and analyze the Census data needed for the compensatory education funding and study if additional adjustments are needed for rural communities.

1 IN 5 TEXAS KIDS

IS AN ENGLISH LANGUAGE LEARNER (ELL)



FUNDING FOR ENGLISH LANGUAGE LEARNERS

The school finance formulas provide an additional 10 percent above the base level of funding per student for English language learners (ELL). HB 3 does not change this amount for the vast majority of students learning English. Previous studies have shown that the true costs of teaching English language learners is 25 to 50 percent above the 10 percent in extra funding now available, which was set in 1984.[6]

HB 3 did create a new Dual Language Allotment that provides an additional five percent in funding per student on top of the regular 10 percent (for a total of 15 percent) for ELL students enrolled in a one- or two-way dual language immersion program. Native English-speaking students enrolled in a two-way dual language immersion program also qualify for the additional five percent funding. Dual language programs have been proven to be effective, but only 20 percent of ELL students are enrolled in a dual language immersion program that would qualify for this additional funding. Many school districts are unable to offer dual language programs due to a shortage of qualified teachers or because they serve students from varied language backgrounds.

We recommend lawmakers increase the 10 percent ELL funding weight to reflect the true costs of providing a high-quality bilingual or ESL program.

FOCUS ON EARLY EDUCATION

Early education was a top priority for the Legislature in 2019, reversing the attitude apparent in 2017, when lawmakers eliminated all supplemental and grant funding for pre-K. While the 2019 Legislature made improvements to pre-K program delivery and quality, the program continues to lack full, predictable funding.

HB 3 requires all pre-K programs to meet high quality standards and mandates that all districts must provide full-day pre-K to eligible 4-year-old students; districts previously had to provide only half-day pre-K to these students. Districts without the capacity to support full-day pre-K are now required to solicit and consider public-private partnerships to provide full-day pre-K before seeking a waiver from this requirement. Before HB 3, lawmakers treated and funded pre-K as a half-day program in the funding formulas, meaning that a school received half of the basic allotment of funding for each child in pre-K. Districts had the option of offering a full-day program, but had to cover the additional costs locally. Now, even though districts are required to offer full-day pre-K to all eligible 4-year-olds, the funding remains at half-day levels.

Instead of directly funding full-day pre-K, lawmakers established the Early Childhood Education Allotment. The Allotment provides an extra 10 percent of

%

OUR RECOMMENDATION

Increase the 10 percent ELL funding weight to reflect the true costs of providing a high-quality bilingual or ESL program.

OUR RECOMMENDATION

Fund pre-K as a full-day program so that districts can invest the Early Education Allotment in additional strategies that improve outcomes in Kindergarten through 3rd grade.

funding (over the base level) for each economically disadvantaged student or English language learner in kindergarten through third grade. The additional funding rises to 20 percent for students who are both ELL and low-income. The allotment tries to give schools the flexibility to invest in strategies that will improve third grade reading and math outcomes, including full-day pre-K. However, school districts are not required to fund full-day pre-K with the extra funding. In fact, districts granted a waiver from providing full-day pre-K will still receive funds from the Early Education Allotment.

The cost of providing a full-day pre-K program has nothing to do with how many low-income students and English language learners are in kindergarten through third grade. Tying pre-K funding to an allotment for students in grades kindergarten through third is counterproductive because it moves the funding formulas even further away from being cost-based and student-directed.

We recommend funding pre-K as a full-day program so that districts can invest the Early Education Allotment in additional strategies that improve outcomes in Kindergarten through 3rd grade.

INCENTIVES TO IMPROVE COLLEGE, CAREER, AND MILITARY READINESS (CCMR)

HB 3 contains three good provisions that, combined, have the potential to incentivize post-secondary readiness and encourage districts to look beyond a high school diploma as the final outcome for public education.

1. Districts will get reimbursed for the cost of administering the ACT, SAT, Texas Success Initiative Assessment, or any of the 220 approved Industry Based Credentials once for each student;
2. Every student will be required to fill out the Free Application for Federal Student Aid (FAFSA) or Texas Application for State Financial Aid (TASFA) as a graduation requirement (waivers allowed);
3. Bonus funding is available for districts that get students, above a set threshold, ready for college, career, or military service.[7]
    - $5,000 per economically disadvantaged student, after the first nine percent of students meet the requirements;
    - $3,000 per non-economically disadvantaged student, after the first 20 percent of students meet the requirements;
    - $2,000 per special education student, no threshold required.

To count as college or career ready, a student must score well on the ACT/SAT/TSIA and earn an associate degree before graduating high school or enroll in college the fall semester immediately after graduation. To prove military readiness, a student must receive a passing score on the Armed Services Vocational Aptitude Battery and enlist in the U.S. Armed Forces after graduation.

To ensure no student is at-risk of not graduating due to the FAFSA requirement, students will be able to submit waivers signed by guidance counselors or their parents. Including TASFA and the waiver option also provides safeguards for undocumented students who are unable to fill out the FAFSA or fear filling out the TASFA will inadvertently disclose their immigration status.

While intended to improve post-secondary outcomes, providing a bonus for non-economically disadvantaged students has the potential to open up new funding inequities. Districts with more affluent students are starting off with a greater percentage of students on track for college and career success. For the class of 2017, districts with 80 percent or more non-economically disadvantaged students graduate 97 percent of their high school students within four years. Districts with 80 percent or more economically disadvantaged students have an 86 percent graduation rate.[8] This creates concern that the College, Career, and Military Readiness Bonus will reward districts with higher concentrations of affluent students for what they are already doing well.

We recommend removing the CCMR bonus for non-economically disadvantaged students or increase the threshold to a greater amount.

OUR RECOMMENDATION

Remove the CCMR bonus for non-economically disadvantaged students or increase the threshold to a greater amount.

TEACHER COMPENSATION

HB 3 contains three provisions to improve teacher compensation. First, if an increase in the basic allotment results in a budgetary increase for the district, 30 percent of that district's increased funding must go toward improving compensation. Of that amount, 75 percent must go to teachers, librarians, nurses, and counselors with priority given to those with five years or more of experience. This provision might be moot considering the Legislature went four years without increasing the basic allotment and the future expense of reducing property tax rates. It may be years until a basic allotment increase triggers another pay raise.

Secondly, HB 3 includes a teacher incentive allotment that provides districts $3,000 to $32,000 in additional funding per teacher to incentivize teaching at rural or high needs campuses. At least 90 percent of the funding the district receives must be used on compensation at these campuses.

Finally, the bill creates a Teacher Mentor Program Allotment to provide mentoring to teachers for their first two years. The Texas Education Agency will decide funding for this allotment.

We recommend adjusting the basic allotment for inflation each year to ensure teacher compensation grows with rising costs.

OUR RECOMMENDATION

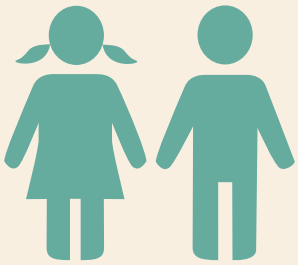
Adjust the basic allotment for inflation each year to ensure teacher compensation grows with rising costs.

Conclusion

HB 3 includes thoughtful investments and long overdue improvements to the school finance system. If we're going to fully realize the goals of this law, however, Texas schools need sustainable and predictable funding. The ongoing property tax cuts initiated by HB 3 will put a strain on the state's budget and limit resources available for future investments in Texans' priorities. While the school finance system will always need tweaks and adjustments to run efficiently, the greatest challenge next session will be ensuring the Texas revenue system is capable of meeting all the state's needs.

MONEY IN EDUCATION MATTERS

Well-funded schools are able to:



- Offer small class sizes
- Attract and retain high-quality teachers
- Engage students with arts, music and computer science programs

Endnotes

1 Texas Education Agency. Report on Public Education State Funding Transparency; Dec. 2019.
2 Texas Education Agency. Report on Public Education State Funding Transparency; Dec. 2019.
3 Texas Education Agency. Wealth per ADA (Average Daily Attendance) Report; 2018-2019.
4 Chang, Alvin. We can draw school zones to make classrooms less segregated. This is how your district does. Vox; 2018.
5 For illustrative purposes this example uses the basic allotment value of $6,160 without adjustments.
6 Intercultural Development Research Association. New Research on Securing Educational Equity & Excellence for English Language Learners in Texas Secondary Schools; 2015.
7 Final threshold amounts may change during rule making.
8 Texas Education Agency. Snapshot Data 2017-18.

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